SULLIVAN, MOUNTJOY, STAINBACK & MILLER PSC

ATTORNEYS AT LAW

ald M. Sullivan
Jesse T. Mountjoy
Frank Stainback
James M. Miller
Michael A. Fiorella
Allen W. Holbrook
R. Michael Sullivan
Bryan R. Reynolds*
Tyson A. Kamuf
Mark W. Starnes
C. Ellsworth Mountjoy

*Also Licensed in Indiana

January 3, 2013

RECEIVED

JAN 03 2013

PUBLIC SERVICE COMMISSION

Via Federal Express

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

Re: ***In the Matter of: The Application of Big Rivers Electric Corporation for Approval to Issue Evidences of Indebtedness,*** PSC Case No. 2012-00492

Dear Mr. DeRouen:

Enclosed are an original and ten copies of responses of Big Rivers Electric Corporation to the requests for information of Alcan Primary Products Corporation, Kentucky Industrial Utility Customers, Inc., and the Attorney General. Also enclosed are an original and ten copies of a petition for confidential treatment of certain information furnished in response to these information requests. I certify that copies of this letter and enclosures have been served on each person shown on the attached service list.

Sincerely yours,

James M. Miller

James M. Miller

JMM/ej
Enclosures

cc: Albert Yockey
Billie J. Richert

Telephone (270) 926-4000
Telecopier (270) 683-6694

100 St. Ann Building
PO Box 727
Owensboro, Kentucky
42302-0727

www.westkylaw.com

Service List
PSC Case No. 2012-00492

Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY
36 E. Seventh Street
Suite 1510
Cincinnati, Ohio 45202

David C. Brown, Esq.
Stites & Harbison
1800 Providian Center
400 West Market Street
Louisville, Kentucky 40202

Donald P. Seberger
Rio Tinto Alcan
8770 West Bryn Mawr Avenue
Chicago, Illinois 60631

Jennifer Hans Black
Dennis G. Howard, II
Lawrence W. Cook
Assistant Attorneys General
1024 Capital Center Dr.
Suite 200
Frankfort, KY 40601

BIG RIVERS ELECTRIC CORPORATION

THE APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL TO ISSUE EVIDENCES OF INDEBTEDNESS CASE NO. 2012-00492

VERIFICATION

I, Billie J. Richert, verify, state, and affirm that I prepared or supervised the preparation of the data responses filed with this Verification, and that those data responses are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

Billie J. Richert

Billie J. Richert

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

SUBSCRIBED AND SWORN TO before me by Billie J. Richert on this the 2nd day of January, 2013.

Paula Mitchell

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

ORIGINAL

Big Rivers
ELECTRIC CORPORATION

Your Touchstone Energy® Cooperative

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

THE APPLICATION OF BIG RIVERS	)	
ELECTRIC CORPORATION FOR	)	Case No.
APPROVAL TO ISSUE EVIDENCE OF	)	2012-00492
INDEBTEDNESS	)	

Response to the Office of the Attorney General's
Initial Request for Information
dated December 21, 2012

FILED: January 3, 2013

ORIGINAL

BIG RIVERS ELECTRIC CORPORATION

THE APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL TO ISSUE EVIDENCES OF INDEBTEDNESS
CASE NO. 2012-00492

Response to the Office of the Attorney General's
Initial Request for Information
Dated December 21, 2012

January 3, 2013

Item 1) *Please provide any and all presentations Big Rivers made to any and all rating agencies, investment firms, investment banking institutions, investment advisory services, credit support institutions, private placement firms, participants in existing or proposed lines of credit, institutional investment groups or other entities of any type regarding the proposed refinancing.*

Response) Please refer to Big Rivers' attachments to Kentucky Industrial Utility Customers, Inc. (KIUC) Data Request Items 1-8 and 1-19.

Witness) Billie J. Richert

BIG RIVERS ELECTRIC CORPORATION

THE APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL TO ISSUE EVIDENCES OF INDEBTEDNESS CASE NO. 2012-00492

Response to the Office of the Attorney General's Initial Request for Information Dated December 21, 2012

January 3, 2013

Item 2) *Provide copies of any and all correspondence of any type or sort between Big Rivers and Goldman Sachs relevant to the proposed refinancing.*

Response) Please refer to Big Rivers' attachments to Kentucky Industrial Utility Customers, Inc. (KIUC) Data Request Item1-3.

Witness) Billie J. Richert

BIG RIVERS ELECTRIC CORPORATION

THE APPLICATION OF BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL TO ISSUE EVIDENCES OF INDEBTEDNESS
CASE NO. 2012-00492

Response to the Office of the Attorney General's
Initial Request for Information
Dated December 21, 2012

January 3, 2013

Item 3) *Please provide copies of credit reports for Big Rivers between January 1, 2011 and the present from the major credit rating agencies (Moody's, S&P, and Fitch).*

Response) Please refer to Big Rivers' attachments to Kentucky Industrial Utility Customers, Inc. (KIUC) Data Request Item1-18 for January 1 – December 31, 2012 copies of credit reports.

Please refer to Big Rivers' attachments for January 1 – December 31, 2011 copies of credit reports.

Witness) Billie J. Richert

Big Rivers Electric Corporation

Full Rating Report

Ratings

Outstanding Debt

$83,300,000 County of Ohio, KY Pollution Control Revenue Bonds Series 2010A	BBB–

Rating Outlook

Stable

Key Utility Statistics

Fiscal Year Ended 12/31/10

System type	Wholesale Electric
NERC Region	MISO
Number of Customers	3
Annual Revenues ($ Mil.)	530.06
Top User (% of Revenues)	53
Primary Fuel Source	Coal
Peak Demand (MW)	1,391
Energy Growth (%)	53.6
Debt Service Coverage (x)	1.32
Days Operating Cash	216.72
Equity/Capitalization (%)	31.85

Related Research

U.S. Public Power Peer Study — June 2011, June 20, 2011

Analysts
Dennis Pidhemy
+1 212 908-0738
dennis.pidhemy@fitchratings.com

Eric Espino
+1 212 908-0574
eric.espino@fitchratings.com

Key Rating Drivers

Risk Profile Reshaped: The recent termination of its generating asset lease transaction has reshaped the risks surrounding Big Rivers Electric Corporation (Big Rivers), effectively reducing leverage and financial risk in exchange for increased reliance on a concentrated customer base and the wholesale marketplace.

Abundant Low-Cost Resources: Big Rivers benefits from abundant low-cost power resources and an average wholesale system rate of $36.35 per MWh in 2010, net of credits, that is regionally competitive and among the lowest in the nation. Member retail rates are similarly low and competitive.

Heavy Customer Concentration: Big Rivers has resumed electric service to two local aluminum smelters through its largest member, Kenergy Corp. (Kenergy). The two smelters have a combined demand of 850 MW, and together account for approximately 53% of total energy sales.

Subject to Rate Regulation: The electric rates charged by Big Rivers and its members are regulated by the Kentucky Public Service Commission (KPSC), which limits the cooperative's financial flexibility, and may delay the timing or amount of necessary rate increases.

Acceptable Financial Metrics: Acceptable financial metrics for the rating category include fiscal 2010 debt service coverage (DSC) of 1.32x, and total debt to funds available for debt service (FADS) of 12.2x. Metrics improve to 1.78x (DSC) and 9.0x (debt to FADS) when revenues from member rate stability (MRS) reserves are included.

Forecast Stability: FADS and times interest earned ratios (TIER) are expected to remain relatively stable going forward, aided by the continued use of MRS reserves and a TIER-adjustment mechanism included in the cooperative's power sale agreements with the smelters.

What Could Trigger a Rating Action

Restrictive Rate Regulation: Future regulatory decisions that prevent the cooperative from adequately recovering costs would likely result in downward pressure on the rating or Outlook.

Onerous Environmental Regulation: Environmental regulations proposed by the U.S. Environmental Protection Agency (EPA), if adopted, could result in a much higher cost of compliance for the cooperative, versus other utilities with newer, more diversified resources.

Deteriorating Operating Conditions: Declining nonsmelter member sales, weak surplus energy sales, or constrained smelter operations that reduce financial margins and liquidity could also put downward pressure on the rating or Outlook.

Rating History

Rating	Action	Outlook/ Watch	Date
BBB–	Affirmed	Stable	8/12/11
BBB–	Assigned	Stable	7/2/09

Related Criteria

Revenue-Supported Rating Criteria, June 20, 2011

U.S. Public Power Rating Criteria, March 28, 2011

Credit Profile

Big Rivers is a generation and transmission cooperative based in Henderson, KY. Big Rivers supplies wholesale electric and transmission from its total capacity of 1,824 MW to three distribution cooperatives: Meade County Rural Electric Cooperative Corporation, Jackson Purchase Energy Corporation, and Kenergy. These members provide service to a total of approximately 112,500 retail customers located in 22 western Kentucky counties.

Each of the three Big Rivers members purchases power pursuant to a wholesale power contract (WPC) that extends through Dec. 31, 2043, well beyond the final maturity date of the cooperative's outstanding debt. Under the terms of the WPCs, the members are required to purchase all of the power required to meet the needs of their systems, except Kenergy's requirements for the smelters (*see the Smelter Agreements section on page 4*).

Bankruptcy

In September 1996, Big Rivers filed for voluntary Chapter 11 relief under the U.S. Bankruptcy Code, due to an inability to sell power produced from its excess capacity at prices sufficient to cover its above-market costs.

After emerging from bankruptcy in 1998, and in accordance with its plan of reorganization, Big Rivers entered into a 25-year lease of all of its generating assets with Western Kentucky Energy Corp. (WKEC), at the time a wholly owned subsidiary of LG&E Energy Corp. (LG&E). The transaction essentially transferred the operational responsibilities of the assets and related risks in exchange for annual lease payments, and a fixed-price purchase power contract with LG&E Energy Marketing, Inc. (LEM), another subsidiary of LG&E.

The Unwind Transaction

In 2009, the lease with WKEC was effectively unwound, resulting in Big Rivers receiving cash and consideration with a value of $865 million, and gaining back control of its generation fleet. Big Rivers also resumed electric service to two local aluminum smelters that have historically dominated the service area's electric demand, and were supplied by LEM following the reorganization. The smelters will again represent a significant portion of the cooperative's electric demand

The consideration received in connection with the unwind allowed Big Rivers to pay down approximately $140 million of debt, establish $253 million of rate-stabilization reserves, and improve system equity from negative 19% to approximately 30%.

Management, Governance, and Business Strategy

The board of Big Rivers consists of six members, comprised of two from each of the member cooperatives. Two members are elected each year, and serve three-year terms. There are full board meetings once a month, often supplemented with more informal meetings when necessary. There are no specific committees given the small size of the board. According to Big Rivers, management has an excellent working relationship with the board.

Since completing the unwind transaction, Big Rivers has expanded its senior management team to include two new vice presidents for production, and governmental relations and enterprise risk management, to oversee the expanded responsibilities related to power supply. The cooperative's employee base has also grown to approximately 630 employees, including the production personnel acquired with the generating facilities, many of whom were employed by Big Rivers prior to the bankruptcy.

Fitch Ratings believes that the cooperative's post-unwind transition has progressed very well, due in large part to the many years of preparation undertaken by the Big Rivers management team in anticipation of the transaction.

Big Rivers assumed full operating responsibilities earlier this year without any disruption, although E.ON provided some initial support to the post-unwind transition, particularly in the areas of information technology and generation dispatch. In December 2000, Big Rivers became a fully integrated member of the Midwest Independent System Operator (MISO).

Regulation

Big Rivers and its members are subject to oversight by the KPSC, which constrains the board's rate-setting ability, compared to other public power and cooperative utilities that are self-regulated. The KPSC is an independent agency that regulates gas, water, sewer, electric, and telecommunications utilities in Kentucky.

Fitch views external rate regulation as limiting to financial flexibility, but the KPSC has been responsive to the needs of Big Rivers in recent years, particularly during the unwind approval process. The recent inclusion of rate tariffs, designed to allow the monthly recovery of fluctuations in the cost of fuel, purchased power, and costs related to environmental compliance, are credit positive, and are expected to lower the frequency of formal rate cases.

Big Rivers has also adopted a very proactive approach to rate setting (*see the Rates and Cost Structure section on page 7*), which is designed to anticipate the need for rate relief well in advance of the timetable required by the KPSC, and should increase the likelihood of timely rate relief. The KPSC will also allow utilities to file for emergency or interim rate relief that can be implemented within 30 days, if necessary, under certain circumstances. Corresponding retail rate increase requests are typically coordinated with those of Big Rivers, but members must file separately with the KPSC.

Member Profile and Service Area

Big Rivers serves three electric cooperatives, which together provide electric service to approximately 112,500 customers. While the operating profiles of Jackson Purchase and Meade are largely typical of rural electric cooperatives, including a heavy concentration of residential customer and electric sales, Kenergy's profile is somewhat unique because its electric load is dominated by two aluminum smelters. One smelter is owned by Rio Tinto Alcan Primary Products Corporation (Alcan), located in Sebree, KY, and the other is owned by Century Aluminum of Kentucky General Partnership (Century) in Hawesville, KY.

The Alcan and Century smelters accounted for 87.7% and 80.0% of the distribution cooperative's total energy sales and revenue, respectively, in 2010. By comparison, Jackson Purchase's entire large industrial load accounted for only 7.1% of its energy sales and 5.5% of revenue. An overview of the three members is provided on the next page.

Overview of the Big Rivers Members

	Jackson	Kenergy	Meade
Number of Consumers	29,152	54,991	28,267
Total MWh Sales	683,481	9,318,498	479,367
Total Revenues ($)	45,400	399,473	33,648
Number of Residential Consumers	26,053	45,201	26,213
MWh — % Residential	64.6	8.7	78.2
Revenues — % Residential	68.8	14.3	77.8
Number of Small Commercial/Industrial Consumers (1,000 KVA or Less)	3,080	9,680	2,048
MWh — % Small Commercial	28.1	3.6	21.5
Revenues — % Small Commercial	25.5	5.6	22.0
Number of Large Commercial/Industrial Consumers (1,000 KVA or Less)	7	34	0
MWh — % Large Commercial	7.1	87.7	0.0
Revenues — % Large Commercial	5.5	80.0	0.0

KVA – Kilovolt-ampere.
Source: Big Rivers.

The Aluminum Smelters

Aluminum smelting is energy-intensive, with power costs accounting for approximately 33% of a smelter's production costs. Access to Big River's low-cost power has therefore been positive for the smelters, as both operations are adjacent to the Big Rivers generating facilities. The aluminum smelters have been fixtures in the Big Rivers service territory since the 1970s, and remain the dominant employers in western Kentucky, with 1,375 employees in total. A brief discussion of each facility and its owner is provided below.

Alcan is owned by Rio Tinto (IDR 'A–'/Stable), an international mining group. Its Kentucky facility is the company's only U.S. aluminum smelter. Alcan has been operating at that facility since 1973. The company produces 186,000 metric tons of primary aluminum annually from its three potlines. The base contract demand under its agreement with Big Rivers is 368 MW, which results in annual energy consumption projected at 3.1 terawatt-hours (TWh), assuming 24/7 operations and a 98% load factor.

Century Aluminum Company, the general partnership's parent, is a public company that owns and operates aluminum smelters in Kentucky, South Carolina, West Virginia, and Iceland. Operations at the facility in Hawesville began in 1970, and it currently produces 244,000 metric tons of primary aluminum from five potlines annually. The Century smelter's base contract demand is 482 MW, with projected annual consumption of 4.2 TWh.

Production at the smelting facilities has historically been relatively steady, although production at the Century facility was reduced from five potlines to four in the wake of declining aluminum prices in 2009–2010. Century's energy requirements fell from 4.1 TWh to approximately 3.3 TWh as a result. The fifth potline was recently returned to full utilization, and energy requirements have increased through 2011.

Smelter Agreements

In July 2009, as part of the unwind transaction, Big Rivers and Kenergy began supplying the sizable load requirements of the smelters, which had previously been the responsibility of LEM. Under the terms of various agreements, Big Rivers has agreed to supply energy to Kenergy, for resale to the smelters on a take-or-pay basis through the end of 2023, subject to certain termination conditions.

The smelter agreements are designed to provide all of their aggregate energy requirements, including base monthly energy (850 MW hourly), supplemental energy (10 MW hourly of interruptible energy to each smelter), and back-up energy (imbalance energy for Kenergy made available to the smelters). Surplus capacity is generally marketed off-system by Big Rivers for the ultimate benefit of the smelters.

Charges under the smelter agreements are designed to provide a slight premium (25 cents per MWh) over the rates charged to Kenergy's other large industrial customers. They also incorporate the cooperative's standard recovery clauses for fuel, environmental compliance expenditures, and purchased power.

The smelter agreements also include certain provisions that allow for adjustments in the amounts paid by the smelters, designed to enable Big Rivers to achieve a TIER of 1.24x for each fiscal year. During years in which the cooperative's ratio falls below the 1.24x threshold, additional payments are required by the smelters, subject to limitations. If the cooperative's TIER exceeds 1.24x during any fiscal year, amounts contributing to the excess coverage may be rebated to the members, with a pro rata portion allocated to the smelters.

Fitch views the smelter agreements as supportive to credit quality, but also notes that the support is somewhat limited, given the ability of the smelters to terminate the agreements upon one-year notice. Some additional comfort is derived from the conditional nature of the termination provision, which would also require that a smelter cease all smelting operations within the Kenergy service area to terminate the agreement, but the ability to rely on contract revenues over the long term is still limited.

Big Rivers Demand and Energy Sales

(MWhs)	2010	2009	2008	2007
Member Peak Demand (MW)	657	668	614	654
Total Peak Demand (MW)	1,391	1,308	614	654
Electric Sales — Members	3,411,558	3,159,032	3,312,709	3,327,805
Growth (%)	7.99	(4.64)	(0.45)	4.38
Electric Sales — Other	2,209,431	1,746,438	1,844,677	2,835,789
Growth (%)	26.51	(5.33)	(34.95)	37.51
Electric Sales — Smelter Contracts	6,348,431	2,885,491	0	0
Growth (%)	120.01	NM	NM	NM
Total Electric Sales	**11,969,420**	**7,790,961**	**5,157,386**	**6,163,594**
Growth (%)	53.63	51.06	(16.33)	17.39

NM – Not meaningful.
Source: Big Rivers.

Member energy demand has remained relatively stable since 2007, following a decline in 2009, due to unfavorable weather and economic weakness, and a subsequent rebound in 2010, as illustrated in the table above. However, member sales have become increasingly dominated by off-system sales of excess generating capacity and sales to the smelters following the unwind.

In 2010, member sales accounted for only 28.5% of total energy sales, reflecting a full year of sales under the smelter agreements. Big Rivers expects member load growth of approximately 1.4% per annum and declining market sales, as capacity is used to meet growing member demand. However, member sales are not expected to exceed 31% of total energy sales through 2019.

Case No. 2012-00492
Attachment for Response to AG 1-3
Witness: Billie J. Richert

Assets and Operations

The Big Rivers resource portfolio and power supply is dominated by coal-fired generation, both owned and leased. Although coal-fired capacity accounts for 87% of the cooperative's resource capacity, coal-fired generation accounted for approximately 97% of total power supply in 2010. Purchases from the cooperative's Southeastern Power Administration allocation supplied most of the remaining power supply.

The current portfolio of assets and related capacity comfortably exceeds the forecast peak demand of the membership, including the massive smelter demand, and should remain adequate through the load forecast period (2025). No additional resources are contemplated at this time. The cooperative's current resources are summarized below.

Big Rivers Generating Resources

Owned Generation	Fuel Type	Capacity (MW)	Commercial Operation
Kenneth Coleman Plant			
Unit 1	Coal	150	1969
Unit 2	Coal	138	1970
Unit 3	Coal	155	1972
Robert D. Green Plant			
Unit 1	Coal	231	1979
Unit 2	Coal	223	1981
Robert A. Reid Plant			
Unit 1	Coal/Gas	65	1966
Combustion Turbine	Oil/Gas	65	1979
D.B. Wilson			
Unit 1	Coal	417	1986
Leased Generation			
HMP&L Station Two			
Unit 1	Coal	153	1973
Unit 2	Coal	159	1974
(City of Henderson Capacity Allocation)		(110)	
Total Owned/Leased Generation		**1,651**	
Purchased Power			
SEPA Allocation		178	
Total Capacity		**1,824**	

HMP&L -- Henderson Municipal Power & Light. SEPA – Southeastern Power Administration.
Source: Big Rivers.

Despite the changes in ownership and operating responsibility following the unwind, the Big Rivers plants have continued to perform well when compared to similarly sized and equipped units. For the period 2007–2010, six of the eight units reported equivalent availability factors (EAF) in the top quartile. The EAF for the entire system in 2010 was a record 93.7%.

Environmental Compliance

Big Rivers reports that all of its units are in compliance with current environmental standards. Currently, eight of the cooperative's nine coal units are equipped with flue gas desulphurization systems to control SO2, and three of the units are equipped with selective catalytic reduction systems to control NOx emissions.

The cooperative could face greater-than-average challenges with respect to environmental regulations proposed by the EPA, given its near full reliance on coal-fired capacity and generation, and the characteristics of its fleet. Big Rivers estimates that full compliance with the regulations could require expenditures of approximately $785 million by 2015, and increase wholesale rates and member retail rates by 39% and 20%, respectively.

The cooperative has acknowledged that it may seek to mothball certain units or explore fuel conversion to natural gas as an alternative, given the advanced age and relatively small size of certain generating units. Any shortfall in capacity necessary to serve its load, including that of the smelters, would likely be purchased initially, until a longer term strategy is adopted.

There is no renewable portfolio standard at this time in the state of Kentucky.

Transmission

Big Rivers is nearing the completion of a significant transmission expansion project that was initiated in concert with the unwind transaction. The $20 million dual-phase project is designed to increase the cooperative's capability to export power off-system from 912 MW to approximately 1380 MW. This transfer capability is large enough to export excess generation, including the peak demand of both smelters.

Phase one of the transmission expansion project, which included a 345-kV tie with Kentucky Utilities Company, providing eastern path access to the Southwest Power Pool, was completed in April 2008. Big Rivers has recently been completing phase two expansion projects. The final project, construction of a 13-mile transmission line between the cooperative's D.B. Wilson generating facility and the Tennessee Valley Authority transmission system, is expected to be completed by year-end 2011.

Fitch views the cooperative's expanded export capability favorably, particularly given the prospect of significant excess capacity and reliance on off-system sales if the smelters were to discontinue operations. While the completion of the projects does not ensure the sale of excess capacity, it removes the physical constraints.

Coal Supply

The Big Rivers generating units are located nearby in the heart of the western Kentucky portion of Illinois Basin coal fields. Half of its coal supply is delivered by truck and half by barge, significantly reducing transportation costs and ultimate production costs. Big Rivers also assumed all of the WKEC coal supply contracts, many of which were favorably priced and have lowered the cost of production.

Capital Resource and Expenditure Plan

The Big Rivers' capital plan for 2011–2019 totals $460.7 million, and will largely be financed with internally generated funds. Nearly all of the remaining expenditures will be related to modest improvements at the cooperative's generating units, with the exception of the transmission expenditures noted above. The current capital plan does not incorporate any major expenditures for additional environmental compliance.

Rates and Cost Structure

Pursuant to the terms of the WPCs and the indenture, the Big Rivers board is required to review its wholesale rate at least annually and seek revisions to ensure covenant compliance, as necessary. Any change in rates charged by Big Rivers is subject to the approval of the KPSC.

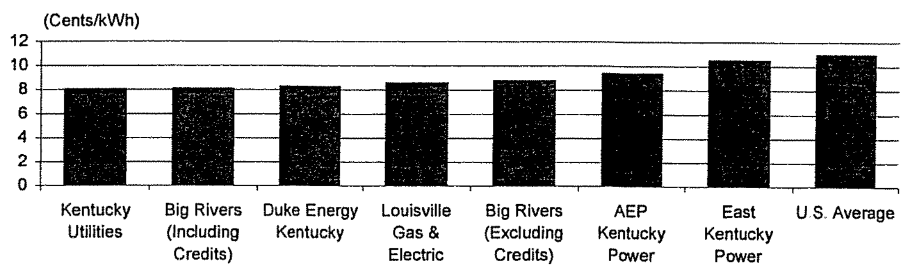
A number of factors mitigate the risks related to rate-regulation, including Big Rivers' proactive policies dictating annual reviews of the cooperative's annual budget and financial forecast. Big Rivers seeks to anticipate the need for rate relief well in advance of any projected revenue shortfall, given the anticipated seven-month time frame for KPSC approval and implementation of rate increases.

The rate structure flexibility approved by the KPSC as part of the unwind has also improved the timeliness of rate recovery. The KPSC has most notably implemented a fuel-adjustment clause, which allows Big Rivers to track changes in fuel costs and adjust rates accordingly on a monthly basis without further approval. The KPSC has also implemented an environmental surcharge to recover costs related to programs limiting the emissions of coal-fired generation.

The very competitive cost structure exhibited by Big Rivers, and the resulting wholesale and retail rates, among the lowest in the nation, are further mitigating regulatory risk. Although the competitiveness of the cooperative's wholesale and member retail rates are currently subsidized as a result of the MRS credit, charges excluding the credit are still relatively attractive. In 2010, Big Rivers reported a nonsmelter member wholesale rate of $36.35 per MWh. Excluding the MRS credit, the rate was $44.26 per MWh, comfortably below the average member revenue per MWh for cooperatives nationwide.

Member retail rates similarly remain equally competitive with the region's other power suppliers, and nationwide, largely due to low power costs. Retail rates for the smelters and Kenergy's other large industrial customers averaged 4.4 cents per kWh in 2010, well below the Kentucky state average of 6.0 cents per kWh. Residential rates across the membership are also solidly in line with neighboring utilities as shown below.

Average Residential Electric Rate — April 2011



Source: Big Rivers.

Big Rivers filed for a general rate increase of 6.85% with the KPSC on March 1, 2011. Discovery, testimony, and public hearings were completed in July 2011, and a final order is expected from the KPSC in August, with new rates effective Sept. 1, 2011. The filing also seeks to redistribute certain costs across the various customer classes. Under the terms of the KPSC order approving the unwind, Big Rivers was required to file a rate case within three years of the closing. Big Rivers is filing for a rate increase sooner than expected, keeping with the policies noted earlier, and in response to lower than anticipated off-system revenues.

The cooperative's current financial forecast incorporates somewhat modest base rate increases, but actual wholesale rates are projected to increase significantly over time, due to a forecast increase in coal costs and the depletion of the MRS reserves. While the resulting 2019 rates for the smelters and non-smelter members are still expected to be regionally competitive, the higher cost of power to be borne by members may introduce some economic strain. The cooperative's current forecast does not include the potential cost effect of further environmental compliance, which would most likely introduce more strain.

Managing its power supply operations and the ultimate cost of its wholesale power in the wake of escalating costs, diminishing reserves, and potentially burdensome environmental regulations will be the single greatest challenge for Big Rivers, and the most important factor in the cooperative's future creditworthiness.

Financial Position

The significant changes in the operating profile of Big Rivers in recent years, particularly the effect of the unwind, make the comparison of historical financial metrics difficult. Fitch's assessment of Big Rivers' financial position is largely based on fiscal 2010 performance against budget (the first full year of post-unwind operations) and the cooperative's projected performance under both base case and stressed scenarios.

Financial performance for fiscal 2010 was relatively solid and virtually on budget. Operating margins for the year were slightly lower than forecast ($51.3 million versus $54.6 million forecast), as weaker wholesale prices for power were nearly offset by increased, but more efficient, generation. Net margins for the year were almost exactly on budget ($7.0 million versus $7.1 million budgeted). Actual figures reported by Big Rivers for TIER (1.14x), DSC (1.47x), and equity to capitalization (32%) were also solidly in-line with forecast performance.

Fitch-calculated ratios for DSC (1.32x) and total debt to FADS (12.2x) were commensurate with the current rating, and do not reflect the inclusion of withdrawals from the MRS reserve. Including those revenues, the metrics improve to 1.78x and 9.0x, respectively. Metrics for cash on hand (37 days, excluding the MRS reserves) and total liquidity on hand (109 days) were somewhat low for the cooperative's operating profile.

Fitch has reviewed Big River's financial forecast, and believes the near-term targets are achievable and based on reasonable assumptions. Maintenance of a TIER in excess of 1.0x, coupled with the absence of significant capital expenditures and the anticipated refunding of maturing debt, should allow the cooperative to gradually improve its liquidity and equity ratios to levels commensurate for the current rating.

Fitch has also reviewed Big Rivers' sensitivity analysis, which assumes the loss of both smelters at the end of 2012 and the sale of excess capacity at base case wholesale price projections. Maintaining coverage and cash levels consistent with the cooperative's goals would require average base rates approximately 15% higher than the base case projections for the period 2013–2017, based on the expectation that market-based sales can be executed. An increase of this magnitude is not unreasonable, but would likely strain the members and draw scrutiny from the KPSC. The current rating adequately reflects these risks.

Debt

At Dec. 31, 2010, Big Rivers reported total long-term debt of $817.0 million, the largest portion of which is the Rural Utilities Service (RUS) Series A note for $558.7 million, which has a final maturity of 2021, but requires payments of $60 million in 2012 and $200 million in 2016 as negotiated with the RUS. The cooperative's remaining long-term debt includes a RUS Series B note for $116.2 million, maturing in 2023, and two series of County of Ohio, KY, tax-exempt pollution control bonds, series 1983 and series 2010 A, totaling $58.8 million and $83.3 million, respectively.

The series 2010 A bonds were remarketed in June 2010 as fixed-rate bonds, with a final maturity of July 2031. The series 1983 bonds are currently held as bank bonds by the liquidity provider (Dexia Credit), bear interest at a variable rate, and mature in June 2013. As with the scheduled 2012 and 2016 RUS payments, Big Rivers expects to refinance the series 1983 maturity, introducing a moderate degree of refinancing risk, and reinforcing the importance of continued access to the capital markets. Fitch believes this risk is manageable.

Liquidity

Big Rivers maintains lines of credit totaling $100 million with CoBank, ACB ($50 million), and National Rural Utilities Cooperative Finance Corporation ($50 million), which provide additional liquidity for operations. The current lines of credit expire in 2012 and 2014, respectively, and are expected to be renewed upon expiration.

Member Cooperatives

The consolidated financial profile of the Big Rivers membership has improved marginally in recent years, and is supportive of the cooperative's rating. For the year ended Dec. 31, 2010, the members reported consolidated operating income before depreciation, interest, and taxes of $37.3 million on total revenues of $482.2 million, and an aggregate ratio for debt service coverage of 1.84x, as calculated by Big Rivers. The improved performance is due, in part, to the approval of rate increases at both Jackson Purchase and Kenergy. At year-end 2010, the members reported total net worth of $131 million, and an aggregate ratio of equity to capitalization of 35.9%. A summary of aggregate metrics for 2008–2010 is provided below.

Big Rivers Member Aggregate Financial Metrics

($ Mil.)	2008	2009	2010
Operating Revenues	434.0	422.8	482.2
Operating Income Before Depreciation, Interest, and Taxes	28.5	30.8	37.3
DSC (x)	1.46	1.52	1.84
TIER (x)	1.37	1.44	2.11
Net Debt	220.1	236.7	233.9
Total Margins Plus Equities	111.9	117.9	131.0
Equity/Capitalization (%)	33.7	33.2	35.9

DSC – Debt service coverage. TIER – Times interest earned ratios.
Source: Big Rivers.

Financial Summary — Big Rivers Electric Cooperative

($000, Fiscal Years Ended Dec. 31)	2006	2007	2008	2009	2010
Cash Flow (x)					
Debt Service Coverage	2.93	2.64	1.24	3.52	1.78
Adjusted Debt Service Coverage with General Fund Transfer	2.93	2.64	1.24	3.52	1.78
Coverage of Full Obligations	2.01	1.87	1.19	2.88	1.49
Liquidity					
Days Cash On Hand	257	275	98	78	37
Days Liquidity On Hand	297	302	130	201	109
Leverage					
Debt/Funds Available for Debt Service (x)	7.6	7.0	7.3	2.3	9.0
Equity/Capitalization (%)	(26.0)	(19.6)	(17.5)	30.9	31.9
Equity/Adjusted Capitalization (%)	(18.4)	(13.4)	(13.3)	25.2	26.6
Net Debt/Net Utility Plant (x)	1.04	1.00	1.10	0.73	0.72
Other (%)					
Operating Margin	34.2	29.7	34.6	14.9	9.7
General Fund Transfer/Total Revenue	0.0	0.0	0.0	0.0	0.0
Capex/Depreciation	39.3	55.2	66.3	157.4	113.4
Income Statement					
Total Operating Revenues	**258,588**	**329,870**	**273,181**	**373,360**	**527,324**
Total Operating Expenses	170,260	231,836	178,542	317,668	476,072
Operating Income	88,328	98,034	94,639	55,692	51,252
Adjustment to Operating Income for Debt Service Coverage	50,176	53,963	47,075	37,951	40,384
Funds Available for Debt Service	138,504	151,997	141,714	362,180	91,636
Total Annual Debt Service	**47,277**	**57,559**	**114,211**	**102,849**	**51,453**
Balance Sheet					
Unrestricted Funds	96,143	148,914	38,903	60,290	44,780
Restricted Funds	186,690	192,932	—	243,225	217,562
Total Debt	**1,053,034**	**1,061,737**	**1,039,120**	**848,552**	**826,996**
Equity and/or Retained Earnings	(217,371)	(174,137)	(154,602)	379,392	386,575

Source: Fitch Ratings and CreditScope.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

The information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of Great Britain, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

MOODY'S
INVESTORS SERVICE

ISSUER COMMENT

Big Rivers Electric Corporation

Table of Contents:

Analyst Contacts:

NEW YORK 1.212.553.1653

Kevin G Rose 1.212.553.0389
Vice President-Senior Analyst
Kevin.Rose@moodys.com

Chee Mee Hu 1.212.553.3665
Managing Director – Project and Infrastructure Finance
CheeMee.Hu@moodys.com

Key Indicators [1]

Big Rivers Electric Corporation

	2010	2009	2008	3-Year Avg
TIER [2]	1.2x	0.9x	1.5x	1.2x
DSCR [2]	1.5x	0.9x	1.2x	1.2x
FFO / Debt	2.5%	59.1%	5.9%	22.5%
FFO + Interest / Interest	1.4x	9.1x	1.8x	4.2x
Equity / Capitalization	31.8%	30.8%	-17.4%	15.1%

[1] All ratios calculated in accordance with Moody's Electric G&T Cooperative Rating Methodology using Moody's standard adjustments

[2] Moody's definitions may differ from indenture covenants

Rating Drivers

» Stronger balance sheet resulting from deleveraging following the unwinding of 1998 vintage transactions, which was completed in 2009

» Ownership of competitively advantaged coal-fired generation plants

» High industrial concentration to two aluminum smelters

» Rates subject to regulation by the Kentucky Public Service Commission (KPSC); General rate case pending

» Revenues from electricity sold under long-term wholesale power contracts with member owners

Corporate Profile

Big Rivers Electric Corporation is an electric generation and transmission cooperative (G&T) 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 112,000 residential, commercial, and industrial customers in 22 Western Kentucky counties.

Summary Rating Rationale

The Baa1 senior secured rating considers the financial benefits of several steps taken by Big Rivers to unwind a lease and other transactions in 2008 and 2009 wherein its prior deficit net worth turned substantially positive, cash receipts were utilized to reduce debt, and two committed bank credit facilities aggregating $100 million were established to improve liquidity. Revenues generated from competitively priced power sold under long-term wholesale contracts with the three member owners should continue to support Big Rivers financial performance in keeping with its current rating level, while allowing capital expenditures to be largely met with internally generated funds.

A significant constraint to Big Rivers' rating is that one of its member owners, Kenergy Corp., makes a high concentration of its sales to two aluminum smelters (Century Aluminum Company: Corporate Family Rating B3; stable outlook and Rio Tinto Alcan: senior unsecured rating A3; stable outlook), both of whom face credit challenges due to the significant volatility in both metal prices and demand. In addition, these smelters have the option to terminate their respective power purchase arrangements, subject to a one-year notice and other conditions. Big Rivers' rating is further constrained because its rates are regulated by the KPSC, which is atypical for the G&T coop sector.

Detailed Rating Considerations

Financial Flexibility Improved Following Completion Of Unwind Of Historical Transactions In 2009

In 2008, Big Rivers bought out two leveraged lease transactions and in 2009 completed a series of other steps to terminate another lease and other long-term transactions previously involving E.ON U.S. LLC (formerly known as: LG&E Energy Marketing Inc.) and Western Kentucky Energy Corp. These entities previously leased and operated the generating units owned by Big Rivers. In turn, Big Rivers was purchasing the power from these units at generally fixed below market rates to use in servicing the requirements of its three members, exclusive of the load requirements of Kenergy's two large aluminum smelters. At the same time, Big Rivers terminated other agreements and entered into various new arrangements whereby it now sells to Kenergy 850 MW in aggregate for resale to the two aluminum smelters. This arrangement reintroduced a concentration of load risk for Big Rivers. Key credit positives resulting from consummation of all the unwind transactions were as follows: elimination of Big Rivers' deficit net worth, with equity of $379.4 million at December 31, 2009, which increased to $386.6 million as of December 31, 2010 compared to a negative $155 million at 12/31/2008, and partial utilization of the $505.4 million in cash payments received from E.ON to repay about $140.2 million of debt owed to the Rural Utilities Service (RUS) and to establish $252.9 million of reserves. The reserves were comprised of: a $157 million Economic Reserve for future environmental and fuel cost increases; a $35 million Transition Reserve to mitigate potential costs if the smelters decide to terminate their agreements or otherwise curtail their load due to reduced aluminum production; and a $60.9 million Rural Economic Reserve, which would be used over two years to provide credits to rural customers upon full utilization of the Economic Reserve.

As part of the unwind process, Big Rivers completed the buyout of leveraged leases with Bank of America and Phillip Morris Capital Corporation (PMCC) during 2008. Among the positive credit effects of the buyouts were removal of $922 million of defeased obligations (about $735 million of which was off-balance sheet), and removal of exposure to Ambac, albeit at a net cost of $120 million,

Case No. 2012-00492
Attachment for Response to AG 1-3
Witness: Billie J. Richert
Page 14 of 29

including a $12 million PMCC note. We note, however, that part of the cash payment from E.ON upon consummation of unwinding all the various transactions included full reimbursement of Big Rivers' lease buyout costs, and the $16 million remaining deferred loss on reacquired debt was written off.

Under a contract times interest earned ratio (TIER) arrangement with the two smelters, Big Rivers is targeting a minimum TIER of 1.24x, which would leave ample cushion under its financial covenants and positioning itself favorably among its similarly rated peers. Under current market conditions, we expect that Big Rivers would file for rate relief as necessary, in the event that TIER drops below the 1.24x target.

Coal-Fired Plants Represent Valuable Assets Even As Environmental Costs Loom

Big Rivers owns generating capacity of about 1,444 megawatts (MW) in four substantially coal-fired plants. Total power capacity is about 1,824 MW, including rights to about 202 MW of coal-fired capacity from Henderson Municipal Power and Light (HMP&L) Station Two and about 178 MW of contracted hydro capacity from Southeastern Power Administration. The economics of power produced from these sources enables Big Rivers to maintain a solid competitive advantage in the Southeast and even more so when compared to other regions around the country. The consistently high capacity factors and efficient operations of the assets results in average system wholesale rates to members around $36 per MWh (including the beneficial effects of the member rate stability mechanism), which translates to member retail rates to residential customers around 8 cents per kWh.

Because Big Rivers is substantially dependent on coal-fired generation, it faces a high degree of uncertainty with regard to future environmental regulations, including the form and substance those will take, the timing for implementation, and the amount of related costs to comply. We note that the Economic Reserve should help mitigate some of the need for initial rate increases to cover future compliance costs.

Regulatory Risk Exists; However, Offsets Are Present

Big Rivers is subject to regulation for rate setting purposes by the KPSC, which is atypical for the sector and can pose challenges in getting timely rate relief if and when needed. We view the existence of certain fuel and purchased power cost adjustment mechanisms available to Big Rivers as favorable to its credit profile since they can temper risk of cost recovery shortfalls if there is a mismatch relative to existing rate levels. Although Big Rivers did not file for a general rate increase in 2010, additional revenues were generated under the fuel adjustment clause and through use of a portion of the various reserve funds. In keeping with the KPSC order issued on March 6, 2009 requiring Big Rivers to file for a general review of its financial operations and rates by July 16, 2012 (i.e. three years from the closing of the unwind transaction), Big Rivers filed a wholesale tariff rate case with the KPSC on March 1, 2011. The rate case is intended to bolster wholesale margins, while also addressing increased depreciation costs, administrative costs tied to joining the Midwest Independent Transmission System Operator (MISO) as outlined in more detail below, and maintenance costs incurred during scheduled generation plant outages. According to the filing, the requested increase in member wholesale tariff rates would equate to an estimated 6.85% (approximately $30 million) increase in total member revenue. Hearings have been scheduled for July 26th and 27th and a decision is expected in August 2011, with new rates to be effective September 1, 2011. If the case is not decided in this time line, the regulatory process allows for interim rates to be put into effect, subject to refund. According to management at Big Rivers, the cooperative has not had a wholesale tariff rate increase in 20 years and its existing depreciation study and tariffs have been in place since July 1998. We will continue to monitor the proceedings in the pending case to determine the degree of supportiveness the KPSC provides for this request. Significant shortfalls that compromise Big Rivers ability to achieve timely and full recovery of its costs of service and anticipated financial results could pressure its credit quality. The timing of future rate cases is likely to be influenced primarily by the outcome of future environmental assessments.

Wholesale Power Contracts Are A Linchpin To Sound Credit Profile

The substantial revenues derived under Big Rivers' long-term wholesale contracts with its members will continue as the contracts were extended by an additional 20 years to December 31, 2043 when the unwind of transactions were completed in 2009. The low cost power provided under the contracts makes member disenchantment unlikely, even in the face of potential rate increases in the near term associated with the pending rate case and, in the medium to longer term, due to environmental compliance costs. The currently overall sound member profile provides assurance of this revenue stream, which is integral to servicing Big Rivers' debt. The potential for degradation in the creditworthiness of the smelters is a particular credit concern, only tempered in part by assurances of two month's worth of payment obligations covered by letters of credit from an A1 rated financial institution (or some other form acceptable to Big Rivers) under certain circumstances.

Big Rivers' net margins for 2010 reflected improvement over 2009 results (exclusive of the effects of the unwind transactions on 2009 results) as fundamental results in 2009 were negatively affected by costs related to a planned generation plant outage at the D.B. Wilson plant in Centertown, Kentucky, which included a turbine overhaul. Also, during 2010 a considerable reduction in annual interest expense in line with substantially reduced debt following the unwind and non-operating margins resulting from accounting treatment for certain materials and supplies more than compensated for the effects of lower market prices for off-system sales during 2010 compared to 2009.

On a historical basis, Big Rivers dramatically improved its equity position whereby its equity to total capitalization is now over 30% thanks to significant debt reductions following the unwind. At this level, Big Rivers equity to total capitalization maps to the A category for this metric under the rating Methodology. Based on expected continuation of management's current practice of not returning patronage capital back to members (a credit positive strategy in our view) we anticipate that the equity ratio should continue to improve as net margins are fully retained and little if any new debt is added over the next couple of years. We also note that Big Rivers' historical three-year average metrics such as funds from operations (FFO) to debt and FFO to interest are particularly strong due to the one time effects of the unwind, and are therefore not sustainable at those levels. Assuming the KPSC is supportive of Big Rivers' pending request for an increase in member wholesale tariff rates, then we anticipate that Big Rivers should map on average to the A or Baa ranges for other key metrics, such as the times interest earned, the debt service coverage, FFO to interest and FFO to debt ratios. We would view a lack of substantial support for timely and full recovery of costs of service in rate case proceedings as a credit negative, which could cause downward pressure on the ratings for Big Rivers.

Concerns About Potential Loss Of Smelter Load Cannot Be Ignored

Under historical operating conditions, the two smelters served by Kenergy can be expected to consume over 7 million MWh of energy annually, representing a substantial load concentration risk. As noted above, this risk is a significant constraint to Big Rivers' rating, making its operating and risk profile rather unique compared to peers. With Big Rivers' ongoing transmission capacity upgrade projects nearing completion (expected by Q-4 2011), either of the two smelters could serve a one-year notice of termination of their contract at any time. Given the cost effective power being provided by Big Rivers to allow Kenergy to service this load, we do not currently expect the smelters to exercise this option. Moreover, in December 2010 Big Rivers became a transmission owning member of the Midwest Independent Transmission System Operator (MISO), thereby enhancing its reliability and ensuring compliance with mandated emergency reserve requirements established by regulators. This step, the anticipated completion of expansion of its own transmission lines in Q-4 2011 and legislation to permit sales to non-members, when coupled with the low cost of the power, should enhance Big Rivers' ability to move excess power off system in the event that the smelters cancel their contracts or otherwise reduce load due to curtailment of aluminum production due to market and economic conditions. To the latter point, during 2009, Century Aluminum of Kentucky arranged for the orderly curtailment of one of its five potlines, pending improvement in economic conditions. Following improved economic and market conditions, Century completed its restart of the fifth potline in May 2011. During the period of time that Century Aluminum's potline was shut down, Big Rivers moved to sell into the open market the approximately 87 megawatts of capacity it would otherwise have been providing to Kenergy for service to the one Century Aluminum pot line.

Liquidity

Big Rivers supplements its internally generated funds with $100 million of unsecured committed revolver capacity, with National Rural Utilities Cooperative Finance Corporation (NRUCFC) and CoBank providing $50 million each. The NRUCFC and CoBank facilities, which expire on July 16, 2014 and July 16, 2012, respectively, replaced the smaller $15 million facility previously provided by NRUCFC, which was terminated upon completion of the unwind transactions in 2009. The $50 million NRUCFC facility provides for issuance of up to $10 million of letters of credit. We view the significant increase in available bank credit as credit positive. As of May 31, 2011 Big Rivers had approximately $67 million of unrestricted cash and equivalents on its books, and had substantial unused capacity under the two credit facilities as the only usage related to $5.6 million of letters of credit outstanding with NRUCFC. Assuming little change to future usage of the bank facilities and the cash position, as well as no change to management's current policy of not returning patronage capital back to members, we anticipate that Big Rivers should be able to largely fund its anticipated short-term working capital needs, capital expenditures of about $52 million, and current maturities of long term debt of around $7 million during 2011 without the need for new debt. Big Rivers does, however, face a more material RUS long-term debt maturity of about $76 million in 2012, most of which we anticipate will be refinanced and the balance retired. We also note that the CoBank facility expires within the next 12 months and we anticipate that Big Rivers will renew the facility well ahead of the expiration date.

The quality of the alternate liquidity provided by the bank revolvers benefits from the multi-year tenor at the time they were arranged and the absence of any onerous financial covenants, which largely mirror the financial covenants in existing debt documents. Big Rivers is in compliance with those covenants and we expect that to remain so in the foreseeable future. Additionally, the NRUCFC facility benefits from no ongoing material adverse change (MAC) clause; however, the CoBank facility is considered of lesser quality because of the ongoing nature of its MAC clause related to each drawdown. We would view an amendment to the CoBank revolver to eliminate the ongoing applicability of the MAC clause as part of the renewal and extension process to be a credit positive step. There are no applicable rating triggers in any of the facilities that could cause acceleration or puts of obligations; however, a ratings based pricing grid applies.

Case No. 2012-00492
Attachment for Response to AG 1-3
Witness: Billie J. Richert

Structural Considerations

As part of the unwinding of various transactions completed in 2009, Big Rivers replaced the previously existing RUS mortgage with a new senior secured indenture. Under the current senior secured indenture RUS and all senior secured debt holders are on equal footing in terms of priority of claim and lien on assets. The current senior secured indenture provides Big Rivers with the flexibility to access public debt markets without first obtaining a case specific RUS lien accommodation, while retaining the right to request approval from the RUS for additional direct borrowings under the RUS loan program, if they choose to do so. Given persistent questions about the availability of funds under the federally subsidized RUS loan program, we consider the added flexibility of the current senior secured indenture to be credit positive.

Rating Outlook

The stable rating outlook is based on Big Rivers' successful completion of the unwind transactions, thereby improving its financial profile and repositioning itself to continue efficiently meeting the needs of its members in the future.

What Could Change the Rating - Up

Given the rating constraints linked to customer load concentration at Kenergy, rate regulation, and looming pressures tied to environmental issues, a rating upgrade is unlikely in the foreseeable future. Changes to eliminate rate regulation of cooperatives in Kentucky could contribute to a positive action, especially if it coincides with improvement in market conditions for the aluminum smelters and sustained improvement of FFO to interest and debt metrics to near 2.3x and 8%, respectively, on average.

What Could Change the Rating - Down

Loss of significant load (i.e. the smelters) that is not otherwise compensated for through off system power sales could contribute to a negative action, as would lack of regulatory support for substantial and timely recovery of costs. In terms of credit metrics, if FFO to interest and debt falls below 2x and 5%, respectively, for a sustained period of time, then rating pressure could result.

Other Considerations

Mapping To Moody's U.S. Electric Generation & Transmission Cooperatives Rating Methodology

Big Rivers' mapping under Moody's U.S. Electric Generation &Transmission Cooperative rating Methodology appears below and is based on historical data through December 31, 2010. The Indicated Rating for Big Rivers' senior most obligations under the Methodology is currently A2 and relies on the aforementioned historical quantitative data and qualitative assessments. In particular we note that the A2 Indicated Rating reflects improvement over the Baa2 Indicated Rating level from historical published reports, which were based on historical data only through 2008. We note that the improvement in the Indicated Rating under the Methodology largely stems from better scores for the factors relating to dependence on purchased power and financial metrics such as equity as a percentage of capitalization, FFO to debt and FFO to interest, all of which improved upon completion of the unwind transactions. Notwithstanding a currently higher Indicated Rating for Big Rivers under the Methodology compared to its actual rating, the unique risks relating to Big Rivers load concentration to the smelters and the fact that it is subject to rate regulation by the KPSC will likely persist and continue to constrain its rating level in the future.

Rating Factors:

Big Rivers Electric Corporation

U.S. Electric Generation & Transmission Cooperatives	Aaa	Aa	A	Baa	Ba	B
Factor 1: Wholesale Power Contracts & Regulatory Status (20%)						
a) % Member Load Served & Regulatory Status			X			
Factor 2: Rate Flexibility (20%)						
a) Board Involvement / Rate Adjustment Mechanism				X		
b) Purchased Power / Sales %		19%				
c) New Build Capex (% Net PP&E)		X				
d) Rate Shock Exposure						X
Factor 3: Member / Owner Profile (10%)						
a) Residential Sales / Total Sales						16%
b) Members' Consolidated Equity / Capitalization				36%		
Factor 4: 3-Year Average Financial Metrics (40%)						
a) TIER				1.2x		
b) DSC			1.2x			
c) FFO / Debt	22.5%					
d) FFO / Interest	4.2x					
e) Equity / Capitalization				15.1%		
Factor 5: Size (10%)						
a) MWh Sales (Millions of MWhs)			12.0			
b) Net PP&E ($billions)			$1.1			
Rating:						
a) Indicated Rating from Methodology			A2			
b) Actual Rating Assigned (Senior Secured)				Baa1		

Report Number: 134388

Author
Kevin Rose

Production Associate
Cassina Brooks

MOODY'S
INVESTORS SERVICE

STANDARD & POOR'S

Global Credit Portal®
RatingsDirect®

July 6, 2011

File

Big Rivers Electric Corp., Kentucky Ohio County; Rural Electric Coop

Primary Credit Analyst:
David Bodek, New York (1) 212-438-7969; david_bodek@standardandpoors.com

Secondary Credit Analyst:
Jeffrey Panger, New York (1) 212-438-2076; jeff_panger@standardandpoors.com

Table Of Contents

Big Rivers Electric Corp., Kentucky Ohio County; Rural Electric Coop

Credit Profile		
Big Rivers Electric Corp. ICR		
Long Term Rating	BBB-/Stable	Affirmed
Ohio Cnty, Kentucky		
Big Rivers Electric Corp., Kentucky		
Ohio Cnty (Big Rivers Electric Corp.) poll ctrl rfdg rev bnds (Big Rivers Elec Corp Proj) ser 2010A		
Long Term Rating	BBB-/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has affirmed its 'BBB-' issuer credit rating on Big Rivers Electric Corp., Ky., and its 'BBB-' long-term rating on Ohio County, Ky.'s $83.3 million pollution control refunding revenue bonds, series 2010A (Big Rivers Electric Corp. Project). The outlook is stable.

Ohio County sold the bonds for the benefit of Big Rivers, which used bond proceeds to refund auction rate securities. We understand that the financing structure obligates the utility to unconditionally pay the county's bonds' debt service. Big Rivers issued a note to the county that provides it with a security interest in Big Rivers' assets under its mortgage indenture. The county's bonds' security interest is on par with the utility's senior-secured debt. Big Rivers' long-term debt totaled $817 million as of December 31, 2010.

The ratings reflect our view of the following credit weaknesses:

- We believe that the utility's extreme level of customer concentration and its leading customers' credit profiles represent meaningful credit exposures. The cooperative relies on two customers for about 65% of energy sales to members and 53% of total member and non-member energy sales. These two customers are aluminum smelters whose operations are vulnerable to economic cycles.
- In our opinion, the take-or-pay features of the retail power sales contracts between Big Rivers' distribution cooperative, Kenergy Corp., and the smelters are weak because the smelters can terminate their obligations with one-year's notice.
- The cooperative and its member distribution cooperatives are subject to state rate regulation that distinguishes Big Rivers from many other cooperatives that have autonomous ratemaking authority. Rate regulation could potentially expose the utilities' financial performance to delayed rate relief or cost disallowances, particularly if Big Rivers needs to reallocate the smelters' shares of fixed costs to its nonsmelter customers.
- Surplus energy sales in volatile wholesale markets account for about 16% of energy sales, are important to the utility's revenue stream, and help support its financial obligations.
- The cooperative is adding transmission capacity to increase physical access to wholesale markets. However, even with the additions, we believe the utility lacks the certainty of firm contractual transmission arrangements, which could frustrate the surplus power sales Big Rivers would need to make if the smelters reduce operations meaningfully or close.
- Nearly one-third of the utility's debt either does not amortize before maturity or has limited amortization, which

Case No. 2012-00492
Attachment for Response to AG 1-3
Witness: Billie J. Richert
Page 22 of 29

produces highly uneven debt service coverage ratios (DSCRs) and presents refinancing risk.

- In July 2009, Big Rivers regained operational control over generation assets it had not operated for more than a decade and has a limited track record of generation operations.

We believe these strengths temper the exposures:

- The long-term wholesale power contracts between the utility and its three member distribution cooperatives provide a measure of revenue stream security.
- Members have exclusive rights to sell electricity in defined territories.
- We believe that Big Rivers' members' retail rates are competitive and they could contribute to financial flexibility. However, members' favorable rates depend on the smelters' operating at high load factors that help absorb high fixed costs. Rate levels also benefit from the subsidies that more than $200 million of rate mitigation reserves provide.

Henderson, Ky.-based Big Rivers is a generation and transmission cooperative that produces and procures electricity for sale to three member distribution cooperatives and their more than 112,000 retail customers. It relies on two aluminum smelters for more than half of operating revenues, which erodes revenue stream stability and predictability and distinguishes the utility from most cooperative utilities that generally earn the bulk of revenues from residential customers. Moreover, Big Rivers projects that it needs to sell surplus energy into competitive wholesale markets to support its financial obligations. Nonmember revenues accounted for about 16% of 2010's operating revenues. We believe that reductions in the smelters' operations and electricity consumption could increase market reliance. Also, declines in wholesale market electricity prices due to weak natural gas prices or abundant supplies could erode margins from market sales and place upward pressure on the costs that the utility's nonsmelter customers bear.

Outlook

The stable outlook reflects our expectations that the sound debt service coverage Big Rivers projects could provide a financial cushion to service debt obligations under adverse conditions that could arise from the operational, financial and regulatory challenges the utility faces. We believe management needs to actively oversee these challenges to preserve credit quality. In our view, the ratings' upward potential is limited in the near term because the utility must refinance considerable bullet maturities, depends on volatile smelter loads for substantial revenues, and relies on volatile wholesale energy markets for meaningful portions of its revenue requirements.

Customer Concentration Creates Concerns

We believe Big Rivers faces an extreme level of customer concentration and it leading customers' credit profiles represent meaningful credit exposures. In 2010, two of the more than 112,000 end-use customers accounted for more than half of operating revenues. These two, Rio Tinto Alcan Inc. (Alcan; A-/Stable/A-2) and Century Aluminum Co. (B/Stable/--), are aluminum smelters whose operations and financial performance are exposed to extreme commodity price volatility. We believe these companies' economic viability hinges on aluminum prices and the economy's strength, among other things. Big Rivers expects Century's electricity purchases to provide about 36% of its revenues, which meaningfully exposes the cooperative's financial performance to a single speculative-grade customer's cash flows.

If Alcan or Century reduces or ceases operations at their Kentucky facilities, Big Rivers would need to sell surplus electricity in competitive wholesale markets in a bid to recover substantial portions of its fixed costs. The several agreements that Big Rivers, Kenergy, and the smelters signed provide that certain profits from market sales following curtailment inure to the smelters' benefit. The agreements also provide that the smelters must cover the cooperative's losses resulting from market sales following curtailment.

Given Century's weak credit quality, its ability to make up shortfalls is questionable. If the smelters terminate operations, their Big Rivers obligations end. While the cooperative might retain profits from off-system sales in this scenario it will also bear the risk of losses.

We believe that selling electricity in wholesale markets to cover debt service presents meaningful credit challenges because wholesale market sales represent speculative and unpredictable revenue streams. Wholesale markets expose utilities to volatile prices, competing market participants, operational uncertainties such as acquiring physical access to transmission capacity, and potentially higher liquidity needs.

Retail Power Sales Contracts

We believe that the take-or-pay features of the retail power sales contracts between Kenergy and the smelters are weak.

Kenergy is one of Big Rivers' three member distribution cooperatives. It resells the cooperative's electricity to the smelters under power supply contracts expiring in 2023. These contracts have take-or-pay elements that require the smelters to pay for specific quantities of energy, irrespective of whether they need it. Yet we believe that these contracts' take-or-pay features are weak and do not provide meaningful credit protections. For example, the smelters can terminate their contracts on one year's notice without penalties if they close their Kentucky facilities.

Financial Performance

We believe Big Rivers' financial performance could suffer if the Kentucky Public Service Commission (PSC) does not provide timely rate relief or disallows costs, particularly if the utility needs to reallocate the smelters' shares of fixed costs to its nonsmelter customers.

In our view, if the smelters close their operations and Big Rivers cannot fully recoup the smelters' share of fixed costs through surplus electricity sales in competitive wholesale markets, its nonsmelter retail customers might need to bear substantial additional costs. The cooperative will not have control over revenues from electricity sales in competitive wholesale markets to compensate for eroded smelter activity. Moreover, it can only recover shortfalls from the nonsmelter retail customers if it and its distribution cooperative members can obtain rate relief from the Kentucky PSC.

Big Rivers and its member distribution cooperatives are unlike many other cooperative utilities because they cannot autonomously raise rates to respond to increasing costs or to reallocate costs. The Kentucky PSC regulates these utilities' wholesale and retail electricity rates. Rate regulation presents credit concerns because rate proceedings can be lengthy and delay cost recovery. Moreover, rate-regulated utilities do not have cost recovery guarantees. Nevertheless, in recent rate proceedings, the Kentucky PSC provided Big Rivers' distribution cooperatives with rate relief that was closely aligned with the utilities' requests. Also, the commission took steps in connection with the

E.ON generation asset lease termination that we view as supporting credit quality, including directing E.ON to fund rate-stabilization accounts benefiting the cooperative members' nonsmelter, retail customers.

We believe that Big Rivers' 2010 nonsmelter member wholesale rates of $36 per megawatt-hour (MWh) indicate capacity for further rate increases as necessary to reallocate costs to the cooperative's nonsmelter customers. Big Rivers applied in March 2011 for rate increases effective Sept. 1, 2011. The filing requests a 5.94% rate increase for large industrial customers and a 5.47% rate increase for the smelters. Big Rivers is requesting a 10.71% increase for the nonsmelter, nonindustrial customers. The blended requests represent a 6.85% rate increase. The utility expects that lower purchase power adjustment factor costs will reduce the blended effective rate increase to 6.17%.

Debt Service Coverage

Based on Big Rivers' fiscal 2010 financial statements, Standard & Poor's calculated accrual and cash from operations debt service coverage of 1.4x, which was strong but about 20 basis points below projected coverage levels. While off-system sales volumes exceeded expectations, the sales were made at lower-than-expected prices due to weak wholesale electricity markets. Big Rivers' experience with low wholesale markets in 2010 underscores the considerable risks of wholesale market activity.

The cooperative achieved 2010's DSCR by reducing expenses, including deferring maintenance. It also applied reserve monies to the prepayment of a portion of its Rural Utility Service debt to reduce interest expense inasmuch as the benefits of maintaining reserves in a low interest rate environment paled in comparison to the cost of servicing debt.

Based on Big Rivers' financial forecast, we have calculated accrual-basis DSCRs that fluctuate considerably through 2013. The variability reflects the cooperative's use of nonamortizing debt that underlies highly uneven 2011-2013 debt service. Our calculations indicate DSCRs of 2.6x in 2011, 1.3x in 2012, and 2013 and 2.3x in 2014. The forecast assumes Big Rivers receives the full rate relief it requested earlier this year.

About one-third of debt is nonamortizing. Scheduled principal repayments for 2011 are a low $7 million, but jump to $76 million in 2012 and $79 million in 2013 before returning to a more moderate $22 million in 2014 and $23 million in 2015. Consequently, the imminent bullet maturities highlight the relative importance of market access for refinancing compared to debt service coverage as important credit factors through 2013.

Generation Assets Could Pose Problems

We believe that Big Rivers' few vintage, coal-fired generation assets present operational exposures that can affect financial performance. The cooperative sells the electricity it produces at its seven owned coal plants and the two coal plants it operates that Henderson's Municipal Power and Light utility own. Big Rivers operates and has contractual rights to nearly 1,800 megawatts (MW) of generation capacity. Its and Henderson's power plants range in age from 24-41 years, with a weighted average age of 32 years, based on contributions to overall generating capacity.

Big Rivers' wholesale electric rates include automatic fuel and purchased power cost adjustment mechanisms that we believe mitigate some credit concerns surrounding the mature fleet's ability to serve native load customers reliably. These true-up mechanisms shift some of the operational risks of operating older units to the smelter and nonsmelter customers by making them responsible for replacement power costs if units are not running.

While the fuel adjustment is an automatic, formulaic, monthly adjustment, the purchased power cost adjustment is only automatic for the smelters. Before they are eligible for recovery in rates, the PSC must review the power purchase costs Big Rivers incurs on behalf of its nonsmelter customers. All costs recoverable under the adjustment mechanisms are subject to PSC prudence reviews.

There is a two-month lag for the fuel adjustment clause between when costs are incurred and when the cooperative recovers the member portion through rates. Similarly, the purchase power adjustment for the smelters also entails a two-month cost recovery lag. The purchase power adjustment covering the smelters applies to only approximately two-thirds of the costs. The remaining third of is deferred as a regulatory account for recovery in base rates in a general rate case.

Some of Big Rivers' plants have what we believe are high heat rates. Its fleet's heat rates range from 10,600-13,382 BTU per kilowatt-hour with a weighted average heat rate of 11,100, reflecting the small percentage of the fleet with the highest heat rates. We are concerned that portions of the fleet might not dispatch to support market sales that compensate for losses of smelter sales.

Big Rivers projects using coal to produce 95% of the electricity it sells, exposing the utility and its customers to potentially higher operating costs as the regulation of carbon and other emissions progresses. The plants' heat rates contribute to carbon intensity in the range of 1.1 tons of coal per MWh. Their ages, heat rates, and carbon intensity raise questions about their ability to compete against potentially more efficient and less carbon-intensive units in wholesale markets if the smelters reduce or end their cooperative electric purchases. In our view, the extent of carbon regulation will determine the effects of this level of carbon intensity on Big Rivers' production facilities' economics.

Because aluminum smelting is a carbon-intensive process, we believe a combination of costly carbon constraints on aluminum production and carbon charges levied on the smelters' electricity purchases could impair their operations and heighten the likelihood that the cooperative's generating assets might have to compete in wholesale markets.

Transmission Expansion Plans

Big Rivers' expects to complete transmission upgrades in the fall of 2011. Until completed, the utility lacks sufficient capacity to market the smelters' power if both sharply reduce or discontinue operations. Even once completed, we believe that the cooperative's lack of firm contractual access rights could frustrate its ability to move power across others' transmission systems, including, the Tennessee Valley Authority (TVA) system.

Big Rivers only has contracts for 100 MW of firm transmission capacity across the TVA system. Management views the high cost of securing firm transmission access for a contingent exposure as unwarranted. The utility has physical interconnections with other power markets beyond TVA, such as the Midwest Independent System Operator and E.ON. However, Big Rivers' electricity needs to cross TVA's transmission system to access key markets such as Southern Co. and Entergy Corp. Lack of transmission access due to fully loaded lines during peak periods could frustrate the cooperative's ability to capture the most robust power prices for surplus power it might need to sell if it loses smelter loads.

Power Contracts Provide Some Revenue Stability

In our opinion, the long-term wholesale power contracts between Big Rivers and its three member distribution cooperatives provide a measure of revenue stream security.

The cooperative and its members extended their wholesale power sales contracts 20 years to 2043 in connection with the E.ON generation asset lease unwind transaction. We view this long tenor as contributing to credit quality because we understand that terms of wholesale power contracts between the utility and its three members require the members to purchase their electricity needs from Big Rivers. Furthermore, the members have exclusive rights to sell electricity within defined service territories, which shields the cooperative and its members from competition.

Big Rivers' long-term wholesale power contracts also contribute to credit quality because they extend beyond its debt's final maturity. Debt outstanding matures by 2031. However, about 11% of debt matures after the contracts with the smelters expire in 2023. Debt that matures after the smelter contracts roll off could lead to heightened wholesale market exposure, which we view as a credit weakness. Furthermore, Big Rivers expects that imminent refinancings of bullet maturities could extend debt even further beyond the smelter contracts' expiration.

Generally, lengthy requirements contracts, such as those of the cooperative, provide meaningful revenue predictability and credit support. However, the members' substantial reliance on two industrial loads that are vulnerable to commodity price cycles erodes the contracts' credit support and distinguishes Big Rivers from most other cooperative utilities. Rate regulation also dilutes the benefits of the long-term wholesale power contracts since the cooperative, unlike most others, cannot unilaterally impose additional costs on its captive customers, which could frustrate a reallocation of fixed costs if it loses smelter loads. Also, Big Rivers lacks control over prices for market sales it may need to make if the smelters' operations falter, tempering the wholesale power contracts' benefits.

Highly Competitive Rates

We view Big Rivers' members' retail rates as highly competitive, and they could contribute to financial flexibility.

Energy Information Administration data shows that the cooperative's members' retail rates compare very favorably with average rates for the residential, commercial, and industrial sectors in Kentucky. Members' 2009 average residential and commercial rates were about 15% below the state's average. Industrial rates for Kenergy, the member with the smelter, and other industrial loads were about 25% below the state's in 2009.

We believe the smelters' high load factors are likely contributors to the favorable rate competitiveness across the system because their high electricity consumption provides a robust platform for spreading fixed costs over many MWh. Here too, the exposure to the smelters can become a liability if commodity prices or economic conditions compromise the smelters' operations.

Rates also benefit from the more than $200 million of rate mitigation reserves from the proceeds of the E.ON lease unwind transaction. The utility plans to deploy an average $24 million of the reserves' balances each year through 2017 to subsidize rate levels. The cooperative's forecast shows that this will enhance operating revenues by about 5% each year and we believe that there could be meaningful upward rate pressure once the reserves are exhausted.

Related Criteria And Research

USPF Criteria: Applying Key Rating Factors To U.S. Cooperative Utilities, Nov. 21, 2007

BIG RIVERS ELECTRIC CORPORATION

THE APPLICATION OF BIG RIVERS ELECTRIC CORPORATION FOR APPROVAL TO ISSUE EVIDENCES OF INDEBTEDNESS CASE NO. 2012-00492

Response to the Office of the Attorney General's Initial Request for Information Dated December 21, 2012

January 3, 2013

Item 4) ***Please provide the corporate credit and bond ratings assigned to Big Rivers since the year 2009 by S&P, Moody's, and Fitch. For any change in the credit and/or bond rating, please provide a copy of the associated report.***

Response) The corporate credit and bond ratings assigned to Big Rivers since the year 2009 by Fitch Ratings, Moody's Investor Service and Standard & Poor's Ratings Services are as follows:

Fitch Ratings:

Big Rivers – Issuer Credit Rating

1. May 18, 2009 – Assigns a BBB- Rating Type of Long Term with a Rating Outlook Stable.
2. June 3, 2009 – Withdraws BBB- Rating due to Unwind Transaction not proceeding.
3. July 2, 2009 – Assigns BBB- Rating Type of Long Term with a Rating Outlook Stable.
4. August 12, 2011 – Withdraws BBB- Rating Type of Long Term which was assigned prior to Fitch assigning a rating on any of Big Rivers' publicly held bonds. Please refer to the attachments accompanying this response.

Big Rivers - $83.3 million County of Ohio, KY's Pollution Control Refunding Revenue Bonds, Series 2010A

1. May 12, 2010 – Assigns a BBB- Rating with a Rating Outlook is Stable.

2. August 12, 2011 – Affirms BBB- Rating with Rating Outlook is Stable.
3. July 24, 2012 – Affirms BBB- Rating with a Rating Outlook is Stable.
4. August 24, 2012 – Places BBB- Rating on Rating Watch Negative. Also please refer the attachments provided in Big Rivers' response to Kentucky Industrial Utility Customers, Inc. (KIUC) Data Request Item 1-18.

Moody's Investors Service:

Big Rivers - $83.3 million County of Ohio, KY's Pollution Control Refunding Revenue Bonds, Series 2010A

1. March 13, 2009 – Assigns a (P)Baa1 senior secured rating to this proposed offering. Rating outlook for Big Rivers is stable. First time Moody's has assigned a rating to bonds representing a standalone obligation of Big Rivers.
2. June 1, 2009 – Withdraws (P)Baa1 senior secured rating due to Unwind Transaction not proceeding.
3. July 14, 2009 - Assigns a (P)Baa1 senior secured rating to this proposed offering. Rating outlook for Big Rivers is stable.
4. March 2010 – Credit Opinion reflects an assigned senior security rating of (P)Baa1 to this proposed offering. Rating outlook for Big Rivers is stable.
5. May 10, 2010 - Assigns a Baa1 senior secured rating to this proposed offering. Rating outlook for Big Rivers is stable.

6. July 18, 2011 – Issuer Comment Report reflects an assigned senior security rating of Baa1 for these bonds.
7. August 21, 2012 – Downgrades the senior secured rating for these bonds to Baa2 from Baa1. Concurrently, the rating for the bonds, which were previously issued by the county on behalf of Big Rivers was placed under review for further downgrade. Also please refer the attachments provided in Big Rivers' response to Kentucky Industrial Utility Customers, Inc. (KIUC) Data Request Item 1-18.

Standard & Poor's Ratings Services:

Big Rivers – Issuer Credit Rating

1. May 18, 2010 – Assigns BBB- long term rating. The outlook is stable.
2. July 6, 2011 – Affirms BBB- long term rating. The outlook is stable.
3. August 31, 2012 – Affirms BBB- long term rating. Revised outlook from stable to negative. (1)

Big Rivers - $83.3 million County of Ohio, KY's Pollution Control Refunding Revenue Bonds, Series 2010A

1. May 18, 2010 – Assigns BBB- long term rating. The outlook is stable.
2. July 6, 2011 – Affirms BBB- long term rating. The outlook is stable.
3. August 31, 2012 – Affirms BBB- long term rating. Revised outlook from stable to negative. Also please refer the

attachments provided in Big Rivers' response to Kentucky Industrial Utility Customers, Inc. (KIUC) Data Request Item 1-18.

Witness) Billie J. Richert

FitchRatings

Fitch Affirms Big Rivers Electric Corp, KY's 2010A Pollution Control Rfdg Rev Bonds at 'BBB-' Ratings Endorsement Policy

12 Aug 2011 10:13 AM (EDT)

Fitch Ratings-New York-12 August 2011: As part of ongoing surveillance, Fitch Ratings affirms the 'BBB-' rating on the $83.3 million County of Ohio, KY's pollution control refunding revenue bonds (Big Rivers Electric Corporation Project).

The Rating Outlook is Stable.

Fitch is also withdrawing its issuer credit rating for Big Rivers, which was assigned prior to Fitch assigning a rating on any of Big Rivers' publicly held bonds.

SECURITY

The bonds are secured by a mortgage lien on substantially all of the corporation's owned tangible assets, which include the revenue generated from the sale or transmission of electricity.

KEY RATING DRIVERS

Risk Profile Reshaped: The recent termination of its generating asset lease transaction has reshaped the risks surrounding Big Rivers, effectively reducing leverage and financial risk in exchange for increased reliance on a concentrated customer base and the wholesale marketplace.

Abundant Low-Cost Resources: Big Rivers benefits from abundant low-cost power resources and an average wholesale system rate ($36.35/MWh [megawatt hour] in 2010, net of credits) that is among the lowest in the nation. Member retail rates are similarly low and competitive.

Heavy Customer Concentration: Big Rivers has resumed electric service, through its largest member Kenergy Corp., to two local aluminum smelters (a combined demand of 850 MW at a 98% load factor) that account for approximately 53% of total energy sales.

Subject to Rate Regulation: Big Rivers' and its members' electric rates are regulated by the Kentucky Public Service Commission (KPSC), which limits the cooperative's financial flexibility and may hinder necessary rate increases.

Acceptable Financial Metrics: Acceptable financial metrics for the rating category include fiscal 2010 debt service coverage (DSC) of 1.32 times (x) and total debt/funds available for debt service (FADS) of 12.2x. Including revenues from member rate stability (MRS) reserves, metrics improve to 1.78x (DSC) and 9.0x (debt/FADS).

Forecasted Stability: FADS and times interest earned ratios (TIER) are expected to remain relatively stable going forward, aided by the continued use of MRS reserves and a TIER adjustment mechanism included in the cooperative's power sale agreements with the smelters.

WHAT COULD TRIGGER A RATING ACTION

Restrictive Rate Regulation: Future regulatory decisions that prevent the cooperative from adequately recovering costs would likely result in downward pressure on the rating or Outlook.

Onerous Environmental Regulation: Environmental regulations proposed by the U.S. Environmental Protection Agency (EPA), if adopted, could result in a much higher cost of compliance for the cooperative versus other utilities with newer, more diversified resources.

Deteriorating Operating Conditions: Declining non-smelter member sales, weak surplus energy sales, or constrained smelter operations that reduce financial margins and liquidity could also put downward pressure on the rating or Outlook.

CREDIT PROFILE

Big Rivers is a generation and transmission cooperative based in Henderson, Kentucky. Big Rivers supplies wholesale electric and transmission from its total capacity of 1,829 MW to three distribution cooperatives - Meade County Rural Electric Cooperative Corporation, Jackson Purchase Energy Corporation and Kenergy Corp. Combined, these members provide service to approximately 112,500 retail customers located in 22 western Kentucky counties.

Emergence from Bankruptcy

In September 1996, Big Rivers filed for voluntary Chapter 11 relief under the U.S. Bankruptcy code, generally due to an inability to sell power produced from its excess capacity at prices sufficient to cover its above-market costs. After emerging from bankruptcy in 1998, and in accordance with its plan of reorganization, Big Rivers entered into a 25-year lease of all its generating assets with Western Kentucky Energy Corp. (WKEC). The transaction essentially transferred the operational responsibilities of the assets and related risks in exchange for annual lease payments, and a fixed price purchase power contract with LG&E Energy Marketing, Inc. (LEM).

Unwinding the Lease Transaction

In 2009, the lease with WKEC was effectively 'unwound, resulting in Big Rivers receiving cash and consideration totaling $865 million and resuming control of its generation fleet. Big Rivers also resumed electric service to two local aluminum smelters that have historically dominated the service area's electric demand and were supplied by LEM following the reorganization. Going forward, the smelters will again represent a significant portion of the cooperative's electric demand.

The consideration received in connection with the unwind allowed Big Rivers to pay down approximately $140 million of debt, establish $253 million of rate stabilization reserves and improve system equity from (19%) to approximately 30%.

Financial Performance Acceptable for Rating Category

Fiscal 2010 financial performance was relatively solid and generally on budget. Electric operating margins ($51.3 million) for the year were slightly lower than forecasted. Weaker wholesale prices for power were nearly offset by increased, but more efficient, generation. Net margins for the year were almost exactly on budget ($7 million). Actual figures reported by Big Rivers for conventional TIER (1.15x), DSC (1.47x) and equity/capitalization (32%) were also solidly in line with forecasted performance.

Fitch-calculated ratios for DSC (1.32x) and total debt/FADS (12.2x) were acceptable for the current rating category and do not reflect the inclusion of withdrawals from reserves. Including those revenues, the metrics improve to 1.78x and 9.0x, respectively. Metrics for cash on hand (37 days, excluding reserves) and total liquidity on hand (109 days) were somewhat low for the cooperative's operating profile.

Contact:

Primary Analyst
Dennis M. Pidherny
Senior Director
+1-212-908-0738
Fitch, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Eric Espino
Director
+1-212-908-0574

Committee Chairperson
Doug Kilcommons
Senior Director
+1-212-908-0740

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's Revenue-Supported Rating Criteria, this action was additionally informed by information from CreditScope.

Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria', June 20, 2011;
--'U.S. Public Power Rating Criteria', March 28, 2011.

For information on Build America Bonds, visit 'www.fitchratings.com/BABs.'

Applicable Criteria and Related Research:
U.S. Public Power Rating Criteria
Revenue-Supported Rating Criteria