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July 12, 2012

Federal Express

Jeff DeRouen
Executive Director
Public Service Commission
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Frankfort, Kentucky 40602-0615

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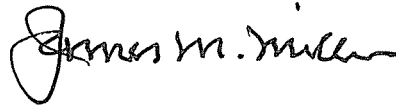
PUBLIC SERVICE
COMMISSION

RE: *In the Matter of: Application of Big Rivers Electric Corporation for Approval to Issue Evidences of Indebtedness, P.S.C. Case No. 2012-00119*

Dear Mr. DeRouen:

Attached for filing in the above-styled matter on behalf of Big Rivers Electric Corporation ("Big Rivers") is a memorandum summarizing the comments made by representatives of Big Rivers during the informal conference on July 10, 2012. As further requested by the Public Service Commission Staff ("Commission") during the informal conference, Big Rivers will update the Commission with information that develops on the timeline for any closing of the loan transactions authorized by the Commission in this case, and any changes in the terms of the financing documents. A copy of this letter and attachment have been served on the persons identified on the attached service list.

Sincerely yours,



James M. Miller

JMM/ej
Enclosures

cc: Mark A. Hite
Albert Yockey

SERVICE LIST
BIG RIVERS ELECTRIC CORPORATION
PSC CASE NO. 2012-00119

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

Application of Big Rivers Electric Corporation)
for Approval to Issue Evidences of Indebtedness) Case No. 2012-00119

*Big Rivers Electric Corporation's Memorandum Describing Reasons for
Postponement of Closing of Financing Transactions*

By order dated July 9, 2012, the Public Service Commission ("*Commission*") set an informal conference in this matter for July 10, 2012. The order stated that the informal conference was "for the purpose of discussing Big Rivers Electric Corporation's decision to postpone the financing requested in its application." During the course of the informal conference, Big Rivers Electric Corporation ("*Big Rivers*") was requested to file for the record, among other things, a memorandum summarizing the information Big Rivers' representatives presented orally during the informal conference. This memorandum represents Big Rivers' compliance with that request.

The May 25, 2012 order of the Commission authorized Big Rivers to issue evidences of indebtedness in connection with three loan transactions: a secured term loan transaction with the National Rural Utilities Cooperative Finance Corporation ("*CFC*"), which also included an unsecured equity loan, and a secured term loan and an unsecured revolving credit facility with CoBank, ACB. At the time of the May 25, 2012 order, Big Rivers was scheduled to close all three loan transactions on Friday, June 29, 2012. For several reasons, on June 22, 2012, Big Rivers suggested to CoBank and CFC that the closing be delayed.

Rationale for Delay in Closing

Since the November 17, 2011 order in Big Rivers' last rate case the two aluminum smelters served by Big Rivers' member, Kenergy Corp. (Alcan Primary Products Corporation ("*Alcan*") and Century Aluminum of Kentucky General Partnership ("*Century*"), together, the "Smelters") have been making public statements that their businesses were not sustainable based on current international aluminum commodity prices and current and projected costs of electricity for their operations. This issue is more of a long-term issue for Alcan, and is an immediate or near term issue for Century. Century has stated publicly

that the future of its Hawesville smelter would be discussed by Century's board of directors at its meeting scheduled for June 26, 2012.

On June 14, at the request of the Governor of Kentucky, representatives of the Commonwealth met with Big Rivers and the Smelters to discuss ways to reduce costs to the Smelters. Big Rivers and Century had been meeting on this subject for several weeks. Big Rivers was presented with a proposal from the Smelters on June 20, 2012. This proposal requested rate relief for the Smelters of a very large amount a year for three years. The proposal was unworkable for Big Rivers. Big Rivers developed a counter proposal that was presented to the Smelters on Friday, June 22, 2012. On Sunday, June 24, 2012 Big Rivers was notified by the Smelters that its June 22, 2012 proposal was insufficient.

As of Friday, June 22, 2012 there were a number of reasons Big Rivers became concerned about whether it should hold to the proposed closing on June 29, 2012 one week away. As a result of the accumulated uncertainties, Big Rivers decided that it would be in the best interest of Big Rivers to take some time to get CoBank and CFC, as well as itself, better informed and more comfortable dealing with the issues related to the Smelters before proceeding with the closing. These uncertainties included:

- Big Rivers had spent an extraordinary amount of time on the Smelter issue over the weeks running up to June 22, 2012 particularly since June 14, 2012 and had not had time to focus to its satisfaction on all aspects of the closing.
- Big Rivers had not had time to inform CoBank and CFC of the state of the smelter issues based upon facts that had developed over the previous couple of weeks.
- Big Rivers was concerned about the June 26, 2012, Century board meeting, and the possibility that the Century board would vote to issue a one-year notice to close the Hawesville smelter if Century found the Big Rivers counter proposal to be unacceptable. As noted, the Smelters did reject the Big Rivers proposal on Sunday, June 24, 2012.
- The nature of the proposals and counterproposals being exchanged between Big Rivers and the Smelters, if accepted by all parties, would most likely necessitate material amendments to the Smelter agreements that would, if Big Rivers closed on the loans on June 29, 2012 have required consents from the banks to contract amendments that had not been discussed with them.
- In connection with the two secured loan transactions, execution of documents and funding notices were to be issued early in the week of the closing. The

terms of the secured loan agreements indicated that the equivalent of “breakage fees” could be incurred by Big Rivers if the funding notices were issued, and for any reason the loans did not close as scheduled on June 29, 2012. Big Rivers had not had time to determine conclusively whether this would be the case, and if so, the level of Big Rivers’ financial exposure.

- Big Rivers was required by the term loan agreements to give certain certificates at closing that it was not sure it could give if Century issued a notice of closure of its smelter.
- The term loan agreements contain various events of default (inaccuracy of representations, defaults under the Smelter contracts, release or termination of the Smelter contracts, etc.), which could result in Big Rivers incurring higher, default interest rates for the balance of the terms of the loans. Big Rivers wanted a better understanding of those issues, and how those risks could be managed.

Rationale for Going Forward at this Time

Big Rivers believes that it is now time to proceed to close these transactions, acknowledging that there is no final clarity about what may happen with the Smelters. But this lack of clarity should not keep Big Rivers from proceeding forward in its best judgment with closing the loans, while keeping its options open with respect to the Smelters.

- Big Rivers is currently having discussions with CoBank and CFC to help them get a better grasp on what it means to be Big Rivers with the Smelter load, and to make sure they are comfortable with that.
- Big Rivers has discussed the breakage cost issue with both of the banks and has been assured that based upon the manner in which the banks will handle funding of the loans, there will be no breakage costs to Big Rivers in connection with either loan if they do not fund.
- Big Rivers believes that it may be able to work with CFC and CoBank to minimize the risk that future acts of the Smelters will result in a default under either term loan agreement. Big Rivers assumes that minor changes in the language in the loan documents that might result from those discussions will not require further Commission review, although Big Rivers acknowledges its commitment to disclose any such changes to the Commission after closing.
- All the reasons Big Rivers pursued this financing in the first place still exist.

- Big Rivers has an opportunity to refinance a substantial amount of RUS debt at a lower interest rate, which will be set at closing based upon historically-low federal treasury rates.
 - The current refinancing satisfies scheduled principal reductions on the RUS Series A Note in 2012 and 2016.
 - The refinancing allows Big Rivers to reestablish the Transition Reserve outside of the RUS note.
 - It will provide Big Rivers \$60 million in funds to use on capital projects.
- Although the CoBank and CFC commitments to loan expired on June 29, 2012, both have expressed a strong, continuing interest in making the loans at some point. Big Rivers is currently in discussions with them about proceeding with the loan closings. The results of these discussions will be disclosed to the Commission.
 - Big Rivers is pursuing an immediate six-month extension of the existing CoBank \$50 million revolver, which will otherwise expire on July 16, 2012. There is no requirement for Commission approval because the extension will be under two years, the original revolver was approved by the Commission, and the aggregate term of the revolver with the extension will still be much less than six years.

What issues will Big Rivers face if it does not close the loans, and how does it plan to address those issues?

- First, there is the issue of the RUS principal reduction of \$60 million required by October 1. Big Rivers borrowed \$25 million under the existing CFC revolving credit agreement and prepaid that amount on the RUS Series A Note on July 2, 2012. That, together with the existing prepayment of the \$35 million from the April 1, 2011, payment of the Transition Reserve on the RUS Series A Note, covers the \$60 million obligation. Big Rivers understands that if it ultimately desires to follow this course of action, it would need Commission approval to use the Transition Reserve temporarily in this manner.
- As discussed above, Big Rivers plans to extend the existing CoBank revolver for six months.
- If the term loans do not close, Big Rivers will not realize the cost savings from the anticipated reduction in interest costs, which would require Big Rivers to

find other ways to further reduce expenses to achieve its 2012 MFIR requirement for this year. Also, Big Rivers will likely further accelerate its plans to file a general rate case.

- Big Rivers would not have the \$60 million for capital improvements this year, but will not be making any of the anticipated expenditures this year in any event because of cost containment measures being employed to meet the minimum 1.10 MFIR. The majority of Big Rivers' routine capital expenditures are associated with planned maintenance outages at the generating facilities which have both significant maintenance expense and capital expenditures aspects to them.

July 12, 2012