

## **BIG RIVERS ELECTRIC CORPORATION**

### **Notes to Financial Statements**

**December 31, 2014 and 2013**

#### **(1) Organization and Summary of Significant Accounting Policies**

##### **(a) General Information**

Big Rivers Electric Corporation (Big Rivers or the Company), an electric generation and transmission cooperative, supplies wholesale power to its three member distribution cooperatives (Kenergy Corp., Jackson Purchase Energy Corporation, and Meade County Rural Electric Cooperative Corporation) under all requirements contracts, excluding the power needs of two large aluminum smelters (the Aluminum Smelters). Additionally, until August 2013 and February 2014, Big Rivers sold power under separate contracts to Kenergy Corp. for the Aluminum Smelters load. Big Rivers also markets power to nonmember utilities, power marketers, and the Midcontinent ISO (MISO). The members provide electric power and energy to industrial, residential, and commercial customers located in portions of 22 western Kentucky counties. The wholesale power contracts with the members remain in effect until December 31, 2043. Rates to Big Rivers' members are established by the Kentucky Public Service Commission (KPSC) and are subject to approval by the Rural Utilities Service (RUS). The financial statements of Big Rivers include the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, Regulated Operations, and gives recognition to the ratemaking and accounting practices of the KPSC and RUS.

##### **(b) Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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.

##### **(c) System of Accounts**

Big Rivers' maintains its accounting records in accordance with the Uniform System of Accounts as prescribed by the RUS Bulletin 1767B-1, as adopted by the KPSC. These regulatory agencies retain authority and periodically issue orders on various accounting and ratemaking matters. Adjustments to RUS accounting have been made to make the financial statements consistent with generally accepted accounting principles in the United States of America.

##### **(d) Revenue Recognition**

Revenues generated from the Company's wholesale power sales are based on month-end meter readings and are recognized as earned when electricity is delivered. Capacity revenues are recognized in the period in which the Company provides capacity to a counterparty.

##### **(e) 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.

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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.

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. During 2012, a depreciation study was completed to evaluate the remaining economic lives of the Company's assets and establish new depreciation rates. The study was approved by the RUS in 2012 and by the KPSC in 2014, with the rates becoming effective February 1, 2014. The annual composite depreciation rates used to compute depreciation expense were as follows:

Electric plant	0.35%–25.38%
Transmission plant	1.36%–2.29%
General plant	3.76%–9.88%

For 2014, 2013, and 2012, the average composite depreciation rates were 2.34%, 2.23%, and 2.23%, 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.

**(f) *Impairment Review of Long-Lived Assets***

Long-lived assets are reviewed as facts and circumstances indicate that the carrying amount may be impaired. FASB ASC 360, *Property, Plant, and Equipment*, requires the evaluation of impairment by comparing an asset's carrying value to the estimated future cash flows the asset is expected to generate over its remaining life. If this evaluation were to conclude that the future cash flows were not sufficient to recover the carrying value of the asset, 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 net margin.

**(g) *Inventory***

Inventories are carried at average cost and include coal, petroleum coke, lime, limestone, oil and gas used for electric generation, and materials and supplies used for utility operations. Purchased emission allowances are recorded in inventory at actual cost by each vintage year. Allowances issued by the Environmental Protection Agency (EPA) are recorded at zero cost by each vintage year. Total purchased and EPA issued allowances are carried in inventory at a weighted average cost by each vintage year. Issuances of allowances are accounted for on a vintage basis using a monthly weighted average cost.

**(h) *Restricted Investments***

Investments are restricted under KPSC order to establish certain reserve funds for Member rate mitigation. These investments have been classified as held-to-maturity and are carried at amortized cost. Additionally, Big Rivers was required to purchase investments in National Rural Utilities Cooperative Finance Corporation's (CFC) Capital Term Certificates (CTCs) in connection with a 2012 secured term loan agreement with CFC (note 8), which are also classified as held-to-maturity.

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**(i) *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.

**(j) *Restricted Cash***

As of December 31, 2013, certain cash amounts were restricted for capital expenditures in the ordinary course of business per Order of the KPSC (note 8). This restricted cash was used during 2014 to fund certain capital expenditures. As of December 31, 2014, the Company had no restricted cash.

**(k) *Regulatory Assets and Liabilities***

ASC Topic 980-10 applies to regulated entities for which rates are designed to recover the costs of providing service. In accordance with this topic, certain items that would normally be reflected in the statement of operations are deferred on the balance sheets. Regulatory assets represent probable future revenues associated with certain incurred costs, which will be recovered from customers through the rate-making process. Regulatory assets are charged to earnings as collection of the cost in rates is recognized or when future recovery is no longer probable. Conversely, regulatory liabilities represent future reductions in revenues associated with amounts that are to be credited to customers through the rate-making process.

**(l) *Income Taxes***

Big Rivers was formed as a tax-exempt cooperative organization as described in Internal Revenue Code Section 501(c)(12). To retain tax-exempt status under this section, at least 85% of the Big Rivers' receipts must be generated from transactions with the Company's members. In 1983, sales to nonmembers resulted in Big Rivers failing to meet the 85% requirement. Until Big Rivers can meet the 85% member income requirement, the Company will not be eligible for tax-exempt status and will be treated as a taxable cooperative.

As a taxable cooperative, Big Rivers is entitled to exclude the amount of patronage allocations to members from taxable income. Income and expenses related to nonpatronage-sourced operations are taxable to Big Rivers. Big Rivers files a federal income tax return and certain state income tax returns.

Under the provisions of FASB ASC 740, *Income Taxes*, Big Rivers is required to record deferred tax assets and liabilities for temporary differences between amounts reported for financial reporting purposes and amounts reported for income tax purposes. Deferred tax assets and liabilities are determined based upon these temporary differences using enacted tax rates for the year in which these differences are expected to reverse. Deferred income tax expense or benefit is based on the change in assets and liabilities from period to period, subject to an ongoing assessment of realization. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when the more-likely than-not recognition threshold is satisfied and measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement.

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**(m) 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.

**(n) Derivatives**

Management has reviewed the requirements of FASB ASC 815, *Derivatives and Hedging*, and has determined that certain contracts the Company is party to may meet the definition of a derivative under FASB ASC 815. The Company has elected the Normal Purchase and Normal Sale exception for these contracts, and therefore, the contracts are not required to be recognized at fair value in the financial statements.

**(o) Fair Value Measurements**

FASB ASC 820, *Fair Value Measurement*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data; and
- Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets or liabilities, including certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.



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### (2) Utility Plant

At December 31, 2014 and 2013, utility plant is summarized as follows:

	<u>2014</u>	<u>2013</u>
Classified plant in service:		
Production plant	\$ 1,738,206	1,727,602
Transmission plant	258,307	248,466
General plant	45,483	44,441
Other	543	543
	<u>2,042,539</u>	<u>2,021,052</u>
Less accumulated depreciation	<u>1,018,800</u>	<u>989,604</u>
	1,023,739	1,031,448
Construction in progress	<u>50,587</u>	<u>39,464</u>
Utility plant – net	<u>\$ 1,074,326</u>	<u>1,070,912</u>

Interest capitalized for the years ended December 31, 2014, and 2013 was \$594 and \$226, respectively.

The Company has not identified any material legal asset retirement obligations, as defined in FASB ASC 410, *Asset Retirement and Environmental 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, 2014 and 2013, the Company had an estimated \$48,676 and \$45,934, respectively, related to nonlegal removal costs included in accumulated depreciation as required by RUS.

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### (3) Debt and Other Long-Term Obligations

A detail of long-term debt at December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
CFC Refinance Promissory Note, Series 2012 B, serial note pricing, all-in effective interest rate of 4.30%, final maturity date of May 2032	\$ 275,068	286,077
CFC Equity Note, Series 2012B, stated interest rate of 5.35%, final maturity date of May 2032	40,203	41,559
CoBank Promissory Note, Series 2012A, stated interest rate of 4.30%, final maturity date of June 2032	216,260	224,023
RUS Series A Promissory Note, stated amount of \$80,456, stated interest rate of 5.75%, with an imputed interest rate of 5.84% maturing July 2021	80,110	80,063
RUS Series B Promissory Note, stated amount of \$245,530, no stated interest rate, with interest imputed at 5.80%, maturing December 2023	146,246	138,064
County of Ohio, Kentucky, promissory note, fixed interest rate of 6.00%, maturing in July 2031	<u>83,300</u>	<u>83,300</u>
Total long-term debt	841,187	853,086
Current maturities	<u>20,903</u>	<u>20,128</u>
Total long-term debt – net of current maturities	\$ <u><u>820,284</u></u>	<u><u>832,958</u></u>

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

	<u>Amount</u>
Year:	
2015	\$ 20,903
2016	21,717
2017	22,576
2018	23,488
2019	24,464
Thereafter	<u>728,039</u>
Total	\$ <u><u>841,187</u></u>

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**(a) *National Rural Utilities Cooperative Finance Corporation (CFC) Refinance and Equity Promissory Notes, 2012B***

In July 2012, Big Rivers issued new debt with CFC in the form of a secured term loan in the amount of \$302,000 (the Refinance Note) and a CFC Equity Note in the amount of \$43,156. The Refinance Note is secured under the Big Rivers indenture and consists of 20 individual notes with different fixed interest rates ranging from 3.05% to 5.35%. The Refinance Note has an effective interest rate of 4.30% and a final maturity date of May 2032. The proceeds of the Refinance Note were used to prepay \$302,000 of the RUS Series A Note.

The Equity Note has a fixed interest rate of 5.35% and a final maturity date of May 2032. The proceeds of the CFC Equity Note were used to purchase interest-bearing Capital Term Certificates (CTCs), as required in connection with the Refinance Note (note 8).

**(b) *CoBank, ACB (CoBank) Promissory Note, Series 2012A***

In July 2012, Big Rivers issued new debt with CoBank in the form of a secured term loan in the amount of \$235,000, which is secured under Big Rivers' Indenture. The loan has a fixed interest rate of 4.30% per annum and a final maturity date of June 2032. Proceeds from the CoBank term loan were used to prepay \$140,000 of the RUS Series A Note in July 2012, replenish the \$35,000 Transition Reserve fund (depleted on April 1, 2011 to prepay the RUS Series A Note and realize a net interest expense reduction) and pay off the \$58,800 County of Ohio, Kentucky Pollution Control Floating Rate Demand Bonds, Series 1983 in May 2013. The remaining funds were used to fund capital expenditures in the ordinary course of business (note 5).

**(c) *RUS Notes***

On July 15, 2009, Big Rivers' previous RUS debt was replaced with the RUS 2009 Promissory Note Series A (the RUS Series A Note) and the RUS 2009 Promissory Note Series B (the RUS Series B Note). The RUS Series A Note has a stated interest rate of 5.75% and is recorded at an imputed interest rate of 5.84%. The RUS Series B Note has no stated interest rate and is recorded at an imputed interest rate of 5.80%. The RUS Notes are secured under the Indenture dated July 1, 2009 between the Company and U.S. Bank National Association.

**(d) *Pollution Control Bonds***

In June 2010, the County of Ohio, Kentucky, issued \$83,300 of Pollution Control Refunding Revenue Bonds, Series 2010A (Series 2010A Bonds), the proceeds of which are supported by a promissory note from Big Rivers, which bears the same interest rate as the bonds. These bonds bear interest at a fixed rate of 6.00% and mature in July 2031.

The County of Ohio, Kentucky, issued \$58,800 of Pollution Control Variable Rate Demand Bonds, Series 1983 (Series 1983 Bonds), the proceeds of which were supported by a promissory note from Big Rivers, which bore the same interest rate as the bonds. These bonds incurred interest at a variable rate, subject to a maximum interest rate of 13.00%, and matured in June 2013. Big Rivers

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refunded these bonds by purchase on May 31, 2013 using funds from the CoBank Promissory Note, Series 2012A (note 5).

#### *(e) Line of Credit*

In August 2013, Big Rivers amended and restated its \$50,000 revolving line of credit agreement with CFC, dated as of July 16, 2009, (the 2009 Agreement) with the 2013 Amended & Restated Revolving Line of Credit Agreement (the 2013 Agreement). Under the 2009 Agreement, which had an expiration date of July 16, 2014, Big Rivers would have lost access to the line of credit on August 20, 2013, the date which the Century contract termination became effective (note 5). The 2013 Agreement amended the 2009 Agreement by, among other things, extending the term of the line of credit to July 16, 2017, and amending sections that would have otherwise caused the 2009 Agreement to become unavailable to Big Rivers on August 20, 2013. Based on the terms of the 2013 Agreement, Big Rivers may draw on the line of credit when its unrestricted cash balance at the time of an advance is less than \$35,000. Additionally, the amount of any advance may not exceed the difference between the \$35,000 and Big Rivers' unrestricted cash at the time of the advance.

In connection with the 2013 Agreement, Big Rivers issued a secured promissory note (the Series 2013A Note) with a stated principal amount equal to the CFC commitment. The Series 2013A Note is payable to the order of CFC and secured under Big Rivers' Indenture.

Advances on the 2013 Agreement bore interest at a variable rate and outstanding balances were payable in full by the maturity date of July 16, 2017. The CFC variable rate is equal to the CFC Line of Credit Rate, which is defined as "the rate published by CFC from time to time, by electronic or other means, for similarly classified lines of credit, but if not published, then the rate determined for such lines of credit by CFC from time to time."

Big Rivers had no outstanding borrowings on the 2013 Agreement at December 31, 2014 and 2013. Letters of credit issued under an associated Letter of Credit Facility with CFC reduced the borrowing capacity on the Revolvers by \$8,594 and \$8,425 for the years ended December 31, 2014 and 2013, respectively.

On March 5, 2015, Big Rivers entered into a new \$130,000 Syndicated Senior Secured Credit Agreement (the 2015 Agreement) with CFC, CoBank, Fifth Third Bank, KeyBank National Association and Regions Bank. In conjunction with the closing of the 2015 Agreement, the 2013 Agreement was terminated and Big Rivers issued secured promissory notes (the Series 2015A Notes), equal to each lender's commitment. A portion (\$30,000) of the 2015 Agreement is reserved for interim financing of capital expenditures associated with Big Rivers' 2012 Environmental Compliance Plan (ECP). Once long-term financing of the 2012 ECP has been secured, Big Rivers will be required to repay any outstanding draws on the 2015 Agreement which were used to fund 2012 ECP expenditures and the total amount available under the 2015 Agreement will be reduced to \$100,000.

#### *(f) Covenants*

Big Rivers is in compliance with all debt covenants associated with both long-term and short-term debt. The Company's Indenture and other debt agreements require that a Margins for Interest Ratio

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(MFIR) of at least 1.10 be maintained for each fiscal year. The 2013 CFC line of credit agreement requires that Big Rivers, throughout the duration of the agreement, maintain a minimum members' equities balance at each fiscal quarter-end and year-end of \$325,000 plus 75% of the Company's cumulative positive net margins for each of the preceding fiscal years, beginning with the fiscal year ended December 31, 2012. Big Rivers' MFIR for the fiscal year ended December 31, 2014 was 2.25, as adjusted to exclude a \$19,500 non-recurring charge to income (note 12), and its members' equities balance was \$451,916.

A MFIR less than 1.10, per the Indenture and other debt agreements, may result in the following actions, restrictions or consequences: Big Rivers cannot secure additional debt under the Indenture; the Company must seek rates that are reasonably expected to yield a 1.10 MFIR; the Company must provide a written plan satisfactory to the RUS setting forth actions to be taken to achieve the specified MFIR on a timely basis; an event of default may occur; interest rates may increase; and its line of credit may be terminated with an acceleration of any outstanding amounts under the line of credit.

In accordance with the Amended and Consolidated Loan Contract between Big Rivers and the United States of America (acting by and through the RUS Administrator), Big Rivers provided notification to the RUS Administrator via letter dated February 7, 2013 of a failure to maintain two Credit Ratings of Investment Grade. As required, in March 2013, the Company, prepared and presented to the RUS, its Corrective Action Plan setting forth the actions that are being taken by management that are reasonably expected to achieve two Credit Ratings of Investment Grade. In March 2014, the Company provided the RUS with an update on actions taken to date related to its' Corrective Action Plan. The Company will continue to provide ongoing updates to the RUS.

#### (4) Rate Matters

The rates charged to Big Rivers' members consist of a demand charge per kilowatt (kW) and an energy charge per kilowatt-hour (kWh) consumed as approved by the KPSC. The rates include specific demand and energy charges for its members' two classes of customers, the large industrial customers, and the rural customers under its jurisdiction. For the large industrial customers, the demand charge is generally based on each customer's maximum demand during the current month. Effective September 1, 2011, the Company received approval from the KPSC to base the member rural demand charge on its Maximum Adjusted Net Local Load (as defined in Big Rivers' tariff).

Effective July 17, 2009, the KPSC approved the implementation of certain tariff riders; including a fuel adjustment clause and an environmental surcharge, offset by an unwind surcredit (a refund to tariff members of certain charges collected from the Aluminum Smelters in accordance with the contract terms). The net effect of these tariffs is recognized as revenue on a monthly basis with a partial offset to the regulatory liability – member rate mitigation described below.

The net impact of the tariff riders to members' rates is currently mitigated by a Member Rate Stability Mechanism (MRS) that is funded by certain cash reserves (the Economic and Rural Economic Reserves) established and held by Big Rivers as restricted investments. An offsetting regulatory liability – member rate mitigation reflects the obligation associated with the funding of these reserve accounts.

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Under the Aluminum Smelters' agreements, the wholesale rates established for the members' non smelter large direct-served industrial customers (the Large Industrial Rate) provide the basis for pricing the energy consumed by the Aluminum Smelters (Century Aluminum Company and Alcan Primary Products Corporation). The primary component of the pricing used for the Aluminum Smelters is an energy charge in dollars per megawatt hour (MWh) determined by applying the Large Industrial Rate to a load with a 98% load factor, and adding an additional charge of \$0.25 per MWh. The other components reflected in the pricing of the Aluminum Smelters' energy usage are certain charges and credits as provided for under the terms of the Aluminum Smelters' wholesale electric service agreements between Big Rivers and Kenergy Corp. (Kenergy Corp. is the retail provider for the Aluminum Smelters load).

Kenergy Corp.'s smelter agreements were terminated effective August 20, 2013 and January 31, 2014, respectively as described in note 5.

As a result of Century's notification of termination, received on August 20, 2012, the Company filed an application with KPSC, on January 15, 2013, requesting authority to adjust its rates for wholesale electric service. The KPSC entered an order on October 29, 2013, granting Big Rivers an annual revenue increase of \$54,227, effective August 20, 2013. In its order, the KPSC excluded the Coleman plant depreciation from rate recovery at this time. The KPSC directed the Company to defer this depreciation expense and to record the amount in a regulatory asset account. The KPSC's order indicated this action was being taken due to the planned temporary idling of Coleman, the length of time the plant will be idled, and the impact of the rate increase on customers. As of December 31, 2014, cumulative depreciation expense of \$7,760 was deferred for the Coleman plant, which management believes is probable of recovery in future rates.

On November 20, 2013, the intervenors in this case filed a petition for rehearing on three issues. The KPSC granted rehearing on one issue on December 10, 2013. On July 24, 2014, the KPSC issued its Rehearing Order denying the intervenors' request to make adjustment to Big Rivers' rates.

The wholesale rate increase granted by the KPSC resulted in a base wholesale rate increase of approximately: 21.9% for rural customers; 11.8% for large industrial customers; and 11.2% for the remaining aluminum smelter (Century Aluminum Sebree LLC, formerly Alcan Primary Products Corporation).

As a result of Alcan's notification of termination, received on January 31, 2013, the Company filed an application with KPSC, on June 28, 2013, requesting authority to adjust its rates for wholesale electric service in the amount of \$70,397. This requested amount was later revised to \$71,223 in the Company's rebuttal testimony filed December 17, 2013. The Company proposed to temporarily offset this rate increase by utilization of the MRSM. The Company also proposed to use transmission revenues from both smelters to replenish the Economic Reserve Fund. An evidentiary hearing was held by the KPSC in January 2014. The KPSC entered an order on April 25, 2014, granting Big Rivers an annual revenue increase of \$36,160, effective February 1, 2014. In its order, the KPSC approved Big Rivers' Depreciation Study, but excluded Wilson plant depreciation from rate recovery at this time. The KPSC directed the Company to defer this depreciation expense, and continue deferring Coleman plant depreciation expense, and to record the amounts in regulatory asset accounts. As of December 31, 2014, depreciation expense of \$18,395 was deferred for the Wilson plant, which management believes is probable of recovery in future rates. The KPSC also approved Big Rivers' proposal to temporarily offset the rate increase by utilization of MRSM. The KPSC further granted Big Rivers' proposed accounting treatment for transmission revenues related to



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the Hawesville smelter, but included the test year transmission revenues related to the Sebree smelter in the determination of Big Rivers' revenue requirement. The net effect of this accounting treatment is to recognize revenue on a monthly basis with an offset to the Economic Reserve regulatory liability account as the funds are applied to the members' monthly revenue billing to offset the MRSM and rate increase from this case. The wholesale rate increase granted by the KPSC resulted in a base wholesale rate increase of approximately 16.3% for rural customers and 13.7% for large industrial customers.

On May 19, 2014, the intervenors in this case filed a petition for rehearing on two issues. The KPSC granted rehearing on one issue on June 6, 2014 to the limited extent that the issue was clarified in the June 6 Rehearing Order.

In connection with the rate matters discussed above, the following tables provide a summary of Regulatory Assets and Liabilities reflected in the Balance Sheet as of December 31, 2014 and 2013:

		<b>Regulatory Assets</b>	
		<b>2014</b>	<b>2013</b>
Coleman plant deferred depreciation	\$	7,760	1,856
Wilson plant deferred depreciation		18,395	—
Rate case expense & other		2,800	—
Non-FAC PPA		2,188	1,902
Total regulatory assets	\$	<u>31,143</u>	<u>3,758</u>

  

		<b>Regulatory Liabilities</b>	
		<b>2014</b>	<b>2013</b>
Economic reserve-member rate mitigation	\$	2,218	57,766
Rural economic reserve-member rate mitigation		65,486	65,413
Non-FAC PPA		—	1,744
Total regulatory liabilities	\$	<u>67,704</u>	<u>124,923</u>

Effective July 17, 2009, the KPSC approved the implementation of the Non-Fuel Adjustment Clause-Purchased Power Adjustment (Non-FAC PPA) which is a rate mechanism allowing Big Rivers to recover certain costs of purchased power that are not recoverable through its FAC. An accrual is recorded monthly to a regulatory asset or liability account based on the difference between the actual purchased power costs recoverable through the Non-FAC PPA and the purchased power base cost included in base rates. The balance in the regulatory asset or liability account as of June 30 each year is billed or refunded to members during the following twelve-month period beginning September 1 through August 31 of the following year.

#### (5) Aluminum Smelters Termination Notices

On August 20, 2012, Big Rivers as wholesale power supplier, and Kenergy Corp. (Kenergy) as retail power supplier, received a letter from Century Aluminum Company (Century) serving Notice of Termination of its Retail Service Agreement with Kenergy. Big Rivers provided notification to the three credit rating agencies and certain creditors, in accordance with its debt covenant requirements, of the

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Century termination notice. As a result of Century's notice, two credit rating *agencies* revised their Outlook for Big Rivers to negative from stable and the other revised Outlook from stable to under review. Standard & Poor's Rating Services (Standard & Poor's) and Fitch Ratings (Fitch) maintained their credit ratings at BBB-, while Moody's Investors Service, Inc. (Moody's) downgraded its rating of Big Rivers' Series 2010A Bonds (in the amount of \$83,300) to Baa2 from Baa1 and placed the rating under review.

On January 31, 2013, Alcan Primary Products Corporation (Alcan) provided a Notice of Termination of its Kenergy Retail Service Agreement to Big Rivers and Kenergy. Alcan stated in its notice that with the proposed rate increase of 15.6% its smelter would be "unprofitable and therefore unsustainable." Big Rivers provided notification to the three credit rating agencies and its creditors of the Alcan termination notice. As a result of Alcan's notice, the three credit rating agencies downgraded Big Rivers' credit ratings in early February 2013 as follows: Standard & Poor's to BB- from BBB-; Fitch to BB from BBB-; and Moody's to Ba1 from Baa2. In addition, all three credit rating agencies maintained their Outlooks.

Moody's released an Issuer Comment of Credit Positive dated November 1, 2013, resulting from the KPSC order to increase wholesale rates on October 29, 2013. Fitch maintained its credit rating and outlook in its updated report issued February 6, 2014.

On August 5, 2014, Moody's released an Issuer Comment revising Big Rivers' rating outlook from negative to stable based on the Company's good progress in implementing load concentration mitigation strategies including the credit supportive rate case outcomes at the KPSC. The stable outlook also incorporates Moody's view that the smelters will continue to operate, thereby providing support for the local economy.

On January 29, 2015, Standard and Poor's revised Big Rivers' outlook to stable from negative; they maintained Big Rivers' BB- rating. On February 5, 2015, Fitch Rating also revised the rating outlook from negative to stable and affirmed Big Rivers' previous rating of BB.

Big Rivers has developed and continues to implement its Load Concentration Mitigation Plan (LCMP) to preserve its financial position notwithstanding the termination of the smelter agreements. This included the filing of two applications requesting approval of rate increases (note 4) and actively pursuing 400-800 MW of replacement load resulting from the terminated smelter contracts.

On June 12, 2013, Big Rivers and Kenergy filed a joint application with the KPSC requesting, among other things, approval of agreements with Century, which would allow Kenergy to purchase power at market prices for Century's Hawesville Smelter beginning August 20, 2013. The KPSC issued its order approving these agreements on August 14, 2013. The Kentucky Industrial Utility Customers (KIUC), one of the intervenors in this proceeding, filed a complaint on September 11, 2013, appealing the KPSC's order in Franklin Circuit Court. Subsequently, the KIUC withdrew its complaint, with prejudice, on December 6, 2013.

In June 2013, Century acquired substantially all of the assets of the Alcan smelter (Sebree Smelter) from Rio Tinto Alcan.

On November 20, 2013, Big Rivers and Kenergy filed a joint application with the KPSC requesting, among other things, approval of agreements with Century, which would allow Kenergy to purchase power at market prices for Century's Sebree Smelter after January 31, 2014. The KPSC issued its order approving

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these agreements on January 30, 2014. The KIUC, one of the intervenors in this proceeding, filed a petition for rehearing on February 24, 2014, with the KPSC. The Company filed a response to KIUC's petition for rehearing on February 28, 2014. The KPSC denied the KIUC's petition for rehearing on March 14, 2014. The KIUC filed a complaint on April 7, 2014, appealing the KPSC's order in Franklin Circuit Court. The KIUC and parties to the complaint filed briefs during the third and fourth quarters of 2014. Oral arguments were held on March 17, 2015, in Franklin Circuit Court.

Additionally, the Midcontinent Independent System Operator (MISO) requested the Big Rivers' Coleman plant remain in operation under a System Support Resources (SSR) arrangement until the Century Hawesville Smelter could install equipment for transmission reliability issues. The SSR agreement between MISO and Big Rivers required approval by the Federal Energy Regulatory Commission (FERC). The FERC approved tariff required all operating costs of Coleman Station to be netted with revenues resulting from Coleman's generation. Under the direct agreement between Century and Big Rivers, Century was responsible for paying all actual operating costs associated with running Coleman, offset by revenues generated by Coleman. Effective August 20, 2013, all such revenues and operating costs resulting from this direct agreement were netted in the Company's financial statement. At MISO's direction the SSR arrangement terminated April 30, 2014, at which time, temporary idling of the Coleman plant began. Revenues in excess of the actual operating expenses of the Coleman plant were distributed to all Load Serving Entities (LSE) impacted by the SSR arrangement.

As a result of the termination of the second smelter contract, a temporary idling of the Wilson plant had been scheduled for early 2014. Due to forward sales of Wilson generation, the idling of the Wilson plant will occur no sooner than June 1, 2016, if at all. The Coleman plant idling will continue until replacement load is acquired or until the price of the wholesale power market improves, which may take a number of years. At this time, the Company cannot project when the temporary plant idling will end.

As a result of the anticipated plant idlings, management distributed Work Adjustment and Retraining Notification Act of 1998 (WARN) notices to the employees of the Coleman, Wilson and Sebree generating facilities on December 5, 2013. The notices stated that the workforce would be reduced by approximately 188 positions due to the smelter terminations. The workforce reduction process for Coleman began immediately after the plant was idled.

In connection with the workforce reduction and in accordance with the terms and conditions of the Company's severance plan, the Company recorded severance expense of \$9,272 for the year ended December 31, 2013 which was reflected within "Accrued Expenses" on the Balance Sheet. All payouts were expected to occur in 2014 after the plant idlings, however, due to the Wilson plant remaining in operation until at least mid-2016, and the anticipated reduction in force not occurring in 2014, the Company reversed previously recorded severance expense of \$6,012 for the year ended December 31, 2014. The entire \$6,012 is reflected as a reduction to expense in the Company's Statement of Operations. Additionally, the Company has reflected \$596 within "Accrued Expenses" on the Balance Sheet as of December 31, 2014 for remaining expected severance payouts to occur in 2015.

On November 14, 2012, Big Rivers filed an application with the KPSC seeking approval to issue new debt to be used to refund the \$58,800 Series 1983 Bonds (note 3) that mature in June 2013. However, with the uncertainty created by the Aluminum Smelters' termination notices, and potential cumulative impact on prospective bond purchasers, the Company decided to seek KPSC approval to repay the bonds from

## **BIG RIVERS ELECTRIC CORPORATION**

### **Notes to Financial Statements**

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repurposed funds currently restricted by previously issued orders of the KPSC. The restricted funds consisted of \$60,000 CoBank borrowings to be used for capital expenditures in the ordinary course of business and the \$35,000 Transition reserve established for use upon the loss of one or both of the Aluminum Smelter loads. On March 26, 2013, the KPSC issued an Order granting the approval sought by the Company in this matter. Per the order, the Company refunded the Series 1983 Bonds, closed the Transition reserve account, and transferred the \$35,000 balance to a CAPEX Reserve account (CAPEX) used to fund capital expenditures in the ordinary course of business. The balance of the CAPEX was \$0 at December 31, 2014.

Management of Big Rivers believes that the Company's results of operations and cash flows will provide sufficient liquidity for the Company to operate its business and meet its obligations as they come due for the foreseeable future. Furthermore, the Company's ability to ultimately recover the carrying value of its assets, including those related to the Coleman and Wilson plants (and the regulatory assets related to deferred depreciation expense) will ultimately be dependent upon recovery through future rates subject to future KPSC orders. If the Company is unable to recover the carrying values of its assets, the value could become impaired, which would also potentially have a material impact on the Company's results of operations, cash flows, and liquidity.

#### **(6) Income Taxes**

At December 31, 2014, Big Rivers had a Nonpatron Net Operating Loss Carryforward of approximately \$13,238 expiring at various times between 2029 and 2034, and an Alternative Minimum Tax Credit Carryforward of approximately \$7,241, which carries forward indefinitely.

The Company has not recorded any regular income tax expense for the years ended December 31, 2014, 2013, and 2012, as the Company has utilized federal net operating losses to offset any regular taxable income during those years. Had the Company not had the benefit of a net operating loss carryforward, the Company would have recorded \$0, \$0, and \$0 in current regular tax expense for the years ended December 31, 2014, 2013, and 2012, respectively, given that the majority of the Company's income is considered patronage income.

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The components of the net deferred tax assets as of December 31, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Deferred tax assets:		
Net operating loss carryforward	\$ 5,229	2,630
Alternative minimum tax credit carryforwards	7,241	7,241
Member rate mitigation	—	10,327
Fixed asset basis difference	1,085	1,874
RUS Series B Note	(5,293)	19,689
Total deferred tax assets	<u>8,262</u>	<u>41,761</u>
Deferred tax liabilities:		
Bond refunding costs	(140)	(10)
Total deferred tax liabilities	<u>(140)</u>	<u>(10)</u>
Net deferred tax asset (prevaluation allowance)	8,122	41,751
Valuation allowance	(8,122)	(41,751)
Net deferred tax asset	<u>\$ —</u>	<u>—</u>

A reconciliation of the Company's effective tax rate for 2014, 2013, and 2012 is as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Federal rate	35.0%	35.0%	35.0%
State rate – net of federal benefit	4.5	4.5	4.5
Permanent differences	—	0.2	0.9
Patronage allocation to members	(39.6)	(39.8)	(40.4)
Tax benefit of operating loss carryforwards and other	0.1	0.1	—
Alternative minimum tax	—	—	—
Effective tax rate	<u>—%</u>	<u>—%</u>	<u>—%</u>

The Company files a federal income tax return, as well as certain state income tax returns. The years currently open for federal tax examination are 2010 through 2013. The major state tax jurisdiction currently open for tax examination is Kentucky for years 2001 through 2013, also due to unused net operating loss carryforwards. The Company has not recorded any unrecognized tax benefits or liabilities related to federal or state income taxes.

The Company classifies interest and penalties as an operating expense on the statement of operations and accrued expenses in the balance sheet. No material interest or penalties have been recorded during 2014, 2013, or 2012.

## BIG RIVERS ELECTRIC CORPORATION

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#### (7) Pension Plans

##### (a) *Defined-Benefit Plans*

Big Rivers has noncontributory defined-benefit pension plans covering substantially all employees who meet minimum age and service requirements and who were employed by the Company prior to the plans closure dates cited below. The plans provide benefits based on the participants' years of service and the five highest consecutive years' compensation during the last ten years of employment. Big Rivers' policy is to fund such plans in accordance with the requirements of the Employee Retirement Income Security Act of 1974.

The salaried employees defined-benefit plan was closed to new entrants effective January 1, 2008, and the bargaining employees defined-benefit plan was closed to new hires effective November 1, 2008. The Company simultaneously established base contribution accounts in the defined-contribution thrift and 401(k) savings plans, which were renamed as the retirement savings plans. The base contribution account for an eligible employee, which is one who meets the minimum age and service requirements, but for whom membership in the defined-benefit plan is closed, is funded by employer contributions based on graduated percentages of the employee's pay, depending on his or her age.

In order to meet minimum participation requirements, Big Rivers' salaried employees defined benefit plan was merged into the bargaining employees defined benefit plan. The merger was effective January 1, 2014 for purposes of Internal Revenue Code and effective December 31, 2014 for all other purposes.

The Company has adopted FASB ASC 715, *Compensation – Retirement Benefits*, including the requirement to recognize the funded status of its pension plans and other postretirement plans (note 10 – Postretirement Benefits Other Than Pensions). FASB ASC 715 defines the funded status of a defined-benefit pension plan as the fair value of its assets less its projected benefit obligation, which includes projected salary increases, and defines the funded status of any other postretirement plan as the fair value of its assets less its accumulated postretirement benefit obligation.

FASB ASC 715 also requires an employer to measure the funded status of a plan as of the date of its year-end balance sheet and requires disclosure in the notes to the financial statements certain additional information related to net periodic benefit costs for the next fiscal year. The Company's pension and other postretirement benefit plans are measured as of December 31, 2014 and 2013.

The following provides an overview of the Company's noncontributory defined-benefit pension plans.



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## Notes to Financial Statements

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A reconciliation of the Company's benefit obligations of its noncontributory defined-benefit pension plans at December 31, 2014 and 2013 is as follows:

	<b>2014</b>	<b>2013</b>
Benefit obligation – beginning of period	\$ 18,773	30,907
Service cost – benefits earned during the period	900	1,282
Interest cost on projected benefit obligation	856	986
Benefits paid	(1,378)	(13,599)
Actuarial loss (gain)	2,125	(803)
Benefit obligation – end of period	<u>\$ 21,276</u>	<u>18,773</u>

Big Rivers' defined-benefit pension plans provide retirees and terminated employees with a lump-sum payment option. Benefits paid in 2014 include lump-sum payments in the amounts of \$1,349 – the result of six retirees or terminated employees electing the lump-sum payment option. Benefits paid in 2013 include lump-sum payments in the amounts of \$13,538 – the result of twenty retirees or terminated employees electing the lump-sum payment option.

The accumulated benefit obligation for all defined-benefit pension plans was \$15,961 and \$14,017 at December 31, 2014 and 2013, respectively.

A reconciliation of the Company's pension plan assets at December 31, 2014 and 2013 is as follows:

	<b>2014</b>	<b>2013</b>
Fair value of plan assets – beginning of period	\$ 20,264	29,331
Actual return on plan assets	1,326	4,532
Employer contributions	—	—
Benefits paid	(1,378)	(13,599)
Fair value of plan assets – end of period	<u>\$ 20,212</u>	<u>20,264</u>

The funded status of the Company's pension plans at December 31, 2014 and 2013 is as follows:

	<b>2014</b>	<b>2013</b>
Benefit obligation – end of period	\$ (21,276)	(18,773)
Fair value of plan assets – end of period	<u>20,212</u>	<u>20,264</u>
Funded status	<u>\$ (1,064)</u>	<u>1,491</u>

# BIG RIVERS ELECTRIC CORPORATION

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Components of net periodic pension costs for the years ended December 31, 2014, 2013, and 2012 were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Service cost	\$ 900	1,282	1,428
Interest cost	856	986	1,304
Expected return on plan assets	(1,423)	(1,926)	(1,897)
Amortization of prior service cost	—	11	14
Amortization of actuarial loss	177	604	779
Settlement loss	242	2,566	2,064
Net periodic benefit cost	<u>\$ 752</u>	<u>3,523</u>	<u>3,692</u>

As a result of the 2014 lump-sum payments there was a settlement required to the defined-benefit pension plans as provided in FASB ASC 715. The 2014 settlement loss of \$242 reflects an accelerated amortization of unrecognized losses existing at the settlement date of December 31, 2014. The settlement loss is determined by multiplying the total unrecognized losses as of the settlement date by the projected benefit obligation that was settled or eliminated due to the lump-sum payments.

A reconciliation of the pension plan amounts in accumulated other comprehensive income at December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Prior service cost	\$ (1)	(2)
Unamortized actuarial loss	(5,339)	(3,536)
Accumulated other comprehensive income	<u>\$ (5,340)</u>	<u>(3,538)</u>

In 2015, \$1 of prior service cost and \$295 of actuarial loss is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income at December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Prior service cost	\$ —	11
Unamortized actuarial gain	(1,803)	6,580
Other comprehensive income	<u>\$ (1,803)</u>	<u>6,591</u>

# BIG RIVERS ELECTRIC CORPORATION

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At December 31, 2014 and 2013, amounts recognized in the balance sheets were as follows:

	<u>2014</u>	<u>2013</u>
Deferred credits and other – surplus (deficit)	\$ (1,064)	1,491

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Discount rate – projected benefit obligation	3.76%	4.61%	3.57%
Discount rate – net periodic benefit cost	4.61	3.57	4.26
Rates of increase in compensation levels	4.00	4.00	4.00
Expected long-term rate of return on assets	7.25	7.25	7.25

The expected long-term rate of return on plan assets for determining net periodic pension cost for each fiscal year is chosen by the Company from a best estimate range determined by applying anticipated long-term returns and long-term volatility for various asset categories to the target asset allocation of the plans, as well as taking into account historical returns.

Using the asset allocation policy adopted by the Company noted in the paragraph below, 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%.

Big Rivers utilizes a third-party investment manager for the plan assets, and has communicated thereto the Company's Retirement Plan Investment Policy, including a target asset allocation mix of 50% U.S. equities (an acceptable range of 45%–55%), 15% international equities (an acceptable range of 10%–20%), and 35% fixed income (an acceptable range of 30%–40%). As of December 31, 2014 and 2013, the investment allocation was 56% and 59%, respectively, in U.S. equities, 6% and 7%, respectively, in international equities, and 38% and 34%, respectively, in fixed income. The objective of the investment program seeks to (a) maximize return on investment, (b) minimize volatility, (c) minimize company contributions, and (d) provide the employee benefit in accordance with the plans. The portfolio is well diversified and of high quality. The average quality of the fixed income investments must be "A" or better. The equity portfolio must also be of investment grade quality. The performance of the investment manager is reviewed semiannually.

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## Notes to Financial Statements

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At December 31, 2014 and 2013, the fair value of Big Rivers' defined-benefit pension plan assets by asset category are as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>December 31, 2014</b>
Cash and money market	\$ 718	—	718
Equity Securities:			
Common Stock	8,933	—	8,933
Preferred Stock	184	—	184
Mutual Funds	4,261	254	4,515
Fixed:			
U.S. Government Agency Bonds	—	593	593
Tax Exempt Bonds & Notes	—	2,519	2,519
Corporate Bonds & Notes	—	2,750	2,750
	<u>\$ 14,096</u>	<u>6,116</u>	<u>20,212</u>

	<b>Level 1</b>	<b>Level 2</b>	<b>December 31, 2013</b>
Cash and money market	\$ 741	—	741
Equity Securities:			
Common Stock	8,525	—	8,525
Preferred Stock	208	—	208
Mutual Funds	4,928	184	5,112
Fixed:			
U.S. Government Agency Bonds	—	179	179
Tax Exempt Bonds & Notes	—	2,954	2,954
Corporate Bonds & Notes	—	2,545	2,545
	<u>\$ 14,402</u>	<u>5,862</u>	<u>20,264</u>

## BIG RIVERS ELECTRIC CORPORATION

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Expected retiree pension benefit payments projected to be required during the years following 2014 are as follows:

	<u>Amount</u>
Year ending December 31:	
2015	\$ 701
2016	601
2017	1,176
2018	1,680
2019	1,279
Thereafter	<u>12,885</u>
Total	<u>\$ 18,322</u>

**(b) Defined-Contribution Plans**

Big Rivers has two defined-contribution retirement plans covering substantially all employees who meet minimum age and service requirements. Each plan has a thrift and 401(k) savings section allowing employees to contribute up to 75% of pay on a pretax and/or after-tax basis, with employer matching contributions equal to 60% of the first 6% contributed by the employee on a pretax basis.

A base contribution retirement section was added and the plan name changed from thrift and 401(k) savings to retirement savings, effective January 1, 2008, for the salaried plan and November 1, 2008, for the bargaining plan. The base contribution account is funded by employer contributions based on graduated percentages of pay, depending on the employee's age.

The Company's expense under these plans was \$4,511, \$4,417 and \$4,808 for the years ended December 31, 2014, 2013 and 2012 respectively.

**(c) Deferred Compensation Plan**

Big Rivers sponsors a nonqualified deferred compensation plan for its eligible employees who are members of a select group of management or highly compensated employees. The purpose of the plan is to allow participants to receive contributions or make deferrals that they could not receive or make under the salaried employees qualified defined-contribution retirement savings plan (formerly, the thrift and 401(k) savings plan) as a result of nondiscrimination rules and other limitations applicable to the qualified plan under the Internal Revenue Code. The nonqualified plan also allows a participant to defer a percentage of his or her pay on a pretax basis.

The nonqualified deferred compensation plan is unfunded, but the Company has chosen to finance its obligations under the plan, including any employee deferrals, through a rabbi trust. The trust assets remain a part of the Company's general assets, subject to the claims of its creditors. The 2014 employer contribution was \$98 and deferred compensation expense was \$98. As of December 31, 2014, the trust asset was \$643 and the deferred liability was \$643.

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### (8) Restricted Investments

The amortized costs and fair values of Big Rivers' restricted investments held for Member rate mitigation and the CAPEX Reserve at December 31, 2014 and 2013 are as follows:

	2014		2013	
	Amortized costs	Fair values	Amortized costs	Fair values
Cash and money market	\$ 7,283	7,283	16,739	16,739
Debt securities:				
U.S. Treasuries	65,252	65,501	65,314	65,531
U.S. Government agency			43,021	43,017
Total	<u>\$ 72,535</u>	<u>72,784</u>	<u>125,074</u>	<u>125,287</u>

Gross unrealized gains and losses on restricted investments at December 31, 2014 and 2013 were as follows:

	2014		2013	
	Gains	Losses	Gains	Losses
Debt securities:				
U.S. Treasuries	\$ 1	23	2	20
U.S. Government agency			4	7
Total	<u>\$ 1</u>	<u>23</u>	<u>6</u>	<u>27</u>

Debt securities at December 31, 2014 and 2013 mature, according to their contractual terms, as follows (actual maturities may differ due to call or prepayment rights):

	2014		2013	
	Amortized costs	Fair values	Amortized costs	Fair values
In one year or less	\$ 66,910	66,894	80,736	80,764
After one year through five years	5,896	5,890	44,338	44,523
Total	<u>\$ 72,806</u>	<u>72,784</u>	<u>125,074</u>	<u>125,287</u>



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Gross unrealized losses on investments and the fair values of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2014 and 2013 were as follows:

	2014		2013	
	Less than 12 months		Less than 12 months	
	Losses	Fair values	Losses	Fair values
Debt securities:				
U.S. Treasuries	\$ 23	59,611	20	57,524
U.S. Government agency	—	—	7	29,013
Total	\$ 23	59,611	27	86,537

The unrealized loss positions were primarily caused by interest rate fluctuations. The number of investments in an unrealized loss position as of December 31, 2014 and 2013 was 6 and 11, respectively. Since the Company does not intend to sell, and will more likely than not, maintain each debt security until its anticipated recovery, and no significant credit risk is deemed to exist, these investments are not considered other-than-temporarily impaired.

In conjunction with the CFC \$302,000 secured term loan (note 3), Big Rivers was required to invest in Capital Term Certificates (CTCs) equal to 14.29% of the Refinance Note. Proceeds of the Equity Note were used to purchase the investments in CTCs as required under the loan agreement. The interest rate on the CTCs is fixed at 4.28% and is equal to 80% of the Equity Note rate of 5.35%. The CTCs cannot be traded in the market, and therefore, a value other than their outstanding principal amount cannot be determined. The Company's investment in these CTC's at December 31, 2014 and 2013 was \$40,099 and \$41,650, respectively.

### (9) Fair Value of Other Financial Instruments

FASB ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measures. It applies under other accounting standards that require or permit fair value measurements and does not require any new fair value measurements.

The carrying value of accounts receivable and accounts payable approximate fair value due to their short maturity. At December 31, the Company's cash, cash equivalents, and restricted cash included short-term investments in an institutional money market government portfolio account classified as trading securities under ASC 320, *Investments – Debt and Equity Securities*, that were recorded at fair value which were determined using quoted market prices for identical assets without regard to valuation adjustment or block discount (a Level 1 measure), as follows:

	2014	2013
Institutional money market government portfolio	\$ 86,038	107,551

## BIG RIVERS ELECTRIC CORPORATION

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

Big Rivers' long-term debt at December 31, 2014 consists of CFC loans totaling \$315,271, a CoBank loan in the amount of \$216,260, RUS notes totaling \$226,356, and fixed-rate pollution control bonds in the amount of \$83,300 (note 3). The RUS, CFC, and CoBank debt cannot be traded in the market, and therefore, a value other than their outstanding principal amount cannot be determined. The fair value of the Company's variable rate pollution control debt is par value, as each variable rate reset effectively prices such debt to the current market. At December 31, 2014, the fair value of Big Rivers' fixed-rate pollution control debt was determined based on quoted prices in active markets of similar instruments (Level 1 measure) and totaled \$83,300.

#### (10) Postretirement Benefits Other than Pensions

Big Rivers provides certain postretirement medical benefits for retired employees and their spouses. Generally, except for generation bargaining retirees, Big Rivers pays 85% of the premium cost for all retirees age 62 to 65. The Company pays 25% of the premium cost for spouses under age 62. Beginning at age 65, the Company pays 25% of the premium cost if the retiree is enrolled in Medicare Part B. For each generation bargaining retiree, Big Rivers establishes a retiree medical account at retirement equal to \$1,200 per year of service up to 30 years (\$1,250 per year for those retiring on or after January 1, 2012). The account balance is credited with interest based on the 10-year treasury rate subject to a minimum of 4% and a maximum of 7%. The account is to be used for the sole purpose of paying the premium cost for the retiree and spouse.

The discount rates used in computing the postretirement benefit obligation and net periodic benefit cost were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Discount rate – projected benefit obligation	3.77%	4.48%	3.72%
Discount rate – net periodic benefit cost	4.48	3.72	4.29

The healthcare cost trend rate assumptions as of December 31, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Initial trend rate	7.20%	7.30%
Ultimate trend rate	4.50	4.50
Year ultimate trend is reached	2028	2028

# BIG RIVERS ELECTRIC CORPORATION

## Notes to Financial Statements

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An one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

	<u>2014</u>	<u>2013</u>
One-percentage-point decrease:		
Effect on total service and interest cost components	\$ (91)	(104)
Effect on year-end benefit obligation	(1,148)	(976)
One-percentage-point increase:		
Effect on total service and interest cost components	\$ 109	126
Effect on year-end benefit obligation	1,363	1,138

A reconciliation of the Company's benefit obligations of its postretirement plan at December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Benefit obligation – beginning of period	\$ 14,581	18,669
Service cost – benefits earned during the period	516	616
Interest cost on projected benefit obligation	616	555
Participant contributions	282	240
Benefits paid	(1,250)	(976)
Actuarial loss (gain)	1,154	(4,523)
Benefit obligation – end of period	<u>\$ 15,899</u>	<u>14,581</u>

Big Rivers revised the eligibility requirements for postretirement medical with regard to age and service. Beginning January 1, 2013, eligibility for retirement is age 62 with 10 years of service. The service requirement is waived for active employees on December 31, 2012 who will not have 10 years of service at age 62. A reconciliation of the Company's postretirement plan assets at December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Fair value of plan assets – beginning of period	\$ —	—
Employer contributions	968	736
Participant contributions	282	240
Benefits paid	(1,250)	(976)
Fair value of plan assets – end of period	<u>\$ —</u>	<u>—</u>

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## Notes to Financial Statements

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The funded status of the Company's postretirement plan at December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Benefit obligation – end of period	\$ (15,899)	(14,581)
Fair value of plan assets – end of period		<u>—</u>
Funded status	<u>\$ (15,899)</u>	<u>(14,581)</u>

The components of net periodic postretirement benefit costs for the years ended December 31, 2014, 2013, and 2012 were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Service cost	\$ 516	616	1,169
Interest cost	616	555	766
Amortization of prior service cost	(138)	(138)	17
Amortization of transition obligation	—	—	31
Amortization of gain	(144)	(9)	—
Net periodic benefit cost	<u>\$ 850</u>	<u>1,024</u>	<u>1,983</u>

A reconciliation of the postretirement plan amounts in accumulated other comprehensive income at December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Prior service cost	\$ 1,569	1,707
Unamortized actuarial loss	1,560	2,858
Transition obligation	<u>—</u>	<u>—</u>
Accumulated other comprehensive income	<u>\$ 3,129</u>	<u>4,565</u>

In 2015, \$138 of prior service cost and \$0 of actuarial gain is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive loss at December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Prior service cost	\$ (138)	(138)
Unamortized actuarial gain (loss)	(1,154)	4,523
Transition obligation	<u>—</u>	<u>—</u>
Amortization of net gain	(144)	(9)
Other comprehensive income	<u>\$ (1,436)</u>	<u>4,376</u>

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At December 31, 2014 and 2013, amounts recognized in the balance sheets were as follows:

	<u>2014</u>	<u>2013</u>
Accounts payable	\$ (1,224)	(990)
Deferred credits and other	(14,675)	(13,591)
Net amount recognized	<u>\$ (15,899)</u>	<u>(14,581)</u>

Expected retiree benefit payments projected to be required during the years following 2014 are as follows:

Year:	<u>Amount</u>
2015	\$ 1,224
2016	1,225
2017	1,229
2018	1,311
2019	1,406
Thereafter	<u>6,379</u>
Total	<u>\$ 12,774</u>

In addition to the postretirement plan discussed above, Big Rivers has another 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 \$419 and \$379 at December 31, 2014 and 2013, respectively. The postretirement expense recorded was \$51, \$46, and \$57, for 2014, 2013, and 2012, respectively, and the benefits paid were \$12, \$256, and \$47 for 2014, 2013, and 2012, respectively.

### (11) Related Parties

For the years ended December 31, 2014, 2013, and 2012, Big Rivers had tariff sales to its members' of \$258,967, \$183,957, and \$158,893, respectively. In addition, for the years ended December 31, 2014, 2013, and 2012, Big Rivers had certain sales to Kenergy for the Aluminum Smelters and Domtar Paper loads of \$20,165, \$295,878, and \$366,758, respectively.

At December 31, 2014 and 2013, Big Rivers had accounts receivable from its members of \$16,495 and \$33,004, respectively.

### (12) Commitments and Contingencies

The Company was a defendant in a lawsuit that alleged, among other things, a breach of a fuel supply contract with a former supplier. The plaintiff filed suit against the Company in Ohio County, Kentucky on April 26, 2012 seeking unspecified damages and a trial date was set for November 12, 2014. Prior to the trial date, the parties conducted a mediation during which they were able to reach a settlement whereby Big Rivers would pay the plaintiff \$19,500 in August 2014. The settlement amount is reflected within

## **BIG RIVERS ELECTRIC CORPORATION**

### **Notes to Financial Statements**

**December 31, 2014 and 2013**

“Operating Expenses-Transmission and other” on the Company’s Statement of Operations. The settlement removed the risks of trial, saved legal and expert expenses which would have been incurred if the case had gone to trial, and preserved a substantial portion of the savings to the ratepayers which resulted from the March 2012 termination of the coal supply agreement.

Big Rivers is involved in other 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.

On April 2, 2012, Big Rivers filed an application with the KPSC seeking approval of its 2012 environmental compliance plan (ECP). As filed, the ECP requested KPSC approval to install certain equipment allowing Big Rivers to comply, in the most cost-effective manner, with the U.S. Environmental Protection Agency Cross-State Air Pollution Rule (CSAPR), and Mercury and Air Toxics Standards (MATS). In addition, the ECP filing requested approval to recover the costs of the ECP through an amendment to Big Rivers’ existing environmental surcharge tariff rider, an automatic cost-recovery mechanism that is similar in function to the fuel adjustment clause. Prior to the evidentiary hearing conducted on August 22 and 23, 2012 at the KPSC’s offices, a ruling by the United States Court of Appeals for the District of Columbia Circuit resulted in CSAPR being vacated. On August 22, 2012, with CSAPR vacated and only MATS compliance remaining (at an estimated cost of \$58,440), the parties to the KPSC hearing were able to reach a full and unanimous settlement of all issues related to the ECP case. On October 1, 2012, the KPSC issued an order approving Big Rivers’ ECP. Due to the idlings of the Coleman and Wilson plants, \$1,388 of MATS compliance testing and \$725 of CSAPR stack testing performed at the plants and, previously deferred, was expensed in 2014.

#### **(13) Subsequent Events**

Management evaluated subsequent events up to and including April 3, 2015, the date the financial statements were available to be issued.

See note 3 for information on a new line of credit entered into on March 5, 2015.