

FITCH AFFIRMS BIG RIVERS ELECTRIC CORP. AT 'BB'; OUTLOOK REVISED TO STABLE

Fitch Ratings-New York-05 February 2015: Fitch Ratings has affirmed the following Big Rivers Electric Corporation's (Big River or BREC) senior secured bonds at 'BB':

--\$83.3 million county of Ohio pollution control revenue bonds series 2010A.

The Rating Outlook is revised to Stable from 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 wholesale sale or transmission of electricity.

KEY RATING DRIVERS

OUTLOOK REVISED TO STABLE: The Outlook revision largely reflects the positive effects of Big Rivers' mitigation plan, which was implemented following the termination of power supply contracts by Alcan and Century Aluminum (approximately 65% of the cooperative's revenues). Plan-driven cost reductions, idling of plants, rate increases, off-system sales and use of reserve funds have improved financial viability.

INCREASED RELIANCE ON WHOLESAL MARKET: While termination of the smelter contracts eliminates exposure to the vagaries of commodity-based products, it leaves BREC with a significant amount of surplus power for sale, both on a contract basis and in the spot market. BREC has found some success with contractual sales to other utilities and sales into Midcontinent ISO (MISO), and it continues to seek other sales opportunities.

RATE RELIEF POSITIVE: Big Rivers and its three members' electric rates are regulated by the Kentucky Public Service Commission (KPSC). Recently approved rate increases and broadly supportive regulation by the KPSC, along with utility initiatives, should allow BREC to achieve satisfactory financial performance. No further rate increases are currently planned.

SUFFICIENT LIQUIDITY: Unrestricted cash and cash equivalents equaled \$95.7 million at year end 2013 and are expected to remain around \$100 million. Restricted reserves, totaling about \$78 million as of Oct. 31, 2014, should be used over the next couple of years to offset the impact of higher electric rates. Additional liquidity is provided by a recently approved \$130 million senior secured credit agreement with National Rural Utilities Cooperative Finance Corporation (CFC) and other lenders.

RATING SENSITIVITIES

CONTINUED SUCCESSFUL IMPLEMENTATION OF MITIGATION PLAN: Continued positive implementation of the mitigation plan, which reduces over reliance on short-term energy sales and provides long-term financial stability, could result in a rating upgrade.

INADEQUATE REGULATORY SUPPORT: Insufficient or untimely support by the KPSC would be viewed unfavorably.

CREDIT PROFILE

Big Rivers, a generation and transmission cooperative (G&T), provides all-requirements wholesale electric and transmission service to three electric distribution cooperatives pursuant to contracts through Dec. 31, 2043. The distribution members provide service to a total of about 114,000 retail customers located in 22 western Kentucky counties. Senior staff has experienced some recent changes, but appear to be well versed in cooperative and utility matters.

Capacity and energy is provided to the members through a combination of five owned generation stations, one leased plant and purchased power. Net capacity of owned generation equals 1,444 megawatts (MW). BREC became a member of MISO in December 2010 and is a member/owner of ACES.

In August 2012, Century issued a notice to terminate its power contract with Big Rivers and stated its intent to close its Hawesville, KY smelter. In January 2013, Alcan delivered notice to Big Rivers of its decision to terminate its power supply agreement and its plan to cease smelting operations at its Sebree plant at the end of the one-year notice period. In June 2013, Century acquired the Sebree smelter from Alcan.

MITIGATION PLAN EFFECTUATED

With the pending termination of the smelter agreements, Big Rivers moved forward with a formal load concentration analysis and mitigation plan. Part of the mitigation plan assumed that certain generating units would remain idle when market prices did not support the cost of generating. Big Rivers' revenue requirements in its rate cases assumed that both Coleman Station and Wilson Station would be idled once the smelters are no longer served.

The G&T cooperative continues to evaluate forward bilateral sales agreements, wholesale power contracts and capacity market participation, in light of the 850MW loss of load to the smelters. The cooperative has sold capacity and energy forward from the Wilson Station under multiple agreements through mid-2016 and it has contracted with a Nebraska consortium to sell 67MW of power beginning in 2018 and 2019. BREC and its members have established an economic development incentive rate that is being offered to new and existing businesses.

Big Rivers has also paid off debt, implemented cost-cutting measures, deferred certain maintenance (now caught up), renegotiated fuel contracts, improved heat rate performance and reduced employee benefits to mitigate the effect on customer rates. The G&T sought and received two rate adjustments to address revenue shortfalls caused by the smelter contract terminations and believes the rate increases will be sufficient to allow the cooperative to viably operate without replacement load, should that become necessary.

RESERVES HELP MITIGATE RATE INCREASES

BREC's wholesale and member system electric rates have historically been competitive. In 2009, supported by the KPSC, a plan was put in place where reserve funds were established to benefit Big Rivers members' future rates. These funds are restricted funds and are expected to be used to fully offset the second of the rate increases, through mid-2015 for commercial and industrial customers and mid-2016 for residential customers. As of Oct. 31, 2014, there were \$77.4 million in designated reserves which are intended to be drawn down to offset planned rate increases. After 2016, Big Rivers' restricted reserves will be limited to transmission revenues received from the Hawesville smelter.

GREATER CLARITY OF FINANCIAL PERFORMANCE

Big Rivers' financial results and ratios have been negatively impacted by a number of unusual events in recent years, which have made it more difficult to assess the cooperative's intrinsic financial

health. Fitch calculated debt service coverage (DSC) was well below 1x in calendar 2012 and 2013, reflecting these items. Beginning in 2016, when deferred revenues are fully utilized and the amount of future non-member revenues and profits become clearer, a truer picture of sustained bottom-line performance should be provided.

Big Rivers' financial forecast (based on continued operation of Wilson Station with replacement sales), for the period 2014 to 2020 assumes total annual operating revenues of around \$490 million and net margins (approximating \$20 million) sufficient to produce a times interest earned ratio (TIER) ranging between 1.38x to 1.73x and DSC in the area of 1.50x. Financial performance of the three distribution systems is currently satisfactory.

Contact:

Primary Analyst
Alan Spen
Senior Director
+1-212-908-0594
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Hugh Welton
Director
+1-212-908-0742

Committee Chairperson
Dennis Pidherny
Managing Director
+1-212-908-0738

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

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

Applicable Criteria and Related Research:

- 'U.S. Public Power Peer Study -- June 2014' (June 13, 2014);
- 'U.S. Public Power Peer Study Addendum - June 2014' (June 13, 2014);
- 'U.S. Public Power Rating Criteria' (March 18, 2014);
- '2015 Outlook: U.S. Public Power and Electric Cooperative Sector' (December 2014).

Applicable Criteria and Related Research:

2015 Outlook: U.S. Public Power and Electric Cooperative Sector (Steady as She Goes)

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=831228

U.S. Public Power Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=740841

U.S. Public Power Peer Study -- June 2014

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749789

U.S. Public Power Peer Study Addendum - June 2014

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750283

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](http://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE '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. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.