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Chairman

James W. Gardner
Vice Chairman

John W. Clay
Commissioner

June 15, 2009

PARTIES OF RECORD

Re: Case No. 2007-00455

Attached is a copy of the memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the informal conference memorandum, please do so within five days of receipt of this letter. If you have any questions, please contact Rick Bertelson at 502/564-3940, Extension 260.

Sincerely,

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

Jeff Derouen
Executive Director

RB/ew

Attachment

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File

FROM: Rick Bertelson, Staff Attorney

DATE: June 15, 2009

SUBJECT: Case No. 2007-00455
Big Rivers Electric Corporation, et al.

Pursuant to the Commission Staff notice dated June 2, 2009, an informal conference ("IC") was held on June 3, 2009 at the Commission's offices in Frankfort, Kentucky. As listed in the Staff notice, the purpose of the conference was to discuss issues related to the closing of the Unwind Transaction. A list of the attendees is attached hereto, including those participating by telephone.

The applicants stated that they have not been able to close the Unwind Transaction, due primarily to the decision of one of the necessary parties, Century Aluminum ("Century"), that it could not close the Unwind under the terms of its proposed purchase power agreement. Century's decision not to give its consent to the Unwind Transaction is a result of the currently low market prices of both aluminum and wholesale electric power due to the worldwide economic downturn of 2008-2009. According to Century, this drop in market prices could cost the smelter millions of dollars annually from a combination of lower profits on aluminum sales and deficiency payments for power not consumed being resold at wholesale market prices well below the price in Century's power contract.

According to E.ON and Century, the companies have been negotiating to resolve this problem but they have not been able to agree on a solution that might alleviate some of the risks for Century. However, Century and E.ON intend to continue discussions in hope of reaching an agreement that satisfies both companies' needs in order to proceed with the closing of the Unwind Transaction under the existing framework of the proposed smelter power contracts.

Big Rivers stated that, without the Unwind Transaction, it must devote its full attention to pursuing its pending rate case. Following its buyout of the Philip Morris Credit Corporation leveraged lease in 2008, it has had very low cash reserves, and, stressing that it is not a large company, Big Rivers said that it cannot continue to devote personnel and resources to the Unwind Transaction for an unlimited amount of time. Big Rivers estimates that administrative expenses, legal fees, and other costs related to the Unwind Transaction total approximately \$600,000 per month.

Big Rivers also noted that Moody's withdrew its investment grade credit rating of Big Rivers based upon Century's decision not to go forward with closing the Unwind Transaction. A copy of Moody's press release regarding the withdrawal was handed out and is attached hereto.

E.ON stated that it is considering a plan whereby the parties may be able to close the Unwind Transaction without Century. Under the proposal, Century would remain under its current purchase power agreement, which expires at the end of 2010. E.ON stated that, at that time, Century would have to work with either Kenergy or Big Rivers directly to acquire a new contract for electric power. E.ON stated that it discussed this proposal with Big Rivers and Rio Tinto Alcan and that both were receptive to the idea. However, Century stated that it had no knowledge of this proposal and could not express any opinion until it had reviewed a written version of the proposal.

Big Rivers acknowledged that, absent a contractual agreement to sell power to the smelters, there had been no resolution of whether or not Big Rivers has a legal obligation to sell power to the smelters at cost-of-service rates, and that this issue would eventually need to be resolved if one or both smelters continue to be served under their respective existing contracts..

Big Rivers was asked if it had completed enough of the transmission line project, which was approved in Case No. 2007-00177, to allow the power currently taken by the smelters to be resold on the wholesale market if one or both smelters shut down. Big Rivers stated that Phase I of the transmission line project is complete, allowing it sufficient transmission capacity to transmit the entire load of either smelter.

E.ON was asked whether it could take all or some of Century's approximate 400 MW load for a period of time and, if Century still needed some of that power, E.ON could sell the power back to Century. Century noted that its negotiations with E.ON were for this type of an arrangement, while E.ON noted that the amount of Century's load to be purchased was the sticking point, as the companies have not been able to agree on the precise level of risk-sharing.

Century stated that it continues to support the Unwind but cannot close unless it has a "backstop" to lessen its risk due to the currently low prices for both aluminum and wholesale market power.

E.ON proposed, and the other parties agreed, to meet again at the Commission's Frankfort offices on June 16, 2009 to discuss terms for reaching an agreement on closing the Unwind Transactions. E.ON agreed to provide a written outline to the parties of how the proposal to close the Unwind Transaction without Century would work. E.ON will also file a motion with the Commission detailing its request for the informal conference and explaining the need for the parties to meet individually with

Commission Staff. By filing this motion, any objections to Staff's performing that role can be raised and addressed prior to the conference.

Finally, E.ON requested that the Commission take no action with respect to the March 6, 2009 Order before the June 16, 2009 informal conference. Commission Staff stated its opinion that the Commission sees no need to act immediately, but if the parties are unable to reach an agreement in the near future to close the Unwind transaction, the Commission will then likely need to address the final disposition of the March 6, 2009 Order.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATIONS OF BIG RIVERS ELECTRIC)
CORPORATION FOR: (1) APPROVAL OF)
WHOLESALE TARIFF ADDITIONS FOR BIG RIVERS)
ELECTRIC CORPORATION, (2) APPROVAL OF)
TRANSACTIONS, (3) APPROVAL TO ISSUE) CASE NO. 2007-00455
EVIDENCES OF INDEBTEDNESS, AND (4))
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)

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June 3, 2009 Informal Conference

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Please sign in:

NAME	REPRESENTING
<u>Jeff Drown</u>	<u>PSC</u>
<u>Rick Bertelson</u>	<u>PSC - Legal</u>
<u>Scott Larless</u>	<u>PSC</u>
<u>Aaron Duenowell</u>	<u>Ky PSC - FA</u>
<u>Mark Bailey</u>	<u>Big Rivers</u>
<u>JIM MILLER</u>	<u>Smsm/ Big RIVERS</u>
<u>Paul R. Run</u>	<u>STO of E.ON</u>
<u>PAUL THOMPSON</u>	<u>E.ON US</u>
<u>Tim Dawdy</u>	<u>E.ON US</u>
<u>Dan Arburgh</u>	<u>E.ON US</u>
<u>Allyson Sturgeon</u>	<u>E.ON US</u>

NAME

REPRESENTING

Lonnie Bellan

EON US

David Sieder

EON US

KENT BLAKE

E.ON U.S.

David Spainhowerd

Big Rivers

Anna Eyre

Rio Tinto / Alcan

Mike Kurtz

Alcan / Century / KIUC

Amil C. Brown

Alcan / Century

WAYNE HAZE

CENTURY

By Phone:

CB West

H MPL

Frank King

Kemergy

Benoit Pepin

Rio Tinto Alcan

Carl Lyons

Big Rivers

Melissa Yates

Mead Co. RECC / Jackson

Kelly Knuckles

Jackson Purchase

Wayne Thompson

H MPL

Richard Ruff

PSC - legal

Helen Helton

PSC - legal



Rating Action: Ohio (County of) KY

Moody's withdraws (P)Baa1 rating of County of Ohio, Kentucky

Approximately \$83.3 million of proposed securities affected

New York, June 01, 2009 -- Moody's Investors Service withdrew the (P)Baa1 senior secured rating previously assigned to a proposed offering of \$83.3 million of County of Ohio, Kentucky Pollution Control Revenue Refunding Bonds (Big Rivers Electric Corporation Project), which were to be issued on behalf of Big Rivers Electric Corporation (Big Rivers). The rating withdrawal follows a decision by Century Aluminum of Kentucky, a wholly owned subsidiary of Century Aluminum Company, not to proceed as originally planned with their contractual role in a series of steps to unwind the existing lease agreements between Big Rivers and E.ON U.S. LLC. After closing of the unwind of the lease agreements, Big Rivers had planned to cause the County of Ohio to proceed with the issuance to refund \$83.3 million in aggregate principal amount of Pollution Control Refunding Revenue Bonds, Series 2001A (Big Rivers Electric Corporation Project) outstanding, which were previously issued on behalf of Big Rivers by the County of Ohio, Kentucky. The prior bonds were Periodic Auction Reset Securities that were insured as to the payment of principal and interest when due by Ambac Assurance Corporation. The previously proposed offering of bonds were intended to represent standalone senior secured obligations of Big Rivers Electric Corporation, ranking on parity with all of Big Rivers' existing debt under its first mortgage bond indenture. Since the unwind of the lease agreements cannot proceed without the participation of all participants in its current structure, Big Rivers does not currently plan to proceed with the proposed offering.

The principal methodology used in rating Big Rivers Electric Corporation's obligation under the proposed bonds was U.S. Electric Generation & Transmission Cooperatives, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

The last rating action was March 13, 2009 when Moody's assigned a (P)Baa1 senior secured rating and stable outlook for Big Rivers, representing the first time that Moody's had assigned a rating to bonds representing a standalone obligation of Big Rivers.

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

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