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RECEIVED

FEB 26 2013

PUBLIC SERVICE
COMMISSION

February 25, 2013

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 the supplemental response of Big Rivers Electric Corporation to Kentucky Industrial Utility Customers, Inc.'s Supplemental Data Requests, Item 1. I certify that copies of this letter and enclosures have been served this day on each person shown on the attached service list by delivering the same to an overnight courier service, prepaid, for delivery on February 26, 2013.

Sincerely yours,



James M. Miller

JMM/ej
Enclosures

cc: Billie J. Richert

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BIG RIVERS ELECTRIC CORPORATION

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

VERIFICATION

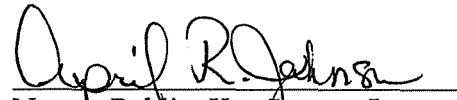
I, Billie J. Richert, verify, state, and affirm that I prepared or supervised the preparation of the data responses filed with this Verification, and that those data responses are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.



Billie J. Richert

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

SUBSCRIBED AND SWORN TO before me by Billie J. Richert on this the 24th day of February, 2013.



Notary Public, Ky. State at Large
My Commission Expires 8-9-2014

BIG RIVERS ELECTRIC CORPORATION

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

***Supplemental* Response to
the Kentucky Industrial Utility Customers'
Supplemental Request for Information
dated February 5, 2013**

February 26, 2013

1 **Item 1)** *Provide a copy of all correspondence and documents*
2 *between and among BREC and the three rating agencies since*
3 *January 1, 2013. This data request remains active throughout the*
4 *proceeding. If BREC obtains any further or supplemental documents*
5 *or information subsequent to the preparation and service of BREC's*
6 *responses hereto, please provide such documents or information as*
7 *part of a supplemental response.*

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9 **Response)** Please the Fitch Ratings report attached hereto.

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12 **Witness)** Billie J. Richert

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FitchRatings

FITCH DOWNGRADES BIG RIVERS ELECTRIC CORP, KY'S 2010A POLLUTION CONTROL RFDG REV BONDS TO 'BB'

Fitch Ratings-New York-06 February 2013: Fitch Ratings has downgraded the rating on Big Rivers Electric Corporation's \$83.3 million County of Ohio, KY's pollution control refunding revenue bonds series 2010A to 'BB' from 'BBB-'.

The Rating Outlook is revised to Negative.

SECURITY

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

SENSITIVITIES/RATING DRIVERS

SPECULATIVE GRADE RISK: The rating downgrade and Outlook revision reflect Fitch's view that the credit quality of Big Rivers has become increasingly speculative, following the recent decisions by Alcan Primary Products Corporation (Alcan) and Century Aluminum Co. (Century) to terminate their respective power supply agreements with Big Rivers.

SALES DOMINATED BY SMELTERS: Alcan and Century both own and operate large aluminum smelting facilities served by Big Rivers, through its largest member Kenergy Corp. Together the two facilities account for approximately 65% and 70% of Big Rivers' total energy sales and revenues, respectively.

INCREASED RELIANCE ON WHOLESALE MARKET: Long-term stability at Big Rivers is likely to become increasingly reliant on less predictable off-system sales and related margins following closure of the smelting facilities. The use of cash reserves will partially mitigate this risk, but prevailing low power prices will stress results.

ABUNDANT LOW COST RESOURCES: Big Rivers benefits from abundant low-cost coal-fired power resources and an average wholesale system rate (\$39.07/MWh in 2011, net of credits) that is regionally competitive and among the lowest in the nation.

SUBJECT TO RATE REGULATION: The electric rates charged by Big Rivers and its members are regulated by the Kentucky Public Service Commission (KPSC), which could limit the cooperative's financial flexibility and may delay the timing or amount of necessary rate increases.

LIQUIDITY SOLID BUT FINANCIAL RESULTS UNCERTAIN: Big Rivers reported cash of \$113.25 million at Sept. 30, 2012, excluding restricted funds available for member rate mitigation. Funds are available to support operations and may be used to meet the cooperative's June 2013 scheduled debt maturity (\$58.8 million). Longer-term financial forecasts are being developed.

WHAT COULD TRIGGER A RATING ACTION

INABILITY TO FIND ACCEPTABLE PURCHASERS: Extended overreliance on short-term power sales as a replacement for the Century and Alcan agreements to meet debt service payments.

INSUFFICIENT REGULATORY SUPPORT: Inadequate or untimely support by the KPSC would be viewed negatively.

IMPLEMENTATION OF REASONABLE MITIGATION PLAN: Implementation of a mitigation plan that maintains reasonable financial and operating stability would be supportive of credit

quality.

CREDIT PROFILE

Big Rivers provides wholesale electric and transmission service to three electric distribution cooperatives. These distribution members provide service to a total of about 112,500 retail customers located in 22 western Kentucky counties. Kenergy Corporation, the largest of the three systems, is unique in that its electric load is dominated by two aluminum smelting facilities, owned and operated by Alcan and Century.

CENTURY AGREEMENT TERMINATED AUGUST 2012

Under the power supply agreements between Kenergy and the smelters, which expire in 2023, the smelters are required to take-or-pay for specific quantities of energy, irrespective of their needs. The contracts further provide for termination on one years' notice without penalties subject to certain conditions including the termination and cessation of all aluminum smelting operations at the relevant facilities.

On Aug. 20, 2012, Century issued a notice to terminate its power agreement with Big Rivers and stated its intent to close its Hawesville, KY smelter. Century claimed that the smelter was not economically viable despite electric rates well below the national average.

BIG RIVERS IMPLEMENTS MITIGATION PLAN

Big Rivers began looking into alternative arrangements with other power purchasers to redeploy its excess generating capacity immediately after the Century notice, consistent with the mitigation plan previously developed by management to address the potential loss of aluminum smelter load. In addition, Big Rivers has also filed for an increase in rates with the Kentucky Public Service Commission to eliminate anticipated short-falls in revenue as a result of the loss of the Century smelting load. The filing, submitted on Jan. 15, 2013, requests an increase in total revenue of \$74.5 million or 21.4%.

ALCAN FOLLOWS WITH TERMINATION NOTICE

Alcan delivered notice to Big Rivers' on Jan. 31, 2013 of its decision to terminate its power supply agreement noting, in particular, the Jan. 15, 2013 rate filing and anticipated increase in electric rates. Similar to the Century notice, Alcan stated that the planned rate increase would make the smelting facility in Robards, KY unprofitable, and that all smelting operations would be ceased at the end of the one-year notice period.

Closure of the smelting facilities has significant potential implications for Big Rivers, which has acknowledged that the termination notices are valid. Besides the impact of the loss of some 1,400 plant workers, the remaining residential and commercial customers of Big Rivers will most likely have to absorb meaningfully higher rates, with the increase reflecting the amount, pricing and contractual provisions of surplus power sold to new customers.

Big Rivers has redoubled its efforts to secure alternative power supply customers in the wake of the Alcan notice, but future firm contractual arrangements are unlikely over the near term. As a result, it is expected that Big Rivers will seek to modify its request for rate relief from the KPSC to reflect the loss of the full smelter load over time.

Fitch notes that Big Rivers and Kenergy have also reportedly entered into negotiations with Century to enter into an agreement to assist Century to access market power in order to keep the smelting operations open beyond Aug. 20, 2013. Alcan has requested a similar accommodation. Fitch expects that any such accommodation would be part of broader plan to address the operating and financial effect on Big Rivers

FUTURE FINANCIAL RESULTS UNCLEAR

Big Rivers margins are expected to remain adequate to service financial obligations through at least August 2013 since both Century and Alcan remain obligated to make all required payments to Kenergy. For the nine months ended Sept. 30, 2012, Big Rivers reported operating revenue, earnings before interest, taxes and depreciation and net margins, that were all largely in line with budget, and the same nine month period through 2011.

Positively, Big Rivers reported cash and cash equivalents of \$113.25 million at Sept. 30, 2012, excluding additional amounts held as special, restricted funds available for member rate mitigation. Big Rivers' unrestricted funds are available to support operations and may be used to meet the cooperative's June 2013 scheduled debt maturity (\$58.8 million).

As time passes, however, it will be necessary for Big Rivers' to develop and implement a revised business and financial plan that captures the related regulatory decisions, contractual negotiations and anticipated revenue volatility, and for Fitch to assess the impact on the cooperative's ability to meet scheduled debt service payments.

For additional information on the rating, see Fitch's report, 'Big Rivers Electric Corporation', dated Aug. 31, 2011.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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

Applicable Criteria and Related Research:
--'U.S. Public Power Rating Criteria' (Dec. 18, 2012);
--'Revenue-Supported Rating Criteria'(June 12, 2012);
--'Big Rivers Electric Corporation'(Aug. 31, 2012).

Applicable Criteria and Related Research:
U.S. Public Power Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=696027
Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=681015
Big Rivers Electric Corporation

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9 **Response)** Please see the supplemental response to Item 1 above.

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12 **Witness)** Billie J. Richert

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