

## **FITCH RATES BIG RIVERS ELECTRIC CORPORATION, KENTUCKY'S ISSUER CREDIT RATING 'BBB-'**

Fitch Ratings-New York-02 July 2009: Fitch Ratings assigns a 'BBB-' issuer credit rating to Big Rivers Electric Corporation, Kentucky (Big Rivers). The Rating Outlook is Stable. A full report will follow.

Fitch initially assigned the 'BBB-' rating on May 18, 2009 but withdrew the rating on June 3, 2009 when the issuer advised Fitch that the unwind transaction (as discussed below) was not proceeding, as one party to the agreement declined to sign off. Subsequently, an agreement has been reached by the parties and the transaction is moving forward.

Big Rivers, based in Henderson, Kentucky, was formed in 1961 and supplies wholesale electric and transmission to three distribution cooperatives - Meade County Rural Electric Cooperative Corporation, Jackson Purchase Energy Corporation and Kenergy Corp. Combined these members provide service to approximately 110,000 retail customers that are located in 22 western Kentucky counties. In total, Big Rivers has total capacity of 1,833 megawatts (MW).

After emerging from bankruptcy in 1998, Big Rivers entered into a 25-year lease of all of its generation with an investor-owned utility (Western Kentucky Energy Corp., now a subsidiary of E.On) in exchange for annual lease payments, and a fixed price purchase power contract with LG&E Energy Marketing (LEM, a subsidiary of E.On). This transaction is now being unwound. The unwind will result in Big Rivers receiving cash and considerations with a value of \$817 million from E.On, in addition to gaining back control of its generation fleet. Big Rivers will also have the obligation to serve two local aluminium smelters, which represents a significant portion of the load. This payment will be used to pay down approximately \$140 million of debt, provide \$253 million of rate stabilization funds (known as the economic reserve, rural economic reserve and transition reserve funds), and help to build system equity to approximately 25%-30%.

The 'BBB-' rating reflects the system's low-cost power resources and competitive retail rates. Substantial cash reserves will provide rate stability over the next few years and the use of ACES Power Marketing will help manage the utility's off-system power sales and use of its expanding transmission access. Based on Big Rivers' base case financial projections, rates are sufficient to provide debt service coverage of at least 1.24 times (x) over the next five years.

Credit risks include customer concentration, lack of fuel diversity with 91% of its power supply coming from older coal-fired resources, and rate regulation by the Kentucky Public Service Commission (PSC). As stated above, Big Rivers will serve two smelters, accounting for about 56% of total sales and 46% of capacity. Based on stress test analysis, assuming the loss of the smelters, Fitch believes that increases in costs to the remaining customers, while material, would not result in uncompetitive rates, and this risk is reflected in the 'BBB-' rating. With limited diversity in the fuel mix (similar to other Kentucky utilities) the utility could be adversely affected by future environmental legislation associated with CO<sub>2</sub>. Additionally, Big Rivers is subject to Kentucky PSC regulations, which is unusual for most public power and many cooperative utilities. This additional oversight could delay the timing or amount of necessary rate adjustments, increasing the importance of maintaining adequate liquidity reserves to maintain financial stability. It should be noted that the Kentucky PSC has been responsive to Big Rivers' recent requests and Fitch views the relationship as constructive.

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