MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns investment grade rating of Baa3 to Big Rivers Electric Corporation senior secured term loan; outlook is stable

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Approximately $83.3 million of debt affected

New York, December 02, 2020 -- Moody's Investors Service, ("Moody's") today assigned a Baa3 rating to Big Rivers Electric Corporation's (Big Rivers) $83.3 million senior secured 10-year term loan agreement with National Rural Utilities Cooperative Finance Corporation (CFC), due 2030. The rating outlook is stable.

Big Rivers is using proceeds from the term loan to repay the $83.3 million previously borrowed under its $150 million syndicated senior secured bank revolver led by CFC to repay in full its 6.0% $83.3 million of County of Ohio, Kentucky Pollution Control Refunding Revenue Bonds (Big Rivers Electric Corporation Project), due 2031 when that issue initially became callable in July 2020.

RATINGS RATIONALE

"The rating action reflects Moody's views about Big Rivers' significant progress in securing replacement loads to create better balance between its available capacity and load profile, obtaining Kentucky Public Service Commission (KPSC) approval for rate-neutral recovery of costs associated with its sizable regulatory assets and executing strategies to reduce interest expense and mitigate refinancing risk relating to the above mentioned pollution control bonds and another bullet maturity due in 2023," said Vice-President-Senior Analyst, Kevin Rose. "Although Big Rivers' status as a rate regulated electric generation and transmission cooperative represents a unique risk not present for most of its peers, the risk is balanced by a history of credit supportive decisions from the KPSC which have been part of the impetus for Big Rivers' strengthened financial metrics during the past five years and that trend is likely to be sustainable for the foreseeable future," Rose added.

The outcomes in Big Rivers' rate cases from October 2013 and April 2014, KPSC support for retiring the Station Two plant in 2019 and other mitigation strategies have collectively supported Big Rivers' net margins for fiscal years ended (FYE) December 31, 2017-19 in a range of approximately $12.9 - $16.7 million. While the reported net margin for FYE 2019 was $16.7 million, Big Rivers actually earned a margin of $44.5 million. The reported net margin for FYE 2019 reflects the effects of an initial amortization of Big Rivers' regulatory asset balance according to the terms of the KPSC approved settlement agreement in 2018 to end the operating agreement with Henderson Municipal Power and Light (HMPL) and retire the Station Two plant in early 2019. The reported net margin for FYE 2019 produced a 1.45 times interest earned ratio (TIER), a contractual margins for interest (MFI) ratio of 1.45x and a debt service coverage (DSC) ratio of 1.63x, all as defined in the cooperative's debt documents.

For FYE 2017-19, including Moody's standard adjustments Big Rivers' funds from operations (FFO) coverage of interest, FFO to debt and DSC ratios showed steady improvement in each year and averaged 2.0x, 5.1% and 1.2x, respectively. Big Rivers is likely to continue the strengthening trend for these metrics in 2020 and beyond owing to several credit supportive KPSC orders received during 2020.

Big Rivers' equity to capitalization ratio also steadily strengthened during 2017-19 and averaged 38.6% during the period. The strength of its equity to total capitalization of 41.4% at FYE 2019 bodes well for Big Rivers' commitment under an August 2020 KPSC order to use 80% of its equity in excess of minimum levels required in its debt documents to accelerate amortization of its regulatory assets in 2021. While doing so is likely to result in a reduction in its equity ratio to near 35%, the resulting level is quite strong compared to peers.

By implementing both supply-side and demand-side strategies, as well as reducing staff and controlling other expenses, Big Rivers has made good progress towards reducing its excess capacity situation and replacing the roughly two-thirds of its annual energy sales (which equates to just under 60% of its system demand and in excess of 60% of its annual revenues) previously derived from the contracts it had with two aluminum smelters.

During the past six years, Big Rivers' supply-side initiatives have included idling its 443 MW Coleman plant in

May 2014 and then retiring the plant effective September 30, 2020, idling its 65 MW Reid Unit 1 in April 2016 and then retiring the plant effective September 30, 2020, and terminating its operating agreement with HMPL during 2018, which led to the closure of the HMPL Station Two plant on January 31, 2019 and eliminated its rights to about 187 MW of coal-fired capacity from the HMPL Station Two plant. Taking into account the 260 MW of solar capacity to be phased in under Power Purchase Agreements (PPAs) during 2022-23, these supply-side strategies offset about 435 MW of load lost when the smelters terminated their contracts in 2013 and 2014, respectively.

Big Rivers' demand-side strategies include securing a long-term contract with Nucor Corporation (Nucor: Baa1 stable), medium-term contracts for the sale of capacity and energy to load serving municipal-distribution entities in Nebraska and Kentucky, serving incremental load resulting from industrial expansion in the service territory, making short-term off system sales and participating in the capacity markets. The 20-year contract with Nucor, which is constructing a steel plate manufacturing mill in the service territory of one of Big Rivers' members, Meade County Rural Electric Cooperative Corporation, was approved by the KPSC in August 2020 and takes effect in 2022. The Nucor contract will add about 200 MW of full-requirements load, effectively establishing Nucor as one of Meade County's members. The construction and subsequent operations at the Nucor plant will also provide additional economic stimulus within the service territory. Big Rivers also has 340 MW of previously arranged power sales contracts with entities in Nebraska and Kentucky, including three contracts in place to sell capacity and energy to three Nebraska entities over nine years, which will grow to about 85 MW. Power being provided under the contracts with the Nebraska entities began flowing in 2018 and is scheduled to reach full output in 2022. In Kentucky, Big Rivers has a 10-year contract to transmit as much as 100 MW from its coal-fired Wilson Station to Kentucky Municipal Energy Agency (KyMEA) and sales to KyMEA began in May 2019. In June 2018, the City of Owensboro, Kentucky awarded Big Rivers its full-requirements contract, approximating 180 MW. The City of Owensboro contract runs from June 2020 through December 2026 and represents the municipal utility's full annual energy requirements estimated at 825,000 megawatt hours and annual peak load of about 155 MW, net of its 25 MW provided through a contract with the Southeast Power Administration. The combination of these contracts and economic development rates that contribute to industrial expansion in the service territory have increased Big Rivers' load demand by about 575 MW. When these demand-side strategies are combined with the aforementioned supply-side decisions that ultimately reduce net available capacity by 435 MW, they collectively create better balance between Big Rivers' future available generation capacity and load demand requirement.

Big Rivers' credit profile continues to benefit from credit supportive decisions by the KPSC. In May 2020, the KPSC approved Big Rivers' request to increase the size of its senior secured bank credit facility, thus enhancing the cooperative's liquidity position, and in June the KPSC approved virtually all aspects of Big Rivers' request to create and provide a rate neutral means to recover the cooperative's sizable regulatory assets resulting from its various supply-side decisions. The June KPSC order is credit positive because it enables the cooperative to avoid the risk of potential write-offs to its equity if it was otherwise unable to recover the costs of remaining net investments from its customers as a regulatory asset. Two additional credit supportive decisions from the KPSC were rendered in August 2020, one which largely supports strategic plans and provides a means for cost recovery relating to Big Rivers' proposed 2020 Environmental Compliance Plan and the other approved the retail contract for electric service between Meade County and Nucor and the wholesale letter agreement between Big Rivers and Meade County.

Big Rivers maintains ample liquidity by supplementing its existing cash on hand and internally generated cash flow with a $150 million syndicated senior secured credit agreement with six financial institutions, led by CFC, which expires June 11, 2023. The agreement has the option, subject to the banks agreeing, for two one-year extensions of the expiration date. As of September 30, 2020, Big Rivers had a cash and temporary investments balance of about $33.1 million and had $61.7 million available under the CFC credit agreement. The availability under the credit agreement is anticipated to increase to about $145 million upon when proceeds from the term loan are used to repay a like amount outstanding under the syndicated agreement. Big Rivers is likely to have some moderate need for new debt financing for the next eight quarters to fund a portion of its capital spending program, while also meeting scheduled debt maturities. The debt maturities are largely comprised of scheduled amortizations of long-term debt to be paid at roughly $8 million - $10 million per quarter. The CFC syndicated credit agreement has no ongoing material adverse change clause, but does include a specific interest coverage covenant, which largely mirrors the covenant that exists in its mortgage indenture. The CFC agreement also separately requires Big Rivers to maintain a minimum equity balance at each fiscal quarter-end and year-end of $417 million plus 50% of the cooperative's cumulative positive net margins for each of the preceding fiscal years, beginning with the fiscal year ended December 31, 2019. Big Rivers is comfortably in compliance with these covenants.

Big Rivers also has RUS approval for loans to be funded no later than December 2023 which would provide reimbursement for certain transmission asset investments already made and would refinance half of its Series B Note which has a $245.5 million balloon payment due in December 2023, with the remainder intended to be satisfied with cash. This funding source from the RUS reduces any potential refinancing risk at Big Rivers that otherwise existed.

RATING OUTLOOK

The stable rating outlook reflects a prevailing credit supportive regulatory environment, including approvals for regulatory asset cost recovery, and the likelihood that Big Rivers can sustain its trend of strengthening financial metrics, while also benefitting from establishing better balance between its available capacity and load profile following the loss of significant load from aluminum smelters several years ago. The outlook also considers the cooperative's progress toward reducing refinancing risk and limited new debt financing needs during the next three years. The outlook additionally incorporates the likelihood that Big Rivers will remain resilient to the potential negative effects of the coronavirus pandemic and that the smelters will continue to operate and that the Nucor load will materialize, thus providing support for the local economy, including employment levels.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

What Could Change the Rating -- Up

Achieving further strengthening of financial metrics by recovering a significant regulatory asset balance as approved by the KPSC and completing additional strategies to better align the cooperative's capacity supply and load profile on a longer-term sustainable basis.

Achieving stronger metrics to balance unique business and financial risks; for example, FFO coverage of interest and debt improving to 2.4x and in a range of 6%-7%, respectively, with the DSC ratio tracking at close to 1.2x or better on a sustained basis.

What Could Change the Rating -- Down

A negative rating action is unlikely in the next two years because of the prevailing credit supportive regulatory environment; however, a negative rating action could result if there was a shift to a less credit supportive regulatory environment or if liquidity unexpectedly deteriorates.

Negative rating pressure would also increase if substantial assurance for recovery of environmental compliance costs and sizable regulatory assets over time do not occur as defined under the recently approved KPSC regulatory orders.

A scenario under which either or both of the smelters discontinued operations would be credit negative because of the potential residual negative effects on the local economy or if the Nucor load does not materialize.

In terms of metrics, FFO to debt and DSC ratios below 4% and 1.2x, respectively, for a sustained period would pressure the rating.

Big Rivers Electric Corporation is an electric generation and transmission cooperative 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 approximately 116,000 residential, commercial, and industrial customers in 22 Western Kentucky counties.

The principal methodology used in these ratings was US Electric Generation & Transmission Cooperatives published in August 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1130742. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

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