# WORKING THE PLAN

ANNUAL REPORT
2013

Big Rivers
ELECTRIC CORPORATION

**Our Mission**

Big Rivers will safely deliver low-cost, reliable wholesale power and cost-effective shared services desired by our Member-Owners.

**Our Vision**

Big Rivers will be viewed as one of the top G&Ts in the country and will provide services our Member-Owners desire in meeting future challenges.

**Our Values**

Safety
Excellence
Integrity
Teamwork
Member and Community Service
Respect for the Employee
Environmentally Conscious

## Financial Highlights

For the years ended December 31, 2013, 2012, 2011, 2010 and 2009. (Dollars in thousands)

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Margins | 8,639 | 11,277 | 5,600 | 6,991 | 531,330 |
| Equity | 422,488 | 402,882 | 389,820 | 386,575 | 379,392 |
| Capital Expenditures* | 26,222 | 39,853 | 38,746 | 42,683 | 58,388 |
| Cash and Investment Balance | 95,727 | 68,860 | 44,849 | 44,780 | 60,290 |
| RUS Series A Note Voluntary Prepayment Status | — | — | 46,510 | 23,859 | — |
| Times Interest Earned Ratio | 1.20 | 1.25 | 1.12 | 1.15 | 9.85 |
| Debt Service Coverage Ratio | 1.47 | 1.58 | 1.47 | 1.47 | 2.44 |
| Cost of Debt | 4.88% | 5.27% | 5.69% | 5.73% | 6.33% |
| Cost of Capital | 7.37% | 7.85% | 7.98% | 7.93% | 8.39% |

* Big Rivers' share only.

Photo on cover and page 1 courtesy of NASA's Earth Observatory



Annual Report 2013:

# WORKING THE PLAN

# COMPANY PROFILE

Big Rivers Electric Corporation is a Member-owned, not-for-profit, generation and transmission cooperative (G&T). We provide wholesale electric power and shared services to three distribution cooperative Member-Owners across 22 counties in western Kentucky. The Member-Owners are Jackson Purchase Energy Corporation, headquartered in Paducah; Kenergy Corp., headquartered in Henderson; and Meade County Rural Electric Cooperative Corporation, headquartered in Brandenburg. Together, the Member-Owners distribute retail electric power to approximately 114,000 homes, farms, businesses and industries.

Incorporated in June of 1961, the mission of Big Rivers is to safely deliver low-cost, reliable wholesale power and cost-effective shared services desired by the Member-Owners. Business operations revolve around seven core values: safety, excellence, teamwork, integrity, Member and community service, respect for the employee and environmental consciousness.

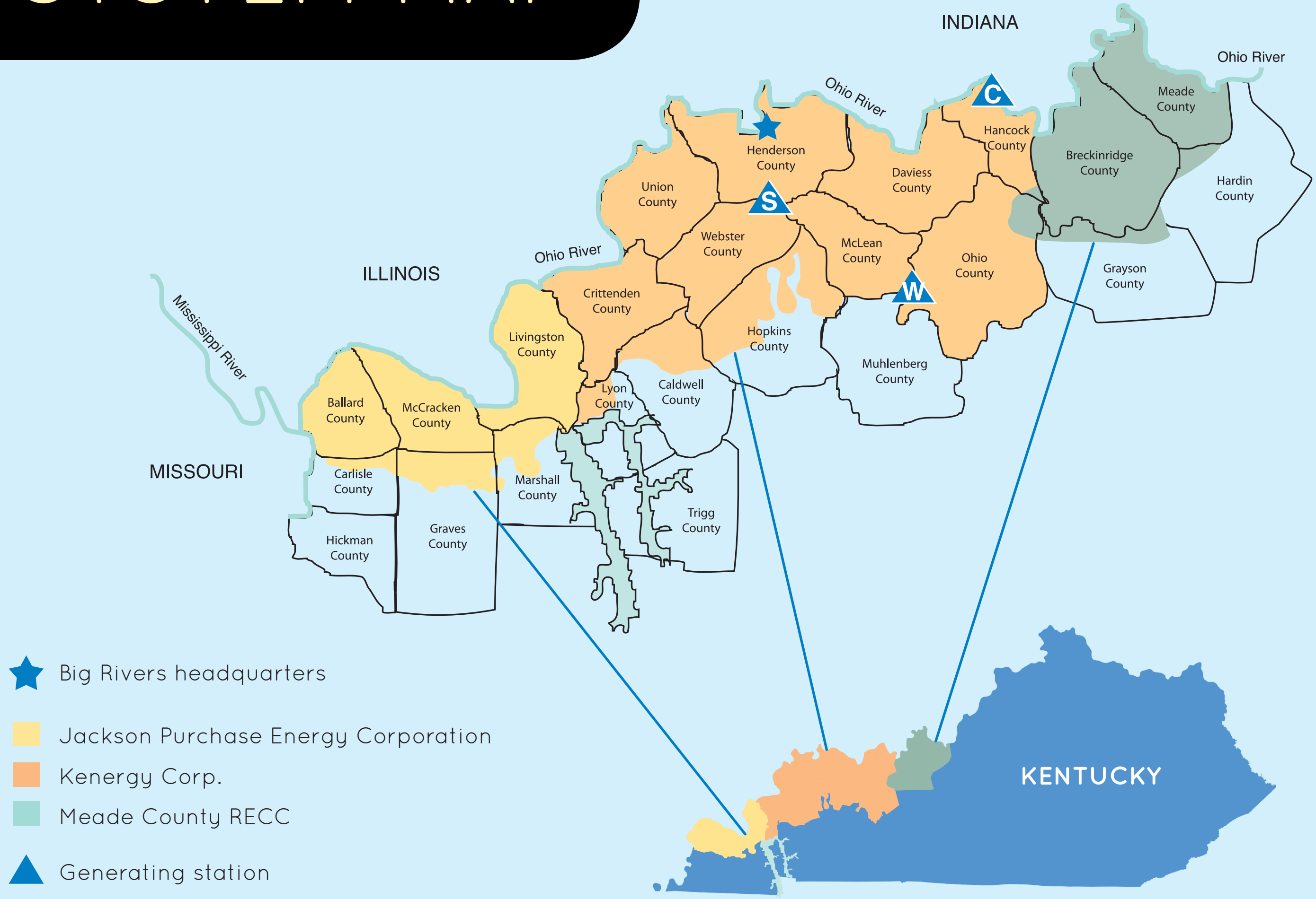
Big Rivers owns and operates 1,444 megawatts (MW) of generating capacity from four power stations: Robert A. Reid (130 MW), Kenneth C. Coleman (443 MW), Robert D. Green (454 MW), and D.B. Wilson (417 MW). Total power capacity is 1,819 MW, including rights to Henderson Municipal Power and Light's (HMP&L) Station Two and contracted capacity from the Southeastern Power Administration (SEPA). High-voltage electric power is delivered to the Member-Owners over a system of 1,287 miles of transmission lines and 22 substations owned by Big Rivers. Twenty-four transmission interconnections link our system with seven surrounding utilities.

Big Rivers is led by an experienced management team and is governed by a six-member board of directors. The board is comprised of two representatives from each Member-Owner. Big Rivers employs nearly 600 people at five locations in Kentucky, who actively contribute to the communities our Member-Owners serve.

Continually focused on the needs and local priorities of our Member-Owners, Big Rivers provides shared services in areas such as information technology, mapping and planning, safety programs and training, economic development, wise energy usage education and customer support services. As long-standing members of Touchstone Energy®, Big Rivers and the Member-Owners pledge to serve western Kentucky with integrity, accountability, innovation and a commitment to community. Our priority has always been to keep the cost of electricity low and the reliability of service high.

Big Rivers is a not-for-profit electric generation & transmission cooperative

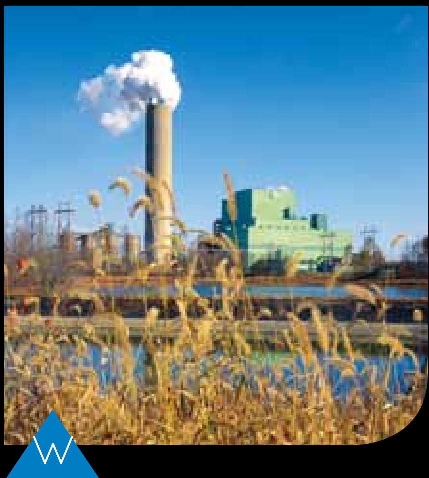
# SYSTEM MAP





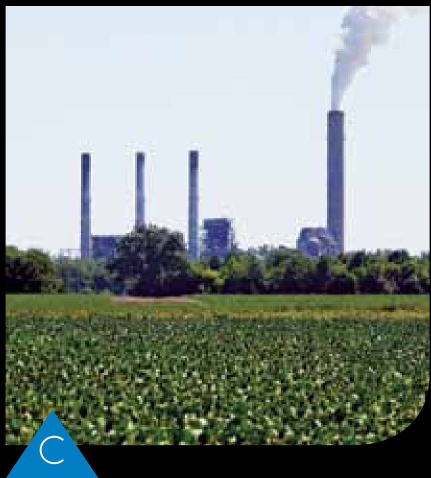
## SEBREE STATION

Green Units 1 & 2
Reid Unit 1
Reid Combustion Turbine
HMP&L Station Two - Units 1 & 2




## WILSON STATION

Wilson Unit 1




## COLEMAN STATION

Coleman Units 1, 2, 3

# Big Rivers is owned by three electric distribution cooperatives

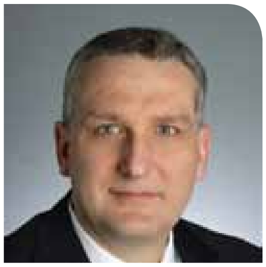
## Jackson Purchase Energy Corporation

| | |
|---|---|
| Serves: | Ballard, Carlisle, Graves, Livingston, Marshall and McCracken counties |
| Headquartered: | Paducah, Ky. |
| Number of accounts: | 29,295 |
| Miles of line: | 2,931 |

Kelly Nuckols
President & CEO

## Kenergy Corp.

| | |
|---|---|
| Serves: | Breckinridge, Caldwell, Crittenden, Daviess, Hancock, Henderson, Hopkins, Livingston, Lyon, McLean, Muhlenberg, Ohio, Union and Webster counties |
| Headquartered: | Henderson, Ky. |
| Number of meters: | 55,805 |
| Miles of line: | 7,047 |



Greg Starheim
President & CEO

## Meade County Rural Electric Cooperative Corporation

| | |
|---|---|
| Serves: | Breckinridge, Grayson, Hancock, Hardin, Meade and Ohio counties |
| Headquartered: | Brandenburg, Ky. |
| Number of meters: | 28,817 |
| Miles of line: | 2,980 |

Burns Mercer
President & CEO

# Big Rivers is led by an experienced team of directors and management

## Board of Directors

*Back row (left to right):*

- **Dr. James Sills,** *Chair*
  Meade County RECC
- **Wayne Elliott,** *Vice-Chair*
  Jackson Purchase Energy Corporation
- **William Denton**
  Kenergy Corp.

*Front row (left to right):*

- **Lee Bearden**
  Jackson Purchase Energy Corporation
- **Paul Edd Butler**
  Meade County RECC
- **Larry Elder,** *Secretary-Treasurer*
  Kenergy Corp.

## Management Team

*Back row (left to right):*

- **Marty Littrel**
  Managing Director
  Communications &
  Community Relations
- **Michael Chambliss**
  V.P. System Operations
- **James Miller**
  Corporate Counsel
- **Tom Davis**
  V.P. Administrative Services
- **Lindsay Barron**
  V.P. Energy Services
- **Eric Robeson**
  V.P. Environmental Services
  and Construction
- **Paula Mitchell**
  Executive Assistant

*Front row (left to right):*

- **Billie Richert**
  V.P. Accounting, Rates, and
  Chief Financial Officer
- **Mark Bailey**
  President & Chief
  Executive Officer
- **Robert Berry**
  Chief Operating Officer

# MESSAGE

## from the Board Chair and CEO

*Left:* **Mark A. Bailey**, President and CEO
*Right:* **Dr. James Sills**, Board of Directors Chair

Each year brings its challenges and with those, come opportunities. Over the past 12 months, our organization has faced difficult circumstances, made pivotal decisions and taken subsequent actions to create a more diversified and less volatile future for Big Rivers and its three Member-Owners—Meade County Rural Electric Cooperative Corporation, Kenergy Corp., and Jackson Purchase Energy Corporation.

In 2013 Big Rivers' Board, employees and Member-Owners devoted countless hours to address the departure of Big Rivers' and Kenergy's two largest electric loads, Century Aluminum and Rio Tinto Alcan. Although these customers certified their intention to cease operations, Big Rivers and Kenergy worked out arrangements that would permit these industries to remain in operation with access to market-priced power. By doing this, we found the most reasonable solution to a difficult situation, allowing our region to enjoy the economic benefits of the two smelters' continued operation while minimizing necessary electricity rate increases for our Member-Owners' customers. These two aluminum smelters represented approximately 850 megawatts of combined electricity demand accounting for nearly 64 percent of Big Rivers' annual revenue.

To address the smelter situation, Big Rivers developed and is implementing a Load Mitigation Plan (Plan) to safely deliver reliable wholesale power to our three Member-Owners' consumers at affordable rates well into the future. Unfortunately, cost cutting alone could not alleviate the $360 million financial shortfall created by the loss of both aluminum smelter loads; the two largest electric loads in the Commonwealth of Kentucky. To address the financial loss in the short term, Big Rivers filed two rate increases over a six-month period.

## Big Rivers owns 1,444 MW of generating capacity and operates 1,287 miles of transmission lines

On January 15, 2013, in anticipation of the departure of Century Aluminum Hawesville and its $205 million annual revenue from our system, Big Rivers filed with the Kentucky Public Service Commission (KPSC) for an annual revenue increase of approximately $74.5 million (Case No. 2012-00535). On October 29, 2013, the KPSC granted Big Rivers an increase of $54.2 million; or a 15.56 percent increase for our three Member-Owners' retail customers. While no customer-owned electric cooperative wants to raise rates, even with this increase electric rates in our Members' service areas remain some of the lowest in Kentucky and in the nation.

On June 28, 2013, Big Rivers filed a second rate increase request (Case No. 2013-00199) of $70.4 million with the KPSC to address the termination of the Rio Tinto Alcan (now Century Aluminum Sebree) contract and the loss of its $155 million annual revenue. As part of this request, in an effort to reduce the burden for retail customers, Big Rivers and its Member-Owners developed a creative proposal and asked the KPSC to approve increased withdrawal from reserve funds established for rate increase relief to ENTIRELY offset the second rate increase until all reserve funds are exhausted.

By using the established reserve funds in this manner, it is estimated the second rate increase will not affect Members' bills until:

- **July 2015** for 21 Large Industrial Members and
- **June 2016** for approximately 114,000 Rural Members.

Big Rivers' smelter experience is not unique to Kentucky. Due to prolonged, depressed world-wide aluminum prices, the few remaining aluminum smelters in this country have, or are seeking, rate concessions either voluntarily from their electric utility provider or through legislative efforts. In several instances, smelters have closed when their efforts were unsuccessful. In our case, we are pleased to have found a solution to enable the smelters to remain in operation here in western Kentucky. Unfortunately, Big Rivers had no choice but to raise electric rates to address this uncontrollable circumstance. However, Big Rivers does not believe these rate increases will be permanent.

In the cooperative spirit, as a not-for-profit utility owned by our Members, we plan to maintain our focus on the best interests of all our Member-Owners' customers. We assure you we will make every effort to overcome this financial blow through a number of cost-cutting and revenue-generating actions designed to reduce the need for this rate relief over time.

We are confident our Plan will succeed. Our generating assets are low-cost electricity producers, which is why our rates have been so low historically. As part of the Plan, Big Rivers will continue to aggressively pursue opportunities to find buyers of our low-cost power to replace the lost smelter sales. The Plan includes selling power to other utilities and/or on the open market, attracting new industries or expansion of existing industries in our Member-Owners' service territory through economic development efforts, leasing or selling one or more of our power plants, as well as idling plants. Our Energy Services group has been strengthened and has proactively responded with energy pricing proposals to more than 30 other utilities across the country.

These efforts are already bringing success. At year end, Big Rivers executed contracts with three utilities in Nebraska for the sale of 67 megawatts of energy and capacity beginning as early as 2018. If approved by the KPSC, this ten-year transaction will place the first piece in the puzzle to replace the lost revenue from the smelter contract terminations. Big Rivers is also a finalist for several other entities' power sales contract solicitations. As we succeed in **Working the Plan**, we will be able to reduce electric rates.

During these challenging times, Big Rivers employees have continued to demonstrate an outstanding work ethic and kindred spirit manifested through numerous significant positive outcomes that make us all proud to be part of the Big Rivers family. Big Rivers is governed by a dedicated six-member board comprised of two representatives from each of our three Member-Owner distribution cooperative systems and is led by an experienced management team. These resources, combined with our talented employees' efforts, enabled Big Rivers to finish 2013 with some of its best annual generating and transmission system results.

For the second consecutive year, our Coleman plant won the prestigious GKS Navigant Operational Excellence Award in the small plant category. This award is based on operational excellence over a five-year period involving low cost management, high unit reliability and good employee safety performance. Roughly 75 percent of the North American electric generating coal fleet participates in this competition. This award is a true testament to the character and dedication of the entire production group and the employees who support them.

In addition, in 2013, Big Rivers' fuel costs were the lowest of any other generating utility in Kentucky and Big Rivers' transmission system reliability was near an all-time high. Company employees also earned four Governor Safety Awards during 2013 and completed a second straight year without a lost-time incident.

Despite the economic challenges Big Rivers has faced, our financial performance remained steady due to careful cost control and continued focus on off-system (market) power sales. Big Rivers' 2013 off-system power sales totaled $81.3 million, which was $32 million higher than budget. This, along with other income-producing and cost-reduction activities, provided Big Rivers with 2013 net margins of $8.6 million, enabling the company to satisfy its loan agreements. In keeping with our cooperative principles, these funds were allocated to our three Member-Owners as increased equity.

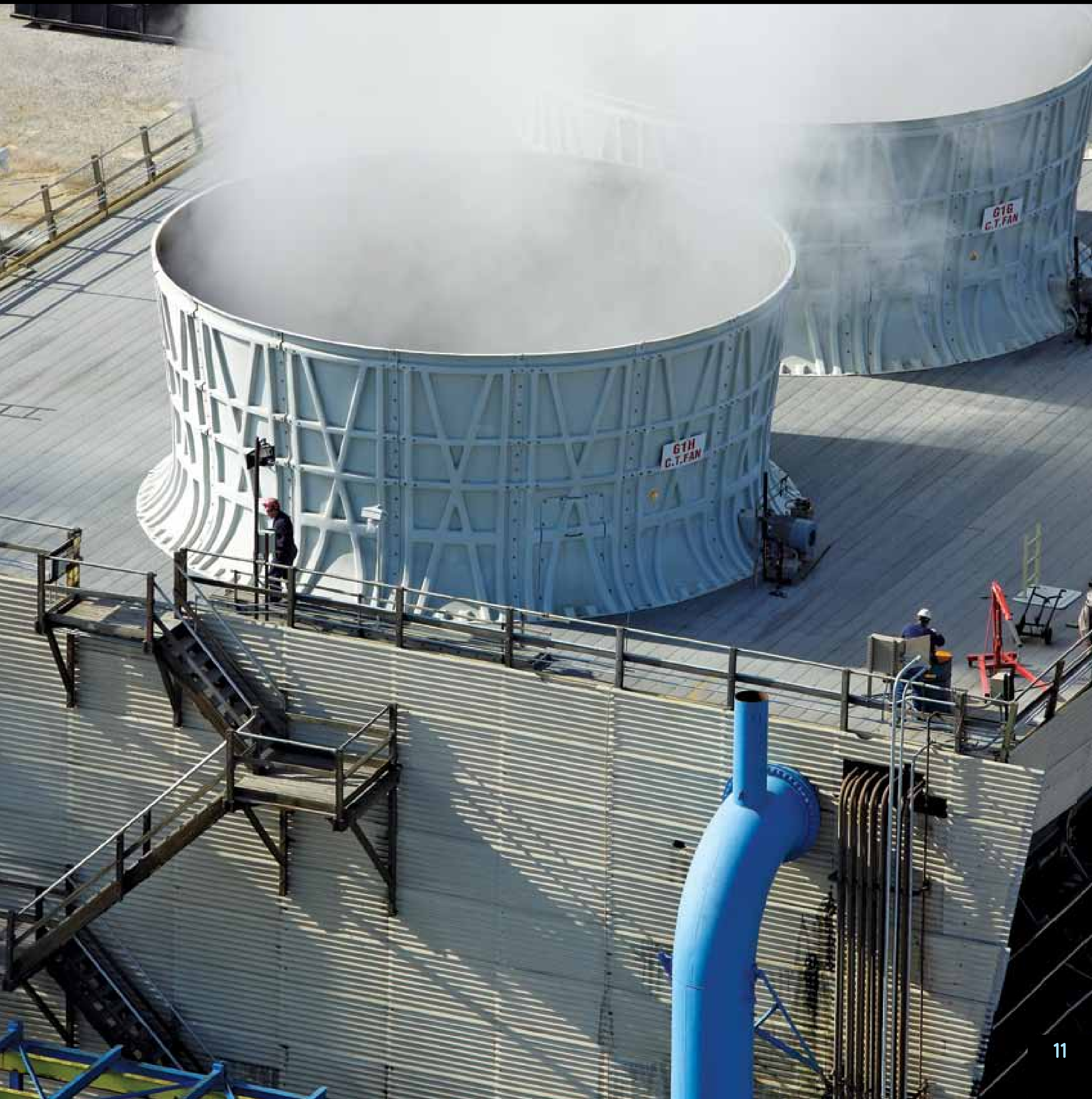
In summary, Big Rivers is on the right path to address the smelter load loss as quickly as possible and, in the process, to diversify our load and revenue concentration to provide value and stability to our Member-Owners for years to come. We believe we have the knowledge, experience and strength to continue **Working the Plan** and lead this organization and our Member-Owners to a promising energy future. With the support of our Board, employees and Member-Owners, we know we can achieve our vision to be one of the top generation and transmission cooperatives in the country.

**Dr. James Sills**
Chair, Board of Directors

**Mark A. Bailey**
President and CEO

Big Rivers uses 4.2 million tons of coal per year, nearly all from western Kentucky

# Big Rivers' financial performance remains steady due to careful cost control and off-system power sales




# SAFETY

*Business Objective:*

» **Continue Big Rivers' emphasis on safety for employees, Members, contractors, and the public.**

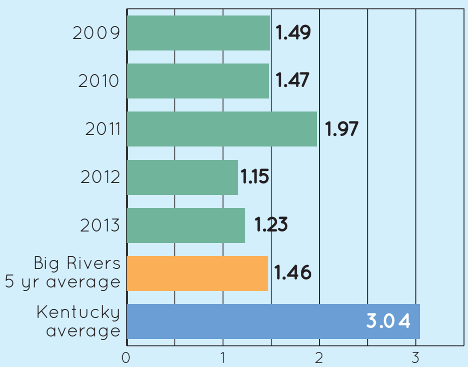
## Big Rivers employees set new records for working safely in 2013

Big Rivers completed 2013 with zero lost-time incidents and seven recordable incidents—a repeat of last year's historic record. Employees at four locations earned Governor's Safety and Health Awards and achieved safety milestones during 2013:

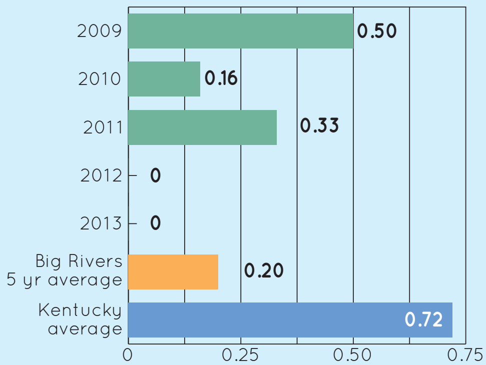
- Coleman Station employees completed seven years without a lost-time incident on January 5.
- Transmission employees completed three years without a lost-time incident on January 14.
- Coleman Station employees completed 1,500,000 work-hours worked without a lost-time incident in January 2013.
- Wilson Station employees completed one year without a recordable incident on April 16, 2013.
- Headquarters employees completed one year without a recordable incident on May 2, 2013.
- Wilson Station employees completed six years without a lost-time incident on May 15, 2013.
- Sebree Station employees completed two years without a lost-time incident on May 19, 2013.
- Production employees completed two years without a lost-time incident on May 19, 2013.
- Sebree Station employees completed 1,000,000 work-hours worked without a lost-time incident in June 2013.
- Wilson Station employees completed 1,250,000 work-hours worked without a lost-time incident in June 2013.
- Headquarters employees completed two years without a lost-time incident on July 20, 2013.
- The company completed two years without a lost-time incident on July 20, 2013.
- Transmission employees completed one year without a recordable incident on August 1, 2013.
- Headquarters employees completed 500,000 work-hours worked without a lost-time incident in September 2013.

# Big Rivers' safety culture has set the bar high as a model for all other utilities to follow

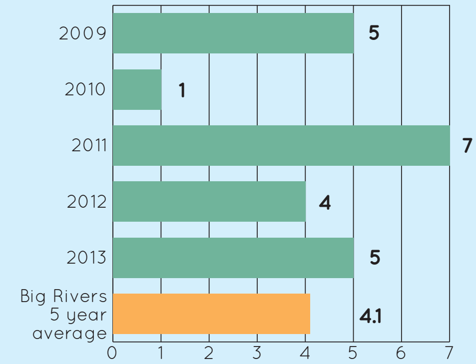
OSHA Recordable Incident Rate




Lost-Time Incident Rate




Number of Vehicle Incidents




Recordable incident: an injury or illness that results in medical attention beyond first aid and/or results in modified work duty and/or lost time from work.

Lost-time incident: an injury or illness that causes an employee to miss one or more scheduled full workday(s) following the incident.

## Coleman Station achieves seven years with zero lost-time incidents

Coleman Station employees achieved another significant milestone January 5, when the plant completed seven consecutive years without a lost-time incident. This amazing feat is a tribute to all Coleman employees, because each worker played a personal role in reaching this milestone.

Coleman Station has and continues to be a company leader in the safety arena and provides a vivid example of what can be accomplished when everyone is focused on excellence. This behavior demonstrates the impact employees' knowledge and actions can have on organizational performance by taking to heart corporate values.

## Transmission employees reach three years with zero lost-time incidents

Transmission employees successfully completed three years without a lost-time incident on January 14. Big Rivers continuously emphasizes safety with employees, Members, contractors and the public. We are proud of the safety milestones achieved by Big Rivers employees, because these safety accomplishments reflect our safety philosophy and core safety commitments.

## Coleman Station receives 11th Governor's Safety Award

Coleman Station was presented its 11th Governor's Safety and Health Award on April 26 by Kentucky Labor Cabinet Secretary Mark Brown.

The Governor's Safety and Health Award provides special recognition for outstanding safety and health performance and encourages the development of programs designed to reduce and eliminate occupational injuries and illnesses. The award is presented to employers and their employees who together achieve the required number of hours worked without experiencing a lost-time injury or illness.

Big Rivers' board, the senior leadership team and employees place a strong emphasis on worker safety. Coleman Station employees have reached this milestone through regular safety meetings and cooperation with safety officials.

Coleman Station earned its 11th Governor's Safety Award on April 1.

## Wilson Station achieves six years with zero lost-time incidents

Wilson Station employees worked six years without a lost-time incident on May 15 and 1,250,000 work-hours worked without a lost-time incident in June 2013. Every individual at Wilson Station worked together to accomplish these milestones with a diligent focus on safety and leadership.

Tim West was awarded the 2013 Unsung Hero Award for Labor.

## Sebree Station electrician honored by Kentucky Safety & Health Network

Tim West, senior electrician at Sebree Station, was honored by the Kentucky Safety and Health Network with the 2013 Unsung Hero Award for Labor at the Annual Governor's Safety and Health Conference in Louisville.

This award recognizes individuals who have demonstrated an exemplary commitment to the promotion of occupational safety and health in the Commonwealth of Kentucky. Nominees must be actively involved in a safety and health program, or must be known for their work in the promotion of occupational safety and health on a state, industry, or worksite level.

Sebree Station earned its 9th Governor's Safety Award on July 9.

## Sebree Station receives ninth Governor's Safety Award

Sebree Station employees were presented their ninth Governor's Safety Award on July 11 by Kentucky Commissioner Anthony Russell.

This award is a celebration of the joint effort between management and the International Brotherhood of Electrical Workers Local 1701. Sebree employees were congratulated for working the safe way and the right way, because safety is a partnership.

Big Rivers employees are trendsetters in working safely, and this safety achievement represents continued dedication among the entire workforce.

Wilson Station earned its 12th Governor's Safety Award on July 22.

## Wilson Station wins its 12th Governor's Safety Award

Wilson Station employees were presented their 12th Governor's Safety and Health Award on September 19 by Kentucky Labor Cabinet Secretary Larry L. Roberts.

Wilson employees lead the way in safety with continued commitment and teamwork. Receiving the Governor's Safety and Health Award is a testament to our employees' attitude and professionalism and their commitment to focus on safety every day.

Headquarters earned its Governor's Safety Award on October 8.

## Headquarters employees receive Governor's Safety Award

Deputy Secretary of Labor Rocky Comito visited Henderson on December 2 to recognize Big Rivers headquarters employees for working 500,000 hours without a lost-time incident or illness.

Big Rivers has established a proven commitment to the safety and health of its employees. Safety is our top corporate value and is the foundation for all decisions and expectations at Big Rivers.

## Big Rivers contractor safety meeting: "No One Gets Hurt in Our House"

Big Rivers packed the Hines Center in Philpot with hundreds of contractor employees for its annual contractor safety kickoff meeting. Participants were instructed on why Big Rivers values safety so highly.

Company representatives provided an overview of safety statistics at our generating stations. Information was also provided about medical conditions that affect driver safety. The keynote speaker discussed his experiences as a supervisor who cared about the safety of the people under his command.

The training ended with an open discussion about safety requirements for contractors who are business partners with Big Rivers.

# EXCELLENCE

*Business Objectives:*

- **Proactively manage assets to the benefit of all Members.**
- **Meet our Members' reliability needs and regulatory compliance requirements in the most cost-effective manner.**

## Generating station resources

Big Rivers owns and operates 1,444 MW of net generating capacity from four power stations:

- Kenneth C. Coleman
  443 MW – Hawesville, Ky.
- Robert A. Reid Station
  130 MW – Robards, Ky.
- Robert D. Green Station
  454 MW – Robards, Ky.
- D. B. Wilson Station
  417 MW – Centertown, Ky.

Power supply to Member-Owners began in 1966 with the commercialization of Unit 1 at Robert A. Reid, a coal generating unit that produces 65 MW of electric power in Robards, Ky. As the need for electricity increased, three additional coal generating units soon followed at Kenneth C. Coleman station in Hawesville, Ky. The Coleman units were brought online in 1969, 1970, and 1972, respectively, for a combined output of 443 MW. In 1976, a second unit, a 65 MW combustion turbine peaking unit fired with fuel oil, was added at Robert A. Reid. With electricity needs continuing to grow, a new generating station was added next to the Reid station in Robards. Two more coal generating units that comprise the Robert D. Green station were commercialized in 1979 and 1981, capable of producing 454 MW of additional power required to supply rising electric loads. Our newest generating station, D.B. Wilson located in Centertown, Ky., was commercialized in 1986 and includes one coal generating unit that produces 417 MW of electricity.

In addition to the power stations we own, Big Rivers also has contractual rights to 197 MW from the Station Two units owned by Henderson Municipal Power and Light (HMP&L). HMP&L has the contractual right to increase or decrease its capacity reservation from Station Two up to 5 MW each year to meet the needs of the City of Henderson. HMP&L's most recent reservation is 115 MW through May 2015, 120 MW through May 2016 and 125 MW through May 2019.

A third source of power for the Big Rivers system comes from contractual rights to 178 MW of hydropower from the Southeastern Power Administration (SEPA). The SEPA contract is currently in force majeure due to safety issues at the Wolf Creek and Center Hill dams, so Big Rivers is only receiving a run-of-the-river schedule that we have

Photo: Donn Wimmer, Hancock Clarion

Coleman Station won the Navigant GKS Operational Excellence Award in the small plant category for U.S. coal-fired power plants in both 2012 and 2013.

the right to refuse. Based on current expectations, Big Rivers will be able to access the full 178 MW of SEPA capacity in January 2015.

Big Rivers' total generating capacity is 1,819 MW, including owned assets and contractual rights:

- Owned generation – 1,444 MW
- HMP&L Station Two – 197 MW
- SEPA hydropower – 178 MW

## Generating unit reliability

As part of our strategic plan key performance indicators, Big Rivers monitors the reliability of our coal-fired generating fleet using several standard industry metrics. This allows us to proactively manage those assets and to economically operate our power plants with a focus on performance and reliability. These key performance indicators include:

- Equivalent Forced Outage Rate (EFOR) — the percentage of time a generating unit is unexpectedly offline or unable to reach its rated capacity
- Equivalent Availability Factor (EAF) — the percentage of time a generating unit is available for power production at its full-rated capacity
- Net Capacity Factor (NCF) — the percentage of time maximum generation capability is actually generated

Big Rivers uses generator availability data from the North American Electric Reliability Corporation (NERC) to determine EFOR for our generating units and to compare their reliability against other utilities. Big Rivers also uses Navigant Consulting to compare our plant reliability against similar units across the country. Our reliability statistics demonstrate outstanding performance. In a five-year benchmarking study completed May 2014, for the period from January 2009 through December 2013, Big Rivers' units performed in the best quartile. This data is shown in the table on the following page.

## Generating facility maintenance

The scope and expense associated with periodic planned outages are developed through a rigorous review of multiple reports and documents. These documents include previous post outage reports, third-party inspection reports and recommendations, lists of known preventative maintenance tasks and active work orders identifying known equipment malfunctions.

Big Rivers uses a computerized maintenance management system to plan and schedule predictive and preventative maintenance inspections to track the condition of power plant equipment. The results of these tests, inspections, and analyses are used to determine future maintenance needs included in strategic outage plans. Each task included in an outage plan is individually reviewed with time and expense estimated for inclusion in the appropriate outage budget.

## Coleman Station wins second award for operational excellence

For the second consecutive year, Coleman Station ranked first among its peers and was presented the Navigant GKS Operational Excellence Award in the small plant category, which includes generating stations with units that average 200 MW or less. Coleman Station produces a total of 443 MW from its three generating units; an average unit size of about 148 MW each.

Data used in Navigant's analysis of cost and performance represents more than 640 coal-fired units, or 75 percent of the U.S. electric-generating coal fleet. During a five-year period, plants were evaluated in five areas: efficient cost management of non-fuel operations and maintenance, high availability, predictable reliability, improving reliability, and safety performance.

This national award is a testament to Coleman Station's reliable generating units, efficient operation, effective planning and conscientious employees who embrace the values of safety, excellence and teamwork. We are very proud of each one of the dedicated team members who comprise our production group, as each generating station works together using a systemwide team approach to make investment and maintenance decisions.

**Big Rivers' fuel costs are the lowest of any generating utility in Kentucky**

# Big Rivers' generating units rank in the best quartile for reliable performance

Reliability metrics for Big Rivers' generating units compared to their peer group — January 2009 through December 2013

| Metric | Big Rivers Generating Units | | Best Quartile |
|---|---|---|---|
| EFOR | 4.21 % | « lower is better | 5.79 % |
| EAF | 91.38 % | « higher is better | 87.84 % |
| NCF | 81.57 % | « higher is better | 77.09 % |

EFOR – Equivalent Forced Outage Rate = Percentage of time a generating unit is unexpectedly offline or unable to obtain its rated capacity

EAF – Equivalent Availability Factor = Percentage of time a generating unit is available for power production at its full capacity

NCF – Net Capacity Factor = Percentage of time maximum generation capability is actually generated

# Big Rivers' transmission system is near an all-time high for reliability

## Transmission system overview

Big Rivers constructs, owns, operates and maintains an electric transmission system in the northern portion of western Kentucky. High-voltage electric power is delivered to our Member-Owners' systems through this robust transmission system that contains 1,287 miles of line, 22 transmission substations and 24 high-voltage interconnections with seven surrounding electric utilities.

- » 69 kV – 841 miles
- » 138 kV – 14.4 miles
- » 161 kV – 363.1 miles
- » 345 kV – 68.4 miles

In accordance with our strategic plan, Big Rivers meets the reliability needs of our Member-Owners and regulatory agency requirements in the most cost-effective manner possible. We monitor the cost/benefit of membership in the Midcontinent Independent System Operator (MISO), advocate Big Rivers' position on MISO market and transmission-related issues and participate in MISO training to optimize Big Rivers' operations within the energy market.

Big Rivers works in conjunction with our Member-Owners to evaluate transmission expansion or improvement projects driven by reliability performance. We efficiently maintain our transmission system with a focus on reliability and electricity import/export capability, and we monitor the capabilities and expansions of surrounding transmission systems. Big Rivers complies with all NERC Reliability Standards and SERC regional standards and guidelines consistent with a corporate culture of compliance.

## New 161 kV interconnect

Kentucky Utilities Company (KU) and Big Rivers are completing the construction necessary to loop an existing Big Rivers-owned 161 kV circuit through the new Kentucky Utilities Matanzas Substation in Ohio County, Kentucky. The first phase of the project was energized on December 12, 2013. This phase created a new high-voltage 161 kV transmission interconnection between the Big Rivers Wilson Substation in Centertown, Kentucky and KU's new Matanzas Substation. When finished in January 2016, the second phase of the project will complete a second Big Rivers 161 kV interconnection to the KU Matanzas Substation. KU is responsible for all project costs related to this modification.

## Transmission construction projects

With the increased loading in the southeast portion of Member-Owner Kenergy's service territory, a new electric source was needed in Ohio County. Big Rivers installed a 161 kV to 69 kV autotransformer at Wilson EHV Substation to meet this need. A 6.1 mile 69 kV transmission line was constructed from Wilson to Centertown to tie this new transformer into the company's existing 69 kV transmission system.

Transformers at Big Rivers' substation serving Kenergy customer Aleris International and also at Hancock County Substation were replaced with new units in 2013.

Following the announcement of two coal mines under development, delivery points were constructed at Pennyrile Energy's Riveredge Mine in McLean County and Elk Creek Mine in Hopkins County. These two Kenergy customers are now being served by 69 kV transmission service from Big Rivers.

Member-Owner Jackson Purchase Energy Corporation constructed its Maxon Substation in 2013. This new substation was needed to serve the increasing electrical power needs west of Paducah, including the new McCracken County High School.

Big Rivers constructed a new 69 kV transmission line in the eastern service territory of Member-Owner Meade County RECC. As part of this capacity upgrade, the company also reconductored the Meade County Substation's Garrett 69 kV transmission line.

Big Rivers employees built a 69kV transmission line to service the JPEC Maxon Substation.

# INTEGRITY

*Business Objectives:*

- » **Considering risks and benefits, manage the volatility of rates to Members and Big Rivers' net margin.**
- » **Maintain a comprehensive and least-cost environmental compliance strategy.**

## Environmental construction projects

Big Rivers maintains a comprehensive and least-cost strategy towards environmental compliance. We comply with all existing environmental regulations and requirements, evaluate the implications of proposed legislation and regulation to our operations and develop compliance strategies to optimize our position using a cost-effective approach.

In response to an environmental compliance order issued by the KPSC in 2012, Big Rivers performed mercury removal testing of the Green, Wilson and Coleman units during the first half of 2013. The purpose of this testing was to demonstrate mercury removal with planned equipment additions while simultaneously achieving compliance with particulate matter emission standards. This consisted of bringing temporary tanks, blowers and hoses to each station to inject both activated carbon and dry sorbent into the ductwork ahead of the precipitators. A testing firm then measured both mercury and particulate in the stack to confirm compliance. Big Rivers successfully passed this testing and submitted the results to the KPSC in July 2013.

A highlight in 2013 was the selection of the equipment supplier to install both the activated carbon and dry sorbent equipment at the Green units. This equipment will allow Big Rivers to remove mercury from the flue gas stream and comply with the upcoming Mercury and Air Toxics Standards. Big Rivers initially engaged the services of Burns & McDonnell to assist in developing the technical specification for the equipment. Following competitive bidding and several rounds of questioning of potential vendors regarding their proposals, Big Rivers awarded the equipment purchase order to Babcock Power. Babcock Power is currently performing detailed design of the systems with a scheduled delivery date of the equipment for summer 2014. These pollution control facilities must be installed on Big Rivers' generating units by April 2015 for Big Rivers to be in compliance with the Mercury and Air Toxics Standards rule to continue operating its generating facilities after that date.

Big Rivers expects to make approximately $25,000,000 in pollution control equipment expenditures in 2013 and 2014. Initially, Big Rivers plans to finance these expenditures with a new short-term loan from the National Rural Utilities Cooperative Finance Corporation, and then replace that short-term borrowing with long-term financing from the Rural Utilities Service.

Electric power generated by Big Rivers is used by 114,000 homes, farms and businesses in 22 Kentucky counties

# TEAMWORK

*Business Objective:*

» **Maintain a well-trained, engaged workforce dedicated to teamwork and the success of Big Rivers and our Member cooperatives.**

## Information systems team supports data conversion

Big Rivers and our Member-Owners work together to evaluate and develop improved services that benefit end-use consumers through economies of scale and shared resources. In 2013, Big Rivers information technology personnel concluded support on a major project to modernize the Members' information system software. The Member-Owners migrated from the AS400 and converted customer service, billing, accounting and transmission operations data into a newly integrated enterprise system. A team of information technology personnel participated in software analysis to compare our existing systems with potential new options, visited possible vendors to vet their services, helped ensure that prospective vendors could perform needed functions, exited contracts with existing vendors, and helped to smooth the process of converting data to the new system.

## Safety training and support services

In keeping with our strategic plan, Big Rivers continues to emphasize safety, not only for employees, but also for Members, contractors, and the general public. To fulfill this goal, Big Rivers personnel provide safety support to our Member-Owner systems to help them satisfy their safety needs. This includes hazard identification and communication, metering and electrical safety, rigging, safety leadership, fire extinguisher use, conducting safety meetings, crew observations, facility audits, high-voltage electrical safety demonstrations, incident investigation and flagger instructor recertification training.

## SERC compliance audit complete

The North American Electric Reliability Corporation (NERC) is certified as the electric reliability organization charged with developing and enforcing reliability standards in the United States. As one of eight regional NERC entities, the Southeastern Reliability Corporation (SERC) serves as the regional entity with delegated authority from NERC to enforce standards in the region that includes Big Rivers. Big Rivers personnel work together to comply with all reliability standards and use a team approach to maintain our transmission system. Big Rivers received good news in 2013 following its

## Big Rivers employees have earned 34 Governor's Safety and Health Awards for zero lost-time incidents

triennial SERC audit, which reviewed the company's compliance with all NERC standards for operations and planning. SERC found no violations or areas of concern and made no recommendations for improvement.

## *Miss Debbie* passes inspection

During an inspection by the Coast Guard, Wilson Station's *Miss Debbie* tugboat passed with no deficiencies. The tugboat is used by Wilson Station personnel primarily to move coal and lime barges into place to be unloaded. During a thorough inspection, five officers examined the boat electronics and mechanics, checked documentation, and questioned Big Rivers personnel about emergency procedures.

## Transmission employees safely clear way for a house move

Energy transmission employees assisted with the relocation of a large house, cut into three sections, as it was moved down narrow country roads. Our team of experienced line workers accomplished two goals with this project: preserving transmission system reliability and protecting public safety. The house passed under our Daviess County to Newman 161 kV line three times. This line is a radial feed for Kimberly-Clark and had to remain energized during the move. The house also passed under two Big Rivers 69 kV lines multiple times. These lines were de-energized in stages before the house reached them and re-energized after it had passed. To keep the public safe from harm, Big Rivers employees performed necessary switching, monitored the house as it passed under our lines, and used a large bucket truck to perform clearance monitoring when the house was moving through low-clearance areas.

## Integrated Resource Plan to be filed

Big Rivers will file its Integrated Resource Plan (IRP) in May of 2014. This triennial filing is a technical document describing Big Rivers' plan for adequately providing a reliable electricity supply to meet load demands over the next 15 years. It includes historical and projected resources and demand, and other facts and assumptions about the size and type of new resources that may be added, if required. Big Rivers filed its last IRP in November of 2010, and was granted a six-month extension of the next filing date from November 2013 to May 2014 by the KPSC due to the termination of the smelter contracts.

As was the case with previous IRPs, Big Rivers contracted with GDS Associates of Marietta, Ga. to help develop load forecasts and evaluate the resources needed to meet our requirements. GDS utilizes software that has the capability to simulate production operations and develop least cost expansion plans. To ensure adequate supply under various conditions, Big Rivers examined numerous scenarios, including high and low fuel and market prices, extreme and mild weather, as well as the estimated costs of equipment additions to generating stations to comply with potential environmental regulations. The study results showed Big Rivers' existing fleet of resources is sufficient to meet the expected load of our Member-Owners for at least the next 15 years. Big Rivers will continue to evaluate the need for new resources to provide safe, reliable power to our Member-Owners at the lowest cost possible.


Wilson Station equipment operators stand aboard the *Miss Debbie*, a tugboat used to move barges into place for unloading coal and other materials.

# Big Rivers employees demonstrate outstanding work ethic and dedication to excellence

# SERVICE

*Business Objectives:*

- **Proactively enhance Big Rivers' reputation and maintain and/or build trust with key stakeholders.**
- **Provide cost-effective shared services desired by our Member-Owners.**

Big Rivers fosters proactive involvement in community, civic and philanthropic activities, because member and community service is one of our corporate values. Big Rivers employees are dedicated to the success and well-being of the communities we serve.

## Big Rivers and its employees pledge $177,970 to United Way

United Way is one of the primary philanthropic organizations that Big Rivers and its employees support. During our 2014 United Way campaign, employees pledged a total of $134,970. Employees continue to be very generous, demonstrating the value Big Rivers employees bring to our local communities.

- Sixty-five percent of employees made a pledge to United Way
- Average dollar amount pledged per participant increased from $340 to $358
- Employees pledging one hour of pay per month or higher increased from 54 to 56 percent

## Big Rivers employees raise $5,369 to support the March for Babies

Thanks to a record contribution year, the Big Rivers team surpassed the previous year's March for Babies total by over $2,000 with a total of $5,369 in donations. These generous contributions helped the Big Rivers team win or place in every award category in which we competed:

- Company Team – 1st Place
- Family Team – 2nd Place
- Best Family Team T-shirt Design
- Top Walker
- Top Youth Walker
- Top School

March for Babies uses this money to support programs in the Henderson area that help moms have healthy, full-term pregnancies. It also funds research to find solutions to problems that threaten babies. The national organization has been walking since 1970 and has raised an incredible 2 billion dollars.

Employees on our United Way committee celebrated another successful campaign. Big Rivers and its employees pledged $177,970 for 2014.

## Big Rivers employees support Habitat for Humanity

Headquarters employees collected donations to support the Habitat for Humanity of Henderson by holding fundraisers and selling tickets to the Holiday Pops concert. These funds provide vital support to finance construction of modest, affordable housing for families living in our community. Habitat for Humanity is a nonprofit organization that provides decent, affordable houses for families in need. Habitat homeowners gain self-respect as they work alongside volunteers to construct their homes. Whenever possible, houses are built using sustainable, energy-efficient practices. Since 1976, Habitat has built or repaired over 800,000 houses, serving more than four million people worldwide.

## Big Rivers employees clothe children to help them prepare for school

Employees from Headquarters and Sebree Station collaborated to purchase several complete clothing outfits including socks, shoes and underclothes for local children. This Clothe-A-Kid campaign was coordinated on behalf of the Volunteer and Information Center in Henderson, Kentucky.

## Headquarters employees provide Thanksgiving meals for area families

Headquarters employees donated funds to support the Henderson Volunteer and Information Center's Bountiful Thanksgiving program. Money raised provided dinner for area families, who were given a voucher to obtain grocery food items for a Thanksgiving meal of their choice.

## Wilson Station employees collect donations for Friends of Sinners

Wilson Station employees donated 520 pounds of nonperishable items to the Friends of Sinners facility. Items collected were used in daily living by the nonprofit's residents and include cereal, tea/coffee, paper products, cleaning supplies, and toiletries. Friends of Sinners is a long-term facility that focuses on rehabilitation from addictions and transformation of individuals into positive society contributors.

## Coleman Station employees donate to the Good Samaritan Center

Coleman Station employees collected numerous boxes of coats, winter clothing, toiletries, canned goods, boxed food, diapers, and toys to benefit the Good Samaritan Center in Breckinridge County. The organization provides clothing and food to over 300 local families every month and even more around the holiday season. These donations helped families survive the winter and delivered holiday cheer.

## Sebree employees deliver Christmas to local families in need of assistance

Thanks to the generosity of Sebree Station employees, worthy families from Hopkins, McLean, and Daviess counties received a special Merry

Christmas in 2013. Santa's elves kicked off the donation drive, and the Sebree foyer filled up with toy trucks, trains, teddy bears, and dolls of all sizes—plus warm blankets, winter coats, clothing, and shoes. Money raised was used to purchase additional gifts for the families. Sebree Station employees who donated brought joy to these local families with their kindness and thoughtful giving.

## Headquarters employees adopt area children to provide Christmas cheer

Headquarters employees donated money for the 2013 Adopt-A-Family for Christmas program run by the Henderson Volunteer and Information Center. Big Rivers adopted young children from several families. Thanks to thrifty shopping, donated money was sufficient to provide several outfits of clothing, undergarments, shoes, and a special gift to each child.

# Big Rivers employees manifest a kindred spirit through compassionate giving

Big Rivers employees raised $5,369 with our March for Babies team in 2013, which surpassed the total funds raised last year by over $2,000.
The Big Rivers company team was awarded 1st place for its efforts.

# PHILIPPINE PROJECT: Line crews repair typhoon damage


*Travis Housley, retired Big Rivers vice president, submitted the following report concerning projects completed in the Philippines. The Philippine Project is supported financially by Big Rivers, JPEC, Kenergy, and Meade County RECC and administered by Mr. Housley as part of NRECA International Programs.*

In 2012, a large typhoon wreaked havoc on the electric systems of three of Big Rivers' Philippine Project co-ops including DORECO (a co-op we have worked with since 2006). One of those co-ops lost an entire town—meaning no buildings left standing, roads washed away, and power systems destroyed. The Rural Electric Development Foundation and Big Rivers (through the NRECA Philippine Project) provided funds to purchase food, water, medicine, and other supplies needed for members of the three effected co-ops. The Philippine co-ops' member services departments distributed these supplies to co-op members that lost homes. We donated about $70,000 U.S. dollars for disaster relief from our funds in the Philippines and were able to have supplies in the hands of the co-ops within a few days following the storm.

The Philippines suffered destruction from another typhoon the latter part of 2013. The 2013 typhoon struck some highly-populated areas just north of the area the 2012 typhoon struck with winds up to 195 miles per hour. DORECO, still recovering from the 2012 storm, nevertheless volunteered to send two line crews to help with their neighbor's rebuilding. The two Philippine line crews departed November 15 from DORECO to the typhoon damaged area to perform restoration work. They called their task force the NRECA–Big Rivers Electric–DORECO task force. Using funds from our foundation in the Philippines, the Rural Electric Development Foundation, Big Rivers (through the Philippine Project) provided all the funds to cover this trip including food, water, and fuel for 15 days of work.

The Philippine Project continues to make house wiring loans and livelihood project loans on the island of Mindanao through the efforts of the local co-ops' member services departments. These funds are repaid and re-loaned and because the co-op personnel are now very familiar with our procedures, they should be able to sustain this work for years to come.

Thanks to our foundation, Big Rivers, JPEC, Kenergy, and Meade County RECC, we continue to help less fortunate people on the other side of the world.

## Energy efficiency programs and demand-side management services

Big Rivers continues to develop and employ energy efficiency programs and a demand-side management philosophy in concert with our Member-Owners, including participation in potential Smart Grid initiatives. We evaluate present and future shared services that yield improved benefits to end-use consumers through economies of scale. These efforts ensure that we provide cost-effective services desired by our Member-Owners.

The Weatherization Program was modified substantially in 2013. Changes were submitted to the KPSC and approval was received on June 6. This program is popular with homeowners; word-of-mouth advertising spread quickly as members experienced positive results.

The Touchstone Energy® New Home Program continues to be popular among large track developers. Eighty-three applications for Touchstone Energy® Home incentives were submitted in 2013.

The Commercial HVAC Program was approved by the KPSC on June 6 and promotional efforts began shortly thereafter. Capital investments of this type generally involve analysis and approval, so we hope this program will become more active in 2014.

» High Efficiency Lighting Replacement Program

Promotes increased use of compact fluorescent light (CFL) lamps meeting ENERGY STAR® standards among residential customers.

» ENERGY STAR® Clothes Washer Replacement Program

Promotes increased use of clothes washing machines meeting ENERGY STAR® standards among residential customers.

» ENERGY STAR® Refrigerator Replacement Program

Promotes increased use of refrigerators meeting ENERGY STAR® standards among residential customers who remove and recycle an existing older, low-efficiency refrigerator.

» Residential High Efficiency Heating, Ventilation and Air Conditioning (HVAC) Program

Promotes increased use of high-efficiency HVAC systems among residential customers who purchase and install an HVAC system meeting ENERGY STAR® standards.

» Residential Weatherization Program

Promotes increased implementation of weatherization improvements among residential customers.

» Touchstone Energy® New Home Program

Promotes increased use of energy efficient building standards as outlined in the Touchstone Energy® certification program.

» Residential and Commercial HVAC & Refrigeration Tune-Up Program

Promotes annual maintenance of heating and air conditioning equipment among eligible residential customers using professional cleaning and servicing.

» Commercial / Industrial High Efficiency Lighting Replacement Program

Promotes upgrading of low-efficiency commercial or industrial lighting systems to measurably improve the energy efficiency.

» Commercial High Efficiency Heating, Ventilation and Air Conditioning (HVAC) Program

Promotes increased use of high-efficiency HVAC systems for purchase and installation of an HVAC system meeting ENERGY STAR® standards.

» High Efficiency Outdoor Lighting Program

Promotes increased use of high-efficiency light emitting diode (LED) and induction outdoor lighting.

# Big Rivers is Working the Plan to provide value and stability to our Member-Owners for years to come

# FINANCIAL REVIEW 2013

*Business Objectives:*

» **Meet the key financial forecast metrics and maintain at least two investment grade credit ratings of BBB- or Baa3 or higher.**

Big Rivers' mission is to safely provide low-cost, reliable wholesale electricity and cost-effective shared services to its three Member-Owner distribution cooperatives— Jackson Purchase Energy Corporation, Kenergy Corp. and Meade County Rural Electric Cooperative Corporation. At December 31, 2013, these Member-Owners provided service to approximately 114,000 retail customers in 22 western Kentucky counties.

Big Rivers operates 1,444 MW of owned generating capacity and has contractual rights to 197 MW from Henderson Municipal Power & Light's Station Two unit and 178 MW from the Southeastern Power Administration. The company also owns transmission assets, principally 1,287 miles of transmission lines and 22 transmission substations. Net utility plant at December 31, 2013 was \$1,070.9 million, and total assets were \$1,476.6 million.

Two aluminum smelter wholesale contracts with Kenergy Corp. were scheduled to terminate December 31, 2023. On August 20, 2012, Big Rivers as wholesale power supplier, and Kenergy Corp. (Kenergy) as retail power supplier, received a letter from Century Aluminum of Kentucky General Partnership (Century), serving its one-year Notice of Termination of its Retail Service Agreement with Kenergy, effective August 19, 2013. On January 31, 2013, Alcan Primary Products Corporation (Alcan) provided its one-year Notice of Termination of its Kenergy Retail Service Agreement to Big Rivers and Kenergy, effective January 31, 2014. Both smelters (Century and Alcan) certified they were ceasing all smelter operations at their Hawesville, Kentucky and Robards, Kentucky facilities, respectively.

Big Rivers developed and continues to implement its Load Mitigation Plan to preserve its financial position notwithstanding the termination of the smelter agreements. This included filing two applications for general rate increases with the KPSC and actively pursuing replacement load for the 850 MW of available capacity resulting from the smelter contract terminations. To date, Big Rivers' mitigation efforts have led to 92 MW of replacement load, including 25 MW of native load growth and 67 MW of sales to municipal utilities in Nebraska that will begin in 2018. As a result of Century's Notice of Termination, Big Rivers filed its first application for a general rate increase of \$74.5 million with the KPSC in January 2013. On October 29, 2013, the KPSC entered an Order in that case, granting Big Rivers a base rate increase of approximately \$54.2 million, effective August 20, 2013.

As a result of Alcan's Notice of Termination, Big Rivers filed its second application for a general rate increase with the KPSC in June 2013, requesting authority to adjust wholesale rates by approximately \$70.4 million. This requested amount was later revised to approximately \$71.2 in the Company's rebuttal testimony filed in December 2013. The Company proposed to temporarily offset this rate increase by utilization of the Member Rate Stability Mechanism (MRSM). The Company implemented the requested rate increase and MRSM offset (per the application) on February 1, 2014, subject to refund.

Big Rivers expects the rate relief that was granted in the Century Rate Case, combined with the rate relief approved in the Alcan Rate Case, to:

» yield sufficient revenue to continue to prudently maintain its generating units and transmission system, while satisfying its obligations under its loan agreements;

» provide access to the capital markets;

» support rebuilding its credit profile and eventually return its credit ratings to investment grade; and

» reduce financial risk exposure due to less load concentration in serving the smelters.

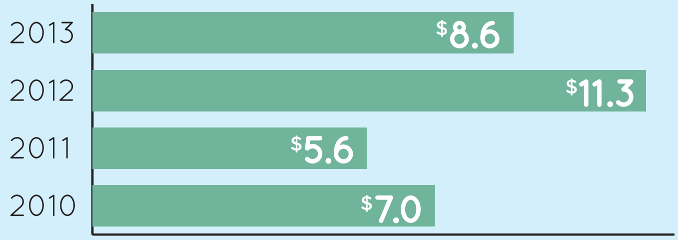
Big Rivers completed 2013 with a favorable set of key financial metrics, discussed in the pages that follow.

## Net Margins and Equities

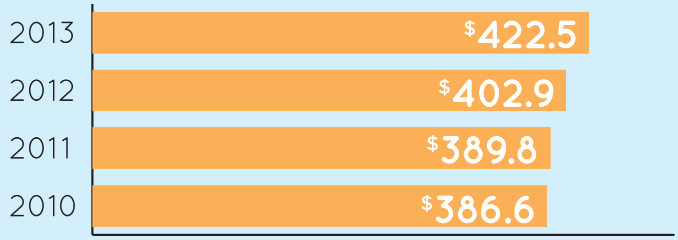
Net margins for 2013 were \$8.6 million, resulting in a 1.20 times interest earned ratio (TIER) and margins for interest ratio (MFIR) and 1.47 debt service coverage ratio (DSCR). Equities to total assets were 29 percent at December 31, 2013, and equities to total capitalization were 33 percent.

Several items account for the \$2.7 million decrease in net margins for 2013 compared with 2012's net margins of \$11.3 million. First, operating revenue decreased approximately \$5.9 million in 2013 compared with 2012 largely due to the loss of the Century Hawesville smelter load. The decrease in operating revenue was partially offset by higher off-system sales volumes and an increase in Member-Owners' base rates, effective August 20, 2013.

Net Margins
Dollars in millions

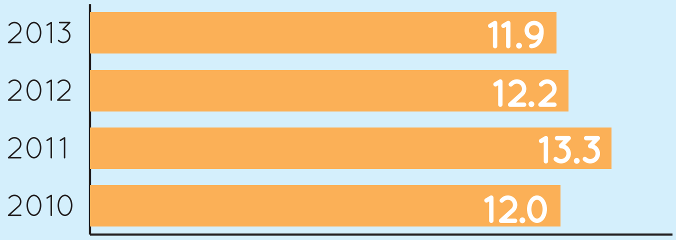



Equity
Dollars in millions



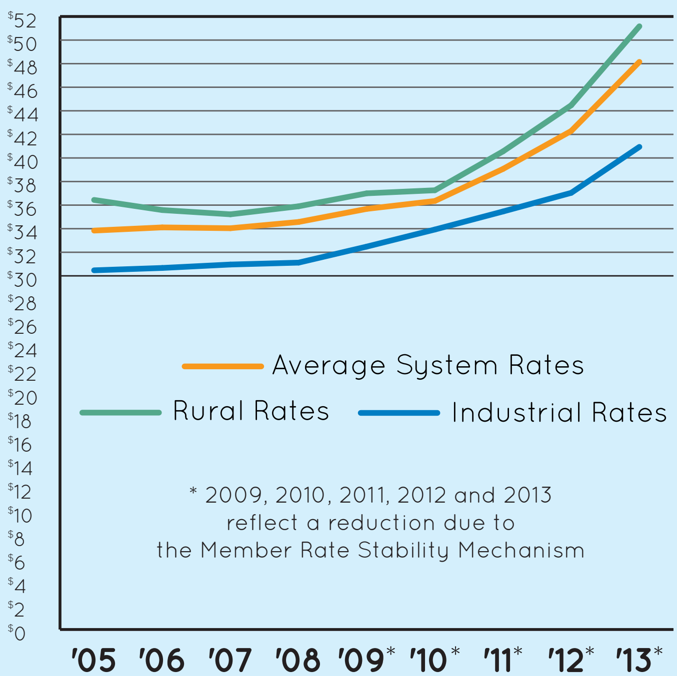

Operating expenses increased approximately \$6.8 million in 2013 compared with 2012 primarily due to higher purchased power costs and the accrual of employee severance costs associated with planned idling of the Coleman and Wilson plants, partially offset by lower fuel costs. Maintenance expense decreased \$4.4 million primarily due to operating the Coleman plant under the Century direct agreement and the MISO System Support Resources arrangement. Interest expense decreased \$1.6 million primarily due to savings associated with paying off the \$58.8 million Series 1983 pollution control bonds in May 2013 and a full year of lower interest rates associated with the July 2012 refinancing. Depreciation expense decreased \$1.6 million primarily due to the deferral of the Coleman plant depreciation per the KPSC's October 2013 order. Interest and other income increased \$2.9 million primarily due to investments in CFC capital term certificates associated with the 2012 debt refinancing.

Energy Sales
Megawatt-hours (MWhs) in millions




Electric Energy Revenues
Dollars in millions


Wholesale Member-Owner Rates*
Dollars per megawatt-hour (MWh)




## Energy Sales and Electric Revenues

Energy sales decreased approximately 3 percent to 11,859,387 MWh in 2013 compared with 12,244,082 MWh in 2012. The primary reason for the MWh sales decrease was a reduction of 1,555,139 MWh or 21 percent in smelter sales volume, due to the termination of the Century Hawesville smelter agreement in August 2013. Off-system sales volumes increased 1,082,032 MWh or 70 percent in 2013 providing some offset.

Non-smelter member sales volumes increased 88,412 MWh in 2013, or 3 percent, primarily driven by weather. Electric energy revenue decreased approximately 2 percent to \$554.8 million in 2013 compared with \$563.4 million in 2012, primarily due to the loss of the Century Hawesville smelter load, which was partially offset by higher off-system sales revenue and the base rate increase implemented in August 2013.

## Wholesale Rates

Big Rivers has all-requirements wholesale power contracts with its Member-Owners through December 31, 2043. Rural member wholesale revenue per MWh was \$57.74 in 2013 versus \$50.58 in 2012. Large industrial member wholesale revenue per MWh was \$47.00 in 2013 versus \$43.15 in 2012. These figures do not reflect the reduction due to the Member Rate Stability Mechanism. Aluminum smelter wholesale revenue per MWh was \$49.33 in 2013 versus \$48.52 in 2012. Big Rivers' wholesale member tariff rate and the aluminum smelter contracts are regulated by the KPSC and the Rural Utilities Service (RUS).

Wholesale power market prices continued to be depressed throughout 2013, as has been the case since 2008, although prices did improve over 2012. The revenue per MWh received by Big Rivers for its off-system sales was \$31.06 in 2013, up from \$28.81 received in 2012.

## Line of Credit and Letters of Credit

Big Rivers has one secured \$50 million line of credit with CFC, expiring July 2017. The CFC line of credit contains a \$10 million embedded letter of credit facility. Big Rivers had no outstanding borrowings on the CFC line of credit at December 31, 2013. Letters of credit issued under the embedded letter of credit facility reduced the borrowing capacity against this line of credit by $8.4 million. See "Notes to Financial Statements" for additional detail regarding Big Rivers' Lines and Letters of Credit.

## Long-Term Debt

At December 31, 2013, Big Rivers' debt to total assets ratio was 58 percent. During July 2012, Big Rivers refinanced $442 million of existing debt under its RUS Series A Note with new secured term loans, at lower interest rates, through CFC and CoBank. The CFC term loans consist of a Refinance Note, with an all-in effective interest rate of 4.30 percent, and an Equity Note, with a fixed interest rate 5.35 percent, which was used to purchase interest-bearing capital term certificates. Both term loans and the term certificates have final maturity dates of May 2032. As of December 31, 2013, the CFC Refinance and Equity Notes have outstanding principal balances of $286.1 million and $41.6 million, respectively. The CoBank secured term loan has a fixed interest rate of 4.30% and an outstanding principal balance of $224.0 million as of December 31, 2013, with a final maturity date of June 2032. The RUS Series A Note has a fair value of $80.1 million at December 31, 2013 and a stated value of $80.5 million, with a final maturity date of July 2021. The non-interest bearing RUS Series B Note, having a December 31, 2013 fair value of $138.1 million and a stated value of $245.5 million, has no payment due until maturity on December 31, 2023.

As of December 31, 2013, Big Rivers has one outstanding issue of tax-exempt pollution control bonds totaling $83.3 million. This issue, the $83.3 million County of Ohio, Kentucky, Pollution Control Revenue Bonds, Series 2010A, was refinanced June 8, 2010. These Series 2010A Bonds now bear interest at a 6.00 percent fixed rate, with a maturity date of July 15, 2031.

The $58.8 million County of Ohio, Kentucky, Pollution Control Revenue Bonds, Series 1983 (1983 Bonds) which were outstanding at December 31, 2012, were variable rate demand bonds being held by the liquidity provider, bearing an interest rate of 3.25 percent. Big Rivers refunded these bonds by purchase on May 31, 2013.

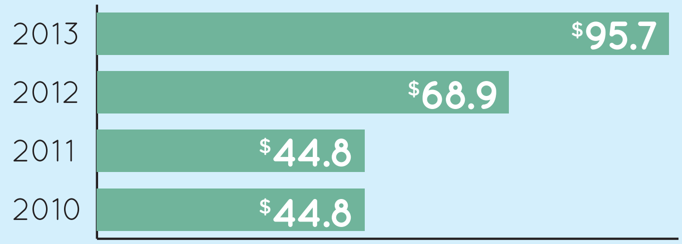
## Liquidity

Big Rivers' liquidity position remains strong, as cash and cash equivalents total $95.7 million and restricted cash totals $11.8 million at December 31, 2013. The $11.8 million is restricted by Order of the KPSC and is to be used for capital expenditures in the ordinary course of business. Additionally, Big Rivers has access to $41.6 million through an existing line of credit with CFC which expires in July 2017, as discussed in the Lines of Credit and Letters of Credit section.

In November 2012, Big Rivers filed a financing application with the KPSC requesting access to the $35 million Transition Reserve funds, held in restricted investments at December 31, 2012, and approval to repay the 1983 Series PC Bonds from repurposed funds restricted by previously issued orders of the KPSC. The KPSC issued an order on March 26, 2013, granting approval sought by Big Rivers in this matter.

Capital expenditures totaled $26.2 million in 2013, versus $39.9 million in 2012.

Cash and Cash Equivalents
Dollars in millions



# Independent Auditors' Report

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

## The Board of Directors and Members
## Big Rivers Electric Corporation:

**Report on the Financial Statements**

We have audited the accompanying financial statements of Big Rivers Electric Corporation, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations, comprehensive income, equities, and cash flows for each of the years in the three year period ended December 31, 2013, and the related notes to the financial statements.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Big Rivers Electric Corporation as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2013, in accordance with U.S. generally accepted accounting principles.

**Report on Other Legal and Regulatory Requirements**

In accordance with Government Auditing Standards, we have also issued a report dated April 4, 2014, on our consideration of Big Rivers Electric Corporations' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

Philadelphia, Pennsylvania
April 4, 2014

# Balance sheets

As of December 31, 2013 and 2012 — (Dollars in thousands)

| | 2013 | 2012 |
|---|---|---|
| Assets | | |
| Utility plant – net | $1,070,912 | $1,087,227 |
| Restricted investments – Member rate mitigation | 125,074 | 144,514 |
| Restricted investments – Transition reserve | — | 35,009 |
| Restricted investments – NRUCFC Capital Term Certificates | 41,650 | 43,156 |
| Other deposits and investments – at cost | 9,553 | 6,092 |
| Current assets: | | |
| Cash and cash equivalents | 95,727 | 68,860 |
| Restricted cash - CAPEX Reserve | 11,829 | 41,313 |
| Accounts receivable | 48,879 | 48,376 |
| Fuel inventory | 35,152 | 34,146 |
| Nonfuel inventory | 25,056 | 24,957 |
| Prepaid expenses | 1,165 | 4,093 |
| Total current assets | 217,808 | 221,745 |
| Deferred charges and other: | | |
| Regulatory assets | 3,758 | 704 |
| Other | 7,890 | 8,231 |
| Total deferred credits and other | 11,648 | 8,935 |
| Total | $1,476,645 | $1,546,678 |
| Equities and Liabilities | | |
| Capitalization: | | |
| Equities | $ 422,488 | $ 402,882 |
| Long-term debt | 832,958 | 845,317 |
| Total capitalization | 1,255,446 | 1,248,199 |
| Current liabilities: | | |
| Current maturities of long-term obligations | 20,128 | 79,926 |
| Purchased power payable | 3,529 | 1,402 |
| Accounts payable | 34,775 | 31,611 |
| Accrued expenses | 19,711 | 10,955 |
| Accrued interest | 3,324 | 4,925 |
| Total current liabilities | 81,467 | 128,819 |
| Deferred credits and other: | | |
| Regulatory liabilities – Member rate mitigation | 124,923 | 147,732 |
| Other | 14,809 | 21,928 |
| Total deferred credits and other | 139,732 | 169,660 |
| Commitments and Contingencies (note 12) | | |
| Total | $1,476,645 | $1,546,678 |

*See accompanying notes to financial statements.*

# Statements of Operations

For the years ended December 31, 2013, 2012, and 2011 — (Dollars in thousands)

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Operating revenue | $ 562,447 | $ 568,342 | $ 561,989 |
| Total operating revenue | 562,447 | 568,342 | 561,989 |
| Operating expenses: | | | |
| Operations: | | | |
| Fuel for electric generation | 210,115 | 226,369 | 226,229 |
| Power purchased and interchanged | 120,770 | 111,465 | 112,262 |
| Production, excluding fuel | 47,985 | 48,055 | 50,410 |
| Transmission and other | 44,784 | 40,189 | 39,085 |
| Severance expense | 9,272 | — | — |
| Maintenance | 41,564 | 45,962 | 47,718 |
| Depreciation and amortization | 39,425 | 41,090 | 35,407 |
| Total operating expenses | 513,915 | 513,130 | 511,111 |
| Electric operating margin | 48,532 | 55,212 | 50,878 |
| Interest expense and other: | | | |
| Interest | 42,823 | 44,414 | 45,226 |
| Income tax expense | — | — | 100 |
| Other – net | 1,054 | 546 | 220 |
| Total interest expense and other | 43,877 | 44,960 | 45,546 |
| Operating margin | 4,655 | 10,252 | 5,332 |
| Non-operating margin: | | | |
| Interest income and other | 3,984 | 1,025 | 268 |
| Total nonoperating margin | 3,984 | 1,025 | 268 |
| Net margin | $ 8,639 | $ 11,277 | $ 5,600 |

*See accompanying notes to financial statements.*

# Statements of Comprehensive Income

For the years ended December 31, 2013, 2012, and 2011 — (Dollars in thousands)

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Net margin | $ 8,639 | $ 11,277 | $ 5,600 |
| Other comprehensive income: | | | |
| Defined-benefit plans: | | | |
| Prior service cost | 11 | 14 | 14 |
| Actuarial gain (loss) | 6,580 | 1,035 | (1,797) |
| Defined benefit plans | 6,591 | 1,049 | (1,783) |
| Postretirement benefits other than pensions: | | | |
| Prior service cost | (138) | 1,974 | 17 |
| Actuarial gain (loss) | 4,523 | (1,269) | (620) |
| Transition obligation | — | 31 | 31 |
| Amoritization of gain | (9) | — | — |
| Postretirement benefits other than pensions | 4,376 | 736 | (572) |
| Other comprehensive income (loss) | 10,967 | 1,785 | (2,355) |
| Comprehensive income | $ 19,606 | $ 13,062 | $ 3,245 |

*See accompanying notes to financial statements.*

# Statements of Equities (Deficit)

For the years ended December 31, 2013, 2012, and 2011 — (Dollars in thousands)

| | | | Other equities | | |
|---|---|---|---|---|---|
| | Total equities | Retained margin | Donated capital and memberships | Consumers' contributions to debt service | Accumulated other comprehensive income |
| Balance – December 31, 2010 | $ 386,575 | $ 391,498 | $ 764 | $ 3,681 | $ (9,368) |
| Net margin | 5,600 | 5,600 | — | — | — |
| Pension and postretirement benefit plans | (2,355) | — | — | — | (2,355) |
| Balance – December 31, 2011 | $ 389,820 | $ 397,098 | $ 764 | $ 3,681 | $(11,723) |
| Net margin | 11,277 | 11,277 | — | — | — |
| Pension and postretirement benefit plans | 1,785 | — | — | — | 1,785 |
| Balance – December 31, 2012 | $ 402,882 | $ 408,375 | $ 764 | $ 3,681 | $ (9,938) |
| Net margin | 8,639 | 8,639 | — | — | — |
| Pension and postretirement benefit plans | 10,967 | — | — | — | 10,967 |
| Balance – December 31, 2013 | $ 422,488 | $ 417,014 | $ 764 | $ 3,681 | $ 1,029 |

*See accompanying notes to financial statements.*

# Statements of Cash Flows

For the years ended December 31, 2013, 2012, and 2011 — (Dollars in thousands)

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net margin | $ 8,639 | $ 11,277 | $ 5,600 |
| Adjustments to reconcile net margin to net cash provided by operating activities: | | | |
| Depreciation and amortization | 43,687 | 44,733 | 37,808 |
| Interest compounded - RUS Series A Note | 44 | 7,603 | 8,398 |
| Interest compounded - RUS Series B Note | 7,724 | 7,291 | 6,884 |
| Noncash member rate mitigation revenue | (23,727) | (22,873) | (18,947) |
| Changes in certain assets and liabilities: | | | |
| Accounts receivable | (503) | (4,090) | 1,618 |
| Inventories | (1,105) | 87 | 1,357 |
| Prepaid expenses | 2,928 | 124 | (1,715) |
| Deferred charges | (3,968) | (1,278) | 121 |
| Purchased power payable | 2,127 | (476) | 362 |
| Accounts payable | 3,164 | 3,164 | (1,336) |
| Accrued expenses | 7,155 | (4,399) | (1,481) |
| Other – net | 3,828 | 278 | (70) |
| Net cash provided by operating activities | 49,993 | 41,441 | 38,599 |
| Cash flows from investing activities: | | | |
| Capital expenditures | (26,222) | (39,853) | (38,746) |
| Proceeds from restricted investments | 41,583 | (58,094) | 56,095 |
| Purchases of restricted investments and other deposits and investments | 126 | 146 | — |
| Change in restricted cash | 41,313 | (41,313) | — |
| Net cash provided by (used in) investing activities | 56,800 | (139,114) | 17,349 |
| Cash flows from financing activities: | | | |
| Principal payments on long-term obligations | (79,926) | (456,206) | (45,879) |
| Proceeds from long-term obligations | — | 580,156 | — |
| Principal payments on short-term notes payable | — | — | (10,000) |
| Debt issuance cost on bond refunding | — | (2,266) | — |
| Net cash provided by (used in) financing activities | (79,926) | 121,684 | (55,879) |
| Net increase in cash and cash equivalents | 26,867 | 24,011 | 69 |
| Cash and cash equivalents — beginning of year | 68,860 | 44,849 | $ 44,780 |
| Cash and cash equivalents — end of year | $ 95,727 | $ 68,860 | $ 44,849 |
| Supplemental cash flow information: | | | |
| Cash paid for interest | $ 36,796 | $ 34,893 | $ 31,441 |
| Cash paid for income taxes | — | — | $ 130 |

*See accompanying notes to financial statements.*

# Notes to Financial Statements

As of December 31, 2013 and 2012 — (Dollars in thousands)

## (1) Organization and Summary of Significant Accounting Policies

### (a) General Information

Big Rivers Electric Corporation (Big Rivers or the Company), an electric generation and transmission cooperative, supplies wholesale power to its three member distribution cooperatives (Kenergy Corp., Jackson Purchase Energy Corporation, and Meade County Rural Electric Cooperative Corporation) under all requirements contracts, excluding the power needs of two large aluminum smelters (the Aluminum Smelters). Additionally, Big Rivers sells power under separate contracts to Kenergy Corp. for the Aluminum Smelters load and markets power to nonmember utilities and power marketers. The members provide electric power and energy to industrial, residential, and commercial customers located in portions of 22 western Kentucky counties. The wholesale power contracts with the members remain in effect until December 31, 2043. Rates to Big Rivers' members are established by the Kentucky Public Service Commission (KPSC) and are subject to approval by the Rural Utilities Service (RUS). The financial statements of Big Rivers include the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, Regulated Operations, and gives recognition to the ratemaking and accounting practices of the KPSC and RUS.

Management evaluated subsequent events up to and including April 4, 2014, the date the financial statements were available to be issued.

### (b) Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from those estimates.

### (c) System of Accounts

Big Rivers' maintains its accounting records in accordance with the Uniform System of Accounts as prescribed by the RUS Bulletin 1767B 1, as adopted by the KPSC. These regulatory agencies retain authority and periodically issue orders on various accounting and ratemaking matters. Adjustments to RUS accounting have been made to make the financial statements consistent with generally accepted accounting principles in the United States of America.

### (d) Revenue Recognition

Revenues generated from the Company's wholesale power contracts are based on month end meter readings and are recognized as earned when electricity is delivered.

### (e) Utility Plant and Depreciation

Utility plant is recorded at original cost, which includes the cost of contracted services, materials, labor, overhead, and an allowance for borrowed funds used during construction. Replacements of depreciable property units, except minor replacements, are charged to utility plant.

Allowance for borrowed funds used during construction is included on projects with an estimated total cost of $250 or more before consideration of such allowance. The interest capitalized is determined by applying the effective rate of Big Rivers' weighted average debt to the accumulated expenditures for qualifying projects included in construction in progress.

Depreciation of utility plant in service is recorded using the straight line method over the estimated remaining service lives, as approved by the RUS and KPSC. During 2010, the Company commissioned a depreciation study to evaluate the remaining economic lives of its assets. In 2011, the study was completed and approved by the RUS and KPSC. The annual composite depreciation rates used to compute depreciation expense were as follows:

| | |
|---|---|
| Electric plant | 0.50% – 20.22% |
| Transmission plant | 1.42% – 2.23% |
| General plant | 2.84% – 17.12% |

For 2013, 2012, and 2011, the average composite depreciation rates were 2.23%, 2.23%, and 1.91%, respectively. At the time plant is disposed of, the original cost plus cost of removal less salvage value of such plant is charged to accumulated depreciation, as required by the RUS.

**(f) Impairment Review of Long Lived Assets**

Long lived assets are reviewed as facts and circumstances indicate that the carrying amount may be impaired. FASB ASC 360, Property, Plant, and Equipment, requires the evaluation of impairment by comparing an asset's carrying value to the estimated future cash flows the asset is expected to generate over its remaining life. If this evaluation were to conclude that the future cash flows were not sufficient to recover the carrying value of the asset, an impairment charge would be recorded based on the difference between the asset's carrying amount and its fair value (less costs to sell for assets to be disposed of by sale) as a charge to net margin.

**(g) Inventory**

Inventories are carried at average cost and include coal, petroleum coke, lime, limestone, oil and gas used for electric generation, and materials and supplies used for utility operations. Emission allowances are carried in inventory at a weighted average cost by each vintage year. Issuances of allowances are accounted for on a vintage basis using a monthly weighted average cost.

**(h) Restricted Investments**

Investments are restricted under KPSC order to establish certain reserve funds for Member rate mitigation and a Transition reserve. These investments have been classified as held to maturity and are carried at amortized cost. In addition, Big Rivers was required to purchase investments in National Rural Utilities Cooperative Finance Corporation's (CFC) Capital Term Certificates (CTCs) in connection with a secured term loan agreement with CFC (note 8), which are also classified as held to maturity.

**(i) Cash and Cash Equivalents**

Big Rivers considers all short term, highly liquid investments with original maturities of three months or less to be cash equivalents.

**(j) Restricted Cash**

Certain cash amounts are restricted under KPSC order for capital expenditures in the ordinary course of business (note 8).

**(k) Income Taxes**

Big Rivers was formed as a tax exempt cooperative organization as described in Internal Revenue Code Section 501(c)(12). To retain tax exempt status under this section, at least 85% of the Big Rivers' receipts must be generated from transactions with the Company's members. In 1983, sales to nonmembers resulted in Big Rivers failing to meet the 85% requirement. Until Big Rivers can meet the 85% member income requirement, the Company will not be eligible for tax exempt status and will be treated as a taxable cooperative.

As a taxable cooperative, Big Rivers is entitled to exclude the amount of patronage allocations to members from taxable income. Income and expenses related to nonpatronage sourced operations are taxable to Big Rivers. Big Rivers files a federal income tax return and certain state income tax returns.

Under the provisions of FASB ASC 740, Income Taxes, Big Rivers is required to record deferred tax assets and liabilities for temporary differences between amounts reported for financial reporting purposes and amounts reported for income tax purposes. Deferred tax assets and liabilities are determined based upon these temporary differences using enacted tax rates for the year in which these differences are expected to reverse. Deferred income tax expense or benefit is based on the change in assets and liabilities from period to period, subject to an ongoing assessment of realization. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when the more likely than not recognition threshold is satisfied and measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement.

**(l) Patronage Capital**

As provided in the bylaws, Big Rivers accounts for each year's patronage sourced income, both operating and nonoperating, on a patronage basis. Notwithstanding any other provision of the bylaws, the amount to be allocated as patronage capital for a given year shall not be less than the greater of regular taxable patronage sourced income or alternative minimum taxable patronage sourced income.

**(m) Derivatives**

Management has reviewed the requirements of FASB ASC 815, Derivatives and Hedging, and has determined that certain contracts the Company is party to may meet the definition of a derivative under FASB ASC 815. The Company has elected the Normal Purchase and Normal Sale exception for these contracts, and therefore, the contracts are not required to be recognized at fair value in the financial statements.

**(n) Fair Value Measurements**

FASB ASC 820, Fair Value Measurement, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 establishes a three level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data; and
- Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets or liabilities, including certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

## (2) Utility Plant

At December 31, 2013 and 2012, utility plant is summarized as follows:

| | 2013 | 2012 |
|---|---|---|
| Classified plant in service: | | |
| Production plant | $1,727,602 | $1,715,486 |
| Transmission plant | 248,466 | 248,276 |
| General plant | 44,441 | 35,103 |
| Other | 543 | 543 |
| | 2,021,052 | 1,999,408 |
| Less accumulated depreciation | 989,604 | 962,994 |
| | 1,031,448 | 1,036,414 |
| Construction in progress | 39,464 | 50,813 |
| Utility plant — net | $1,070,912 | $1,087,227 |

Interest capitalized for the years ended December 31, 2013, 2012, and 2011 was $226, $767, and $548, respectively.

The Company has not identified any material legal asset retirement obligations, as defined in FASB ASC 410, Asset Retirement and Environmental Obligations. In accordance with regulatory treatment, the Company records an estimated net cost of removal of its utility plant through normal depreciation. As of December 31, 2013 and 2012, the Company had approximately $45,934 and $43,559, respectively, related to nonlegal removal costs included in accumulated depreciation.

## (3) Debt and Other Long Term Obligations

A detail of long term debt at December 31, 2013 and 2012 is as follows:

| | 2013 | 2012 |
|---|---|---|
| CFC Refinance Promissory Note, Series 2012 B, serial note pricing, all-in effective interest rate of 4.30%, final maturity date of May 2032 | $286,077 | $298,513 |
| CFC Equity Note, Series 2012B, stated interest rate of 5.35%, final maturity date of May 2032 | 41,559 | 42,845 |
| CoBank Promissory Note, Series 2012A, stated interest rate of 4.30%, final maturity date of June 2032 | 224,023 | 231,426 |
| RUS Series A Promissory Note, stated amount of $80,456, stated interest rate of 5.75%, with an imputed interest rate of 5.84% maturing July 2021 | 80,063 | 80,019 |
| RUS Series B Promissory Note, stated amount of $245,530, no stated interest rate, with interest imputed at 5.80%, maturing December 2023 | 138,064 | 130,340 |
| County of Ohio, Kentucky, promissory note, fixed interest rate of 6.00%, maturing in July 2031 | 83,300 | 83,300 |
| County of Ohio, Kentucky, promissory note, variable interest rate (average interest rates of 3.25% in 2013 and 2012) matured in June 2013 | — | 58,800 |
| Total long-term debt | 853,086 | 925,243 |
| Current maturities | 20,128 | 79,926 |
| Total long-term debt — net of current maturities | $832,958 | $845,317 |

The following are scheduled maturities of long term debt at December 31:

| Year | Amount |
|---|---|
| 2014 | 20,128 |
| 2015 | 20,903 |
| 2016 | 21,717 |
| 2017 | 22,576 |
| 2018 | 23,488 |
| Thereafter | 744,274 |
| Total | $853,086 |

**(a) National Rural Utilities Cooperative Finance Corporation (CFC) Refinance and Equity Promissory Notes, 2012B**

In July 2012, Big Rivers issued new debt with CFC in the form of a secured term loan in the amount of $302,000 (the Refinance Note) and a CFC Equity Note in the amount of $43,156. The Refinance Note consists of 20 individual notes with different fixed interest rates ranging from 3.05% to 5.35%. The Refinance Note has an effective interest rate of 4.30% and a final maturity date of May 2032. The Equity Note has a fixed interest rate of 5.35% and a final maturity date of May 2032. The proceeds of the Refinance Note were used to prepay $302,000 of the RUS Series A Note. The proceeds of the CFC Equity Note were used to purchase interest bearing Capital Term Certificates (CTCs), as required in connection with the Refinance Note (note 8).

**(b) CoBank, ACB (CoBank) Promissory Note, Series 2012A**

In July 2012, Big Rivers issued new debt with CoBank in the form of a secured term loan in the amount of $235,000. The loan has a fixed interest rate of 4.30% per annum and a final maturity date of June 2032. Proceeds from the CoBank term loan were used to prepay $140,000 of the RUS Series A Note in July 2012, replenish the $35,000 Transition Reserve fund (depleted on April 1, 2011 to prepay the RUS Series A Note and realize a net interest expense reduction) and pay off the $58,800 County of Ohio, Kentucky Pollution Control Floating Rate Demand Bonds, Series 1983 in May 2013. The remaining funds were used to fund capital expenditures in the ordinary course of business (note 5).

**(c) RUS Notes**

On July 15, 2009, Big Rivers' previous RUS debt was replaced with the RUS 2009 Promissory Note Series A (the RUS Series A Note) and the RUS 2009 Promissory Note Series B (the RUS Series B Note). The RUS Series A Note has a stated interest rate of 5.75% and is recorded at an imputed interest rate of 5.84%. The RUS Series B Note has no stated interest rate and is recorded at an imputed interest rate of 5.80%. The RUS Notes are secured under the Indenture dated July 1, 2009 between the Company and U.S. Bank National Association.

In July 2012, Big Rivers prepaid $442,000 of the RUS Series A Note from proceeds of the CFC and CoBank term loans as described above.

**(d) Pollution Control Bonds**

In June 2010, the County of Ohio, Kentucky, issued $83,300 of Pollution Control Refunding Revenue Bonds, Series 2010A (Series 2010A Bonds), the proceeds of which are supported by a promissory note from Big Rivers, which bears the same interest rate. These bonds bear interest at a fixed rate of 6.00% and mature in July 2031.

The County of Ohio, Kentucky, issued $58,800 of Pollution Control Variable Rate Demand Bonds, Series 1983 (Series 1983 Bonds), the proceeds of which are supported by a promissory note from

Big Rivers, which bears the same interest rate as the bonds. These bonds incurred interest at a variable rate, subject to a maximum interest rate of 13.00%, and matured in June 2013. During 2013, the interest rate on the Series 1983 Bonds was 3.25%. Big Rivers refunded these bonds by purchase on May 31, 2013 using funds from the CoBank Promissory Note, Series 2012A (note 5).

**(e) Line of Credit – CFC**

In August 2013, Big Rivers amended and restated its $50,000 revolving line of credit agreement with CFC, dated as of July 16, 2009, (the 2009 Agreement) with the 2013 Amended & Restated Revolving Line of Credit Agreement (the 2013 Agreement). Under the 2009 Agreement, which had an expiration date of July 16, 2014, Big Rivers would have lost access to the line of credit on August 20, 2013 (the date which the Century contract termination became effective). The 2013 Agreement amended the 2009 Agreement by, among other things, extending the term of the line of credit to July 16, 2017, and amending sections that would have otherwise caused the 2009 Agreement to become unavailable to Big Rivers on August 20, 2013. Based on the terms of the 2013 Agreement, Big Rivers may draw on the line of credit when its unrestricted cash balance at the time of an advance is less than $35,000. Additionally, the amount of any advance may not exceed the difference between the $35,000 and Big Rivers' unrestricted cash at the time of the advance.

In connection with the 2013 Agreement, Big Rivers issued a secured promissory note (the Series 2013A Note) with a stated principal amount equal to the CFC commitment. The Series 2013A Note is payable to the order of CFC and secured under Big Rivers' Indenture.

Big Rivers had no outstanding borrowings on the 2013 Agreement and 2009 Agreement, at December 31, 2013 and 2012, respectively. Letters of credit issued under an associated Letter of Credit Facility with CFC reduced the borrowing capacity on the Revolvers by $8,425 and $5,375 for the years ended December 31, 2013 and 2012, respectively.

Advances on the 2013 Agreement bear interest at a variable rate and outstanding balances are payable in full by the maturity date of July 16, 2017. The CFC variable rate is equal to the CFC Line of Credit Rate, which is defined as "the rate published by CFC from time to time, by electronic or other means, for similarly classified lines of credit, but if not published, then the rate determined for such lines of credit by CFC from time to time."

**(f) Line of Credit – CoBank**

Based on the terms of Big Rivers' $50,000 Senior Unsecured Revolving Credit Facility with CoBank, dated as of July 27, 2012 (the 2012 CoBank Revolver), Big Rivers did not have access to borrow under the facility as a result of the Century contract termination notice received in August 2012. As attempts to negotiate an amended line of credit agreement with CoBank were unsuccessful, Big Rivers terminated the 2012 CoBank Revolver in May 2013.

**(g) Covenants**

Big Rivers is in compliance with all debt covenants associated with both long term and short term debt. The Company's Indenture and other debt agreements require that a Margins for Interest Ratio (MFIR) of at least 1.10 be maintained for each fiscal year. The 2013 CFC line of credit agreement requires that Big Rivers, throughout the duration of the agreement, maintain a minimum members' equities balance at each fiscal quarter end and year end of $325,000 plus 75% of the Company's cumulative positive net margins for each of the preceding fiscal years, beginning with the fiscal year ended December 31, 2012. Big Rivers' MFIR for the fiscal year ended December 31, 2013 was 1.20 and its members' equities balance was $422,488.

A MFIR less than 1.10, per the Indenture and other debt agreements, may result in the following actions, restrictions or consequences: Big Rivers cannot secure additional debt under the Indenture; the Company must seek rates that are reasonably expected to yield a 1.10 MFIR; the Company must provide a written plan satisfactory to the RUS setting forth actions to be taken to achieve the specified MFIR on a timely basis; an event of default may occur; interest rates may increase; and its line of credit may be terminated with an acceleration of any outstanding amounts under the line of credit.

In accordance with the Amended and Consolidated Loan Contract between Big Rivers and the United States of America (acting by and through the RUS Administrator), Big Rivers provided notification to the RUS Administrator via letter dated February 7, 2013 of a failure to maintain two Credit Ratings of Investment Grade. As required, in March 2013, the Company, prepared and presented to the RUS, its Corrective Action Plan setting forth the actions that are being taken by management that are reasonably expected to achieve two Credit Ratings of Investment Grade. In March 2014, the Company provided the RUS with an update on actions taken to date related to its' Corrective Action Plan. The Company will continue to provide ongoing updates to the RUS.

## (4) Rate Matters

The rates charged to Big Rivers' members consist of a demand charge per kilowatt (kW) and an energy charge per kilowatt hour (kWh) consumed as approved by the KPSC. The rates include specific demand and energy charges for its members' two classes of customers, the large industrial customers, and the rural customers under its jurisdiction. For the large industrial customers, the demand charge is generally based on each customer's maximum demand during the current month. Effective September 1, 2011, the Company received approval from the KPSC to base the member rural demand charge on its Maximum Adjusted Net Local Load (as defined in Big Rivers' tariff).

Effective July 17, 2009, the KPSC approved the implementation of certain tariff riders; including a fuel adjustment clause and an environmental surcharge, offset by an unwind surcredit (a refund to tariff members of certain charges collected from the Aluminum Smelters in accordance with the contract terms). The net effect of these tariffs is recognized as revenue on a monthly basis with a partial offset to the regulatory liability – member rate mitigation described below.

The net impact of the tariff riders to members' rates is currently mitigated by a Member Rate Stability Mechanism (MRSM) that is funded by certain cash reserves (the Economic and Rural Economic Reserves) established and held by Big Rivers as restricted investments. An offsetting regulatory liability – member rate mitigation reflects the obligation associated with the funding of these reserve accounts.

Under the Aluminum Smelters' agreements, the wholesale rates established for the members' nonsmelter large direct served industrial customers (the Large Industrial Rate) provide the basis for pricing the energy consumed by the Aluminum Smelters (Century Aluminum Company and Alcan Primary Products Corporation). The primary component of the pricing used for the Aluminum Smelters is an energy charge in dollars per megawatt hour (MWh) determined by applying the Large Industrial Rate to a load with a 98% load factor, and adding an additional charge of $0.25 per MWh. The other components reflected in the pricing of the Aluminum Smelters' energy usage are certain charges and credits as provided for under the terms of the Aluminum Smelters' wholesale electric service agreements between Big Rivers and Kenergy Corp. (Kenergy Corp. is the retail provider for the Aluminum Smelters load).

Century and Alcan smelter agreements were terminated effective August 20, 2013 and January 31, 2014, respectively as described in note 5.

On March 1, 2011, the Company filed an application with the KPSC requesting, among other things, authority to adjust its rates for wholesale electric service. The KPSC entered an order on November 17, 2011, granting Big Rivers an annual revenue increase of $26,745. Big Rivers petitioned for and was granted a rehearing by the KPSC to address certain issues. The KPSC later expanded the scope of the rehearing to include other issues raised by one of the intervenors in the case. An evidentiary hearing was held by the KPSC in September 2012 and an order was issued January 29, 2013. The KPSC order granted the Company an additional increase in annual revenues of approximately $1,043 effective retroactive to September 1, 2011 (the effective date of the rates granted on November 17, 2011 order).

As a result of Century's notification of termination, received on August 20, 2012, the Company filed an application with KPSC, on January 15, 2013, requesting authority to adjust its rates for wholesale electric service. The KPSC entered an order on October 29, 2013, granting Big Rivers an annual revenue increase of $54,227, effective August 20, 2013. In its order, the KPSC excluded the Coleman plant depreciation from rate recovery at this time. The KPSC directed the Company to defer this depreciation expense and to record the amount in a regulatory asset account. The KPSC's order indicated this action was being taken due to the planned temporary idling of Coleman, the length of time the plant will be idled, and the impact of the rate increase on customers. As of December 31, 2013, depreciation expense of $1,857 was deferred.

On November 20, 2013, the intervenors in this case filed a petition for rehearing on three issues. The KPSC granted rehearing on one issue on December 10, 2013. Both Big Rivers and the intervenors have filed multiple written comments. The Company filed its final comments on Rehearing and Request for Rehearing on March 14, 2014, requesting the KPSC to reject the intervenors' claims and to make no adjustments to the rates approved in the order. Management believes the intervenors' claims requesting the KSPC to reduce by $2,630 the annual revenue increase granted in the KPSC's order have no statutory basis. The KPSC has not set a date for rehearing.

The wholesale rate increase granted by the KPSC resulted in a base wholesale rate increase of approximately: 21.9% for rural customers; 11.8% for large industrial customers; and 11.2% for the remaining aluminum smelter (Century Aluminum Sebree LLC, formerly Alcan Primary Products Corporation).

As a result of Alcan's notification of termination, received on January 31, 2013, the Company filed an application with KPSC, on June 28, 2013, requesting authority to adjust its rates for wholesale electric service in the amount of $70,397. This requested amount was later revised to $71,223 in the Company's rebuttal testimony filed December 17, 2013. The Company proposed to temporarily offset this rate increase by utilization of the MRSM. An evidentiary hearing was held by the KPSC in January 2014. The Company placed the requested increase, per the application of $70,397 (subject to refund) and the MRSM offset, in effect on February 1, 2014. The MRSM offset will defer the increase for the rural customers until approximately April 2015 and for the large industrial customers until approximately July 2014. The KPSC has until April 27, 2014 to issue an order in this case.

The revised requested increase of $71, 223 in the base wholesale rate is approximately: 37.0% for rural customers and 33.0% for large industrial customers. Including the tariff riders, the revised requested increase for the all in wholesale rate is approximately 31.9% for rural customers and 27.6% for large industrial customers; and an estimated base retail rate increase of approximately 22.2% for rural customers and 26.7% for large industrial customers.

## (5) Aluminum Smelters Termination Notices

On August 20, 2012, Big Rivers as wholesale power supplier, and Kenergy Corp. (Kenergy) as retail power supplier, received a letter from Century Aluminum Company (Century) serving Notice of Termination of its Retail Service Agreement with Kenergy. Big Rivers provided notification to the three credit rating agencies and certain creditors, in accordance with its debt covenant requirements, of the Century termination notice. As a result of Century's notice, two credit rating agencies revised their Outlook for Big Rivers to negative from stable and the other revised Outlook from stable to under review. Standard & Poor's Rating Services (Standard & Poor's) and Fitch Ratings (Fitch) maintained their credit ratings at BBB , while Moody's Investors Service, Inc. (Moody's) downgraded its rating of Big Rivers' Series 2010A Bonds (in the amount of $83,300) to Baa2 from Baa1 and placed the rating under review.

On January 31, 2013, Alcan Primary Products Corporation (Alcan) provided a Notice of Termination of its Kenergy Retail Service Agreement to Big Rivers and Kenergy. Alcan stated in its notice that with the proposed rate increase of 15.6% its smelter would be "unprofitable and therefore unsustainable." Big Rivers provided notification to the three credit rating agencies and its creditors of the Alcan termination notice. As a result of Alcan's notice, the three credit rating agencies downgraded Big Rivers' credit ratings in early February 2013 as follows: Standard & Poor's to BB from BBB ; Fitch to BB from BBB ; and Moody's to Ba1 from Baa2. In addition, all three credit rating agencies maintained their Outlooks.

Moody's released an Issuer Comment of Credit Positive dated November 1, 2013, resulting from the KPSC order to increase wholesale rates on October 29, 2013. Fitch maintained its credit rating and outlook in its updated report issued February 6, 2014.

Big Rivers has developed and continues to implement its Load Concentration Mitigation Plan (LCMP) to preserve its financial position notwithstanding the termination of the smelter agreements. This includes the filing of two applications requesting approval of rate increases (note 4) and actively pursuing replacement load for the 850 MW of available capacity resulting from the smelter contracts.

On June 12, 2013, Big Rivers and Kenergy filed a joint application with the KPSC requesting, among other things, approval of agreements with Century, which would allow Kenergy to purchase power at market prices for Century's Hawesville Smelter beginning August 20, 2013. The KPSC issued its order approving these agreements on August 14, 2013. The Kentucky Industrial Utility Customers (KIUC), one of the intervenors in this proceeding, filed a complaint on September 11, 2013, appealing the KPSC's order in Franklin Circuit Court. Subsequently, the KIUC withdrew its complaint, with prejudice, on December 6, 2013.

In June 2013, Century acquired substantially all of the assets of the Alcan smelter (Sebree Smelter) from Rio Tinto Alcan.

On November 20, 2013, Big Rivers and Kenergy filed a joint application with the KPSC requesting, among other things, approval of agreements with Century, which would allow Kenergy to purchase power at market prices for Century's Sebree Smelter after January 31, 2014. The KPSC issued its order approving these agreements on January 30, 2014. The KIUC, one of the intervenors in this proceeding, filed a petition for rehearing on February 24, 2014, with the KPSC. The Company filed a response to KIUC's petition for rehearing on February 28, 2014. The KPSC denied the KIUC's petition for rehearing on March 14, 2014.

Additionally, the Midcontinent Independent System Operator (MISO) requested the Big Rivers' Coleman plant remain in operation under a System Support Resources (SSR) arrangement until the Century Hawesville Smelter can install equipment for transmission reliability issues. The SSR agreement between MISO and Big Rivers requires approval by the Federal Energy Regulatory Commission (FERC). The FERC approved tariff requires all operating costs of Coleman Station to be netted with revenues resulting from Coleman's generation. Under the direct agreement between Century and Big Rivers, Century is responsible for paying all actual operating costs associated with running Coleman, offset by revenues generated by Coleman. At the end of the SSR period, any revenues in excess of the actual operating expenses of the Coleman plant will be distributed to all Load Serving Entities (LSE) impacted by the SSR arrangement. Therefore, effective August 20, 2013, all such revenues and operating costs resulting from this direct agreement are netted in the Company's financial statement. At MISO's direction the SSR arrangement will terminate April 30, 2014, at which time, temporary idling of the Coleman plant will begin.

As a result of the termination of the second smelter contract, a temporary idling of the Wilson plant had been scheduled for early 2014. Due to recent forward sales from Wilson generation, Big Rivers has postponed the idling of the Wilson plant until early 2015. These plant idlings will continue until replacement load is acquired or until the price of the wholesale power market improves, which may take a number of years. At this time, the Company cannot project when the temporary plant idlings will end.

As a result of these anticipated plant idlings, management distributed Work Adjustment and Retraining Notification Act of 1998 (WARN) notices to the employees of the Coleman, Wilson and Sebree generating facilities on December 5, 2013. The notices stated that the workforce would be reduced by approximately 188 positions due to the smelter terminations. The workforce reduction process will start immediately after each plant is idled and will be completed by the end of a 90 day period.

In connection with the workforce reduction and in accordance with the terms and conditions of the Company's severance plan, the Company has recorded severance expense of $9,272 for the year ended December 31, 2013. The entire $9,272 is reflected within "Accrued expenses" on the balance sheet; all payouts are expected to occur in 2014 after the plant idlings are completed.

On November 14, 2012, Big Rivers filed an application with the KPSC seeking approval to issue new debt to be used to refund the $58,800 Series 1983 Bonds (note 3) that mature in June 2013. However, with the uncertainty created by the Aluminum Smelters' termination notices, and potential cumulative impact on prospective bond purchasers, the Company decided to seek KPSC approval to repay the bonds from repurposed funds currently restricted by previously issued orders of the KPSC. The restricted funds consisted of $60,000 CoBank borrowings to be used for capital expenditures in the ordinary course of business and the $35,000 Transition reserve established for use upon the loss of one or both of the Aluminum Smelter loads. On March 26, 2013, the KPSC issued an Order granting the approval sought by the Company in this matter. Per the order, the Company refunded the Series 1983 Bonds, closed the Transition reserve account, and transferred the $35,000 balance to a CAPEX Reserve account (CAPEX) used to fund capital expenditures in the ordinary course of business. The balance of the CAPEX was $11,829 at December 31, 2013 and is included in "Restricted cash – CAPEX" on the Balance Sheet.

While the ultimate outcome of the filings with the KPSC are uncertain, management of Big Rivers believes that the Company's results of operations and cash flows will provide sufficient liquidity for the Company to operate its business and meet its obligations as they come due for the foreseeable future. However, a negative outcome in the KPSC's order due by April 27, 2014, could potentially have a material impact on the Company's results of operations, cash flows, and liquidity. Furthermore, the Company's ability to ultimately recover the carrying value of its assets, including those related to the Coleman and Wilson plants will ultimately be dependent upon the Company's ability to sell power from these plants in the future, and/or recovery through future rates subject to future KPSC orders. If the Company is unable to recover the carrying values of its assets, the value could become impaired, which would also potentially have a material impact on the Company's results of operations, cash flows, and liquidity.

## (6) Income Taxes

At December 31, 2013, Big Rivers had a Nonpatron Net Operating Loss Carryforward of approximately $6,659 expiring at various times between 2014 and 2031, and an Alternative Minimum Tax Credit Carryforward of approximately $7,241, which carries forward indefinitely.

The Company has not recorded any regular income tax expense for the years ended December 31, 2013, 2012, and 2011, as the Company has utilized federal net operating losses to offset any regular taxable income during those years. Had the Company not had the benefit of a net operating loss carryforward, the Company would have recorded $0, $0, and $3,613 in current regular tax expense for the years ended December 31, 2013, 2012, and 2011, respectively.

The components of the net deferred tax assets as of December 31, 2013 and 2012 were as follows:

| | 2013 | 2012 |
|---|---|---|
| Deferred tax assets: | | |
| Net operating loss carryforward | $ 2,630 | $12,614 |
| Alternative minimum tax credit carryforwards | 7,241 | 7,028 |
| Member rate mitigation | 10,327 | 10,326 |
| Fixed asset basis difference | 1,874 | 3,352 |
| RUS Series B Note | 19,689 | 19,689 |
| Total deferred tax assets | 41,761 | 53,009 |
| Deferred tax liabilities: | | |
| Bond refunding costs | (10) | (9) |
| Total deferred tax liabilities | (10) | (9) |
| Net deferred tax asset (prevaluation allowance) | 41,751 | 53,000 |
| Valuation allowance | (41,751) | (53,000) |
| Net deferred tax asset | $ — | — |

A reconciliation of the Company's effective tax rate for 2013, 2012, and 2011 is as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Federal rate | 35.0% | 35.0% | 35.0% |
| State rate — net of federal benefit | 4.5 | 4.5 | 4.5 |
| Permanent differences | 0.2 | 0.9 | 0.9 |
| Patronage allocation to members | (39.8) | (40.4) | (40.8) |
| Tax benefit of operating loss carryforwards and other | 0.1 | — | 0.4 |
| Alternative minimum tax | — | — | 3.5 |
| Effective tax rate | —% | —% | 3.5% |

The Company files a federal income tax return, as well as certain state income tax returns. The years currently open for federal tax examination are 2010 through 2013. The major state tax jurisdiction currently open for tax examination is Kentucky for years 2001 through 2013, also due to unused net operating loss carryforwards. The Company has not recorded any unrecognized tax benefits or liabilities related to federal or state income taxes.

The Company classifies interest and penalties as an operating expense on the statement of operations and accrued expenses in the balance sheet. No material interest or penalties have been recorded during 2013, 2012, or 2011.

## (7) Pension Plans

### (a) Defined Benefit Plans

Big Rivers has noncontributory defined benefit pension plans covering substantially all employees who meet minimum age and service requirements and who were employed by the Company prior to the plans closure dates cited below. The plans provide benefits based on the participants' years of service and the five highest consecutive years' compensation during the last ten years of employment. Big Rivers' policy is to fund such plans in accordance with the requirements of the Employee Retirement Income Security Act of 1974.

The salaried employees defined benefit plan was closed to new entrants effective January 1, 2008, and the bargaining employees defined benefit plan was closed to new hires effective November 1, 2008. The Company simultaneously established base contribution accounts in the defined contribution thrift and 401(k) savings plans, which were renamed as the retirement savings plans. The base contribution account for an eligible employee, which is one who meets the minimum age and service requirements, but for whom membership in the defined benefit plan is closed, is funded by employer contributions based on graduated percentages of the employee's pay, depending on his or her age.

The Company has adopted FASB ASC 715, Compensation — Retirement Benefits, including the requirement to recognize the funded status of its pension plans and other postretirement plans (note 10 – Postretirement Benefits Other Than Pensions). FASB ASC 715 defines the funded status of a defined benefit pension plan as the fair value of its assets less its projected benefit obligation, which includes projected salary increases, and defines the funded status of any other postretirement plan as the fair value of its assets less its accumulated postretirement benefit obligation.

FASB ASC 715 also requires an employer to measure the funded status of a plan as of the date of its year end balance sheet and requires disclosure in the notes to the financial statements certain additional information related to net periodic benefit costs for the next fiscal year. The Company's pension and other postretirement benefit plans are measured as of December 31, 2013 and 2012.

The following provides an overview of the Company's noncontributory defined benefit pension plans.

A reconciliation of the Company's benefit obligations of its noncontributory defined benefit pension plans at December 31, 2013 and 2012 is as follows:

| | 2013 | 2012 |
|---|---|---|
| Benefit obligation — beginning of period | $30,907 | $31,743 |
| Service cost — benefits earned during the period | 1,282 | 1,428 |
| Interest cost on projected benefit obligation | 986 | 1,304 |
| Benefits paid | (13,599) | (6,499) |
| Actuarial loss (gain) | (803) | 2,931 |
| Benefit obligation — end of period | $18,773 | $30,907 |

Big Rivers' defined benefit pension plans provide retirees and terminated employees with a lump sum payment option. Benefits paid in 2013 include lump sum payments in the amounts of $13,538 – the result of twenty retirees or terminated employees electing the lump sum payment option. Benefits paid in 2012 include lump sum payments in the amounts of $6,462 – the result of ten retirees electing the lump sum payment option.

The accumulated benefit obligation for all defined benefit pension plans was $14,017 and $24,211 at December 31, 2013 and 2012, respectively.

A reconciliation of the Company's pension plan assets at December 31, 2013 and 2012 is as follows:

| | 2013 | 2012 |
|---|---|---|
| Fair value of plan assets — beginning of period | $29,331 | $28,000 |
| Actual return on plan assets | 4,532 | 3,020 |
| Employer contributions | — | 4,810 |
| Benefits paid | (13,599) | (6,499) |
| Fair value of plan assets — end of period | $20,264 | $29,331 |

The funded status of the Company's pension plans at December 31, 2013 and 2012 is as follows:

| | 2013 | 2012 |
|---|---|---|
| Benefit obligation — end of period | $(18,773) | $(30,907) |
| Fair value of plan assets — end of period | 20,264 | 29,331 |
| Funded status | $ 1,491 | $ (1,576) |

Components of net periodic pension costs for the years ended December 31, 2013, 2012, and 2011 were as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Service cost | $1,282 | $1,428 | $1,279 |
| Interest cost | 986 | 1,304 | 1,296 |
| Expected return on plan assets | (1,926) | (1,897) | (1,737) |
| Amortization of prior service cost | 11 | 14 | 14 |
| Amortization of actuarial loss | 604 | 779 | 461 |
| Settlement loss | 2,566 | 2,064 | — |
| Net periodic benefit cost | $3,523 | $3,692 | $1,313 |

As a result of the 2013 lump sum payments there was a settlement required to the defined benefit pension plans as provided in FASB ASC 715. The 2013 settlement loss of $2,566 reflects an accelerated amortization of unrecognized losses existing at the settlement date of December 31, 2013. The settlement loss is determined by multiplying the total unrecognized losses as of the settlement date by the projected benefit obligation that was settled or eliminated due to the lump sum payments.

A reconciliation of the pension plan amounts in accumulated other comprehensive income at December 31, 2013 and 2012 is as follows:

| | 2013 | 2012 |
|---|---|---|
| Prior service cost | $ (2) | $ (12) |
| Unamortized actuarial loss | (3,536) | (10,116) |
| Accumulated other comprehensive income | $(3,538) | $(10,128) |

In 2014, $1 of prior service cost and $139 of actuarial loss is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income at December 31, 2013 and 2012 are as follows:

| | 2013 | 2012 |
|---|---|---|
| Prior service cost | $ 11 | $ 14 |
| Unamortized actuarial gain | 6,580 | 1,035 |
| Other comprehensive income | $ 6,591 | $ 1,049 |

At December 31, 2013 and 2012, amounts recognized in the balance sheets were as follows:

| | 2013 | 2012 |
|---|---|---|
| Deferred credits and other — surplus (deficit) | $ 1,491 | $(1,576) |

Assumptions used to develop the projected benefit obligation and determine the net periodic benefit cost were as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Discount rate — projected benefit obligation | 4.61% | 3.57% | 4.26% |
| Discount rate — net periodic benefit cost | 3.57 | 4.26 | 4.95 |
| Rates of increase in compensation levels | 4.00 | 4.00 | 4.00 |
| Expected long-term rate of return on assets | 7.25 | 7.25 | 7.25 |

The expected long term rate of return on plan assets for determining net periodic pension cost for each fiscal year is chosen by the Company from a best estimate range determined by applying anticipated long term returns and long term volatility for various asset categories to the target asset allocation of the plans, as well as taking into account historical returns.

Using the asset allocation policy adopted by the Company noted in the paragraph below, the expected rate of return at a 50% probability of achievement level based on (a) forward looking rate of return expectations for passively managed asset categories over a 20 year time horizon and (b) historical rates of return for passively managed asset categories. Applying an approximately 80%/20% weighting to the rates determined in (a) and (b), respectively, produced an expected rate of return of 7.28%, which was rounded to 7.25%.

Big Rivers utilizes a third party investment manager for the plan assets, and has communicated thereto the Company's Retirement Plan Investment Policy, including a target asset allocation mix of 50% U.S. equities (an acceptable range of 45%–55%), 15% international equities (an acceptable range of 10%–20%), and 35% fixed income (an acceptable range of 30%–40%). As of December 31, 2013 and 2012, the investment allocation was 59% and 49%, respectively, in U.S. equities, 7% and 6%, respectively, in international equities, and 34% and 45%, respectively, in fixed income. The objective of the investment program seeks to (a) maximize return on investment, (b) minimize volatility, (c) minimize company contributions, and (d) provide the employee benefit in accordance with the plans. The portfolio is well diversified and of high quality. The average quality of the fixed income investments must be "A" or better. The equity portfolio must also be of investment grade quality. The performance of the investment manager is reviewed semiannually.

At December 31, 2013 and 2012, the fair value of Big Rivers' defined benefit pension plan assets by asset category are as follows:

| | Level 1 | Level 2 | December 31, 2013 |
|---|---|---|---|
| Cash and money market | $ 741 | $ — | $ 741 |
| Equity securities: | | | |
| U.S. Large-Cap Stocks | 8,525 | — | 8,525 |
| U.S. Mid-Cap Stock Mutual Funds | 2,137 | — | 2,137 |
| U.S. Small-Cap Stock Mutual Funds | 1,281 | — | 1,281 |
| International Stock Mutual Funds | 1,510 | — | 1,510 |
| Preferred stock | 208 | — | 208 |
| Fixed: | | | |
| Short-Term Bond Fund | — | 300 | 300 |
| U.S. Government Agency Bonds | — | 179 | 179 |
| Taxable U.S. Municipal Bonds | — | 2,954 | 2,954 |
| U.S. Corporate Bonds | — | 2,545 | 2,545 |
| Global Bond Fund | — | 184 | 184 |
| | $ 14,402 | $6,162 | $ 20,564 |

| | Level 1 | Level 2 | December 31, 2012 |
|---|---|---|---|
| Cash and money market | $ 5,820 | $ — | $ 5,820 |
| Equity securities: | | | |
| U.S. Large-Cap Stocks | 9,839 | — | 9,839 |
| U.S. Mid-Cap Stock Mutual Funds | 2,796 | — | 2,796 |
| U.S. Small-Cap Stock Mutual Funds | 1,513 | — | 1,513 |
| International Stock Mutual Funds | 1,888 | — | 1,888 |
| Preferred stock | 228 | — | 228 |
| Fixed: | | | |
| Short-Term Bond Fund | — | 300 | 300 |
| U.S. Government Agency Bonds | — | 921 | 921 |
| Taxable U.S. Municipal Bonds | — | 3,109 | 3,109 |
| U.S. Corporate Bonds | — | 2,617 | 2,617 |
| Global Bond Fund | — | 300 | 300 |
| | $22,084 | $7,247 | $ 29,331 |

Expected retiree pension benefit payments projected to be required during the years following 2013 are as follows:

| Year ending December 31 | Amount |
|---|---|
| 2014 | $ 1,364 |
| 2015 | 3,041 |
| 2016 | 2,301 |
| 2017 | 1,541 |
| 2018 | 2,265 |
| Thereafter | 12,541 |
| Total | $ 22,953 |

**(b) Defined Contribution Plans**

Big Rivers has two defined contribution retirement plans covering substantially all employees who meet minimum age and service requirements. Each plan has a thrift and 401(k) savings section allowing employees to contribute up to 75% of pay on a pretax and/or after tax basis, with employer matching contributions equal to 60% of the first 6% contributed by the employee on a pretax basis.

A base contribution retirement section was added and the plan name changed from thrift and 401(k) savings to retirement savings, effective January 1, 2008, for the salaried plan and November 1, 2008, for the bargaining plan. The base contribution account is funded by employer contributions based on graduated percentages of pay, depending on the employee's age.

The Company's expense under these plans was $4,417 and $4,808 for the years ended December 31, 2013 and 2012, respectively.

**(c) Deferred Compensation Plan**

Big Rivers sponsors a nonqualified deferred compensation plan for its eligible employees who are members of a select group of management or highly compensated employees. The purpose of the plan is to allow participants to receive contributions or make deferrals that they could not receive or make under the salaried employees qualified defined contribution retirement savings plan (formerly, the thrift and 401(k) savings plan) as a result of nondiscrimination rules and other limitations applicable to the qualified plan under the Internal Revenue Code. The nonqualified plan also allows a participant to defer a percentage of his or her pay on a pretax basis.

The nonqualified deferred compensation plan is unfunded, but the Company has chosen to finance its obligations under the plan, including any employee deferrals, through a rabbi trust. The trust assets remain a part of the Company's general assets, subject to the claims of its creditors. The 2013 employer contribution was $83 and deferred compensation expense was $83. As of December 31, 2013, the trust asset was $529 and the deferred liability was $529.

## (8) Restricted Investments

The amortized costs and fair values of Big Rivers restricted investments held for Member rate mitigation and the Transition Reserve at December 31, 2013 and 2012 are as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Amortized costs | Fair values | Amortized costs | Fair values |
| Cash and money market | $ 16,739 | $ 16,739 | $ 1,292 | $ 1,292 |
| Debt securities: | | | | |
| U.S. Treasuries | 65,314 | 65,531 | 63,208 | 64,097 |
| U.S. Government agency | 43,021 | 43,017 | 115,023 | 115,040 |
| Total | $125,074 | $125,287 | $179,523 | $180,429 |

Gross unrealized gains and losses on restricted investments at December 31, 2013 and 2012 were as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Gains | Losses | Gains | Losses |
| Debt securities: | | | | |
| U.S. Treasuries | $ 2 | $ 20 | $ 889 | $ — |
| U.S. government agency | 4 | 7 | 20 | 3 |
| Total | $ 6 | $ 27 | $ 909 | $ 3 |

Debt securities at December 31, 2013 and 2012 mature, according to their contractual terms, are as follows (actual maturities may differ due to call or prepayment rights):

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Amortized costs | Fair values | Amortized costs | Fair values |
| In one year or less | $ 80,736 | $ 80,764 | $ 56,315 | $ 56,330 |
| After one year through five years | 44,338 | 44,523 | 123,208 | 124,099 |
| Total | $125,074 | $125,287 | $179,523 | $180,429 |

Gross unrealized losses on investments and the fair values of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2013 and 2012 were as follows:

| | 2013 Less than 12 months | | 2012 Less than 12 months | |
|---|---|---|---|---|
| | Losses | Fair values | Losses | Fair values |
| Debt securities: | | | | |
| U.S. Treasuries | $ 20 | $57,524 | $ — | $ — |
| U.S. Government agency | 7 | 29,013 | 3 | 34,997 |
| Total | $ 27 | 86,537 | 3 | $ 34,997 |

The unrealized loss positions were primarily caused by interest rate fluctuations. The number of investments in an unrealized loss position as of December 31, 2013 and 2012 was 11 and 2, respectively. Since the Company does not intend to sell and will more likely than not maintain each debt security until its anticipated recovery, and no significant credit risk is deemed to exist, these investments are not considered other than temporarily impaired.

In conjunction with the CFC $302,000 secured term loan (note 3), Big Rivers was required to invest in Capital Term Certificates (CTCs) equal to 14.29% of the Refinance Note. Proceeds of the Equity Note were used to purchase the investments in CTCs as required under the loan agreement. The interest rate on the CTCs is fixed at 4.28% and is equal to 80% of the Equity Note rate of 5.35%. The CTCs cannot be traded in the market, and therefore, a value other than their outstanding principal amount cannot be determined. The Company's investment in these CTC's at December 31, 2013 and 2012 was $41,650 and $43,156, respectively.

## (9) Fair Value of Other Financial Instruments

FASB ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measures. It applies under other accounting standards that require or permit fair value measurements and does not require any new fair value measurements.

The carrying value of accounts receivable and accounts payable approximate fair value due to their short maturity. At December 31, the Company's cash, cash equivalents, and restricted cash included short term investments in an institutional money market government portfolio account classified as trading securities under ASC 320, Investments—Debt and Equity Securities, that were recorded at fair value which were determined using quoted market prices for identical assets without regard to valuation adjustment or block discount (a Level 1 measure), as follows:

| | 2013 | 2012 |
|---|---|---|
| Institutional money market government portfolio | $107,551 | $110,165 |

It was not practical to estimate the fair value of patronage capital included within other deposits and investments due to these being untraded companies.

Big Rivers' long term debt at December 31, 2013 consists of CFC loans totaling $327,636, a CoBank loan in the amount of $224,023, RUS notes totaling $218,127, and fixed rate pollution control bonds in the amount of $83,300 (note 3). The RUS, CFC, and CoBank debt cannot be traded in the market, and therefore, a value other than their outstanding principal amount cannot be determined. The fair value of the Company's variable rate pollution control debt is par value, as each variable rate reset effectively prices such debt to the current market. At December 31, 2013, the fair value of Big Rivers' fixed rate pollution control debt was determined based on quoted prices in active markets of similar instruments (Level 1 measure) and totaled $72,263.

## (10) Postretirement Benefits Other than Pensions

Big Rivers provides certain postretirement medical benefits for retired employees and their spouses. Generally, except for generation bargaining retirees, Big Rivers pays 85% of the premium cost for all retirees age 62 to 65. The Company pays 25% of the premium cost for spouses under age 62. For salaried retirees age 55 to age 62, Big Rivers pays 25% of the premium cost. Beginning at age 65, the Company pays 25% of the premium cost if the retiree is enrolled in Medicare Part B. For each generation bargaining retiree, Big Rivers establishes a retiree medical account at retirement equal to $1,200 per year of service up to 30 years ($1,250 per year for those retiring on or after January 1, 2012). The account balance is credited with interest based on the 10 year treasury rate subject to a minimum of 4% and a maximum of 7%. The account is to be used for the sole purpose of paying the premium cost for the retiree and spouse.

The discount rates used in computing the postretirement benefit obligation and net periodic benefit cost were as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Discount rate — projected benefit obligation | 4.48% | 3.72% | 4.29% |
| Discount rate — net periodic benefit cost | 3.72 | 4.29 | 4.96 |

The healthcare cost trend rate assumptions as of December 31, 2013 and 2012 were as follows:

| | 2013 | 2012 |
|---|---|---|
| Initial trend rate | 7.30% | 7.30% |
| Ultimate trend rate | 4.50 | 4.50 |
| Year ultimate trend is reached | 2028 | 2028 |

An one percentage point change in assumed healthcare cost trend rates would have the following effects:

| | 2013 | 2012 |
|---|---|---|
| One-percentage-point decrease: | | |
| Effect on total service and interest cost components | $ (104) | $ (209) |
| Effect on year-end benefit obligation | (976) | (1,454) |
| One-percentage-point increase: | | |
| Effect on total service and interest cost components | $ 126 | $ 253 |
| Effect on year-end benefit obligation | 1,138 | 1,723 |

A reconciliation of the Company's benefit obligations of its postretirement plan at December 31, 2013 and 2012 is as follows:

| | 2012 | 2011 |
|---|---|---|
| Benefit obligation — beginning of period | $ 18,040 | $ 15,864 |
| Service cost — benefits earned during the period | 1,169 | 1,253 |
| Interest cost on projected benefit obligation | 766 | 754 |
| Participant contributions | 177 | 160 |
| Amendments | (1,957) | – |
| Benefits paid | (796) | (611) |
| Actuarial loss | 1,270 | 620 |
| Benefit obligation — end of period | $ 18,669 | $ 18,040 |

Big Rivers revised the eligibility requirements for postretirement medical with regard to age and service. Beginning January 1, 2014, eligibility for retirement is age 62 with 10 years of service. The service requirement is waived for active employees on December 31, 2013 who will not have 10 years of service at age 62. A reconciliation of the Company's postretirement plan assets at December 31, 2013 and 2012 is as follows:

| | 2013 | 2012 |
|---|---|---|
| Fair value of plan assets — beginning of period | $ — | $ — |
| Employer contributions | 736 | 619 |
| Participant contributions | 240 | 177 |
| Benefits paid | (976) | (796) |
| Fair value of plan assets — end of period | $ — | $ — |

The funded status of the Company's postretirement plan at December 31, 2013 and 2012 is as follows:

| | 2013 | 2012 |
|---|---|---|
| Benefit obligation — end of period | $(14,581) | $(18,669) |
| Fair value of plan assets — end of period | — | — |
| Funded status | $(14,581) | $(18,669) |

The components of net periodic postretirement benefit costs for the years ended December 31, 2013, 2012, and 2011 were as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Service cost | $ 616 | $1,169 | $1,253 |
| Interest cost | 555 | 766 | 754 |
| Amortization of prior service cost | (138) | 17 | 17 |
| Amortization of transition obligation | — | 31 | 31 |
| Amortization of gain | (9) | — | — |
| Net periodic benefit cost | $1,024 | $1,983 | $2,055 |

A reconciliation of the postretirement plan amounts in accumulated other comprehensive income at December 31, 2013 and 2012 is as follows:

| | 2013 | 2012 |
|---|---|---|
| Prior service cost | $1,707 | $1,844 |
| Unamortized actuarial loss | 2,858 | (1,655) |
| Transition obligation | — | — |
| Accumulated other comprehensive income (loss) | $4,565 | $ 189 |

In 2014, $138 of prior service cost and $109 of actuarial gain is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive loss at December 31, 2013 and 2012 are as follows:

| | 2013 | 2012 |
|---|---|---|
| Prior service cost | $ (138) | $1,974 |
| Unamortized actuarial gain (loss) | 4,523 | (1,269) |
| Transition obligation | — | 31 |
| Amortization net gain | (9) | — |
| Other comprehensive income | $4,376 | $ 736 |

At December 31, 2013 and 2012, amounts recognized in the balance sheets were as follows:

| | 2013 | 2012 |
|---|---|---|
| Accounts payable | $ (990) | $ (992) |
| Deferred credits and other | (13,591) | (17,677) |
| Net amount recognized | $(14,581) | $(18,669) |

Expected retiree benefit payments projected to be required during the years following 2013 are as follows:

| Year(s) | Amount |
|---|---|
| 2014 | $ 990 |
| 2015 | 1,024 |
| 2016 | 1,132 |
| 2017 | 1,261 |
| 2018 | 1,355 |
| Thereafter | 6,859 |
| Total | $12,621 |

In addition to the postretirement plan discussed above, Big Rivers has another postretirement benefit plan, which vests a portion of accrued sick leave benefits to salaried employees upon retirement or death. To the extent, an employee's sick leave hour balance exceeds 480 hours such excess hours are paid at 20% of the employee's base hourly rate at the time of retirement or death. The accumulated obligation recorded for the postretirement sick leave benefit is $379 and $589 at December 31, 2013 and 2012, respectively. The postretirement expense recorded was $46, $57, and $191, for 2013, 2012, and 2011, respectively, and the benefits paid were $256, $47, and $3 for 2013, 2012, and 2011, respectively.

## (11) Related Parties

For the years ended December 31, 2013, 2012, and 2011, Big Rivers had tariff sales to its members' of $183,957, $158,893, and $151,472, respectively. In addition, for the years ended December 31, 2013, 2012, and 2011, Big Rivers had certain sales to Kenergy for the Aluminum Smelters and Domtar Paper loads of $295,878, $366,758, and $306,420, respectively.

At December 31, 2013 and 2012, Big Rivers had accounts receivable from its members of $33,004 and $42,759, respectively.

## (12) Commitments and Contingencies

The Company is a defendant in a lawsuit that alleges, among other things, a breach of a fuel supply contract with a former supplier. The plaintiff filed suit against the Company in Ohio County, Kentucky on April 26, 2012 and is seeking unspecified damages. Discovery has begun in the case and a trial date has been set for November 12, 2014. Management and legal counsel for the Company are of the opinion that the Company has strong defenses to the claim. While substantial discovery now has taken place, extensive discovery remains to be completed and the Company is unable to estimate the possible exposure of damages should the plaintiff be successful in the case. Accordingly, the Company has not accrued a liability for the matter as of December 31, 2013.

Big Rivers is involved in other litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

On April 2, 2012, Big Rivers filed an application with the KPSC seeking approval of its 2012 environmental compliance plan (ECP). As filed, the ECP requested KPSC approval to install certain equipment allowing Big Rivers to comply, in the most cost effective manner, with the U.S. Environmental Protection Agency Cross State Air Pollution Rule (CSAPR), and Mercury and Air Toxics Standards (MATS). In addition, the ECP filing requested approval to recover the costs of the ECP through an amendment to Big Rivers' existing environmental surcharge tariff rider, an automatic cost recovery mechanism that is similar in function to the fuel adjustment clause. Prior to the evidentiary hearing conducted on August 22 and 23, 2012 at the KPSC's offices, a ruling by the United States Court of Appeals for the District of Columbia Circuit resulted in CSAPR being vacated. On August 22, 2012, with CSAPR vacated and only MATS compliance remaining (at an estimated cost of $58,440), the parties to the KPSC hearing were able to reach a full and unanimous settlement of all issues related to the ECP case. On October 1, 2012, the KPSC issued an order approving Big Rivers' ECP. Due to the idlings of the Coleman and Wilson plants, $1,388 of MATS compliance testing and $725 of CSAPR stack testing performed at the plants and, previously deferred, was expensed in 2013.

# Five-Year Review

As of December 31, 2013 and 2012 — (Dollars in thousands)

## SUMMARY OF OPERATIONS

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Operating Revenue: | | | | | |
| Power Contracts Revenue | $562,447 | $568,342 | $561,989 | $527,324 | $341,333 |
| Lease Revenue | — | — | — | — | 32,027 |
| Total Operating Revenue | 562,447 | 568,342 | 561,989 | 527,324 | 373,360 |
| Operating Expenses: | | | | | |
| Fuel for Electric Generation | 210,115 | 226,369 | 226,229 | 207,749 | 80,655 |
| Power Purchased | 120,770 | 111,465 | 112,262 | 99,421 | 116,883 |
| Operations (Excluding Fuel), Maintenance, Other | 143,605 | 134,206 | 137,213 | 134,660 | 87,645 |
| Depreciation | 39,425 | 41,090 | 35,407 | 34,242 | 32,485 |
| Total Operating Expenses | 513,915 | 513,130 | 511,111 | 476,072 | 317,668 |
| Interest Expense and Other: | | | | | |
| Interest | 42,823 | 44,414 | 45,226 | 46,570 | 59,898 |
| Other – net | 1,054 | 546 | 320 | 425 | 3,309 |
| Total Interest Expense and Other | 43,877 | 44,960 | 45,546 | 46,995 | 63,207 |
| Operating Margin | 4,655 | 10,252 | 5,332 | 4,257 | (7,515) |
| Non-Operating Margin | 3,984 | 1,025 | 268 | 2,734 | 538,845 |
| Net Margin | $8,639 | $11,277 | $5,600 | $6,991 | $531,330 |

## SUMMARY OF BALANCE SHEET

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Total Utility Plant | $2,060,516 | $2,050,221 | $2,028,418 | $2,001,067 | $1,986,373 |
| Accumulated Depreciation | 989,604 | 962,994 | 936,355 | 909,501 | 908,099 |
| Net Utility Plant | 1,070,912 | 1,087,227 | 1,092,063 | 1,091,566 | 1,078,274 |
| Cash and Cash Equivalents | 95,727 | 68,860 | 44,849 | 44,780 | 60,290 |
| Restricted Cash | 11,829 | 41,313 | — | — | — |
| Reserve Account Investments[1] | 125,120 | 182,994 | 164,399 | 218,955 | 244,641 |
| Other Assets | 173,057 | 166,284 | 116,611 | 116,884 | 122,278 |
| Total Assets | $1,476,645 | $1,546,678 | $1,417,922 | $1,472,185 | $1,505,483 |
| Equities (deficit) | $422,488 | $402,882 | $389,820 | $386,575 | $ 379,392 |
| Long-term Debt[2] | 856,086 | 925,243 | 786,399 | 816,996 | 848,552 |
| Regulatory Liability – Member Rate Mitigation | 124,923 | 147,732 | 169,001 | 185,893 | 207,348 |
| Other Liabilities and Deferred Credits | 73,148 | 70,821 | 72,702 | 82,721 | 70,191 |
| Total Liabilities and Equity | $1,476,645 | $1,546,678 | $1,417,922 | $1,472,185 | $1,505,483 |

## ENERGY SALES (MWh)

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Member Rural | 2,374,920 | 2,321,477 | 2,371,106 | 2,481,390 | 2,239,445 |
| Member Large Industrial | 996,267 | 961,298 | 973,093 | 930,168 | 919,587 |
| Smelter Contracts | 5,869,334 | 7,424,473 | 6,854,820 | 6,348,431 | 2,885,491 |
| Other | 2,618,866 | 1,536,834 | 3,056,106 | 2,209,431 | 1,746,438 |
| Total Energy Sales | 11,859,387 | 12,244,082 | 13,255,125 | 11,969,420 | 7,790,961 |

## SOURCES OF ENERGY (MWh)

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Generated | 8,700,662 | 9,143,111 | 10,284,350 | 9,895,512 | 3,715,544 |
| Purchased | 3,221,793 | 3,162,489 | 2,998,361 | 2,220,994 | 4,166,916 |
| Losses and Net Interchange | (63,068) | (61,518) | (27,586) | (147,086) | (91,499) |
| Total Energy Available | 11,859,387 | 12,244,082 | 13,255,125 | 11,969,420 | 7,790,961 |

## NET CAPACITY (MW)

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Net Generating Capacity Owned | 1,444 | 1,444 | 1,444 | 1,444 | 1,444 |
| Rights to HMP&L Station Two | 197 | 197 | 202 | 207 | 212 |
| Other Net Capacity Available | 178 | 178 | 178 | 178 | 178 |

[1] Includes investment income receivable.

[2] Includes current maturities of long-term obligations.

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