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APR 08 2009

PUBLIC SERVICE
COMMISSION

Via Hand Deliveryl

April 8, 2009

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: Case No. 2009-00040

Dear Mr. Derouen:

Please find enclosed the original and twelve (12) copies of the BRIEF OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. filed in the above-referenced matter. By copy of this letter, all parties listed on the Certificate of Service have been served.

Please place this document of file.

Very Truly Yours,

Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY

MLKkew
Attachment
cc: Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by mailing a true and correct copy, by electronic mail (when available) and first-class postage prepaid mail to all parties on the 8th day of April, 2009.

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of: The Application Of Big Rivers Electric Corporation to Adjust Electric Rates	: : :	Case No. 2009-00040

BRIEF OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

The members of the Kentucky Industrial Utility Customers, Inc. ("KIUC") participating in this matter are Kimberly-Clark Corporation, Domtar Paper Co., LLC and Aleris International, Inc. These companies employ approximately 1,624 people in Western Kentucky and their current annual power cost from Big Rivers Electric Corporation (Big Rivers) through Kenergy is approximately $20.6 million. A 21.6% rate increase will cost these businesses $371,000 per month, and it could not come at a worse time with production down due to the depressed economy. Since February 2009 Aleris has been operating in bankruptcy.

Based upon the information now known, all of the members of KIUC fully support the Unwind as it provides the best opportunity for long-term stable rates. If the Unwind closes, then this rate case will be terminated.

LEGAL STANDARD

The legal standard that a utility must meet for implementing a rate increase on an interim basis before the Commission has gone through its normal review process is high. KRS 278.190(2) provides that:

> *" ... if the commission, at any time, during the suspension period, finds that the company's credit or operations will be materially impaired or damaged by the failure to permit the rates to become effective during the period, the commission may, after any hearing or hearings, permit all or a portion of the rates to become effective under terms and conditions as the commission may, by order, prescribe."*

In a recent EKPC rate case the Commission reiterated that extraordinary rate relief during the normal suspension period "*is just that – extraordinary.*"

> *"As a general matter, prudently managed utilities will not willingly place themselves in a position where interim rate relief during the suspension period is necessary to avoid a material impairment of the utility's credit or operations. This is especially true of rural electric cooperative corporations. KRS 279.095 provides that a cooperative 'shall be operated on a nonprofit basis for the mutual benefit of its members and patrons.' While low rates are desirable, this must be balanced against the necessity that a cooperative remain financially and operationally viable. With the shadow of Big Rivers Electric Corporation's bankruptcy only recently receding in the memory of Kentucky utility jurisprudence, all directors and officers of jurisdictional utilities should take note that the extraordinary relief authorized under KRS 278.190(2) is just that - extraordinary."* East Kentucky Power Cooperative, KPSC Case No. 2006-00472, (April 1, 2007) Interim Order at ppgs. 2-3.

INTRODUCTION

Big Rivers' base rates have been in effect since 1998. In 2000, Big Rivers lowered its rates through the MDA surcredit. That surcredit terminated in August 2008, thus resulting in a $3.7 million rate increase.[1] These rates have allowed Big Rivers to pay all of its debts and expenses (including $6.3 million in professional fees during the test year that are almost exclusively related to the Unwind)[2], earn a TIER that has averaged 1.50 over the 14 months ending February 2009[3], earn a DSCR that has averaged 1.35 over the same 14-month period,[4] and build up a balance of cash and temporary investments (cash equivalent) as of August 2008 of $149.4 million.[5]

Big Rivers' massive cash balance was depleted by a one-time, non-recurring event. On September 30, 2008 Big Rivers paid $109.3 million in cash and executed an 8.5% promissory note for $12.4 million (total cost with interest of $13.7 million) to buy out of the PMCC leveraged lease.[6] The $12.4 million principal repayment on the PMCC promissory note is due December 15, 2009. Since the September 30, 2008 payment of $109.3 million to PMCC, Big Rivers has continued to successfully operate and it has continued to aggressively pursue the Unwind.

On March 2, 2009 Big Rivers filed for a general rate increase of $24.9 million per year, or 21.6%. The rate case filing was based upon the historic test year ending November 2008. Under the normal suspension period new rates would become effective on September 1, 2009. However, Big Rivers has also sought emergency interim rate relief. Big Rivers claims to have a cash need in 2009 of $16.0 million.[7] Based upon this 2009 cash need, Big Rivers requests the following rate increase depending on the effective date of interim rates: April 1 – 21.62%; May 1 – 24.66%; June 1 – 28.83%.[8]

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1 Blackburn Dir. Testimony at p. 20.
2 Big Rivers Response to Staff Item 44.
3 Big Rivers Response to KIUC Item 1-2.
4 *Id.*
5 Blackburn Dir. Testimony at p. 39.
6 Seelye Dir. Testimony at p. 9.
7 Big Rivers Direct Exhibit 2.
8 Big Rivers Direct Exhibit 1. It is unclear whether the requisite newspaper notice identified the full menu of rate increase possibilities.

In its pre-filed testimony, Big Rivers claimed that if its entire interim rate increase was granted on April 1 so that it would have additional revenue of $16 million throughout 2009 ($2 million per month), then its January 5, 2010 cash and cash equivalent balance would be $2.8 million.[9] However, this calculation did not include any budget cutting or capital cost deferrals. At the hearing Big Rivers presented the Commission with new evidence that increased rates of $16 million during 2009 (April 1, 2009 interim rate increase of 21.6%) combined with budget cuts and deferrals would leave it with a January 5, 2010 cash balance of $8.5 million.[10] This is a $5.7 million financial improvement, which equates to a deferral of interim rate relief for approximately 3 months until July 1, 2009.

January 5, 2010 is the absolute low point in Big Rivers projected cash balance. January 5, 2010 is only 21 days after the one-time, non-recurring $12.4 million payment to PMCC and just one day after the regular quarterly loan payment to RUS of $15.8 million[11]. Less than three weeks after this cash low point Big Rivers will receive a cash infusion of $12 – $13 million when the Members pay their December power bills on January 25, 2010.[12]

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[9] Blackburn Dir. Testimony at p. 41.
[10] Big Rivers Direct Exhibit 2.
[11] Transcript at 109-110 (Blackburn); Transcript at 147 (Kollen).
[12] Transcript at 109 (Blackburn); Transcript at 147, 151 (Kollen).

ARGUMENT

1. Accepting As True All Of Big Rivers' Evidence, A $2 Million Per Month Interim Rate Increase Can Be Deferred Until At Least July 1, 2009.

The Company has failed to demonstrate that its *"credit or operations will be materially impaired or damaged by the failure to permit rates to become effective during the [suspension] period."* KRS 278.190(2). To the contrary, the evidence shows that a delay of at least three months in any emergency interim rate increase to allow the Company to complete the Unwind Transaction will not materially impair or damage Big Rivers. This is true because the Company's projected cash position is not as low as it initially argued and because it has the ability to access its $15 million Cooperative Finance Corporation (CFC) line of credit for short-term working capital needs.

a. Big Rivers Has Conceded That Its January 5, 2010 Cash Position Will Not Be As Low As Originally Claimed, And Twenty Days Later It Will Get An Additional $12 To $13 Million Infusion.

Big Rivers initially projected that it would have only $2.8 million in cash available to it on January 5, 2010 even if the Commission granted its full rate request effective on an emergency interim basis on April 1, 2009.[13] However, the Company updated its cash projection at the hearing on March 26, 2009. After taking into account the budget cuts and capital deferrals approved by the Big Rivers Board on March 20, 2009,[14] the Company now projects that it will have $8.5 million in cash available to it on January 5, 2010.[15] The Company's emergency rate increase will raise rates by $2.0 million monthly. If the Commission delays the increase for three months and the Unwind Transaction is not completed, then the Company's projected cash balance will be $2.5 million on January 5, 2010 ($8.5 million less $6.0 million), approximately the same as the Company originally projected when it filed its request.

[13] Blackburn Dir. Testimony at p. 41.
[14] KIUC Cross Exam Exhibit 1.
[15] Big Rivers Direct Exhibit 2.

The Commission should recognize that the January 5, 2010 projection is the low point in the Company's projected cash balance.[16] The projection of $2.5 million in available cash does not include the $12-$13 million in additional cash that the Company will receive on January 25, 2010 from providing service to the Members in December 2009.[17] The Commission should not use the low point of the Company's projected available cash to set rates either for interim or permanent purposes. Based upon the information provided by Big Rivers, if a $2 million per month interim rate increase is made effective on July 1, 2009, then its cash and cash equivalent balance at the end of January 2010 will be between $14.5 and $15.5 million.[18] This end of January 2010 $14.5 – $15.5 million cash level resulting from a July 1st interim rate increase would be well within the tolerance levels historically experienced by Big Rivers.

Attached to this Brief are the balance sheet pages from Big Rivers' January operating reports filed with this Commission for the years 2002 – 2009 (information before 2002 was not available from the Commission). These reports show the Company's cash and temporary investment (cash equivalent) balance as of the end of January. These balances therefore include the Member payments made on January 25th in each respective year. The actual results for January 2002 – 2009 and the forecasted result for January 2010 assuming a July 1, 2009 interim rate increase of $2 million per month are shown below. The cash balance results range from a low of $3.9 million at the end of January 2004 to a high of $135.8 million at the end of January 2008.

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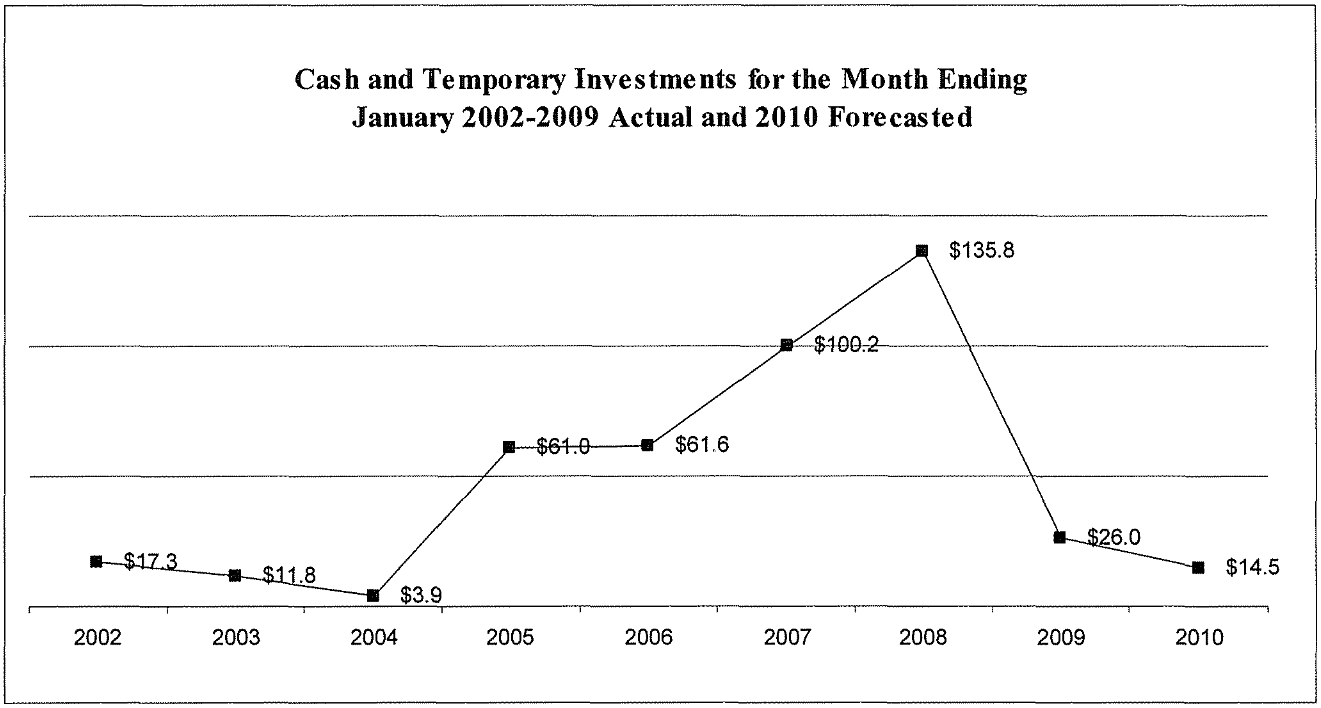
[16] Transcript at 109-110 (Blackburn); Transcript at 147 (Kollen).
[17] Transcript at 109 (Blackburn); Transcript at 151 (Kollen).
[18] This forecasted cash balance for the end of January 2010 does not include normal operating expenses of the utility such as payroll, but neither does it include arbitrage profits. Therefore, this estimate is reasonable.



In this case Big Rivers effectively claims that operating in 2010 with cash reserves at the levels actually experienced by it in 2002 – 2004 constitutes an emergency. It bases this claim on the risk that future events that will require cash may occur if there is no Unwind, such as litigation with E.ON, litigation with the Smelters, new capital expenditures for Changes in Law under the 1998 Transaction, and others.[19] But building up a cash war chest to guard against unpredictable future events should not serve as the basis for raising rates by 21.6% on an emergency basis.

It took Big Rivers many years to build up the $149.4 million cash balance in place as of August 2009. Those years of effort were set back by its failed leveraged lease transaction and the one-time, non-recurring $121.8 million buy-out of PMCC. Like all of the one hundred thousand residential and business customers supplied by the Members, Big Rivers would naturally like to replenish its bank

[19] Blackburn Dir. Testimony at pp. 43-50.

account as fast as possible. But the ratemaking question for the Commission is whether such replenishment should be done through the normal rate case process, or on an emergency basis before a full review of the utility's financial condition. We believe that the more prudent regulatory decision is to wait at least three months to see if the Unwind closes thus negating the need for any rate increase.[20] The dismal state of the economy makes rushing into a 21.6% rate hike before all of the facts are known even more risky.

b. <u>The $15 Million CFC Line Of Credit Can Be Used For Short Term Working Capital Needs.</u>

The Company has available to it most or all of its $15 million line of credit with the Cooperative Finance Corporation ("CFC"). This express purpose of this line of credit is *"to finance the Borrower's short term working capital needs,"* according to Schedule 1 attached to the First Amended and Restated Revolving Credit Agreement between Big Rivers and CFC.[21] There are no restrictions in the Credit Agreement that allow CFC to deny Big Rivers access to this line of credit as long as the Company remains in compliance with the terms and conditions of the Agreement. Section 2.1(a) of the Revolving Credit Agreement with CFC provides that: *"The Borrower may borrow, repay and re-borrow funds at any time or from time to time for a period up to one hundred twenty (120) months from the date hereof* [July 14, 2003]*."* Under Section 2.2(d), Big Rivers has a full 12 months to repay any borrowing. Big Rivers has drawn on its CFC line of credit each month of 2008 and currently has $13 million available to it.[22]

As discussed previously, at the end of January 2004 Big Rivers' cash and cash equivalent balance was at an historic low point of $3.9 million. As the attached January 2004 balance sheet also shows, in that month Big Rivers carried short-term notes payable of $6.6 million. This was the only January of the

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[20] Transcript at 146 (Kollen).
[21] Big Rivers Response to KIUC Item 1-5.
[22] Big Rivers Response to KIUC Item 1-5.

eight reviewed where Big Rivers carried short-term debt. Therefore, short-term borrowing to finance cash flow needs (presumably from CFC) has apparently not always presented the concerns that Big Rivers now suggests.

Our understanding of the CFC loan agreement as a liquidity enhancement is consistent with Moody's March 2009 Credit Opinion of Big Rivers. Under its discussion of liquidity, Moody's summarizes the CFC loan agreement as follows: *"Big Rivers currently supplements its internally generated funds with a committed $15 million secured line of credit from National Rural Utilities Cooperative Finance Corporation (CFC). As of December 2008, the CFC line had no direct draws against it, but there were $2.7 million of outstanding letters of credit."* (Attachment B).

Big Rivers claims that there is a possibility that CFC might refuse to honor its loan agreement because of the July 14, 2003 representation and warranty of Big Rivers that: *"There has been no material adverse change in the financial condition, operations or (other than matters generally affecting generation and transmission cooperatives) business prospects of the Borrower from that set forth in the financial statements of the Borrower as at December 31, 2002 or disclosed on Schedule 1 hereto."* This is a representation and warranty about Big Rivers' past financial condition, not its current or future financial condition. Moreover, borrowing money for short-term cash flow needs in between the monthly Member payments is the stated purpose of the CFC line of credit.

In sum, even if Big Rivers were to have no cash available on January 5, 2010, which it does not project, then the Company could temporarily borrow to meet the cash flow shortfall and repay the CFC later that month when it receives the revenues from service provided to the Members the prior month.

2. Reasonable Adjustments To Arbitrage Profits And Purchase Power Costs Indicate That The Company's Financial Condition Will Be Better Than It Predicts.

Big Rivers has been very hard to pin down on the question of how much arbitrage profit is included in this rate case. But here are the facts we now know. In the test year, Big Rivers earned $47.1 million in arbitrage profits.[23] For ratemaking purposes, it proformed out $15 million. Therefore, the amount of arbitrage profits assumed for ratemaking purposes is $32.1 million.[24] For calendar year 2008, Big Rivers earned $45.5 million in arbitrage profits, which was $5.3 million more than budget.[25] For calendar year 2009, the Board approved a budget for arbitrage profits of $38.7 million.[26] As of February, Big Rivers did 4% better than budget.[27] If the 2009 budget continues to be on target, then Big Rivers will have $6.6 million in additional cash that is not reflected in this rate case.

At the same time that it forecasts a significant reduction in arbitrage profits due to a decline in the wholesale power market, Big Rivers also proforms into the rate case an increase in wholesale purchase power costs of $3,894,674.[28] This glaring inconsistency is not explained. It cannot be justified on load growth since energy usage is declining in the severe recessionary economy. It cannot be explained by restrictions on SEPA power because the Wolf Creek dam problems started in 2005-2006 and are fully reflected in the test year. At the hearing, Mr. Blackburn testified that purchase power costs in January were actually below budget, which is contrary to his proforma adjustment.[29] This is exactly the type of issue that would be fully explored during the normal rate case process, and it is exactly why rushing into an interim rate increase without complete information is dangerous.

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[23] Big Rivers March 30, 2009 Response to KIUC On The Record Data Request.
[24] *Id.*
[25] KIUC Cross Exam Exhibit 2.
[26] KIUC Cross Exam Exhibit 3.
[27] *Id.*
[28] March 30, 2009 Response to KIUC On The Record Data Request.
[29] Transcript at 62-63 (Blackburn).

If arbitrage profits meet the 2009 budgeted level, then Big Rivers will have $6.6 million in added cash and there would be no reason for an interim increase at all. If purchased power costs remain at the test year level, then Big Rivers will have $3.9 million in added cash and an interim rate increase would likewise be unneeded. If both occur, then any claim of emergency would be completely unfounded.

CONCLUSION

Big Rivers has failed to meet the very difficult legal standard established by statute for approving an emergency interim rate increase. Big Rivers' own evidence indicates that no interim rate relief is needed until at least July 1, 2009. If arbitrage profits are higher or purchase power costs are lower than the Company forecasts, then interim rate relief can be pushed out even further, if not fully avoided. The $15 million CFC line of credit provides an additional level of cash flow security.

Big Rivers has tried to portray this case as presenting a short-term cash crisis. But this case really boils down to how fast the utility should be allowed to rebuild its massive cash balance that was depleted by its failed leveraged lease transaction and the $121.8 million payment to PMCC. We believe that a utility's desire to replenish its cash war chest to guard against possible future contingencies is not an emergency.

The most prudent regulatory action is for the Commission to continue to monitor Big Rivers' financial condition through monthly reporting and wait to see if the Unwind closes, thus eliminating the need for any rate increase. In the meantime, KIUC, like many others, will continue to support the Unwind.

Respectfully submitted

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COUNSEL FOR KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

April 8, 2009

ATTACHMENT A

(BIG RIVERS ELECTRIC CORPORATION
OPERATING REPORT - FINANCIALS
JANUARY 2002 – JANUARY 2009)

This data will be used by RUS to review your financial situation. Your response is required (7 U.S.C. 901 et seq.) and is not confidential.

USDA-RUS	BORROWER DESIGNATION	
OPERATING REPORT - FINANCIAL	KY062	
	PERIOD ENDED: 2002 January	RUS USE ONLY

SECTION B. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	1,545,681,989	32. Memberships	75
2. Construction Work in Progress	43,207,636	33. Patronage Capital	
3. Total Utility Plant *(1+2)*	1,588,889,625	a. Assigned and Assignable	0
4. Accum. Provision for Depreciation and Amort	714,042,679	b. Retired This Year	0
5. Net Utility Plant *(3-4)*	874,846,946	c. Retired Prior Years	0
6. Non-Utility Property (Net)	0	d. Net Patronage Capital	0
7. Investments in Subsidiary Companies	0	34. Operating Margins - Prior Years	(330,326,184)
8. Invest. in Assoc. Org. - Patronage Capital	354,639	35. Operating Margins - Current Year	(367,638)
9. Invest. in Assoc. Org. - Other - General Funds	2,280	36. Non-Operating Margins	2,195,984
10. Invest. in Assoc. Org. - OTH - NonGEN Funds	0	37. Other Margins and Equities	4,444,502
11. Investments in Economic Development Projects	10,000	38. Total Margins & Equities *(32+33d thru 37)*	(324,053,261)
12. Other Investments	5,375	39. Long-Term Debt - REA (Net)	929,159,648
13. Special Funds	159,208,689	(Payments-Unapplied $ 0)	
14. Total Other Property and Investments *(6 thru 13)*	159,580,983	40. Long-Term Debt - REA - Econ. Devel. (Net)	0
15. Cash - General Funds	3,741	41. Long-Term Debt - FFB - REA Guaranteed	0
16. Cash - Construction Funds - Trustee	0	42. Long-Term Debt - Other - REA Guaranteed	0
17. Special Deposits	75,000	43. Long-Term Debt - Other (Net)	334,245,515
18. Temporary Investments	17,288,601	44. Total Long-Term Debt *(39 thru 43)*	1,263,405,163
19. Notes Receivable (Net)	0	45. Obligations Under Capital Leases - Noncurrent	0
20. Accounts Receivable - Sales of Energy (Net)	13,946,005	46. Accumulated Operating Provisions	3,689,088
21. Accounts Receivable - Other (Net)	197,875	47. Total Other Noncurrent Liabilities *(45+46)*	3,689,088
22. Fuel Stock	0	48. Notes Payable	0
23. Materials and Supplies - Other	574,611	49. Accounts Payable	11,698,151
24. Prepayments	8,411,385	50. Taxes Accrued	224,693
25. Other Current and Accrued Assets	874,461	51. Interest Accrued	4,818,341
26. Total Current and Accrued Assets *(15 thru 25)*	41,371,679	52. Other Current and Accrued Liabilities	3,314,216
27. UNAMO Debt DISC & Extraor. Prop. Losses	1,105,140	53. Total Current & Accrued Liabilities *(48 thru 52)*	20,055,401
28. Regulatory Assets	0	54. Deferred Credits	140,161,568
29. Other Deferred Debits	22,664,578	55. Accumulated Deferred Income Taxes	0
30. Accumulated Deferred Income Taxes	3,688,633	56. Total Liabilities and Other Credits	
31. Total Assets and Other Debits *(5+14+26 thru 30)*	1,103,257,959	*(38+44+47+53 thru 55)*	1,103,257,959

SECTION C. NOTES TO FINANCIAL STATEMENTS

This data will be used by RUS to review your financial situation. Your response is required (7 U.S.C.901 et seq.) and is not confidential.

USDA-RUS **OPERATING REPORT - FINANCIAL**	BORROWER DESIGNATION KY062	
	PERIOD ENDED 2003 January	RUS USE ONLY

SECTION B. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	1,551,396,631	32. Memberships	75
2. Construction Work in Progress	106,175,680	33. Patronage Capital	
3. Total Utility Plant (1+2)	1,657,572,311	a. Assigned and Assignable	0
4. Accum. Provision for Depreciation and Amort	736,472,972	b. Retired This Year	0
5. Net Utility Plant (3-4)	921,099,339	c. Retired Prior Years	0
6. Non-Utility Property (Net)	0	d. Net Patronage Capital	0
7. Investments in Subsidiary Companies	0	34. Operating Margins - Prior Years	(335,600,454)
8. Invest. in Assoc. Org. - Patronage Capital	798,299	35. Operating Margins - Current Year	1,097,885
9. Invest. in Assoc. Org. - Other - General Funds	757,280	36. Non-Operating Margins	13,079,542
10. Invest. in Assoc. Org. - OTH - NonGEN Funds	0	37. Other Margins and Equities	4,444,502
11. Investments in Economic Development Projects	10,000	38. Total Margins & Equities (32+33d thru 37)	(316,978,450)
12. Other Investments	5,353	39. Long-Term Debt - REA (Net)	925,400,920
13. Special Funds	164,735,529	(Payments-Unapplied $ 0)	
14. Total Other Property and Investments (6 thru 13)	166,306,461	40. Long-Term Debt - REA - Econ. Devel. (Net)	0
15. Cash - General Funds	4,728	41. Long-Term Debt - FFB - REA Guaranteed	0
16. Cash - Construction Funds - Trustee	0	42. Long-Term Debt - Other - REA Guaranteed	0
17. Special Deposits	479,101	43. Long-Term Debt - Other (Net)	317,955,270
18. Temporary Investments	11,753,261	44. Total Long-Term Debt (39 thru 43)	1,243,356,190
19. Notes Receivable (Net)	0	45. Obligations Under Capital Leases - Noncurrent	0
20. Accounts Receivable - Sales of Energy (Net)	16,078,104	46. Accumulated Operating Provisions	3,843,151
21. Accounts Receivable - Other (Net)	603,482	47. Total Other Noncurrent Liabilities (45+46)	3,843,151
22. Fuel Stock	0	48. Notes Payable	0
23. Materials and Supplies - Other	580,697	49. Accounts Payable	13,591,514
24. Prepayments	7,081,533	50. Taxes Accrued	215,655
25. Other Current and Accrued Assets	834,406	51. Interest Accrued	5,213,163
26. Total Current and Accrued Assets (15 thru 25)	37,415,312	52. Other Current and Accrued Liabilities	3,434,373
27. UNAMO Debt DISC & Extraor. Prop. Losses	1,051,692	53. Total Current & Accrued Liabilities (48 thru 52)	22,454,705
28. Regulatory Assets	0	54. Deferred Credits	200,211,213
29. Other Deferred Debits	23,695,372	55. Accumulated Deferred Income Taxes	0
30. Accumulated Deferred Income Taxes	3,318,633	56. Total Liabilities and Other Credits	
31. Total Assets and Other Debits (5+14+26 thru 30)	1,152,886,809	(38+44+47+53 thru 55)	1,152,886,809

SECTION C. NOTES TO FINANCIAL STATEMENTS

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE **OPERATING REPORT - FINANCIAL**	BORROWER DESIGNATION KY0062 PERIOD ENDED 1/2004
INSTRUCTIONS - Submit an original and two copies to RUS or file electronically. For detailed instructions, see RUS Bulletin 1717B-3.	*This data will be used by RUS to review your financial situation. Your response is required (7 U.S.C. 901 et seq.) and may be confidential.*

12a - Section B. Balance Sheet

Description	Amount	Description	Amount
ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1 Total Utility Plant in Service	1,639,777,189	32. Memberships	75
2. Construction Work in Progress	62,644,479	33. Patronage Capital	0
3. TOTAL UTILITY PLANT (1 + 2)	1,702,421,668	a Assigned and Assignable	0
4. Accum. Provision for Depreciation and Amort.	756,810,664	b Retired This year	0
5. NET UTILITY PLANT (3 - 4)	945,611,004	c Retired Prior years	0
6. Non-Utility Property (Net)	0	d Net Patronage Capital	0
7. Investments in Subsidiary Companies	0	34 Operating Margins - Prior Years	(330,057,778)
8. Invest. in Assoc. Org. - Patronage Capital	1,257,674	35. Operating Margins - Current Year	870,060
9. Invest. in Assoc. Org. - Other - General Funds	761,993	36. Non-Operating Margins	26,288,465
10. Invest. in Assoc. Org. - Other - Nongeneral Funds	0	37. Other Margins and Equities	4,444,502
11. Investments in Economic Development Projects	10,000	38. TOTAL MARGINS & EQUITIES (32+33d thru 37)	(298,454,676)
12. Other Investments	5,334	39. Long-Term Debt - RUS (Net)	893,895,665
13 Special Funds	163,891,420	(Payments - Unapplied $)	0
14. TOTAL OTHER PROPERTY AND INVESTMENTS (6 thru 13)	165,926,421	40. Long-Term Debt - RUS - Econ. Devel. (Net)	0
		41. Long-Term Debt - FFB - RUS Guaranteed	0
15. Cash - General Funds	4,817	42. Long-Term Debt - Other - RUS Guaranteed	0
16. Cash - Construction Funds - Trustee	0	43. Long-Term Debt - Other (Net)	313,671,409
17. Special Deposits	484,754	44. TOTAL LONG-TERM DEBT (39 thru 43)	1,207,567,074
18. Temporary Investments	3,902,828	45. Obligations Under Capital Leases - Noncurrent	0
19. Notes Receivable (Net)	0	46. Accumulated Operating Provisions and Asset Retirement Obligations	3,944,752
20. Accounts Receivable - Sales of Energy (Net)	14,471,427		
21. Accounts Receivable - Other (Net)	169,977	47. TOTAL OTHER NONCURRENT LIABILITIES (45+46)	3,944,752
22 Fuel Stock	0	48. Notes Payable	6,600,000
23 Materials and Supplies - Other	618,452	49. Accounts Payable	11,286,557
24 Prepayments	6,725,367	50. Current Maturities Long-Term Debt	750,560
25. Other Current and Accrued Assets	1,017,902	51. Current Maturities Long-Term Debt -Rural Development	0
26. TOTAL CURRENT AND ACCRUED ASSETS (15 thru 25)	27,395,524	52 Current Maturities Capital Leases	0
		53. Taxes Accrued	217,148
27. Unamortized Debt Discount & Extraor. Prop. Losses	998,243	54. Interest Accrued	3,776,824
28. Regulatory Assets	0	55. Other Current and Accrued Liabilities	1,466,005
29 Other Deferred Debits	20,622,092	56. TOTAL CURRENT & ACCRUED LIABILITIES (48 thru 55)	24,097,094
30 Accumulated Deferred Income Taxes	3,718,633		
31 TOTAL ASSETS AND OTHER DEBITS (5+14+26 thru 30)	1,164,271,917	57 Deferred Credits	227,117,673
		58. Accumulated Deferred Income Taxes	0
		59. TOTAL LIABILITES AND OTHER CREDITS (38+44+47+56 thru 58)	1,164,271,917

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE **OPERATING REPORT - FINANCIAL**	BORROWER DESIGNATION KY0062 PERIOD ENDED 1/2005
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12a - Section B. Balance Sheet

Description	Amount	Description	Amount
ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	1,698,527,351	32. Memberships	75
2. Construction Work in Progress	16,207,630	33. Patronage Capital	0
3. TOTAL UTILITY PLANT (1 + 2)	1,714,734,981	a Assigned and Assignable	0
4. Accum. Provision for Depreciation and Amort.	775,526,310	b Retired This year	0
5. NET UTILITY PLANT (3 - 4)	939,208,671	c Retired Prior years	0
6. Non-Utility Property (Net)	0	d Net Patronage Capital	0
7. Investments in Subsidiary Companies	0	34 Operating Margins - Prior Years	(319,762,584)
8. Invest. in Assoc. Org. - Patronage Capital	1,727,362	35. Operating Margins - Current Year	885,926
9. Invest. in Assoc. Org. - Other - General Funds	761,993	36. Non-Operating Margins	38,170,443
10. Invest. in Assoc. Org. - Other - Nongeneral Funds	0	37. Other Margins and Equities	4,444,502
11. Investments in Economic Development Projects	10,000	38. TOTAL MARGINS & EQUITIES (32+33d thru 37)	(276,261,638)
12. Other Investments	5,334	39. Long-Term Debt - RUS (Net)	922,710,229
13. Special Funds	169,103,743	(Payments - Unapplied $)	0
14. TOTAL OTHER PROPERTY AND INVESTMENTS (6 thru 13)		40. Long-Term Debt - RUS - Econ. Devel. (Net)	0
	171,608,432	41. Long-Term Debt - FFB - RUS Guaranteed	0
15. Cash - General Funds	5,812	42. Long-Term Debt - Other - RUS Guaranteed	0
16. Cash - Construction Funds - Trustee	0	43. Long-Term Debt - Other (Net)	318,725,637
17. Special Deposits	490,652	44. TOTAL LONG-TERM DEBT (39 thru 43)	1,241,435,866
18. Temporary Investments	60,990,632	45. Obligations Under Capital Leases - Noncurrent	0
19. Notes Receivable (Net)	0	46. Accumulated Operating Provisions and Asset Retirement Obligations	
20. Accounts Receivable - Sales of Energy (Net)	14,659,908		4,097,423
21. Accounts Receivable - Other (Net)	790,130	47. TOTAL OTHER NONCURRENT LIABILITIES (45+46)	4,097,423
22. Fuel Stock	0	48. Notes Payable	0
23. Materials and Supplies - Other	591,965	49. Accounts Payable	11,986,916
24. Prepayments	6,187,460	50. Current Maturities Long-Term Debt	6,693,239
25. Other Current and Accrued Assets	1,004,373	51. Current Maturities Long-Term Debt -Rural Development	0
26. TOTAL CURRENT AND ACCRUED ASSETS (15 thru 25)		52. Current Maturities Capital Leases	0
	84,720,932	53. Taxes Accrued	231,180
27. Unamortized Debt Discount & Extraor. Prop. Losses	944,648	54. Interest Accrued	3,959,011
28. Regulatory Assets	0	55. Other Current and Accrued Liabilities	1,454,900
29. Other Deferred Debits	20,032,455	56. TOTAL CURRENT & ACCRUED LIABILITIES (48 thru 55)	
30. Accumulated Deferred Income Taxes	3,987,999		24,325,246
31. TOTAL ASSETS AND OTHER DEBITS (5+14+26 thru 30)		57. Deferred Credits	226,906,240
	1,220,503,137	58. Accumulated Deferred Income Taxes	0
		59. TOTAL LIABILITES AND OTHER CREDITS (38+44+47+56 thru 58)	1,220,503,137

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE **OPERATING REPORT - FINANCIAL**	BORROWER DESIGNATION KY0062 PERIOD ENDED 1/2006
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12a - Section B. Balance Sheet

Description	Amount	Description	Amount
ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	1,714,860,994	32. Memberships	75
2. Construction Work in Progress	14,266,267	33. Patronage Capital	0
3. TOTAL UTILITY PLANT (1 + 2)	1,729,127,261	a Assigned and Assignable	0
4. Accum. Provision for Depreciation and Amort.	801,334,952	b Retired This year	0
5. NET UTILITY PLANT (3 - 4)	927,792,309	c Retired Prior years	0
6. Non-Utility Property (Net)	0	d Net Patronage Capital	0
7. Investments in Subsidiary Companies	0	34. Operating Margins - Prior Years	(307,100,150)
8. Invest. in Assoc. Org. - Patronage Capital	2,193,191	35. Operating Margins - Current Year	2,229,687
9. Invest. in Assoc. Org. - Other - General Funds	684,993	36. Non-Operating Margins	51,974,199
10. Invest. in Assoc. Org. - Other - Nongeneral Funds	0	37. Other Margins and Equities	4,444,502
11. Investments in Economic Development Projects	10,000	38. TOTAL MARGINS & EQUITIES (32+33d thru 37)	(248,451,687)
12. Other Investments	5,334	39. Long-Term Debt - RUS (Net)	888,038,185
13. Special Funds	174,749,478	(Payments - Unapplied $)	0
14. TOTAL OTHER PROPERTY AND INVESTMENTS (6 thru 13)	177,642,996	40. Long-Term Debt - RUS - Econ. Devel. (Net)	0
		41. Long-Term Debt - FFB - RUS Guaranteed	0
15. Cash - General Funds	5,809	42. Long-Term Debt - Other - RUS Guaranteed	0
16. Cash - Construction Funds - Trustee	0	43. Long-Term Debt - Other (Net)	323,913,122
17. Special Deposits	505,124	44. TOTAL LONG-TERM DEBT (39 thru 43)	1,211,951,307
18. Temporary Investments	61,566,054	45. Obligations Under Capital Leases - Noncurrent	0
19. Notes Receivable (Net)	0	46. Accumulated Operating Provisions and Asset Retirement Obligations	4,233,689
20. Accounts Receivable - Sales of Energy (Net)	17,203,191		
21. Accounts Receivable - Other (Net)	891,256	47. TOTAL OTHER NONCURRENT LIABILITIES (45+46)	4,233,689
22. Fuel Stock	0	48. Notes Payable	0
23. Materials and Supplies - Other	674,734	49. Accounts Payable	21,068,840
24. Prepayments	5,564,788	50. Current Maturities Long-Term Debt	753,140
25. Other Current and Accrued Assets	1,105,094	51. Current Maturities Long-Term Debt -Rural Development	0
26. TOTAL CURRENT AND ACCRUED ASSETS (15 thru 25)	87,516,050	52. Current Maturities Capital Leases	0
		53. Taxes Accrued	242,336
27. Unamortized Debt Discount & Extraor. Prop. Losses	891,200	54. Interest Accrued	4,023,350
28. Regulatory Assets	0	55. Other Current and Accrued Liabilities	1,559,128
29. Other Deferred Debits	17,950,616	56. TOTAL CURRENT & ACCRUED LIABILITIES (48 thru 55)	27,646,794
30. Accumulated Deferred Income Taxes	4,189,499		
31. TOTAL ASSETS AND OTHER DEBITS (5+14+26 thru 30)	1,215,982,670	57. Deferred Credits	220,602,567
		58. Accumulated Deferred Income Taxes	0
		59. TOTAL LIABILITES AND OTHER CREDITS (38+44+47+56 thru 58)	1,215,982,670

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE **OPERATING REPORT - FINANCIAL**	BORROWER DESIGNATION KY0062 PERIOD ENDED January, 2007
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SECTION B. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	1,731,318,272	32. Memberships	75
2. Construction Work in Progress	14,399,444	33. Patronage Capital	
3. **TOTAL UTILITY PLANT** *(1 + 2)*	1,745,717,716	a. Assigned and Assignable	
4. Accum. Provision for Depreciation and Amort.	828,864,369	b. Retired This year	
		c. Retired Prior years	
5. **NET UTILITY PLANT** *(3 - 4)*	916,853,347	d. Net Patronage Capital	
6. Non-Utility Property (Net)		34. Operating Margins - Prior Years	(288,358,011)
7. Investments in Subsidiary Companies		35. Operating Margin - Current Year	3,613,584
8. Invest. in Assoc. Org. - Patronage Capital	2,587,950	36. Non-Operating Margins	68,055,036
9. Invest. in Assoc. Org. - Other - General Funds	684,993	37. Other Margins and Equities	4,444,502
10. Invest. in Assoc. Org. - Other - Nongeneral Funds		38. **TOTAL MARGINS & EQUITIES** *(32 + 33d thru 37)*	(212,244,814)
		39. Long-Term Debt - RUS (Net)	881,868,371
11. Investments in Economic Development Projects	10,000	40. Long-Term Debt - FFB - RUS Guaranteed	
		41. Long-Term Debt - Other - RUS Guaranteed	
12. Other Investements	5,334	42. Long-Term Debt - Other (Net)	329,509,408
13. Special Funds	180,769,879	43. Long-Term Debt - RUS - Econ. Devel. (Net)	
14. **TOTAL OTHER PROPERTY AND INVESTMENTS** *(6 thru 13)*	184,058,156	44. Payments - Unapplied	
		45. **TOTAL LONG-TERM DEBT** *(39 thru 43 - 44)*	1,211,377,779
15. Cash - General Funds	5,774	46. Obligations Under Capital Leases - Noncurrent	
16. Cash - Construction Funds - Trustee			
17. Special Deposits	529,697	47. Accumulated Operating Provisions and Asset Retirement Obligations	4,245,786
18. Temporary Investments	100,242,598		
19. Notes Receivable (Net)		48. **TOTAL OTHER NONCURRENT LIABILITIES** *(46 + 47)*	4,245,786
20. Accounts Receivable - Sales of Energy (Net)	24,478,203	49. Notes Payable	
21. Accounts Receivable - Other (Net)	1,123,373	50. Accounts Payable	16,340,761
22. Fuel Stock		51. Current Maturities Long-Term Debt	20,370,742
23. Materials and Supplies - Other	813,674	52. Current Maturities Long-Term Debt - Rural Development	
24. Prepayments	8,596,774		
25. Other Current and Accrued Assets	1,520,815	53. Current Maturities Capital Leases	
26. **TOTAL CURRENT AND ACCRUED ASSESTS** *(15 thru 25)*	137,310,908	54. Taxes Accrued	347,624
		55. Interest Accrued	4,347,082
27. Unamortized Debt Discount & Extraor. Prop. Losses	837,751	56. Other Current and Accrued Liabilities	1,700,070
28. Regulatory Assets		57. **TOTAL CURRENT & ACCRUED LIABILITIES** *(49 thru 56)*	43,106,279
29. Other Deferred Debits	17,393,269		
30. Accumulated Deferred Income Taxes	4,687,999	58. Deferred Credits	214,656,400
31. **TOTAL ASSESTS AND OTHER DEBITS** *(5+14+26 thru 30)*	1,261,141,430	59. Accumulated Deferred Income Taxes	
		60. **TOTAL LIABILITES AND OTHER CREDITS** *(38 + 45 + 48 + 57 thru 59)*	1,261,141,430

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE **OPERATING REPORT - FINANCIAL**	BORROWER DESIGNATION KY0062 PERIOD ENDED January, 2008
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SECTION B. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	1,750,365,528	32. Memberships	75
2. Construction Work in Progress	17,054,996	33. Patronage Capital	
3. **TOTAL UTILITY PLANT** *(1 + 2)*	1,767,420,524	a Assigned and Assignable	
4. Accum. Provision for Depreciation and Amort.	855,984,281	b Retired This year	
		c Retired Prior years	
5. **NET UTILITY PLANT** *(3 - 4)*	911,436,243	d Net Patronage Capital	
6. Non-Utility Property (Net)		34. Operating Margins - Prior Years	(265,296,621)
7. Investments in Subsidiary Companies		35. Operating Margin - Current Year	1,988,178
8. Invest. in Assoc. Org. - Patronage Capital	2,983,950	36. Non-Operating Margins	87,442,142
9. Invest. in Assoc. Org. - Other - General Funds	684,993	37. Other Margins and Equities	4,444,502
		38. **TOTAL MARGINS & EQUITIES** *(32 + 33d thru 37)*	(171,421,724)
10. Invest. in Assoc. Org. - Other - Nongeneral Funds		39. Long-Term Debt - RUS (Net)	856,137,565
11. Investments in Economic Development Projects	10,000	40. Long-Term Debt - FFB - RUS Guaranteed	
		41. Long-Term Debt - Other - RUS Guaranteed	
12. Other Investements	5,334	42. Long-Term Debt - Other (Net)	329,833,383
13. Special Funds	187,424,113	43. Long-Term Debt - RUS - Econ. Devel. (Net)	
14. **TOTAL OTHER PROPERTY AND INVESTMENTS** *(6 thru 13)*	191,108,390	44. Payments - Unapplied	
		45. **TOTAL LONG-TERM DEBT** *(39 thru 43 - 44)*	1,185,970,948
15. Cash - General Funds	6,386	46. Obligations Under Capital Leases - Noncurrent	
16. Cash - Construction Funds - Trustee			
17. Special Deposits	557,159	47. Accumulated Operating Provisions and Asset Retirement Obligations	4,540,115
18. Temporary Investments	135,803,228		
19. Notes Receivable (Net)		48. **TOTAL OTHER NONCURRENT LIABILITIES** *(46 +47)*	4,540,115
20. Accounts Receivable - Sales of Energy (Net)	18,358,998	49. Notes Payable	
21. Accounts Receivable - Other (Net)	2,614,083	50. Accounts Payable	17,405,608
22. Fuel Stock		51. Current Maturities Long-Term Debt	45,064,346
23. Materials and Supplies - Other	736,331	52. Current Maturities Long-Term Debt - Rural Development	
24. Prepayments	11,525,426		
25. Other Current and Accrued Assets	1,533,403	53. Current Maturities Capital Leases	
26. **TOTAL CURRENT AND ACCRUED ASSESTS** *(15 thru 25)*	171,135,014	54. Taxes Accrued	1,170,613
		55. Interest Accrued	4,432,534
27. Unamortized Debt Discount & Extraor. Prop. Losses	784,303	56. Other Current and Accrued Liabilities	1,703,971
28. Regulatory Assets		57. **TOTAL CURRENT & ACCRUED LIABILITIES** *(49 thru 56)*	69,777,072
29. Other Deferred Debits	16,784,286		
30. Accumulated Deferred Income Taxes	5,112,491	58. Deferred Credits	207,494,316
31. **TOTAL ASSESTS AND OTHER DEBITS** *(5+14+26 thru 30)*	1,296,360,727	59. Accumulated Deferred Income Taxes	
		60. **TOTAL LIABILITES AND OTHER CREDITS** *(38 + 45 + 48 + 57 thru 59)*	1,296,360,727

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE **OPERATING REPORT - FINANCIAL**	BORROWER DESIGNATION KY0062 PERIOD ENDED January, 2009
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SECTION B. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	1,783,190,902	32. Memberships	75
2. Construction Work in Progress	9,489,306	33. Patronage Capital	
3. **TOTAL UTILITY PLANT** *(1 + 2)*	1,792,680,208	a Assigned and Assignable	
4. Accum. Provision for Depreciation and Amort.	881,759,374	b Retired This year c Retired Prior years	
5. **NET UTILITY PLANT** *(3 - 4)*	910,920,834	d Net Patronage Capital	
6. Non-Utility Property (Net)		34. Operating Margins - Prior Years	(256,863,074)
7. Investments in Subsidiary Companies		35. Operating Margin - Current Year	2,213,479
8. Invest. in Assoc. Org. - Patronage Capital	3,384,731	36. Non-Operating Margins	97,832,640
9. Invest. in Assoc. Org. - Other - General Funds	684,993	37. Other Margins and Equities	4,444,502
10. Invest. in Assoc. Org. - Other - Nongeneral Funds		38. **TOTAL MARGINS & EQUITIES** *(32 + 33d thru 37)*	(152,372,378)
		39. Long-Term Debt - RUS (Net)	821,234,051
11. Investments in Economic Development Projects	10,000	40. Long-Term Debt - FFB - RUS Guaranteed	
		41. Long-Term Debt - Other - RUS Guaranteed	
12. Other Investements	5,334	42. Long-Term Debt - Other (Net)	157,115,528
13. Special Funds	510,560	43. Long-Term Debt - RUS - Econ. Devel. (Net)	
14. **TOTAL OTHER PROPERTY AND INVESTMENTS** *(6 thru 13)*	4,595,618	44. Payments - Unapplied	
		45. **TOTAL LONG-TERM DEBT** *(39 thru 43 - 44)*	978,349,579
15. Cash - General Funds	4,930	46. Obligations Under Capital Leases - Noncurrent	
16. Cash - Construction Funds - Trustee			
17. Special Deposits	570,867	47. Accumulated Operating Provisions and Asset Retirement Obligations	7,307,467
8. Temporary Investments	26,010,654		
.9. Notes Receivable (Net)		48. **TOTAL OTHER NONCURRENT LIABILITIES** *(46 + 47)*	7,307,467
20. Accounts Receivable - Sales of Energy (Net)	21,514,787	49. Notes Payable	
21. Accounts Receivable - Other (Net)	1,922,962	50. Accounts Payable	15,301,788
22. Fuel Stock		51. Current Maturities Long-Term Debt	52,273,494
23. Materials and Supplies - Other	759,252	52. Current Maturities Long-Term Debt - Rural Development	
24. Prepayments	4,712,978		
25. Other Current and Accrued Assets	49,661	53. Current Maturities Capital Leases	
26. **TOTAL CURRENT AND ACCRUED ASSESTS** *(15 thru 25)*	55,546,091	54. Taxes Accrued	635,743
		55. Interest Accrued	4,145,272
27. Unamortized Debt Discount & Extraor. Prop. Losses	730,707	56. Other Current and Accrued Liabilities	2,195,428
28. Regulatory Assets		57. **TOTAL CURRENT & ACCRUED LIABILITIES** *(49 thru 56)*	74,551,725
29. Other Deferred Debits	91,504,825		
30. Accumulated Deferred Income Taxes		58. Deferred Credits	155,461,682
31. **TOTAL ASSESTS AND OTHER DEBITS** *(5+14+26 thru 30)*	1,063,298,075	59. Accumulated Deferred Income Taxes	
		60. **TOTAL LIABILITES AND OTHER CREDITS** *(38 + 45 + 48 + 57 thru 59)*	1,063,298,075

ATTACHMENT B

(MOODY'S GLOBAL
CORPORATE FINANCE CREDIT OPINION MARCH 2009)

Moody's Global
Corporate Finance

Credit Opinion

March 2009

Big Rivers Electric Corporation

Henderson, Kentucky, United States

Table of Contents:

Analyst Contacts:

New York 1.212.553.1653

Kevin G. Rose
Vice President – Senior Analyst

William L. Hess
Team Managing Director

Key Indicators[1]

Big Rivers Electric Corporation	2007	2006	2005
TIER [2]	1.7	1.5	1.4
DSCR [2]	1.8	1.6	1.8
FFO / Interest	2.1	1.9	1.8
FFO / Debt	6%	5%	4%
Equity / Capitalization	-16%	-21%	-26%
Net Operating Margin	30%	34%	32%

[1] All ratios calculated in accordance with Moody's Electric G&T Cooperative Rating Methodology using Moody's standard adjustments

[2] Moody's definitions may differ from indenture covenants

Rating Drivers

- Expected deleveraging as the unwinding of 1998 vintage transactions nears completion
- Ownership of competitively advantaged coal-fired generation plants
- High industrial concentration to two aluminum smelters
- Rates subject to regulation by the Kentucky Public Service Commission (KPSC)
- Substantial portion of revenues from electricity sold under long-term wholesale power contracts with member owners

Corporate Profile

Big Rivers Electric Corporation is an electric generation and transmission cooperative (G&T) headquartered in Henderson, Kentucky and owned by its three member system distribution cooperatives— Jackson Purchase Energy Corporation; Kenergy Corp; and Meade County Rural Electric Cooperative Corporation. These member system cooperatives provide retail electric power and energy to more than 111,000 residential, commercial, and industrial customers in 22 Western Kentucky counties.

Summary Rating Rationale

The (P)Baa1 senior secured rating considers the anticipated financial benefits to Big Rivers of a series of steps being taken to unwind a lease and other transactions, including an expectation that the cooperative's current deficit net worth will turn substantially positive, cash receipts will be utilized to reduce existing debt, and two new committed bank credit facilities aggregating $100 million will be established to improve liquidity. Revenues generated from competitively priced power sold under long-term wholesale contracts with the three member owners should also continue to generate FFO to interest and debt metrics in support of the rating level, while capital expenditures are largely met with internally generated funds. Big Rivers' rating is a notch below the median A3 senior most rating for the sector. A significant constraint to Big Rivers' rating is the fact that one of its member owners, Kenergy Corp., makes a high concentration of its sales to two aluminum smelters, both of whom face credit challenges due to the significant fall off in both metal prices and demand. In addition, these smelters have the option to terminate their respective power purchase arrangements beginning December 31, 2010, subject to one-year notice. The rating is further constrained because the cooperative's rates are subject to regulation by the KPSC, which is atypical for the sector.

Detailed Rating Considerations

Impending Improvement In Financial Flexibility As Historical Transactions Unwind

Big Rivers took steps in 2008 to buyout two leveraged lease transactions and is nearing completion of a series of other steps to terminate another lease and other long-term transactions previously entered into with E.ON U.S. LLC (formerly known as: LG&E Energy Marketing Inc.) and Western Kentucky Energy Corp. These entities have been leasing and operating the generating units owned by Big Rivers. In turn, Big Rivers has been purchasing the power from these units at generally fixed below market rates to use in servicing the requirements of its three members, exclusive of the load requirements of Kenergy's two large aluminum smelters. At the same time, Big Rivers plans to enter into various new arrangements whereby it would sell to Kenergy 850 MW in aggregate for resale to the two aluminum smelters, contingent upon terminating other agreements, thereby reintroducing a concentration of load risk.

Key credit positives ultimately expected to result from consummation of all the so-called unwind transactions would be as follows: elimination of Big Rivers' deficit net worth, with equity to total capital expected to be close to 30% (among the highest percentages in the G&T rated universe); and partial utilization of the $508.5 million in cash payments to be received from E.ON to repay about $140.2 million of debt owed to the Rural Utilities Service (RUS), and the establishment of $252.9 million of reserves (i.e., $157 million economic reserve for future environmental cost increases, a $35 million Transition Reserve to mitigate potential costs if the smelters decide to terminate their agreements or otherwise curtail their load due to reduced aluminum production, and a $60.9 million Rural Economic Reserve, which would be used over two years to provide credits to rural customers upon exhaustion of the ~~Transition~~ Reserve).
ECONOMIC

As part of this whole process, Big Rivers already completed the buyout of leveraged leases with Bank of America and Phillip Morris Capital Corporation (PMCC) during 2008. Among the positive credit effects of the buyouts were removal of $922 million of defeased obligations (about $735 million of which was off-balance sheet), and removal of exposure to Ambac, albeit at a net cost of $120 million, including a $12 million PMCC note. We note, however, that part of the aforementioned cash payment from E.ON upon consummation of unwinding all the various transactions includes full reimbursement of Big Rivers' lease buyout costs, and the $16 million remaining deferred loss on reacquired debt would be written off.

Under a contract times interest earned ratio (TIER) arrangement with the two smelters, Big Rivers is assured of maintaining a minimum TIER of 1.24x, leaving ample cushion under its financial covenants and positioning itself favorably among its similarly rated peers. We expect this recently solid debt service coverage metric to remain relatively stable (i.e., in a range of 1.3x to 1.65x over the next several years.

Coal-Fired Plants Represent Valuable Assets Even As Environmental Costs Loom

Big Rivers owns generating capacity of about 1,440 megawatts (MW) in four substantially coal-fired plants. Total power capacity is about 1,833 MW, including rights to about 215 MW of coal-fired capacity from Henderson Municipal Power and Light (HMP&L) Station Two and about 178 MW of contracted hydro capacity from Southeastern Power Administration. The economics of power produced from these sources enables Big Rivers to maintain a solid competitive advantage in the Southeast and even more so when compared to other regions around the country. The consistently high capacity factors and efficient operations of the assets results in wholesale rates to members around $35 per MWh, which translates to member retail rates to non-smelter customers around 7 cents per kWh.

Because Big Rivers is substantially dependent on coal-fired generation, it faces a high degree of uncertainty associated with the form and substance of future environmental legislation, the timing for implementation, and the amount of related costs to comply. We view this as more of a medium-term issue at this time and note that the Economic Reserve should help mitigate some of the need for initial rate increases to cover future compliance costs.

Regulatory Risk Exists; However, Offsets Are Present

Big Rivers is subject to regulation for rate setting purposes by the KPSC, which is atypical for the sector and can pose challenges in getting timely rate relief if and when needed. We view the existence of certain fuel and purchased power cost adjustment mechanisms available to Big Rivers as favorable to its credit profile since they can temper risk of cost recovery shortfalls if there is a mismatch relative to existing rate levels. We also note little need for general rate increases by Big Rives in the medium term, although we would not rule out additional revenues generated under the fuel adjustment clause and through use of a portion of the various reserve funds.

Wholesale Power Contracts Are A Linchpin To Sound Credit Profile

The substantial revenues derived under Big Rivers' long-term wholesale contracts with its members currently run through 2023 and will be extended to December 31, 2043 when the unwind of transactions is completed in the near term. The low cost power provided under the contracts makes it unlikely that there will be member disenchantment, even in the face of potential rate increases in the medium to longer term due to environmental compliance costs. The currently overall sound member profile provides assurance of this revenue stream, which is integral to servicing Big Rivers' debt. The potential for further degradation in the creditworthiness of the smelters is a particular credit concern, only tempered in part by assurances of two month's worth of payment obligations covered by letters of credit from an A1 rated financial institution (or some other form acceptable to Big Rivers) under certain circumstances.

Concerns About Potential Loss Of Smelter Load Cannot Be Ignored

Under historical operating conditions, the two smelters served by Kenergy can be expected to consume over 7 million MWh of energy annually, representing a substantial load concentration risk. As noted above in the Summary Rating Rationale, this risk is a significant constraint to Big Rivers' rating, making Big Rivers' operating and risk profile rather unique compared to its peers. At this stage, the earliest possible date that the smelters could serve notice of termination of their contract would be December 31, 2010 (i.e. the smelters cannot provide notice until ongoing transmission capacity upgrade projects are completed). Given the cost effective power being provided by Big Rivers to allow Kenergy to service this load, we do not currently expect the smelters to exercise this option. Moreover, transmission line expansion and legislation to permit sales to non-members, when coupled with the low cost of the power, should enhance Big Rivers' ability to move excess power off system in the event that the smelters cancel their contracts or otherwise reduce load due to curtailment of aluminum production due to market and economic conditions. Indeed, one of the smelters, Century Aluminum of Kentucky, recently announced the orderly curtailment of one of its five potlines, pending improvement in economic conditions. As a result, Big Rivers will move to sell the approximately 87 megawatts of capacity it would otherwise be providing to Kenergy for service to the one Century Aluminum pot line, into the open market.

Liquidity

Big Rivers currently supplements its internally generated funds with a committed $15 million secured line of credit from National Rural Utilities Cooperative Finance Corporation (CFC). As of December 2008, the CFC line had no direct draws against it, but there were $2.7 million of outstanding letters of credit. Prospectively, Big Rivers expects to put in place $100 million of unsecured committed three year revolver capacity, with CFC and CoBank providing $50 million each. Upon effectiveness of the new facilities, the $15 million facility would be terminated and any outstanding letters of credit would be rolled into the new CFC facility which would provide for issuance of up to $10 million of letters of credit. This step would be credit positive, representing a considerable increase in the amount of alternate liquidity available from the banks. Big Rivers expects to report about $38.9 million of unrestricted cash when it completes the audit for December 31, 2008 statements and cash flow from operations is projected to be around $121 million for 2008. Assuming completion of the unwind transactions during April 2009, cash flow from operations in 2009 near $100 million, no change in management's current policy with respect to not returning any patronage capital to members, and the planned additional bank revolvers are finalized, we expect Big Rivers to have sufficient means to meet its anticipated short-term working capital needs, capital expenditures (approximately $90 million) and scheduled principal repayments (approximately $13 million) over the next four quarters.

The quality of the alternate liquidity provided by the anticipated bank revolvers benefits from the multi-year tenor and the absence of any onerous financial covenants, which largely mirror the financial covenants in existing debt documents. Big Rivers is comfortably in compliance with those covenants and we expect that to remain so in the foreseeable future. Additionally, the CFC facility benefits from no ongoing material adverse change (MAC) clause; however, the CoBank facility is considered of lesser quality because of the ongoing nature of its MAC clause related to each drawdown. There are no applicable rating triggers in any of the facilities that could cause acceleration or puts of obligations; however, a ratings based pricing grid applies.

Structural Considerations

Substantially all of Big Rivers' assets are currently subject to the lien of an RUS mortgage; however, certain tax exempt debt of Big Rivers and any outstanding amounts under the existing $15 million secured CFC line of credit enjoy a super priority of payment claim and lien on assets under the current RUS mortgage over RUS. As part of the unwinding of various transactions, Big Rivers will replace the existing RUS mortgage with a new senior secured indenture. The new indenture would re-establish RUS and all senior secured debt holders on equal footing in terms of priority of claim and lien on assets. The new indenture will also provide Big Rivers with the flexibility to access public debt markets while retaining the right to borrow from RUS, if they choose to do so. Given persistent questions about the availability of funds under the federally subsidized RUS loan program, we consider the added flexibility of the new secured indenture to be credit positive.

Rating Outlook

The stable rating outlook is based on expectations that Big Rivers successfully completes the unwind transactions in the near term, thereby improving its financial profile and repositioning itself to continue efficiently meeting the needs of its members in the future.

What Could Change the Rating - Up

Given the rating constraints linked to customer load concentration at Kenergy, rate regulation, and looming pressures tied to environmental issues, a rating upgrade is unlikely in the foreseeable future. Changes to eliminate rate regulation of cooperatives in Kentucky could contribute to a positive action, especially if it coincides with improvement in market conditions for the aluminum smelters and sustained improvement of FFO to interest and debt metrics to near 2.3x and 8%, respectively, on average.

What Could Change the Rating - Down

Loss of significant load (i.e. the smelters) that is not otherwise compensated for through off system power sales could contribute to a negative action, as would lack of regulatory support for substantial and timely recovery of costs. In terms of credit metrics, if FFO to interest and debt falls below 2x and 6%, respectively, for a sustained period of time, then rating pressure could result.

Other Considerations

Mapping To Moody's U.S. Electric Generation & Transmission Cooperaives Rating Methodology

Big Rivers' mapping under Moody's U.S. Electric Generation &Transmission Cooperative rating Methodology appears below. The Indicated Rating for Big Rivers' senior most obligations under the Methodology is Baa1 and relies on historical quantitative data and qualitative assessments. In particular we note that the Baa1 rating is significantly influenced by the weak standing for the factors relating to dependence on purchased power, the percentage of residential sales, and equity as a percentage of capitalization. A more favorable prospective view of some of those factors, especially given the high likelihood we currently ascribe to successful completion of the aforementioned unwind transactions, would likely generate a higher Indicated Rating for Big Rivers under the Methodology. Nevertheless, the unique risks relating to Big Rivers load concentration to the smelters will likely persist and continue to constrain its rating level in the future.

Rating Factors

Big Rivers Electric Corporation

U.S. Electric Generation & Transmission Cooperatives	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Wholesale Power Contracts (15%)							
a) % Member Load Served		100%					
Factor 2: Rate Flexibility (20%)							
a) Regulatory Review / Relationship with Regulators				Baa			
b) Board Involvement / Rate Adjustment Mechanism				Baa			
c) Purchased Power / Sales %							100%
d) New Build Capex (% Net PP&E)			27%				
e) Rate Competitiveness			A				
f) Rate Shock Exposure			A				
Factor 3: Member / Owner Profile (20%)							
a) Demand Growth				2.00%			
b) Residential Sales / Total Sales						14.50%	
c) Members' Consolidated Assets ($billions)					$0.38		
d) Members' Consolidated Equity / Capitalization				33.70%			
e) Regulatory Status				Baa			
Factor 4: 3-Year Average Financial Metrics (40%)							
a) TIER		1.5x					
b) DSC		1.7x					
c) FFO / Debt				5.10%			
d) FFO / Interest				1.9x			
e) Equity / Capitalization							-21.10%
f) Net Operating Margin		32.20%					
Factor 5: Size (10%)							
a) MWh Sales				6.2			
b) Revenues ($millions)				$0.30			
c) Net PP&E ($millions)				$0.90			
d) MW Owned and Purchased					1,833		
Rating:							
a) Indicated Rating from Methodology			Baa1				
b) Actual Rating Assigned (Sr. Secured Rating)			(P) Baa1				

Big Rivers Electric Corporation

Report Number: 115312_SC

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Moody's Investors Service