



Steven L. Beshear
Governor

Leonard K. Peters
Secretary
Energy and Environment Cabinet

Commonwealth of Kentucky
Public Service Commission
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Chairman

James W. Gardner
Vice Chairman

John W. Clay
Commissioner

October 22, 2008

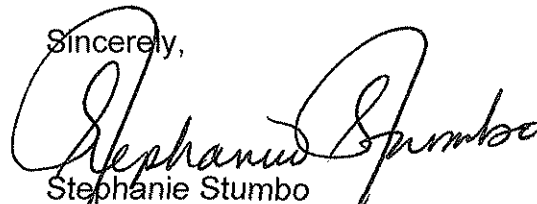
PARTIES OF RECORD:

Case No. 2007-00455

Big Rivers Electric Corporation, et al.

Attached is a copy of the informal conference memorandum which is being filed in the record of the above-referenced case. If you wish to make any comments regarding the contents of the memorandum, please do so within five days of receipt of this letter. Should you have any questions regarding the memorandum, please contact Richard Raff at 502/564-3940, Extension 263.

Sincerely,


Stephanie Stumbo
Executive Director

RGR:v

Enclosure

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2007-00455
FROM: Richard Raff, Staff Attorney *RGR*
DATE: October 21, 2008
SUBJECT: Big Rivers Electric Corporation, et al.

Pursuant to the Commission Staff notice dated October 14, 2008, an informal conference was held on October 20, 2008 at the Commission's offices in Frankfort, Kentucky. As listed in the Staff notice, the purposes of the conference were to discuss the amended application filed on October 9, 2008, the proposed procedural schedule, and other relevant issues, including, but not limited to, the physical condition of Henderson Unit Nos. 1 and 2 and Big Rivers' rate schedule No. 10. A list of the attendees is attached hereto.

Big Rivers made formal presentations on the changes to its unwind financial model and the Third Amendment to Termination Agreement. Copies of these presentations, along with Big Rivers' proposed meeting agenda and proposed procedural schedule are attached hereto. Western Kentucky Energy made a presentation on the current physical condition of the Henderson Generating Unit Nos. 1 and 2 and discussed the historic and projected maintenance on those units. A copy of that presentation is also attached hereto. In response to this discussion, the City of Henderson stated that it would file some information which indicates the basis for its concerns regarding the condition of Henderson Unit Nos. 1 and 2.

The parties then discussed the proposed procedural schedule and agreed that: any data request to the joint applicants would be filed by October 24, 2008; responses thereto to be filed by November 7, 2008; supplemental intervenor testimony to be filed by November 21, 2008; an informal conference (if needed) to be held on November 24, 2008; and a hearing on December 2, 2008. Discussion was held on two conditions precedent that have not been satisfied: (1) consent to the unwind transaction by the City of Henderson; and (2) Big Rivers' receipt of an investment-grade financial rating. Staff questioned why the hearing should be held before these two conditions precedent had been satisfied and suggested that the joint applicants file a motion requesting the scheduling of the hearing date and include therein a discussion of the reasons why the hearing should be held prior to meeting the two conditions precedent.

cc: Parties of Record w/o enclosures

11

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

THE APPLICATIONS OF BIG RIVERS)
ELECTRIC CORPORATION FOR:)
(I) APPROVAL OF WHOLESALE TARIFF)
ADDITIONS FOR BIG RIVERS ELECTRIC)
CORPORATION, (II) APPROVAL OF)
TRANSACTIONS, (III) APPROVAL TO ISSUE)
EVIDENCES OF INDEBTEDNESS, AND)
(IV) APPROVAL OF AMENDMENTS TO)
CONTRACTS; AND OF E.ON U.S., LLC,)
WESTERN KENTUCKY ENERGY CORP.,)
AND LG&E ENERGY MARKETING, INC.)
FOR APPROVAL OF TRANSACTIONS)

CASE NO. 2007-00455

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October 20, 2008 Informal Conference

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Please sign in:

NAME

REPRESENTING

RICHARD RAFF

PSC-LEGAL

Aaron Brunson

PSC - Financial Analysis

Quang D Nguyen

PSC

Daryl Newby

PSC

JEFF WARSON

PSC

Scott Lawless

PSC

Rick Bertelson

PSC - legal

JIM MILLER

BREC

Dennis Howard Jr

UKA

Will Blackburn

Big Rivers

Karl Rapp

SKO for WKE/EON

BOB WUDER

BRATTLE

COMMONWEALTH OF KENTUCKY
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(I) APPROVAL OF WHOLESale TARIFF)
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WESTERN KENTUCKY ENERGY CORP.,)
AND LG&E ENERGY MARKETING, INC.)
FOR APPROVAL OF TRANSACTIONS)

CASE NO. 2007-00455

=====

October 20, 2008 Informal Conference

=====

Please sign in:
NAME

REPRESENTING

Doug Beresford
Mark Bailey
Carl Lyon
David Spainhowerd
Tyson Kamuf
Don Meade
Melissa Yates
Kelly [unclear]
Frank W. King
Jack Gaines
Chuck Brechtel
Jack Ruyter

Big Rivers (Hogan & Hartson)
Big Rivers
Big Rivers (ORRICK)
Big Rivers
Big Rivers (Sullivan, Montjoy, Steinbeck & Miller)
IBEW
JPEC & Meade County
JPEC
Kenergy
Big Rivers
Big Rivers (WEC)
NMP&L

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

THE APPLICATIONS OF BIG RIVERS)
ELECTRIC CORPORATION FOR:)
(I) APPROVAL OF WHOLESALE TARIFF)
ADDITIONS FOR BIG RIVERS ELECTRIC)
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AND LG&E ENERGY MARKETING, INC.)
FOR APPROVAL OF TRANSACTIONS)

CASE NO. 2007-00455

=====

October 20, 2008 Informal Conference

=====

Please sign in:
NAME

REPRESENTING

Mike Kurtz
DAN S BROWN
Katherine S. Allen
Alan Eyre
Russell Klepper
Henry Fayne
Paul a Thompson
Ralph Bowling
Lonnie Bellare
Paul Adams
Deborah Everette
Allyson Sturgeon
Bob Berry

Alcan/Century - KIUC
Alcan/Century
Alcan/Century
Alcan
ALCAN/CENTURY
CENTURY
E.ON U.S.
E.ON-US.
E.ON-US.
AG
E.ON-US
E.ON-US
E.ON-US

A G E N D A

Informal Conference
Case No. 2007-00455
October 20, 2008

- 1) Summary of Changes in the Unwind Financial Model since June 2008
- 2) Overview of Third Amendment to Termination Agreement
- 3) Presentation on Henderson Station Two Generating Units
- 4) Procedural Schedule

**Summary of Changes in the Unwind Financial Model,
June 2008 vs. October 2008**

October 2008

Summary of Changes in Unwind Financial Model, 10/20/08

Contents:

- **Overview**
- **Key Changes in the Financial Model**
- **Transaction Impact (Including Effect of Lease Buyouts)**
 - Sources and Uses of Funds
 - Balance Sheet Impact
- **Change in Projected Revenue Requirement, 2009 - 2023**
- **Effective Rate Impact**
- **Appendices:**
 - A – Production Cost Model
 - B – Changes in Fixed Costs
 - C – Lease Buyout Cash Flow Detail
 - D – Interest Expense Analysis
 - E – Economic Reserve
 - F – Credit Metrics

Summary of Changes in Unwind Financial Model, 10/20/08

Overview:

- **Key events since 6/11/08 filing:**
 - Completion of BoA lease buyout 6/08
 - AMBAC downgrade 7/08
 - Completion of PMCC lease buyout 9/08
 - Updated Production Cost Model run 9/08
 - Amendments to Smelter and Termination Agreements 9/08
 - Updating of the Financial Model 10/08
- **Summary effects since 6/11/08 filed model:**
 - Moderately adjusted transaction economics, with key benefits to Big Rivers preserved
 - Increased revenue impact of approximately 3% through 2023
 - Weighted average effective rate impact as follows (2009-2023):
 - Non-Smelter Members: \$1.38/ MWh
 - Smelters: \$1.49/ MWh
 - Blended: \$1.45/ MWh

Summary of Changes in Unwind Financial Model, 10/20/08

Key Changes in the Financial Model Since 6/11/08 Filing (1):

Transaction

A. Closing Date

- Adjusted from 4/30/08 to 12/31/08

B. Updated Financial Statements, Pre-Close

- 2007 adjusted for actual results
- Projected operations under existing transaction terms extended through year-end 2008, based on Big Rivers budgets

C. Transaction Payments and Debt Reduction

- Cash diverted from RUS prepayment to conserve cash following PMCC lease buyout (approximately \$60m)
- Minor adjustments in cash payment from E.ON to reflect expected inventory values

Summary of Changes in Unwind Financial Model, 10/20/08

Key Changes in the Financial Model Since 6/11/08 Filing (2):

Net Operating Costs

A. Increased Costs

- Fuel costs
- Variable O&M
- Net SO₂ and NO_x allowance costs
- Fixed Costs
- Other

B. Offsets to Increased Costs

- Offsystem sales
- Power purchases
- Economic Reserve
- Other

**Net Impact on Weighted Average Rates = + \$1.11/ MWh through 2023
(blended basis)**

Summary of Changes in Unwind Financial Model, 10/20/08

Key Changes in the Financial Model Since 6/11/08 Filing (3):

Impact of Lease Buyouts (Post-Transaction)

A. Reductions in Revenue

- Discontinuation of net lease income *
- Discontinuation of CoBank patronage

B. Increase in Interest Expense

- Impact of higher RUS debt balances and subsequent capital markets issues in 2011 and after (see Appendix D)

C. Reduction in Net Margin Requirement

- Based on setting of contract TIER at 1.24x
- Removing Sale-Leaseback interest lowers margin requirement, net of increased interest above

**Net Impact on Weighted Average Rates = + \$0.34/ MWh through 2023
(blended basis)**

* Net lease income has consisted of interest earnings on consolidated defeasance investments, interest expense on consolidated lease obligations, and amortization of the gain on the original lease transaction. The interest earnings/ expenses on the defeasance accounts have been discontinued as a function of the lease buyouts, and the unamortized lease gain is modeled as being fully taken into income on the transaction date, and hence, also discontinued post-transaction.

Summary of Changes in Unwind Financial Model, 10/20/08

Key Changes in the Financial Model Since 6/11/08 Filing (4): Smelter Agreements and Rate Structure

A. MRDA

- The Member Revenue Discount Adjustment (MRDA) expires

B. 2% Member Rate Increase Assumption

- The 2% Member rate increase originally assumed under the Smelter Agreements has been removed

C. Adjustment to Smelter Surcharges

- The original Smelter Surcharges have been offset by \$200,000 a month for 96 months

D. Economic Reserve Accounts

- The \$7m Smelter FAC Reserve is paid directly to the Smelters at closing
- Draws on the \$157m Non-Smelter Member Economic Reserve are “feathered” (or graduated) in 2010 – 2012 to smooth rate impact (see also Appendix E)

Summary of Changes in Unwind Financial Model, 10/20/08

Transaction Impact (1):

Sources and Uses of Funds (\$M)

- The principal change to Transaction cash flows is the need to recover approximately \$60m incurred to buy out the Sale Leaseback transactions in 2008
- The \$60m is diverted from prepayment of the RUS Note, to maintain adequate cash balances

	Location in Financial Model	6/08	Delta	10/08	
1	Cash Balance Before Transactions	Proforma, line 174	147	(1)	146
2	<u>Sources</u>				
3	Transaction Cash Payment	Proforma, line 165	384	4	388
4					
5	<u>Uses</u>				
6	Transaction Payments	Proforma, line 167	6	(3)	3
7	Member Economic Reserve	Proforma, line 169	157	-	157
8	Smelter FAC Reserve	Proforma, line 170	7	-	7
12	Recover Outlay on Lease Buyouts	Proforma, line 162	-	60	60
13	Reduce RUS New Note + Accrued Interest	Proforma, line 166	207	(60)	147
14	Total		377	(3)	374
15					
16	<u>Change in Cash</u>				
17	Cash Balance After Transactions *	Proforma, line 174	154	7	14
				6	160

* Including Transition Reserve

Summary of Changes in Unwind Financial Model, 10/20/08

Transaction Impact (2):

Balance Sheet Impact – Unwind Transaction plus Lease Buyouts (\$M)

- Cash and equity enhanced similarly to 6/11/08 filed model
- Slightly improved Equity/ Asset ratio compared to 6/11/08, with Sale Leaseback removed
- RUS prepay is approximately \$140m, rather than the \$200m modeled on 6/11/08

		<i>Location in Financial Model</i>	12/31/08 Before Unwind + w/o Lease Buyouts	Change *	12/31/08 After Unwind + with Lease Buyouts
			Proforma, Column E		Proforma, Column G
1	Net Utility Plant	Proforma, lines 223 + 224 - 225	912	99	1,011
2	Sale-Leaseback Investments	Sale Leaseback, line 8	197	(197)	-
3	Cash & Investments	Proforma, lines 228 thr. 232	146	171	317
4	Other	Line 5 - line 1 - line 2 - line 3	53	40	93
5	Assets		1,308	112	1,420
6	Equities	Proforma, line 248	(139)	511	372
7	Sale-Leaseback Obligation & Unamortized Gain	Proforma, lines 251 + 263	240	(240)	-
8	RUS Debt	Unwind Debt, line 18	765	(140)	626
9	Other	Line 10 - line 6 - line 7 - line 8	441	(18)	423
10	Equities & Liabilities		1,308	112	1,420
	EQUITY/ ASSETS		-11%		26%

* Impact of BoA and PMCC lease buyouts shown consolidated with Unwind Transaction

Summary of Changes in Unwind Financial Model, 10/20/08

Change in Projected Revenue Requirement, 2009 – 2023:

	\$M	\$/ MWh (blended)	Key Drivers
1 <u>Filed Model (6/08)</u>	8,325.2	48.55	
2 <u>Increases from Operations</u>			
3 Fuel Costs	184.5	1.08	<< Increased production and start costs
4 Non-Fuel Variable Production O&M	112.2	0.65	<< Escalating reagent cost
5 Net SO2 and NOX Allowances	24.0	0.14	<< Lower allowance prices in 2009 and 2010
6 Fixed Costs	134.4	0.78	<< Revised budgets from WKE and Big Rivers
7 Other	<u>18.0</u>	<u>0.10</u>	<< Interest earnings, Smelter FAC Reserve
8 Subtotal - Increases	473.1	2.76	
9 <u>Reductions from Operations</u>			
10 Offsystem Sales	(243.5)	(1.42)	<< Higher sales and prices
11 Market Purchases	(20.6)	(0.12)	<< Reduced purchase volumes
12 Member Economic Reserve	(16.2)	(0.09)	<< Feathering/ change in close date
13 Other	<u>(8.6)</u>	<u>(0.05)</u>	<< Revised budgets
14 Subtotal - Reductions	(288.9)	(1.68)	
15 <u>Lease Buyout</u>			
16 Discontinuation of Net Lease Income	36.5	0.21	<< Expense both BoA and PMCC
17 Discontinuation of CoBank Patronage	<u>13.0</u>	<u>0.08</u>	<< Accompanying leases
18 Subtotal - Lease Buyout	49.5	0.29	
19 <u>Interest Expense (Incl. Financing Fees)</u>	45.9	0.27	<< Increased debt for PMCC/ change in close date
20 <u>Net Margin</u>	(37.8)	(0.22)	<< Increased debt for PMCC/ less Sale Leaseback interest
21 <u>Rebate Realized</u>	<u>6.9</u>	<u>0.04</u>	<< Cost changes/ change in close date
22 Total	248.7	1.45	
23 <u>December Close/ \$60.9m Buyout</u>	8,573.9	50.00	

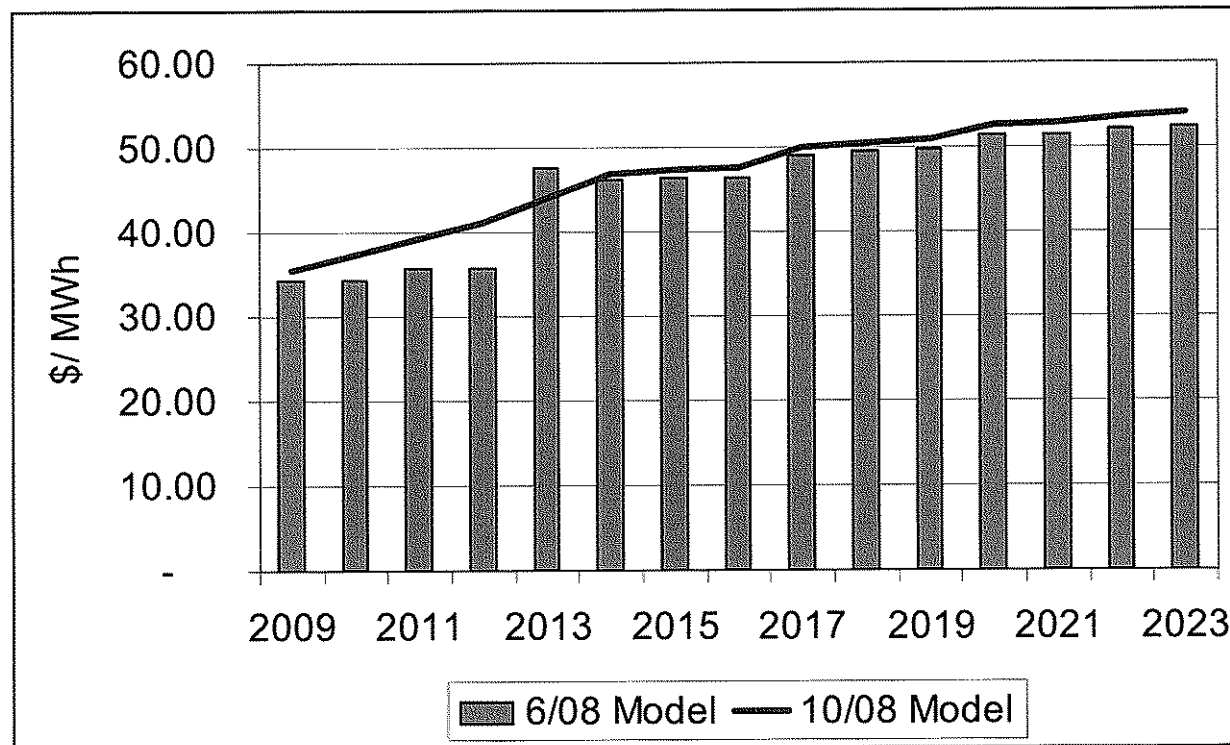
**Lease buyouts
and related net
to \$0.34/ MWh**

Summary of Changes in Unwind Financial Model, 10/20/08

Effective Rate Impact (1):

Non-Smelter Members – Year By Year

- *Weighted average rate impact is \$1.38/ MWh on blended basis*
- *Note that rates are smoothed through 2013 by feathering (gradualism) of Economic Reserve (see also Appendix E)*



Summary of Changes in Unwind Financial Model, 10/20/08

Effective Rate Impact (2):

Non-Smelter Members – Weighted Average: 2009 – 2023 *

	\$/ MWh	Key Drivers
1	46.11	
<hr/>		
2	0.89	<< In connection with credit markets/ lease transactions
3	(0.79)	<< Reduced pressure on General Rate Adjustments
4	(0.18)	<< Reduced power purchases
6	0.63	<< Increases in fuel cost
7	0.69	<< Increases in VOM, net emissions allowance costs
8	0.31	<< Reduction in Surcredit per Smelter Agreements
9	0.08	<< Increases in fixed cost, interest, and other
10	(0.26)	<< Increased coverage from Economic Reserve
13	1.38	
<hr/>		
14	47.49	

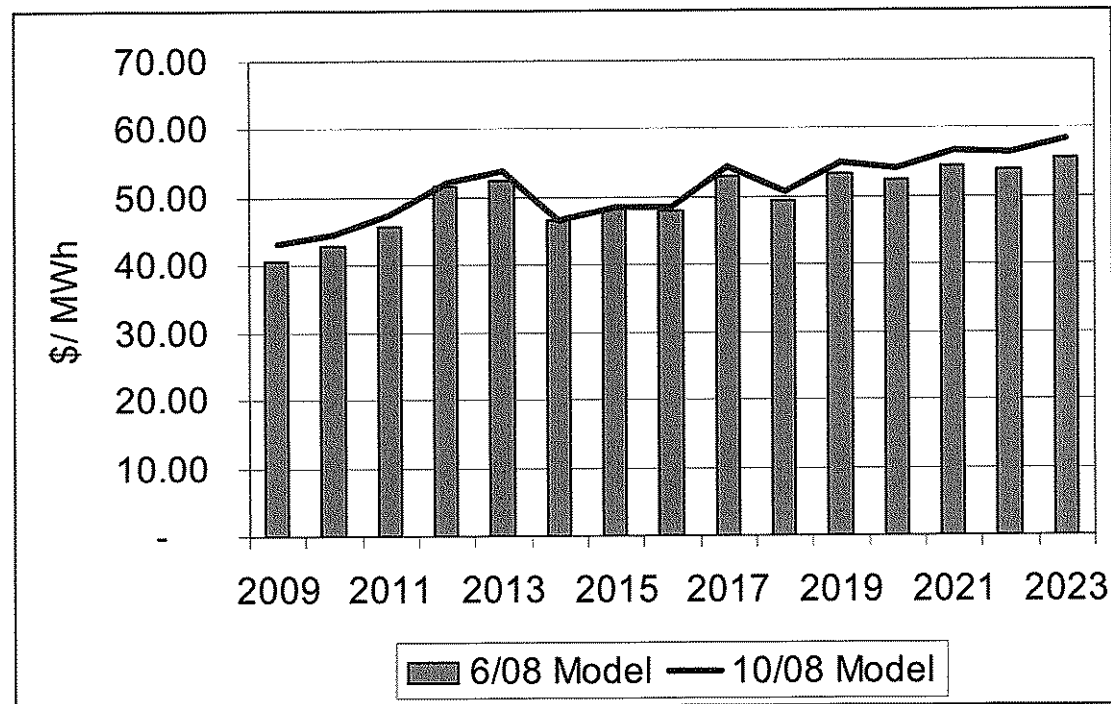
* Rates are shown on a cash basis (i.e. reflecting realization of Rebate calculated on basis of prior year accounting. Weighted average rates for 2009 – 2023 are calculated as follows: i) sum of Non-Smelter Member payments for 2009 – 2023 (Proforma lines 107 and 108), divided by ii) total Non-Smelter Member sales for 2009 – 2023 (Proforma lines 3 and 5).

Summary of Changes in Unwind Financial Model, 10/20/08

Effective Rate Impact (3):

Smelters – Year By Year

- *Weighted average rate impact is \$1.49/ MWh*



Summary of Changes in Unwind Financial Model, 10/20/08

Effective Rate Impact (4):

Smelters – Weighted Average: 2009 – 2023 *

	\$/ MWh	Key Drivers
1	49.93	
2	0.71	<< In connection with credit markets/ lease transactions
3	(0.60)	<< Reduced pressure on General Rate Adjustments
4	0.20	<< Increases in fixed cost, interest, and other
5	0.65	<< Increases in fuel cost
6	0.07	<< Direct payment of Smelter FAC Reserve
7	0.68	<< Increases in VOM, net emissions allowance costs
8	(0.14)	<< Reduced power purchases
9	(0.18)	<< Reduction in Surcharge per Smelter Agreements
10	0.10	<< Increases in fixed cost, interest, and other
11	1.49	
12	51.42	

* Rates are shown on a cash basis (i.e. reflecting realization of Rebate calculated on basis of prior year accounting. Weighted average rates for 2009 – 2023 are calculated as follows: i) sum of Smelter payments for 2009 – 2023 (Proforma line 109), divided by ii) total Smelter sales for 2009 – 2023 (Proforma lines 7 and 9).

Summary of Changes in Unwind Financial Model, 10/20/08

Appendix A – Production Cost Model (1)

Fuel and Variable O&M (2009 – 2023)

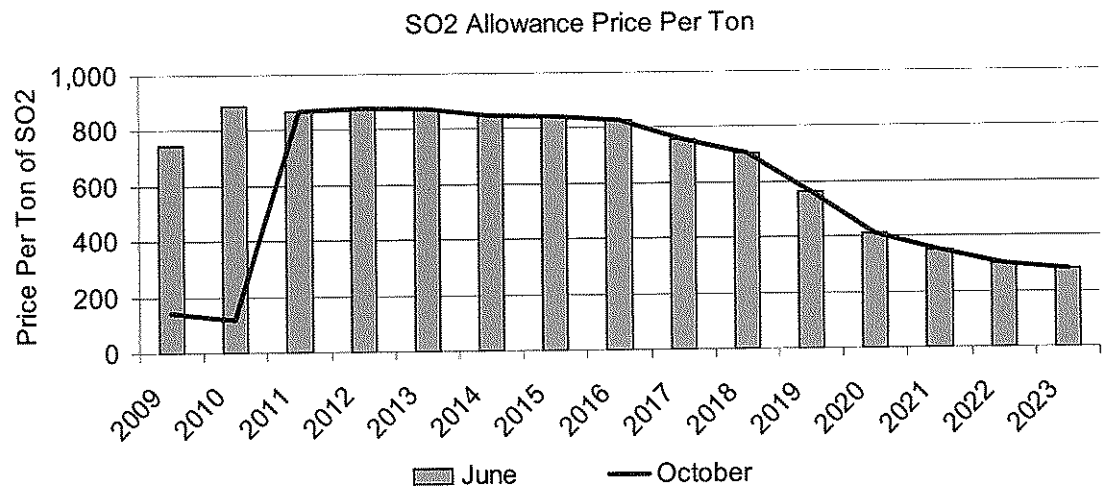
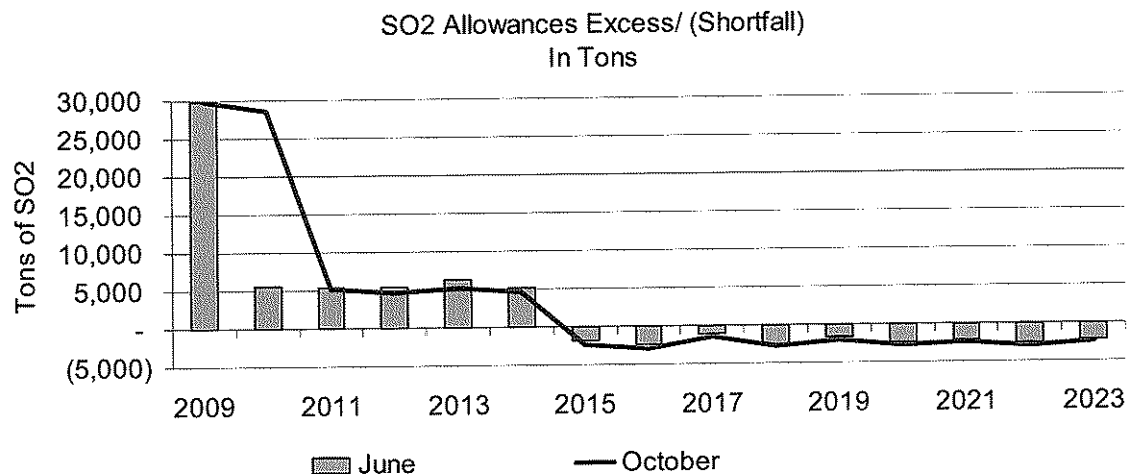
	6/08	Delta	10/08
1 Fuel			
2 Fuel Consumption Millions of MMBtus	1,950	54	2,004
3 Weighted Average Price (\$/ MMbtu)	2.04	0.02	2.06
4 Coal Expense (\$M)	3,973.3	150.3	4,123.5
5 Start Costs (\$M)	142.5	36.3	178.8
6 Kentucky Coal Tax Credit (\$M)	-	(2.1)	(2.1)
7 Total Cost (\$M)	4,115.8	184.5	4,300.3
8			
9 Variable O&M			
10 Production (TWh)	176.96	4.13	181.10
11 Weighted Average Cost (\$/ MWh)	3.53	0.54	4.07
12 Cost (\$M)	624.1	112.2	736.4

Summary of Changes in Unwind Financial Model, 10/20/08

Appendix A – Production Cost Model (2)

SO2 Allowances

- *As indicated at right, CAIR equivalent assumed to come into effect in 2011, instead of 2010*
- *Allowance prices projected below \$200/ton through 2010*
- *Net revenue loss of \$24m is largely:*
 - *concentrated in 2009 and 2010*
 - *price driven*



Summary of Changes in Unwind Financial Model, 10/20/08

Appendix A – Production Cost Model (3)

Offsystem Sales and Purchases (2009 – 2023)

	6/08	Delta	10/08
1 Offsystem Sales			
2 Sales (TWh)	15.17	2.63	17.81
3 \$/ MWh	60.19	4.77	64.96
4 Revenues (\$M; 2009 - 2023)	913.2	243.5	1,156.6
5			
6 Purchases			
7 Purchases (TWh)	11.38	(1.50)	9.88
8 \$/ MWh	45.48	4.82	50.29
9 Costs (\$M; 2009 - 2023)	517.5	(20.6)	496.9

Summary of Changes in Unwind Financial Model, 10/20/08

Appendix B – Changes in Fixed Costs

2009-2023

		\$M	\$/ MWh (blended)	Key Drivers
1	Fixed Cost Breakout			
2	A&G	69.0	0.40	<< Revised budgets from WKE and Big Rivers
3	Fixed Production O&M	43.5	0.25	<< Revised budgets from WKE and Big Rivers
4	Marketing Fees	18.7	0.11	<< APM Fees
5	Other	3.2	0.02	<i>Access Power Marketing</i>
6	Total	134.4	0.78	

Summary of Changes in Unwind Financial Model, 10/20/08

Appendix C – Lease Buyout Cash Flow Detail (\$M, Year-End Net Basis)

	BoA Buyout	PMCC Buyout	Total
1 Terminal Value (Net)	(40.0)	(214.0)	(254.0)
2 Guaranteed Investment Contract	33.9	92.6	126.5
3 Net Impact of B Loan Payoff	-	(0.3)	(0.3)
4 Net	(6.1)	(121.7)	(127.8)
5 Third Party Contributions	5.1	60.9	66.0
6 Net Impact of B Loan Payoff	2.2	-	2.2
7 Net Cash Flow	1.2	(60.9)	(59.6)

Shown in Financial Model on Profoma, line 116

Summary of Changes in Unwind Financial Model, 10/20/08

Appendix D – Interest Expense Analysis (\$M)

Higher RUS Debt into 2012

Additional Capital Markets borrowings in 2012 and after

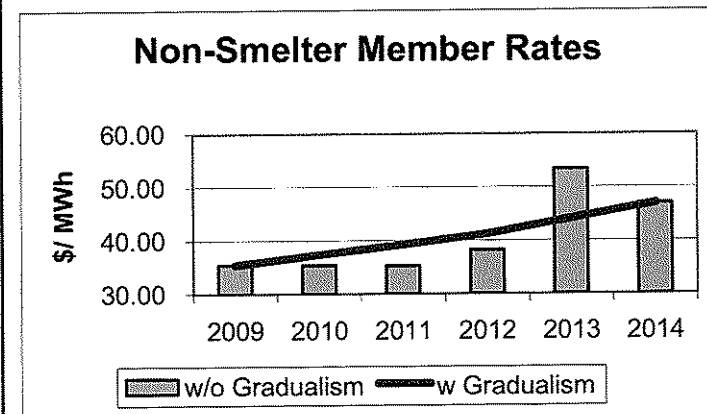
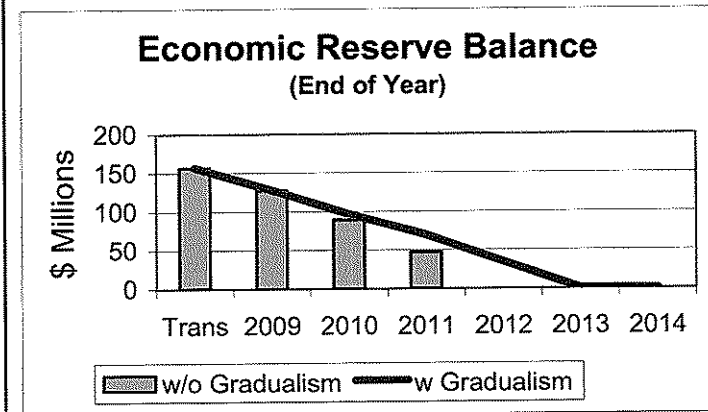
	Tot.	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Filed Case (6/08)																
1	Capital Markets	-	-	-	-	-	-	-	11.5	11.5	11.5	11.5	11.5	11.5	10.8	8.0
2	RUS	33.8	32.8	31.8	30.7	29.5	28.3	27.0	13.9	11.8	9.6	7.2	4.7	2.1	(0.0)	(0.0)
3	ARVP	6.2	6.6	7.0	7.4	7.9	8.3	8.8	9.3	9.9	10.5	11.1	11.7	12.4	13.2	14.0
4	PCB	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1
5	Line of Credit	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
6	Interest Capitalized	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
7	AMBAC Amortized	3.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Fees Amortized	-	-	-	-	-	-	-	0.5	0.5	0.6	0.6	0.7	0.7	0.6	0.4
9	Total	50.7	46.2	45.5	44.9	44.1	43.3	42.5	42.0	40.5	38.8	37.1	35.3	33.4	31.3	29.1
Delta																
1	Capital Markets	40.9	-	-	4.1	4.1	3.4	2.7	2.2	2.2	2.2	3.6	3.6	3.6	4.3	4.8
2	RUS	8.8	2.6	2.8	3.0	2.1	(0.2)	(0.3)	(0.3)	(0.4)	(0.2)	(0.2)	(0.2)	0.4	0.0	0.0
4	ARVP	(2.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
5	Fees Amortized	(1.8)	-	-	0.0	0.0	0.0	0.0	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.1
6	Total	45.9	2.5	2.7	2.9	6.1	3.8	3.1	2.3	1.4	1.6	3.0	3.0	3.5	3.8	4.6
December Close/ \$60.9m Buyout																
1	Capital Markets	-	-	-	4.1	4.1	3.4	2.7	13.6	13.6	13.6	15.1	15.1	15.1	15.1	12.8
2	RUS	36.4	35.6	34.8	32.8	29.3	28.0	26.6	13.5	11.6	9.4	7.0	4.6	2.4	-	(0.0)
3	ARVP	6.2	6.5	6.9	7.3	7.7	8.2	8.7	9.2	9.7	10.3	10.9	11.6	12.3	13.0	13.8
5	PCB	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1
4	Line of Credit	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
6	Interest Capitalized	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
7	AMBAC Amortized	3.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Fees Amortized	-	-	-	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
9	Total	53.1	48.9	48.4	51.0	47.9	46.4	44.8	43.5	42.0	40.4	40.1	38.4	36.9	35.2	33.7

Summary of Changes in Unwind Financial Model, 10/20/08

Appendix E – Economic Reserve

More gradual draws on Economic Reserve (red lines below) buffer what would otherwise be 40% rate increase in 2013

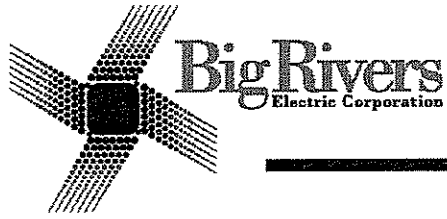
	Trans	2009	2010	2011	2012	2013	2014
<u>Impact on Economic Reserve Balance (\$M; EOY)</u>							
With Gradualism	157	128	97	70	34	-	-
Without Gradualism	157	128	90	48	-	-	-
<u>Impact on Non-Smelter Member Rates (\$/ MWh)</u>							
With Gradualism		35.45	37.42	39.29	41.26	44.14	47.01
% Change			6%	5%	5%	7%	7%
Without Gradualism		35.45	35.42	35.29	38.25	53.42	47.01
% Change			0%	0%	8%	40%	-12%



Summary of Changes in Unwind Financial Model, 10/20/08

Appendix F – Credit Metrics

	Min.	T	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<u>Equity/ Assets</u>																	
Filed Case (6/08)	24%	24%	25%	26%	28%	29%	30%	31%	32%	33%	34%	36%	37%	38%	39%	41%	42%
December Close/ \$60.9m Buyout	26%	26%	27%	28%	28%	31%	33%	34%	31%	37%	38%	39%	40%	42%	43%	44%	45%
<u>Conventional TIER</u>																	
Filed Case (6/08)	1.22	na	1.27	1.22	1.27	1.27	1.28	1.29	1.29	1.29	1.29	1.30	1.30	1.30	1.31	1.31	1.32
December Close/ \$60.9m Buyout	1.27	na	1.27	1.27	1.27	1.27	1.29	1.29	1.29	1.30	1.30	1.31	1.31	1.32	1.32	1.33	1.34
<u>Debt Service Coverage</u>																	
Filed Case (6/08)	1.32	na	1.61	1.32	1.43	1.58	1.55	1.89	1.68	1.47	1.51	1.56	1.51	1.56	1.53	1.49	1.47
December Close/ \$60.9m Buyout	1.44	na	2.24	1.97	1.45	1.77	1.45	1.61	1.46	1.44	1.57	1.61	1.56	1.65	1.98	1.96	1.93
<u>Ending Cash Balances (\$M; Unrestricted + Transition Reserve; Excluding Line of Credit)</u>																	
Filed Case (6/08)	74	178	147	113	88	74	77	102	112	113	115	116	112	114	112	107	100
December Close/ \$60.9m Buyout	73	160	137	142	162	104	86	89	282	77	73	96	85	83	90	96	97



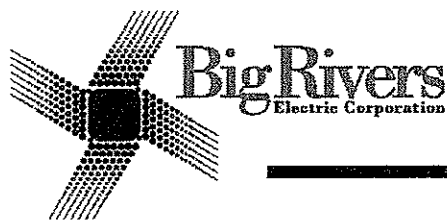
Third Amendment to Termination Agreement

Informal Conference

October 20, 2008

A Touchstone Energy[®] Cooperative





Third Amendment Review

Payments

- At Closing WKEC will pay BREC ½ of net PMCC buyout (approx. \$61 million), plus \$172,500.
- At closing BREC will pay WKEC net book value for 16 barges (as of 12/31/08 \$1.298 million).

Solid Fuel Stock Inventory-Minimum 30 days at each site

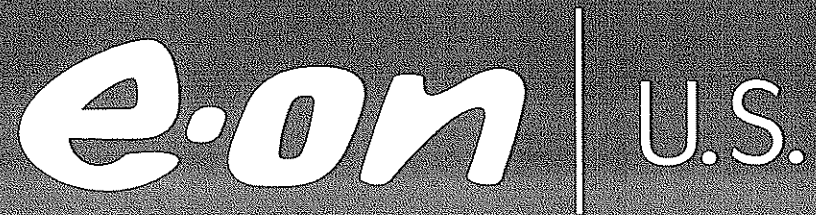
SO2 Allowances-Adds schedule for SO2 allowances apportionment for 1st quarter 2009



Third Amendment Review

Agreements on Operation of Plants Prior to Closing

- Classes of issues identified and resolved
 - Procedures to eliminate future amendments
 - Indemnifications against permit renewal delays or denials and administrative penalties
 - Projects to be completed by WKEC
 - Change to recognize later closing date



Station Two Condition and Status of HMP&L Consent

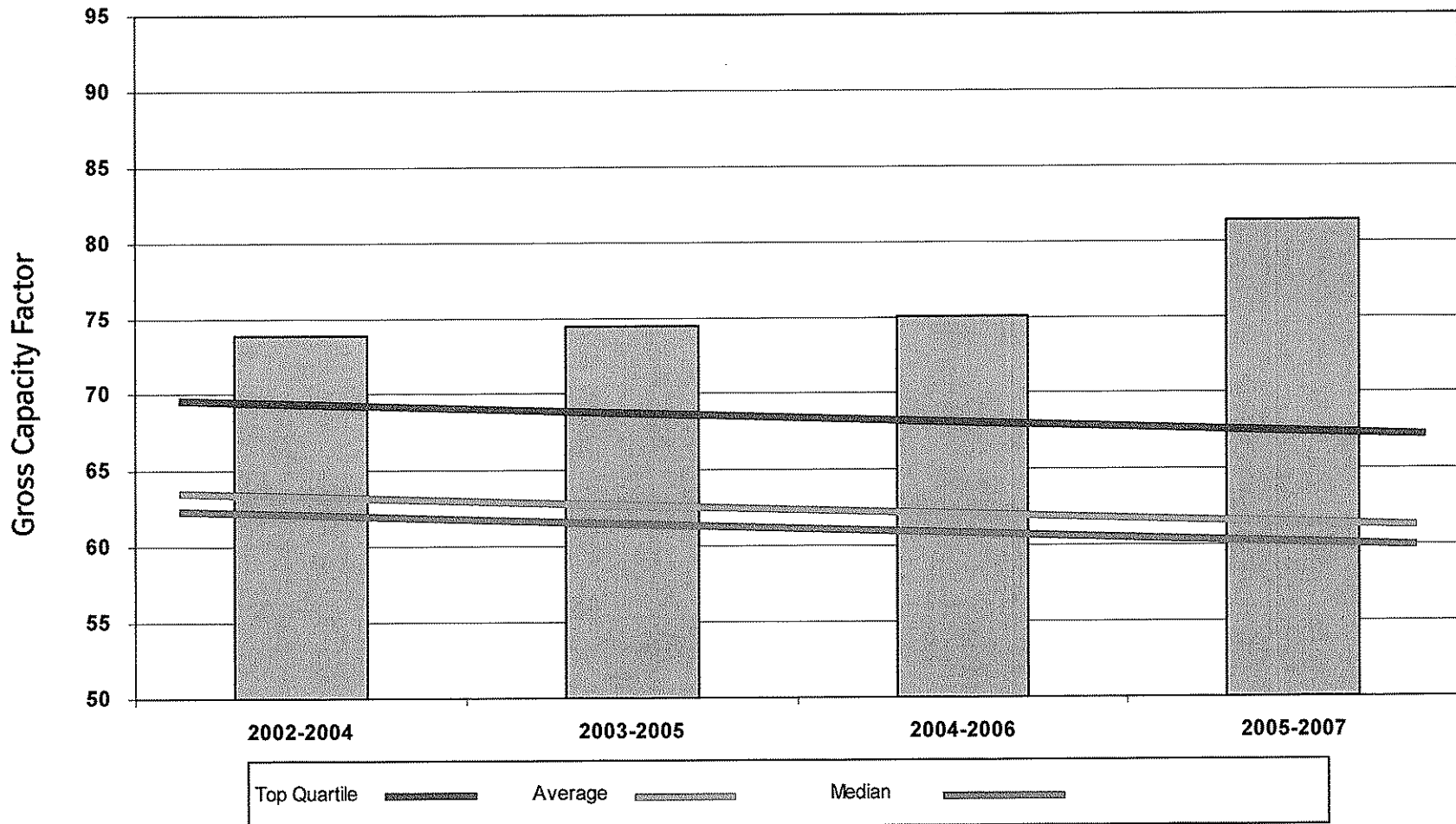
Informal Conference at the Kentucky Public Service Commission
October 20, 2008

WKE has a solid track record of operating Station Two

- Station Two annual generation has increased
- Station Two is in the 2nd quartile (and above the median) in terms of performance for similar units in the Midwest
- Since 1998, WKE has overseen major capital improvement and has paid for 70+% of these project costs such as:
 - SCR installation
 - Replacement of analog unit controls with distributive control systems
 - Replacement of major boiler components

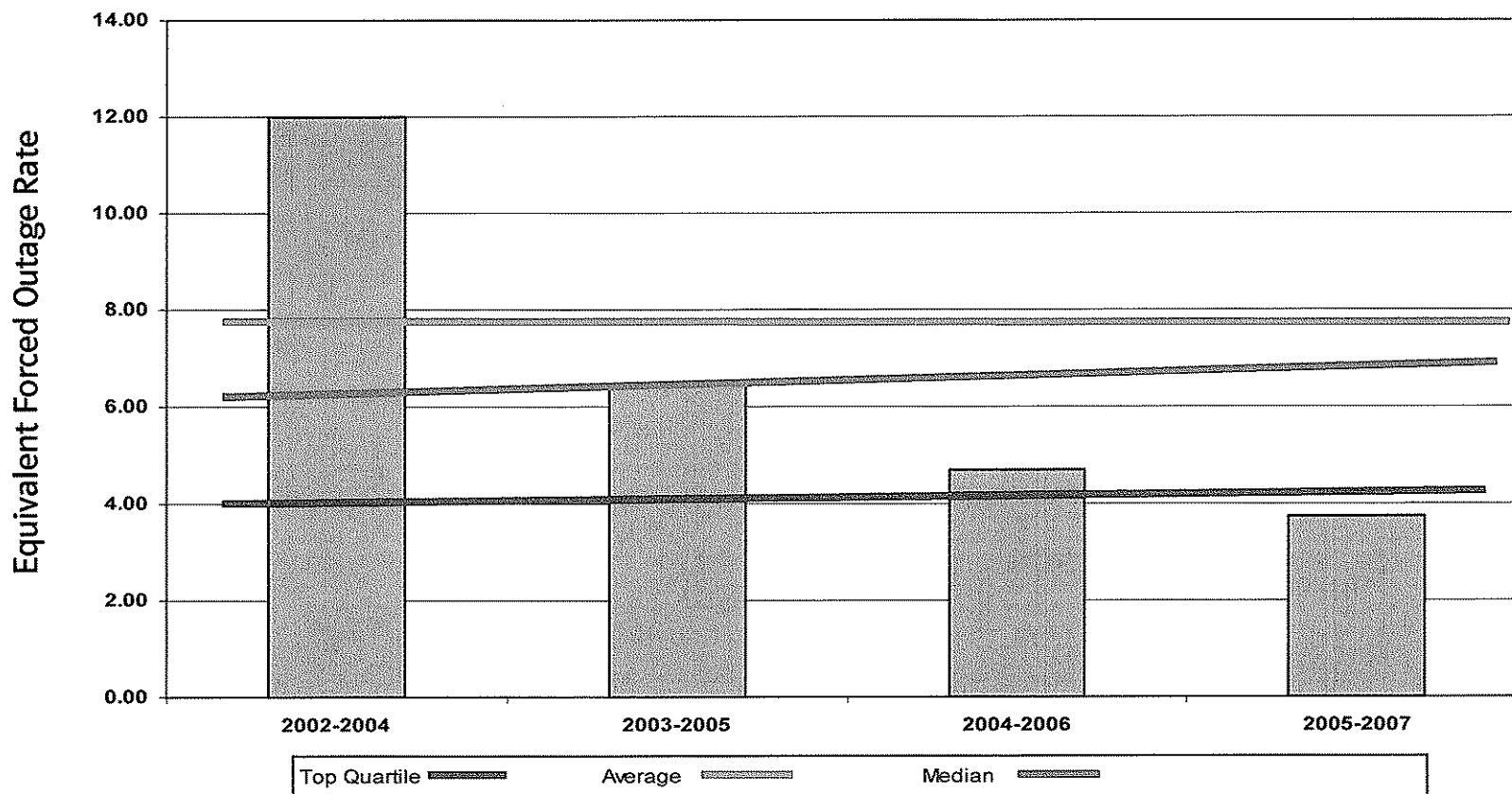
Station Two continuously operates at top quartile levels

100 MW - 200 MW Units



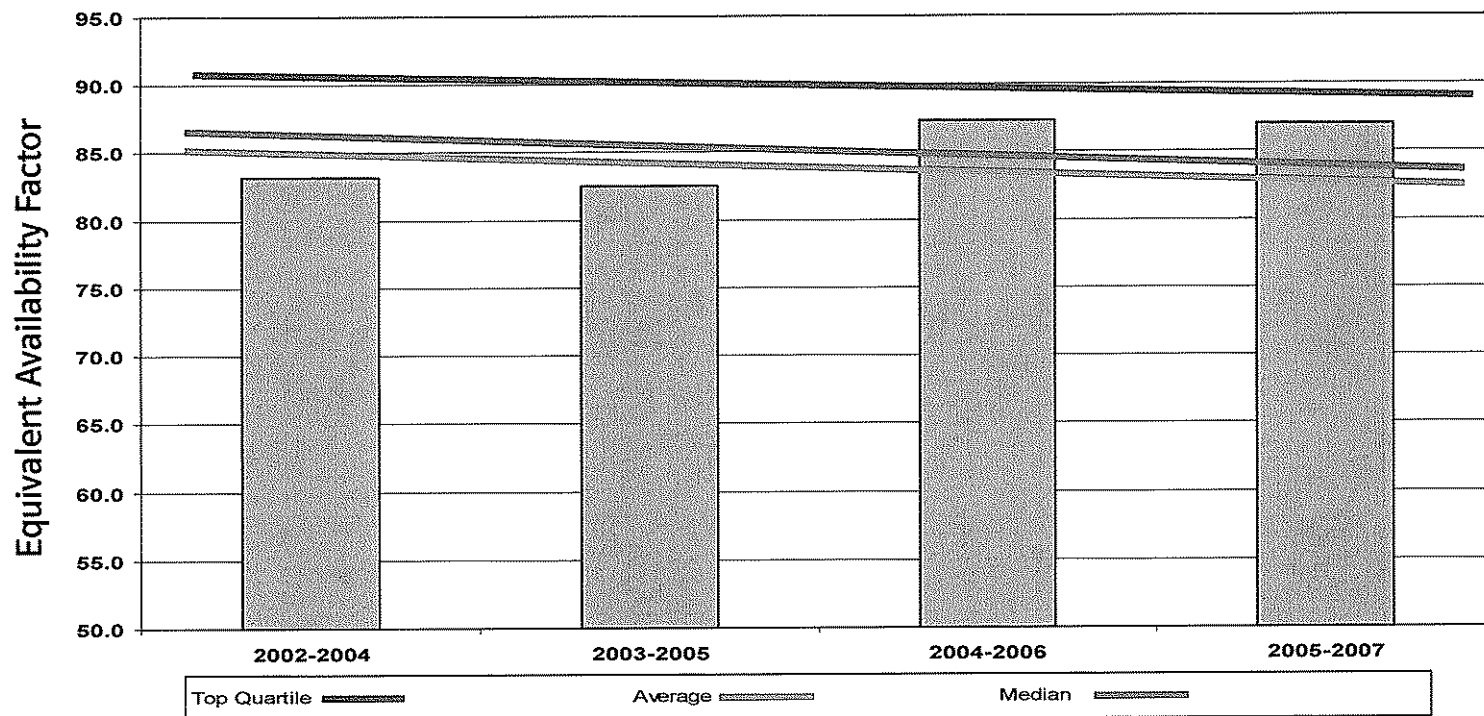
Station Two Equivalent Forced Outage Rate continues to improve and is better than panel median

100 MW - 200 MW Units



Station Two availability continues to improve and is better than panel median

100 MW – 200 MW Units



HMP&L has fully participated in Station Two operations

- HMP&L reviews and approves the Station Two budget
- HMP&L is free to request additions, cancellations or deferrals of projects in the budget
- HMP&L staff reviews and approves all expenditures
- HMP&L Board approves all expenditures over \$20,000
- HMP&L has full access to the station and has someone who works on site
 - HMP&L staff attend all daily planning meetings
 - HMP&L staff attend all outage-related meetings

HMP&L has constrained WKE's proposed capital and O&M plans

- In fiscal years 2006 to 2008, HMP&L has deferred or cancelled over \$11 million in capital and O&M projects proposed by WKE
- Since WKE began operations in 1998, HMP&L has never requested an increase in WKE's proposed budget
- Recent HMP&L plant condition reports allege numerous maintenance issues which were in fact items that were deferred by HMP&L
- Even after raising concerns about plant conditions during unwind negotiations with WKE, HMP&L has continued to request cuts in the Station Two budget

Big Rivers should be confident that Station Two will perform as planned

- Big Rivers has performed the necessary evaluation to be comfortable with the existing condition of Station Two
- Big Rivers has proposed increases over WKE's Station Two capital and O&M budget which should sustain or enhance existing plant performance
- Section 16.1 of the Transaction Termination Agreement protects Big Rivers from any future claims by HMP&L against it for WKE's breach or default under the Station Two-related agreements that occurred during WKE's operation

HMP&L has been offered compensation for its consent

- HMP&L is being asked to change the termination date on the existing agreements.
- If HMP&L believes WKE did not comply with its obligations, the existing contracts (which were vigorously negotiated by HMP&L in 1998) give HMP&L rights and remedies to bring claims against WKE. These rights and remedies would survive an early termination due to the unwind transaction.
- E.On U.S. would pay HMP&L at closing:
 - \$1 million for its consent to the unwind transaction
 - \$3 million into an escrow account to be used solely for the purpose of reimbursing HMP&L for its share of Station Two capital costs incurred after the closing
 - Up to \$1.4 million for HMP&L's out-of-pocket 3rd party costs related to the unwind transaction
- Big Rivers has offered to enhance the existing contracts relating to HMP&L's "excess energy" by agreeing to purchase all of the available excess energy from HMP&L and by increasing the fee to \$2.50/MWH.
- With E.On U.S.' proposal, a dispute regarding WKE's operation of Station Two should not be a reason for HMP&L to refuse to consent to the unwind transaction.

EXHIBIT 88

PROPOSED PROCEDURAL SCHEDULE

Filing Motion to Amend Application	10/9/08
Informal Conference	10/17/08
Data requests on filing to applicants filed	10/21/08
Applicants' responses to data requests filed	11/4/08
Supplemental intervenor testimony filed	11/18/08
Informal Conference (if needed)	11/24/08
Hearing commences in Hearing Room 1 at 9:00 a.m.	12/2/08
Simultaneous briefs of parties filed	12/16/08
Commission order issued	1/23/09

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