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Chairman

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Vice Chairman

John W. Clay
Commissioner

March 16, 2009

PARTIES OF RECORD

Re: Case No. 2009-00040

Attached is a copy of the memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the informal conference memorandum, please do so within five days of receipt of this letter. If you have any questions, please contact Quang Nguyen at 502/564-3940, Extension 256.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Derouen".

Jeff Derouen
Executive Director

Attachment

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File

FROM: Quang D. Nguyen, Staff Attorney

DATE: March 16, 2009

RE: Case No. 2009-00040
Application of Big Rivers Electric Corporation for a General Adjustment in Rates

Pursuant to a Commission Staff Notice dated March 5, 2009, an informal conference was held at the Commission's offices on March 10, 2009. A list of the attendees is attached hereto.

The purpose of the conference was to discuss issues relating to Big Rivers Electric Corporation's ("Big Rivers") application for rate adjustment, particularly its request for interim rate relief. Big Rivers provided a handout, attached hereto, outlining the factors influencing its request for an emergency rate increase on an interim basis. Big Rivers stated that its cash reserve has been depleted, largely in part as a result of the buy-out of the leveraged leases with Phillip Morris Capital Corporation ("PMCC"). The early termination of the PMCC leveraged leases was due directly to the credit rating downgrade of Ambac which, in turn, exposed Big Rivers to adverse consequences under the terms of the leveraged leases. As of March 9, 2009, Big Rivers' cash balance was \$29.8 million. Based on its current revenue levels, Big Rivers advised that it would be able to meet the \$12.4 million short-term bridge loan with PMCC due on December 15, 2009, but it would be unable to meet its \$15.8 million obligation due to the Rural Utilities Service ("RUS") on January 4, 2010. Moreover, Big Rivers indicated that its credit and operations would be materially impaired absent the emergency rate relief effective April 1, 2009. Any delay in implementing emergency interim rates beyond April 1, 2009 would drive up the percentage increase in rates that would be necessary to allow Big Rivers to meet its upcoming obligations to PMCC and RUS. Thus, for example, a May 1, 2009 implementation would raise the percentage rate increase from 21.6 percent to 24.7 percent.

Procedurally, Commission Staff noted that a hearing would be required regarding Big Rivers' request for interim rate relief and that the earliest a hearing could be tentatively scheduled is April 21, 2009. Commission Staff will also conduct one round of discovery pertaining to the interim rate relief request prior to the hearing on this issue.

There being no further discussion, the conference was adjourned.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

CASE NO. 2009-00040

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

SIGN IN

March 10, 2009

PERSON

REPRESENTING

<u>Quang D. Nguyen</u>	<u>PSC - Legal</u>
<u>Scott Lawless</u>	<u>PSC - Fin. Ana.</u>
<u>Steve Seelye</u>	<u>Prime Group - Big Rivers</u>
<u>Bill Blackburn</u>	<u>Big Rivers</u>
<u>Mark Bailey</u>	<u>Big Rivers</u>
<u>Jim Miller</u>	<u>Witness for BREC</u>
<u>Aaron Deunerea</u>	<u>PSC - Financial Analysis</u>
<u>Jack Barnes</u>	<u>IDG Consulting, LLC</u>
<u>Melissa Yates</u>	<u>JPEC</u>
<u>Kelly Gushol</u>	<u>JPEC</u>
<u>Chris Melan</u>	<u>PSC - Financial Analysis</u>
<u>Cliff Johnson</u>	<u>PSC</u>
<u>JEFF JOHNSON</u>	<u>PSC</u>

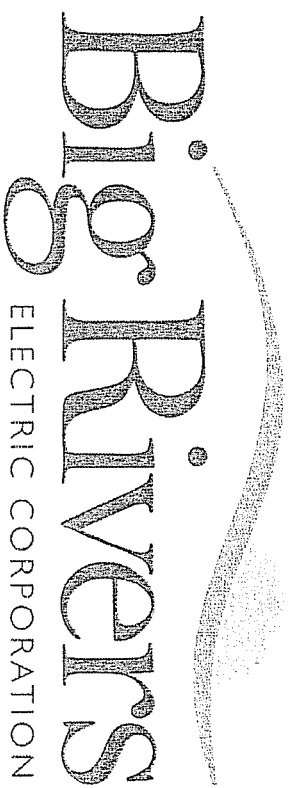
Case No. 2009-00040
March 10, 2009


PERSON

Mike Kurtz
Richard Jeff
Daryl Newby
Mark Hite
David L. Brown
David Sparinhorn
Paul Adams

REPRESENTING

Alcan/Century/KIUC
PSC - Legal
PSC - F/A
Big Rivers
Alcan, Century
Big Rivers
AG



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Case 2009-00040

Informal Conference of March 10, 2009

Urgency of Rate Relief

- Big Rivers must have immediate, increased cash flow to meet its obligations and remain solvent
- Cash reserve is depleted
- Requires a 21.6% emergency interim rate increase effective April 1, 2009
- Every dollar sought is needed
- Big Rivers' credit and operations will be materially impaired without the emergency rate relief sought

Proposed Rates

	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Percentage Change</u>
<u>Rural Delivery Point Service</u>			
Demand Charge - \$ per kW per Month	7.370	8.963	21.6%
Energy Charge - \$ per kWh	0.020400	0.024811	21.6%
Average Monthly Bill - \$	2,370,252	2,882,675	21.6%

<u>Large Industrial Customer Delivery Point Service</u>			
Demand Charge - \$ per kW per Month	10.150	12.345	21.6%
Energy Charge - \$ per kWh	0.013715	0.016680	21.6%
Average Monthly Bill - \$	138,958	169,004	21.6%

<u>Cogeneration and Small Power Production Sales Tariff - Over 100 kW *</u>			
Demand Charge - \$ per kW per Month	7.370	8.963	21.6%
Demand Charge - \$ per kW per Week	1.835	2.241	22.1%
Energy Charge - \$ per kWh	0.020400	0.024811	21.6%

* There are no customers currently served under this tariff.

Historical Events

- Big Rivers' structural inability to borrow
- Leveraged leases with PMCC
- Ambac downgraded June 19, 2008
- Reasons for the PMCC buyout
- Reasons for the PCB interest rate increase

Financial Impact of PMCC Buyout

	<u>Millions of \$</u>
• Cash balance August 31, 2008	149.4
• Cash payment for PMCC buyout	109.3
• Cash balance February 3, 2009	25.7
• \$12.4 M 8.5% note to PMCC due December 15, 2009	
• Member Discount Adjustment allowed to expire August 31, 2008	

Financial Impact of PCB Interest

Rate Increase

In Thousands of \$

	Bond Issue	Rates		Annualized Interest Expense	
		2007	Current	2007	Current (Decrease)
	\$18,350 (1)	3.74%	8.00%	\$686	\$1,468
	\$40,450 (2)	3.74%	3.25%	\$1,513	\$1,315
	\$58,800			\$2,199	\$2,783
	Interest paid semi-annually, each June 1 and December 1				
	\$83,300	3.74%	18.00% (3)	\$3,115	\$14,994
	Interest paid every 28 days.				
	\$142,100			\$5,314	\$17,777
	Total				\$12,463

- (1) Bonds held in the market as of 3/6/09
- (2) Bonds held by Dexia Credit Local (Bank Bonds) as of 3/6/09
- (3) Rate as per the testimony. Current rate as of 3/4/09 is 17.5%

Means of Resolving the Cash Deficiency

- Complete the “Unwind” Transaction
- Implement the emergency rate relief effective April 1, 2009, and effect cost-cutting/cost-deferral measures
- Seek debt service relief from RUS

Cost of Service Study

- With the proposed rates, each rate component is increased by the same percentage
- This facilitates member system flow-through pursuant to KRS 278.455(2)
- Due to the urgency of this case, Big Rivers did not have time to prepare a cost of service study
- For G&Ts, it generally takes 4-12 months to develop a cost of service methodology with members, prepare the cost of service study, review rate design alternatives, and obtain Board approval of new rates
- Big Rivers respectfully requests a waiver of the requirement to submit a class cost of service study

Concluding Comments

- Summary
- Questions
- Procedural Schedule

PROCEDURAL SCHEDULE PROPOSED BY BIG RIVERS ELECTRIC CORPORATION IN CASE NO. 2009-00040

Big Rivers shall file responses to requests for information in Commission order dated February 23, 2009, no later than 3/23/09

Order for emergency, interim relief 4/1/09

All requests for information to Big Rivers shall be filed no later than 4/15/09

Big Rivers shall file responses to requests for information no later than 5/1/09

All supplemental requests for information to Big Rivers shall be filed no later than 5/15/09

Big Rivers shall file response to supplemental requests for information no later than 5/29/09

Intervenor testimony, if any, in verified prepared form shall be filed no later than 6/12/09

All requests for information to Intervenors shall be filed no later than 6/26/09

Intervenors shall file responses to requests for Information no later than 7/10/09

Big Rivers shall file, in verified form, its rebuttal testimony no later than 7/24/09

Last day for Big Rivers to publish notice of hearing To be scheduled

Public Hearing to be held in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examination of witnesses of Big Rivers and Intervenors To be scheduled

Simultaneous Briefs, if any to be scheduled

Final order at expiration of suspension period 9/2/09

BIG RIVERS ELECTRIC CORPORATION
PSC CASE NO. 2009-00040
MARCH 10, 2009

Implementation Date for Emergency Interim Rates	Months Required to Build Cash Requirement	Approximate Percentage Rate Increase Required
April 1, 2009	8	21.6%
May 1, 2009	7	24.7%
June 1, 2009	6	28.8%
July 1, 2009	5	34.6%
August 1, 2009	4	43.2%
September 1, 2009	3	57.7%
October 1, 2009	2	86.5%
November 1, 2009	1	172.6%

This table is taken from the Direct Testimony of William Steven Seelye at page 14, which is attached as Exhibit 46 to Big Rivers' March 2, 2009, Notice, Application and Motions.