the gross negligence, willful misconduct or breach of any of the transaction documents by Big Rivers. This indemnity will not apply to claims or risks relating to the physical condition or state of repair of the Facilities or any conveyed real property or other tangible assets as of the Unwind Closing Date. In addition, this indemnification will not apply to claims or risks that are expressly made the subject of another express environmental representation or warranty or that is the subject of another indemnification covenant. This indemnity also will include an express obligation of the LG&E Parties to indemnify and hold Big Rivers harmless from any claims of (1) Henderson against Big Rivers arising out of a breach or default by an LG&E Party under or pursuant to the Station Two Contracts (to the extent that breach or default did not result from the action or omission of Big Rivers or its employee, agent, representative or contractor), or (2) third parties relating to commodities, services or leasehold interests under the Contracts.

Big Rivers General Indemnifications. Among other customary indemnification covenants for a breach of the transaction documents, Big Rivers will indemnify the relevant LG&E Parties, their successors and assigns and their respective officers, employees, consultants or agents for Damages relating to Big Rivers' operation or use of the Facilities and related assets prior to the LG&E Transaction or from and after the Unwind Closing Date, except to the extent any of such Damages arise as a result of the gross negligence or willful misconduct of any LG&E Party prior to the Unwind Closing Date.

Environmental Indemnities. Prior to the Unwind, the LG&E Parties and Big Rivers will jointly retain an environmental consultant to undertake an environmental survey of the Facilities and the related real property (the "Environmental Audit") following the execution of the transaction documents. The environmental consultant retained will produce a report based on the Environmental Audit that will describe the results of the survey but will not contain an opinion or analysis of the time of occurrence of any particular condition, release, waste or violation or of the identity of the party responsible.

The documentation relating to the Unwind will also provide for mutually satisfactory allocation of responsibility between the LG&E Parties and Big Rivers for environmental conditions at, on, under or across the Facilities and related real property not previously identified, disclosed or stipulated to and that may not be identified in the Environmental Audit report.

Big Rivers and the LG&E Parties have agreed to determine mutually satisfactory arrangements for assessing, as necessary, any potential liabilities associated with various environmental conditions. The assessment and remediation may or may not involve mutually satisfactory indemnification provisions by the LG&E Parties to be effective upon the consummation of the Unwind.

Closing Conditions

The conditions to the obligations of Big Rivers and the LG&E Parties to consummate the Unwind are subject to several conditions precedent. Conditions to the LG&E Parties' obligations include:

- All required approvals, notices or filings of governmental authorities will have been obtained, given or made prior to the Unwind Closing Date without objection by the governmental agency or initiation of an adverse proceeding;

- All contemplated consents, releases or discharges from the Smelters, Henderson, Kenergy, and relevant third parties, including the Members, Ambac, RUS, CSFB, the 2001A Trustee, the 2000 Lease Parties, and CFC have been obtained;

- All necessary consents to the assignment to Big Rivers of all assigned contracts will have been obtained;

- The debt obligations of Big Rivers secured by a first lien and security interest in the Facilities and the related real property and most of the other tangible assets of Big Rivers will be rated (or it will be demonstrated to LEL's reasonable satisfaction that following the consummation of the Transaction will be rated) at least BBB- by S&P and Baa3 by Moody's;

- The Environmental Audit will have been completed, and the related report will not have disclosed any new facts, circumstances, conditions, actions or operations that constitute a material violation of any environmental law which is not corrected, resolved or remediated; and

- The relevant LG&E Parties have received such state and/or federal tax rulings as they deem necessary for the consummation of the Unwind.

Conditions to the Big Rivers' obligations include:

- All required approvals, notices or filings of governmental authorities will have been obtained, given or made prior to the Unwind Closing Date without objection by the governmental agency or initiation of an adverse proceeding;

- All contemplated consents, releases or discharges from the Smelters, Henderson, Ambac, RUS, CSFB, the 2001A Trustee, the 2000 Lease Parties, CFC, the Members and all LG&E Parties will have been obtained;

- All necessary consents to the assignment to Big Rivers of all assigned contracts will have been obtained;

- All third-party consents, including creditor consents or approvals, will have been obtained;

- Permits and licenses will have been amended to reflect their assignment to Big Rivers and all necessary consents to such assignment will have been obtained;

- Kenergy and the Smelters will have executed agreements (or amendments to existing agreements) for retail electric service, satisfactory to each party thereto and Big Rivers, reflecting Big Rivers' replacement of LEM as the wholesale supplier to Kenergy of power and energy to service the Smelter loads (or such portions of those loads as are satisfactory to Big Rivers), and Big Rivers and Kenergy will have executed a power sales agreement (or amendments to existing agreements), satisfactory to each, to reflect Big

Rivers' obligation to sell power to Kenergy to serve the Smelter loads (or such portions of those loads as are satisfactory to Big Rivers);

- The corporate credit rating and long-term issuer rating of LEL will be at least the minimum "investment grade" rating, issued by S&P and Moody's as of the Unwind Closing Date;

- The debt obligations of Big Rivers secured by a first lien on the Facilities will be rated (or it will be demonstrated to Big Rivers' reasonable satisfaction that following the consummation of the Unwind will be rated) at least "BBB" by S&P and "Baa2" by Moody's;

- No "casualty" occurrence at any Facilities has occurred that will not have been repaired or otherwise corrected by WKEC or Station Two Subsidiary;

- The Environmental Audit will have been completed, and the related report will not have disclosed any new facts, circumstances, conditions, actions or operations that constitute a material violation of any environmental law which is not corrected, resolved or remediated;

- The Facilities and related tangible assets will be in all material respects in good condition and state of repair, ordinary wear and tear excepted, consistent with prudent utility practice, and all of the Facilities in the aggregate will be physically capable as of the Unwind Closing Date of generating to the reasonable satisfaction of Big Rivers;

- The initial phase of the transmission upgrades will have occurred. In addition, Big Rivers will have obtained all necessary governmental consents and approvals necessary for transmission of power and energy equal to the smelter loads, taking into account all of Big Rivers' other transmission facilities, to be delivered to Big Rivers' border;

- A Kentucky statute will have been amended or an alternative solution acceptable to Big Rivers will have been put in place such that Big Rivers will be permitted to sell to non-Members all excess power if both Smelters terminate their Electric Services Agreements;

- No forced outage of any Facility will have occurred for a period greater than five consecutive days during the 30-day period immediately preceding the proposed Unwind Closing Date, and no forced outage of any Facility will be pending on the proposed Unwind Closing Date; and

- The construction of the Coleman Scrubber will have been completed in accordance with the specifications set forth in the Coleman Scrubber EPC contract, and the Coleman Scrubber will, in all material respects, be fully operational and performing in accordance with all performance criteria.

"True up" Payment Adjustments

The Unwind will include a mutually acceptable methodology for completing the "true up" adjustments of asset improvement payments required under the WKEC Lease and related agreements, including Big Rivers' contribution for capital costs as set out in those documents. The Unwind will also include a "true up" of Big Rivers' share of operation and maintenance payments and the aggregate environmental rent reduction to be taken by WKEC under the WKEC Lease for the year in which the Unwind occurs. Similarly, a "true up" adjustment will be made to reflect Big Rivers' share of environmental costs for the year in which the Unwind occurs. The parties may elect to provide for the payment of amounts required by these "true ups" through a post-Unwind Closing Date payment or by an increase or decrease of the cash payment to be made to Big Rivers by the LG&E Parties.

Taxes

Under the Unwind, the LG&E Parties will pay and all sales and use taxes imposed on the transfers of inventory, real and personal property, operation and maintenance contracts. Taxes assessed on the Facilities and related assets for the calendar year of the Unwind will be apportioned among Big Rivers and the LG&E Parties based on the Unwind Closing Date.

Pre-Unwind Obligations

Big Rivers Representatives at the Facilities

The LG&E Parties will provide access to and administrative support for a representative of Big Rivers on the site of each Facility in the period between the execution of the Unwind transaction documents and the Unwind Closing Date. This access will include reasonable access during normal business hours to all books, records, data, contracts and non-confidential and non-privileged documents then in the possession or control of the LG&E Parties and relating to the operation of such Facility. Big Rivers' representative also will have the right to confer with the employees of WKEC and Station Two Subsidiary responsible for operation and maintenance of such Facility during that period and to be present at the performance of all maintenance and the making of all capital repairs and replacements, whether in connection with a Facility outage or otherwise, so long as the rights of Big Rivers do not interfere with the operation of the Facilities.

Operating Plans

In the period between the execution of the transaction documents relating to the Unwind and the Unwind Closing Date, Big Rivers will have the right to approve any material deviations, except modifications contemplated in connection with activities that are provided for in an annual capital or operation and maintenance budget that has been approved by Big Rivers, from the 2006 Facility-specific operating plans prepared by WKEC or Station Two Subsidiary (the "Operating Plans").

Operation of the Facilities and Employee Matters

In the period between the execution of the definitive documents relating to the Unwind and Unwind Closing Date, the LG&E Parties will operate the Facilities in the ordinary course of business and in accordance with the Operating Plans. Beginning 90 days prior to the estimated

Unwind Closing Date, the LG&E Parties will give Big Rivers notice of any forced outage of any Facility within 24 hours of the occurrence of such outage. During the pre-Unwind period neither WKEC nor Station Two Subsidiary will agree to or implement any material changes in general wages or employee benefit, arrangement or compensation plans outside the ordinary course of business except for such modifications that may be required by law or by employment agreements or collective bargaining agreements in existence on the date of execution of the LG&E letter of intent, or as approved by Big Rivers.

Contracts

In the period between the execution of the transaction documents relating to the Unwind and Unwind Closing Date, each of the LG&E Parties will perform its respective obligations under, and otherwise use its reasonable best efforts to keep in full force and effect, all fuel supply contracts, contracts for reagent and any other vendor contracts for supplies or services at any of the Facilities to the extent the relevant contract is to be assigned to and assumed by Big Rivers on the Unwind Closing Date or is entered into by WKEC or Station Two Subsidiary following the execution of the transaction documents relating to the Unwind. During this period, no LG&E Party, without the prior written approval of Big Rivers, will enter into any power sale, maintenance, fuel supply, materials or transportation contract with respect to any of the Facilities, or make any commitment to do so, involving the payment of an amount in excess of $500,000 annually or having a termination date after December 31, 2006. This prohibition will not apply to any sales by LEM of power generated by the Facilities in the ordinary course of business, or to any purchases by LEM or any other LG&E Party of power from other sources, at any time through the Unwind Closing Date.

Support Services Agreement

Under a mutually satisfactory support services agreement to be entered into on the Unwind Closing Date, the LG&E Parties will agree to provide certain support services to Big Rivers for a limited period of time. This support services agreement will provide for generation dispatching and related services associated with the Facilities, information technology services, and other services, equipment and intangible property returned to the control and operation of Big Rivers after the Unwind. In connection with Big Rivers' completion of the due diligence process relating to the Unwind, other services relating to the equipment or intangible property may be identified for the LG&E Parties to make available to Big Rivers for a reasonable period of time following the Unwind Closing Date.

Other Transactions on the Unwind Closing Date

In addition to the Unwind transactions with the LG&E Parties and the Smelters, Big Rivers will enter into several other financial transactions and arrangements on the Unwind Closing Date to effectuate the Unwind. These transactions and arrangements include the prepayment of a significant amount of debt, including the refunding of part of its RUS debt with debt securities issued in the capital markets, the entry into a first mortgage indenture, and amendment of existing agreements with the Members and Big Rivers' creditors.

Prepayment of Debt and Capital Markets Issuances

Big Rivers currently expects to apply between $200 million to $230 million of cash proceeds from the Unwind to the prepayment of RUS debt. In addition, Big Rivers expects to prepay a yet to be determined amount of additional RUS debt from the proceeds of publicly issued debt securities. The debt Big Rivers issues in the capital markets is expected to include fixed-rate debt securities, both insured and uninsured, and insured variable-rate debt securities. Big Rivers will determine the exact amount of each type of debt securities it will issue shortly before the Unwind Closing Date. For a synopsis of Big Rivers' overall financial condition following the Unwind, see "Post-Unwind Big Rivers – Financial Condition Following Unwind" below.

Indenture and Intercreditor Agreement

In connection with the refunding of a portion of Big Rivers' obligations to the RUS in the capital markets, Big Rivers will need to enter into a first mortgage indenture (the "Indenture") in substitution for the RUS Mortgage. On the Unwind Closing Date, Big Rivers will execute and deliver the Indenture in favor of a trustee for the benefit of the existing mortgagees under the RUS Mortgage (*i.e.*, RUS, Ambac, ACP, CFC, CSFB, the 2001A Trustee and certain other of the 2000 Lease Parties) and the holders of debt securities issued in the capital markets. The Indenture will grant a lien on substantially all of the tangible assets and properties of Big Rivers. The lien of the Indenture will rank senior in priority to the lien of the 2000 Lease Subordinated Mortgage and will secure equally and ratably and without priority or preference Big Rivers' obligations to such existing mortgagees and holders. The Intercreditor Agreement is expected to be amended to reflect the substitution of the Indenture for the RUS Mortgage.

New RUS Loan Contract

As part of the Unwind, Big Rivers' loan agreement with the RUS will need to be amended to be consistent with the loan contracts of other generation and transmission cooperatives with loans from or guaranteed by RUS which are secured under an indenture.

Amendment of Member Wholesale Power Contracts

Big Rivers and the Members will amend their Wholesale Power Contract on the Unwind Closing Date. The amendments to the Wholesale Power Contracts will extend the stated term of the contracts through the final maturity of any debt securities issued to refund any of Big Rivers' RUS debt.

Regulatory Approvals

Big Rivers will need to obtain the regulatory approval of the Kentucky Public Service Commission (the "KPSC") and the Federal Energy Regulatory Commission (the "FERC") prior to the consummation of the Unwind.

KPSC

The KPSC regulates Big Rivers' rates for the sale of wholesale power to its Members. Among other things, Kentucky law authorizes the KPSC to (1) approve rates for Big Rivers which are "fair, just and reasonable," and (2) approve the issuance or assumption of any securities or evidences of indebtedness, other than to RUS. Before the Unwind may occur, Big Rivers must have a final, non-appealable order from the KPSC approving the overall Unwind, including approval of the Smelter Service Wholesale Power Contracts, the Electric Service Agreements and the amendments to the Member's Wholesale Power Contracts.

FERC

Because Big Rivers receives financing from RUS, Big Rivers' sale of power at wholesale and certain aspects of Big Rivers' transmission of power in interstate commerce are not regulated by FERC to the extent those activities otherwise would be so regulated by FERC. FERC has broad authority under the Federal Power Act, however, to regulate Big Rivers' provision of transmission services to third parties, including Big Rivers' OATT. Currently, several provisions of Big Rivers' OATT reference LEL's OATT because of the structure of the power supply arrangements with the LG&E Parties under the LG&E Transaction. In connection with the Unwind, Big Rivers will seek FERC approval of appropriate amendments to the OATT to reflect termination of the LG&E Transaction.

Consents

The Unwind will require the consent of several parties. Some of the consents required are described below.

Members

Each of the boards of directors of the Members has approved the Unwind. The further approval of the Members will be required with respect to the definitive documents relating to the transaction, including the amendment to the Members' Wholesale Power Contracts.

RUS Mortgagees

As a creditor secured under the RUS Mortgage, the consent of Ambac, ACP, the other 2000 Lease Parties currently secured under the RUS Mortgage, RUS, CSFB, the 2001A Trustee and CFC will be required to (i) consent to the substitution of the Indenture for the RUS Mortgage and the amendment of the Intercreditor Agreement, and (ii) release and discharge the LG&E Parties from all obligations relating to or arising out of the LG&E Transaction. In addition, Ambac, ACP, AME and AAP will need to consent to other aspects of the Unwind, including the amendment of the intercreditor agreement, and agree to various other documents and arrangements.

Henderson

Henderson will be required to consent to the termination of the assumption by Station Two Subsidiary of the Station Two Assumption Agreements and the release and discharge of the LG&E Parties from obligations relating to the Station Two Assumption Agreements, Station Two Contracts, and the LG&E Transaction.

POST-UNWIND BIG RIVERS

The Unwind will significantly affect Big Rivers in many important respects. Most importantly, the Unwind will dramatically improve Big Rivers' financial condition. The power costs payable by the Members are expected to be more favorable to the Members than in the absence of the Unwind. Big Rivers' generation and transmission system also will be enhanced and improved as a result of substantial investment in the system following the Unwind. In addition, Big Rivers' business again will include responsibility for the operation, maintenance and management of its generating facilities and provide power for resale to the Smelters.

The Unwind will not affect Big Rivers, however, in some important respects. Big Rivers will continue to be regulated in the same manner as was the case prior to the Unwind. Also, Big Rivers' status as a taxable cooperative will not be affected by the Unwind.

Financial Condition Following Unwind

The Unwind will result in a fundamental transformation of Big Rivers' balance sheet. The following table reflects changes in Big Rivers' balance sheet from 1997, the last fiscal year prior to the consummation of the LG&E Transaction, through the Unwind and Big Rivers' *pro forma* projections for Big Rivers' balance sheet immediately following the Unwind.

	December 31, 1997	December 31, 2006		
		Estimated Existing Arrangements	*Pro Forma* Adjustment	Unwind
		(in millions)		
	(audited)		(unaudited)	
Assets:				
Net utility plant	$914	$ 937	$ 92	$1,029
2000 Lease investments	--	187	--	187
Cash & investments	21	78	60	138
Receivables, inventories & other assets	61	47	61	108
Assets	$996	$1,249	$212	$1,461
Equities & liabilities:				
Equities	$(293)	$ (267)	$ 613	$ 346
2000 Lease obligations & unamortized gain	--	234	--	234
Debt	1,256	1,090	(233)	857
Payables & other	33	192	(168)	24
Equities & liabilities	$ 996	$1,249	$ 212	$1,461
Equity/Assets:	-29%	-21%		24%

Equity

As the table indicates, the most dramatic change in Big Rivers' financial condition as a result of the Unwind is the change in Big Rivers' equity. Following the Unwind, Big Rivers estimates that it will have a positive equity of 24%. Prior to the Unwind, Big Rivers is projected to have equity of –21%; in 1997, Big Rivers had equity of –29%.

Obligations

Big Rivers' outstanding obligations, including debt, also will be significantly affected by the Unwind in two respects. First, the amount of Big Rivers' outstanding obligations will decrease on the Unwind Closing Date. Big Rivers currently projects that, on a net basis, it will apply between $200 million to $230 million of the cash proceeds from the Unwind to the prepayment of debt on the Unwind Closing Date. This prepayment will be in addition to the release by the LG&E Parties on the Unwind Closing Date of Big Rivers' obligations relating to the Residual Value Payment, estimated to be approximately $140 million as of December 31, 2006, and the Settlement Note, which had an outstanding balance of approximately $16.7 million as of December 31, 2006.

Second, the nature of the Big Rivers' debt will change. Big Rivers projects it will prepay a yet to be determined amount of Big Rivers' outstanding obligations under the New RUS Note. Big Rivers does not intend to prepay the ARVP Note. Big Rivers' also projects that it will issue a yet to be determined amount of securities in the capital markets under the Indenture on the Unwind Closing Date. See "Unwind Transaction – New Financial Arrangements – Capital Markets Offering" above.

Financial Ratios

Following the Unwind, Big Rivers projects that it will generate strong financial results. Significant factors contributing to these results include the transformation of Big Rivers' financial condition on the Unwind Closing Date, the Annual Revenue Guaranty of the Smelters, and Big Rivers' complete rights to operate and maintain the Facilities following the Unwind.

Big Rivers measures its financial performance in terms of a TIER and debt service coverage ("DSC") ratio. TIER is Big Rivers' times interest earned ratio calculated as Big Rivers' net margins and interest expense divided by interest expense. Interest expense includes 1/3 of the rentals of restricted property under long-term leases, in excess of 2% of the net of total margins and equities less regulatory assets ("Restricted Rentals"). TIER includes interest expense relating to the 2000 Lease and is calculated on a post-tax basis. DSC is calculated by dividing (A) the total of (i) net patronage capital, (ii) interest on long-term debt (including Restricted Rentals), and (iii) depreciation and amortization expense, over (B) the sum of all payments of principal and interest required to be made on account of total long-term debt during the year (including Restricted Rentals). The following table summarizes Big Rivers' projected TIER and DSC ratios through 2023.

Financial Ratio Projections

	TIER	DSC
2007	1.24	1.58
2008	1.24	1.46
2009	1.24	1.47
2010	1.24	1.46
2011	1.24	1.45
2012	1.24	1.45
2013	1.24	1.51
2014	1.24	1.46
2015	1.24	1.41
2016	1.24	1.39
2017	1.24	1.38
2018	1.24	1.37
2019	1.24	1.35
2020	1.24	1.34
2021	1.24	1.33
2022	1.24	1.31
2023	1.24	1.86

Investment Grade Credit Rating

Following the Unwind, Big Rivers' obligations secured under the Indenture will be rated at least investment grade by the Standard and Poor's Ratings Services and Moody's Investors Service. See "Unwind Transaction – Closing Conditions" above.

Member Rates

Member Non-Smelter Rates

Structurally, Big Rivers' rates to its Members for power for resale to their customers (other than the Smelters) ("Member Non-Smelter Rates") will not change other than to include a PCA for the pass-through to the Members of their respective portions of Big Rivers' fuel and purchased power costs over that which is included in the base rates.

Big Rivers projects that the Unwind will permit its Members' non-Smelter power costs to be substantially less than if the Unwind had not occurred. The following table compares Big Rivers' projections for Member non-Smelter power costs assuming the Unwind does and does not occur.

Member Non-Smelter Rate Projections ($/MWh)

	Unwind	No Unwind
2007	32.28	35.47
2008	31.99	35.51
2009	33.43	35.55
2010	35.94	35.59
2011	35.73	38.74
2012	36.64	38.78
2013	37.21	38.82
2014	37.50	38.86
2015	38.04	42.48
2016	38.74	42.52
2017	38.56	42.57
2018	39.56	42.61
2019	40.34	46.56
2020	40.88	46.60
2021	42.44	46.65
2022	43.01	46.69
2023	43.31	46.73

As the table indicates, with the exception of 2010, Big Rivers' projected Member non-Smelter power costs in the Unwind are lower in every year than the projected Member non-Smelter power costs if the Unwind did not occur.

Smelter Rates

Big Rivers projects that the total rates to the Smelters for power following the Unwind exclusive of the Surcharge (the "Smelter Rates") will rise from approximately $27.86 per MWh in 2007 to approximately $42.59 per MWh in 2023.

The following table reflects Big Rivers' current projections for the Smelter Rates and key components thereof. These include the Large Industrial Tariff (adjusted for a 98% load factor), the Smelter Base Rate margin over the Large Industrial Tariff, the Annual Revenues Guaranty and/or Rebate, the PCA, and the Surcharge (on a $/MWh basis) as shown below. The table also indicates limitations on the sum of the Smelter Base Rate and the Annual Revenue Guaranty imposed by the Bandwidth Ceiling. See "Unwind-Smelter Service Arrangements" above for a description of the calculation of these items.

Projected Smelter Rate Components ($/ MWh)

	Large Industrial Tariff at a 98% Load Factor	Smelter Base Rate Margin	Annual Revenue Guaranty/ (Rebate)	PCA	Surcharge (per MWh Equiv.)	Smelter Rate	Smelter Base Rate + Annual Revenue Guaranty/ (Rebate)	Bandwidth Ceiling
2007	27.08	0.25	(1.86)	1.95	0.70	28.12	25.47	31.23
2008	27.09	0.25	(2.29)	2.04	0.70	27.78	25.05	31.33
2009	27.10	0.25	(1.61)	2.72	0.70	29.17	25.75	32.02
2010	27.67	0.25	(0.28)	3.17	0.70	31.51	27.64	33.04
2011	27.68	0.25	(0.64)	3.24	0.70	31.24	27.30	33.13
2012	27.69	0.25	0.14	4.07	1.00	33.16	28.09	34.97
2013	27.71	0.25	2.14	4.57	1.00	35.67	30.10	35.47
2014	27.72	0.25	2.11	4.79	1.00	35.87	30.08	35.71
2015	27.73	0.25	3.42	5.26	1.00	37.66	31.40	36.79
2016	28.06	0.25	3.55	5.50	1.00	38.36	31.85	37.36
2017	28.28	0.25	3.55	5.74	1.39	39.21	32.08	37.81
2018	28.48	0.25	3.77	6.41	1.39	40.31	32.50	39.29
2019	28.66	0.25	4.15	6.90	1.39	41.36	33.07	39.96
2020	28.88	0.25	4.16	7.11	1.39	41.78	33.29	40.39
2021	29.69	0.25	3.27	7.58	1.39	42.18	33.21	42.27
2022	29.70	0.25	4.37	8.07	1.39	43.79	34.33	42.77
2023	29.72	0.25	4.11	8.29	1.39	43.76	34.08	43.00

As the table indicates, Big Rivers projects the Smelters will receive a Rebate in the initial years following the Unwind. (Note that the Rebate will be available to non-Smelter members as well as the Smelters.)

Operational Matters

Capital Investments Following Unwind

A benefit of the Unwind is the ability to make additional capital expenditures on the Facilities to attempt to ensure the continued, efficient operation of the Facilities well into the future and permitting Big Rivers to perform its power supply obligations with a limited amount of unscheduled outages. Big Rivers undertook an extensive analysis of the Facilities as part of its analysis of the Unwind. Big Rivers engaged an outside expert to evaluate the condition of the Facilities and help analyze and prioritize future capital expenditures relating to the Facilities.

Big Rivers currently estimates that it will invest more than $110 million in capital improvements over the first four years following the Unwind Closing Date to enhance the reliability of Big Rivers' system. Capital expenditures Big Rivers expects to make in the initial years following the Effective Date include turbine generator overhauls, scrubber and precipitator repairs and transmission system additions.

Transmission Matters

Big Rivers will enhance substantially the capacity of its transmission facilities in connection with the Unwind. This enhancement will occur in two phases. The first phase will increase Big Rivers' ability to transmit to its border all energy which would have been consumed by one Smelter if it terminated its Electric Service Agreement. Big Rivers expects to initiate very soon the actions required to start the development and construction of this phase of the enhancements. The cost of the first phase is expected to be approximately $6 million. The second phase of the enhancements will increase Big Rivers' ability to transmit energy to its border all energy which otherwise would have been consumed by both Smelters if they both terminated their Electric Service Agreements. The cost of the second phase is expected to be approximately $16 million. Big Rivers expects to obtain approval of these enhancements from the KPSC prior to the Unwind Closing Date and commence construction promptly thereafter. The result of the enhancements will enable Big Rivers to transmit to its border all energy which otherwise would have been sold to the Smelters if the Smelters do not take such energy for any reason.

Labor and Personnel Matters

Big Rivers will add additional personnel following the Unwind because it will again become responsible for the operation, maintenance and management of the Facilities. Ultimately, Big Rivers projects that the number of its employees and full-time equivalents will be 705, including employees performing responsibilities relating to the Station Two Facility for which Henderson compensates Big Rivers. The actual number of employees added will be dependent on a thorough review of staffing needs as Big Rivers performs its due diligence. At the officer level, Big Rivers will add a Vice President of Production who will be responsible for supervising the operation and maintenance of the Facilities and a Vice President of Administrative Services. Prior to the Unwind Closing Date, Big Rivers intends to evaluate its needs and determine the most appropriate and cost efficient manner in which to add personnel following the Unwind Closing Date. As described above, the Unwind will permit, but not obligate, Big Rivers to offer employment to any or all employees of WKEC, LEM or Station Two Subsidiary (other than certain employees identified by the parties). See "Unwind Transaction – Other Agreements with LEL – Personnel" above.

Regulation

The Unwind will not affect the extent to which the KPSC or FERC regulates Big Rivers.

Income Tax Matters

Big Rivers, a taxable cooperative, will recognize a substantial gain for Federal income tax as a result of the Unwind. However, because Big Rivers has substantial net operating loss carry-forwards and can claim a deduction for patronage dividends, Big Rivers anticipates that it will only have to pay alternative minimum tax on a portion of this gain (generally at the rate of 2% of such portion).

REASONS FOR THE UNWIND

Overview

When first approached by LEL about the possibility of an Unwind, Big Rivers was inclined not even to engage in any negotiations with LEL to this end. Overall, Big Rivers was happy with the relative benefits of the LG&E Transaction to Big Rivers and its Members. Big Rivers ultimately determined that it was appropriate to at least consider and evaluate the possibility of an Unwind for several reasons, including (1) the Smelters' power supply needs, (2) the dispute with LEL regarding the maintenance issue and the condition of the Facilities, (3) other disputes with LEL which could raise the cost of power under the existing arrangements, (4) the need for additional power for economic development, and (5) the desire to improve Big Rivers' financial condition. During the nearly two years that followed, Big Rivers has balanced the benefits and risks associated with the LG&E Transaction against those of the Unwind and concluded that the Unwind is in the best interests of Big Rivers and its Members.

Perspective on LG&E Transaction

The principal benefits of LG&E Transaction relate to the provisions of the LEM Power Purchase Agreement. Under the agreement, LEM is obligated to provide a specified amount of firm power to Big Rivers at prices which currently are at significantly below market rates with only modest price increases through the expiration of the agreement at the end of 2023. If LEM fails to deliver power under the agreement, LEM is obligated to pay liquidated damages to Big Rivers which compensate Big Rivers for the purchase of any replacement energy. As a result, Big Rivers is protected from risks related to the operation of the Facilities, such as unexpected outages, and the risk of increases in the price of fuel.

Other aspects of the LG&E Transaction limit Big Rivers in material respects. Because WKEC is entitled to the output of the Facilities, Big Rivers has no power except that acquired under the LEM Power Purchase Agreement, power allocated to the Members by SEPA, and any power purchase agreements entered into with third parties at then-current market prices. While the power provided under the LEM Power Purchase Agreement would be sufficient for Big Rivers' to serve its Members' non-Smelter requirements through the term of the agreement, Big Rivers would not have the ability to supply power to Kenergy for resale to the Smelters following the expiration of their existing arrangements with LEM to supply Kenergy with a portion of the Smelters' requirements for power through 2010 and 2011 to a degree sufficient to prevent the Smelters from ceasing operations if the market price of power remained at current levels. See Appendix E attached hereto for Big Rivers' projections of market energy prices in the future. In connection with the expiration of these arrangements, a risk exists that the Smelters would seek service from Kenergy and Big Rivers under a claim of a state law entitlement. This could mean Big Rivers would have to purchase significant amounts of power at market prices with the result that all rates would increase although Big Rivers does not believe the law would require this. There is a high likelihood the claim would result in litigation and Big Rivers would be subject to the attendant risks of litigation.

In addition, the WKEC Lease transfers control of the Facilities from Big Rivers to WKEC. As discussed above, Big Rivers has notified LEL of Big Rivers' concerns regarding the operation and maintenance of the Facilities in recent years. See "Big Rivers' Existing Operational, Power Supply and Financial Arrangements – Existing Operational Arrangements – WKEC Lease" above.

In the absence of an Unwind, Big Rivers believes that it is unlikely these matters would be resolved on a consensual basis.

In addition to the disagreement relating to the maintenance issue, Big Rivers and LEL have disagreements regarding LEL's claims for imbalance charges and scheduling matters.

Finally, the LG&E Transaction leaves Big Rivers with extremely limited options if a need for a financing arose in the future. Although the RUS Mortgage secures the $15 million line of credit with CFC, Big Rivers is effectively prohibited from incurring additional debt because the RUS Mortgage requires the consent of certain mortgagees to secure any additional obligations thereunder. Further, it is unlikely that any third party would provide financing in any material amount on a basis subordinate to the RUS Mortgage, the LEM Mortgage, the 2000 Lease Subordinated Mortgage and the LG&E Subordinated Mortgage or on an unsecured basis. Without any material financing flexibility, Big Rivers' rates to its Members are subject to tremendous pressure as the need for funds arises in the future. Rate pressures on Big Rivers' Members also are increased by the lengthy debt repayment requirements in future years under the RUS notes.

Benefits of Unwind

The Unwind offers Big Rivers a unique opportunity to dramatically improve its financial condition. As described above, Big Rivers will receive consideration of approximately $626 million in connection with the Unwind and its equity will change from a <u>negative</u> 21% to a <u>positive</u> 24% on the Unwind Closing Date.

Significant benefits also will arise as a result of the return of the control of the Facilities to Big Rivers. First, Big Rivers will not only have the right to make additional maintenance and capital improvements to the Facilities but it will have the money provided by LEL to do so. Second, Big Rivers will be able to more closely monitor the Facilities to ensure that they can continue to serve Big Rivers and the Members as desired far into the future. Third, Big Rivers will enable the Smelters to continue to operate in Kentucky with reasonably priced power.

The Unwind resolves the LG&E Transaction's limitations on Big Rivers' ability to finance future costs. With the Indenture, Big Rivers will have the ability to (1) borrow additional amounts from traditional credit providers to generation and transmission cooperatives in the future because such amounts will not be subordinated to other secured obligations, and (2) access to the capital markets. Big Rivers also will have control over the timing of all scheduled operation or maintenance expenditures and capital expenditures. With this flexibility, Big Rivers and the Members will be able to limit the pressure on the Members' rates in the event of a need for future funds.

The structure of the arrangements with the Smelters also provides Big Rivers substantial help in limiting future rate increases to the Members. Subject to the Bandwidth Ceiling, the Smelters will provide Big Rivers sufficient revenue to achieve annually a TIER of 1.24 under the Annual Revenue Guaranty.

Finally, the Unwind avoids all future disputes with the LG&E Parties and the Smelters relating to the LG&E Transaction, including any dispute regarding the operation and maintenance of the Facilities by WKEC or any obligation of Big Rivers or Kenergy to serve the Smelters after

2010 or 2011 under a state law claim to service at a time when Big Rivers does not have rights to the output of the Facilities.

Risks of Unwind

The Unwind will result in the assumption of additional risks by Big Rivers. Principally, these risks are the risk of future unexpected maintenance and outages with the Facilities and fuel risk. Big Rivers' believes that its planned capital improvements and maintenance procedures will significantly reduce the impact of risks related to unscheduled maintenance or outages with respect to the Facilities. To offset the impact of risks associated with fuel and purchased power costs, Big Rivers required the Smelters pay the Surcharge. As described above, the Surcharge is an amount payable by the Smelters on top of all other amounts owing by the Smelters. The value of the Surcharge will produce $133 million of revenue to Big Rivers that will be directly applied to reduce the Members' power cost adjustment relating to their non-Smelter customers.

Big Rivers does not consider service to the Smelters to increase risks as compared to the current arrangements. The Electric Service Agreements require the Smelters to provide credit support sufficient to cover the maximum amount that could be owed for past service. Furthermore, Big Rivers believes that it would be able to sell the power which otherwise would be sold to a Smelter if it terminated its Electric Service Agreement at a price in excess of that otherwise payable by the Smelter under all reasonable assumptions regarding future market conditions. See Appendix E – Selected Financial Information for projections of future market rates.

CONCLUSION

General

The Unwind permits Big Rivers to meet the future as a financially strong, stable organization while enhancing greatly its flexibility to meet challenges as they arise. At the same time, the Unwind enables Big Rivers to assist in securing the benefits of economic development to western Kentucky.

Timeline

The definitive documents with the LG&E Parties relating to the Unwind will provide that, if the Unwind Closing Date does not occur on or before December 31, 2006, the definitive documents may be terminated at the option of Big Rivers or the LG&E Parties, as long as the party exercising the right of termination is not in default of its obligations under the documents. For the Unwind to be consummated prior to such date, Big Rivers believes the following events must occur by the dates set forth below:

Negotiate and execute definitive documentation for the Unwind with the LG&E Parties and Smelters	March, 2006
Agreement among creditors, including the RUS, regarding post-Unwind financial arrangements	Spring, 2006
File application with KPSC to approve the Unwind	Spring, 2006
Finalization of financial structure and principal financial documents	Summer, 2006
Issuance of KPSC order approving the Unwind	Late September, 2006
Expiration of appeal period of KPSC order approving the Unwind	Late October, 2006
Rating agencies issue investment-grade credit ratings	Early November, 2006
Distribution of disclosure document	Mid-November, 2006
Marketing of debt securities to capital markets	Early December 4, 2006
Unwind closing	December 20, 2006

Big Rivers believes that the above timeline is achievable but will require significant effort and early engagement on the part of many third parties, including Ambac, ACP, AME and AAF. The coordinated action of these third parties with Big Rivers, the LG&E Parties and the Smelters will be required in order to meet an end-of-year 2006 Unwind Closing Date.

BIG RIVERS ELECTRIC CORPORATION

CONFIDENTIAL INFORMATION MEMORANDUM

UNWIND OF 1998 LG&E TRANSACTION,
TERMINATION OF CERTAIN AGREEMENTS
AND NEW SMELTER SERVICE ARRANGEMENTS

JANUARY, 2008

NOTICE TO RECIPIENTS:

This Confidential Information Memorandum (the "Information Memorandum") has been prepared solely for informational purposes and is being furnished to you solely in your capacity as an interested party in the proposed transactions described herein.

This Information Memorandum does not purport to contain all of the information which you may require in evaluating the proposed transactions. No legal commitments or obligations will arise by reason of this Information Memorandum or any of its contents. This Information Memorandum also includes certain statements, estimates and projections provided by Big Rivers Electric Corporation ("Big Rivers"), its advisors and others. These statements, estimates and projections reflect various assumptions by Big Rivers or others concerning expected or anticipated results or other matters. No representations or warranties are made as to the accuracy or completeness of these statements, estimates or projections or with respect to any other materials contained in this Information Memorandum. Big Rivers does not undertake any commitment to update such statements, estimates, projections or other information herein for future changes. Statements in this Information Memorandum describing documents and agreements are summaries only and such summaries are qualified by reference to such documents and agreements.

The information contained in this Information Memorandum has been prepared to assist interested parties in making their own evaluation of the proposed transactions. All interested parties are invited to ask questions regarding the proposed transaction and the information contained herein. Each recipient must conduct its own independent analysis and consider all other information which it deems appropriate in its sole discretion.

Nothing in this summary should be construed as legal, accounting, tax or other advice. Each recipient should consult its own legal counsel, accountants or other advisors regarding these matters.

Each recipient of this Information Memorandum agrees that, except as required by applicable law, this Information Memorandum and its contents are strictly confidential, that all information contained herein will be kept confidential by it, and that no disclosure of this summary or any of the information contained herein will be made to any other person or entity without the prior written approval of Big Rivers. Each recipient also agrees that it will not copy, reproduce or distribute this summary to others (including employees of the recipient other than those involved in considering this transaction) without the prior written consent of Big Rivers. The recipient agrees that it will use this summary only for the purpose of evaluating the proposed transactions.

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Current Arrangements

Big Rivers is a generation and transmission cooperative organized under the laws of Kentucky. In 1998, in connection with entry into the long-term operating lease of its generating facilities, Big Rivers began purchasing substantially all of its power requirements from LEM, under a long-term power purchase agreement. LEM's obligation to supply power is not contingent on the operating status of Big Rivers' generation facilities. LEM also supplies a portion of the Smelters' power requirements to Kenergy for resale to the Smelters. The agreements providing Kenergy power for resale to the Smelters and Kenergy's agreements for the sale of the power to the Smelters terminate at the end of 2010 in the case of one Smelter and 2011 in the case of the other. Without access to reasonably priced power, the Smelters have indicated they may cease operations in western Kentucky at such times.

Big Rivers' current credit arrangements secure obligations to its primary lender, RUS, Ambac and the liquidity provider in connection with a series of pollution control bonds issued by a local governmental authority, National Rural Utilities Cooperative Finance Corporation ("CFC"), the trustee of a second series of pollution control bonds issued by such authority, and parties to an economically defeased lease transaction entered into in 2000 relating to the Robert D. Green Plant and D.B. Wilson Unit No. 1. These obligations are secured under a closed-end first mortgage. Big Rivers' assets also are subject to three other mortgages, including two mortgages in favor of subsidiaries of E.ON and a subordinated mortgage and security agreement (the "2000 Lease Subordinated Mortgage") in favor of parties to the 2000 lease transaction. Under a subordination, nondisturbance, attornment and intercreditor agreement, Big Rivers' secured creditors established the priority of their rights to the proceeds of any foreclosure of the mortgages on Big Rivers' property.

Reasons for the Unwind

Big Rivers has determined that the Unwind is in the best interests of it and its members for several reasons. Primary benefits of the Unwind include:

- A financially strengthened Big Rivers;
- Investment-grade credit rating for obligations secured under Big Rivers' new indenture;
- The ability to assure Big Rivers' generating facilities are properly maintained and preserved;
- The increased likelihood to retain the economic benefits to western Kentucky of the continued operation of the Smelters; and
- An increased ability to assist substantively future economic development in the region.

Big Rivers considers these benefits to greatly outweigh additional generation and fuel risks resulting from the Unwind. As a whole, the Unwind permits Big Rivers to meet the future as a financially strong, stable organization while enhancing greatly its flexibility to address future challenges as they arise. At the same time, the Unwind enables Big Rivers to assist in securing the benefits of economic development in western Kentucky.

Requested Action

The Unwind will require action on the part of your organization. Specifically, they will need to take the following action for the Unwind to occur:

1. Consent to termination of all 1998 transaction agreements with E.ON and its affiliates and related agreements;

2. Agree to the release of the existing first mortgage into a first mortgage indenture, including the securing of all obligations secured thereunder equally and ratably;

3. Agree to the termination of existing intercreditor agreement and its replacement with a new agreement among Big Rivers' secured creditors which will confirm the subordination of the 2000 Lease Subordinated Mortgage to the indenture;

4. Release E.ON and its affiliates from all liabilities or obligations relating to or arising out of the 1998 transactions;

5. In the case of certain parties to the 2000 lease transaction, agree to amendments to certain of the security interests creating documents in that transaction to reflect the conversion of the existing mortgage to an indenture; and

6. In the case of certain parties to the 2000 lease transaction, agree to the conversion of Big Rivers Leasing Corporation to a Delaware limited liability company (required for income tax purposes).

Questions

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BIG RIVERS' EXISTING OPERATIONAL, POWER SUPPLY AND FINANCIAL ARRANGEMENTS

Introduction

Formed in 1961, Big Rivers is an electric generation and transmission cooperative corporation based in Henderson, Kentucky. Big Rivers supplies wholesale electric and transmission service to three electric distribution cooperatives (the "Members"). Big Rivers also markets surplus power to non-Member utilities and other participants in the energy markets.

The Members are local customer-owned distribution cooperatives providing retail electric service on a not-for-profit basis. The Members consist of (1) Kenergy, the successor of the merger of Green River Electric Corporation and Henderson Union Electric Cooperative Corporation, (2) Meade County Rural Electric Cooperative Corporation, and (3) Jackson Purchase Energy Corporation. The customers of the Members consist of residential, commercial and industrial customers located in portions of 22 western Kentucky counties. The majority of the Members' retail customers are small farms and individual residences.

Big Rivers and Kenergy entered into a series of transactions with E.ON and its affiliates (the "E.ON Parties") in connection with Big Rivers' emergence from Chapter 11 reorganization proceedings in 1998 (the "LG&E Transaction"). The LG&E Transaction significantly altered Big Rivers' obligations relating to the operation of its generating facilities (the "Facilities"), its power supply arrangements, and its financial arrangements with its creditors. In 2000, Big Rivers' financial (but not operational) arrangements also were affected by Big Rivers' entry into an economically defeased lease transaction relating to the Robert D. Green Plant and D. B. Wilson Unit No. 1 and the sites on which these generating facilities are located (the "2000 Lease").

Existing Operational Arrangements

Prior to the LG&E Transaction, Big Rivers owned, operated and maintained the Facilities and operated and maintained the Station Two Facility (the "Station Two Facility") on behalf of the City of Henderson, Kentucky doing business as Henderson Municipal Power & Light ("Henderson"), the owner of the Station Two Facility. The LG&E Transaction significantly modified these arrangements.

WKEC Lease

Pursuant to the LG&E Transaction, Big Rivers leases the Facilities to WKEC until December 31, 2023 pursuant to a lease (the "WKEC Lease") providing for fixed monthly rental payments aggregating approximately $31 million per year through 2010, $34 million in 2011, and $35 million from 2012 through 2023, subject to adjustments. The rental payments are subject to several adjustments during the term of the lease, including adjustments for incremental operations and maintenance expenses resulting from changes in environmental law or expenses relating to compliance with opacity limitations at certain of the Facilities. As lessee of the Facilities, WKEC owns all the power generated by the Facilities and generally is responsible for the operation, maintenance, and management of the Facilities.

The WKEC Lease obligates WKEC to operate and maintain the Facilities in accordance with "prudent utility practice." "Prudent utility practice" under the WKEC Lease means practices that a person in the electric power industry owning and operating the Facilities over their useful life would engage in to produce power. These practices include those that are then commonly used in prudent engineering and operations to operate similar facilities lawfully and with safety, reliability and efficiency and those that, in the exercise of reasonable judgment considering the facts then known, could have been expected to achieve the desired result consistent with applicable laws, safety, reliability and efficiency.

The WKEC Lease requires Big Rivers and WKEC each to pay an agreed share of the cost of capital expenditures ("Capital Expenditures") made pursuant to an approved annual budget. The allocations of responsibility for the cost of Capital Expenditures are designed to reflect changes in the maximum and minimum hourly power purchase amounts under the LEM Power Purchase Agreement (as defined below). For example, Big Rivers' share of the cost of Capital Expenditures which are not made in response to changes in law, including environmental law, currently is 49%. Big Rivers allocation of the responsibility decreases to approximately 40% in 2011 and decreases again to approximately 34% in 2012. For Capital Expenditures made in response to changes in law, including environmental law, Big Rivers' share currently is 20% and increases to approximately 40% in 2011 and then decreases to approximately 34% in 2012. Upon the termination of the LG&E Transaction or upon any sale by Big Rivers of the Facilities, Big Rivers must pay to the E.ON Parties an amount based on the remaining book value of any assets funded by E.ON or its affiliates (the "Residual Value Payment"). Big Rivers estimates the Residual Value Payment would be approximately $142 million if the WKEC Lease had been terminated on December 31, 2007.

Big Rivers and WKEC have agreed that a flue gas desulferization system to be installed at the Kenneth C. Coleman Plant (the "Coleman Scrubber") will be excluded for purposes of calculating the Residual Value Payment if the WKEC Lease remains in effect until the expiration of its stated term. If the WKEC Lease is terminated prior to the expiration of its stated term, the Coleman Scrubber could be included in the calculation of the Residual Value Payment in certain circumstances. Under the existing arrangements with the E.ON Parties, WKEC will fund the purchase and installation of the Coleman Scrubber alone without contribution by Big Rivers.

Upon expiration of the term of the WKEC Lease, control over the Facilities, together with any enhancements or capital improvements made during the term of the LG&E Transaction which may have been paid for by WKEC, will revert to Big Rivers.

The WKEC Lease did not and does not affect Big Rivers' ownership of the Facilities, ownership or operation of its transmission system or its obligations to provide transmission services to the Members, affiliates of E.ON and others under its open access transmission tariff ("OATT"). The WKEC Lease also does not affect Big Rivers' obligations to meet the power requirements of its Members (other than with respect to the power and energy requirements of the Smelters, as described below) and contractual obligations to third parties.

Assumption of Station Two Obligations

Pursuant to the LG&E Transaction, WKE Station Two Inc., a subsidiary of LEL, ("Station Two Subsidiary") and Big Rivers entered into a series of agreements (the "Station Two Assumption Agreements") whereby Station Two Subsidiary assumed Big Rivers' obligations to operate the Station Two Facility and provide operating reserves required by Henderson's electric system. In return, Station Two Subsidiary acquires directly from Henderson all the output from the Station Two Facility which is surplus to Henderson's reserved requirements. The obligations assumed by Station Two Subsidiary do not include obligations relating to transmission services or operation or maintenance of jointly owned facilities not related to generation. Station Two Subsidiary's obligations regarding operation and maintenance expenses and capital expenditures with respect to the Station Two Facility substantially mirror WKEC's obligations relating to the Facilities. Since the consummation of the LG&E Transaction, Station Two Subsidiary was merged into WKEC.

Existing Power Supply Arrangements

Under the LG&E Transaction, Big Rivers fulfills its obligations to supply power to the Members and others by purchasing power from LEM at generally fixed rates in amounts up to specified contractually established maximum hourly and annual amounts allowed under a power purchase agreement with LEM (the "LEM Power Purchase Agreement"). This power is in addition to 178 megawatts ("MW") (currently subject to curtailment because of maintenance on a dam) that the Southeastern Power Administration ("SEPA") currently allocates to Big Rivers' Members. Big Rivers receives a sufficient amount of power from LEM and SEPA to satisfy the Members' native load and to supply energy at market-based rates to the Smelters in excess of those amounts supplied by LEM through Kenergy. In addition, Big Rivers often sells power on the open market at prevailing market rates and, on occasion, purchases power in the market.

Rates under the LEM Power Purchase Agreement are \$20.017 per megawatt-hour ("MWh") in 2008 and rise annually to \$20.947 per MWh in 2011, before decreasing to \$20.267 per MWh in 2012. Thereafter, rates will again increase annually to \$24.452 per MWh in 2024. While rates charged by LEM to Big Rivers under the LEM Power Purchase Agreement may be adjusted in 2011 and 2018 based on fuel, labor and other reference points, Big Rivers does not anticipate any adjustments because these reference points are set at very high levels. During the term of the LG&E Transaction, Big Rivers is entitled to credits against amounts it owes to LEM under the LEM Power Purchase Agreement. For the year 2011, Big Rivers will receive a load reduction credit of \$2,610,557. For the year 2012 and each subsequent year during the term of the LG&E Transaction, Big Rivers will receive a load reduction credit of \$4,110,750.

In connection with the LG&E Transaction, Big Rivers and the predecessor of Kenergy entered into amendments to their Wholesale Power Contract to create exceptions to the "all-requirements" nature of the Wholesale Power Contracts to permit the sale of power by LEM to the predecessor of Kenergy for resale to the Smelters. LEM supplies energy to Kenergy at a fixed price pursuant to wholesale power purchase agreements and Kenergy, in turn, supplies energy at a fixed price to the Smelters. LEM pays to RUS on behalf of Big Rivers an amount, averaging approximately \$18 million per year, equal to the expected margins on power that was projected to be available to the Smelters if the LG&E Transaction had not occurred, regardless of the actual Smelter demand. The Smelters are required to purchase their energy requirements in excess of that provided by LEM to Kenergy on the open market but through Kenergy. Currently, Kenergy provides 572 MW of power through a power purchase agreement with LEM. Kenergy also provides 278 MW of power to the Smelters through purchases in the wholesale market.

LEM credits to Big Rivers any surplus of \$5 million over Big Rivers' total charges to LEM for transmission services in any year, with some exceptions. Any such credit is applied to Big Rivers' payment obligations under the LEM Power Purchase Agreement. If the annual total charges for transmission services provided by Big Rivers to LEM and its affiliates exceeds \$5 million and the average rate per MWh for non-firm transmission services exceeds a specified amount per MWh, Big Rivers credits LEM's payment obligations to Big Rivers under a separate agreement an amount determined by reference to such average rate. In addition, Big Rivers pays LEM a portion of incremental revenues above a specified amount related to transmission of power purchased by Century in the market in certain circumstances.

2000 Lease

In April 2000, Big Rivers entered into the 2000 Lease with certain entities[1] (collectively, the "2000 Lease Parties"). In this transaction, Big Rivers created undivided leasehold interests in Plant Robert D. Green Units 1 and 2 or D. B. Wilson Unit 1 and the sites on which the facilities are located (the "Leased Facilities") in favor of statutory trusts created on behalf of equity investors in the transaction (each a "Head Lease"). Each leasehold interest was renewable for the full useful life of these Facilities and constituted a sale for federal income tax purposes. All rent under each Head Lease was paid at its inception. The undivided interest in the Facilities and underlying sites were then leased back to Big Rivers pursuant to a lease (each a "Facility Lease") for a shorter term extending beyond the end of the LG&E Transaction. Big Rivers' contingent obligations to pay termination value under each Facility Lease is represented by two notes in favor of such statutory trusts (the "Facility Lessor Secured Notes"). Each undivided interest transaction which is part of the 2000 Lease provides Big Rivers with a purchase option, at the end of the term of each Facility Lease, which, if elected, has been fully funded. The leasehold interests of the equity investors pursuant to the Head Leases are subject to the interests of the E.ON Parties in such Leased Facilities and sites. The equity investors financed a portion of their rent payment under the Head Lease with the proceeds of non-recourse loans made to the statutory trusts.

All Big Rivers' basic rent obligations under each Facility Lease have been economically defeased with obligations guaranteed or insured by Ambac Assurance Corporation ("Ambac") or America International Group and by Treasury or federal agency securities. In addition, these obligations will mature at a time, and in an amount, sufficient to fund Big Rivers' fixed price purchase option under the Facility Lease.

Credit enhancement for Big Rivers' obligations under the Facility Lease was provided by Ambac Credit Products ("ACP") in the form of a credit "swap" utilizing a modified International Swap Dealers Association form of swap. These obligations were evidenced by a note (each an "Ambac Credit Products Secured Note") issued by Big Rivers in favor ACP. Big Rivers and ACP also entered into a credit swap using a modified International Swap Dealers Association form of swap providing for the possible conveyance of the equity investors' interests in the Facilities under the Head Lease to ACP in certain circumstances. The obligations of ACP under the credit swap are insured by Ambac.

Existing Financial Arrangements

RUS Mortgage

Substantially all of Big Rivers' assets are subject to the lien of the Third Restated Mortgage and Security Agreement, dated as of August 1, 2001 (the "RUS Mortgage"), with the RUS, Ambac, Dexia Bank ("Dexia"), U.S. Bank Trust National Association, as trustee (the "2001A Trustee"), CFC, and certain of the 2000 Lease Parties. The 2000 Lease Parties secured under the RUS

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[1] The 2000 Lease Parties are: PBR-1 Statutory Trust, PBR-2 Statutory Trust, PBR-3 Statutory Trust, FBR-1 Statutory Trust, FBR-2 Statutory Trust, Ambac, AME, CoBank, ACB, ACP, AAF, PBR-1 OP Statutory Trust, PBR-2 OP Statutory Trust, PBR-3 OP Statutory Trust, FBR-1 OP Statutory Trust, FBR-2 OP Statutory Trust, Bluegrass Leasing and Bank of America Leasing (successor to Fleet Real Estate, Inc.)

Mortgage are: ACP, PBR-1 Statutory Trust, PBR-2 Statutory Trust, PBR-3 Statutory Trust, FBR-1 Statutory Trust and FBR-2 Statutory Trust. The RUS Mortgage secures (i) indebtedness to RUS; (ii) reimbursements obligations for any payments by Ambac under a municipal bond insurance policy insuring the payment of a series of pollution control bonds issued by the County of Ohio, Kentucky, the proceeds of which were lent to Big Rivers; (iii) obligations to Dexia under a standby bond purchase agreement which provides liquidity for such bonds; (iv) obligations to the 2001A Trustee in connection with a second series of pollution control bonds issued by Ohio County, the proceeds of which also were lent to Big Rivers; (v) indebtedness under a revolving line of credit with CFC in an amount not to exceed $15 million; and (vi) obligations related to the 2000 lease transaction under the Ambac Credit Products Secured Notes or the Facility Lessor Secured Notes. The RUS Mortgage does not permit additional debt to be secured under the mortgage without the consent of all the mortgagees, except for limited amounts in limited circumstances which still require the consent of most of the mortgagees.

Big Rivers' indebtedness to the RUS is evidenced by two notes. The "New RUS Note" was issued on July 17, 1998 in the aggregate principal amount of $1,101,165,000 of which $807,555,783 was outstanding at December 31, 2007. The New RUS Note bears interest at a fixed rate of 5.75% per annum and matures in 2021. The "ARVP Note" was issued on July 17, 1998 in the aggregate principal amount of $265,000,000, of which $249,456,294 was outstanding at December 31, 2007; the ARVP Note does not bear interest and does not require any scheduled payments prior to its maturity in 2023. The ARVP Note does require, however, that Big Rivers make payments equal to one-third of certain profits from the sale of surplus power, if any, to repay principal of the ARVP Note. The payment of these profits can, in some instances, reduce the amount of principal and interest owed to the RUS under the New RUS Note. The RUS loan agreement relating to both RUS notes contains a "no further advances" provision.

LEM Mortgage

Big Rivers also has issued a promissory note to LEM (the "Settlement Note") in consideration for, among other things, LEM's assumption of the risk of unforeseen costs with respect to power to be supplied to or for the use of the Smelters. At December 31, 2007, the outstanding balance of the Settlement Note was approximately $16.2 million. In connection with the Settlement Note, Big Rivers has granted to LEM and WKEC a mortgage on substantially all of Big Rivers' real property and personal property related to or used in connection with the Facilities (the "LEM Mortgage"). The LEM Mortgage not only secures Big Rivers' obligations under the Settlement Note, but also secures all payments, sums and debt due and owing to WKEC under the New Participation Agreement, dated April 6, 1998 (the "Participation Agreement"), with E.ON and its affiliates, including the Residual Value Payment and payments due and owing in respect to any certain enhancements or major capital improvements to Big Rivers' system made pursuant to the WKEC Lease. The obligations secured by the LEM Mortgage are partially subordinated to the obligations secured under the RUS Mortgage.

LG&E Subordinated Mortgage

Big Rivers has granted to WKEC, LEM and Station Two Subsidiary a subordinated mortgage (the "LG&E Subordinated Mortgage") on substantially all of Big Rivers' real property and personal property related to or used in connection with the Facilities. The LG&E Subordinated Mortgage secures payment and other obligations of Big Rivers to WKEC (including as successor to

Station Two Subsidiary) and LEM in connection with the LG&E Transaction. The LG&E Subordinated Mortgage is subordinated to the RUS Mortgage and the LEM Mortgage.

2000 Lease Subordinated Mortgage

The 2000 Lease Subordinated Mortgage secures Big Rivers' payment and performance obligations arising out of agreements related to the 2000 lease transaction. The 2000 Lease Subordinated Mortgage is subordinated to the RUS Mortgage, the LEM Mortgage and the LG&E Subordinated Mortgage.

Intercreditor Arrangements

Pursuant to the Third Amended and Restated Subordination, Nondisturbance, Attornment and Intercreditor Agreement, dated as of August 1, 2001 (the "Intercreditor Agreement"), notwithstanding any priority given to any security instrument, Big Rivers' secured creditors have agreed that the proceeds of the simultaneous foreclosure of the mortgages identified above will be distributed in the following order:

1. Pro rata to (i) CFC in payment of obligations relating to a CFC line of credit, up to a maximum aggregate principal amount of $15,000,000; and (ii) Ambac, Dexia and the 2001A Trustee with respect to obligations relating to the pollution control bonds;

2. WKEC and LEM (collectively, the "LG&E Secured Parties"), for payments due in respect of certain enhancements and major capital improvements, if any, funded by them pursuant to the WKEC Lease;

3. Pro rata (i) to LEM and WKEC in payment of all amounts secured by the LEM Mortgage, and (ii) to the holders of the Facility Lessor Secured Notes and the Ambac Credit Products Secured Notes;

4. Pro rata to the holders of each Facility Lessor Secured Note and each Ambac Credit Products Secured Note;

5. RUS in payment of the sums owed to RUS and secured by the lien created by the RUS Mortgage;

6. The LG&E Secured Parties for the amounts secured by the LG&E Subordinated Mortgage if the LG&E Subordinated Mortgage is being foreclosed in the same proceeding as the prior mortgages;

7. 2000 Lease Parties in payment of all amounts secured by the 2000 Lease Subordinated Mortgage if it is being foreclosed in the same proceeding as the prior mortgages; and

8. Big Rivers and, to a limited degree, the LG&E Secured Parties.

The Intercreditor Agreement also provides that so long as the E.ON Parties are not in default of their respective obligations to Big Rivers incurred pursuant to the LG&E Transaction, the other secured creditors will not disturb the rights of the E.ON Parties to the occupancy, use and operation of Big Rivers' assets if any of the secured creditors obtain possession of Big Rivers' assets or acquire any rights of Big Rivers with respect to any of agreements relating to the LG&E

Transaction, whether by reason of foreclosure or otherwise. In addition, in the Intercreditor Agreement, the secured creditors agree, under certain conditions, not to join as a party defendant any of the LG&E Secured Parties for the purpose of terminating any of their respective interests in Big Rivers' assets operated or leased by any of them. In addition, the Intercreditor Agreement provides that if the secured parties or any third party, including a purchaser pursuant to a foreclosure, acquires an interest in the Big Rivers' assets or rights, the LG&E Secured Parties will be bound to the secured creditors or such third party by all of the same terms and covenants as if the secured creditors or such third party were Big Rivers. Furthermore, in the Intercreditor Agreement, those 2000 Lease Parties which are mortgagees under the RUS Mortgage have agreed to access the collateral securing them under the documents in the lease transaction prior to seeking satisfaction of their claims from other collateral under the RUS Mortgage.

Facilities

The following table sets forth certain information with respect to the generating units which comprise a part of the Facilities.

Generating Facility	Fuel Type	Net Capacity (MW)	Commercial Operation Date
Kenneth C. Coleman Plant[1]			
Unit 1	Coal	150	1969
Unit 2	Coal	150	1970
Unit 3	Coal	155	1972
Robert D. Green Plant			
Unit 1	Coal	231	1979
Unit 2	Coal	223	1981
Robert A. Reid Plant			
Unit 1	Gas or Coal	65	1966
Combustion Turbine	Gas or Oil	65	1976
Station Two Facility Units No. 1 and 2[2]	Coal	312	1973/1974
D. B. Wilson Unit No. 1	Coal	420	1986
Total		1771	

The Facilities have very low embedded costs. Big Rivers' net utility plant was approximately $911.6 million as of December 31, 2007, and the depreciation and amortization amount with respect to total utility plant in service was approximately $32.3 million for the twelve month period ending December 31, 2007.[3] A comparison of the rates of the Members to other neighboring utilities is set forth in Appendix C.

[1] The net capacity of the Kenneth C. Coleman Plant will be reduced by approximately 12 MW due to the scheduled addition of the Coleman Scrubber.

[2] Big Rivers operates but does not own the Station Two Facility and not all net capacity of such facility is available to Big Rivers or the E.ON Parties.

[3] Including amortization of the Station Two Facility on Big Rivers' books at approximately $1.6 million annually.

Financial Information Relating to Big Rivers and the Members

Big Rivers' Annual Report for its fiscal year ended 2006 is set forth in Appendix A to this Information Memorandum. Selected financial information related to the Members is set forth in Appendix B.

UNWIND TRANSACTION

Background and Overview

In 2003, E.ON approached Big Rivers about the possibility of an Unwind. Big Rivers did not solicit or seek out any amendments or modifications to or unwinding of the LG&E Transaction. After initial discussions with E.ON, Big Rivers engaged legal, financial, power marketing, engineering and other professional advisors to assist it in evaluating and structuring any potential Unwind. Before undertaking this evaluation, however, Big Rivers' board of directors instructed that any Unwind must not violate the following governing principles:

- Big Rivers must receive economic benefits commensurate with any additional risks assumed;
- The Unwind must enable Big Rivers to be economically viable in order to permit it to raise sufficient capital in the future to invest in the Facilities to permit Big Rivers to reliably serve the Members far into the future;
- Big Rivers' Members' non-Smelter customers must not subsidize any service to the Smelters; and
- Big Rivers' senior secured obligations must be rated at least investment grade by Standard and Poor's Ratings Services and Moody's Investors Service.

Over the course of many months, Big Rivers analyzed benefits and risks related to potential Unwind structures. During this period, Big Rivers engaged in lengthy negotiations with E.ON, and on a parallel path Big Rivers and Kenergy engaged in negotiations with the Smelters, to consider whether a memorandum of understanding or letter of intent could be reached which was in the best interests of Big Rivers and its Members and which embodied Big Rivers' board's governing principles. These negotiations culminated in two non-binding letters of intent, one with E.ON and a second with the Smelters. On the basis of the letter of interest with E.ON, Big Rivers and E.ON then negotiated and executed the Termination Agreement. On the basis of the letter of interest with the Smelters, Big Rivers, Kenergy and the Smelters have substantially negotiated forms of Wholesale Electric Service Agreement ("Smelter Wholesale Agreement"), Retail Electric Service Agreement between Kenergy and a Smelter ("Smelter Retail Agreement") and Coordination Agreement between Big Rivers and a Smelter ("Smelter Coordination Agreement" and, together with the Smelter Wholesale Agreement and the Smelter Retail Agreement, the "Smelter Agreements"). The Termination Agreement and the forms of Smelter Agreements are available to you through the electronic diligence materials being maintained by Orrick, Herrington & Sutcliffe LLP.

Together, the Termination Agreement and the Smelter Agreements contemplate an Unwind consisting of three primary components: (1) the termination of the 1998 operational, power supply and financial arrangements with the E.ON Parties; (2) approximately 623 million of compensation to Big Rivers, including cash, property, emissions allowances, and forgiveness of debt and other obligations; and (3) the entry into amendments to Big Rivers' wholesale power contracts with the Members reflecting the termination of the WKEC Lease, and the entry by Kenergy into Agreements with each Smelter. A fourth component of the Unwind not required by the Termination Agreement but contemplated by Big Rivers is the establishment of new financial arrangements on the consummation of the Unwind (the "Unwind Closing Date"), the prepayment of substantial outstanding debt and the eventual issuance of new debt in the capital markets. In addition, Big Rivers will be negotiating additional credit facilities for its future short term financing needs.

Termination of LG&E Transaction

Termination of Operational Arrangements

The Unwind of the LG&E Transaction will result in (1) the termination of the WKEC Lease; (2) the termination of the assumption by WKEC of Big Rivers' obligations under the agreements relating to the operation of the Station Two Facility; and (3) termination of various other arrangements between Big Rivers and the E.ON Parties. A list of documents which will be terminated in the Unwind is set forth in Appendix D.

Termination of Power Supply Arrangements

The Unwind will include the termination of the LEM Power Purchase Agreement as well as termination of the electric service agreements between LEM and Kenergy and their replacement with the Smelter Wholesale Agreements. Also, the existing agreements between Kenergy and the Smelters will be terminated.

Termination of Notes, Obligations and Mortgages

Obligations of Big Rivers and the E.ON Parties under various promissory notes, mortgages and guaranties entered pursuant to the LG&E Transaction will be terminated. LEM will release Big Rivers from its obligations under the Settlement Note. Similarly, the Unwind is conditioned on LEM being released from all of its obligations under a demand promissory note payable by LEM to the United States of America in the original principal amount of $933,333.33. This note represents the amount of a power marketing fee in excess of $5 million paid by Big Rivers to LEM at the closing of the 1998 transaction. If Big Rivers defaults to RUS, the note requires LEM to pay RUS an amount equal to the lesser of the amount of the default and the amount of the note.

Also as a part of the Unwind, E.ON will release Big Rivers from any obligation to make the Residual Value Payment. E.ON also will release all of its rights and interests under the LG&E Subordinated Mortgage and the LEM Mortgage, as well as any other agreements entered into by any LG&E Party in connection with the 2000 Lease.

Station Two Arrangements

A condition to the completion of the Unwind will be the termination of contracts among Big Rivers, Henderson, and the various E.ON Parties in connection with Station Two Subsidiary's assumption of obligations of Big Rivers to Henderson relating to the Station Two Facility (the "Station Two Contracts"). Upon termination of the Station Two Contracts and beginning on the Unwind Closing Date, Big Rivers again would be solely responsible for all obligations under the Station Two Contracts, including the obligations for the operation and maintenance, and for the purchase of a portion of the output, of the Station Two Facility. In the Unwind, Station Two Subsidiary will transfer to Big Rivers all permits and fuel and reagent supply agreements and other agreements relating to Station Two Subsidiary's operation of the Station Two Facility. Big Rivers will assume all of Station Two Subsidiary's obligations with respect to those permits and agreements.

Various E.ON Parties' obligations to consummate the Unwind will be conditioned on the release and discharge by Big Rivers, Ambac, ACP, AME, the remaining 2000 Lease Parties, Henderson, RUS, Dexia and CFC of the E.ON Parties from obligations or liabilities arising out of any LG&E Party's use, operation, repair or upkeep of the Station Two Facility or any joint use facility relating thereto or arising under the Station Two Contracts or any other documents or agreements relating to the LG&E Transaction. The Unwind contemplates Henderson will release and discharge Big Rivers from any liability under any of these agreements as a result of any breach or default thereof by any LG&E Party on or prior to the Unwind Closing Date.

The E.ON Parties' obligations to consummate the Unwind also will be conditioned on obtaining consents from the vendors under any third-party contracts which are to be assigned to Big Rivers, the consent of which is required for assignment of such contracts to Big Rivers and to obtaining any necessary consents to the assignment of any permits relating to the Station Two Facility which must be assigned to and assumed by Big Rivers. In lieu of any release, Big Rivers may indemnify the relevant E.ON Parties.

On the Unwind Closing Date, the E.ON Parties , Big Rivers and Henderson will "true up" those provisions of the Station Two Contracts dealing with operation and maintenance expenses, improvement costs, capital costs, and major capital expenditures for the Station Two Facility. The appropriate payments required by that adjustment will be made by the applicable party in accordance with the provisions the Station Two Contracts. Some such payments may be made after the Unwind Closing Date if they cannot be ascertained by the closing.

Payments

To induce Big Rivers and the Members to enter into the Unwind and to compensate Big Rivers for additional risks assumed as a result of the termination of the LG&E Transaction, the E.ON Parties will pay Big Rivers $301,500,000 in immediately available funds, subject to the adjustment described under "Inventory" below". Big Rivers will use the funds primarily to prepay debt on the Unwind Closing Date, to fund a reserve to offset the impact on the Members of an early termination of a Smelter Retail Agreement and for unanticipated increase in fuel costs and for working capital and future capital expenditures with respect to the Facilities. See "Other Transactions on the Unwind Closing Date—Prepayment of Debt and Capital Markets Issuances" and "Post-Unwind Big Rivers—Financial Condition Following Unwind" below.

Big Rivers intends to use a portion of the cash payment made by the E.ON Parties at closing to fund a Transition Reserve in the amount of $75 million to mitigate future increases in the non-Smelter rates to the Members following the Unwind and to fund a Transition Reserve in the amount of $35 million to offset the negative impact on the Members of an early termination of either or both of the Smelter Retail Agreements. None of the benefits of this amount or interest thereon will accrue to the benefit of the Smelters.

Transfers, Conveyances and Assignments

As part of the Unwind and in addition to other compensation to Big Rivers in the Unwind, the E.ON Parties will transfer or turn over real and personal property, including intangible property and rights, to Big Rivers. Big Rivers will not pay any amounts to any LG&E Party in consideration for the transfer of such property on the Unwind Closing Date.

Transfer of Property

Coleman Scrubber. The E.ON Parties will be required to complete at their own expense and turn over to Big Rivers the Coleman Scrubber. The value of the Coleman Scrubber is expected to be approximately $97.5 million.

Inventory. Each LG&E Party will convey all right, title and interest in all fuel (including coal, petroleum coke and fuel oil) and scrubber reagent inventory, spare parts, materials and supplies held exclusively for use by any of the E.ON Parties in connection with the operation of the Facilities. To the extent the value of this property is less than $55 million when measured shortly before the Unwind, E.ON will increase the amounts otherwise payable to Big Rivers on the Unwind Closing Date by such difference. To the extent the value of this property is greater than $55 million when measured before the Unwind Closing Date, such excess amount will be credited against the payment required by E.ON at the closing.

Real Property. The E.ON Parties will convey to Big Rivers all of its right, title and interest in the real property owned by WKEC or its affiliates adjacent to or near the site of the Kenneth C. Coleman Plant (land purchased since 1998) and the property and improvements (three buildings sold to WKEC since 1998) owned by the E.ON Parties which are adjacent to Big Rivers' headquarters. Big Rivers will pay to the E.ON Parties $1,025,000 for these parcels of real property.

Intellectual Property. The E.ON Parties will assign, sublicense or otherwise make available to Big Rivers certain patents, patent applications, trade secrets, license rights, license agreements, and franchises in which any LG&E Party has an interest and which are necessary for the operation and/or dispatch of the Facilities, including computer programs and operator codes utilized by an LG&E Party in connection with the operation and/or dispatch of the Facilities (the "Intellectual Property"). Certain of such Intellectual Property will be provided by the E.ON Parties to Big Rivers for a period of up to 18 months following the Unwind Closing Date in accordance with an Intellectual Property Support Services Agreement. Big Rivers is currently investigating its options concerning its long term needs for the services provided pursuant to the Intellectual property Support Services Agreement, including having them provided by a third party. The Intellectual Property Support Services Agreement is available in the electronic due diligence data base maintained by Orrick Herrington & Sutcliffe. Big Rivers will have no obligation to consummate the Unwind if any item of Intellectual Property necessary for the efficient operation or maintenance of any Facility cannot be assigned, licensed or provided to Big Rivers in accordance with the Intellectual Property Support Services Agreement, and a new license from the relevant vendor cannot be obtained for the use of such Intellectual Property by Big Rivers at a cost comparable to that paid by the LG&E Party.

Transmission. The relevant E.ON Parties will assign to Big Rivers all transmission reservations for both firm and non-firm transmission services for transporting power produced by the Facilities over the Big Rivers' transmission system. The E.ON Parties also will relinquish to Big Rivers all rights to transmission service currently held by the E.ON Parties from Big Rivers' Control Area across the Tennessee Valley Authority's transmission system. Big Rivers will reimburse the E.ON Parties any prepayments or deposits made prior to the Unwind Closing Date for such transmission service.

Property Not Transferred. No accounts receivable, cash on hand or other current assets of the E.ON Parties will be included in the property transferred. Also, Big Rivers will not assume any obligations relating to commodities or services delivered prior to the Unwind Closing Date.

Conveyance of Contracts

As a part of the Unwind, each of the E.ON Parties and Big Rivers will identify those contracts between any LG&E Party and any third party or parties relating to the Facilities, including fuel contracts, contracts for ongoing construction activities and equipment leases, which Big Rivers desires to assume (the "Assigned Contracts"). The E.ON Parties and Big Rivers will use their reasonable best efforts to obtain any third party consents required for the assignment to, and assumption by, Big Rivers of the Assigned Contracts. On the Unwind Closing Date, the Assigned Contracts will be assigned to Big Rivers by the relevant LG&E Party and Big Rivers will assume all of the relevant LG&E Party's obligations thereunder, whether relating to the period prior to the LG&E Transaction (where applicable) or from and after the Unwind Closing Date.

The Assigned Contracts do not include any contracts, agreements, arrangements, or other liabilities solely between or among one or more E.ON Parties and any of their respective affiliates relating to the Facilities, the operation or maintenance of the Facilities or to the property to be conveyed to Big Rivers as a part of the Unwind. The E.ON Parties will identify for Big Rivers all of these LG&E inter-company commitments that will either be retained or terminated following the Unwind Closing Date to permit Big Rivers to determine whether such services and commodities will be readily available to Big Rivers on and after the Unwind Closing Date on reasonable terms and conditions.

Transfer of Permits

On the Unwind Closing Date, the E.ON Parties will transfer and assign to Big Rivers all then-existing permits, licenses, authorizations and allowances in the control of any LG&E Party and specifically issued by a governmental authority in respect of any of the Facilities, including emission reduction credits (subject to the limitations set forth below), offsets, "green credits" or other forms of rights relating to the environmental attributes of the Facilities allotted based on the output or capacity of a Facility prior to the Unwind Closing Date.

Allocation and Conveyance of SO_2 and NO_x Allowances

The Unwind allocates all SO_2 and NO_x emissions allowances assigned to the operator of the Facilities (the "SO_2 Allowances" or the "NO_x Allowances" and, collectively, the "Emissions Allowances") among Big Rivers and the relevant LG&E Party as a part of the transfer of control of the Facilities to Big Rivers. On the Unwind Closing Date, Big Rivers will be entitled to the full use and benefit of all Emissions Allowances owned by any LG&E Party as of that date relating to the Facilities, except allowances allocated to Henderson or except as otherwise described below.

All SO_2 Allowances allotted by the Environmental Protection Agency ("EPA") or any state agency to the Facilities for the calendar year in which the Unwind Closing Date occurs (the "Closing Year SO_2 Allotment") will be divided between Big Rivers and the relevant LG&E Party based on the calendar date of the Unwind Closing Date, with limited exceptions. To the extent the SO_2 Allowances of Big Rivers or the relevant LG&E Party exceeds the amount of SO_2 Allowances required for compliance with applicable laws during the period prior to or after the Unwind, as applicable, the applicable entity may retain all such excess SO_2 Allowances for its own account. WKEC will deliver, however, on or prior to February 15 of the year immediately following the Closing Year and at no cost to Big Rivers, 14,000 SO_2 Allowances with a vintage year allowing such SO_2 Allowances to be used for emissions resulting from operations in calendar year 2007 and thereafter. Big Rivers estimates the value of these additional SO_2 Allowances to be approximately $10.9 million.

All NO_x Allowances allotted by the EPA or any state agency to the Facilities for the calendar year in which the Unwind Closing Date occurs (the "Closing Year NO_x Allotment") will be allocated among the relevant E.ON Parties and Big Rivers on the basis of the actual calendar date of the Unwind Closing Date and an agreed–upon monthly forecasted emissions rate from the Facilities throughout the calendar year in which the Unwind occurs, without regard to the actual emissions for that year. WKEC will ensure that all of the Closing Year NO_x Allotment (other than the NO_x Allowances allotted to Henderson's portion of the energy and capacity of Station Two Facility, or allocated by contract to Henderson) is available for emissions compliance of the Facilities throughout that Unwind year.

If, prior to the Unwind Closing Date, WKEC sells or assigns any Emissions Allowances having a vintage year of the Closing Year or a subsequent year (but excluding sales, assignments or conveyances of SO_2 Allowances and NO_x Allowances included in the allocations of the Emissions Allowances to the E.ON Parties described above), then at the Unwind Closing Date the applicable LG&E Party would, at its own sole cost, transfer and assign to Big Rivers substitute Emissions Allowances to replace the allowances so sold, assigned or conveyed.

Settlement of Disputes

In connection with the Unwind, all existing claims or disputes between or among Big Rivers and the E.ON Parties will be settled and released. These disputes include claims relating to WKEC's operation and maintenance of the Facilities and E.ON claims relating to imbalance charges and scheduling matters. No payments will be made in connection with the settlement of these disputes and appropriate waivers and releases will be exchanged at the closing.

Smelter Service Arrangements

General

On the Unwind Closing Date, Kenergy will terminate its existing power purchase arrangements with LEM and Big Rivers and Kenergy will enter into the Smelter Wholesale Power Contracts pursuant to which Big Rivers will supply Kenergy at least 850 MW for resale to the

Smelters. Kenergy will, in turn, enter into a Smelter Retail Agreement with each Smelter. In addition, Big Rivers and each Smelter also will enter into a Smelter Coordination Agreement to set forth certain direct obligations between Big Rivers and a Smelter. The arrangements negotiated among Big Rivers, Kenergy and the Smelters relating to the supply of the Smelters' power requirements following the Unwind are extremely complex (such arrangements are sometimes referred to as the "Smelter Transaction").

Nature of Service

The aggregate amount of energy made available to the Smelters under the Smelter Retail Agreements will consist of three types of energy referred to as (1) Base Monthly Energy, (2) Supplemental Energy and (3) Back-Up Energy. "Base Monthly Energy" is electricity delivered to the Smelters up to an aggregate monthly amount of 368 MW per hour for Alcan and 482 MW per hour for Century. "Supplemental Energy" is comprised of three types of energy. First, the Smelters may purchase up to 10 MW per hour in excess of Base Monthly Energy, which is interruptible by Big Rivers on certain terms and conditions. Interruptible energy may be interrupted if Big Rivers determines that its energy resources might be insufficient to supply both the requested interruptible energy and Big Rivers' obligations to its Members, including Base Energy for the Smelters, and any firm commitments to third parties. Big Rivers will have the right to declare an interruption on an after-the-fact basis. In addition to interruptible energy, Supplemental Energy includes energy purchased by Big Rivers in the market for resale by Kenergy to a Smelter, whether in cases of interruptions of energy or otherwise. In addition, Big Rivers will provide Kenergy imbalance energy, referred to as "Back-up Energy" for Kenergy to resell to the Smelters.

Base Monthly Energy Charge

The calculation of the charges for Base Monthly Energy contains several components. In sum, the charges provide a mechanic to provide Big Rivers additional revenue to achieve an annual TIER of 1.24, as calculated under the Smelter Agreements, subject to limitations on the maximum amount payable by the Smelters and certain other adjustments.

The "Base Energy Charge" is the charge for Base Monthly Energy made available to the Smelters. The Base Energy Charge is equal to the base demand of the relevant Smelter (368 or 482 MW) per hour, assuming a 98% load factor, multiplied by Big Rivers' tariff rate for sales to the Members for resale to large direct-served industrial customers (inclusive of any surcharges, surcredits and rebates, but exclusive of certain fuel adjustment charges, environmental surcharges, non-FAC purchased power adjustments, the Rebate and the Surcharge (each as defined below)), plus an additional amount of $0.00025 per kWh. In addition, the Base Energy Charge includes an adjustment, either positive or negative, for specified variable costs, based on the Smelters' actual energy requirements and energy curtailed at the request of Big Rivers or, in some cases, the Smelters.

The charges for Supplemental Energy include charges at agreed-upon rates with the applicable Smelter for interruptible energy or market energy purchased on behalf of the Smelter. Back-Up Energy is charged to the Smelters at a market rate plus, in many circumstances, a premium.

Additional Charges

Transmission and Ancillary Services Charge. When purchasing unbundled energy products or Supplemental Energy, the Smelters will be charged under the Smelter Retail Agreement for transmission, network and ancillary services in accordance with Big Rivers' Open Access Transmission Tariff.

Variable Charges. The Smelters will pay charges under Big Rivers' Fuel Adjustment Clause ("FAC"), and an environmental surcharge (the "Environmental Surcharge") as though they were large industrial tariff customers of one of Big Rivers' Members. The Smelters also will pay a charge relating to a purchased power adjustment (the "Non-FAC Purchased Power Adjustment Charge"), as reflected only in the Smelter Documents, with respect to purchased power costs not recovered under the FAC.

Surcharge. In addition to any other amounts payable under the Smelter Agreements and without regard to other payments or adjustments, the Smelters will pay a Surcharge, consisting of (i) fixed annual payments starting at $5,110,000, and increasing to $7,300,000 and then $10,182,813 depending on the year, payable in equal monthly installments, (ii) $0.60 per MWh, calculated based on a fixed demand, and (iii) the number of cents (between zero and 60) per MW per hour that Big Rivers' budgeted annual average fuel costs for coal-fired generation per MWh for a given fiscal year exceed agreed amounts, based on a fixed demand and a true-up mechanism.

TIER Adjustment Charge. Prior to each fiscal year, Big Rivers will determine the expected total amount of additional revenue it will need during the fiscal year to achieve a TIER of 1.24, as calculated in accordance with the Smelter Agreements and subject to certain exceptions and limitations (the "TIER Adjustment"). Each month, one-twelfth of such estimated TIER Adjustment for such fiscal year will be included in the Smelters' monthly charges. These monthly amounts are further subject to quarterly adjustments.

Because of the nature of the TIER Adjustment, Big Rivers has agreed that costs above a specified level will be paid with revenue from the Members as well as the Smelters, and that the Smelters' obligations to pay amounts sufficient for Big Rivers to achieve a 1.24 TIER , as calculated in accordance with the Smelter Agreements, are not unlimited. The Smelters' obligations with respect to the TIER Adjustment may not exceed an amount equal to the product of (a) Based Fixed Energy, as applicable to each Smelter, and (b) the applicable amount set forth below for such year:

Years	Applicable Amount
2008-2011	$0.00195 per kWh
2012-2014	$0.00295 per kWh
2015-2017	$0.00355 per kWh
2018-2020	$0.00415 per kWh
2021-2023	$0.00475 per kWh

Big Rivers and Kenergy have agreed with the Smelters to make certain assumptions and adjustments in the calculation of the TIER Adjustment. These assumptions and adjustments are intended to limit the Smelters' obligations with respect to agreed circumstances, including, among others, (i) modeled rate increases, (ii) new industrial loads, (iii) costs imprudently incurred, (iv) patronage capital retirements, (iv) new non-peaking facilities and (v) additional costs if Big Rivers or a Member engages in a restructuring, merger, acquisition of another utility system, or addition of a new member, or similar events, and such transaction results in a 5% increase in the Big Rivers' sales to its Members on a pro forma basis.

Rebate. If Big Rivers' TIER in any year exceeds 1.24, as calculated under the Smelter Agreements, then during the next fiscal year Big Rivers may elect to rebate on a kWh basis a portion of the excess amount it received from the Members, subject to certain limitations, to the Members. Kenergy then would credit to the Smelters a pro rata portion of the amount it received from Big Rivers on a kWh basis (the "Rebate"). If Big Rivers does not elect to rebate such excess amount to all the Members, Big Rivers will still distribute a pro rata portion of the excess to Kenergy for distribution to the Smelters, subject to certain limitations.

Reserves

As part of the Unwind, Big Rivers will establish two reserves, (1) an economic reserve with an initial principal amount equal to the sum of $75 million, or potentially more (the "Economic Reserve"), and (2) a transition reserve with an initial principal amount of $35 million (the "Transition Reserve"). The Economic Reserve can help to cushion the effect of any potential future rate increases on Big Rivers' rates to its Members for service to their non-Smelter members. The Economic Reserve also may mitigate, on behalf of the non-Smelter members, certain future obligations which may arise, such as fuel or purchased power expenses, which may exceed amounts initially forecasted.

The Transition Reserve is a financial reserve account that is to be established by Big Rivers from funds received at the closing of the Unwind that will help mitigate any financial costs, if any, associated with the termination of the Smelter Agreements with respect to the Smelters.

Credit Support and Guaranty

Each Smelter will provide and maintain credit support in the form of a letter of credit from a bank rated "A+" or higher if the rating of the unenhanced, unsecured debt obligations of Alcan's parent and of the ultimate parent of Century is not "A+" or higher by Standard & Poors (and in addition, if such debt obligations are rated by Moody's, that rating by Moody's is not "A1" or higher) or other credit support acceptable to Big Rivers and Kenergy, in an amount equal to the amounts estimated to be due for a period of two months under that Smelter's Smelter Retail Agreement plus any amount that Big Rivers estimates reasonably could be due with respect to taxes relating to certain sales of energy on behalf of the Smelters. The U.S. parent of Alcan, Alcan Corporation, a Texas corporation, and the parent of Century, Century Aluminum Company, a Delaware corporation, will guarantee the payment and performance of Alcan and Century, respectively, to Big Rivers and Kenergy of all obligations under the documents they entered into pursuant to the Smelter Transaction.

Termination

The obligation of Kenergy to supply electric services to the Smelters pursuant to the Smelter Retail Agreements will terminate on December 31, 2023, unless terminated earlier pursuant to the terms thereof. A notice of termination by a Smelter cannot be effective prior to December 31, 2010;

provided, that if one Smelter has given notice of termination to be effective on or after December 31, 2010 and all required transmission upgrades are not yet commercially available, a notice of termination by the other Smelter may not be effective until such transmission upgrades are commercially available.

Other Matters Relating to the Smelter Agreements

Covenants. As part of the Smelter Transaction, Big Rivers will covenant that it will operate its system for the benefit of the Members consistent with prudent utility practices and will apply the same standards to operating decisions that may affect the Smelter Base Rate or the TIER Adjustment. Big Rivers will covenant that it will not make an operating decision if the substantive basis for the decision is a Smelter's payment obligation with respect to the TIER Adjustment.

Big Rivers has agreed that it will not seek to have any increase in the Member base rates, subject to roll-ins, including any increase in Big Rivers' large industrial rate, take effect before January 1, 2010. Big Rivers may seek, however, KPSC approval of changes to the non-Smelter member rates and any rate increase which will become effective in connection with the consummation of the Unwind. During the term of the Smelter Retail Agreements, none of Big Rivers, Kenergy or the Smelters will seek or support, directly or indirectly, from any governmental authority, including the KPSC, any change in the terms and conditions agreed to in the Smelter Agreements as a part of the Unwind, with limited exceptions.

Big Rivers agreed not to seek to change its depreciation rates in a manner which would be projected to cause the weighted average depreciation rates for the period from the start of the Smelter Transaction to December 31, 2016, to exceed the rates set forth in the financial model filed with the KPSC, unless (1) Big Rivers determines, based on discussions with a statistical rating organization and after consulting the Smelters, that a modification to its depreciation rates is necessary to maintain an investment grade credit rating, (2) RUS or another relevant governmental authority directs Big Rivers to modify its depreciation rates, or (3) Big Rivers' auditors assert that they would not be able to deliver an unqualified audit opinion of Big Rivers' financial statements if Big Rivers fails to seek or implement a modification of its depreciation rates.

Sales of Energy on Behalf of the Smelters. Big Rivers will use reasonable commercial efforts to market amounts of Base Monthly Energy for Kenergy that a Smelter is obligated to purchase under its Smelter Retail Agreement but which is surplus to the Smelter's needs. Big Rivers will credit back to Kenergy, for credit of the applicable Smelter, an amount of net proceeds from such sales up to the amount which is generally equivalent to the amount of the Smelters' charges otherwise payable. In other limited circumstances, Big Rivers also will credit Kenergy for the account of the applicable Smelter profits on such sales of surplus energy. These circumstances include circumstances when a Smelter is unable to receive power following a casualty or has partially shut-down its aluminum reduction facility. Neither Big Rivers nor Kenergy will have any obligation to market energy in any of these circumstances until Big Rivers has sold or chosen not to sell all amounts of its own surplus power. In addition, neither Kenergy nor Big Rivers will have any obligation to the Smelters if Big Rivers is unable to sell this energy as a result of transmission or other constraints.

Plan of Reorganization; Service Post-Termination. None of the Smelter Agreements will be construed to amend or waive Big Rivers' plan of reorganization, as modified June 1, 1998, or any document thereto regarding Big Rivers' obligation to serve Kenergy for the benefit of the Smelters. However, the Big Rivers and the Smelters disagree as to the extent of Big Rivers' obligations to Kenergy in the absence of a new contract when the Smelter Retail Agreements terminate. Big Rivers and the Smelters agree to endeavor to resolve this disagreement prior to 2015.

Conditions of Effectiveness; Events of Default.

Following their execution, the Smelter Agreements contain limited conditions under which the parties to the Smelter Agreements can terminate them prior to their effectiveness. Also, because the KPSC will have to approve the pricing in the Smelter Agreements, if the KPSC makes a material modification to a Smelter Agreement, then either party may terminate the Smelter Agreements. If the Smelters determine that costs projected under the financial model filed with the KPSC can not be achieved by Big Rivers during the first five years of the term of the Smelter Agreements, then they may terminate the Smelter Retail Agreements prior to the consummation of the transactions thereunder. Further, if there is a material change to a Smelter's production facilities or to its industry that would have a material adverse financial effect on such Smelter, then the Smelter may terminate the Smelter Agreements to which it is a party prior to the consummation of the transactions thereunder. However, the Smelter's right to terminate ends after they have reviewed and approved Big Rivers' financing plan, including approval of a maximum interest rate on such financing, as set forth in the Smelter Retail Agreements.

Other Agreements with E.ON

Personnel

In the Termination Agreement, Big Rivers affirmed its intent to offer employment to any or all employees of WKEC who worked in Henderson or at one of the Facilities. Big Rivers has agreed to use its best efforts to offer these employees substantially similar position at a base salary at least equivalent to those such employees have at WKEC, provided Big Rivers is not obligated to create responsibilities for employees duplicative to those of existing Big Rivers employees. Many of these employees were employees of Big Rivers prior to the LG&E Transaction and, thus, Big Rivers likely will employ persons with many years of experience operating and maintaining the Facilities. Prior to the Unwind, Big Rivers expects to conduct discussions with the relevant collective bargaining units concerning new collective bargaining agreements with Big Rivers and to address other employee transition and retention issues. Big Rivers will not be responsible, however, for any unfunded liabilities under any defined benefit plan which Big Rivers may assume on the Unwind Closing Date.

Indemnities

LG&E General Indemnifications. Following the Unwind, the relevant E.ON Parties will indemnify and reimburse Big Rivers for any and all claims, losses, liabilities, damages, costs and expenses ("Damages") suffered or incurred by Big Rivers relating to the relevant E.ON Party's, or its affiliates', operation or use of the Facilities, except to the extent that such Damages are caused by the gross negligence, willful misconduct or breach of any of the transaction documents by Big Rivers. This indemnity will not apply to risks relating to the physical condition or state of repair of the Facilities or any conveyed real property or other tangible assets as of the Unwind Closing Date. In addition, this indemnification will not apply to claims or risks that are expressly made the subject of another express environmental representation or warranty or that is the subject of another indemnification covenant. This indemnity also will include an express obligation of the E.ON Parties to indemnify and hold Big Rivers harmless from any claims of (1) Henderson against Big Rivers arising out of a breach or default by an LG&E Party under or pursuant to the Station Two Contracts (to the extent that breach or default did not result from the action or omission of Big Rivers or its employee, agent, representative or contractor), or (2) third party vendors relating to commodities, services or leasehold interests under the Assigned Contracts.

Big Rivers General Indemnifications. Among other customary indemnification covenants for a breach of the transaction documents, Big Rivers will indemnify the relevant E.ON Parties, their successors and assigns and their respective officers, employees, consultants or agents for Damages relating to Big Rivers' operation or use of the Facilities and related assets prior to the commencement of the LG&E Transaction or from and after the Unwind Closing Date, except to the extent any of such Damages arise as a result of the gross negligence or willful misconduct of any LG&E Party prior to the Unwind Closing Date.

Environmental Indemnities. The E.ON Parties and Big Rivers have jointly retained URS to undertake an environmental survey of the Facilities and the related real property (the "Environmental Audit"). URS will produce a report based on the Environmental Audit.

In the Termination Agreement, the E.ON Parties have made certain representations relating to the compliance of the E.ON Parties with the terms of permits and licenses relating to the Facilities and the sites on which the Facilities are situated, as well as the existence of the release of contaminants at the Facilities or the sites on which they are situated. These representations will expire on the fifth anniversary of the Unwind Closing Date.

In the Termination Agreement, the E.ON Parties have also indemnified Big Rivers for costs associated with certain known environmental conditions at the Facilities. It also contains cross indemnities by the E.ON Parties and Big Rivers for unknown environmental conditions which might have been or be created during their respective periods of operation of the Facilities. In addition, the E.ON Parties and Big Rivers have agreed to share costs associated with compliance with the "New Source Review" provisions of the Clean Air Act resulting from operation of the Facilities through the closing of the Unwind in the ratio of 80% for the E.ON Parties and 20% for Big Rivers for the least-cost alternative for compliance.

All indemnities set forth in the Termination Agreement are subject to reaching a $1 million threshold in the aggregate, before an indemnified party may seek payment thereunder. The aggregate liability of the E.ON Parties for all claims made by Big Rivers in respect of indemnities and cost sharing arrangements provided in the Termination Agreement is, subject to certain limited exceptions, subject to a cap of $200 million.

Closing Conditions

The conditions to the obligations of Big Rivers and the E.ON Parties to consummate the Unwind are subject to certain conditions precedent. Conditions to the E.ON Parties' obligations include:

- All required approvals, notices or filings of governmental authorities will have been obtained, given or made prior to the Unwind Closing Date without objection by the governmental agency or initiation of an adverse proceeding;

- All contemplated consents, releases or discharges from the Smelters, Henderson, Kenergy, and relevant third parties, including the Members, Ambac, RUS, Dexia, the 2001A Trustee, the 2000 Lease Parties, and CFC have been obtained;

- All necessary consents to the assignment to Big Rivers of all Assigned Contracts will have been obtained;

- The debt obligations of Big Rivers secured by a first lien and security interest in the Facilities and the related real property and most of the other tangible assets of Big Rivers will be rated (or it will be demonstrated to E.ON's reasonable satisfaction that following the consummation of the Transaction will be rated) at least BBB- by S&P and Baa3 by Moody's;

- The Environmental Audit will be completed, and the related report will not have disclosed any new facts, circumstances, conditions, actions or operations that constitute a material violation of any environmental law which is not corrected, resolved or remediated; and

- The relevant E.ON Parties have received such state and/or federal tax rulings as they deem necessary for the consummation of the Unwind.

Conditions to the Big Rivers' obligations include:

- All required approvals, notices or filings of governmental authorities will have been obtained, given or made prior to the Unwind Closing Date without objection by the governmental agency or initiation of an adverse proceeding;

- All contemplated consents, releases or discharges from the Smelters, Henderson, Ambac, RUS, Dexia, CoBank, the 2001A Trustee, the 2000 Lease Parties, CFC, the Members and all E.ON Parties will have been obtained;

- All necessary consents to the assignment to Big Rivers of all Assigned Contracts will have been obtained;

- All other third-party consents, will have been obtained;

- Permits and licenses will have been amended to reflect their assignment to Big Rivers, or satisfactory procedures to effect new permits and licenses granted to Big Rivers initiated and all necessary consents to such assignment will have been obtained;

- Kenergy and the Smelters will have executed the Smelter Retail Agreements reflecting Big Rivers' replacement of LEM as the wholesale supplier to Kenergy of power and energy to service the Smelter loads; Big Rivers and Kenergy will have executed the

Smelter Wholesale Agreement to reflect Big Rivers' obligation to sell power to Kenergy to serve the Smelter loads; and Big Rivers and the Smelters shall have executed the Smelter Coordination Agreements.

- The corporate credit rating and long-term issuer rating of E.ON U.S. LLC will be at least the minimum "investment grade" rating, issued by S&P and Moody's as of the Unwind Closing Date;

- The debt obligations of Big Rivers secured by a first lien on the Facilities will be rated (or it will be demonstrated to Big Rivers' reasonable satisfaction that following the consummation of the Unwind will be rated) at least "BBB" by S&P and "Baa2" by Moody's;

- No "casualty" occurrence at any Facilities has occurred that will not have been repaired or otherwise corrected by WKEC;

- The Environmental Audit will have been completed, and the related report will not have disclosed any new facts, circumstances, conditions, actions or operations that constitute a material violation of any environmental law which is not corrected, resolved or remediated;

- The Facilities and related tangible assets will be in all material respects in good condition and state of repair, ordinary wear and tear excepted, consistent with prudent utility practice;

- A performance test will be performed at each of the Facilities and each Facility will demonstrate a physical capability of performing at specified net outputs;

- The initial phase of the transmission upgrades will have occurred. In addition, Big Rivers will have obtained all necessary governmental consents and approvals necessary for transmission of power and energy equal to the smelter loads, taking into account all of Big Rivers' other transmission facilities, to be delivered to Big Rivers' border;

- No forced outage of any Facility will have occurred for a period greater than five consecutive days during the 30-day period immediately preceding the proposed Unwind Closing Date, and no forced outage of any Facility will be pending on the proposed Unwind Closing Date; and

- The construction of the Coleman Scrubber will have been completed in accordance with the specifications set forth in the Coleman Scrubber EPC contract, and the Coleman Scrubber will, in all material respects, be fully operational and performing in accordance with all performance criteria.

"True up" Payment Adjustments

The Termination Agreement includes a methodology for completing the "true up" adjustments of various periodic payments required under the WKEC Lease for sharing capital and operating expenses by Big Rivers and the E.ON Parties, and for "truing up" the payments required by the E.ON Parties and Big Rivers, under the Power Purchase Agreement with LEM and the Transmission and Interconnection Agreement. Similarly, a "true up" adjustment will be made to reflect Big Rivers' share of environmental operation and maintenance costs for the year in which the Unwind occurs. The "true ups" payments will be made on the Unwind Closing Date to the extent ascertainable by that date, and otherwise through a post-Unwind Closing Date payment.

Taxes

Under the Unwind, the E.ON Parties will pay and all sales and use taxes imposed on the transfers of inventory, real and personal property, operation and maintenance contracts. Taxes assessed on the Facilities and related assets for the calendar year of the Unwind will be apportioned among Big Rivers and the E.ON Parties based on the date of occurrence of Unwind Closing Date.

Pre-Unwind Obligations

Big Rivers Access to the Facilities

The Termination Agreement assures Big Rivers with reasonable access during normal business hours to all books, records, data, contracts and non-confidential and non-privileged documents then in the possession or control of the E.ON Parties and relating to the operation of any of the Facilities. Big Rivers' also has the right to have its representative confer with the employees of WKEC responsible for operation and maintenance of each Facility during the period prior to the Unwind and to be present at the performance of all maintenance and the making of all capital repairs and replacements, whether in connection with a Facility outage or otherwise, so long as the rights of Big Rivers do not interfere with the operation of the Facilities.

Operation of the Facilities and Employee Matters

Prior to the Unwind, the E.ON Parties will operate the Facilities in the ordinary course of business and in accordance with the 2008 Facility-specific operating plans prepared by WKEC for the Facilities subject to deviations consistent with prudent utility practice. Beginning 90 days prior to the scheduled Unwind Closing Date, the E.ON Parties will give Big Rivers notice of any forced outage of any Facility within 24 hours of the occurrence of such outage. During the pre-Unwind period WKEC will not agree to or implement any material changes in general wages or employee benefit, arrangement or compensation plans outside the ordinary course of business except for such modifications that may be required by law or by employment agreements or collective bargaining agreements in existence on the date of execution of the Termination Agreement or as approved by Big Rivers.

Contracts

In the period prior to the Unwind Closing Date, each of the E.ON Parties will perform its respective obligations under, and otherwise use its reasonable best efforts to keep in full force and effect, all fuel supply contracts, contracts for reagent and any other vendor contracts for supplies or services at any of the Facilities to the extent the relevant contract is to be assigned to and assumed by Big Rivers on the Unwind Closing Date or is entered into by WKEC following the execution of the transaction documents relating to the Unwind. During this period, no LG&E Party, without the prior written approval of Big Rivers, will enter into any power sale, maintenance, fuel supply, materials or transportation contract with respect to any of the Facilities, or make any commitment to do so, involving the payment of an amount in excess of $500,000 annually. This prohibition will not apply to any sales by LEM of power generated by the Facilities in the ordinary course of business, or to any purchases by LEM or any other LG&E Party of power from other sources, at any time through the Unwind Closing Date.

Generation Dispatch Support Services Agreement

Big Rivers and WKEC have entered into a Generation Dispatch Support Services Agreement under which WKEC will provide generation dispatching and related services associated with the Facilities for a period of up to 18 months following the Unwind Closing Date. This Agreement is available on the electronic due diligence data base maintained by Orrick, Herrington & Sutcliffe.

Other Transactions on the Unwind Closing Date

In addition to the Unwind transactions with the E.ON Parties and the Smelters, Big Rivers will enter into several other financial transactions and arrangements on the Unwind Closing Date to effectuate the Unwind. These transactions and arrangements include the prepayment of a significant amount of RUS debt, the entry into a first mortgage indenture, and amendment of existing agreements with the Members and Big Rivers' creditors.

Prepayment of Debt and Capital Markets Issuances

Big Rivers currently expects to apply approximately $200 million of cash proceeds from the Unwind to the prepayment of RUS debt evidenced by the New RUS Note. Big Rivers also intends to seek to negotiate with the RUS a modification of the amortization of a portion of Big Rivers' existing debt owed to the RUS. Alternatively, Big Rivers may elect to prepay a portion of its existing debt owed to the RUS with the proceeds of a debt offering under Rule 144A simultaneously with the closing of the Unwind. This decision will depend prevailing interest rates and the ability to negotiate a mutually satisfactory revision of the amortization of a portion of its existing RUS debt. If Big Rivers does not prepay a portion of its RUS debt with the proceeds of capital markets debt simultaneously with the Unwind, it will do so in the future when market conditions are more favorable. For a synopsis of Big Rivers' overall financial condition following the Unwind, see "Post-Unwind Big Rivers – Financial Condition Following Unwind" below.

Indenture and Intercreditor Agreement

In connection with the Unwind, Big Rivers will enter into a first mortgage indenture (the "Indenture") in substitution for the RUS Mortgage. The substitution of a first mortgage indenture for the RUS Mortgage is essential for the issuance of any capital markets debt which may be issued simultaneously with the Unwind as well as to insure Big Rivers access to the capital markets for its financing needs in the future. On the Unwind Closing Date, Big Rivers will execute and deliver the Indenture in favor of a trustee for the benefit of the existing mortgagees under the RUS Mortgage (*i.e.*, RUS, Ambac, ACP, CFC, Dexia, the 2001A Trustee and certain other of the 2000 Lease Parties) and the holders of any debt securities issued in the capital markets in connection with the Unwind or in the future. The Indenture will grant a lien on substantially all of the tangible assets and properties of Big Rivers. The lien of the Indenture will rank senior in priority to the lien of the 2000 Lease Subordinated Mortgage and will secure equally and ratably and without priority or preference Big

Rivers' obligations to such existing mortgagees and holders. The existing Third Amended and Restated Subordination, Nondisturbance, Attornment and Intercreditor Agreement will be terminated, and a new Intercreditor Agreement which does not include the E.ON Parties or those provisions of the existing Intercreditor Agreement relating to the interests of the E.ON Parties in the LG&E Transaction (e.g., subordination and attornment provisions). Otherwise, the new Intercreditor Agreement will reflect the relationship among the secured parties embodied in the existing Intercreditor Agreement.

New RUS Loan Contract

In connection with the Unwind, Big Rivers' loan agreement with the RUS will need to be amended in a mutually satisfactory manner.

Amendment of Member Wholesale Power Contracts

Big Rivers and the Members have amended their Wholesale Power Contract to extend their terms through December 31, 2043. These amendments will become effective on the Unwind Closing Date.

Regulatory Approvals

Kentucky Public Service Commission

Big Rivers will need to obtain the regulatory approval of the Kentucky Public Service Commission (the "KPSC") prior to the consummation of the Unwind. The filing with the KPSC seeking such approval was made on December 28, 2007. The KPSC regulates Big Rivers' rates for the sale of wholesale power to its Members. Among other things, Kentucky law authorizes the KPSC to (1) approve rates for Big Rivers which are "fair, just and reasonable;" and (2) approve the issuance or assumption of any securities or evidences of indebtedness, other than to RUS. Before the Unwind may occur, Big Rivers must have a final, non-appealable order from the KPSC approving the overall Unwind, including approval of the Smelter Wholesale Agreements, the Smelter Retail Agreements and the amendments to the Member's Wholesale Power Contracts.

FERC

Because Big Rivers receives financing from RUS, Big Rivers' sale of power at wholesale and certain aspects of Big Rivers' transmission of power in interstate commerce are not regulated by FERC to the extent those activities otherwise would be so regulated by FERC. FERC has broad authority under the Federal Power Act, however, to regulate Big Rivers' provision of transmission services to third parties, including Big Rivers' OATT. Currently, several provisions of Big Rivers' OATT reference E.ON's OATT because of the structure of the power supply arrangements with the E.ON Parties under the LG&E Transaction. In connection with the Unwind, Big Rivers will seek FERC approval of appropriate amendments to the OATT to reflect termination of the LG&E Transaction.

POST-UNWIND BIG RIVERS

The Unwind will significantly affect Big Rivers in many important respects. Most importantly, the Unwind will dramatically improve Big Rivers' financial condition. Big Rivers' business again will include responsibility for the operation, maintenance and management of its generating facilities and provide power for resale to the Smelters.

The Unwind will not affect Big Rivers, however, in some important respects. Big Rivers will continue to be regulated in the same manner as was the case prior to the Unwind. Also, Big Rivers' status as a taxable cooperative will not be affected by the Unwind.

Financial Condition Following Unwind

The Unwind will result in a fundamental transformation of Big Rivers' balance sheet. The following table reflects changes in Big Rivers' balance sheet from 1997, the last fiscal year prior to the consummation of the LG&E Transaction, through the Unwind and Big Rivers' *pro forma* projections for Big Rivers' balance sheet immediately following the Unwind.

	1997 Audited Financials (in millions)	2008 (unaudited) Existing Arrangement	Difference	Unwind
Assets:				
Net Utility Plant	$914	$923	97	1,021
Sale-Leaseback Investments	-	195	-	195
Cash & Investments				
Transition Reserve		-	35	35
Economic Reserve		-	75	75
Unrestricted	21	135	(10)	125
Receivables, Inventories & Other Assets	61	53	63	116
Assets	$996	1,307	260	1,567
Equities & liabilities:				
Equities	$(293)	(171)	548	377
Sale-Leaseback Obligations & Unamortized Gain	-	239	-	239
Debt	1,256	1,051	(193)	858
Payables & Other	33	188	(94)	94
Equities & Liabilities	$ 996	1,307	260	1,567
Equity/Assets:	-29%	-13%		24%

Equity

As the table indicates, the most dramatic change in Big Rivers' financial condition as a result of the Unwind is the change in Big Rivers' equity. Following the Unwind, Big Rivers estimates that it will have a positive equity of 24%. Prior to the Unwind, Big Rivers had equity of -13%.

Obligations

Big Rivers' outstanding obligations, including debt, also will be significantly affected by the Unwind in two respects. The E.ON Parties on the Unwind Closing Date will release Big Rivers of its obligations relating to the Residual Value Payment, estimated to be approximately $142 million as of December 31, 2007, and the Settlement Note, which had an outstanding balance of approximately $16.2 million as of December 31, 2007.

Second, the nature of the Big Rivers' debt will change. Big Rivers projects it will prepay a significant amount of Big Rivers' outstanding obligations under the New RUS Note. Big Rivers does not intend to prepay the ARVP Note. Big Rivers' may also issue a yet to be determined amount of securities in the capital markets under the Indenture on the Unwind Closing Date. See "Unwind Transaction – New Financial Arrangements – Capital Markets Offering" above.

Financial Ratios

Following the Unwind, Big Rivers projects that it will generate strong financial results. Significant factors contributing to these results include the transformation of Big Rivers' financial condition on the Unwind Closing Date, the TIER Adjustment of the Smelters, and Big Rivers' unfettered rights to operate and maintain the Facilities following the Unwind.

Big Rivers measures its financial performance in terms of a TIER and debt service coverage ("DSC") ratio. TIER is Big Rivers' times interest earned ratio calculated as Big Rivers' net margins and interest expense divided by interest expense. Interest expense includes 1/3 of the rentals of restricted property under long-term leases, in excess of 2% of the net of total margins and equities less regulatory assets ("Restricted Rentals"). TIER includes interest expense relating to the 2000 Lease and is calculated on a post-tax basis. DSC is calculated by dividing (A) the total of (i) net patronage capital, (ii) interest on long-term debt (including Restricted Rentals), and (iii) depreciation and amortization expense, over (B) the sum of all payments of principal and interest required to be made on account of total long-term debt during the year (including Restricted Rentals). The following table summarizes Big Rivers' projected TIER and DSC ratios through 2023.

Financial Ratio Projections
(per Smelter arrangements)

	TIER	DSC
2008	1.24	2.04
2009	1.24	1.55
2010	1.24	1.49
2011	1.24	1.52
2012	1.24	1.59
2013	1.24	1.48
2014	1.24	1.58
2015	1.24	1.58
2016	1.24	1.58
2017	1.24	1.69
2018	1.24	1.75
2019	1.24	1.73
2020	1.24	1.72
2021	1.24	1.71
2022	1.24	1.67
2023	1.24	1.67

Investment Grade Credit Rating

Following the Unwind, Big Rivers' obligations secured under the Indenture will be rated at least investment grade by the Standard and Poor's Ratings Services and Moody's Investors Service. See "Unwind Transaction – Closing Conditions" above.

Rates

Member Rates

Big Rivers projects that the total rates to the non-Smelter Members following the Unwind (on a blended basis between customer classes, the "non-Smelter Member Rates") will remain close to current levels through the end of 2012, or $34.71 per MWh on average. Thereafter, non-Smelter Members Rates are projected to rise to $51.64 per MWh in 2023.

Smelter Rates

Big Rivers projects that the total rates to the Smelters for power following the Unwind exclusive of the Surcharge (the "Smelter Rates") will rise from approximately $34.82 per MWh in 2008 to approximately $55.05 per MWh in 2023.

Operational Matters

Following Unwind

A benefit of the Unwind is the ability of Big Rivers to have unfettered discretion with respect to decisions concerning capital and operating expenditures for the Facilities to ensure the continued, efficient operation of the Facilities well into the future, thus permitting Big Rivers to perform its power supply obligations with a limited amount of unscheduled outages.

Transmission Matters

Big Rivers will substantially enhance the capacity of its transmission facilities in connection with the Unwind. This enhancement will occur in two phases. The first phase will increase Big Rivers' ability to transmit to its border all energy which would have been consumed by one Smelter if it terminated its Electric Service Agreement. Big Rivers expects to complete construction of this phase of the enhancements by May, 2008. The cost of the first phase is expected to be approximately $9.4 million. The second phase of the enhancements will increase Big Rivers' ability to transmit energy to its border all energy which otherwise would have been consumed by both Smelters if they both terminated their Electric Service Agreements. The cost of the second phase is expected to be approximately $10.6 million. Big Rivers has obtained approval of these second phase enhancements from the KPSC and will commence construction by October, 2008. The result of the enhancements will enable Big Rivers to transmit to its border all energy which otherwise would have been sold to the Smelters if the Smelters do not take such energy for any reason.

Labor and Personnel Matters

Big Rivers will add additional personnel following the Unwind because it will again become responsible for the operation, maintenance and management of the Facilities. Ultimately, Big Rivers projects that the number of its employees and full-time equivalents will be 632, including employees performing responsibilities relating to the Station Two Facility for which Henderson shares the cost with Big Rivers. The actual number of employees added will be dependent on a thorough review of staffing needs as Big Rivers performs its due diligence. At the officer level, Big Rivers will add a Vice President of Production who will be responsible for supervising the operation and maintenance of the Facilities and a Vice President of Administrative Services. Big Rivers is in the process of evaluating its needs to determine the most appropriate and cost efficient manner in which to add personnel following the Unwind Closing Date.

Regulation

The Unwind will not affect the extent to which the KPSC or FERC regulates Big Rivers.

Income Tax Matters

Big Rivers, a taxable cooperative, will recognize a substantial gain for Federal income tax as a result of the Unwind. However, because Big Rivers has substantial net operating loss carry-forwards and can claim a deduction for patronage dividends, Big Rivers anticipates that it will only have to pay alternative minimum tax on a portion of this gain (generally at the rate of 2% of such portion).

REASONS FOR THE UNWIND

Overview

When first approached by E.ON about the possibility of an Unwind, Big Rivers was inclined not even to engage in any negotiations with E.ON to this end. Overall, Big Rivers was happy with the relative benefits of the LG&E Transaction to Big Rivers and its Members. Big Rivers ultimately determined that it was appropriate to at least consider and evaluate the possibility of an Unwind for several reasons, including (1) the Smelters' power supply needs, (2) disputes with E.ON regarding the maintenance of the Facilities, (3) other disputes with E.ON which could raise the cost of power under the existing arrangements, (4) the need for additional power for economic development, and (5) the desire to improve Big Rivers' financial condition. During the nearly two years that followed, Big Rivers has balanced the benefits and risks associated with the LG&E Transaction against those of the Unwind and concluded that the Unwind is in the best interests of Big Rivers and its Members.

Perspective on LG&E Transaction

The principal benefits of the LG&E Transaction relate to the provisions of the LEM Power Purchase Agreement. Under the agreement, LEM is obligated to provide a specified amount of firm power to Big Rivers at prices which currently are at significantly below market rates with only modest price increases through the expiration of the agreement at the end of 2023. If LEM fails to deliver power under the agreement, LEM is obligated to pay liquidated damages to Big Rivers which compensate Big Rivers for the purchase of any replacement energy. As a result, Big Rivers is protected from risks related to the operation of the Facilities, such as unexpected outages, and the risk of increases in the price of fuel.

Other aspects of the LG&E Transaction limit Big Rivers in material respects. Because WKEC is entitled to the output of the Facilities, Big Rivers has no power except that acquired under the LEM Power Purchase Agreement, power allocated to the Members by SEPA, and any power purchase agreements entered into with third parties at then-current market prices. While the power provided under the LEM Power Purchase Agreement would be sufficient for Big Rivers' to serve its Members' non-Smelter requirements through the term of the agreement, Big Rivers would not have the ability to supply power to Kenergy for resale to the Smelters following the expiration of their existing arrangements with LEM to supply Kenergy with a portion of the Smelters' requirements for power through 2010 and 2011 to a degree sufficient to prevent the Smelters from ceasing operations if the market price of power remained at current levels. See Appendix C attached hereto for Big Rivers' projections of market energy prices in the future. In connection with the expiration of these arrangements, a risk exists that the Smelters would seek service from Kenergy and Big Rivers under a claim of a state law entitlement. This could mean Big Rivers would have to purchase significant amounts of power at market prices with the result that all rates would increase although Big Rivers does not believe the law would require this. There is a high likelihood the claim would result in litigation and Big Rivers would be subject to the attendant risks of litigation. Big Rivers and E.ON have disagreements regarding E.ON's claims for imbalance charges and scheduling matters.

Finally, the LG&E Transaction leaves Big Rivers with extremely limited options if a need for a financing arose in the future. Although the RUS Mortgage secures the $15 million line of credit with CFC, Big Rivers is effectively prohibited from incurring additional debt because the RUS Mortgage requires the consent of all mortgagees to secure any additional obligations thereunder, subject to an exception permitting a very modest amount of additional debt to be secured thereunder without the consent of one mortgagee. Further, it is unlikely that any third party would provide financing in any material amount on a basis subordinate to the RUS Mortgage, the LEM Mortgage, the 2000 Lease Subordinated Mortgage and the LG&E Subordinated Mortgage or on an unsecured basis. Without any material financing flexibility, Big Rivers' rates to its Members are subject to tremendous pressure as the need for funds arises in the future. Rate pressures on Big Rivers' Members also are increased by the lengthy debt repayment requirements in future years under the RUS notes.

Benefits of Unwind

The Unwind offers Big Rivers a unique opportunity to dramatically improve its financial condition. As described above, Big Rivers will receive consideration of approximately $623 million in connection with the Unwind and its equity will change from a <u>negative</u> 13% to a <u>positive</u> 24% on the Unwind Closing Date.

Significant benefits also will arise as a result of the return of the control of the Facilities to Big Rivers. First, Big Rivers will have the right to make additional maintenance and capital improvements to the Facilities at a time and in an amount it deems appropriate. Second, Big Rivers will be able to more closely monitor the Facilities to ensure that they can continue to serve Big Rivers and the Members as desired far into the future. Third, Big Rivers will enable the Smelters to continue to operate in Kentucky with reasonably priced power.

The Unwind resolves the LG&E Transaction's limitations on Big Rivers' ability to finance future costs. With the Indenture, Big Rivers will have the ability to (1) borrow additional amounts from traditional credit providers to generation and transmission cooperatives in the future because such amounts will not be subordinated to other secured obligations, and (2) access to the capital markets. Big Rivers also will have control over the timing of all scheduled operation and maintenance expenditures and capital expenditures. With this flexibility, Big Rivers and the Members will be able to limit the pressure on the Members' rates in the event of a need for future funds.

The structure of the arrangements with the Smelters also provides Big Rivers substantial help in limiting future rate increases to the Members. The Smelters will provide Big Rivers sufficient revenue to achieve annually a TIER of 1.24 under the TIER Adjustment.

Finally, the Unwind avoids all future disputes with the E.ON Parties and the Smelters relating to the LG&E Transaction, including any dispute regarding the operation and maintenance of the Facilities by WKEC or any obligation of Big Rivers or Kenergy to serve the Smelters after 2010 or 2011 under a state law claim to service at a time when Big Rivers does not have rights to the output of the Facilities.

Risks of Unwind

The Unwind will result in the assumption of additional risks by Big Rivers. Principally, these risks are the risk of future unexpected maintenance and outages with the Facilities, changes in law affecting the operation of the Facilities and fuel risk. To offset the impact of risks associated with fuel , purchased power costs and other unforeseen costs and expenses, Big Rivers required the Smelters pay those amounts identified under "Additional Charges" in the discussion of the "Smelter Service Arrangements," above.

Big Rivers does not consider service to the Smelters to increase its risks as compared to the current arrangements. The Smelter Service Agreements require the Smelters to provide credit support sufficient to cover the maximum amount that could be owed for past service. Furthermore, Big Rivers believes that it would be able to sell the power which otherwise would be sold to a Smelter if a Smelter terminated its Smelter Service Agreement at a price in excess of that otherwise payable by the Smelter under all reasonable assumptions regarding future market conditions. See Appendix C – "Selected Financial Information" for projections of future market rates.

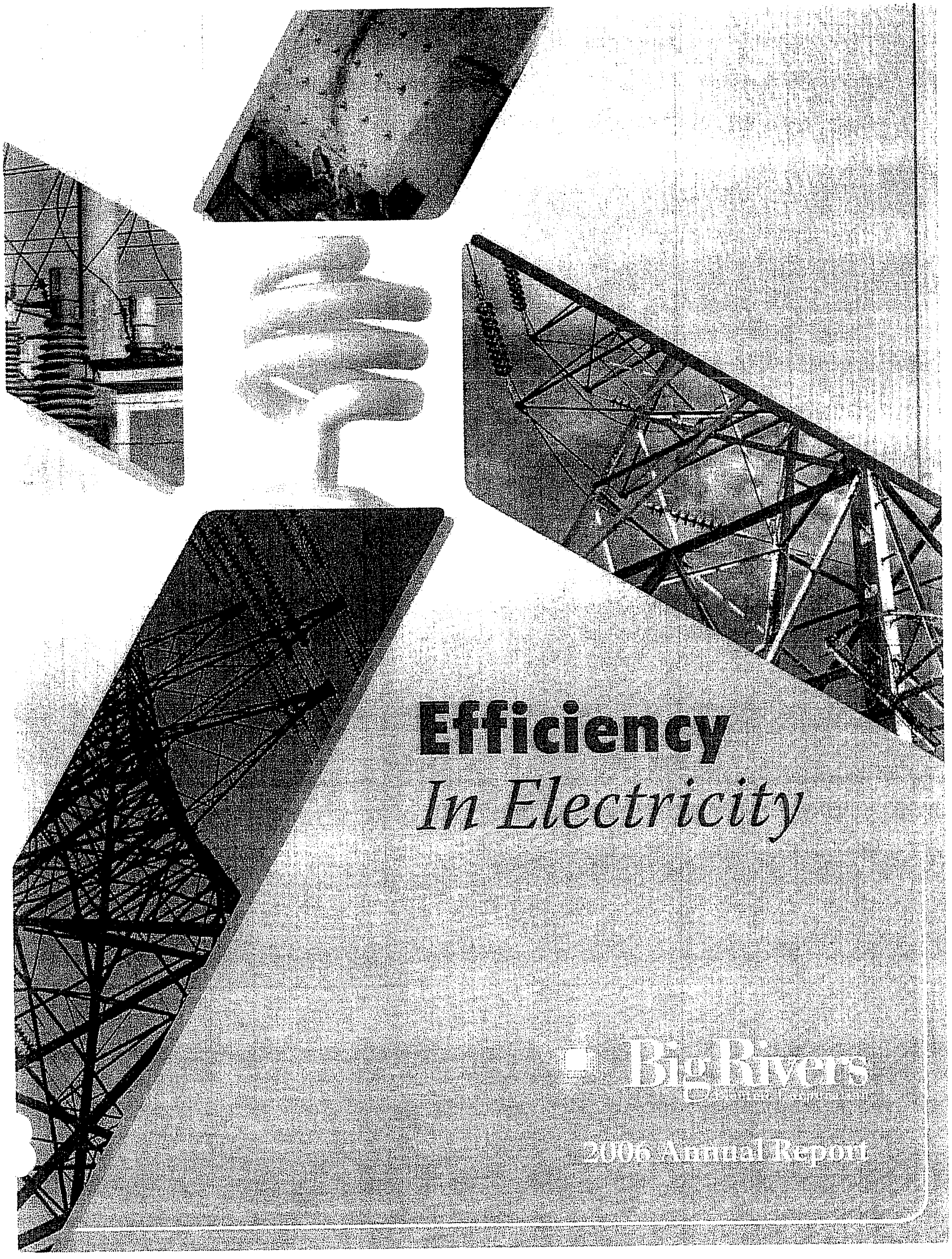
CONCLUSION

General

The Unwind permits Big Rivers to meet the future as a financially strong, stable organization while enhancing greatly its flexibility to meet challenges as they arise. At the same time, the Unwind enables Big Rivers to make a major contribution to securing the benefits of economic development to western Kentucky.

APPENDIX A

2006 BIG RIVERS ANNUAL REPORT



Efficiency
In Electricity

Big Rivers
Electric Corporation

2006 Annual Report

Financial Highlights

For the years ended December 31, 2006, 2005, 2004, 2003 and 2002 | (Dollars in thousands)

	2006	2005	2004	2003	2002
Margins	34,542	26,343	22,025	18,349	10,055
Equity	(217,371)	(251,913)	(278,256)	(300, 281)	(319,013)
Capital Expenditures*	13,189	12,904	12,203	21,397	21,700
Cash & Cash Equivalents	96,143	67,264	54,891	15,802	20,061
New RUS Note Voluntary Prepayment Status	34,995	55,357	53,518	80,101	60,479
Times Interest Earned Ratio	1.47	1.37	1.32	1.27	1.14
Debt Service Coverage Ratio	1.86	1.79	1.76	1.46	1.19
Cost of Debt	5.83%	5.57%	5.35%	5.34%	5.38%
Cost of Capital	7.82%	7.58%	7.38%	7.36%	7.37%

** Big Rivers' share only.*

At-a-Glance

Incorporated . . . . June 1961

Generating Capacity . . . . 1,459 MW

Total Power Capacity . . . . 1,854 MW

Employees 105

Member Distribution Systems 3

Counties Reached 22

Member Consumers Served 110,000

Miles of Transmission Line 1,232

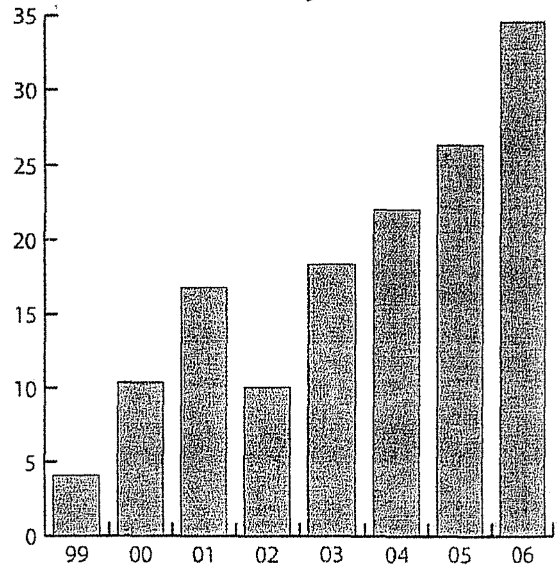
Total Energy Sales . . . . 5,250,342 MWh

Total Energy Revenue . . . . . . $ 190,834,000

Average Member Cost . . . . . . $ 34.11/MWh

Net Margins

in millions of dollars



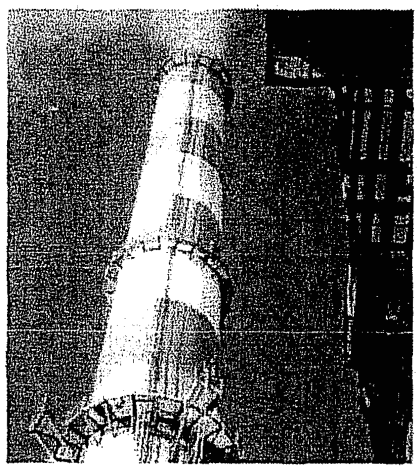
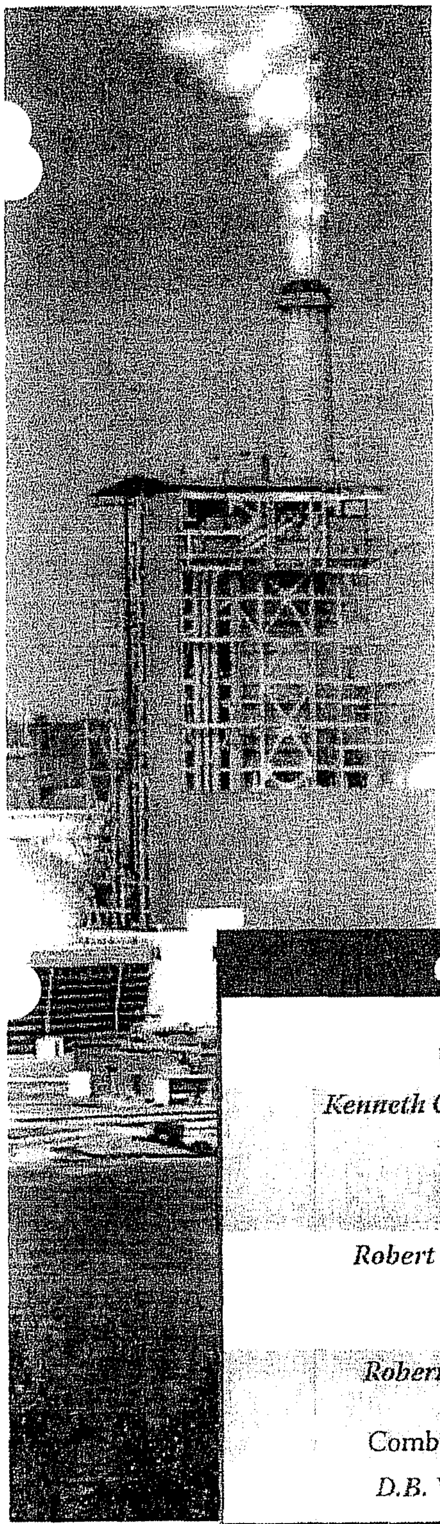


Table of Contents



Corporate Profile

Big Rivers Electric Corporation is an electric generation and transmission cooperative (G&T) headquartered in Henderson, Kentucky and owned by its three distribution system members—Jackson Purchase Energy Corporation, headquartered in Paducah; Kenergy Corp., headquartered in Henderson; and Meade County Rural Electric Cooperative Corporation, headquartered in Brandenburg.

Big Rivers supplies the wholesale power needs of its three member-systems and markets surplus power to non-member utilities and power markets. These three member-systems provide retail electric power and energy to more than 110,000 residential, commercial, and industrial member-consumers in portions of 22 western Kentucky counties.

Big Rivers owns a generating capacity of 1,459 megawatts (MW) in four plants. Total power capacity is 1,854 MW, including rights to Henderson Municipal Power and Light (HMP&L) Station Two and contracted capacity from Southeastern Power Administration (SEPA).

GENERATING CAPACITY OWNED = 1,459 Megawatts

Facilities	Type of Fuel	Net Capacity (MW)	Commercial Operation Date
Kenneth C. Coleman Plant			
Unit 1	Coal	150	1969
Unit 2	Coal	150	1970
Unit 3	Coal	155	1972
Robert D. Green Plant			
Unit 1	Coal	231	1979
Unit 2	Coal	223	1981
Robert A. Reid Plant			
Unit 1	Coal/Natural Gas	65	1966
Combustion Turbine	Oil/Natural Gas	65	1976
D.B. Wilson Unit 1	Coal	420	1986

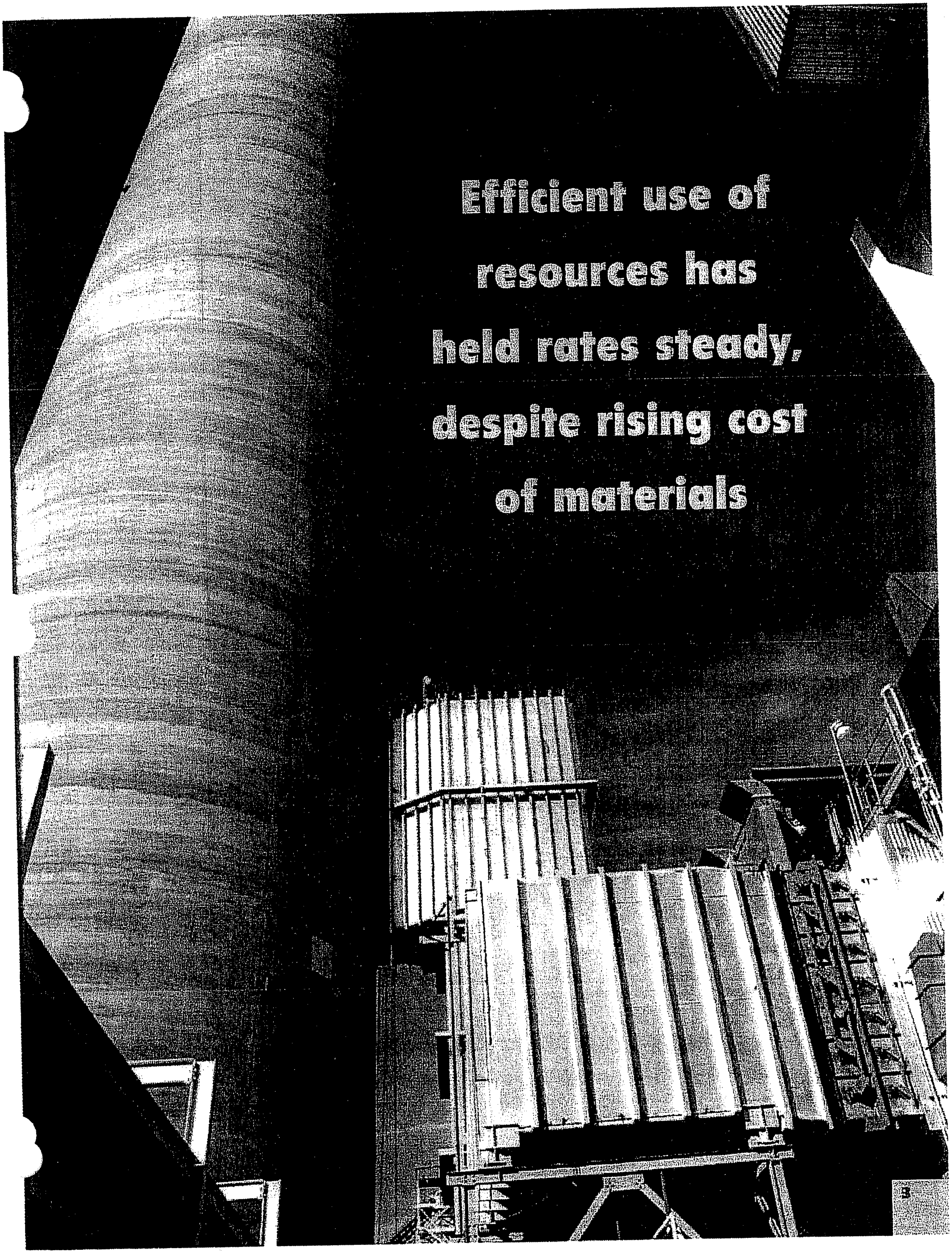
TOTAL POWER CAPACITY AVAILABLE = 1,854 Megawatts

Generating Capacity Owned* = 1,459 MW

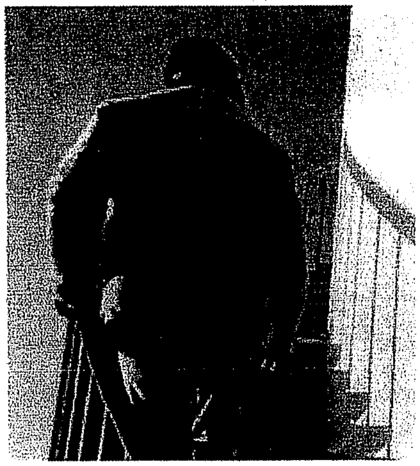
Rights to HMP&L Station Two* = 217 MW

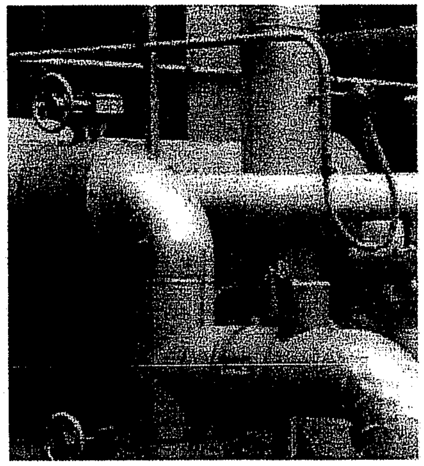
Contracted Capacity from SEPA = 178 MW

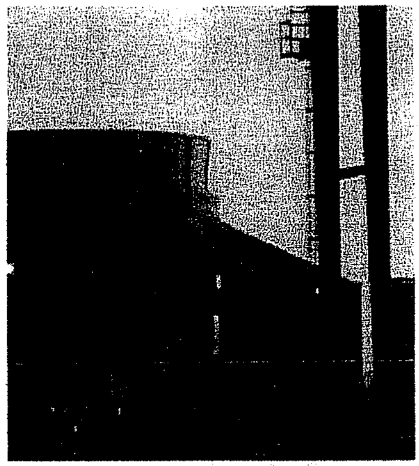
* *These facilities and rights have been leased to certain affiliates of the E.ON U.S. Parties.*


Efficient use of
resources has
held rates steady,
despite rising cost
of materials

Message from CEO & Board Chair







The word efficiency, while often overused, is still one of the most important terms in the vocabulary of business operations. Efficiency is being productive without waste. In our business, efficiency has many applications. We strive to be efficient in our budgets and the use of funds in the operations of providing electric power supply to Big Rivers' member distribution systems. We look to produce electricity as efficiently as possible.

While we continually work to improve our efficiencies at Big Rivers, we also believe our members and their member-consumers need to strive to use electricity more efficiently.

The appetite for energy in our country continues to steadily grow each year. This growth ultimately results in the need for new resources for generating additional electricity. The cost of building new electric generating plants is rising dramatically as materials and labor for construction are in high demand here and in other countries. It behooves us to use electricity more efficiently and avoid, where possible, the costs of building new generation.

Big Rivers and its member-systems are going to rededicate our efforts in emphasizing and focusing on helping the more than 110,000 member-consumers to become more efficient in their use of electricity. After all, Big Rivers and its members are cooperatives owned by those 110,000 member-consumers and we take to heart the need to provide the best service we can to our owners.

Big Rivers continues to be efficient in its operations and the result was its best year ever. Margins for 2006 were $34.5 million. Seeking better efficiency each year in all aspects of its operations has propelled Big Rivers to a string of annually improving financial results.

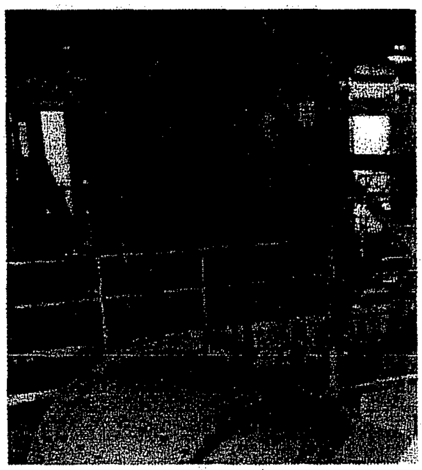
However, Big Rivers must continue those efforts of improved efficiency if it is to be successful in working to achieve an unwind of the 1998 transaction with E.ON U.S., LLC and certain of its affiliates. In the 1998 transaction, Big Rivers leased its generating facilities and assigned its rights under the HMP&L Station Two arrangements to E.ON U.S. Big Rivers and E.ON U.S. signed a Letter of Intent in late 2005 to move forward with the unwind of this transaction. A part of this effort includes a long-term power contract with the two smelters served by Kenergy Corp., one of the three Big Rivers member-systems.

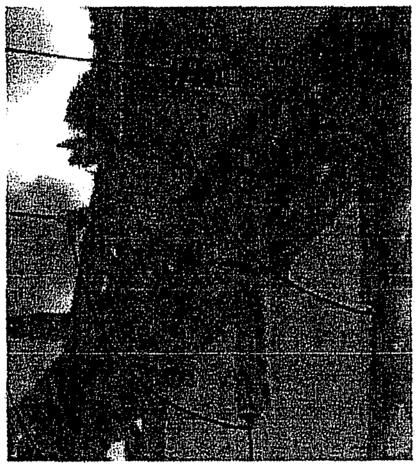
This major effort, if successful, will bring the operations of our power plants back to Big Rivers as was the case prior to the 1998 transaction. It will require us to be efficient to accomplish the mountains of work necessary for this effort and to still operate Big Rivers on a daily basis. The results of this effort will be a Big Rivers on solid financial footing and playing a key role in the future economic development of rural western Kentucky.

Michael Core
President and CEO

William Denton
Chair of the Board of Directors

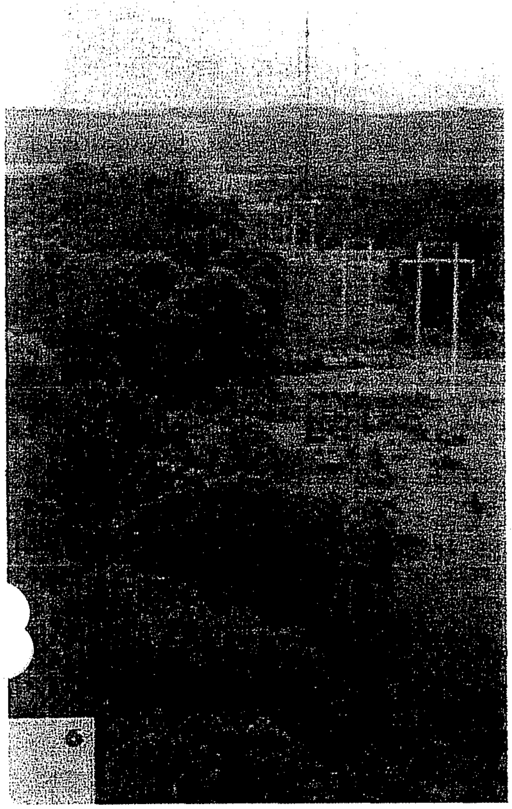
Efficiency in Electricity





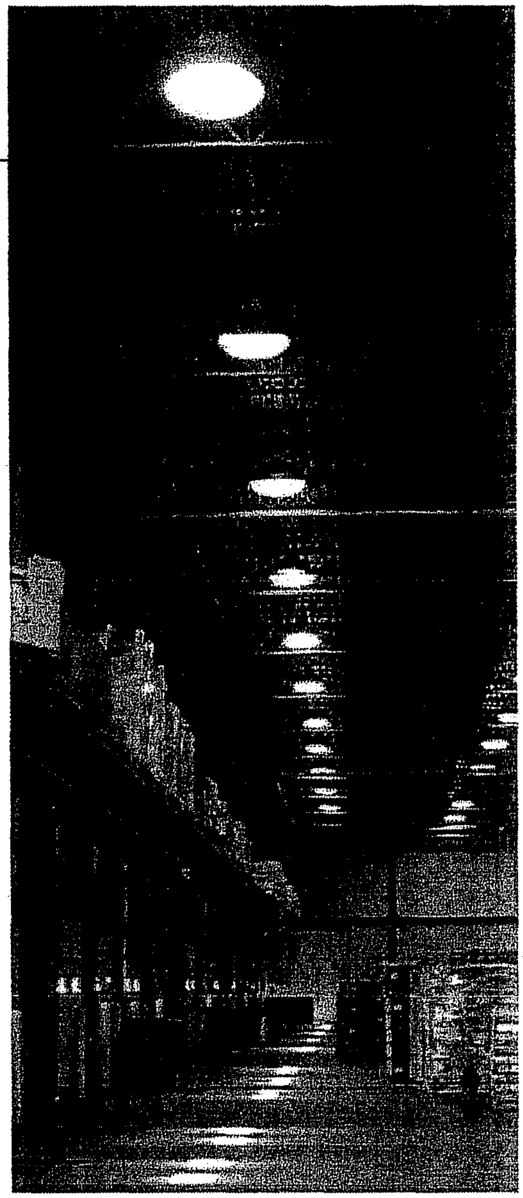
Efficiency in the energy industry can have a number of meanings, and be measured in a myriad of ways. Energy production, transmission, distribution and end usage all play into the success of Big Rivers and the three distribution systems that own it. There's nothing simple about maintaining energy efficiency for tens of thousands of member-consumers amid rising operating costs and a changing regulatory environment. Yet, that's what Big Rivers accomplished in 2006. Despite rising costs, the company was able to hold the line on rates to members and increase margins by more than 30 percent.

Big Rivers accomplished a number of important objectives in 2006 and kicked off several new initiatives that will result in the same affordable, value-conscious service on which Big Rivers members have come to depend. The following pages highlight some of the key activities from the past year that not only kept costs under control, but also benefited our members and their member-owners.



Vegetation Management Plans

Power lines downed by falling tree branches are a constant threat in this part of the country, and Big Rivers has risen to the challenge with a multimillion dollar initiative begun in 2006. Reliability and safety are at the heart of a program to keep trees and other vegetation clear of power lines throughout the Big Rivers region.



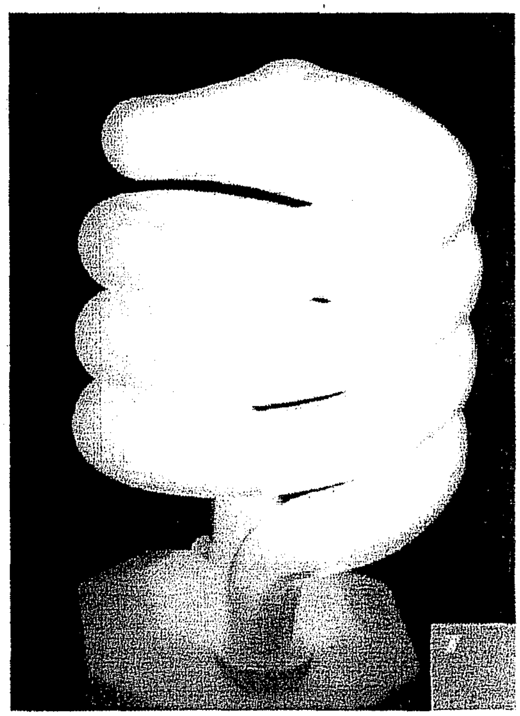
The system operations departments of Big Rivers and its member-systems have enacted vegetation management plans aimed at providing maximum reliability in preparation for severe storms, which are always a potential for power outages year-round.

Energy Efficiency Programs and Partnerships

Big Rivers partnered with its member-systems in a comprehensive, educational campaign that included energy audits, educational workshops, energy efficiency incentives and other programs designed to provide member-consumers with the general "know-how" to make decisions that improve their efficiency.

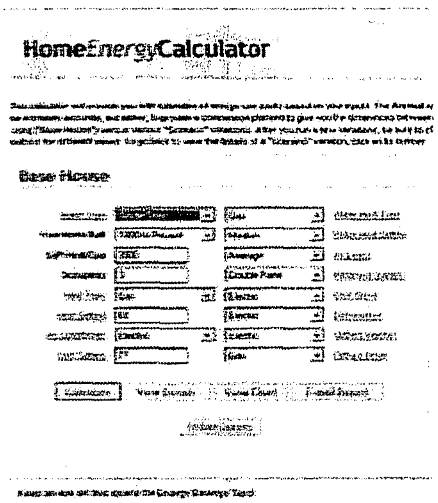
Big Rivers partnered with the Governor's Office of Energy Policy, the Department of Energy and other agencies to bring the High Performance Schools program to its service region. This partnership resulted in new and more efficient school buildings for both Hancock and Meade counties. Three Hancock County schools were renovated with high efficiency lighting, heating and cooling. A newly constructed school is a showcase of daylighting and high efficiency heating and cooling.

Meade County schools incorporated the highest efficiency heating and cooling system available today and used a composite concrete foam wall system that is both tight and highly insulated. Cooperative staff assisted the school system management through education, demonstration and analysis.



Industrial members benefited from the combined expertise of Big Rivers, its member-systems, and two governmental agencies—The Kentucky Pollution Prevention Center and the Kentucky Industrial Assessment Center. This combined effort helped evaluate energy consumption and provided member-consumers with recommendations on how to save money by reducing energy needs.

Big Rivers and its three member-systems distributed thousands of compact fluorescent light bulbs (CFLs) to residential member-consumers in 2006. CFLs provide the same output as conventional bulbs, but require only a quarter of the energy.



This program benefits the member-consumer financially and also serves as a tangible demonstration of energy efficiency.

Members and member-consumers now have a powerful information resource at their fingertips. Big Rivers redesigned its Web site in 2006 to incorporate educational resources and detailed energy saving recommendations.

Plans for 2007 call for an even more robust energy efficiency program, with particular emphasis placed on education for all—from the largest industrial to the smallest residential member.

Metering and Communications Upgrades

Big Rivers improved its forecasting capabilities by replacing all substation meters and upgrading cell phone communications, making it possible to receive hourly remote readings with faster speed. This increase in productivity will allow the company to be more accurate in its projections and more efficient in power utilization.

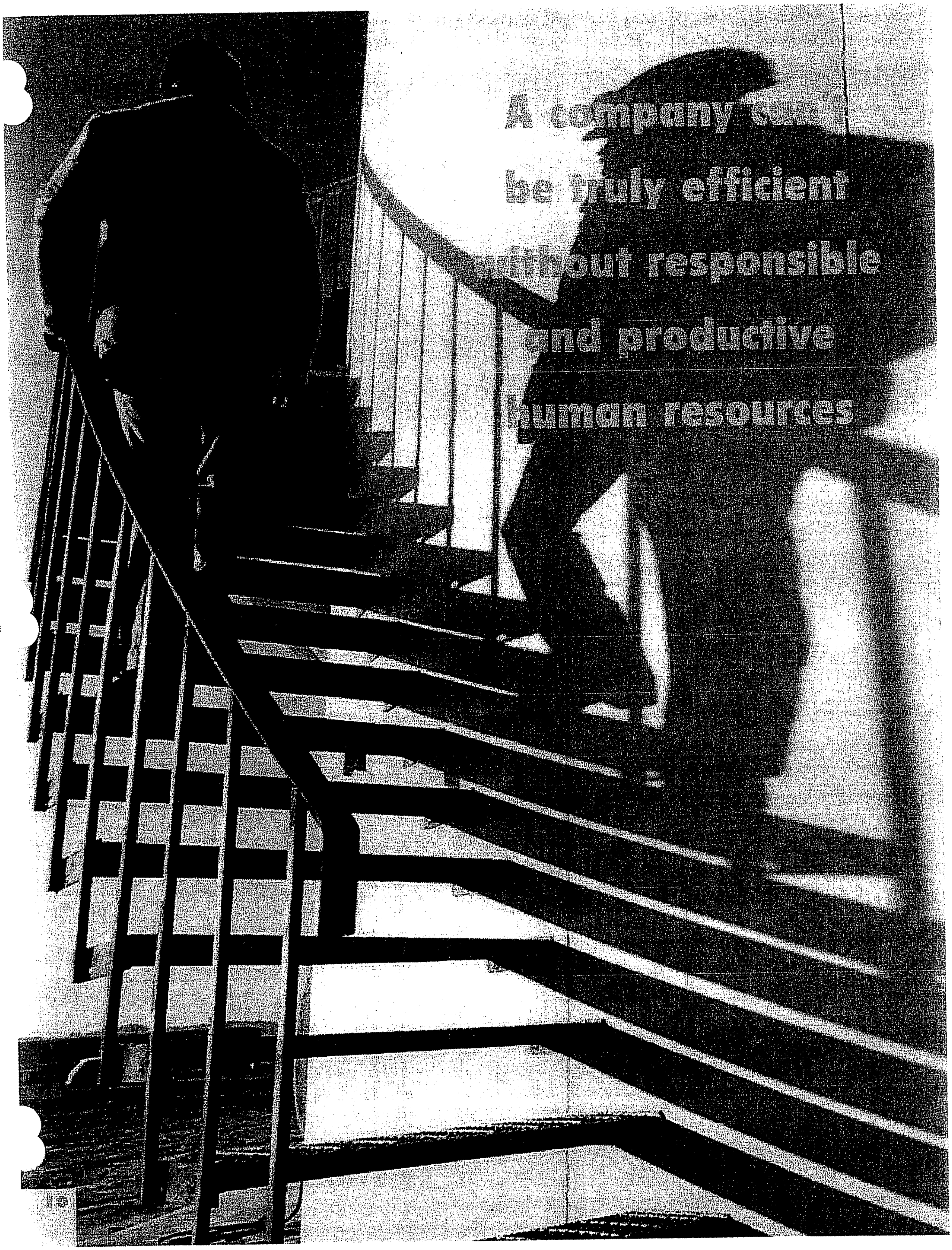
Big Rivers provided support to member-systems for the installation of tracking and identification systems designed to improve response time when a power outage takes place. The subsequent reduction in restoration time will help circumvent much of the downtime that member-consumers experience in the wake of violent weather.

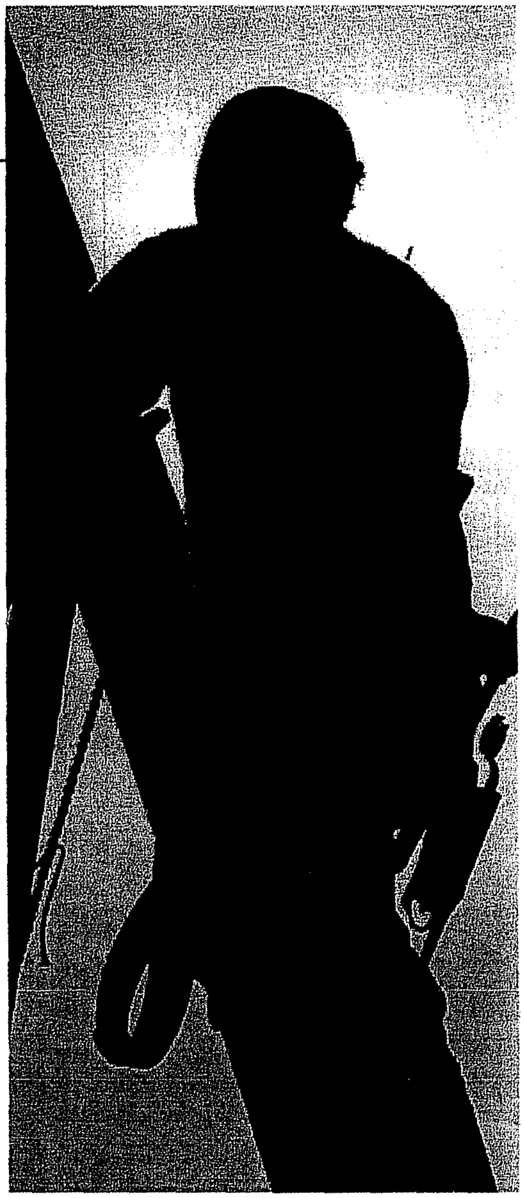
Improving the two-way radio system to improve communications between Big Rivers and its three member-systems is the focus of an engineering study begun in 2006. The objective is high-speed communication services between member-system facilities to improve service and reliability.

Member Discount Adjustment Renewed

In 2000, Big Rivers' creditors and the Kentucky Public Service Commission approved a request for a \$3.68 million annual discount adjustment for Big Rivers' members. In 2007, the company's Board of Directors gave its assent to a request for renewal, which would continue the revenue discount adjustment through August 31, 2008.


Energy efficiency is
not only good for
the environment
– it's good for our
members


A company
be truly efficient
responsible
productive
human resources



These adjustments pass savings along to members, which the company realizes as a benefit from the leveraged lease of three of its generating units. Big Rivers will continue to act as an advocate for its members when opportunities arise to pass along savings.

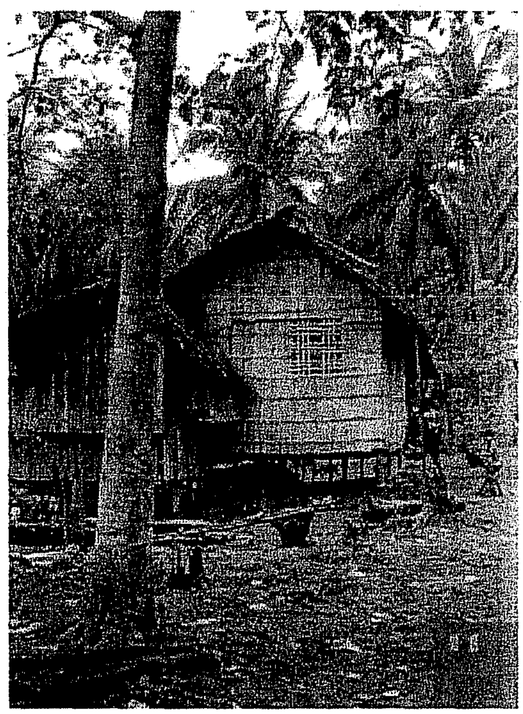
Employee Benefits and Personnel Development

Moving to a new health care plan is expected to help the company achieve greater operational efficiency. Better health care for employees and lower costs for the company are the anticipated outcome of the new preferred provider organization (PPO).

The company renewed its commitment to long-term care for its employees by increasing funding of its retirement benefit plans in 2006. Recent legislation, which permits accelerated funding, cleared the way for Big Rivers to extend this benefit, which will reduce future funding requirements and pension expenses.

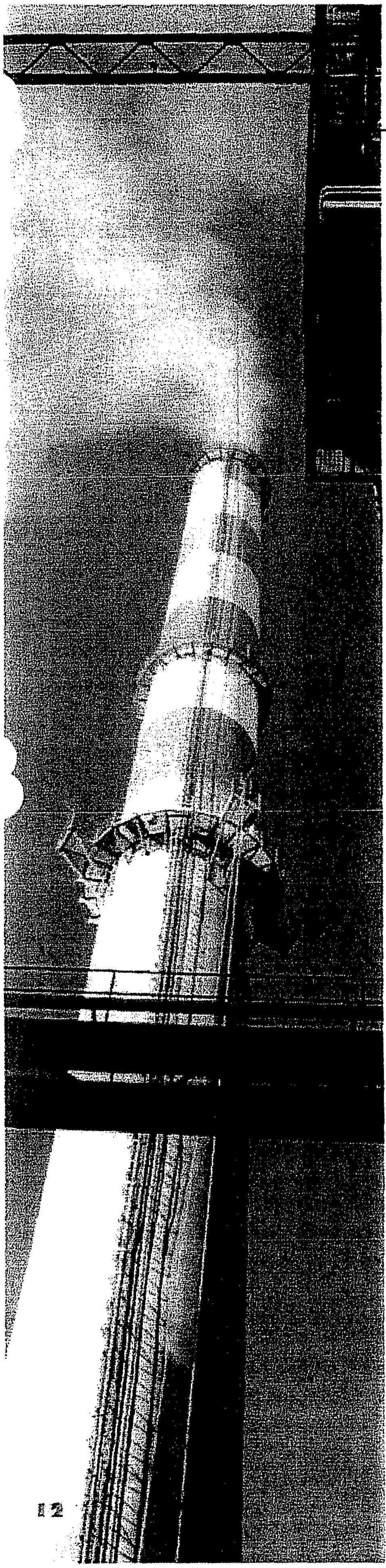
Big Rivers took a step forward in personnel development, instituting an apprentice lineman program aimed at strengthening productivity and maintaining the company's high level of service.

Humanitarian Projects



For the past seven years, Big Rivers has lent its support to the Philippine Project, which brings electric power and economic development to some of the most remote locations in the island archipelago, where multiple families living under one roof is the rule rather than the exception.

Villages tabbed for the project receive low-interest bank loans. Donated equipment is refurbished and installed, and the cost of connecting the village to the power grid is fully covered. Sewing machines, computers and other equipment have been donated to help villages establish local businesses, which in turn help pay for electricity. To date, the Philippine Project has impacted the lives of more than 7,200 people.



Big Rivers Continues To Move Toward Termination Of Lease Agreements With E.ON U.S.

Big Rivers continues to move forward with the letter of intent with E.ON U.S., LLC, formerly known as LG&E Energy LLC, to pursue terminating the various agreements in place since 1998 that gave certain E.ON U.S. subsidiaries operational control of Big Rivers' power plants and ownership of the electricity generated by them. Although the agreements were to run through 2023, the companies are working toward ending the arrangement, with Big Rivers resuming control of its generation facilities and its future.

In a related development, a memorandum of understanding was reached by Big Rivers, one of its member-systems Kenergy Corp. (Kenergy), and two aluminum smelters, Century Aluminum of Kentucky, LLC (Century) in Hawesville, Ky. and Alcan Primary Products Corporation (Alcan) in Sebree, Ky., on pursuing critical long-term arrangements to provide electricity to the smelters that could help protect jobs at the two plants, where some 1,500 people currently are employed. If final agreements are reached and all approvals are received, the smelters would be able to avoid potentially volatile open-market electricity prices when their current power contracts expire in 2010 and 2011, respectively.

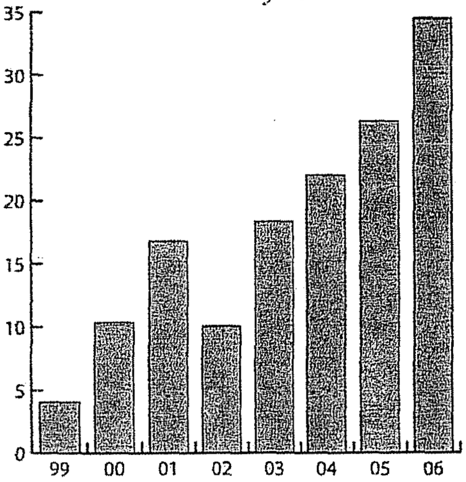
Through the lease and related agreements, E.ON U.S. subsidiaries currently operate Big Rivers' facilities at three sites that include eight generating units owned by Big Rivers and two additional units owned by HMP&L. Power is purchased from an E.ON U.S. affiliate and distributed by Big Rivers as wholesale electricity to its three member-systems serving a large area of western Kentucky. In a separate agreement, the same E.ON U.S. subsidiary provides power through Kenergy to the aluminum smelters. If the 1998 agreements are eventually terminated and a number of related agreements are reached, Big Rivers would resume responsibility for power generation at all units, including the HMP&L plant, and would continue to supply wholesale electricity over its transmission system to its three member-systems, including power for Kenergy's service to the smelters.

The effective delivery of energy requires reliability and efficiency in every phase of the process

Financial Review : 2006

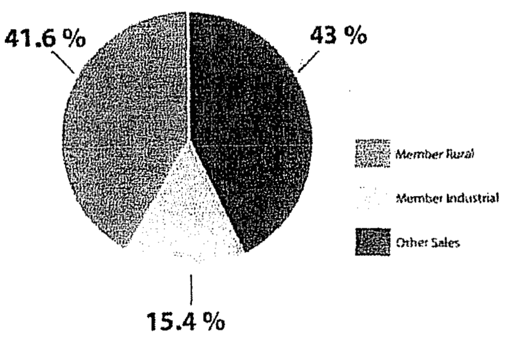
Net Margins

in millions of dollars



Revenue Sources

as a percentage



Big Rivers Records Strong 2006

Big Rivers' commitment to efficient operations and careful management of resources produced a strong financial performance in 2006. Record margins were established as the company significantly improved its revenue-to-power cost ratio, an important measurement of efficiency.

Record arbitrage sales, voluntary debt pre-payments and other key factors resulted in a more than 30 percent increase in net margins over 2005, enabling Big Rivers to continue to improve its cash position. The company ended 2006 with a notable increase in its overall "cushion" status and improved its negative equity position over the previous fiscal year.

FINANCIAL HIGHLIGHTS	2006	2005
Years ended December 31 | (Dollars in thousands)		
Margins	34,542	26,343
Equity	(217,371)	(251,913)
Capital Expenditures*	13,189	12,904
Cash & Cash Equivalents	96,143	67,264
New RUS Note Voluntary Prepayment Status	34,995	55,357
Times Interest Earned Ratio	1.47	1.37
Debt Service Coverage Ratio	1.86	1.79
Cost of Debt	5.83%	5.57%
Cost of Capital	7.82%	7.58%

* *Big Rivers' share only.*

Net Margins

Big Rivers ended 2006 with net margins of $34.5 million, an $8.2 million increase over 2005. Arbitrage sales, which included the aluminum smelter Tier 3 and an industrial co-generator backup sales, reached record levels and led to a $9.4 million increase in sales margins as compared to 2005. Record power sales reflect Big Rivers' efficiency in utilization of available power and the development of marketing strategies designed to take advantage of market opportunities to improve its revenue-to-power cost ratio.

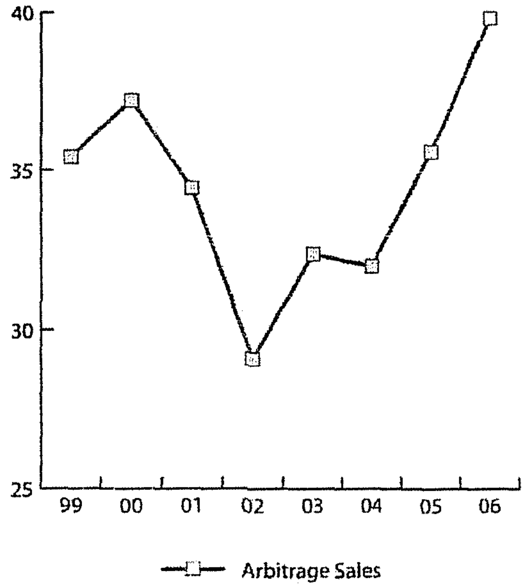
Operating Revenue

The upward trend in power revenue continued in 2006 with Big Rivers reporting $200.7 million compared to $191.3 million in 2005 (up from $175.8 million in 2004). The lease revenue for 2006 was $57.9 million with total operating revenue for 2006 at $258.6 million, an increase of approximately $10 million over 2005.

Arbitrage Sales

Big Rivers exceeded its previous year arbitrage margins record by 36 percent, reporting $35.5 million in 2006. The average price for 2.1 million MWh of surplus power was $39.81 per MWh in 2006, compared to a rate of $35.58 per MWh for 2 million MWh in 2005.

Arbitrage Sales
in dollars per MWh

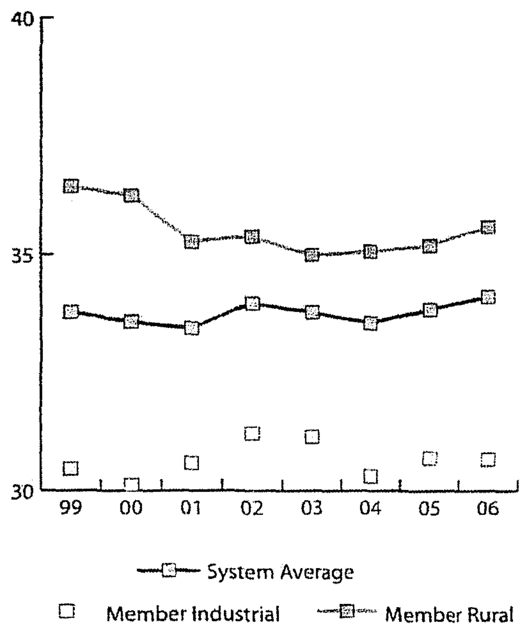


Wholesale Member Sales

The average price for 3.2 million MWh of member power increased to $34.11 per MWh in 2006 from $33.84 per MWh in 2005. Member sales to rural loads were $35.58 per MWh in 2006, up from $35.19 in 2005. Large industrial sales reflected a slight decrease from the previous year. Big Rivers continued the 3.3 percent revenue discount during 2006 that resulted in the benefits of the April 2000 sale-leaseback being passed through to its members.

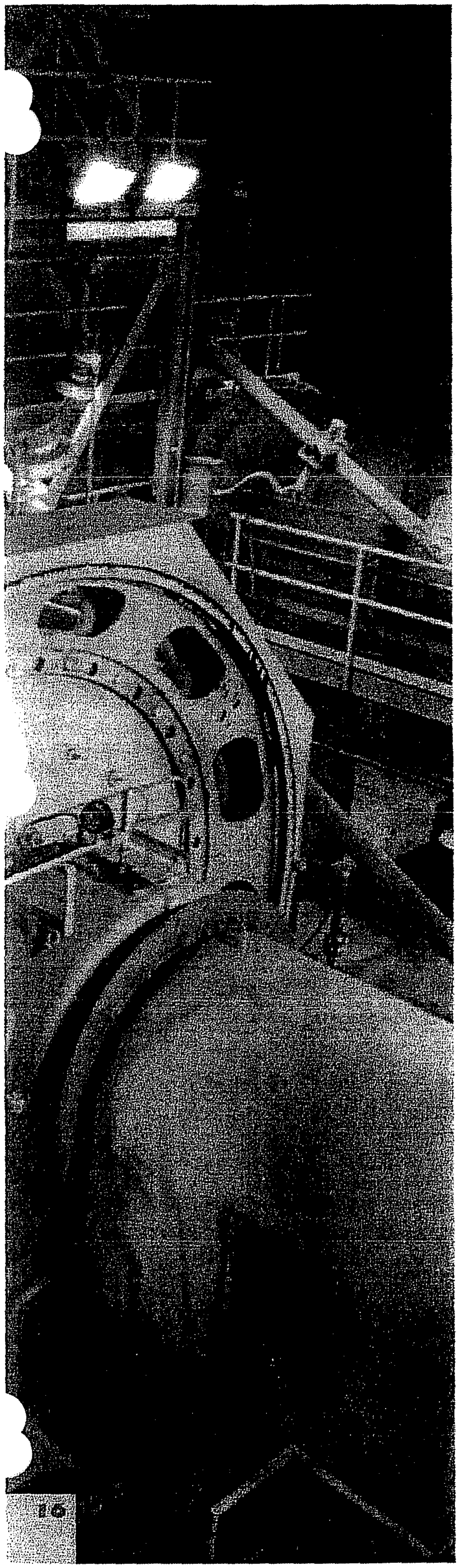
The slight decrease in member tariff load growth, -1.42 percent for 2006 vs. 3.32 percent in 2005, was due largely to more temperate weather conditions in 2006 and the closing of a small industrial customer. Heating and cooling degree-days for 2006 decreased by 3.6 percent and 13.1 percent, respectively, as compared to 2005.

Wholesale Member Sales
in dollars per MWh



Long-Term Debt

Voluntary prepayments on the Rural Utilities Service (RUS) promissory note led to a $1.7 million decrease in interest expense for 2006, compared to 2005. Pollution Control Bond interest expense reflects a $1.5 million increase over 2005 due to higher interest rates (3.49 percent for 2006 vs. 2.46 percent for 2005).



Big Rivers holds a line of credit with National Rural Utilities Cooperative Finance Corporation for $15 million as of December 31, 2006. This line of credit has an underlying $15 million master letter of credit facility for supporting off-system sales.

As of December 31, 2006, there was $5.95 million outstanding under the master letter of credit facility. Participation in the Midwest Independent System Operator Energy Market required a letter of credit in the amount of $1.0 million. Forward sales to Morgan Stanley, Fortis Energy Marketing and Constellation Energy required letters of credit in the amounts of $2.2 million, $2.5 million and $0.25 million, respectively.

Cash Flow

Higher net margins and efficient management of resources aided Big Rivers' cash flow status in 2006. As of December 31, 2006, the company's overall cushion stood at $130.9 million, an increase of more than $8 million over 2005. Cash and temporary cash investments amounted to $95.9 million, while voluntary prepayment of debt on the RUS notes totaled $35 million.

Focused Audits

In an effort to ensure that proper internal controls are maintained, the Big Rivers' Board of Directors engaged the services of an outside auditor to perform a series of focused audits. The audits conducted in 2006 included purchasing and payroll cycles; cash management, debt and debt-related covenants; and power sales and load forecasting. Audit results indicated that proper internal controls were established and no irregularities were found to exist in those areas audited.

Deloitte.

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USA

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Fax: +1 312 486 1486
www.deloitte.com

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, 2006 and 2005, and the related statements of operations, equities (deficit), and of cash flows for each of the three years in the period ended December 31, 2006. 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 the Company as of December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, 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 14, 2007, on our consideration of the Company'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 14, 2007

Member of
Deloitte Touche Tohmatsu

Balance Sheets

Big Rivers

As of December 31, 2006 and 2005 | (Dollars in thousands)

ASSETS	2006	2005
UTILITY PLANT – Net	$ 917,668	$ 928,872
RESTRICTED INVESTMENTS UNDER LONG-TERM LEASE	186,690	180,650
OTHER DEPOSITS AND INVESTMENTS – At cost	3,816	3,397
CURRENT ASSETS:		
Cash and cash equivalents	96,143	67,264
Accounts receivable	17,748	16,350
Materials and supplies inventory	811	667
Prepaid expenses	3,608	91
Total current assets	**118,310**	**84,372**
DEFERRED CHARGES AND OTHER	27,905	28,689
TOTAL	**$ 1,254,389**	**$ 1,225,980**

EQUITIES (DEFICIT) AND LIABILITIES

	2006	2005
CAPITALIZATION:		
Equities (deficit)	$ (217,371)	$ (251,913)
Long-term debt	1,041,075	1,046,846
Obligations related to long-term lease	177,310	170,954
Other long-term obligations	45	92
Total capitalization	**1,001,059**	**965,979**
CURRENT LIABILITIES:		
Current maturities of long-term obligations	11,959	810
Voluntary prepayment of long-term debt	-	10,403
Purchased power payable	9,219	10,732
Accounts payable	3,366	2,394
Accrued expenses	2,164	2,172
Accrued interest	7,631	7,542
Total current liabilities	**34,339**	**34,053**
DEFERRED CREDITS AND OTHER:		
Deferred lease revenue	17,316	21,755
Deferred gain on sale-leaseback	56,380	59,262
Residual value payments obligation	140,744	139,710
Other	4,551	5,221
Total deferred credits and other	**218,991**	**225,948**
COMMITMENTS AND CONTINGENCIES	–	–
TOTAL	*$ 1,254,389*	*$ 1,225,980*

See notes to financial statements.

Statements of Operations

Big Rivers

For the years ended December 31, 2006, 2005 and 2004 | (Dollars in thousands)

	2006	2005	2004
POWER CONTRACTS REVENUE	$ 200,692	$ 191,280	$ 175,777
LEASE REVENUE	57,896	57,675	56,753
Total operating revenue	258,588	248,955	232,530
OPERATING EXPENSES:			
Operations:			
Power purchased and interchanged	114,516	114,500	106,099
Transmission and other	21,684	20,309	18,674
Maintenance	3,652	3,195	2,597
Depreciation	30,408	30,192	29,732
Total operating expenses	170,260	168,196	157,102
ELECTRIC OPERATING MARGIN	88,328	80,759	75,428
INTEREST EXPENSE AND OTHER:			
Interest	60,754	59,639	56,923
Interest on obligations related to long-term lease	9,505	9,109	8,725
Other – net	111	124	158
Total interest expense and other	70,370	68,872	65,806
OPERATING MARGIN	17,958	11,887	9,622
NON-OPERATING MARGIN:			
Interest income on restricted investments under long-term lease	12,069	11,670	11,278
Interest income and other	4,515	2,786	1,125
Total non-operating margin	16,584	14,456	12,403
NET MARGIN	$ 34,542	$ 26,343	$ 22,025

See notes to financial statements.

Statements of Equities (Deficit)

Big Rivers

For the years ended December 31, 2006, 2005 and 2004 | (Dollars in thousands)

	Total Equities (Deficit)	Accumulated Deficit	Other Equities: Donated Capital and Memberships	Other Equities: Consumers' Contributions to Debt Service
BALANCE – January 1, 2004	$ (300,281)	$ (304,726)	$ 764	$ 3,681
Net margin	22,025	22,025	-	-
BALANCE – December 31, 2004	(278,256)	(282,701)	764	3,681
Net margin	26,343	26,343	-	-
BALANCE – December 31, 2005	(251,913)	(256,358)	764	3,681
Net margin	34,542	34,542	-	-
BALANCE – December 31, 2006	$ (217,371)	$ (221,816)	$ 764	$ 3,681

See notes to financial statements.

Statements of Cash Flows

Big Rivers

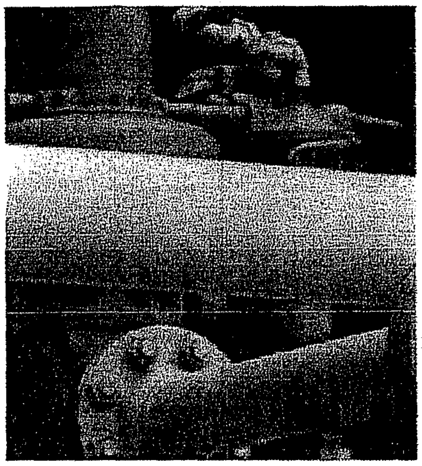
For the years ended December 31, 2006, 2005 and 2004 | (Dollars in thousands)

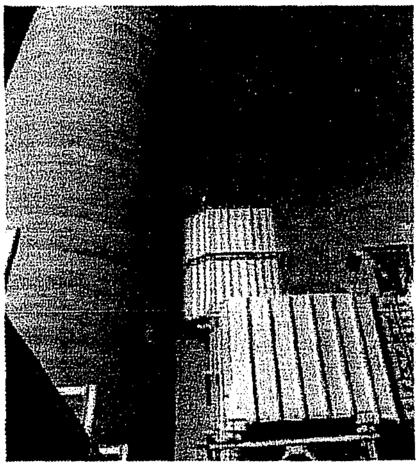
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net margin	$ 34,542	$ 26,343	$ 22,025
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation and amortization	33,592	33,386	32,625
Increase in restricted investments under long-term lease	(6,040)	(5,955)	(5,836)
Amortization of deferred gain on sale-leaseback	(2,882)	(2,856)	(2,823)
Deferred lease revenue	(4,439)	(4,335)	(4,267)
Residual value payments obligation	(6,187)	(5,969)	(5,077)
Increase in RUS ARVP Note	5,313	5,077	4,807
Increase in New RUS Promissory Note	13,889	8,205	21,849
Increase in obligations under long-term lease	6,356	6,250	6,107
Changes in certain assets and liabilities:			
Accounts receivable	(1,398)	(741)	(261)
Materials and supplies inventory	(144)	(112)	33
Prepaid expenses	(3,517)	257	226
Deferred charges	(694)	480	(368)
Purchased power payable	(1,513)	1,528	550
Accounts payable	972	(516)	(87)
Accrued expenses	81	72	1,459
Other – net	(1,170)	351	(104)
Net cash provided by operating activities	**66,761**	**61,465**	**70,858**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(13,189)	(12,904)	(12,203)
Other deposits and investments	(419)	(151)	(277)
Net cash used in investing activities	**(13,608)**	**(13,055)**	**(12,480)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on long-term obligations	(24,274)	(36,037)	(9,289)
Principal payments on short-term notes payable	-	-	(10,000)
Net cash used in financing activities	**(24,274)**	**(36,037)**	**(19,289)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	28,879	12,373	39,089
CASH AND CASH EQUIVALENTS – Beginning of year	67,264	54,891	15,802
CASH AND CASH EQUIVALENTS – End of year	**$ 96,143**	**$ 67,264**	**$ 54,891**
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ 47,277	$ 46,534	$ 28,485
Cash paid for taxes	$ 375	$ 271	$ 270

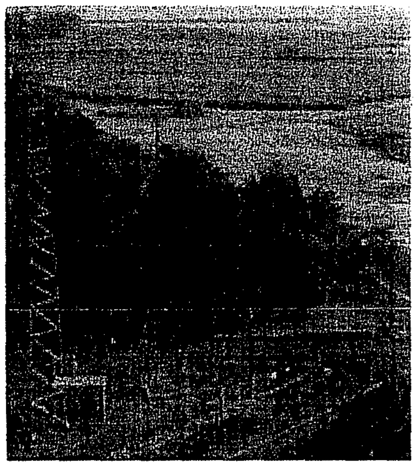
See notes to financial statements.

Notes to Financial Statements

Years ended December 31, 2006, 2005, and 2004 | (Dollars in thousands)







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 these agencies.

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 follow the Uniform System of Accounts as prescribed by the RUS Bulletin 1767B-1, as adopted by the KPSC. The 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:

Year	*Amount*
2007	$ 52,332
2008	52,332
2009	52,332
2010	52,332
2011	41,291
Thereafter	420,908
	$ 671,527

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, 2006 and 2005, the Company has recorded $7,221 and $6,986, respectively, for such additions in utility plant. The Company has recorded $6,187, $5,969, and $5,077 in 2006, 2005, and 2004, 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, 2006, the cumulative Nonincremental Capital Costs amounted to $6,618 (unaudited).

E.ON U.S is also in the process of constructing a scrubber (Major Capital Improvement) on Big Rivers' Coleman plant. First operation at the Coleman units occurred in February 2006, while commercial acceptance is anticipated to occur in March 2007. The project is expected to be completed in the third quarter of 2007 at a cost of $98,000 (unaudited), none of which is expected to be recorded as utility plant or lease revenue.

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 2006, 2005, and 2004, the average composite depreciation rates were 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. During 2006, the Company made a patronage allocation to its three member distribution cooperatives in accordance with its bylaws of $8,602. During 2005, the Company was not required to make a patronage allocation to its three member cooperatives in accordance with its bylaws. In 2007, the Company anticipates making a patronage allocation to its members based on such calculations for tax year 2006 of approximately $27,760.

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 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, accounting in interim periods, disclosures and transition. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the effect that the adoption of FIN 48 will have on its results of operations and financial condition but has not yet determined the impact the adoption will have on the Company.

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 Company is currently evaluating the effect that the adoption of SFAS No. 157 will have on its results of operations and financial condition and does not expect the adoption will have a significant impact on the Company.

In September 2006, the FASB issued FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS No. 158"). SFAS No. 158 improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the change occurs through comprehensive income of a business entity. It also requires an employer to measure the funded status of a plan as of its year-end statement of financial position, with limited exceptions. SFAS No. 158 is effective for fiscal years ending after June 15, 2007. The Company is currently evaluating the effect that the adoption of SFAS No. 158 will have on its results of operations and financial condition but cannot readily determine whether the adoption will have a significant impact on the Company.

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 $75,870 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 LEC for the undepreciated value of WKEC's 80% share of these costs, at the end of the lease, currently estimated to be $15,677. 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 non-refundable 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.

3. UTILITY PLANT

At December 31, 2006 and 2005, utility plant is summarized as follows:

	2006	2005
Classified plant in service:		
Electric plant – leased . . .	$ 1,506,822	$ 1,497,039
Transmission plant	208,760	202,925
General plant	15,581	14,819
Other	67	67
	1,731,230	1,714,850
Less accumulated depreciation	826,647	798,684
	904,583	916,166
Construction in progress	13,085	12,706
Utility plant - net	$ 917,668	$ 928,872

Interest capitalized for the years ended December 31, 2006, 2005, and 2004 was $236, $160, and $221, 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, 2006 and 2005, the Company had a regulatory liability of approximately $26,670 and $23,619, 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 provides 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, will be fully funded.

This transaction has been recorded as a financing for financial reporting purposes and a sale for Federal income tax purposes. In connection therewith, 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 as restricted investments under long-term lease and obligations related to long-term lease in the accompanying balance sheets. Interest received and paid will be recorded to these accounts over the life of the lease. Currently, the Company is paying 7.57% interest on its obligations related to long-term lease and receiving 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 will be amortized over the respective lease terms, of which the Company recognized $2,881, $2,856, and $2,824, in 2006, 2005, and 2004, respectively. Principal payments begin in 2009.

Amounts recognized in the statement of financial position related to the sale-leaseback as of December 31, 2006 and 2005, are as follows:

	2006	2005
Restricted investments under long-term lease	$ 186,690	$ 180,650
Obligations related to long-term lease	177,310	170,954
Deferred gain on sale-leaseback	56,380	59,262

Amounts recognized in the statement of operations related to the sale-leaseback for the years ended December 31, 2006, 2005, and 2004, are as follows:

	2006	2005	2004
Power contracts revenue (revenue discount adjustment, see Note 6)	$(3,680)	$(3,680)	$(3,680)
Interest on obligations related to long-term lease:			
Interest expense	12,386	11,965	11,548
Amortize gain on sale-leaseback	(2,881)	(2,856)	(2,823)
Net interest on obligations related to long-term lease	9,505	9,109	8,725
Interest income on restricted investments under long-term lease	12,069	11,670	11,278
Interest income and other (CoBank patronage allocation) . . .	777	772	661

5. DEBT AND OTHER LONG-TERM OBLIGATIONS

A detail of long-term debt at December 31, 2006 and 2005, is as follows:

	2006	*2005*
New RUS Promissory Note, stated amount of $803,601, stated interest rate of 5.75%, with an interest rate of 5.81%, maturing July 2021	$ 799,789	$ 808,094
RUS ARVP Note, stated amount of $251,215, no stated interest rate, with interest imputed at 5.81%, maturing December 2023	94,391	90,347
LEM Settlement Note, interest rate of 8.0%, payable in monthly installments through July 2023	16,707	17,173
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 3.49% and 2.46% in 2006 and 2005 respectively), maturing in October 2022	83,300	83,300
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 3.49% and 2.46% in 2006 and 2005 respectively), maturing in June 2013	58,800	58,800
Total long-term debt	1,052,987	1,057,714
Current maturities	11,912	465
Voluntary prepayment	-	10,403
Total long-term debt – net of current maturities and prepayment	$1,041,075	$1,046,846

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

Year	*Amount*
2007	$ 11,912
2008	39,178
2009	39,230
2010	41,286
2011	47,345
Thereafter	874,036
	$ 1,052,987

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 5.81%. 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.

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 $345, $351, and $351 during 2006, 2005, and 2004, respectively. At December 31, 2006, the Company has a remaining liability of $92 payable over the next two years, of which $47 is included in current maturities of long-term obligations.

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 amounts outstanding on the line of credit at December 31, 2006. 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.

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, 2006, effectively passing the benefit of the sale-leaseback transaction (see Note 4) to them. The extent to which Big Rivers requests KPSC approval to continue the adjustment depends upon its planned environmental compliance costs and its overall financial condition. In March 2007, Big Rivers plans to request the KPSC's approval to extend the adjustment through August 31, 2008.

7. INCOME TAXES

The components of the net deferred tax assets as of December 31, 2006 and 2005, were as follows:

	2006	*2005*
Deferred tax assets:		
Net operating loss carryforward	$68,696	$80,769
Alternative minimum tax credit carryforwards	4,790	4,283
Sale-leaseback	136,598	130,568
Other accruals	2,465	2,066
Total deferred tax assets	212,549	217,686
Deferred tax liabilities:		
Lease agreement	(21,270)	(15,395)
Fixed asset basis difference	(827)	(10,178)
Total deferred tax liabilities	(22,097)	(25,573)
Net deferred tax asset (pre-valuation allowance)	190,452	192,113
Valuation allowance	(185,662)	(187,830)
Net deferred tax asset	$4,790	$4,283

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. The Company has not recorded any income tax expense for the years ended December 31, 2006, 2005 and 2004 as the Company has utilized federal net operating losses to offset any taxable income during those years. Had the Company not had the benefit of a net operating loss carryforward, the Company would have recorded $10,599, $7,995, and $6,759 in current tax expense for the years ended December 31, 2006, 2005 and 2004, respectively. 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.

At December 31, 2006 and 2005, Big Rivers had a nonpatron net operating loss carryforward of approximately $167,551 and $196,998, respectively, for tax reporting purposes expiring through 2013, and an alternative minimum tax credit carryforward at December 31, 2006 and 2005, of approximately $4,790 and $4,283, respectively, which carries forward indefinitely.

Big Rivers has a net deferred tax asset, against which a valuation allowance has been provided, in part, based upon the fact that it is presently uncertain whether such asset will be realized. The resulting net deferred tax asset at December 31, 2006 and 2005, is approximately $4,790 and $4,283, respectively, which represents the alternative minimum tax credit carryforward, against which no allowance has been provided.

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, 2006, 2005, and 2004, were $97,999, $96,795, and $89,696, respectively, and are included in power purchased and interchanged on the statement of operations.

9. PENSION 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 plans are measured as of December 31, 2006 and 2005.

At December 31, 2006 and 2005, the following is an assessment of the Company's noncontributory defined benefit pension plans:

	2006	2005
Projected benefit obligation	$(17,464)	$(16,550)
Fair value of plan assets	16,416	11,868
Funded status	$(1,048)	$(4,682)

The accumulated benefit obligation for all defined benefit pension plans was $12,421 and $11,426 at December 31, 2006 and 2005, respectively.

At December 31, 2006 and 2005, amounts recognized in the statement of financial position are as follows:

	2006	2005
Prepaid benefit cost	$3,520	$110
Accrued benefit liability	-	(108)
Net amount recognized	$ 3,520	$ 2

Net periodic pension costs, which are calculated based on actuarial assumptions at January 1, for the years ended December 31, 2006, 2005, and 2004, were as follows:

	2006	2005	2004
Benefit cost	$1,167	$1,158	$954
Employer contribution	4,684	921	843
Benefits paid or transferred	852	1,757	103

Assumptions used to develop the projected benefit obligation were as follows:

	2006	2005	2004
Discount rates	5.75 %	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	7.50

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 55% equities. The remaining 45% 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, 2006 and 2005, the investment allocation was 0% and 56%, respectively, in equities and 100% and 44%, respectively, in fixed income. This temporary departure from the above investment objectives reflects the process of transferring to a new investment advisor.

Expected retiree pension benefit payments projected to be required during the years following 2006 are as follows:

Years ending December 31	*Amount*
2007	$ 488
2008	1,104
2009	803
2010	1,346
2011	1,220
2012-2016	12,343
	$ 17,304

In 2007, the Company expects to contribute $1,111 to its pension plan trusts.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to their short maturity.

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:

	2006		*2005*	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Restricted investments	$186,690	$233,418	$180,650	$236,571

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 rate used in computing the postretirement obligation was 5.75% for 2006 and 2005. A health care cost trend rate of 9% in 2006 declining to 5.5% in 2011 was utilized.

An assessment of the Company's postretirement plan at December 31, 2006 and 2005, is as follows:

	2006	2005
Total benefit obligation	$ (2,695)	$ (3,339)
Unfunded accrued postretirement cost	(3,787)	(3,755)

The components of net periodic postretirement benefit costs for the years ended December 31, 2006, 2005, and 2004, which are calculated based on actuarial assumptions at January 1, were as follows:

	2006	2005	2004
Benefit cost	$ 241	$ 286	$ 310
Benefits paid	171	216	188

Expected retiree benefit payments projected to be required during the years following 2006 are as follows:

Year	*Amount*
2007	$ 153
2008	142
2009	162
2010	184
2011	199
2012-2016	1,246
	$ 2,086

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 $294 and $270 at December 31, 2006 and 2005, respectively. The postretirement expense recorded was $44, $27, and $28 for 2006, 2005, and 2004, respectively, and the benefits paid were $20, $16, and $-0- for 2006, 2005, and 2004 respectively.

12. BENEFIT PLAN – 401(K)

Big Rivers has two defined contribution retirement plans covering bargaining and salaried employees. Big Rivers matches up to 60% of the first 6% of eligible employees' wages contributed. Employees generally become vested in Company matching contributions based upon years of service as follows:

Years of Vesting Service	*Vested Percentage*
1	.20%
2	.40
3	.60
4	.80
5 or more	100

Employees are also permitted to make pre-tax contributions of up to 75% of eligible wages. Big Rivers' expense under this plan was $193, $178, and $168 for the years ended December 31, 2006, 2005, and 2004, respectively.

13. RELATED-PARTIES

For the years ended December 31, 2006, 2005, and 2004 Big Rivers had tariff sales to its members of $108,737, $109,439, and $105,004, respectively. In addition, for the years ended December 31, 2006, 2005, and 2004, Big Rivers had certain sales to Kenergy for the Aluminum Smelters and Weyerhaeuser loads of $57,374, $46,372, and $43,017, respectively.

At December 31, 2006 and 2005, Big Rivers had accounts receivable from its members of $13,015 and $12,872, respectively.

In October 2005, Big Rivers made a lump sum payment of $221 to Kenergy for the lease of office space in a building owned by Kenergy. The charge for the lump sum payment was deferred and is being amortized over the life of the agreement.

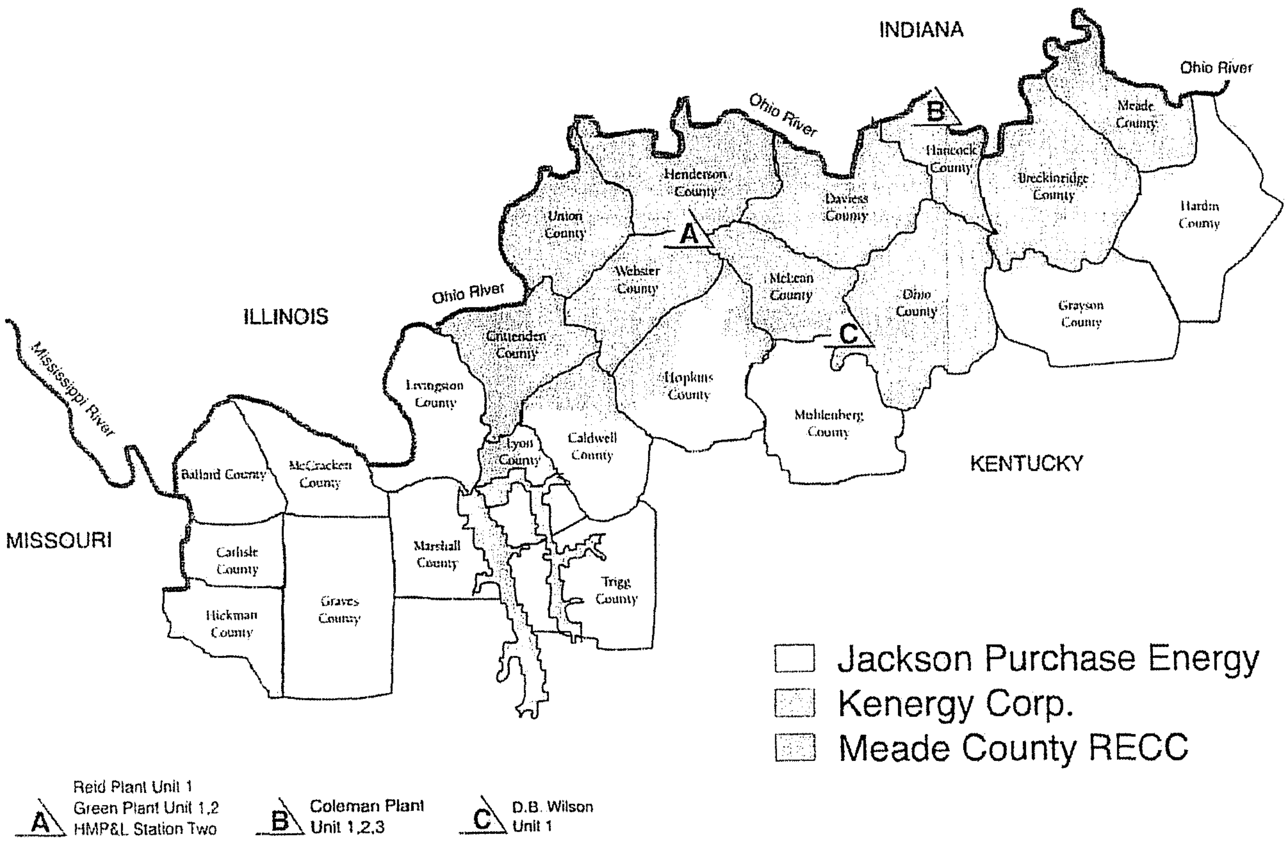
14. COMMITMENTS AND CONTINGENCIES

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.

15. SUBSEQUENT EVENT

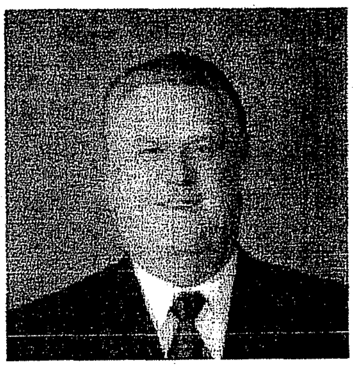
The Big Rivers board of directors adopted resolutions on February 23, 2007, authorizing management, among other things, to execute a Transaction Termination Agreement Among Big Rivers Electric Corporation, LG&E Energy Marketing Inc., and Western Kentucky Energy Corp. (the "Termination Agreement"). The 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.

System Map



Member Distribution Systems

Big Rivers



Kelly Nuckols, President & CEO
Jackson Purchase Energy Corporation

JACKSON PURCHASE ENERGY CORPORATION

(270) 442-7321
www.JPEnergy.com

Serves: Ballard, Carlisle, Graves, Livingston, Marshall and McCracken

Headquartered:	Paducah, KY
Number of members:	28,569
Miles of Line:	3,221

Mark Bailey, President & CEO
Kenergy Corp.

KENERGY CORP.

(270) 826-3991
www.kenergycorp.com

Serves: Breckinridge, Daviess, Caldwell, Crittenden, Hancock, Henderson, Hopkins, Livingston, Lyon, McLean, Muhlenberg, Ohio, Union and Webster

Headquartered:	Henderson, KY
Number of Members:	54,252
Miles of Line:	6,915

Burns Mercer, President & CEO
Meade County RECC

MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

Meade County RECC

(270) 422-2162
www.mcrecc.coop

Serves: Breckinridge, Grayson, Hancock, Hardin, Meade and Ohio

Headquartered:	Brandenburg, KY
Number of Members:	27,500
Miles of Line:	2,914

Board of Directors

Standing (left to right):

- Paul Edd Butler
  Meade County RECC
- John Myers, Secretary-Treasurer
  Jackson Purchase Energy
- Dr. James Sills, Vice-Chair
  Meade County RECC

Seated (left to right):

- Lee Bearden
  Jackson Purchase Energy
- William Denton, Chair
  Kenergy Corp.
- Larry Elder
  Kenergy Corp.

Management Team

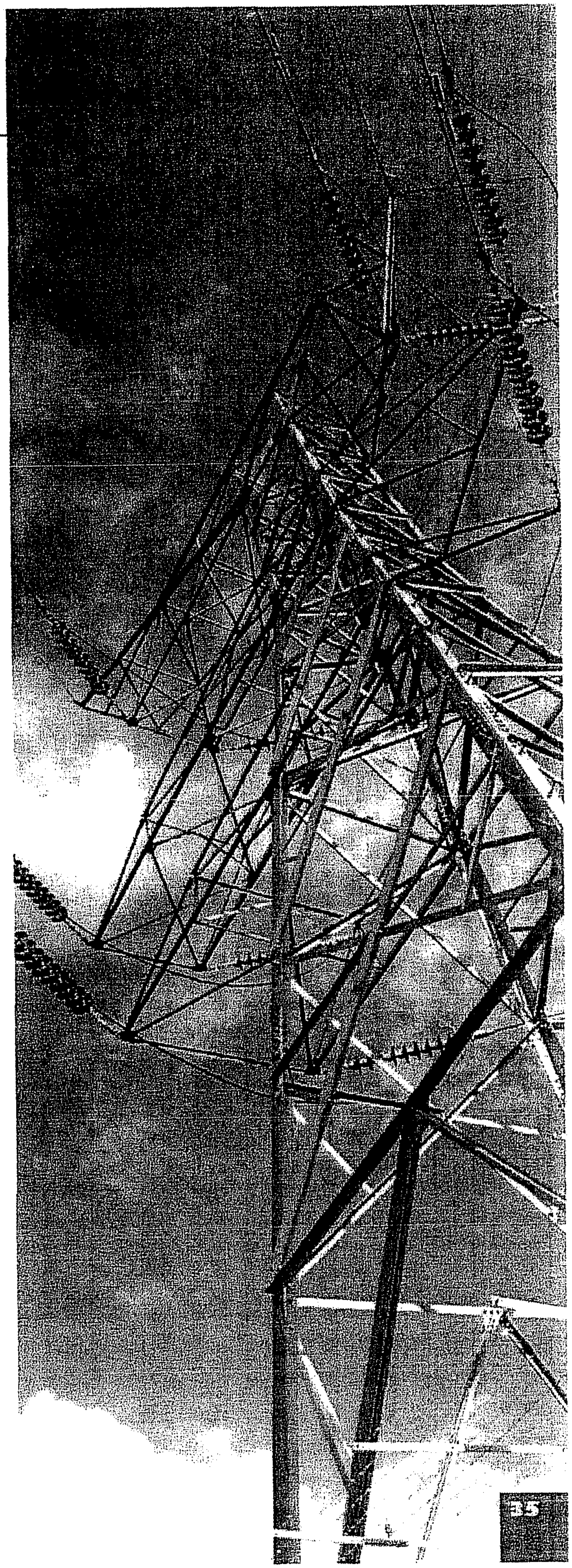
Standing (left to right):

- James Miller
  Corporate Counsel
- Travis Housley
  V.P. Special Projects
- David Crockett
  V.P. System Operations
- James Haner
  V.P. Administrative Services
- C. William Blackburn
  V.P. Financial Services
  Chief Financial Officer
  Acting V.P. Power Supply

Seated (left to right):

- David Spainhoward
  V.P. External Relations
  Interim Chief Production Officer
- Michael Core
  President & CEO
- Paula Mitchell
  Executive Assistant

Corporate Directory



PRESIDENT'S OFFICE

- Mike Core, President & CEO

ADMINISTRATIVE SERVICES

- James Haner, Vice President

CORPORATE COUNSEL

- James Miller

EXTERNAL RELATIONS

- David Spainhoward, Vice President and Interim Chief Production Officer
- Russ Pogue, Manager Marketing & Member Relations
- Mike Thompson, Manager Technical Support: Power Production

FINANCIAL SERVICES

- Bill Blackburn, Vice President and Chief Financial Officer
- Ralph Ashworth, Manager Accounting
- Dave Titzer, Manager Information Systems

POWER SUPPLY

- Bill Blackburn, Acting Vice President
- Michael Mattox, Manager Resource Planning
- Bill Yeary, Manager Energy Marketing

SYSTEM OPERATIONS

- David Crockett, Vice President
- Tim Tapp, Manager Transmission System
- Glen Thweatt, Manager Engineering & Energy Control

SPECIAL PROJECTS

- Travis Housley, Vice President

Five Year Review

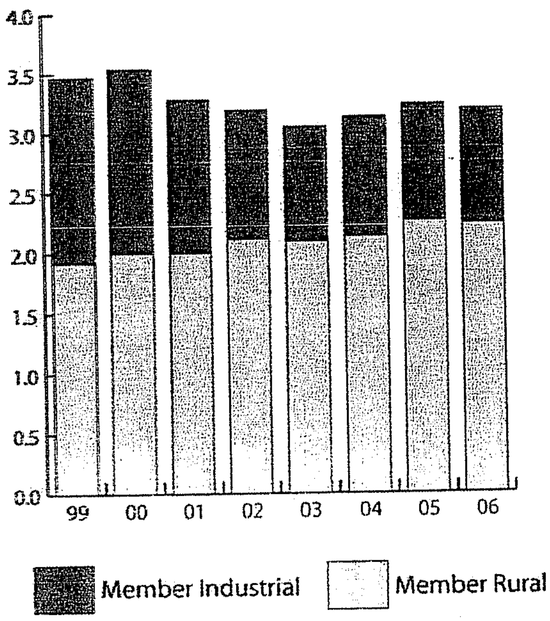
Years Ended December 31 | (Dollars in thousands)

	2006	2005	2004	2003	2002
SUMMARY OF OPERATIONS					
Operating Revenue:					
Power Contracts Revenue	$ 200,692	$ 191,280	$ 175,777	$ 162,432	$ 146,548
Lease Revenue	57,896	57,675	56,753	53,040	51,094
Total Operating Revenue	258,588	248,955	232,530	215,472	197,642
Operating Expenses:					
Power Purchased	114,516	114,500	106,099	96,577	85,722
Transmission and Other	21,684	20,309	18,674	17,383	14,669
Maintenance	3,652	3,195	2,597	2,617	3,100
Depreciation	30,408	30,192	29,732	28,257	27,745
Total Operating Expenses	170,260	168,196	157,102	144,834	131,236
Interest Expense and Other:					
Interest	60,754	59,639	56,923	57,645	59,801
Interest on Obligations Related to Long-Term Lease	9,505	9,109	8,725	8,355	8,003
Other-net	111	124	158	136	147
Total Interest Expense & Other	70,370	68,872	65,806	66,136	67,951
Operating Margin	17,958	11,887	9,622	4,502	(1,545)
Non-Operating Margin	16,584	14,456	12,403	13,847	11,600
NET MARGIN	$ 34,542	$ 26,343	$ 22,025	$ 18,349	$ 10,055
SUMMARY OF ASSETS					
Utility Plant in Service	$1,731,230	$1,714,850	$1,698,519	$1,639,755	$1,551,313
Construction Work in Progress	13,085	12,706	15,068	61,504	104,898
Total Utility Plant	1,744,315	1,727,556	1,713,587	1,701,259	1,656,211
Accumulated Depreciation	826,647	798,684	772,938	754,301	734,076
Net Utility Plant	$ 917,668	$ 928,872	$ 940,649	$ 946,958	$ 922,135
TOTAL ASSETS	$1,254,389	$1,225,980	$1,220,640	$1,182,856	$1,164,532
ENERGY SALES - MWh					
Member Rural	2,231,554	2,262,698	2,132,801	2,089,688	2,114,691
Member Large Industrial	956,502	971,243	997,202	962,670	1,077,322
Other	2,062,286	2,021,365	1,868,657	1,508,516	1,042,496
Total Energy Sales	5,250,342	5,255,306	4,998,660	4,560,874	4,234,509
PURCHASED ENERGY - MWh					
LG&E Energy Marketing	4,980,506	4,947,727	4,623,620	4,106,024	3,862,970
Southeastern Power Administration	242,099	296,982	270,762	250,043	287,318
Other	71,533	60,169	156,665	260,474	139,591
Total Energy Purchased	5,294,138	5,304,878	5,051,047	4,616,541	4,289,879
NET CAPACITY - MW					
Net Generating Capacity Owned*	1,459	1,459	1,459	1,459	1,459
Rights to HMP&L Station Two*	217	217	217	217	218
Other Net Capacity Available	178	178	178	178	178

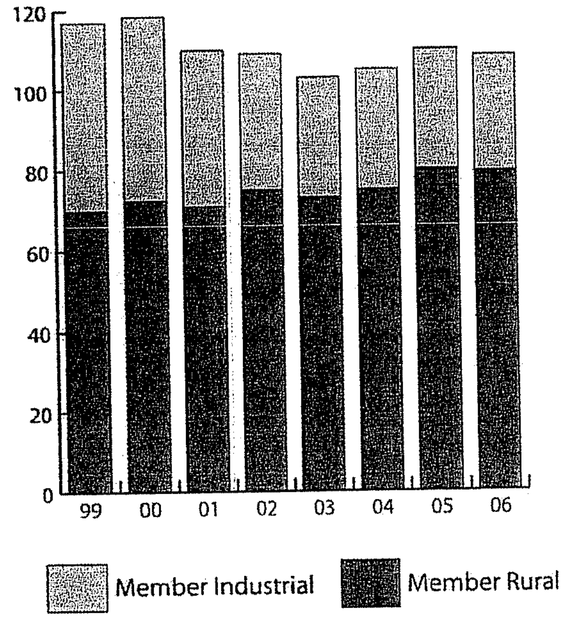
**Big Rivers owns its 1,459 megawatts of electric generating facilities and it has rights to the HMP&L Station Two facility. All of these facilities and rights have been leased to certain affiliates of the E.ON U.S. Parties.*

Energy Sales and Revenue

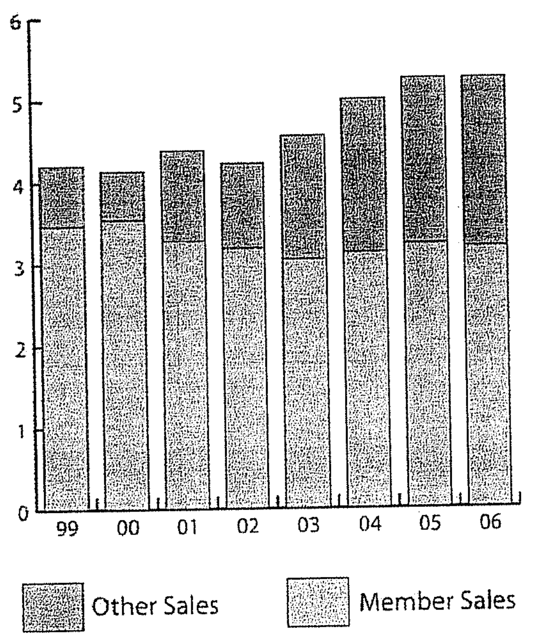
Energy Sales to Members
in millions of MWhs



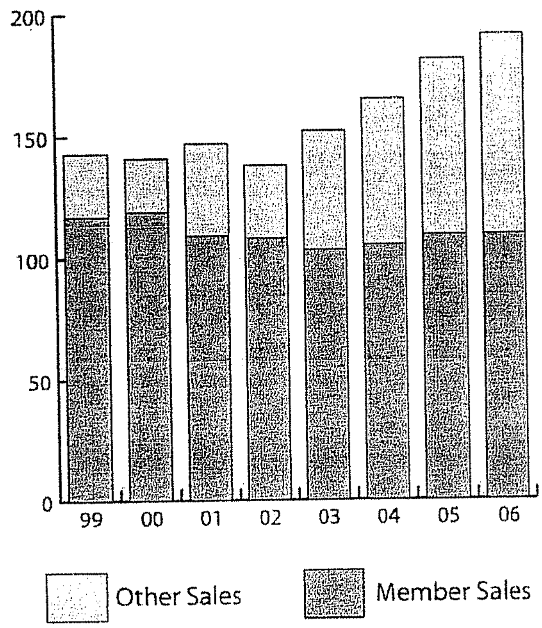
Energy Revenue from Members
in millions of dollars

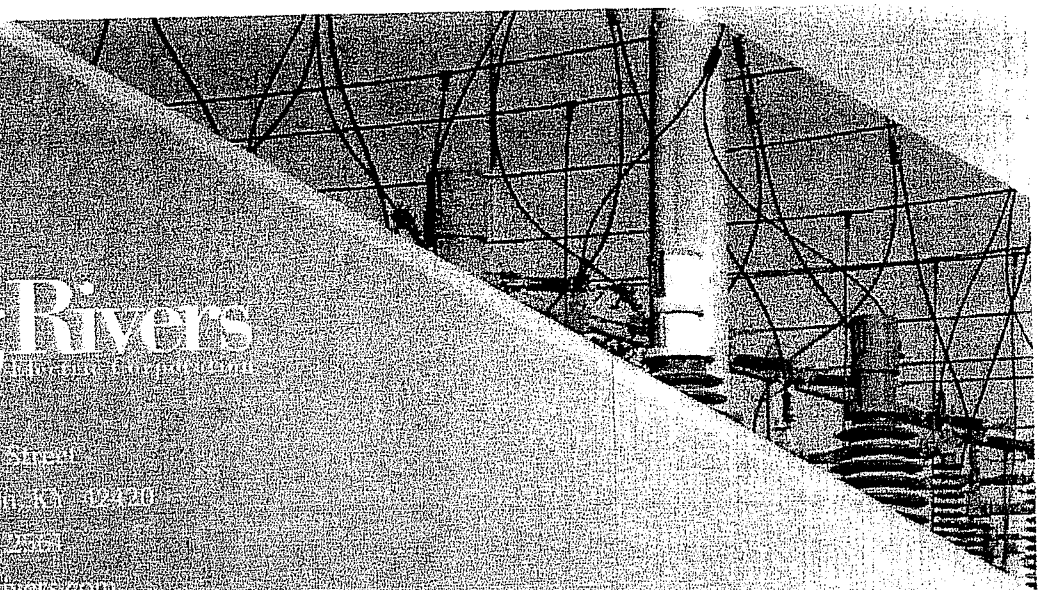


Total Energy Sales
in millions of MWhs



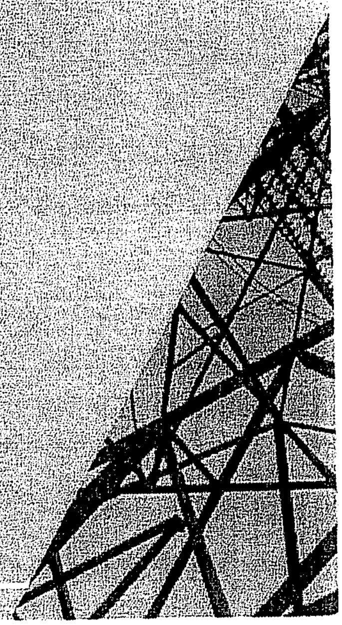
Total Energy Revenue
in millions of dollars





Big Rivers
Electric Corporation

201 Third Street
Henderson, KY 42420
(270) 827-2561
www.bigrivers.com



APPENDIX B

MEMBER FINANCIAL AND STATISTICAL INFORMATION

Financial and statistical information relating to Big Rivers' three Members is set forth in the following tables. Table 1 contains selected operational and financial information. Tables 2 and 3 show the average number of customers served and annual MWh sales by each Member by customer class. Table 4 identifies the annual revenues of each Member by customer class. Tables 5 and 6 describe other selected financial information.

The assets, liabilities, equity, revenues, and margins of the Members should not be attributed to Big Rivers. The Members are not Big Rivers' subsidiaries, but rather its owners. Big Rivers have no legal interest in their properties, liabilities, equity, revenues or margins. In addition, the revenues of our Members are not pledged to us, but their revenues are the source from which they pay for the capacity and energy they receive from us. Revenues of the Members are, however, pledged under their respective mortgages or other financial documents.

Our Members operate on a not-for-profit basis. Accumulated margins remaining after payment of expenses and provision for depreciation constitute patronage capital of the customers of the Members. Refunds of accumulated patronage capital to the individual customers are made from time to time on a patronage basis subject to each Member's policies and in conformity with limitations contained in each Member's financing arrangements.

The information in the tables below has been taken from the RUS Financial and Statistical Reports (RUS Form 7) prepared by our Members. Neither we nor the RUS has independently verified this information. We have compiled the information in the "Total" columns from these RUS Forms 7. The information in the tables below may not be indicative of the future results of our Members.

Table 1
SELECTED STATISTICS OF EACH MEMBER
(as of December 31)

	Kenergy	Meade	Jackson Purchase
2006			
Avg. Monthly Residential Rev. ($)	3,662,989	1,691,448	1,987,332
Avg. Monthly kWh	59,246,088	26,795,891	31,904,583
Avg. Residential Rev. (cents/kWh)	6.18	6.31	6.23
Times Interest Earned Ratio	.70	1.50	.96
Equity/Assets	25%	29%	39%
Equity/Total Capitalization	31%	32%	42%
2005			
Avg. Monthly Residential Rev. ($)	3,776,928	1,703,018	2,041,414
Avg. Monthly kWh	61,038,775	27,085,249	32,891,128
Avg. Residential Rev. (cents/kWh)	6.19	6.29	6.21
Times Interest Earned Ratio	1.35	1.71	1.72
Equity/Assets	27%	31%	41%
Equity/Total Capitalization	33%	34%	45%
2004			
Avg. Monthly Residential Rev. ($)	3,517,332	1,578,716	1,903,456
Avg. Monthly kWh	58,202,687	24,874,860	30,477,996
Avg. Residential Rev. (cents/kWh)	6.04	6.35	6.25
Times Interest Earned Ratio	1.82	1.93	1.89
Equity/Assets	29%	31%	43%
Equity/Total Capitalization	35%	34%	47%
2003			
Avg. Monthly Residential Rev. ($)	3,418,340	1,517,778	1,881,234
Avg. Monthly kWh	57,357,011	24,264,873	30,082,337
Avg. Residential Rev. (cents/kWh)	5.96	6.26	6.25
Times Interest Earned Ratio	2.08	1.80	1.94
Equity/Assets	29%	32%	42%
Equity/Total Capitalization	35%	34%	47%
2002			
Avg. Monthly Residential Rev. ($)	3,493,235	1,503,074	1,926,003
Avg. Monthly kWh	58,730,797	24,490,850	31,033,937
Avg. Residential Rev. (cents/kWh)	5.95	6.14	6.21
Times Interest Earned Ratio	2.07	1.82	1.61
Equity/Assets	29%	30%	41%
Equity/Total Capitalization	36%	33%	45%

Table 2
AVERAGE NUMBER OF CONSUMERS SERVED BY EACH MEMBER PER MONTH BY CONSUMER CLASS
(Year ended December 31)

	Kenergy	Meade	Jackson Purchase
2006			
Residential Service	44,420	25,001	25,608
Commercial & Industrial	9,364	2,001	2,840
Other	76	6	13
Total Consumers Served	53,860	27,008	28,461
2005			
Residential Service	45,016	24,532	25,330
Commercial & Industrial	8,174	1,977	2,764
Other	74	6	11
Total Consumers Served	53,264	26,515	28,105
2004			
Residential Service	45,579	24,159	25,030
Commercial & Industrial	6,944	1,953	2,662
Other	69	6	12
Total Consumers Served	52,592	26,118	27,704
2003			
Residential Service	44,967	23,621	24,817
Commercial & Industrial	6,765	1,926	2,513
Other	137	6	13
Total Consumers Served	51,869	25,553	27,343
2002			
Residential Service	44,534	23,195	24,627
Commercial & Industrial	6,608	1,883	2,447
Other	172	6	13
Total Consumers Served	51,314	25,084	27,087

Table 3
ANNUAL MWh SALES BY CONSUMER CLASS OF EACH MEMBER
(Year ended December 31)

	Kenergy	Meade	Jackson Purchase
2006			
Residential Service	710,953	321,551	382,855
Commercial & Industrial	8,666,412	94,473	246,707
Other	1,512	1,006	649
Total MWh Sales	9,378,877	417,030	630,211
2005			
Residential Service	732,465	352,023	394,694
Commercial & Industrial	8,614,052	95,009	252,991
Other	1,523	992	676
Total MWh Sales	9,348,040	421,024	648,361
2004			
Residential Service	698,432	298,498	365,736
Commercial & Industrial	8,659,531	91,197	242,130
Other	1,482	977	702
Total MWh Sales	9,359,445	390,672	608,568
2003			
Residential Service	688,284	291,179	360,988
Commercial & Industrial	8,645,138	88,950	233,368
Other	1,752	961	635
Total MWh Sales	9,335,174	381,090	594,991
2002			
Residential Service	704,770	293,890	372,407
Commercial & Industrial	8,592,883	88,025	234,809
Other	1,806	945	563
Total MWh Sales	9,299,459	382,860	607,779

Table 4
ANNUAL REVENUES BY CONSUMER CLASS OF EACH MEMBER
(Year ended December 31)

	Kenergy	Meade	Jackson Purchase
2006			
Residential Service	$43,955,864	$20,297,372	$23,847,988
Commercial & Industrial	278,405,909	6,473,634	12,532,652
Other	204,207	64,593	76,728
Total Electric Sales	$322,565,980	$26,835,599	$36,457,368
Other Operating Revenue	1,271,597	838,425	939,005
Total Operating Revenue	$323,837,577	$27,674,024	$37,396,373
2005			
Residential Service	$45,323,132	$20,436,215	$24,496,967
Commercial & Industrial	242,478,758	6,426,897	12,370,027
Other	204,262	63,857	76,537
Total Electric Sales	$288,006,152	$26,926,969	$36,943,531
Other Operating Revenue	1,258,706	830,085	981,669
Total Operating Revenue	$289,264,858	$27,757,054	$37,925,200
2004			
Residential Service	$42,207,989	$18,944,590	$22,841,472
Commercial & Industrial	238,101,040	6,204,226	11,839,473
Other	190,452	62,952	78,378
Total Electric Sales	$280,499,481	$25,211,768	$34,759,323
Other Operating Revenue	1,211,047	756,888	778,802
Total Operating Revenue	$281,710,528	$25,968,656	$35,538,125
2003			
Residential Service	$41,020,077	$18,213,337	$22,574,806
Commercial & Industrial	237,181,993	5,976,022	11,499,994
Other	201,776	60,407	73,934
Total Electric Sales	$278,403,846	$24,249,766	$34,148,734
Other Operating Revenue	1,270,936	742,061	806,979
Total Operating Revenue	$279,674,782	$24,991,827	$34,955,713
2002			
Residential Service	$41,918,818	$18,036,885	$23,112,041
Commercial & Industrial	243,604,835	5,870,332	11,545,229
Other	200,427	58,417	68,870
Total Electric Sales	$285,724,080	$23,965,634	$34,726,140
Other Operating Revenue	1,076,542	684,088	602,303
Total Operating Revenue	$286,800,622	$24,649,722	$35,328,443

Table 5
SUMMARY OF OPERATING RESULTS OF EACH MEMBER
(Year ended December 31)

	Kenergy	Meade	Jackson Purchase
2006			
Operating Revenue & Patronage Capital	$323,837,577	$27,674,024	$37,396,373
Depreciation & Amortization	6,227,515	2,497,883	3,235,100
Other Operating Expenses	314,562,583	22,505,681	32,190,244
Electric Operating Margin	$3,047,479	$2,670,460	$1,971,029
Other Income	1,059,898	400,563	691,939
Gross Operating Margin	$4,107,377	$3,071,023	$2,662,968
Interest on Long-term Debt (1)	5,183,057	1,990,026	2,660,517
Tax Expenses	271,795	33,909	41,657
Other Deductions	246,961	45,024	68,334
Net Margins	($1,594,436)	$1,002,064	($107,540)
2005			
Operating Revenue & Patronage Capital	$289,264,858	$27,757,054	$37,925,200
Depreciation & Amortization	5,752,782	2,318,515	3,131,797
Other Operating Expenses	278,462,306	22,513,231	31,401,810
Electric Operating Margin	$5,049,770	$2,925,308	$3,391,593
Other Income	1,056,098	240,975	525,021
Gross Operating Margin	$6,106,368	$3,166,283	$3,916,614
Interest on Long-term Debt (1)	4,138,546	1,808,023	2,211,585
Tax Expenses	269,762	25,105	40,996
Other Deductions	207,552	58,070	76,581
Net Margins	$1,490,508	$1,275,085	$1,587,452
2004			
Operating Revenue & Patronage Capital	$281,710,528	$25,968,656	$35,538,125
Depreciation & Amortization	5,589,176	2,176,160	3,027,261
Other Operating Expenses	270,974,077	21,235,501	29,067,218
Electric Operating Margin	$5,147,275	$2,556,995	$3,443,646
Other Income	947,248	223,324	430,710
Gross Operating Margin	$6,094,523	$2,780,319	$3,874,356
Interest on Long-term Debt (1)	3,063,499	1,404,391	1,990,763
Tax Expenses	275,720	26,748	42,504
Other Deductions	196,350	42,305	68,601
Net Margins	$2,558,954	$1,306,875	$1,772,488
2003			
Operating Revenue & Patronage Capital	$279,674,782	$24,991,827	$34,955,713
Depreciation & Amortization	5,274,279	2,069,065	2,968,444
Other Operating Expenses	267,916,809	20,262,326	28,479,357
Electric Operating Margin	$6,483,694	$2,660,436	$3,507,912
Other Income	903,376	182,517	264,793
Gross Operating Margin	$7,387,070	$2,842,953	$3,772,705
Interest on Long-term Debt (1)	3,254,820	1,536,005	1,883,714
Tax Expenses	289,036	30,670	43,335
Other Deductions	216,587	45,146	68,086
Net Margins	$3,626,627	$1,231,132	$1,777,570

2002

Operating Revenue & Patronage Capital	$286,800,622	$24,649,722	$35,328,443
Depreciation & Amortization	4,913,518	2,000,863	3,190,542
Other Operating Expenses	273,798,894	19,897,055	28,766,029
Electric Operating Margin	$8,088,210	$2,751,804	$3,371,872
Other Income	211,818	197,409	168,155
Gross Operating Margin	$8,300,028	$2,949,213	$3,540,027
Interest on Long-term Debt (1)	3,745,852	1,581,326	1,940,605
Tax Expenses	281,940	30,432	43,821
Other Deductions	148,991	35,913	375,430
Net Margins	$4,123,245	$1,301,542	$1,180,171

(1) Interest on Long-Term Debt is net of interest charged to construction.

Table 6
CONDENSED BALANCE SHEET INFORMATION OF EACH MEMBER
(as of December 31)

	Kenergy	Meade	Jackson Purchase
2006			
ASSETS			
Total Utility Plant (1)	$217,727,353	$79,489,327	$108,466,681
Depreciation	48,193,715	19,289,710	31,714,276
Net Plant	$169,533,638	$60,199,617	$76,752,405
Other Assets	42,727,209	10,054,371	12,714,096
Total Assets	$212,260,847	$70,253,988	$89,466,501
EQUITY & LIABILITIES			
Equity	$52,548,483	$20,256,300	$34,444,409
Long-term Debt	117,705,836	43,229,316	46,653,947
Other Liabilities	42,006,528	6,768,372	8,368,145
Total Equity & Liabilities	$212,260,847	$70,253,988	$89,466,501
2005			
ASSETS			
Total Utility Plant (1)	$209,103,179	$73,116,639	$101,827,930
Depreciation	45,328,490	17,965,762	29,579,797
Net Plant	$163,774,689	$55,150,877	$72,248,133
Other Assets	40,644,449	10,080,875	11,356,467
Total Assets	$204,419,138	$65,231,752	$83,604,600
EQUITY & LIABILITIES			
Equity	$54,917,697	$19,997,594	$34,568,879
Long-term Debt	113,484,267	38,921,945	41,726,917
Other Liabilities	36,017,174	6,312,213	7,308,804
Total Equity & Liabilities	$204,419,138	$65,231,752	$83,604,600
2004			
ASSETS			
Total Utility Plant (1)	$201,980,287	$69,398,711	$95,605,035
Depreciation	41,186,755	16,671,894	27,818,744
Net Plant	$160,793,532	$52,726,817	$67,786,291
Other Assets	38,847,024	9,189,311	9,755,788
Total Assets	$199,640,556	$61,916,128	$77,542,079
EQUITY & LIABILITIES			
Equity	$57,960,426	$19,208,836	$33,001,972
Long-term Debt	107,634,515	36,926,192	37,856,607
Other Liabilities	34,045,615	5,781,100	6,683,500
Total Equity & Liabilities	$199,640,556	$61,916,128	$77,542,079
2003			
ASSETS			
Total Utility Plant (1)	$193,429,620	$64,639,821	$92,183,357
Depreciation	38,310,950	15,606,670	25,978,038
Net Plant	$155,118,670	$49,033,151	$66,205,319
Other Assets	42,198,437	9,567,591	7,384,814
Total Assets	$197,317,107	$58,600,742	$73,590,133
EQUITY & LIABILITIES			

Equity	$56,718,409	$18,470,849	$31,256,688
Long-term Debt	106,177,762	36,164,171	35,094,519
Other Liabilities	34,420,936	3,965,722	7,238,926
Total Equity & Liabilities	$197,317,107	$58,600,742	$73,590,133
2002			
ASSETS			
Total Utility Plant (1)	$184,043,959	$60,768,717	$89,548,876
Depreciation	35,081,676	14,507,871	24,385,527
Net Plant	$148,962,283	$46,260,846	$65,163,349
Other Assets	41,550,123	12,004,423	7,237,755
Total Assets	$190,512,406	$58,265,269	$72,401,104
EQUITY & LIABILITIES			
Equity	$56,042,437	$17,766,967	$29,522,988
Long-term Debt	98,725,901	36,151,909	36,662,275
Other Liabilities	35,744,068	4,346,393	6,215,841
Total Equity & Liabilities	$190,512,406	$58,265,269	$72,401,104

(1) Includes construction work in progress.

APPENDIX C

SELECTED FINANCIAL INFORMATION

Projected Market Rates ($/ MWh)

	Market Prices
2008	48.40
2009	51.34
2010	49.47
2011	50.22
2012	48.34
2013	51.48
2014	51.92
2015	53.69
2016	52.59
2017	53.75
2018	54.70
2019	57.55
2020	57.70
2021	56.11
2022	59.94
2023	59.12

Competition and Rate Comparisons

The following chart compares the average retail residential rate for each of the Members. The comparable retail residential rates for geographically adjacent investor-owned utilities and cooperatives are also presented.

January 1, 2004 Average Retail Residential Rate (cents per kWh)(1)

Kenergy (Member)	6.18
Jackson Purchase (Member)	6.23
Meade County (Member)	6.31
Louisville Gas & Electric (IOU)	6.76
Kentucky Utilities (IOU)	6.02
Kentucky Power (AEP) (IOU)	6.50
Duke Energy Kentucky (IOU)	6.48
Blue Grass Energy (cooperative)	8.02
Inter-County Energy (cooperative)	8.28

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(1) Rates derived from information obtained from the KPSC web site http://psc.ky.gov/ufrnet/PublicRepSelect.aspx.

APPENDIX D

LIST OF TERMINATED AGREEMENTS

1. New Participation Agreement Big Rivers, LEM, Western Kentucky Leasing Corp. ("Leaseco"), Station Two Subsidiary and WKEC dated, as of April 6, 1998, as amended.

2. Lease and Operating Agreement by and between Big Rivers and Leaseco dated, as of July 15, 1998.

3. Power Purchase Agreement by and between Big Rivers and LEM dated, as of July 15, 1998.

4. Transmission Service and Interconnection Agreement by and between Big Rivers, Station Two Subsidiary, LEM, and WKEC, dated as of July 15, 1998.

5. Assignment and Assumption Agreement by and between Big Rivers and Leaseco dated as of July 15, 1998.

6. Transformer Operation and Maintenance Agreement between WKEC, WKE Corp., a Kentucky corporation ("WKE Corp.") and Big Rivers, dated July 15, 1998.

7. Meter and Telemetry Equipment Operation and Maintenance Agreement between WKEC, Station Two Subsidiary, WKE Corp. and Big Rivers, dated July 15, 1998.

8. Telecommunication Agreement between Big Rivers and WKEC, dated July 15, 1998.

9. System Disturbance Agreement among Big Rivers, Station Two Subsidiary, WKEC, Kenergy (as successor to Henderson Union Electric Cooperative Corp. and Green River Energy) Electric Corporation, Alcan and Century (successor in interest to Southwire Company), dated July 15, 1998.

10. Designated Representative/Alternate Designated Representative Appointment Agreement by and between Big Rivers, WKEC, Gregory Black and Ralph Bowling, dated July 29, 2002.

11. Short Form Lease by and between Big Rivers, WKEC, Station Two Subsidiary, LEM and WKE Corp., dated July 15, 1998.

12. Settlement and Release Agreement between Big Rivers and LEM, effective as of August 5, 2003.

13. Operating Assumptions and Practices Agreement between Big Rivers and LEM, executed on August 5, 2003.

14. Letter Agreement between Big Rivers and WKEC, dated October 20, 2003.

15. Agreement for Settlement and Release of Claims between Big Rivers and WKEC, LEM, Station Two Subsidiary, WKE Corp. and E.ON, dated May 25, 2004, relating to the Wilson run-off pond settlement.

16. Baseline Study Agreement among Big Rivers and the E.ON Parties, dated October 15, 1997.

17. Agreement for Professional and Environmental Services among Woodward-Clyde International Americas, WKEC and Big Rivers, dated October 15, 1997.

18. The letter agreement dated February 19, 2002, between WKEC and Big Rivers including the letter attached thereto dated November 29, 2001 from David Spainhoward of Big Rivers to Rob Toerne of WKEC.

19. Settlement Promissory Note dated July 15, 1998, to LEM (or its permitted assignee or endorsee), in the original principal amount of $19,675,603.

20. RUS Mortgage.

21. LG&E Subordinated Mortgage.

22. LEM Mortgage.

23. New Participation Agreement among Big Rivers, LEM, WKE Corp., Station Two Subsidiary and WKEC, dated April 6, 1998.

24. Amended and Restated Guaranty executed by E.ON as successor to LG&E Energy Corp. on April 6, 1998.

25. Amended and Restated Guarantee dated July 15, 1998 made by LEL.

26. Letter agreement among WKEC, Big Rivers and Texas Gas Transmission Corporation, dated December 20, 2000.

27. Demand Promissory Note payable to the United States of America dated July 15, 1998 in the original principal amount of $933,333.33.

28. Promissory Note (LEM Advances) dated July 15, 1998 made by Big Rivers to LEM.

29. Agreement for Electric Service between Green River Electric Corporation (predecessor to Kenergy), Southwire Company (predecessor to Century), and Alcan Aluminum Corporation (predecessor to Alcan), dated July 15, 1998.

30. Software License Agreement between WKEC and Big Rivers, dated July 15, 1998.

31. Lease and Option Agreement between Big Rivers and WKEC, dated July 15, 1998.

32. Generation Dispatching Services Agreement between Big Rivers, WKEC and LEM, dated July 15, 1998.

33. Designated Representative/Alternate Designated Representative Appointment Agreement by and between Big Rivers, WKEC, Deborah A. Dewey and Gregory Black, dated July 15, 1998.

34. Economic Development Agreement among LEM, Big Rivers and the then member cooperative of Big Rivers, dated as of June 18, 1997.

35. Interim Wholesale Marketing Assistance Agreement, Agreement between Big Rivers and LEM, dated as of June 18, 1997.

36. Agreement for Electric Service between Henderson Union Electric Cooperative Corp. (predecessor to Kenergy) and Alcan Aluminum Corporation (predecessor to Alcan), dated July 15, 1998.

37. Agreement for Tier 3 Electric Service (2001-2002), dated as of July 15, 1998, as amended, between Kenergy and LEM.

38. Security and Lock Box Agreement among PNC Bank, N.A., LEM, Kenergy (as successor of Green River Electric Corporation), Southwire Company, Century Aluminum Company (as successor of Southwire Company) and Century Aluminum of Kentucky LLC (as successor of Southwire Company or Century Aluminum Company), dated as of July 15, 1998.

39. Security and Lock Box Agreement among PNC Bank, N.A., LEM, Kenergy (as successor of Henderson Union Electric Cooperative Corp.), Alcan Corporation (as successor of Alcan Aluminum Corporation) and Alcan Primary Products Corporation (as successor of Alcan Corporation), dated as of July 15, 1998.

40. Assurances Agreement among LEM, Southwire Company, Century Aluminum Company (as successor of Southwire Company) and Century Aluminum of Kentucky LLC (as successor of Century Aluminum Company), dated as of July 15, 1998, as amended.

41. Special Assignment Agreement among Southwire Company, Century Aluminum of Kentucky LLC, Century Aluminum Company and LEM, dated as of March 26, 2001.

42. Assumption and Consent Agreement among Alcan Primary Products Corporation, Station Two Subsidiary, LEM, WKEC and Kenergy, dated as of August 1, 2003.

43. Assurances Agreement among LEM, Alcan Corporation (as successor of Alcan Aluminum Corporation) and Alcan Primary Products Corporation (as successor of Alcan Corporation) , dated as of July 15, 1998, as amended.

44. Load Management Agreement for Electric Power Supply among LEM, Southwire Company, Century Aluminum Company (as successor of Southwire Company) and Century Aluminum of Kentucky LLC (as successor of Century Aluminum Company), dated as of July 15, 1998.

45. The Load Management Agreement for Electric Power Supply among LEM, Alcan Corporation (as successor of Alcan Aluminum Corporation) and Alcan Primary Products Corporation (as successor of Alcan Corporation), dated as of July 15, 1998, as amended.

46. The Guaranties to Green River Electric Corporation and Henderson Union Electric Cooperative Corporation Corp., respectively, each dated July 15, 1998.

47. The two Guaranties, each dated July 15, 1998, to (i) Southwire Company, Century Aluminum Company (as successor of Southwire Company) and Century Aluminum of Kentucky LLC (as successor of Southwire Company or Century Aluminum Company), and (ii) Alcan Corporation (as successor of Alcan Aluminum Corporation) and Alcan Primary Products Corporation (as successor of Alcan Corporation).

48. Agreement of Big Rivers Electric Corporation With Respect to Future Policies and Procedures Regarding Big Rivers' Transmission System between Big Rivers and the Members, dated as of July 15, 1998.

Item 104) Please refer to the Response to OAG #1(h), third paragraph where issues with the City of Henderson are discussed. Assume each of the business issues between Big Rivers and the City of Henderson are resolved in the City's favor, and incorporate such assumptions as revised inputs to the Unwind Financial Model to produce a sensitivity run.

a. Identify and describe each of the business issues and the related changed model input.

b. Provide the Unwind Financial Model-City of Henderson sensitivity run, in electronic spreadsheet (.xls) file format.

Response) The attached letter from Michael Core to Mr. Gary Quick dated December 12, 2007, outlines the status of the negotiations at that point in time. The principal and only outstanding issue of any magnitude between Big Rivers and HMP&L is HMP&L's position that it will not consent to the Unwind Transaction unless Big Rivers agrees to amend the Station Two contracts to improve significantly HMP&L's position under those contracts. HMP&L insists that this improvement in its position is justified by what it contends are unfair terms contained in the original contracts entered into in 1970, and in subsequent amendments to those contracts. Modeling the effects of the City's proposals would be unreasonable and unrealistic because the Unwind Transaction cannot proceed under those conditions.

Witness) Michael H. Core

Big Rivers Electric Corporation

201 Third Street
P.O. Box 24
Henderson, KY 42419-0024
270-827-2561
www.bigrivers.com

December 12, 2007

Mr. Gary Quick
Henderson Municipal Power & Light
100 Fifth Street
P.O. Box 8
Henderson, KY 42420

Re: HMP&L Station Two

Dear Gary:

Here is Big Rivers' understanding of HMP&L's requirements for its consent to the Unwind Transaction and Big Rivers' response to those requirements.

Representatives of Big Rivers and HMP&L met on November 6, and again on November 20, 2007, in an attempt to resolve any remaining issues regarding HMP&L's consent to the Unwind Transaction. The following are the issues presented by HMP&L to Big Rivers by letter dated August 3, 2007 and Big Rivers' stated positions at those meetings.

1. **HMP&L's Position.**

Station Two Fuel:
Subsequent to the Unwind Closing Transaction Date, HMP&L requires all fuel burned at Unit One and Unit Two at Station Two to be within the design specifications for each Unit.

BREC Proposal:
Big Rivers and HMP&L should agree to burn nothing other than bituminous coal in the Station Two units without approval of both parties. Big Rivers and HMP&L should agree that each party can sit in on the other party's coal bid opening. Big Rivers and HMP&L agree not to burn Pet Coke in the Station Two units.

2. **HMP&L's Position.**

Station Two Fuel Inventory:
During the past few years, there have been substantial coal inventory losses and therefore accounting adjustments to the coal pile at Station Two. We believe there have been internal inventory control problems for the fuel inventory at Station Two. The current methodologies used for delivery, controlling, and accounting for the Station Two coal inventory must be improved and new methodologies established.

BREC Proposal:
Big Rivers told HMP&L that it is willing to look at the inventory process and discuss this process with HMP&L. We are always interested in ways to improve processes. However, we are reluctant to amend the contracts to reflect this until or unless it is demonstrated the contractual process in place isn't working. Big Rivers is open to language from HMP&L to address this issue.

3. **HMP&L's Position.**

Recruitment of HMP&L Employees:
HMP&L has asked Big Rivers not to directly or indirectly attempt to recruit HMP&L employees for employment positions within Big Rivers' system prior to or after the Unwind Closing Transaction Date. We understand, however, that HMP&L employees may make application for employment with Big Rivers. HMP&L is not requesting that Big Rivers refuse to consider applications submitted by HMP&L employees in response to Big Rivers' normal media advertising and other recruitment processes.

BREC Proposal:
Big Rivers agrees to HMP&L request. Big Rivers will verbally agree not to directly recruit HMP&L employees prior to or after the Unwind. From time to time Big Rivers advertises for employment, as does HMP&L and such advertisement is not considered directly recruiting. No contract change is required for this issue.

4. **HMP&L's Position.**

NERC **Requirements:**
The physical connections of the HMP&L facilities to Big Rivers facilities and the Big Rivers Station Two Operator responsibilities will require certain facility inspections, reporting, and compliance with NERC Standards. HMP&L is requesting that Big Rivers execute an agreement whereby Big

Rivers will assume responsibility for certain related NERC HMP&L compliance requirements, at no cost to HMP&L.

BREC Proposal:
David Crockett presented the "Straw Plan" "Proforma" copy on agreement and discussed four NERC Compliance Issues; they are SCADA for 161kv transmission facilities; Cyber Security; Load Shedding; and Compensation/Liability. The document was left with HMP&L to review. HMP&L will provide comments and thoughts on or before November 20, 2007 (next scheduled meeting). No discussions were held regarding the compensation BREC would need to provide these services. BREC made it clear that this was not a proposal but a document for them to review to see if this is what they had in mind and to comment on.

5. **HMP&L's Position.**

Station Two Personnel:
Big Rivers will need to provide HMP&L with the identifications, classifications, and job descriptions of the employees who will be assigned to Station Two at the Unwind Closing Transaction Date.

BREC Proposal:
Big Rivers agreed to provide the information requested.

6. **HMP&L's Position.**

Station Two G&A Expense Allocation Agreement:
The existing G&A Expense Allocation Agreement executed July 15, 1998, will terminate on the Unwind Closing Transaction Date. A new G&A Expense Allocation Agreement will need to be executed.

BREC Proposal:
David Spainhoward provided a draft to HMP&L after the November 6 meeting. This agreement was further discussed at the November 20 meeting.

7. **HMP&L's Position.**

Operating Reserves and Amendment No. 1 to System Reserve Agreement:
These documents will require amendments in order to meet HMP&L future needs for reserves and capacity as provided in this letter.

<u>BREC Proposal</u>:
Item 7. and 8. are intertwined in the proposals made by HMP&L. Big Rivers' position is that Section 10.16 of the Station Two Agreements address this issue and no further changes are required to the agreements. This position is further described below.

8. **<u>HMP&L's Position</u>**.

<u>HMP&L Reserved Station Two Capacity; HMP&L Excess Energy; Big Rivers Reserved Station Two Capacity; and HMP&L's Station One</u>:

A. On the first day of the month subsequent to the Unwind Closing Transaction Date, HMP&L will reduce its current 95 MW reserved capacity to 85 MW. HMP&L's capacity payments will thereafter, be based upon 85 MW.

B. In the event HMP&L does not take its entire Station Two reserved capacity then Big Rivers may take and utilize all such energy or any portion thereof not taken by HMP&L (the "Excess Henderson Energy") and no payments will be made by Big Rivers to HMP&L for the Excess Henderson Energy. If Big Rivers elects to use any portion of the reserved capacity Excess Henderson Energy, Big Rivers shall be responsible for all expenses related to the generation of such energy.

C. HMP&L will continue to accept all SEPA megawatts when available under HMP&L's existing contract with SEPA.

D. Big Rivers will provide HMP&L all system reserve capacity requirements above HMP&L's Station Two reserved capacity. The order of priority for providing HMP&L this additional capacity shall be:

First:	**From Units One and Two at Station Two**
Second:	**From the Big Rivers' system**
Third:	**From the Open Market**

HMP&L will pay any actual transmission expense related to Open Market purchases; however, there shall not be any transmission capacity or energy charges for transmission service from Station Two and the Big Rivers' system.

When Big Rivers provides energy to HMP&L above its reserved capacity from Station Two, or the Big Rivers system, HMP&L shall pay Big Rivers for the fuel required at a price equal to 100 percent of HMP&L's delivered coal price at Station Two at the time the energy is provided to HMP&L. In the event the energy is provided to HMP&L from an Open

Market transaction, HMP&L shall pay Big Rivers the then lowest available market price delivered to the HMP&L system.

E. Based upon present and proposed new federal power plant emission standards, HMP&L Station One is at risk as a viable long-term generating resource for Henderson. The Henderson Utility Commission will make a final decision concerning the longevity of Station One within approximately one year subsequent to the Unwind Closing Transaction Date.

F. In the event the Utility Commission elects to take Station One out-of-service, Big Rivers agrees to give consideration to any Station One employees who apply and are qualified for existing open employment positions at Station One(sic).

BREC Proposal:
No change is required by the 1998 or 2005 documents to affect the Unwind transaction. The HMP&L proposal will create millions of dollars of new expense (lost revenue) that would become additional charges to Big Rivers Members and the smelters in the form of rate increases. We understand HMP&L's proposal to be either the deal set forth above or to change the agreements to provide 115 MW of capacity at Close and give HMP&L the right to take the surplus power not needed for use by the City to the Market. The latter creates millions more additional cost to Big Rivers and its Members than the first proposal. We understand these HMP&L proposals to be essentially non-negotiable. Big Rivers is unwilling to change the current agreements to accommodate either of these requests by HMP&L.

An additional item covered by the HMP&L position is that in the event the Utility Commission elects to take Station One out-of-service, Big Rivers agrees to give consideration to any Station One employees who apply and are qualified for existing open employment positions at Station Two. Big Rivers is willing to accommodate this part of the request. Big Rivers agrees to give consideration but not be bound to employment.

9. **HMP&L's Position.**

Designated and Alternate Representatives:
HMP&L and Big Rivers will need to establish new Agreements regarding the Designated and Alternate Designated Representatives for Station Two to meet EPA requirements.

BREC Proposal:

It is anticipated that Greg Black will be the DR and David Spainhoward will be the alternate. Those agreements will be essentially identical to the ones in current use other than Company and individual name changes.

10. **<u>HMP&L's Position</u>.**

<u>Termination or Reduction of Service By HMP&L Customer</u>:
In the event an existing or future HMP&L customer reduces or terminates electric service requirements with HMP&L and the reduction or termination of electric service requirements is greater than five (5) megawatts, HMP&L shall have the option and the right to reduce its then existing and future Reserve Capacity Requirements after thirty (30) calendar days from the date of the reduction or termination of the customers electric service requirements. The measurement of the customer's reduction or termination of electric service requirements and the corresponding maximum reduction of HMP&L's Reserve Capacity Requirements shall be based upon the customer's most recent twelve (12) months' highest peak billing demand recorded by HMP&L during any one (1) hour period of the twelve (12) months. If HMP&L elects to reduce its existing and future Reserve Capacity Requirements, as provided herein, the reduction may be equal to or less than the actual megawatt reduction by the customer.

<u>BREC Proposal</u>:
Big Rivers is willing to prepare language to accommodate this request. Big Rivers proposes that any such reduction is within 5 MW of the actual reduction or termination as described above.

Subsequent to the November 6 meeting, Big Rivers and HMP&L representatives have met several times one of which was on November 20, 2007. A copy of the draft G&A agreement was presented to HMP&L prior to the November 20 meeting. At the November 20 meeting it is my understanding that all of Big Rivers positions except for Items 7. and 8. are generally acceptable to HMP&L.

Big Rivers positions regarding the Capacity and Reserve issues are reasonable. Big Rivers has made several concessions, as noted above, even though the contracts call for essentially no changes when the agreements terminate.

Big Rivers and HMP&L have had a very good relationship during the past 37 years. The initial contracts entered into by Big Rivers and HMP&L were (and continue to be) beneficial for both Big Rivers and HMP&L and instrumental in the decision by Anaconda (now Alcan) to locate in Henderson County and are instrumental in whether or not Alcan will remain in Henderson County.

The bonds required to finance Station Two required that the power for Station Two be sold in Daviess and Henderson Counties. While the load to serve HMP&L customers was in Henderson county, it was necessary to have a load such as Anaconda to accommodate Station Two output and the bond provisions incorporating the two – county rule.

In 1993, (the 1993 amendments) Big Rivers and HMP&L reached agreements to add a scrubber to Station Two units rather than fuel switch or add a scrubber to Coleman. Big Rivers could have chosen to build the scrubber only at Coleman. Again, a mutually beneficial agreement was entered into which split SO2 allowances based on capacity. This turned out to be very beneficial to both Big Rivers and to HMP&L. As I recall, HMP&L, in about 2006 profited from the sale of excess allowances. Had the scrubber not been in existence, there would have been no allowances for sale for the benefit of HMP&L.

In 1998 Big Rivers agreed to pay an extra $1.50 per MWh for the use of surplus energy not utilized by HMP&L for service to its native load(Excess Henderson Energy). Until the Station Two Bonds were retired (in 2003) the usage of this power was restricted to Henderson and Daviess counties. Also, in the 1998 Amendments to Contracts, Big Rivers, City of Henderson Utility Commission and City of Henderson agreed to extend the terms of all the contracts except the Joint Facilities Agreement for the operating life of Station Two.

In 2005, Big Rivers, HMP&L, and WKE reached agreement to install SCRs on Station Two. Again, this was a good, mutually beneficial agreement, but Big Rivers did agree to allow certain NOx allowances to be used by HMP&L Station I for NOx compliance. The SCRs could have been built at Green, which could have satisfied Big Rivers' obligations to HMP&L and provided more allowances for Big Rivers to "bubble" the system for compliance.

From the early 1970's until today, Big Rivers has paid over 80% ($203.4 million) of the debt service and capital expenditures of Station Two and today receives only 70% of the capacity. On the other hand, HMP&L has paid $49.8 million (less than 20%) but receives more than 30% of the capacity (95 MW/312 MW). In addition, HMP&L can increase its take by 5 MW per year should the City's load grow to need that power. The disproportionate value to HMP&L increases with the additional take.

Big Rivers has entered into these agreements through the years with its eyes open and realizes that even with this disproportionate value to HMP&L, it remains a good contract for Big Rivers and its Members as well. If Big Rivers agreed to your 115 MW proposal HMP&L's contract share would grow to 36.86% and Big Rivers share would shrink to 63.14% but Big Rivers would still have paid for over 80%.

Big Rivers did not attempt to change these costs even when it suffered through financial difficulties in the 1980's and 90's, resulting in bankruptcy. Through this difficult period Big Rivers made all of the required payments to HMP&L and asked for no contract amendments, even when facing such financial difficulties.

The 1998 agreements between HMP&L, Big Rivers and WKE anticipate an expiration or termination of the Agreement and Amendments to Agreements dated July 15, 1998.

> **Section 10.16 Reversion to Big Rivers. "At the expiration or termination of this Agreement, other than a termination due to breach or default by Big Rivers, the rights and obligations under the Station Two Contracts assigned to and assumed by Station Two Subsidiary pursuant to Section 9 of this Agreement, entitled "Phase II Assignment," shall automatically revert and be assigned to Big Rivers without any action on the part of any of the parties hereto -------."**

Big Rivers would very much like to work with HMP&L to accommodate as many of its requests as are reasonable. This has been a good relationship and we want to continue a good relationship. However, some of the provisions of the HMP&L demands made of Big Rivers threaten the Unwind Transaction and simply cannot be agreed to. I ask that you reconsider your position regarding the capacity and reserve issues and agree to consents necessary for Big Rivers to move forward with the Unwind.

Sincerely,

Mike

Michael H. Core
President and CEO
MHC/bh

C: Dr. Bill Smith, Chairman
David Spainhowrd

Item 105) To the extent not previously provided, provide documents which show the basis for Big Rivers assumptions regarding future labor costs under the to-be-negotiated contract with IBEW, as included in the Unwind Financial Model.

Response) As an input to the Unwind Financial Model Exhibit 8, Big Rivers inflated the bargaining unit's existing agreements by 3.2%.

Big Rivers' contract with IBEW Local 1701 was negotiated as a 3.2% wage rate increase and became effective October 15, 2007.

Witness) C. William Blackburn

BIG RIVERS ELECTRIC CORPORATION'S
RESPONSE TO THE ATTORNEY GENERAL'S SUPPLEMENTAL REQUEST
FOR INFORMATION TO JOINT APPLICANTS
PSC CASE NO. 2007-00455
March 6, 2008

Item 106) Please provide documents which show Big Rivers' most current view of each of the negative and financial covenants that will likely be associated with new credit agreements assuming the proposed transactions.

Response) As Big Rivers states in the Application, acquiring the ability to finance its operations on a normal, ongoing basis, and the details of the financing arrangements available to Big Rivers after closing of the Unwind Transaction, are inextricable parts of the Unwind Transaction. See Application, paragraph numbers 51-53, and 65-67. Big Rivers plans to file with the Commission the evidences of indebtedness that requires approval at least 30 days prior to the scheduled hearing. That filing will disclose fully the financing terms for which Big Rivers seeks approval. Big Rivers anticipates that the negative and financial covenants that will likely be incorporated in the credit agreements associated with the Unwind Transaction will be found in the indenture and several revolving credit agreements, all of which Big Rivers is currently negotiating with its creditors. The Unwind Transaction cannot and will not close unless necessary financing arrangements are approved and in place.

Witness) C. William Blackburn