116.0.2.6
116.0.3.3
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USDA

United States Department of Agriculture
Rural Development

Rural Business–Cooperative Service • Rural Housing Service • Rural Utilities Service
Washington, DC 20250

June 29, 1998

RECEIVED
JUL - 6 1998
BIG RIVERS
ELECTRIC CORPORATION

Mr. Michael H. Core
President and CEO
Big Rivers Electric Corporation
P. O. Box 24
Henderson, Kentucky 42420

Dear Mr. Core:

In response to your letter dated May 6, 1998, requesting approval of the 1998 Amendments to Contracts between Big Rivers Electric Corporation and the City of Henderson and the City of Henderson Utility Commission, the Rural Utilities Service (RUS) finds the Amendments acceptable for execution. Executed copies of the documents should be sent to RUS for formal approval.

Should you have any questions, please call me at (202) 720-1265.

Sincerely,

LARRY A. BELLUZZO
Program Advisor
Financial Services Staff

116.0.2.6
116.0.3.3
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U. S. DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

RUS BORROWER DESIGNATION KY 62 Big Rivers Electric Corp.

THE WITHIN AMENDMENTS TO CONTRACTS AMONG CITY OF HENDERSON, KENTUCKY, CITY OF HENDERSON UTILITY COMMISSION AND BIG RIVERS ELECTRIC CORPORATION

SUBMITTED BY THE ABOVE DESIGNATED BORROWER PURSUANT TO THE TERMS OF THE LOAN CONTRACT, IS HEREBY APPROVED SOLELY FOR THE PURPOSES OF SUCH CONTRACT.

FOR THE ADMINISTRATOR

DATED

7/15/98

REA FORM 28a REV. 5-73
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AMENDMENTS TO CONTRACTS
AMONG CITY OF HENDERSON, KENTUCKY
CITY OF HENDERSON UTILITY COMMISSION
AND BIG RIVERS ELECTRIC CORPORATION

These Amendments entered into and effective as of July 15, 1998 (the "1998 Amendments") by and between City of Henderson, Kentucky, a municipal corporation and City of the third class organized under the laws of the Commonwealth of Kentucky, of 222 First Street, Henderson, KY 42420, City of Henderson Utility Commission, a public body politic and corporate organized under Kentucky Revised Statutes 96.520 and related statutes, of 100 Fifth Street, Henderson, KY 42420, the said City and Commission being referred to herein collectively as "City," and Big Rivers Electric Corporation, a rural electric cooperative corporation organized under Chapter 279 of the Kentucky Revised Statutes, P.O. Box 24, 201 Third Street, Henderson, KY 42420, known as "Big Rivers" herein.

WITNESSETH:

WHEREAS, the parties hereto are parties to a Power Sales Contract, a Power Plant Construction and Operation Agreement and a Joint Facilities Agreement all dated August 1, 1970 and Big Rivers and City of Henderson Utility Commission are parties to an Agreement for Transmission and Transformation Capacity dated April 11, 1975, the Spare Transformer Agreement dated July 11, 1972, the Systems Reserves Agreement dated January 1, 1974, the Agreement of April 8, 1980 regarding O&M and R&R Funds, and the Agreement of February 15, 1991 concerning Administrative and General Costs, and Amendments to such contracts dated May 1, 1993, all of such contracts and agreements as amended being known herein as the "Contracts" and incorporated herein by reference, and

WHEREAS, pursuant to the Contracts, and to ordinances of the City of Henderson, Kentucky providing for the sale of its electric revenue bonds, an electric generating station consisting of generating Units 1 and 2, each described in the Contracts as having a 175-megawatt capacity, and related facilities all known herein as "Station Two," were constructed and are now owned by the City of Henderson and operated by Big Rivers under the Contracts with Big Rivers, and

WHEREAS, City and Big Rivers now seek to amend the Contracts to reflect new understandings between the parties regarding the Contracts and the business relationship between City and Big Rivers.

NOW THEREFORE, in consideration of the mutual covenants herein contained, it is covenanted and agreed among the parties hereto as follows:

ALL CONTRACTS

1. The terms of all the Contracts except the Joint Facilities Agreement shall be extended for the operating life of Station Two, the operating life of which shall be considered to continue for so long as Unit 1 and Unit 2, or either of them, is operated, or is capable of normal, continuous, reliable operation for the economically competitive production of electricity, temporary outages excepted. Notwithstanding any other provision in the Contracts, all of the Contracts, except the Joint Facilities Agreement and the System Reserves Agreement, shall terminate 90 days after Big Rivers' allocation of capacity from City's Station Two shall be zero; provided, however, that the terms of all the Contracts shall be extended until all Station Two bonds of the City of Henderson which have been approved by Big Rivers have been paid. Notwithstanding the above, the Joint Facilities Agreement shall terminate in accordance with

Section 8 of said Agreement. This section expressly replaces the provisions of Section 1 of the May 1993 Amendments in their entirety.

2. The effective date of these 1998 Amendments shall be the date following their execution upon which the last of the following approvals of the 1998 Amendments is obtained:

2.1 Approval of the Rural Utilities Service; and

2.2 Approval of the Kentucky Public Service Commission.

3. Nothing herein contained shall constitute general obligations of the City of Henderson within Kentucky Constitutional restrictions on such obligations. The obligations herein imposed on City of Henderson shall be borne entirely from revenues or other legally available funds of City's electric light and power system.

POWER SALES CONTRACT

4. The Power Sales Contract of August 1, 1970, as heretofore amended, is further amended as follows:

(a) **SECTION 3.4 IS HEREBY AMENDED TO BE AND READ IN ITS ENTIRETY AS FOLLOWS:**

3.4 City agrees that it will not, after the execution and approval of this Agreement, (1) make any dispositions to others for resale of its generating capacity, other than pursuant to Section 3.8 added by these 1998 Amendments, except for the purpose of disposing of any surpluses resulting from good faith over-estimates of its needs, or (2) add any commercial or industrial customers in excess of thirty (30) megawatts each to its electric system, if to do either (1) or (2), as the case may be, would require the withdrawal of additional capacity from its Existing System and/or from Units One and Two of its Station Two. Expansions in the ordinary course of business of any commercial or industrial plants being served by City at the time of the execution of these 1998 Amendments shall not be considered added commercial or industrial customers subject to the 30 megawatt size limitation for the purposes of this Agreement. Surplus capacity resulting from good faith over estimates as referred to in (1) above shall be first offered to Big Rivers at City's cost. Big Rivers and City understand that City shall be entitled to meet (in increasing incremental amounts, as necessary) the load of any new commercial or industrial customer (which shall not exceed the 30 megawatt cap per customer established above) through its annual adjustment to its five year capacity reservation forecasts in amounts not exceeding five (5) megawatts per Contract Year (as described in Section 3.3 of this Agreement) and its subsequent capacity reservation forecasts under this Agreement.

(b) A NEW SECTION 28 TO POWER SALES CONTRACT IS HEREBY CREATED AND INCLUDED AS FOLLOWS:

28.1 City shall have the right (subject to the further limitations and provisions of this Section 28) to utilize within the City's service territory as of the date of these 1998 Amendments, including all areas within the existing City limits, capacity and energy from Station Two in excess of its reserved capacity allocations, as adjusted under Section 3.3 of this Agreement (such excess capacity and energy being referred to herein as "Station Two Economic Development Power"), to serve up to <u>50%</u> of Economic Development Loads (defined below) of customers to the extent such customers are not otherwise served as of the date of commencement of the proposed service by City from reserved capacity allocations under this Agreement (each an "Economic Development Opportunity"); provided, however, that the maximum amount of Station Two Economic Development Power that may be utilized by City at any time shall not exceed 25 megawatts in the aggregate for all such Economic Development Opportunities, collectively. City's right to utilize Station Two Economic Development Power with respect to any Economic Development Opportunity is further conditioned upon City having made a binding written offer to purchase from Big Rivers, at the applicable rate set forth in Exhibit 1, the capacity and energy requirements of such Economic Development Opportunity not supplied by City with its reserved capacity or with Station Two Economic Development Power to meet such Economic Development Load. For purposes hereof, "Economic Development Load" means the demand for capacity and associated energy of (i) a new customer of City within City's service territory (as described above) or (ii) an existing customer of City in that service territory (as described above) created by a substantial expansion of such customer's plant or facility (defined as a projected annual increase in kWh consumption or kW demand of such customer of 20% or more as a result of a plant expansion). Upon utilization by City of Station Two Economic Development Power, such power shall be treated for purposes of this Agreement, except Section 3.3 and clause (2) of Section 3.4 of this Agreement, as capacity of Station Two reserved to the City hereunder.

28.2 For any Economic Development Opportunity of City as to which City exercises its right under Section 28.1 to retain and utilize Station Two Economic Development Power by providing Big Rivers with a binding written offer to purchase, at the applicable rate set forth in Exhibit 1, the capacity and energy in the aggregate required by City for such Economic Development Opportunity in addition to the City's reserved capacity and Station Two Economic Development Power available under Section 28.1, City hereby agrees that Big Rivers shall have a period of fifteen days following receipt of City's written offer to accept the terms of such offer and to agree to supply the power at the applicable rate in Exhibit 1, over an agreed upon term. If Big Rivers rejects such offer or fails to accept such offer within such fifteen-day period, City shall be entitled to retain and utilize Station Two Economic Development Power in accordance with Section 28.1, and shall be entitled to negotiate with third-party suppliers to provide the remainder of the capacity and energy required to serve the Economic Development Load. Prior to entering into a binding contract with any such third-party supplier, City agrees to offer Big Rivers the right to match the price offered by such third-party supplier over the term offered by such third-party supplier, which right Big Rivers must exercise within five days of receipt of such third-party offer from City. If Big Rivers rejects such offer or fails to accept such offer within such five day period, City shall be free to execute a contract with such third-party supplier, provided, however, that if City shall not have contracted for the purchase of such capacity and energy with such third-party supplier within thirty-days after the expiration of that five-day period, no such contract shall be entered into without again first offering Big Rivers the opportunity to serve such remaining Economic Development Load upon the terms described in the preceding sentence.

28.3 In the event that Big Rivers fails to provide that portion of capacity and energy required to supply an Economic Development Opportunity that it has agreed to supply from Big Rivers' resources, whether at the specified prices contained in Exhibit 1, or upon terms matching those of a third-party supplier in accordance with Section 28.2, as the case may be, City shall be entitled to take from Station Two capacity and energy, in addition to the Station Two Economic Development Power to which City is already entitled, in such amounts as were to have been provided by Big

Rivers, with subsequent adjustments to the allocation of costs in accordance with this Agreement.

28.4 Big Rivers and City agree that the specified rates for capacity and energy contained in Exhibit 1 shall be fixed for a period of seven years after the date these 1998 Amendments become effective. Rates for periods after the date seven years after these 1998 Amendments become effective shall be subject to future negotiation.

(c) **A NEW SECTION 3.8 TO POWER SALES CONTRACT IS HEREBY CREATED AND INCLUDED AS FOLLOWS:**

3.8 Big Rivers and City hereby agree that the following provisions shall apply to energy from capacity not utilized by City or from capacity in excess of the capacity calculated in accordance with Section 3.6 of this Agreement.

(a) In the event that at any time and from time to time City does not take the full amount of energy associated with its reserved capacity from Station Two (determined in accordance with this Agreement), Big Rivers may, at its discretion, take and utilize all such energy (or any portion thereof designated by Big Rivers) not scheduled or taken by City (the "Excess Henderson Energy"), in accordance with Section 3.8(c).

(b) If at any time Station Two capacity is generated in excess of the Total Capacity of Station Two determined in accordance with Section 3.6 of this Agreement ("Excess Henderson Capacity"), Big Rivers shall take and utilize all energy associated with such Excess Henderson Capacity, unless otherwise agreed to by Big Rivers and City, in accordance with Section 3.8(c).

(c) Following the end of each calendar month, Big Rivers shall notify City of the amount of Excess Henderson Energy and energy associated with Excess Henderson Capacity, if any, taken by Big Rivers during the previous month, and Big Rivers shall pay City prior to the 25th day of the then current month for the amount of Excess Henderson Energy and energy associated with the Excess Henderson Capacity so taken by it at a rate equal to $1.50 per mWh. In addition, Big Rivers shall provide, at its own cost, the full replacement of all fuels and reagents consumed from the

Station Two fuel and reagent reserves for the production of the Excess Henderson Energy and energy associated with the Excess Henderson Capacity so taken by it. Further, Big Rivers shall pay the portion of sludge disposal costs attributable to the Excess Henderson Energy and energy associated with Excess Henderson Capacity, as calculated in accordance with Section 3.4 of the Joint Facilities Agreement.

(d) City agrees that Big Rivers, as operator, shall be allowed, but shall not be required, to operate Station Two to obtain capacity above the Total Capacity of Station Two determined in accordance with Section 3.6 of this Agreement. City further agrees that it shall not at any time be permitted to sell or commit to any person other than Big Rivers any Excess Henderson Energy without having first offered Big Rivers the opportunity to purchase such Excess Henderson Energy. Big Rivers shall have a reasonable period of time after submission of the City's scheduled energy requirements to decide whether to purchase any Excess Henderson Energy not scheduled by City. Big Rivers agrees to notify City thereafter if it does not intend to purchase such energy, and agrees to give City a response within a reasonable time so that City may take efforts to resell this power to third-parties. City agrees to compensate Big Rivers according to Big Rivers' Open Access Transmission Tariff to the extent City utilizes any transmission on Big Rivers' transmission system in marketing Excess Henderson Energy.

(d) A NEW SECTION 19.2 TO POWER SALES CONTRACT IS HEREBY CREATED AND INCLUDED AS FOLLOWS:

19.2 Big Rivers and City agree that on or before the date on which the Station Two Bonds are retired, and the remaining balance of monies contained in the Station Two Account in the Renewals and Replacements Fund in accordance with Section 1 of the Agreement dated April 8, 1980 between Big Rivers and City shall have been disbursed, the following shall occur:

(a) Big Rivers shall establish a new Big Rivers Station Two Renewals and Replacements Fund and shall deposit immediately available funds in the amount of $600,000. Thereafter, Big Rivers agrees that each month it shall make levelized payments into the Big Rivers Station Two Renewals and Replacements Fund, not to exceed $50,000 each month, so as to restore a minimum balance of $600,000. All interest on such amounts shall be repaid to Big Rivers at the end of each calendar year, and all amounts in such fund shall be paid to Big Rivers upon termination or expiration of this Agreement. Amounts from this Fund shall be withdrawn in accordance with Section 19.2(c); and

(b) City shall establish a new Henderson Station Two Renewals and Replacements Fund and shall deposit immediately available funds in the amount of $150,000. Thereafter, City agrees that each month it shall make levelized payments into the Henderson Station Two Renewals and Replacements Fund, not to exceed $12,500, so as to restore a minimum balance of $150,000. All interest on such amounts shall be repaid to Henderson at the end of each calendar year and all amounts in such fund shall be paid to City upon termination or expiration of this Agreement. Amounts from this fund shall be withdrawn in accordance with Section 19.2(c).

(c) All required expenditures for renewals and replacements shall be made from the Big Rivers Station Two Renewals and Replacements Fund and the Henderson Station Two Renewals and Replacements Fund in proportion to then effective allocation of Station Two capacity between City and Big Rivers, in accordance with Section 3 of this Agreement. No expenditures shall be made from these accounts other than for renewals and replacements that would have been permitted under the Bond Ordinance.

(d) **A NEW SECTION 19.3 TO POWER SALES CONTRACT IS HEREBY CREATED AND INCLUDED AS FOLLOWS:**

19.3 Big Rivers and City agree that on or before the date on which the Station Two Bonds are retired, and the remaining balance of monies contained in the Station Two Account in the Operation and Maintenance Fund in accordance with Section 1 of the Agreement dated April 8, 1980 between Big Rivers and City shall have been disbursed, the following shall occur:

(a) Big Rivers shall establish a new Big Rivers Station Two O&M Fund and shall deposit immediately available funds in the amount of $400,000. Thereafter, Big Rivers agrees that each month it shall make levelized payments into the Big Rivers Station Two O&M Fund, not to exceed $33,300 each month, so as to restore a minimum balance of $400,000. All interest on such amounts shall be repaid to Big Rivers at the end of each calendar year, and all amounts in such fund shall be paid to Big Rivers upon termination or expiration of this Agreement. Amounts from this Fund shall be withdrawn in accordance with Section 19.3(c); and

(b) City shall establish a new Henderson Station Two O&M Fund and shall deposit immediately available funds in the amount of $100,000. Thereafter, City agrees that each month it shall make levelized payments into the Henderson Station Two O&M Fund, not to exceed $8,300, so as to restore a minimum balance of $100,000. All interest on such amounts shall be repaid to Henderson at the end of each calendar year and all amounts in such fund shall be paid to City upon termination or expiration of this Agreement. Amounts from this fund shall be withdrawn in accordance with Section 19.3(c).

(c) All required expenditures for operation and maintenance shall be made from the Big Rivers Station Two O&M Fund and the Henderson Station Two O&M Fund in proportion to the then effective allocation of Station Two capacity between City and Big Rivers, in accordance with Section 3 of this Agreement. No expenditures shall be made from these accounts other than for operation and maintenance expenses that would have been permitted to be paid as "Operating Expenses" under the Bond Ordinance.

JOINT FACILITIES AGREEMENT

4. The Joint Facilities Agreement, as heretofore amended by the May 1, 1993 Amendments, is further amended as follows:

SECTION 3.3 IS AMENDED TO READ AS FOLLOWS:

3.3 Big Rivers will allocate for the continuing joint use of the parties in the operation of their respective generating stations (Big Rivers' Green Station and City's Station Two) those Green Station FGD System Facilities described in Exhibit 1, Page 3, Part C hereto. For such use, Big Rivers shall be paid by City a prorated share of the annual carrying costs, calculated as:

$$\frac{\text{Station Two net capacity}}{\text{Station Two plus Green Station net capacities}}$$

$$\text{Currently } \frac{312 \text{ MW}}{766 \text{ MW}}$$

times the then net book value of those facilities, further multiplied by a capital carrying charge rate of 11.5 percent. Big Rivers' net book value shall be determined by taking the net book value of those facilities as of December 31, 1994, i.e. $21,675,601.32, adjusting them annually for depreciation (according to the depreciation methodology set forth in Exhibit 2), and taking into account additional costs resulting from renewals and replacements thereof. Big Rivers authorizes City to inspect Big Rivers' books to verify the original cost of these facilities, annual depreciations thereto, and the costs of any renewals and replacements thereof. All inspections by City of Big Rivers shall be at mutually agreeable times determined in advance after written request from City.

SYSTEM RESERVES AGREEMENT

5. The System Reserves Agreement of January 1, 1974 is hereby amended as follows:

SECTIONS 2.1 AND 3.1 ARE DELETED AND REPLACED BY A NEW SECTION 2.1 TO READ AS FOLLOWS:

"2.1 The City and Big Rivers covenant and agree that each will comply with any system reserve capacity requirements now required or imposed at a future date applicable to it (as such requirements may be modified from time to time and as such requirements apply to it given its respective operational characteristics) by NERC, ECAR, any successor organizations to NERC and ECAR (as applicable), any applicable regulatory or governmental agency, and any regional transmission authority, reliability council or like organization, in each case having any system reserve capacity requirements applicable to it. Absent such a requirement, neither City nor Big Rivers shall have any obligation pursuant to this Agreement to maintain system reserves. Notwithstanding the above limitations, City agrees to comply with any requirements validly imposed by any of the above entities upon Big Rivers based on Big Rivers' role as control area operator, but only if and to the extent that such requirements imposed on Big Rivers are on account of or due to the generation and/or load of the City.

6. Except as specifically modified above, the Contracts remain in full force and effect and are not altered by this Agreement.

IN TESTIMONY WHEREOF, the parties hereto have executed this Agreement in multiple counterparts as of the date first herein written.

This 15th day of July, 1998.

CITY OF HENDERSON, KENTUCKY

By: ______________________

ATTEST:

Joann Roberts

CITY OF HENDERSON UTILITY COMMISSION

By: B E Higgins
Chairman

ATTEST:

____

BIG RIVERS ELECTRIC CORPORATION

By: ______________________

Title: President and CEO

ATTEST:

____

Exhibit 1

BIG RIVERS - CITY OF HENDERSON
ECONOMIC DEVELOPMENT RATES

1. Big Rivers will sell power to City of Henderson according to the following rate schedule (subject to the conditions of Section 28.2 of the Agreement) per mWh:

Year 1	$20.00
Year 2	$20.00
Year 3	$20.00
Year 4 (1st six months)	$20.00
Year 4 (following six months)	$21.00
Year 5	$21.00
Year 6	$21.00
Year 7	$21.00
Year 8 and thereafter	to be negotiated

Year 1 shall commence on the first day of the month in which the 1998 Amendments become effective, and Year 2 and following years shall each commence on the anniversary of the first day of that month.

2. The Economic Development Rates offered by Big Rivers are for power only and are exclusive of any transmission charges Big Rivers is required to pay or charge itself to deliver this power to City on Big Rivers' transmission system. Except as otherwise provided below, Big Rivers will charge the City those transmission rates that Big Rivers is required by FERC to charge itself for delivery of such power. To the extent Big Rivers, in supplying this capacity and energy uses only transmission facilities for which City has already established transmission rights, Big Rivers will not charge an additional transmission fee. In the event Big Rivers obtains Economic Development Power from systems other than that of Big Rivers, Big Rivers shall not charge City an additional charge required to wheel such power to Big Rivers' transmission system.

Exhibit 2

JOINT FACILITIES AGREEMENT
DEPRECIATION METHODOLOGY

For purposes of Section 3.3 of the Joint Facilities Agreement and the calculation thereunder of the annual capital carrying costs for the Green Station FGD System Facilities (the "FGD Facilities"), the following depreciation methods and accounting practices shall be used:

1. Existing FGD Facilities: The FGD Facilities, as such facilities shall exist as of the date of execution of the 1998 Amendments to Contracts among the City of Henderson, Kentucky ("City"), the City of Henderson Utility Commission ("HUC") (the City and HUC being sometimes collectively referred to herein as "Henderson") and Big Rivers Electric Corporation ("Big Rivers"), shall be depreciated on a straight-line basis over an agreed useful life of 25 years, with depreciation commencing as of June 1, 1995 and expiring May 31, 2020. The net book value of those facilities as of June 1, 1995 shall be $21,675,601 for purposes of this Agreement. Notwithstanding the above described language, Big Rivers, City, and HUC agree that the above-described depreciation methodology and its effect upon payments due by any party shall be prospective only and shall have no effect relating to any payments made prior to the date of execution of the 1998 Amendments to Contracts.

2. Additions to the FGD Facilities. All additions, betterments, improvements and replacements to the FGD Facilities shall be capitalized in accordance with the prevailing Capitalization Guidelines approved by HUC and the operator of Big Rivers' Green generating station as of the date of such addition, betterment or improvement is placed in service. On the date hereof and until otherwise agreed, the "Capitalization Guidelines" shall be the capitalization guidelines attached hereto. Those additions, betterments, improvements or replacements which are capitalized under the Capitalization Guidelines (the "Capital Asset") shall, for purposes of the determination of the annual carrying costs of the FGD Facilities, be depreciated on a straight-line basis over the useful life of the Capital Asset (which useful life must be agreed upon by the parties prior to installation of the Capital Asset); provided that such useful life shall in no event exceed the useful life of the FGD Facilities as set forth in the most recently completed Depreciation Study for that facility or a Depreciation Study for the FGD Facilities which is commissioned by the Parties, upon the reasonable request of a Party, immediately following the installation of such addition, betterment, improvement or replacement.

3. Retirement from Service. If any Capital Asset that is a component of the FGD Facilities is disposed of, removed or otherwise retired from service as a consequence of the installation of a new Capital Asset, then, for purposes of the determination of the annual capital carrying costs of the FGD Facilities, the net book value of such retired asset, determined as of the date the new Capital Asset is placed in service, shall be subtracted from the net book value of the FGD Facilities as of such date.

Attached hereto is a depreciation schedule for illustration purposes only. The attached schedule illustrates the application of the depreciation methodology provided for herein to a hypothetical set of facts and is not intended to establish the actual depreciation schedule for the FGD Facilities, nor is it to be interpreted to establish the actual depreciation schedule for the FGD Facilities, nor is it to be interpreted to establish the annual capital carrying costs for the FGD Facilities allocable to Station Two.

Station 2 FGD Amortization
Depreciating Value

In-Service Date	6/1/95
Useful Life	25 Years
Original Cost	$ 21,675,601

	1995	1996	1997	1998	1999	2000	2001	2002	2003	
Beginning Balance	$ 21,675,601	$ 21,169,837	$ 20,302,813	$ 19,435,789	$ 18,568,765	$ 17,701,741	$ 16,834,717	$ 15,967,693	$ 15,100,669	$
Depreciation	505,764	867,024	867,024	867,024	867,024	867,024	867,024	867,024	867,024	
Net Book Value	$ 21,169,837	$ 20,302,813	$ 19,435,789	$ 18,568,765	$ 17,701,741	$ 16,834,717	$ 15,967,693	$ 15,100,669	$ 14,233,645	$
Station 2 % of Beginning Balance (312 / 766)				$ 7,916,405	$ 7,563,257	$ 7,210,109	$ 6,856,960	$ 6,503,812	$ 6,150,664	$
Rate				11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	
Reimbursement Amount				$ 910,387	$ 869,775	$ 829,162	$ 788,550	$ 747,938	$ 707,326	$

Useful Life	19.58 Years
Capital Improvements	$ 5,000,000

	1995	1996	1997	1998	1999	2000	2001	2002	2003	
Beginning Balance							$ 5,000,000	$ 4,744,637	$ 4,489,275	$
Depreciation							255,363	255,363	255,363	
Net Book Value							$ 4,744,637	$ 4,489,275	$ 4,233,912	$
Station 2 % of Beginning Balance (312 / 766)							$ 2,036,554	$ 1,932,542	$ 1,828,530	$
Rate							11.5%	11.5%	11.5%	
Reimbursement Amount							$ 234,204	$ 222,243	$ 210,281	$

Remaining Period	19.58 Years
Retirements (NBV)	$ (2,000,000)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	
Beginning Net Book Value							$ (2,000,000)	$ (1,897,855)	$ (1,795,710)	$
Depreciation Effect							(102,145)	(102,145)	(102,145)	
Net Book Value							$ (1,897,855)	$ (1,795,710)	$ (1,693,565)	$
Station 2 % of Beginning Net Book Value (312 / 766)							$ (814,621)	$ (773,017)	$ (731,412)	$
Rate							11.5%	11.5%	11.5%	
Reimbursement Effect							$ (93,681)	$ (88,897)	$ (84,112)	$

	1998	1999	2000	2001	2002	2003	
Total Reimbursement Amount	$ 910,387	$ 869,775	$ 829,162	$ 929,073	$ 881,284	$ 833,495	$

Station 2 FGD Amortization
Depreciating Value

In-Service Date	6/1/95
Useful Life	25 Years
Original Cost	$ 21,675,601

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Beginning Balance	$ 10,765,549	$ 9,898,525	$ 9,031,501	$ 8,164,476	$ 7,297,452	$ 6,430,428	$ 5,563,404	$ 4,696,380	$ 3,829,356
Depreciation	867,024	867,024	867,024	867,024	867,024	867,024	867,024	867,024	867,024
Net Book Value	$ 9,898,525	$ 9,031,501	$ 8,164,476	$ 7,297,452	$ 6,430,428	$ 5,563,404	$ 4,696,380	$ 3,829,356	$ 2,962,332
Station 2 % of Beginning Balance (312 / 766)	$ 4,384,923	$ 4,031,775	$ 3,678,627	$ 3,325,479	$ 2,972,330	$ 2,619,182	$ 2,266,034	$ 1,912,886	$ 1,559,738
Rate	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%
Reimbursement Amount	$ 504,266	$ 463,654	$ 423,042	$ 382,430	$ 341,818	$ 301,206	$ 639,791	$ 219,982	$ 179,370

Useful Life	19.58 Years
Capital Improvements	$ 5,000,000

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Beginning Balance	$ 3,212,462	$ 2,957,099	$ 2,701,736	$ 2,446,374	$ 2,191,011	$ 1,935,649	$ 1,680,286	$ 1,424,923	$ 1,169,561
Depreciation	255,363	255,363	255,363	255,363	255,363	255,363	255,363	255,363	255,363
Net Book Value	$ 2,957,099	$ 2,701,736	$ 2,446,374	$ 2,191,011	$ 1,935,649	$ 1,680,286	$ 1,424,923	$ 1,169,561	$ 914,198
Station 2 % of Beginning Balance (312 / 766)	$ 1,308,470	$ 1,204,458	$ 1,100,446	$ 996,434	$ 892,422	$ 788,410	$ 684,398	$ 580,387	$ 476,375
Rate	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%
Reimbursement Amount	$ 150,474	$ 138,513	$ 126,551	$ 114,590	$ 102,629	$ 90,667	$ 193,233	$ 66,744	$ 54,783

Remaining Period	19.58 Years
Retirements (NBV)	$ (2,000,000)

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Beginning Net Book Value	$ (1,284,985)	$ (1,182,840)	$ (1,080,695)	$ (978,550)	$ (876,404)	$ (774,259)	$ (672,114)	$ (569,969)	$ (467,824)
Depreciation Effect	(102,145)	(102,145)	(102,145)	(102,145)	(102,145)	(102,145)	(102,145)	(102,145)	(102,145)
Net Book Value	$ (1,182,840)	$ (1,080,695)	$ (978,550)	$ (876,404)	$ (774,259)	$ (672,114)	$ (569,969)	$ (467,824)	$ (365,679)
Station 2 % of Beginning Net Book Value (312 / 76	$ (523,388)	$ (481,783)	$ (440,178)	$ (398,574)	$ (356,969)	$ (315,364)	$ (273,759)	$ (232,155)	$ (190,550)
Rate	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%
Reimbursement Effect	$ (60,190)	$ (55,405)	$ (50,621)	$ (45,836)	$ (41,051)	$ (36,267)	$ (72,293)	$ (26,698)	$ (21,913)
Total Reimbursement Amount	$ 594,551	$ 546,762	$ 498,973	$ 451,184	$ 403,395	$ 355,606	$ 755,731	$ 260,029	$ 212,240

Capitilization Guidelines

The Parties hereby agree that these Capitalization Guidelines together with the attached Company Policy Number 10 of Big Rivers, Capitalization of Expenditures, dated November 30, 1993 shall constitute the "Capitalization Guidelines" identified in Exhibit 2 to the 1998 Amendments and shall serve as the Capitalization Guidelines for the purposes of Exhibit 2. These Capitalization Guidelines (including without limitation, the attached Company Policy No. 10) may not be amended, modified or supplemented following the Execution Date without the prior written consent of each of the Parties.

The Parties agree that the attached Company Policy No. 10 of Big Rivers (which is incorporated by reference herein) shall serve to amend and supplement the RUS Uniform System of Accounts Bulletin 1767B for purposes of the Accounting Practices, and for purposes of any determination of whether an expenditure shall be a Capital Asset for the purpose of Exhibit 2.

BIG RIVERS ELECTRIC CORPORATION

COMPANY POLICY

POLICY NUMBER 10

SUBJECT | **Capitalization of Expenditures**
PAGE | **1 of 2**
RE-ISSUE DATE | **11/30/93**

Approved by [signature]

SCOPE: Determining when to capitalize an expenditure to "Electric Plant in Service" account 101.000 as opposed to expense in accordance with REA Bulletin 181-1.

POLICY: To be capitalized, an item of property must be covered by one of the following classifications:

(A) New Retirement Unit
(B) Retirement Unit Replacement
(C) Retirement System Addition
(D) Retirement System Replacement
(E) New Minor Property Item
(F) Minor Property Item Replacement with Betterment
(G) Computer Software and Software Upgrades

RULES: See the corresponding lettered paragraph below for rules governing each case. Stated dollar values are after consideration of freight, sales tax, discount, etc.

(A) New Retirement Unit

1. Cost more than $1,000 in boiler or turbogenerator plant or $500 in other accounts, and
2. Be readily separable and separately useable, and
3. Have an expected useful life of more than one year. Valves that are requisitioned, including those inventoried, which cost more than $1,000 and are over 2" in size and are not replacements for an existing system are to be capitalized. (System valve replacements are to be charged to maintenance.)

(B) Retirement Unit Replacement

1. Cost more than $1,000 in boiler or turbogenerator plant or $500 in other accounts, and
2. Be a replacement of a similar retirement unit or consist of replacing minor property items that total to more than 50% of the existing retirement unit cost. If the 50% test is met, it is assumed a new retirement unit has been created. Retire 100% of the old unit and recapitalize the salvageable portion along with the new minor property item(s). (The replacement of existing minor property items costing 50% or less of the original retirement unit is to be charged to maintenance.)

(C) Retirement System Addition

1. Be an addition to or an expansion of a system, and
2. Cost more than $1,000 in boiler or turbogenerator plant or $500 in other accounts, and
3. Be of permanent nature, and
4. Be an integral part of an existing system. (A system is a grouping of generic or interacting items forming a unified whole. Classification as a system is for accounting convenience and enables an efficient and methodical means to account for a grouping of items which are frequently changing as a result of additions and replacements. Classification as a system may be appropriate where specific item identity is difficult to ascertain. Financial Services will make all system determinations. When it is evident that multiple items are purchased on multiple requisitions, possibly on different dates, for the same system project, the capitalization decision shall be based on the total project cost.)

(D) Retirement System Replacement

1. Be an integral part of an existing system, and
2. Be of permanent nature, and
3. Cost more than 50% of the existing retirement system. If the 50% test is met, it is assumed a new retirement system has been created. Retire 100% of the old system and recapitalize the salvageable portion along with the new replacement cost. (Replacement of an existing system costing 50% or less of the original system is to be charged to maintenance.)

(E) New Minor Property Item

1. Minor Property item not previously existing, and
2. Be of a permanent nature, and
3. Cost exceeds 25% of the retirement unit of which it will become a part or $10,000, the smaller of the two. (Otherwise, the addition of minor property items is to be charged to operations.)

(F) Minor Property Item Replacement with Betterment

1. Be of a permanent nature, and
2. Result in a substantial betterment with the primary aim of making the property affected more useful, more efficient, more durable, or capable of greater capacity. Capitalize the cost in accordance with the NOTE 1, below.

(G) Computer Software and Software Upgrades

1. Capitalize any new software purchase of $1,000 or more if used with a boiler or turbogenerator computer or $500 or more if used for any other computer, as long as the new software has a useful life of more than one year.

2. Any software upgrade should be capitalized if the cost of the upgrade exceeds 25% of the software which it will become a part or $10,000, the smaller of the two. The 25% must be $1,000 or more if used with a boiler or turbogenerator computer or $500 or more if used for any other computer. The software upgrade must have a life of more than one year.

NOTE 1: In all cases above except (E), the amount capitalized is governed by standard accounting principles. For (E) above, the amount capitalized is equal to the difference between the cost of the new minor property item and the cost of replacement without betterment at today's prices. The remaining dollars are to be charged to maintenance.

NOTE 2: A work order is required when constructing, fabricating, modifying, installing, or removing capital facilities or equipment. See Estimate Construction Work Order procedure number 011.210.08 for details.

REFERENCES: Excerpts taken from REA Bulletin 181-1 (Page 101-13) and 181-2 (Page 1.)