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January 4, 2010

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PUBLIC SERVICE
COMMISSION

Jeff DeRouen
Executive Director
Public Service Commission
211 Sower Boulevard, P.O. Box 615
Frankfort, Kentucky 40602-0615

Re: Big Rivers Electric Corporation
PSC Case No. 2009-00441

Dear Mr. DeRouen:

Enclosed are an original and eight copies of the response of Big Rivers Electric Corporation to the Public Service Commission Staff's First Data Request. I certify that we have today mailed a copy of these responses to each of the persons on the attached service list.

Sincerely yours,

James M Miller

James M. Miller

JMM/ej
Enclosures

cc: Bill Blackburn
Albert Yockey
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RESPONSE OF BIG RIVERS ELECTRIC CORPORATION
TO COMMISSION STAFF'S FIRST DATA REQUEST
DATED DECEMBER 17, 2009
PSC CASE NO. 2009-00441
JANUARY 4, 2009

PSC 1-1) ***Refer to paragraph 5 on page 3 of Big Rivers' November 13, 2009 application ("the application"). Provide a definition or description of the term "Dutch auctions."***

Response) The term "Dutch auction" is an industry term which describes the method that was typically used in the municipal bond markets to determine the interest rate on "auction rate securities", or ARS, including the 2001A Bonds. Generally, according to the auction procedures in place with respect to the 2001A Bonds, at the end of an auction period (which may range from one day to six months) holders of ARS may submit,

- "hold orders" which state that the holder will agree to hold his or her ARS for the next auction period no matter what interest rate is set in the auction;
- "sell orders" which state that the holder will agree to sell his or her ARS in the next auction no matter what interest rate is set for the ARS; or
- "bid orders" which state the minimum interest rate at which the holder will agree to continue to hold his or her ARS for the next auction period. Bid orders may also be placed by members of the investing public.

Once all orders are submitted to an auction agent, the auction agent will then determine, (1) the number of "available bonds," which are ARS not subject to hold orders; and (2) whether there are "sufficient clearing bids," that is, whether there are at least as many sell orders as there are bid orders at an interest rate that would result in all "available bonds" being purchased.

Finally, the auction agent then determines the lowest rate specified in any bid order which if selected would cause the amount of ARS that are the subject of bids specifying a rate not greater than the one selected to be equal to (or greater than) the amount of available bonds. This is referred to as the winning bid rate, which will be the interest rate for the next auction period.

Witness) C. William Blackburn

PSC 1-2) ***Refer to the latter portion of paragraph 7 on page 5 of the application.***

a. ***Describe, generally, the ways in which Big Rivers' credit might be enhanced.***

b. ***Explain whether delivery of a guaranty as described in paragraph 10 of the application is considered an enhancement of Big Rivers' credit.***

Response)

a. Generally speaking, Big Rivers' credit might be enhanced using one of three methods: a bond insurance policy; a guaranty; or a letter of credit. In all three circumstances, Big Rivers would cause an entity, referred to as the credit enhancer, to make a promise to pay when due the principal of and interest on the 2010A Bonds. In each case, the credit enhancer would have a credit rating higher than Big Rivers'. In consideration for its promise to make principal and interest payments, the credit enhancer would be paid a fee or premium and would be afforded certain consent and approval rights under the primary bond documents. The primary bond documents would provide, generally, that at each interest or principal payment date, the trustee for the 2010A Bonds would inform the credit enhancer whether or not Big Rivers had made provision for payments due on that date. To the extent Big Rivers fails to make any such payments and there is a shortfall on any payment date, upon notice from the trustee, the credit enhancer would make the scheduled payments. The credit enhancer would then look to Big Rivers' to repay amounts expended by it.

As a result of these arrangements, rating agencies and the investing public would look to the credit enhancer's credit rating as the rating on the 2010A Bonds instead of Big Rivers'.

<u>Bond Insurance</u>. Historically, bond insurance has been a relatively common way to enhance the credit rating assigned to a series of bonds. Indeed, this was the method

used in connection with the issuance of the 2001A Bonds. A municipal bond insurance company issues an insurance policy, which promises to pay the principal of and interest on the bonds when due to the extent not paid by the issuer. In the past two years, a number of bond insurers have undergone severe credit downgrades resulting from their exposure to the difficulties in the mortgage-backed securities market. There are now an extremely limited number of highly rated bond insurers and the ones that remain have begun to charge insurance premiums that have made bond insurance an expensive method of credit enhancement.

Guaranty. A guaranty is similar to a bond insurance policy in that it represents a promise by an entity other than the issuer to pay when due the principal of and interest on the bonds. The guarantor is paid either a periodic or one-time guaranty fee and is afforded similar approval and consent rights as a bond insurer would expect under the primary bond documents. Guarantees may be obtained from a wider pool of entities than municipal bond insurers, such as a bank or other financial institution.

Letter of Credit. A letter of credit is another form of credit enhancement that would be available to an issuer like Big Rivers. A letter of credit would represent a promise by the bank issuing the letter of credit to pay when due principal of and interest on the bonds. The issuing bank would deliver the letter of credit to the trustee for the bonds. The trustee has the right to draw amounts under the letter of credit sufficient to make principal and interest payments on the bonds when funds are otherwise unavailable therefor. After any draw on a letter of credit is made, Big Rivers would be required to repay the issuing bank in accordance with the terms of the letter of credit.

Typically, letters of credit have terms of less than two or three years, which means that periodically Big Rivers would be required to renew the letter of credit, find a substitute letter of credit or, if the letter of credit is not renewed or replaced, be prepared to purchase 2010A Bonds at the option of the holders, referred to as a "put" option. In letter of credit transactions, a bondholder typically has the right to "put," or tender its bonds to the issuer, if the letter of credit is not renewed or replaced. Even if the letter of credit can be renewed or a substitute letter of credit can be found, the cost could be prohibitive to Big Rivers. Also, the 2010A Bonds would be remarketed each time a substitute letter of credit is obtained, leaving Big Rivers exposed to changes in interest rates. In refunding the 2001A Bonds, Big Rivers intends to eliminate the risks associated with short-term debt. A letter of credit, as a result of its term limitations, becomes another form of short-term debt with inherent risks.

b. The Guaranty described in paragraph 10 of the application would be considered an enhancement to Big Rivers' credit. Under the terms of the Guaranty, CFC will promise to pay when due the principal of and interest on the 2010A Bonds. As a result of this arrangement, ratings agencies and the investing public are expected to substitute the credit rating of CFC for that of Big Rivers, and Big Rivers expects to obtain a pricing benefit on the 2010A Bonds. Big Rivers explored each of the credit enhancement strategies described in the response to Question 2.a. above and determined that, under current conditions, obtaining the Guaranty from CFC was the most cost effective course of action.

Prior to offering the 2010A Bonds, Big Rivers will continue to monitor the cost of bond insurance to ensure that the Guaranty provided by CFC remains the most cost effective credit enhancement option. At the time of pricing the 2010A Bonds, if the cost of bond insurance is determined to be more cost effective to Big Rivers than the Guaranty, then the bond insurance company and the bond insurance policy would be substituted in the bond documents in place of CFC and the Guaranty. Further, depending on market conditions existing at the time of pricing the 2010A Bonds, Big Rivers may also determine that no credit enhancement is cost effective and, in that case, the 2010A Bonds will be priced and sold on the credit rating of Big Rivers alone. In this event, reference to CFC and the Guaranty would be removed from the bond documents.

Witness) C. William Blackburn

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PSC 1-3) *Refer to page 5 of the application at lines 10-15. The application states that, based upon estimates provided by Goldman Sachs, the interest rates on the 2010A Bonds would be in the range of 6.75 and 7.25 percent annually, assuming Big Rivers' credit is unenhanced. Explain whether Goldman Sachs provided an estimate of what the interest rates would be for the 2010A Bonds if Big Rivers' credit was enhanced.*

Response) Yes. Goldman Sachs estimates that if the Big Rivers credit is enhanced by the CFC guaranty described in the Application, that could lower the net effective interest rate on the 2010A Bond to a range of 6.4% to 6.9%.

Witness) C. William Blackburn

PSC 1-4) ***Refer to page 6 of the application at lines 19-20. The application provides that the National Rural Utility Cooperative Finance Corporation ("CFC") Guaranty "would lower the net effective interest rate on the 2010A Bond to a range of 6.4% to 6.9%." Explain whether the reduction in the net effective interest rate assume Big Rivers' credit to be unenhanced.***

Response) The estimate that the net effective interest rate to Big Rivers on the 2010A Bonds would be in the range of 6.4% to 6.9% assumes the Big Rivers credit is enhanced by the CFC guaranty described in the Application.

Witness) C. William Blackburn

PSC 1-5) ***Refer to Paragraph 10.e. on page 10 of the application. When does Big Rivers expect to receive a final commitment from CFC on the guaranty arrangements described in paragraph 10?***

Response) Big Rivers' understanding is that the CFC board of directors will take up the proposed guaranty transaction at its meeting on January 6, 2010. If the CFC board of directors approves the terms of the proposed guaranty transaction, CFC will issue a commitment to enter into that transaction.

Witness) C. William Blackburn

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PSC 1-6) ***Refer to page 6, paragraph 1.r. of the draft "Letter of Representations" at Exhibit 12 of the application. Provide a detailed explanation of the bracketed statement ("We will need to discuss an additional rep re: the enforceability of Smelter Contracts") and the status of Big Rivers' efforts to make such a representation regarding the Smelter Contracts.***

Response) The bracketed language is a note inserted by underwriter's counsel. The note refers to the underwriter's request that Big Rivers give a representation that the smelter wholesale contracts are enforceable against Big Rivers, just as Big Rivers is also being asked to give a representation that the member all-requirements wholesale power contracts are enforceable against Big Rivers. Big Rivers is prepared to include the smelter-related wholesale power contracts with Kenergy Corp. in the definition of "Wholesale Power Contracts" in the Preliminary Offering Statement, or otherwise to make that representation.

Witness) C. William Blackburn

PSC 1-7) ***Refer to paragraph 2 of the Ambac Assurance Corporation letter agreement filed as Exhibit 15 of the application. This paragraph subjects Big Rivers to potential financial penalties if it does not consummate its proposed refunding of the County of Ohio, Kentucky, County Pollution Control Refunding Revenue Bonds Series 2001A ("2001A Bonds") within two months of the ending date of the appeal period for a Commission Order approving the proposed refund. Assuming that the Commission approves the proposed refunding, provide an outline and timeline of the actions Big Rivers expects to undertake, subsequent to receiving Commission approval, in order to consummate that refunding.***

Response)

Listed below is a schedule providing for completion of the proposed 2010A Bond transaction within two months of the ending date of the appeal period for the Commission Order. The following timeline assumes the Commission Order will be issued on February 15, 2010 and the end of the appeal period will be March 20, 2010 (33 days later).

Week of February 15

- Commence preparation of draft of Preliminary Offering Statement.
- Arrange for publication of TEFRA notice in local newspaper (must be done 15 days prior to meeting).

Weeks of March 1 and March 8

- Initial County meeting to hold TEFRA hearing and first reading of County bond ordinance.
- Big Rivers Board meeting to approve documents and offering.

Weeks of March 15 and March 22

- Publish County ordinance in County newspaper.
- Hold second County meeting to approve bond documents, have second reading and approval of County bond ordinance.

- Receive Big Rivers audited financial statements for 2009 fiscal year.
- Submit bond documents to ratings agencies for review.

Week of April 5

- Mail Preliminary Offering Statement.

Weeks of April 12 and April 19

- Receive Ratings.
- Price Bonds.
- Execute Bond Purchase Agreement and Letter of Representations.
- Mail Final Offering Statement.

Week of May 3

- Close Bond Transaction.

Witness) C. William Blackburn

VERIFICATION

I verify, state, and affirm that I prepared or supervised the preparation of the data request responses filed with this Verification for which I am listed as a witness and that those responses are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

C William Blackburn
C. William Blackburn

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

SUBSCRIBED AND SWORN TO before me by C. William Blackburn on this the fourth day of January, 2010.

Paula Mitchell
Notary Public, Ky. State at Large
My Commission Expires 1-12-13