



# Powering Possibilities

2019 ANNUAL REPORT

ZACH ADAMS KENNY ADKISSON DAWNA ALEXANDER TONY ALEXANDER JASON ARNOLD  
JOHN ATKISON LUKE AULL DAVID AUSTIN KYLE AUTRY SCOTT AYER SEAN BACHMAN CODY  
BADERTSCHER JAKE BAKER SAM BAKER LEONARD BARNETT JACOB BARRON SHANE BATES  
ROBIN BECK REGY BEISWENGER DARRELL BENNETT JENNIFER BENNETT JENNIFER BENSON  
BRANDON BERRY DEVIN BERRY NATHAN BERRY BOB BERRY MARK BERTRAM DOMINIC BIRK  
THOMAS BISHOP TIM BLANDFORD DAVID BLANK RON BLANKS BILLY BOARMAN JULIA BOOK  
JACOB BOWLEY PERRY BOWLEY BARRY BOWMAN CHRIS BRADLEY DAVID BRASHEAR DUANE  
BRAUNECKER LEWIS BREEDEN JEFF BROWN TIM BROWN ALLEN BRYANT JIM BUCKMAN GARY  
BUNCH JASON BURDEN KENT BURDEN JARED BURDEN DARRELL BURNS PHILLIP BUTLER  
DOUG BUTTRUM ROB CALDWELL GLEN CALHOUN ROB CALHOUN AARON CALVERT JEROME  
CARPENTER PAUL CARTER NICK CASTLEN KERRI CATES ERIC CECIL SHAUN CECIL MIKE  
CHAMBLISS KATIE CHEATHAM PRASAD CHORAGUDI BILLY CHRISTIAN DEREK COKER TRACY  
COLE RACHEL COLLINS KENT CONN KEN COOK NICK COOK ANDY COTTON JUSTIN CROWDER  
JASON CURNEAL TERRIE CURRAO KYLE CURTIS MIKE DAUGHERTY RICK DAUGHERTY RICHARD  
DEMAR WALTER DENTON GREG DICK KENNY DRAKE CINDY DUCKWORTH BRAD DUNCAN  
STEVEN DUNCAN STEVE DUNCAN CHARLIE DUNN LINDSAY DURBIN ROGER DUVAL REX  
DYE MARK EACRET JOSEPH EDGE BRIAN EDWARDS SEAN EMBERTON MATT EMBRY JACKIE  
FAHSE PATTI FALLIN RICHARD FARLEY DAKOTA FARTHING DARREL FELTY NATHAN FLNER  
MARK FLOYD KEVIN FORKER MARK FOSTER JEFF FRANCIS DANA FREDERICK JEFF FREE MIKE  
FRIZZELL JEFF FULKERSON JNEY FULKS TODD GAITHER MIKE GALBRAITH MITCH GALYEN  
JONATHON GARDNER LISA GARRETT BRYAN GARST JEREMY GATTEN JOE GATTON CASEY  
GEER MITCHELL GENTRY RANDY GENTRY CHRISTA GIBSON JIM GLASSCO JASON GOODMAN  
JERRY GORRELL FRED GRAY TIM GRAY MICHELLE GREEN ROBERT GREEN CARY GREENWELL  
JIM GREGORY RONALD GREGORY CHAD GRIFFIN JON HALL STEVE HALLMANN NATALIE  
HANKINS BILL HARDESTY BOB HARDISON ASHLEY HARLEY BRANDON HARTMIRE TONJA  
HAY TONY HAYES BRUCE HENSLEY JOE HERNANDEZ MARK HERRING ROGER HICKMAN  
GREG HIGHT DWAYNE HILL PHILLIP HILL MARTY HITE MIKE HOBGOOD RON HOCKEY ODIE  
HODGES JOE HOLLAND GEORGE HOLLANDER JOHN HOLLANDER TRINA HOLLANDER MARY  
HOLMES KERRY HOOVER MARK HOOVER GREG HOPE IAN HOPKINS TODD HOSKINS DANIEL  
HOWARD DAVID HOWARD SCOTT HOWARD TOMMY HOWARD RYAN HUDSON BLAKE HUNT  
WARREN HUST CODY HUTCHEISON RANDY HUTCHISON KEVIN INSKO AMANDA JACKSON TIM  
JACKSON AUSTIN JAMES KEITH JOHNS MONTY JOHNSON CHRIS JOHNSON DENEEN JOHNSON  
KENNY JOHNSON KEVIN JOHNSON MARK JOHNSON NICK JOHNSON BILLY JONES GREG  
JONES MARK JONES RALPH JONES TRENT JONES BILL JONES TYSON KAMUF JENNIFER  
KEACH JOHN KENNEDY DAMIEN KNOWLES STEVE KURZ JOSH LADNIER GLENN LAIRD

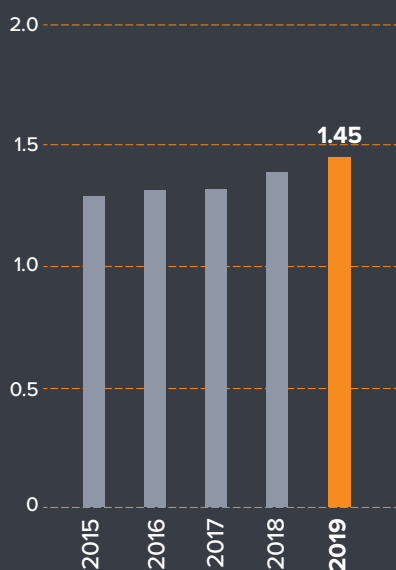
## POWERING POSSIBILITIES

When you present good possibilities to good people, they can do great things.

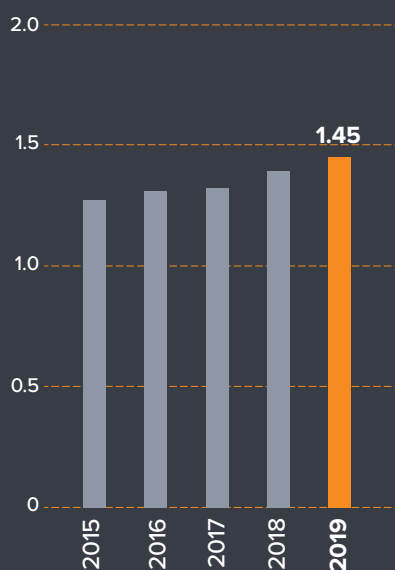
### 2019 FINANCIAL HIGHLIGHTS

As of December 31, 2019 and the four preceding Fiscal Years

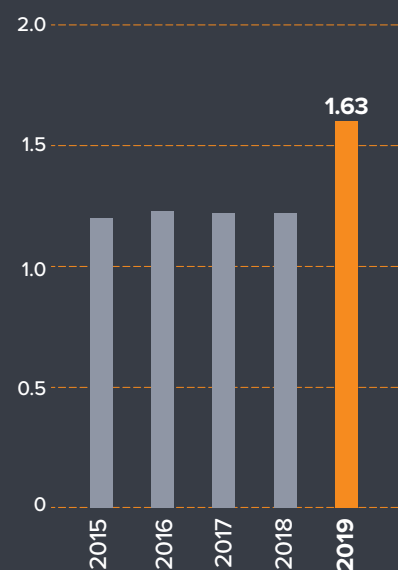
#### MARGINS FOR INTEREST RATIO (MFIR)



#### TIMES INTEREST EARNED RATIO (TIER)



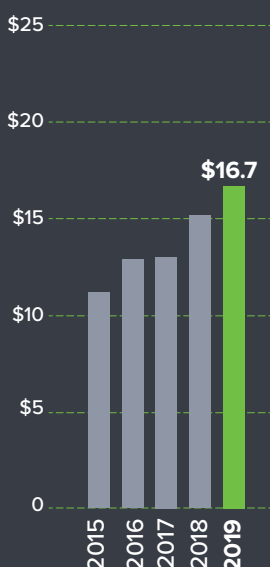
#### DEBT SERVICE COVERAGE RATIO (DSCR)



### 2019 FINANCIAL OVERVIEW

#### NET MARGIN

Dollars in Millions



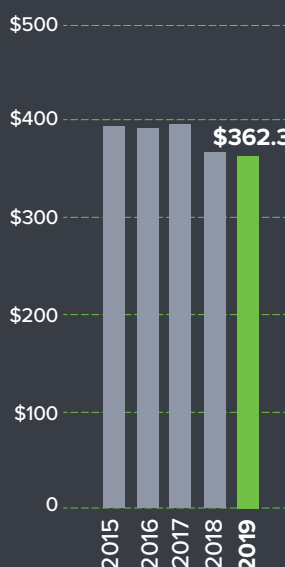
#### EQUITY

Dollars in Millions



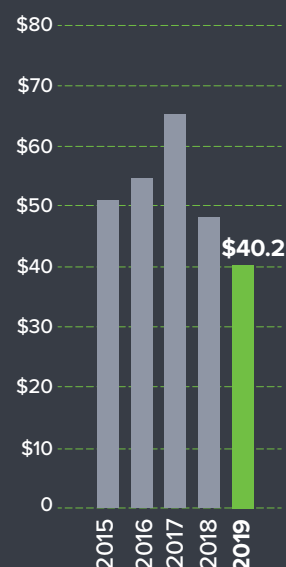
#### ELECTRIC ENERGY REVENUES

Dollars in Millions



#### CASH, CASH EQUIVALENTS, & SHORT-TERM INVESTMENTS

Dollars in Millions



**Big Rivers Electric Corporation is a member-owned, not-for-profit, generation and transmission cooperative (G&T).**

**MISSION:** Big Rivers will safely deliver competitive and reliable wholesale power and cost-effective shared services desired by our Member-Owners.

**VISION:** Big Rivers will be viewed as one of the top G&Ts in the country and will provide services the Members desire in meeting future challenges.

**VALUES:**

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






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 more than 118,000 homes, farms, and businesses.

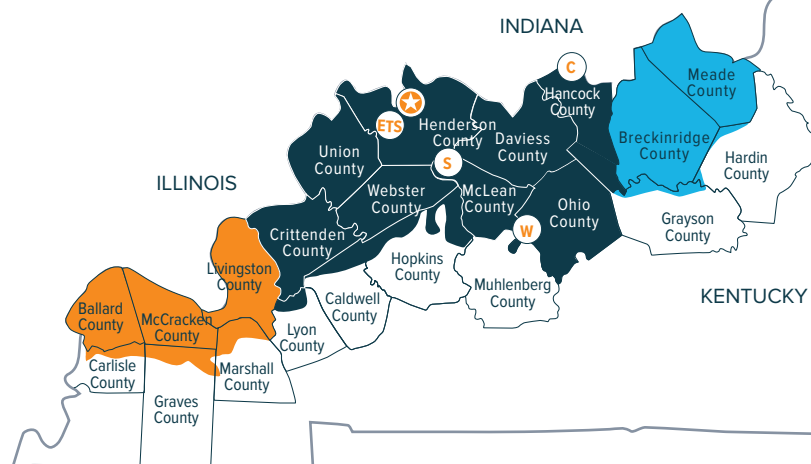
Incorporated in June of 1961, the mission of Big Rivers is to safely deliver competitive and reliable wholesale power and cost-effective shared services desired by the Member-Owners. Business operations revolve around seven core values: safety, excellence, integrity, teamwork, Member and community service, respect for the employee, and environmental consciousness. Big Rivers owns and operates 1,444 net MW of generating capacity from four power stations: Robert D. Green (454 MW), Robert A. Reid (130 MW idled in February 2019), D.B. Wilson (417 MW), and Kenneth C. Coleman (443 MW, idled in May 2014).

Total power capacity is 1,622 MW, including contracted capacity from the Southeastern Power Administration (SEPA). High-voltage electric power is delivered to the Member-Owners over a system of 1,297 miles of transmission lines and 24 substations owned by Big Rivers. Twenty-five transmission interconnections link our system with several 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 approximately 400 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, environmental support, and member support services. As longstanding 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 affordable and the reliability of service high.

**Today, the three Member-Owners of Big Rivers serve more than 118,000 members in 22 western Kentucky counties.**

-  Big Rivers Headquarters
-  Jackson Purchase Energy Corporation
-  Meade County Rural Electric Cooperative Corporation
-  Kenergy Corp
-  Sebree Station
-  Wilson Station
-  Coleman Station
-  Energy Transmission & Substation



# Big Rivers Electric Corporation is fueled by a desire to safely deliver competitive and reliable wholesale power.



**\$44.5 MILLION**

in net margins (pre-tier credit) for 2019—the highest achievement of record in the past decade

This pursuit of safety, strategy, and strong financials drive today's services and tomorrow's planning for our three Member-Owners—Jackson Purchase Energy Corporation, Kenergy Corp, and Meade County Rural Electric Cooperative Corporation. Despite major hurdles faced in the company's recent history, we are proud to report that 2019 was a year of even greater progress, with Big Rivers now meeting goals once deemed overly optimistic. These successes would not be possible without our people, who view every challenge as an opportunity to establish Big Rivers as a top Generation and Transmission Cooperative.

Safety remains the leading principle in Big Rivers' mission, and our safety culture is built from the support of every employee. This commitment to personal and coworker safety led us to one of our most decorated and successful safety years on record.

Big Rivers qualified for its 49<sup>th</sup> Governor's Safety Award in 2019, further solidifying our position as the most decorated entity in Kentucky.

The company was also recognized for its fourth consecutive Kentucky Employers'

Mutual Insurance (KEMI) Destiny Award in 2019, which honors a select group of organizations with strong workplace safety programs and low workers compensation rates. Big Rivers strives to be beyond average and compares our safety metrics to the highest performing G&Ts, and 2019's low recordable incident rate puts us ahead of this already high standard. Above all, we measure success by the ability of each person to work and return home safely, which is why we celebrated all locations reaching three years without a lost-time incident in 2019.

The makeup of Big Rivers' workforce continued to transform in 2019, as the unprofitable power contract with Henderson Municipal Power & Light (HMP&L) ended and operations at Station Two ceased in February. While this contract termination led to a reduced number of jobs, a careful years-long plan of hiring freezes, attritions, and voluntary severances across all locations minimized the overall impact. Major changes are rarely easy and require adjustments from many people, but this transition stabilizes and strengthens the company's future. Negotiations with HMP&L regarding decommissioning costs and outstanding fees are ongoing. However, Big Rivers remains dedicated to finding a resolution





**Paul Edd Butler**  
Chair, Board of Directors

**Robert W. Berry**  
President & CEO

and maximizing the economic potential of all our generation assets. Net margins for 2019 reached \$44.5 million (before Station Two TIER credit), the highest achievement in the past decade. Combined with the fulfillment of other strategic goals, the steps taken in 2019 bolster the financial standing of Big Rivers, as validated by the S&P ratings upgrade in January. Big Rivers is now looking forward, taking on a 15-year plan to reduce debt by \$300 million and cut the annual interest cost in half.

One of the most notable successes of 2019 came from the March announcement of Nucor Corporation's plan to build a \$1.35 billion steel plate manufacturing mill in the Meade County Rural Electric Cooperative Corporation service territory.

This development represents a major achievement for our system and for the region, where Nucor expects to add approximately 400 jobs and make one of largest-ever single economic investments in Kentucky. In the months leading up to the announcement, Big Rivers and Meade County RECC employees worked

with Nucor to determine the mill's future location and develop innovative transmission and energy supply solutions to guarantee reliable power service within the needed time frame. In addition to the preparations for Nucor's future load and a contract with Owensboro Municipal Utilities set to start in 2020, Big Rivers began delivery to more Nebraska entities and launched service to the Kentucky Municipal Energy Agency. These long-term power contracts have reduced Big Rivers' reliance on short-term energy hedging, and the company now stands in a position where our resources and load are balanced. Big Rivers has made incredible strides in reducing excess capacity, reaching and exceeding mitigation plan goals in just five years. The contract with Nucor also opens new opportunities to diversify Big Rivers' portfolio, and the company is now evaluating contracts that would bring long-term solar power agreements to the system.

The Big Rivers of today looks much different than it has in recent years, but we remain centered on our mission and vision. The company is moving boldly into the next decade, quickly adapting to the shifting environment and creating new solutions that establish Big Rivers as a

leading utility. Our employees continue to prioritize safe power production and delivery, providing Big Rivers with a safety record that is second to none for the industry. The combined efforts of Big Rivers' leadership and employees working together from multiple departments enhance our potential, leading to some of 2019's largest financial accomplishments, pushing the reliability of our transmission system to new standards, and developing an even greater level of service to our Member-Owners. When you present good possibilities to good people, they can do great things. Our company's strength is our employees, and that is why we chose to incorporate the name of each employee on the cover of this year's Annual Report. Big Rivers knows that our workforce is **"Powering Possibilities,"** serving as the catalyst for 2019's successes and fostering ideas that will help us meet future challenges.

**Robert W. Berry**  
President & CEO

**Paul Edd Butler**  
Chair, Board of Directors

# Encouraging an Employee-Driven Culture of Safety Excellence

Safety drives Big Rivers’ culture, which is built by the support of all employees who make a daily commitment to work safe for themselves and others. 2019 represented one of the most decorated safety achievement years on record, as Big Rivers continued to reach new milestones and celebrated three years without a lost-time injury. Big Rivers’ safety focus was further highlighted by the 4<sup>th</sup> consecutive Kentucky Employers’ Mutual Insurance (KEMI) Destiny Award and the 16th Governor’s Safety and Health Award earned by Wilson Station, bringing the company total for Governor’s Safety and Health Awards to 49.

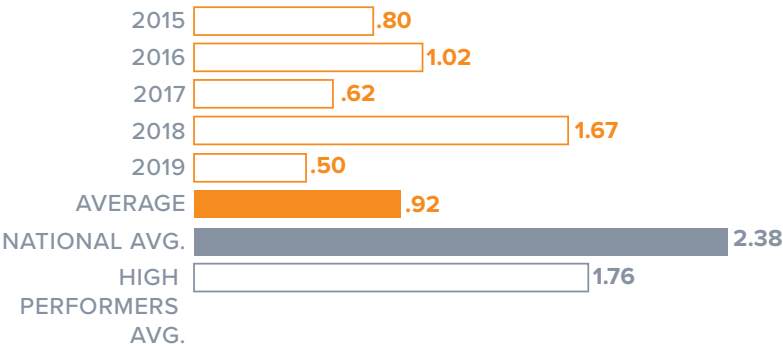
Big Rivers is never content to rest on safety. While this year’s accomplishments surpass national averages, the company will continue to evaluate safety programs for improvement and encourage employee support.



**4<sup>th</sup> consecutive Kentucky Employers’ Mutual Insurance Destiny Award.** The award honors Kentucky companies for their commitment and success in maintaining a safe workplace.

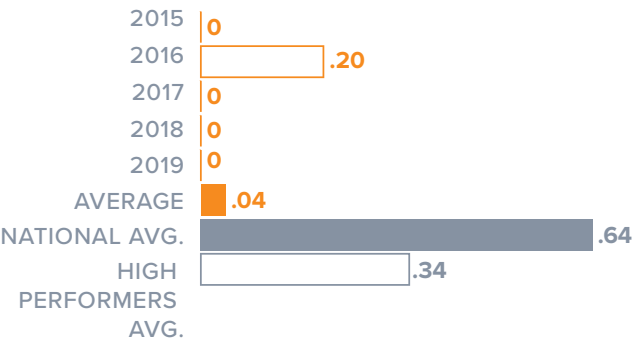
## RECORDABLE INCIDENT RATE

Incident rate = # of incidents X 200,000/# of hours worked



## LOST-TIME INCIDENT RATE

Incident rate = # of incidents X 200,000/# of hours worked



## 3 YEARS WITHOUT LOST-TIME INJURY WAS ACHIEVED BY ALL EMPLOYEES

- 10 YEARS** completed without a lost-time incident and 1 year without a recordable incident by Green Station employees
- 3 YEARS** completed without lost-time incident by Wilson Station employees
- 8 YEARS** completed without a lost-time incident and 3 years without a recordable incident by Headquarters employees
- 9 YEARS** completed without a lost-time incident and 4 years without a recordable incident by Transmission employees

# TAKING A PROACTIVE APPROACH TO IMPROVING SAFETY

## WHAT WAS POSSIBLE

In 2017, the Big Rivers safety group set out to improve our corporate safety program by emphasizing the benefits of employee involvement. The goal was to become more proactive by responding to employee-reported leading indicators instead of reacting following an incident. The ultimate goal is to prevent an incident before it occurs.



# 400

EMPLOYEES AT FIVE  
LOCATIONS ACROSS  
KENTUCKY

49 GOVERNOR'S SAFETY  
AND HEALTH AWARDS

More awards than any other  
entity in Kentucky

## WHAT WAS ACHIEVED

In the past, Big Rivers, as well as most other organizations, have relied on safety suggestions and near miss reporting as the primary method for employees to report potential hazards, in order to prevent incidents. In 2018 Big Rivers implemented the "Good Catch" program. The program is designed to give employees a more user-friendly method of reporting safety concerns/suggestions/near misses, as well as expediting the process of responding to and taking action to address those concerns.



The Good Catch program allows employees to submit safety concerns electronically, without the use of paper forms. The Good Catch reports are automatically distributed across the company, while being retained in a database.



Employees quickly saw results regarding their Good Catch reports, and we immediately noticed a significant increase regarding employee participation in the programs.



In 2017, the year prior to implementing the Good Catch program, Big Rivers received 27 near miss reports. In 2018, Big Rivers received 154 Good Catch reports and 388 Good Catch reports in 2019.



# 25

INTERCONNECTIONS WITH  
SURROUNDING UTILITIES

# 1,297

BIG RIVERS OWNS, OPERATES  
AND MAINTAINS 1,297 MILES  
OF TRANSMISSION LINES AND  
24 SUBSTATIONS

BIG RIVERS ACHIEVED LESS  
THAN 3 MINUTES PER YEAR IN  
AVERAGE MEMBER OUTAGE  
due to continued implementation  
of automatic restoration  
technology

## DEVELOPING TECHNOLOGY TO IMPROVE OUTAGE TIME

### WHAT WAS POSSIBLE

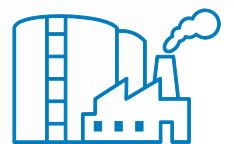
Although a G&T cooperative has much greater risk exposure to power outages due to the lack of customer density compared to an investor owned utility or a municipal utility, Big Rivers' vision was to achieve higher reliability than more than 75% of utilities in the nation.

### WHAT WAS ACHIEVED

In 2019, members served by Big Rivers' transmission system enjoyed some of the highest reliability in the nation. The average member served by Big Rivers' transmission system was out 2.77 minutes due to transmission issues. When you consider there are 525,600 minutes per year, that equates to 99.999% reliability.



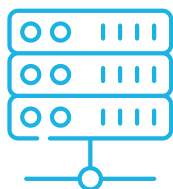
Big Rivers' vision is to be one of the top G&Ts in the nation. In order to achieve this vision, Big Rivers needs to have some of the highest transmission system reliability in the nation.



Big Rivers developed a database to identify the primary drivers of power outages and used that information to create a 10-year plan focused on immediate and long-range improvements that would allow the company to achieve continuous top quartile or better performance.



## Using Innovation to Enhance Service and Meet Evolving Power Needs



The distributed control system (DCS) or computerized control system graphics underwent an upgrade at Wilson Station in 2019 to provide better operator awareness and alarming.

Big Rivers continuously looks to develop and implement innovative improvements to both transmission and power production. In 2019, Big Rivers' and our Member-Owner Meade County RECC's reliable service took center stage during the process to bring a new NUCOR steel manufacturing mill to Brandenburg. Nucor's \$1.35 billion investment represents an exciting step forward for the local economy and a new type of load for Big Rivers. After meeting with Meade County RECC and Big Rivers personnel, the Big Rivers System Operations Department worked closely with Nucor to determine transmission solutions needed to power the 1.5 million-square-foot facility load. In addition, a Certificate of Public Convenience and Necessity (CPCNs) was submitted to the Kentucky Public Service Commission (KPSC), the construction schedule to meet Nucor's projected in-service date was developed, right-of-way (ROW) was acquired to construct new substations and transmission, and financial plans were adjusted to include Nucor projects for future RUS funding.

In May 2019, Big Rivers issued its first Request for Proposals for up to 150 MW of solar capacity and energy. The company received more than 50 proposals for solar developments from all over the Midwest, with many coming from Kentucky. Big Rivers plans to finalize contracts with successful respondents in early 2020, with commercial operation dates in late 2023. This new generation will provide low-cost capacity and energy for our Member-Owners while moving Big Rivers towards a more diversified generation portfolio. Big Rivers also developed an updated environmental strategy to comply with the Coal Combustion Residual Rule (CCR) and Effluent Limitation Guidelines (ELG), incorporating ash pond closures at Station Two, Green Station, and Coleman Station and leachate collection projects at the Green Landfill and Wilson Station.

## RELIABILITY METRICS FOR BIG RIVERS' GENERATING UNITS COMPARED TO ITS PEER GROUP JULY 2014-JUNE 2019

	EAF*	EFOR**	NCF*	
BIG RIVERS' GENERATING UNITS	88.22	6.29	74.06	EAF (Equivalent Availability Factor): Percentage of time a generating unit is available for power production at its full unit capacity.
PEER GROUP MEDIAN	82.05	6.36	57.49	EFOR (Equivalent Forced Outage Rate): Percentage of time a generating unit is unexpectedly offline or unable to obtain its rated capacity.
TOP QUARTILE	87.54	3.63	64.75	NCF (Net Capacity Factor): Percentage of the maximum generation actually generated.

\*Higher is better \*\*Lower is better

Big Rivers automatic sectionalizing and restoration system was one of the plan's innovative initiatives. If a transmission line trips, the system will automatically isolate the faulted portion of the system and then automatically restore power to Members via another source in less than two minutes.

Big Rivers successfully completed FERC and NERC audits on Cybersecurity compliance and a SERC audit on Engineering and Operations compliance.

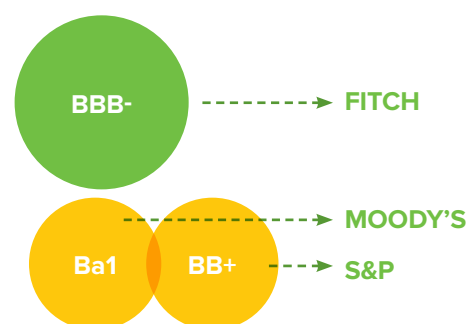
A 2019 Information Systems Department project developed a new browser interface to allow all tracked Big Rivers' vehicles and member-owner vehicles to be shown on a single GIS map, providing a single point of reference for locating vehicles during events, such as energizing a line.

## Expanding Our Revenue Streams and Encouraging Financial Stability

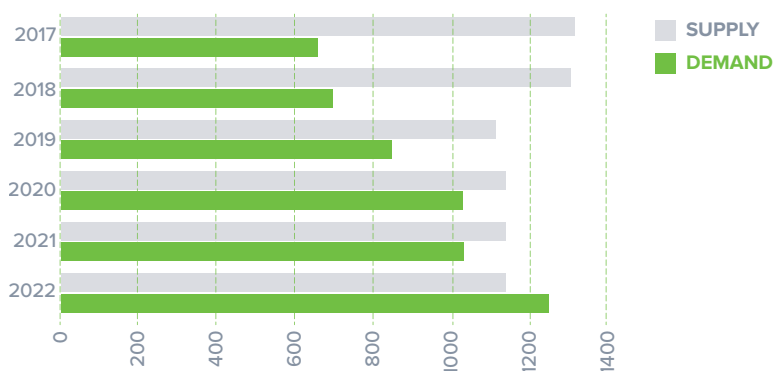
Big Rivers remains committed to improving its financial stability and positioning the company as a leading Generation and Transmission (G&T) cooperative. The strategic moves made during the past five years are coming to fruition, boosting current financials and providing future revenue streams. The 2019 Nucor announcement to construct a new steel manufacturing facility in the Big Rivers service territory and an upcoming contract with Owensboro Municipal Utilities open up the company to new power portfolio opportunities. Big Rivers also expanded on the long-term Nebraska contracts in January 2019 and launched service to the Kentucky Municipal Energy Agency in May 2019. As deliveries under these long-term agreements begin and Big Rivers adjusts its supply portfolio, reliance on short-term energy hedging continues to decrease from a high of 3.4M MWh in 2017 to under 2.0M MWh in 2019.

These successes have not been without difficult decisions. An unprofitable power production contract with Henderson Municipal Power and Light (HMP&L) ended with the retirement of Station Two in February 2019. Big Rivers utilized hiring freezes, attritions, and voluntary severances to limit overall job loss. The workforce reduction plan also resulted in the transfer of employees to positions at Green and Wilson Stations, which required careful coordination between supervision and additional training for transferred employees. The end of this operational agreement resulted in a significant savings for Big Rivers, leading to a record high net margin (pre-tier credit) of more than \$44 million in 2019.

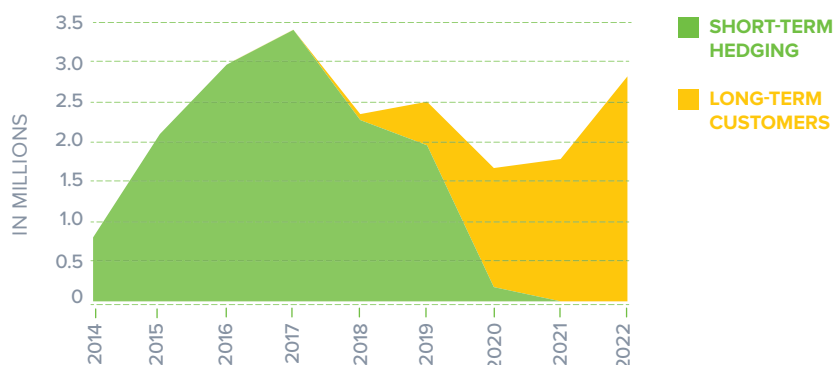
Improved credit ratings represent Big Rivers' dedication to strong financials, fulfillment of the risk mitigation plan, and successful management of long-term power supply. S&P increased its rating for Big Rivers in 2019, following the upgrade from Moody's and the investment grade rating from Fitch in 2018. The higher ratings open Big Rivers to new lending opportunities and lead to significant savings on borrowing.



## SUPPLY DEMAND RELATIONSHIP



## TRANSITION FROM SHORT-TERM HEDGING TO LONG-TERM CUSTOMERS



## SECURING NEW CONTRACTS AND BALANCING OUR RESOURCES

### WHAT WAS POSSIBLE

In 2013 and 2014, Big Rivers lost the revenue from our two largest customers. We needed a strategy to protect the investment that our Members had made in our generating resources, maintain our financial health, and continue to provide safe, reliable, and economic energy. We developed a Load Mitigation Plan.





SHORT-TERM HEDGING  
DECREASED TO 2 MILLION MWH  
IN 2019, WITH 2020 FORECASTS  
FALLING BELOW 1 MILLION MWH

---

**\$300M**

DEBT REDUCTION PLAN OVER THE  
NEXT 15 YEARS. THE PLAN ALSO  
INCLUDES CUTTING THE ANNUAL  
INTEREST COST IN HALF

## WHAT WAS ACHIEVED

Big Rivers maintained its financial health during the five years after the loss of the large customer load, while rebalancing our supply portfolio with our demand, and executing several long-term agreements which will provide stable revenues and margins over the next decade.



To reduce the volatility of our revenues and margins while balancing our portfolio, we entered into short-term energy hedges for nearly 1.4M MWh between 2014 and 2019. This smoothed the transition into our longer-term off-system sales contracts.



We made some tough decisions on the supply side, idling our Coleman and Reid 1 generating stations and exiting our power purchase agreement with the City of Henderson, Kentucky. These actions reduced the size of our resource portfolio by 695 MW of coal generation.



Between 2013 and 2016, we executed contracts with five different public power entities with terms between six and ten years, beginning between 2018 and 2020. In 2022, a new Nucor facility in Meade County will add 200 MW of load. Overall, our demand side will have grown by about 575 MW.





**\$196,256.40**

PLEDGED TO LOCAL UNITED  
WAY CHAPTERS BY BIG  
RIVERS AND ITS EMPLOYEES

**\$333**

THE AVERAGE UNITED WAY  
DONATION PER EMPLOYEE  
IN 2019

**52** CHARITIES AND  
COMMUNITY ORGANIZATIONS  
RECEIVED FINANCIAL SUPPORT  
FROM BIG RIVERS IN 2019

## CREATING COMMUNITY PROJECTS OF IMPACT

### WHAT WAS POSSIBLE

Big Rivers was proud of its long record of supporting local agencies with financial support and an employee base that always encourages fundraising and donating efforts. While this giving provides a valuable funding source for community groups, Big Rivers and its employees desired a greater impact on the community.



## Promoting Community Connections with Volunteer and Financial Support



**\$20,000** invested to support a KY Cabinet for Economic Development and KY Association for Economic Development initiative to improve the state's industrial sites.

Big Rivers strives to build a strong connection to the communities we serve. This is our home, and concern for the community is at the core of the cooperative way. Several Big Rivers employees serve on local economic development agency boards, offering their time and expertise to position western Kentucky as a prime location for business. The Director Legislative Affairs and Government Relations regularly visits with local and state-elected officials to communicate issues important to Big Rivers and its Member-Owners. In October 2019, Big Rivers and the Kentucky Coal Association hosted nearly 30 economic development professionals, judge executives, and legislators at Wilson Station for an open dialogue event and power plant tour. Big Rivers also looks to actively support agencies that strengthen our region, and the company invested more than \$100,000 in 54 charities, foundations, volunteer fire departments, and economic development agencies in 2019. Our proudest accomplishment is an employee base that continues to go above and beyond to donate their time and resources to causes that make western Kentucky a better place to live and work.

A centerpiece in our community giving each year is the employee-guided fundraising for local United Way chapters. In 2019, employees pledged to contribute more than \$130,000 to the United Way, plus a 50% corporate match of more than \$65,000. In 2019, Big Rivers expanded the efforts leading up to the United Way fundraising kickoff events, launching an "Ultimate Giver" food drive contest and the first annual "Impact Week". During this new week-long initiative, 30 employees split into teams to devote one day of service project work for four community agencies. As part of the 2019 Beautify the Bluegrass campaign, employee volunteers completed landscaping for a new mini-park and created a mural for the town of Sebree.

### WHAT WAS ACHIEVED

The Beautify the Bluegrass campaign seeks to connect Kentucky's electric cooperatives and local government on community beautification projects, with winning projects selected by the Governor and a public vote. Big Rivers and employee volunteers first joined the program in 2018, holding two cleanup and repair days for local parks. In 2019, Big Rivers sought a project that would fill a significant revitalization need. The company and our employees collaborated with Webster County to landscape a new mini-park and create a mural for the town of Sebree, near where Big Rivers' Sebree Station is located.



Big Rivers reached out to the communities closely connected to company locations, asking local governments for beautification needs. Webster County asked for help in revitalizing a small corner of downtown Sebree to create a new mini-park.



Webster County developed the ideas, two citizens donated empty land and wall space, and Big Rivers brought the funding and labor. More than 20 Big Rivers employee volunteers provided their time and energy to design, paint, and landscape.



During three days in June 2019, the empty Sebree lot was transformed from open space to a landscaped corner and a postcard mural welcoming everyone to Webster County. The project was recognized and promoted statewide as one of four Beautify the Bluegrass campaign finalists.

## FIVE-YEAR REVIEW

As of December 31, 2019 and the Four Preceding Years (Dollars in Thousands)

	2019	2018	2017	2016	2015 <sup>4</sup>
<b>SUMMARY OF OPERATIONS</b>					
Operating Revenue:					
Electric Energy Revenue	\$ 362,252	\$ 366,190	\$ 394,424	\$ 390,357	\$ 392,458
Other Operating Revenue and Income	16,475	14,015	12,805	12,233	11,091
Total Operating Revenue	378,727	380,205	407,229	402,590	\$ 403,549
Operating Expenses:					
Fuel for Electric Generation	119,831	128,555	126,644	144,148	146,179
Power Purchased	37,893	51,910	100,045	80,341	74,136
Operations (Excluding Fuel), Maintenance and Other	123,062	130,153	110,606	115,606	117,383
Depreciation	21,613	20,709	20,301	19,523	18,636
Regulatory Debit-TIER Credit	27,743	-	-	-	-
Total Operating Expenses	330,142	331,327	357,596	359,618	356,334
Interest Expense and Other:					
Interest	36,937	38,568	40,654	40,711	40,205
Income Tax Expense (Benefit)	(28)	(12)	7	(6,748)	(77)
Other-net	696	717	744	846	464
Total Interest Expense and Other	37,605	39,273	41,405	34,809	40,592
Operating Margin	10,980	9,605	8,228	8,163	6,623
Non-Operating Margin	5,735	5,625	4,770	4,742	4,593
Net Margin	\$ 16,715	\$ 15,230	\$ 12,998	\$ 12,905	\$ 11,216
<b>BALANCE SHEET</b>					
Total Utility Plant	\$ 2,098,129	\$ 2,200,397	\$ 2,179,899	\$ 2,146,205	\$ 2,133,820
Accumulated Depreciation	1,193,043	1,187,688	1,138,133	1,094,235	1,053,993
Net Utility Plant	905,086	1,012,709	1,041,766	1,051,970	1,079,827
Cash and Cash Equivalents	30,733	38,466	55,861	48,584	42,988
Restricted Cash-Construction Funds Trustee	353	-	-	-	-
Short-Term Investments	9,437	9,607	9,223	5,913	7,883
Reserve Account Investments <sup>1</sup>	1,391	691	391	312	24,335
Other Assets	402,213	301,413	292,507	270,810	248,094
Total Assets	\$ 1,349,213	\$ 1,362,886	\$ 1,399,748	\$ 1,377,589	\$ 1,403,127
Equities	\$ 523,164	\$ 505,816	\$ 490,887	\$ 478,152	\$ 464,661
Long-term Debt <sup>2</sup>	733,942	761,464	801,162	813,829	826,132
Line of Credit	-	-	20,000	26,000	26,000
Regulatory Liabilities - Member Rate Mitigation	2,111	2,031	403	327	21,530
Asset Retirement Obligations	34,557	29,746	28,347	7,279	6,973
Other Liabilities and Deferred Credits	55,439	63,829	58,949	52,002	57,831
Total Liabilities and Equity	\$ 1,349,213	\$ 1,362,886	\$ 1,399,748	\$ 1,377,589	\$ 1,403,127
<b>ENERGY SALES (MWH)</b>					
Member Rural	2,261,069	2,366,988	2,209,836	2,330,007	2,325,653
Member Large Industrial	946,070	953,808	919,896	914,557	946,150
Other	2,879,231	3,101,659	4,291,555	4,414,268	4,181,748
Total Energy Sales (MWh)	6,086,370	6,422,455	7,421,287	7,658,832	7,453,551
<b>SOURCES OF ENERGY (MWH)</b>					
Generated	4,964,983	5,291,136	5,034,777	5,828,106	5,809,344
Purchased	1,166,472	1,149,102	2,411,882	1,874,584	1,697,296
Losses and Net Interchange	(45,085)	(17,783)	(25,372)	(43,858)	(53,089)
Total Energy Available (MWh)	6,086,370	6,422,455	7,421,287	7,658,832	7,453,551
<b>NET CAPACITY (MW)</b>					
Net Generating Capacity Owned	1,444	1,444	1,444	1,444	1,444
Rights to HMP&L Station Two	-	187	197	197	197
Other Net Capacity Available	178	178	178	178	178
Total Net Capacity (MW)	1,622	1,809	1,819	1,819	1,819
<b>DEBT RATIOS</b>					
Margins for Interest Ratio (MFIR)	1.45	1.39	1.32	1.31	1.29 <sup>3</sup>
Times Interest Earned Ratio (TIER)	1.45	1.39	1.32	1.31	1.27
Debt Service Coverage Ratio (DSCR)	1.63	1.22	1.22	1.23	1.20

<sup>1</sup>Includes investment income receivable. <sup>2</sup>Includes current maturities of long-term obligations. <sup>3</sup>Excludes impact of \$906 non-recurring charge to income per Big Rivers' Indenture. <sup>4</sup>For year ended December 31, 2016, the Company made a voluntary change in accounting principle from one acceptable method to another. The accounting classification change was applied retrospectively to the year ended December 31, 2015.





**BIG RIVERS ELECTRIC CORPORATION**

Financial Statements

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)



KPMG LLP  
Suite 2600  
400 West Market Street  
Louisville, KY 40202

## **Independent Auditors' Report**

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, 2019 and 2018, 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, 2019, 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 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 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 auditor considers 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, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019 in accordance with U.S. generally accepted accounting principles.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2020, on our consideration of Big Rivers Electric Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Big Rivers Electric Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Big Rivers Electric Corporation's internal control over financial reporting and compliance.

KPMG LLP

Louisville, Kentucky  
April 15, 2020



# **BIG RIVERS ELECTRIC CORPORATION**

## Balance Sheets

December 31, 2019 and 2018

(Dollars in thousands)

<b>Assets</b>	<b>2019</b>	<b>2018</b>
Utility plant – net	\$ 905,086	1,012,709
Restricted investments – Member rate mitigation	1,391	691
Restricted investments – NRUCFC Capital Term Certificates	31,609	33,416
Other deposits and investments – at cost	21,474	20,604
Current assets:		
Cash and cash equivalents	30,733	38,466
Restricted cash-construction funds trustee	353	—
Short-term investments	9,437	9,607
Accounts receivable	37,266	33,390
Fuel inventory	26,965	25,028
Nonfuel inventory	24,216	24,864
Prepaid expenses and other assets	4,298	6,961
Total current assets	<u>133,268</u>	<u>138,316</u>
Deferred charges and other assets:		
Regulatory assets	250,562	153,982
Federal tax receivable	54	200
Other	5,769	2,968
Total deferred charges and other assets	<u>256,385</u>	<u>157,150</u>
Total	<u>\$ 1,349,213</u>	<u>1,362,886</u>
<b>Equities and Liabilities</b>		
Capitalization:		
Equities	\$ 523,164	505,816
Long-term debt	706,269	734,969
Total capitalization	<u>1,229,433</u>	<u>1,240,785</u>
Current liabilities:		
Current maturities of long-term obligations	27,673	26,495
Purchased power payable	2,702	5,334
Accounts payable	22,328	22,748
Accrued expenses	9,054	11,915
Accrued interest	3,279	3,533
Total current liabilities	<u>65,036</u>	<u>70,025</u>
Deferred credits and other:		
Regulatory liabilities – member rate mitigation	2,111	2,031
Asset retirement obligations	34,557	29,746
Deferred credits and other	18,076	20,299
Total deferred credits and other	<u>54,744</u>	<u>52,076</u>
Commitments and contingencies (note 13)		
Total	<u>\$ 1,349,213</u>	<u>1,362,886</u>

See accompanying notes to financial statements.

# BIG RIVERS ELECTRIC CORPORATION

## Statements of Operations

Years ended December 31, 2019, 2018, and 2017

(Dollars in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenue	\$ 378,727	380,205	407,229
Total operating revenue	<u>378,727</u>	<u>380,205</u>	<u>407,229</u>
Operating expenses:			
Operations:			
Fuel for electric generation	119,831	128,555	126,644
Power purchased and interchanged	37,893	51,910	100,045
Production, excluding fuel	45,918	47,897	42,790
Transmission and other	38,078	34,359	30,763
Maintenance	39,066	47,897	37,053
Depreciation and amortization	21,613	20,709	20,301
Regulatory debit - TIER credit	27,743	—	—
Total operating expenses	<u>330,142</u>	<u>331,327</u>	<u>357,596</u>
Electric operating margin	<u>48,585</u>	<u>48,878</u>	<u>49,633</u>
Interest expense and other:			
Interest	36,937	38,568	40,654
Income tax expense/(benefit)	(28)	(12)	7
Other – net	696	717	744
Total interest expense and other	<u>37,605</u>	<u>39,273</u>	<u>41,405</u>
Operating margin	<u>10,980</u>	<u>9,605</u>	<u>8,228</u>
Nonoperating margin:			
Interest income and other	5,735	5,625	4,770
Total nonoperating margin	<u>5,735</u>	<u>5,625</u>	<u>4,770</u>
Net margin	<u>\$ 16,715</u>	<u>15,230</u>	<u>12,998</u>

See accompanying notes to financial statements.

**BIG RIVERS ELECTRIC CORPORATION**

Statements of Comprehensive Income

Years ended December 31, 2019, 2018, and 2017

(Dollars in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net margin	\$ 16,715	15,230	12,998
Other comprehensive income (loss):			
Defined-benefit plans:			
Prior service cost (benefit)	—	—	(1,077)
Actuarial gain (loss)	1,506	(1,350)	1,938
Amortization of loss	<u>559</u>	<u>804</u>	<u>376</u>
Defined-benefit plans	<u>2,065</u>	<u>(546)</u>	<u>1,237</u>
Postretirement benefits other than pensions:			
Prior service cost	(414)	(138)	(138)
Actuarial gain (loss)	(820)	413	(1,192)
Amortization of (gain)	<u>(198)</u>	<u>(30)</u>	<u>(170)</u>
Postretirement benefits other than pensions	<u>(1,432)</u>	<u>245</u>	<u>(1,500)</u>
Other comprehensive income (loss)	<u>633</u>	<u>(301)</u>	<u>(263)</u>
Comprehensive income	\$ <u><u>17,348</u></u>	<u><u>14,929</u></u>	<u><u>12,735</u></u>

See accompanying notes to financial statements.



**BIG RIVERS ELECTRIC CORPORATION**

Statements of Equities

Years ended December 31, 2019, 2018, and 2017

(Dollars in thousands)

			<u>Other equities</u>		
	<u>Total</u>	<u>Retained</u>	<u>Donated</u>	<u>Consumers'</u>	<u>Accumulated</u>
	<u>equities</u>	<u>margin</u>	<u>capital and</u>	<u>contributions</u>	<u>other</u>
			<u>memberships</u>	<u>to debt</u>	<u>comprehensive</u>
				<u>service</u>	<u>income/(loss)</u>
Balance – December 31, 2016	\$ 478,152	473,802	764	3,681	(95)
Net margin	12,998	12,998	—	—	—
Pension and postretirement benefit plans	(263)	—	—	—	(263)
Balance – December 31, 2017	490,887	486,800	764	3,681	(358)
Net margin	15,230	15,230	—	—	—
Pension and postretirement benefit plans	(301)	—	—	—	(301)
Balance – December 31, 2018	505,816	502,030	764	3,681	(659)
Net margin	16,715	16,715	—	—	—
Pension and postretirement benefit plans	633	—	—	—	633
Balance – December 31, 2019	\$ <u>523,164</u>	<u>518,745</u>	<u>764</u>	<u>3,681</u>	<u>(26)</u>

See accompanying notes to financial statements.

**BIG RIVERS ELECTRIC CORPORATION**

Statements of Cash Flows

Years ended December 31, 2019, 2018, and 2017

(Dollars in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:			
Net margin	\$ 16,715	15,230	12,998
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation and amortization	21,664	24,365	24,394
Interest compounded – RUS Series A Note	—	26	56
Interest compounded – RUS Series B Note	10,911	10,300	9,724
Interest income compounded – RUS Cushion of Credit (advance payments unapplied)	(169)	(120)	—
Noncash member rate mitigation revenue	(15,578)	(5,525)	(4,292)
Noncash regulatory debit – TIER credit	27,743	—	—
Changes in certain assets and liabilities:			
Accounts receivable	(3,876)	13,007	(8,120)
Inventories	(1,289)	14,186	17,036
Prepaid expenses and other	2,663	(1,621)	1,616
Deferred charges	(13,162)	(3,239)	1,006
Purchased power payable	(2,632)	2,802	1,665
Accounts payable	46	1,726	3,389
Accrued expenses	(3,115)	2,634	(930)
Federal tax receivable	—	—	(1,847)
Other – net	15,113	2,494	10,842
Net cash provided by operating activities	<u>55,034</u>	<u>76,265</u>	<u>67,537</u>
Cash flows from investing activities:			
Capital expenditures	(23,281)	(24,480)	(23,361)
Proceeds from restricted investments and deposits	21,655	1,097	—
Purchases of restricted investments and other deposits and investments	(22,462)	—	(5,017)
Proceeds of short-term investments	11,334	627	2,252
Purchases of short-term investments	<u>(11,165)</u>	<u>(1,011)</u>	<u>(5,562)</u>
Net cash used in investing activities	<u>(23,919)</u>	<u>(23,767)</u>	<u>(31,688)</u>
Cash flows from financing activities:			
Principal payments on long-term obligations	(38,495)	(93,488)	(37,572)
Proceeds from long-term obligations	—	43,595	15,000
Payments on line of credit	—	(20,000)	(26,000)
Borrowing on line of credit	<u>—</u>	<u>—</u>	<u>20,000</u>
Net cash used in financing activities	<u>(38,495)</u>	<u>(69,893)</u>	<u>(28,572)</u>
Net increase/(decrease) in cash and cash equivalents	(7,380)	(17,395)	7,277
Cash and cash equivalents – beginning of year	<u>38,466</u>	<u>55,861</u>	<u>48,584</u>
Cash and cash equivalents – end of year	\$ <u>31,086</u>	<u>38,466</u>	<u>55,861</u>
Supplemental cash flow information:			
Cash paid for interest	\$ 26,487	28,957	31,380
Cash paid for income taxes	2	1	1
Supplemental schedule of non-cash financing and investing activities:			
Change in regulatory assets associated with asset retirement obligations	\$ 2,897	5,294	23,408
Change in regulatory assets associated with utility plant	83,616	26,417	26,336
Purchases of utility plant in accounts payable	582	(1,236)	425

See accompanying notes to financial statements.

## **BIG RIVERS ELECTRIC CORPORATION**

Notes to Financial Statements

December 31, 2019 and 2018

(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 (Jackson Purchase Energy Corporation, Kenergy Corp. ("Kenergy"), and Meade County Rural Electric Cooperative Corporation) under all requirements contracts. Big Rivers also markets power to nonmember utilities, power marketers, and the Midcontinent Independent System Operator ("MISO"). 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 give recognition to the ratemaking and accounting practices of the KPSC and RUS.

#### **(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 sales are based on month-end meter readings and are recognized as earned when electricity is delivered. Capacity revenues are recognized in the period in which the Company provides capacity to a counterparty.

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). The main principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to its customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 became effective for the Company for its annual reporting period beginning on January 1, 2019. The Company assessed the impact of adopting the guidance and determined there was no material effect.

## BIG RIVERS ELECTRIC CORPORATION

Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

### (e) *Utility Plant and Depreciation*

Utility plant is recorded at original cost, which includes the cost of contracted services, materials, labor, and overhead. In accordance with FASB ASC 835-20, *Interest – Capitalization of Interest*, the Company also includes capitalized interest on projects with an estimated total cost of \$250 or more before consideration of such cost. 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. Replacements of depreciable property units, except minor replacements, are charged to utility plant.

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 2012, a depreciation study was completed to evaluate the remaining economic lives of the Company's assets and establish new depreciation rates. The study was approved by the RUS in 2012 and by the KPSC in 2014, with the rates becoming effective February 1, 2014. The annual composite depreciation rates used to compute depreciation expense were as follows:

Electric plant	0.35%–25.38%
Transmission plant	1.36%–2.29%
General plant	3.76%–9.88%

For 2019, 2018, and 2017, the average composite depreciation rates were 2.41%, 2.52%, and 2.45%, 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) *Asset Retirement Obligations*

FASB ASC 410-20, *Asset Retirement and Environmental Obligations – Asset Retirement Obligations*, requires legal obligations associated with the retirement of long-lived assets to be recognized at fair value when incurred and capitalized as part of the related long-lived asset. The liability is accreted each period based on the credit-adjusted risk-free rate of return that existed when the liability, or portion thereof, was initially measured. The period accretion is recognized as an increase in the carrying amount of the liability, and the capitalized cost is depreciated over the useful life of the related asset. When the asset is retired, the entity settles the obligation for its recorded amount or incurs a gain or loss.

## **BIG RIVERS ELECTRIC CORPORATION**

### **Notes to Financial Statements**

**December 31, 2019 and 2018**

**(Dollars in thousands)**

Big Rivers has recorded liabilities in its financial statements for asset retirement obligations ("AROs") related to the requirements of the U.S. Environmental Protection Agency's ("EPA") Disposal of Coal Combustion Residuals from Electric Utilities Rule ("CCR Final Rule") and Effluent Limitations Guidelines Rule ("ELG Final Rule") for the coal ash ponds located at its Green Station and the City of Henderson's Station Two ("Station Two") generating units. The CCR Final Rule was published in the Federal Register on April 17, 2015 and provides a comprehensive set of requirements for the safe disposal of CCRs, commonly known as coal ash, from coal-fired power plants. The ELG Final Rule was published in the Federal Register on November 3, 2015, and sets limits on the levels of toxic metals in wastewater that can be discharged from power plants. See Note 3 for further discussion of the Company's AROs.

#### **(h) 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. Purchased emission allowances are recorded in inventory at actual cost by each vintage year. Allowances issued by the EPA are recorded at zero cost by each vintage year. Total purchased and EPA issued 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.

#### **(i) Restricted Investments**

Certain investments are restricted under KPSC order to establish certain reserve funds for Member rate mitigation. The loan agreement with National Rural Utilities Cooperative Finance Corporation ("CFC") requires as a condition of the extension of credit, that an equity ownership position be established by all borrowers. Big River's equity ownership in this organization is less than one percent.

These equity investments do not have readily determinable fair values and are accounted for at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. No impairment or observable price changes were recorded during 2019.

#### **(j) 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.

#### **(k) Restricted Cash**

Big Rivers has restricted cash related to proceeds from the sale of property as required by the RUS loan contract.

#### **(l) Short-Term Investments**

Short-term investments include certificates of deposits (CDs) held for investment and investments in debt securities with original maturities greater than three months and less than one year.



## **BIG RIVERS ELECTRIC CORPORATION**

Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

### ***(m) Regulatory Assets and Liabilities***

FASB ASC 980-10 applies to regulated entities for which rates are designed to recover the costs of providing service. In accordance with this topic, certain items that would normally be reflected in the statement of operations are deferred on the balance sheet. Regulatory assets represent probable future revenues associated with certain incurred costs, which will be recovered from customers through the rate-making process. Regulatory assets are reduced during the period(s) in which the related costs are recovered through rates or when future recovery is no longer probable. Conversely, regulatory liabilities represent future reductions in revenues associated with amounts that are to be credited, or refunded, to members through the regulated rate-making process. Regulatory liabilities are reduced during the period(s) in which the related amounts are refunded to members through rates or when future refunding of the amounts is no longer probable.

### ***(n) Other Deposits and Investments***

Other deposits and investments consist primarily of patronage capital, cash collateral/margin call deposits, investments in associated organizations, and deferred compensation.

### ***(o) 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 Big Rivers' annual income 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.

### ***(p) Patronage Capital***

As provided in the Company's 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.

## **BIG RIVERS ELECTRIC CORPORATION**

Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

### **(q) 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.

### **(r) 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. 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.

### **(s) Deferred Loan Costs**

The Company capitalizes costs incurred in connection with long-term debt. These costs are amortized on various bases over the term of the respective debt financing agreements.

In accordance with Accounting Standards Update (“ASU”) 2015-03, deferred loan costs related to a recognized debt liability are presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset.

### **(t) Deferred Credits and Other**

Deferred credits and other includes employee related benefits and capacity revenue sales billed but not yet earned. Employee related benefits include, but are not limited to, pension and post-retirement benefit costs and amounted to \$16,403 and \$17,013 at December 31, 2019 and 2018, respectively. Deferred capacity revenue, which will be recognized within the next year, amounted to \$1,673 and \$2,878 at December 31, 2019 and 2018, respectively.

### **(u) New Accounting Guidance**

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02). The main principle of this revised accounting guidance requires that lessees recognize all leases (other than leases with a term of twelve months or less) on the balance sheet as lease liabilities, based upon the

# **BIG RIVERS ELECTRIC CORPORATION**

## Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

present value of the lease payments, with corresponding right of use assets. ASU 2016-02 also makes targeted changes to other aspects of the current guidance, including the lease classification criteria and the lessor accounting model. The amendments in ASU 2016-02 will be effective for the Company for annual reporting periods beginning after December 15, 2020. The Company is currently assessing the impact of adopting the guidance but does not believe it will have a material effect.

### **(2) Utility Plant**

At December 31, 2019 and 2018, utility plant is summarized as follows:

	<u>2019</u>	<u>2018</u>
Classified plant in service:		
Production plant	\$ 1,713,576	1,822,536
Transmission plant	294,407	290,335
General plant	54,416	53,302
Other	67	292
	<u>2,062,466</u>	<u>2,166,465</u>
Less accumulated depreciation	<u>1,193,043</u>	<u>1,187,688</u>
	869,423	978,777
Construction in progress	<u>35,663</u>	<u>33,932</u>
Utility plant – net	<u>\$ 905,086</u>	<u>1,012,709</u>

Big Rivers' secured long-term debt obligations and 2015 Syndicated Senior Secured Credit Agreement, as amended September 19, 2017, are secured under Big Rivers' Indenture dated as of July 1, 2009, as supplemented and amended (the "Indenture"), between Big Rivers and U.S. Bank National Association, as trustee (the "Indenture Trustee"). Obligations are secured under the Indenture by a mortgage lien on substantially all of Big Rivers' owned tangible, and certain intangible, properties including Big Rivers' production, transmission, general, and other Utility Plant. See Note 4 for further discussion of Big Rivers' Debt and Other Long-Term Obligations secured under its Indenture.

Interest capitalized for the years ended December 31, 2019 and 2018, was \$207 and \$56, respectively.

The Company has identified certain legal obligations, as defined in FASB ASC 410, *Asset Retirement and Environmental Obligations*, associated with the retirement of long-lived assets that require the recognition of a liability. See Note 3 for further discussion of the Company's asset retirement obligations.

As of December 31, 2019 and 2018, the Company had recorded an estimated \$60,723 and \$59,996, respectively, related to nonlegal removal costs included in accumulated depreciation as required by the RUS.

# **BIG RIVERS ELECTRIC CORPORATION**

Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

## **(3) Asset Retirement Obligations**

The Company has AROs arising from legal obligations associated with the retirements of certain long-lived assets. The liabilities were initially measured at fair value and subsequently adjusted for accretion expense and changes in estimated future cash flows. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long-lived assets and depreciated over their remaining useful lives. The following table presents the activity for the ARO liabilities for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
ARO balance at beginning of year	\$ 29,746	28,347
Changes in estimated timing or cost	3,418 (a)	0
Accretion expense	1,528 (b)	1,399 (b)
Actual costs incurred	<u>(135)</u>	<u>0</u>
ARO balance at end of year	<u>\$ 34,557</u>	<u>29,746</u>

(a) During 2019, a study was completed by an independent engineering firm which provided updated settlement dates and cost estimates for the eventual closures of the ash ponds located at Big Rivers' Green Station and Station Two, for compliance with federal regulations, including the EPA's CCR Final Rule and ELG Final Rule, for which Big Rivers initially recognized ARO liabilities in 2015. The change in estimated settlement dates, as well as the updated present value of cost estimates, to close the Green Station and the Station Two ash ponds, per the 2019 studies, was higher than prior estimates completed by independent engineering firms during 2017. Accordingly, in 2019, Big Rivers recorded adjustments to its ARO liabilities to reflect the change in estimates.

(b) The 2019 and 2018 annual ARO accretion expense of \$1,528 and \$1,399, respectively, was deferred and included in the Regulatory Assets amount reported on the Company's balance sheet as of December 31, 2019 and 2018. These amounts will be amortized and recognized as expense during the period(s) in which they are recovered through rates.

In 2020, Big Rivers anticipates that the EPA will pass legislation that may require Big Rivers to record a \$48,500 ARO liability for Coleman Station's ash ponds.

# **BIG RIVERS ELECTRIC CORPORATION**

Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

## **(4) Debt and Other Long-Term Obligations**

A detail of long-term debt at December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
CFC Refinance Promissory Note, Series 2012B, serial note pricing, 4.30% effective interest rate, final maturity date of May 2032	\$ 214,712	227,578
RUS 2009 Series B Promissory Note, stated amount of \$245,530, no stated interest rate, 5.80% imputed interest rate, maturing December 2023	195,027	184,117
CoBank Promissory Note, Series 2012A, 4.30% fixed interest rate, final maturity date of June 2032	171,442	181,271
County of Ohio, Kentucky, promissory note, 6.0% fixed interest rate, maturing in July 2031	83,300	83,300
CFC Equity Note, Series 2012B, 5.35% fixed interest rate, final maturity date of May 2032	32,229	33,998
2018 RUS Guaranteed FFB Loan, W8, 2.828% fixed interest rate, final maturity date of January 2033	25,228	25,630
2018 RUS Guaranteed FFB Loan, X8, 2.935% fixed interest rate, final maturity date of December 2043	17,836	17,965
CFC Refinance Promissory Note, Series 2017B, 3.69% fixed interest rate, final maturity date of October 2020	—	13,500
Total long-term debt	739,774	767,359
Less current maturities	27,673	26,495
Less unamortized deferred debt issuance costs	2,343	2,575
Less advance payments unapplied – RUS cushion of credit	3,489	3,320
Total long-term debt – net of current maturities, deferred debt issuance costs, and advance payments	\$ <u>706,269</u>	<u>734,969</u>



## BIG RIVERS ELECTRIC CORPORATION

### Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

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

	<u>Amount</u>
Year:	
2020	\$ 27,673
2021	28,281
2022	30,073
2023	226,414
2024	33,393
Thereafter	<u>393,940</u>
Total	\$ <u>739,774</u>

**(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 is secured under Big Rivers' Indenture, dated July 1, 2009 between the Company and U.S. Bank National Association, and consists of twenty 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 CFC Equity Note were used to purchase interest-bearing Capital Term Certificates (CTCs), as required in connection with the Refinance Note (Note 8).

**(b) 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").

In April 2018, Big Rivers prepaid the RUS Series A Note in full, using available general funds, when the total outstanding principal balance was \$65,300. The RUS Series A Note had a stated interest rate of 5.75%, was recorded at an imputed interest rate of 5.84%, and was secured under Big Rivers' Indenture. The original maturity date of the RUS Series A Note was July 2021.

The RUS Series B Note has no stated interest rate, is recorded at an imputed interest rate of 5.80%, and is secured under Big Rivers' Indenture. The \$245,530 stated amount of the RUS Series B Note is due December 2023.

## **BIG RIVERS ELECTRIC CORPORATION**

Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

### **(c) 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, which is secured under Big Rivers' Indenture. The loan has a fixed interest rate of 4.30% and a final maturity date of June 2032.

### **(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 as the bonds and is secured under Big Rivers' Indenture. These bonds bear interest at a fixed rate of 6.00% and mature in July 2031. These bonds are subject to an optional redemption on or after July 15, 2020. Big Rivers plans to redeem and reissue these bonds in 2020.

### **(e) 2018 RUS Guaranteed FFB Loan, W8**

In April 2018, Big Rivers received a \$25,630 loan from the Federal Financing Bank (FFB) (the "W8 Loan") which is guaranteed by the RUS and secured under Big Rivers' Indenture. The W8 Loan is for long-term financing of capital projects included in Big Rivers' 2012 Environmental Compliance Plan (ECP) to comply with the EPA's Mercury and Air Toxics Standards (MATS) rule. These capital projects were completed in 2016 and were originally funded with Big Rivers' general funds. Accordingly, the proceeds of the W8 Loan were used to replenish Big Rivers' general funds. The W8 Loan has a fixed interest rate of 2.828%, which includes a 0.125% RUS administration fee, and has a final maturity date of January 2033.

### **(f) 2018 RUS Guaranteed FFB Loan, X8**

In April 2018, Big Rivers received a \$17,965 loan from the FFB, (the "X8 Loan") which is guaranteed by the RUS and secured under Big Rivers' Indenture. The X8 Loan is for long-term financing of capital projects included in Big Rivers' 2013-2015 Transmission Construction Work Plan, which were completed in 2017 and were originally funded with Big Rivers' general funds. Accordingly, the proceeds of the X8 Loan were used to replenish Big Rivers' general funds. The X8 Loan has a fixed interest rate of 2.935%, which includes a 0.125% RUS administration fee, and has a final maturity date of December 2043.

### **(g) CFC Refinance Promissory Note, Series 2017B**

In October 2017, Big Rivers borrowed \$15,000 from CFC at a fixed interest rate of 3.69%, the proceeds of which were used to prepay a portion of the RUS Series A Note. The CFC note was secured under Big Rivers' Indenture and had a final maturity date of October 2020. Big Rivers prepaid the outstanding balance and associated interest and fees for the CFC note on December 20, 2019.

### **(h) Line of Credit**

On March 5, 2015, Big Rivers entered into a \$130,000 Syndicated Senior Secured Credit Agreement (the "2015 Agreement") with CFC, CoBank, Fifth Third Bank, KeyBank National Association, and Regions Bank. In conjunction with the 2015 Agreement, Big Rivers issued secured promissory notes

## **BIG RIVERS ELECTRIC CORPORATION**

### **Notes to Financial Statements**

**December 31, 2019 and 2018**

**(Dollars in thousands)**

(the "Series 2015A Notes"), equal to each lender's commitment, which are secured under Big Rivers' Indenture.

On September 19, 2017, the 2015 Agreement was amended to, among other things, reduce the total facility amount from \$130,000 to \$100,000, and extend the maturity date from March 5, 2018 to September 18, 2020.

Big Rivers is in the process of amending and extending the 2015 Agreement during 2020. The line of credit is expected to increase and a provision will be added for two, one-year, extensions. The closing for the line of credit is expected to occur in the second quarter of 2020, pending regulatory approval.

As of December 31, 2019, Big Rivers had no outstanding borrowings under the 2015 Agreement and \$7,579 in issued letters of credit outstanding, which reduced its available borrowing capacity under the 2015 Agreement from \$100,000 to \$92,421.

As of December 31, 2018, Big Rivers had no outstanding borrowings under the 2015 Agreement and \$7,729 in issued letters of credit outstanding, which reduced its available borrowing capacity under the 2015 Agreement from \$100,000 to \$92,271.

#### **(i) *RUS Cushion of Credit***

In 2018, Big Rivers began participating in the cushion of credit program administered by the RUS in conjunction with the execution of the 2018 W8 and X8 RUS Guaranteed FFB Loans. Under the cushion of credit program, RUS borrowers may make voluntary irrevocable deposits into the cushion of credit account which, during 2019, accrued interest at an annual rate of 5.0%. Per the terms of the RUS' commitment to guarantee Big Rivers' W8 and X8 Loans, Big Rivers agreed to make an initial deposit of \$3,200 to the cushion of credit account upon receipt of the loan funds and to make additional deposits, as needed, so that the balance at the beginning of each year going forward is equal to or greater than the annual payments due on the W8 and X8 Loans during the year.

Big Rivers' amounts in the cushion of credit account (deposits and accrued interest) may only be used to make scheduled principal and interest payments on the W8 and X8 Loans. As of December 31, 2019 and 2018, Big Rivers' balance in the RUS cushion of credit account was \$3,489 and \$3,320, respectively, which is included on the Company's balance sheet as a reduction to long-term debt.

#### **(j) *Covenants***

Big Rivers is in compliance with all debt covenants associated with both its long-term and short-term debt obligations. 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 2015 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 \$375,000 plus 50% of the Company's cumulative positive net margins for each of the preceding fiscal years, beginning with the fiscal year ended December 31, 2015. Big Rivers' MFIR for the fiscal year ended December 31, 2019 was 1.45, and its Members' Equities balance was \$523,164.

## **BIG RIVERS ELECTRIC CORPORATION**

### **Notes to Financial Statements**

**December 31, 2019 and 2018**

**(Dollars in thousands)**

An MFIR of less than 1.10, per the Indenture and other debt agreements, may result in the following actions, restrictions, or consequences: Big Rivers may not 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 becoming due immediately.

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. In order to remain compliant under the Amended and Consolidated Loan Contract, in March 2013, the Company, prepared and presented to the RUS, its Corrective Action Plan setting forth the actions to be taken by management, that are reasonably expected to achieve two Credit Ratings of Investment Grade. The Company regularly updates the RUS on actions taken to date related to its Corrective Action Plan.

#### **(5) 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. For the rural customers, the demand charge is based on Maximum Adjusted Net Local Load (as defined in Big Rivers' tariff).

The Company has certain KPSC approved tariff riders; including a fuel adjustment clause and an environmental surcharge. The net effect of these tariffs is recognized as revenue on a monthly basis with an 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 (MRSB) that is 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. As described below, Big Rivers has proposed certain changes to its MRSB.

The KPSC entered an order on October 29, 2013, granting Big Rivers an annual revenue increase of \$54,227, effective August 20, 2013 (Case No. 2012-00535). In its order, the KPSC excluded the Coleman plant depreciation from rate recovery. The KPSC directed the Company to defer this depreciation expense and record the deferred amounts 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, 2019, cumulative depreciation expense of \$37,245 was deferred for the Coleman plant, which management believes is probable of recovery in future rates.

The KPSC entered an order on April 25, 2014, granting Big Rivers an annual revenue increase of \$36,160, effective February 1, 2014 (Case No. 2013-00199). In its order, the KPSC approved Big Rivers' 2012 Depreciation Study, but excluded Wilson plant depreciation from rate recovery. The KPSC directed the

## BIG RIVERS ELECTRIC CORPORATION

### Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

Company to defer the Wilson depreciation expense and record in a regulatory asset account, similar to the Coleman depreciation expense deferral per the KPSC's order in Case No. 2012-00535. As of December 31, 2019, cumulative depreciation expense of \$120,544 was deferred for the Wilson plant, which management believes is probable of recovery in future rates. The KPSC also approved Big Rivers' proposal to temporarily offset the rate increase by utilization of the MRSB. The KPSC further granted Big Rivers' proposed accounting treatment for transmission revenues related to the Hawesville smelter but included the test year transmission revenues related to the Sebree smelter in the determination of Big Rivers' revenue requirement. The net effect of this accounting treatment was the recognition of revenue on a monthly basis with an offset to the applicable regulatory liability accounts as the reserve funds were used to offset the impact of the base rate increase on the members' monthly bills. Effective July 17, 2009, the KPSC approved the implementation of the Non-Fuel Adjustment Clause-Purchased Power Adjustment (Non-FAC PPA) which is a rate mechanism allowing Big Rivers to recover certain costs of purchased power that are not recoverable through its Fuel Adjustment Clause (FAC). An accrual is recorded monthly to a regulatory asset or liability account based on the difference between the actual purchased power costs recoverable through the Non-FAC PPA and the purchased power base cost included in base rates. The balance in the regulatory asset or liability account as of June 30 each year is billed or refunded to members during the following twelve-month period beginning September 1 through August 31 of the following year.

The CCR Final Rule requires Big Rivers to address the eventual permanent closures of its coal ash ponds. Big Rivers believes it will face significant liabilities with respect to the treatment of the ash ponds at its Green Station and Station Two generating stations upon closure of the ash ponds. In accordance with FASB ASC 410-20, *Asset Retirement and Environmental Obligations – Asset Retirement Obligations* and under the RUS Uniform System of Accounts, Big Rivers initially recognized its coal ash pond AROs at fair value and subsequently adjusted for accretion expense and changes in estimated costs as of December 31, 2019 (Note 3).

On January 5, 2016, the KPSC issued an order in Case No. 2015-00333 approving Big Rivers' request to establish regulatory assets for the deferral of certain expenses it would incur for compliance with the CCR Final Rule, including accretion and depreciation expense related to the AROs and other incremental expenses. As of December 31, 2019, the total amount of CCR-related expenses and costs for asset retirement obligations deferred and included in Regulatory Assets on the Company's balance sheet was \$21,103.

On July 21, 2015, the KPSC issued an order in Case No. 2014-00134 approving the Nebraska Consortium contracts and the Stipulation and Recommendation (the "Stipulation") between Big Rivers, the Office of the Attorney General, and the Kentucky Industrial Utility Customers (KIUC). The Stipulation stated that Nebraska margins would flow back to Big Rivers' members through the MRSB tariff if, for the previous year, certain financial metrics were achieved. For the year ended December 31, 2019, Big Rivers did not meet these requirements.

On August 29, 2018, the KPSC entered an order (Case No. 2018-00146) (i) finding that the Station Two units were no longer capable of the normal, continuous, reliable operation for the economically competitive production of electricity; (ii) finding that the Station Two contracts, except for the Joint Facilities Agreement, have therefore terminated pursuant to their own terms; (iii) granting Big Rivers' request for authority to continue to operate Station Two under terms of the Station Two contracts for a period up to May 31, 2019;

## **BIG RIVERS ELECTRIC CORPORATION**

Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

and (iv) reserving a ruling on Big Rivers' request for authority to establish a Station Two regulatory asset. The remaining issues in this case were resolved with a Settlement Agreement between the Office of the Attorney General, the KIUC, and Big Rivers. The Settlement Agreement provided that the KPSC would approve the Station Two regulatory asset, that Big Rivers would establish a Station Two Depreciation Credit, starting in the month that Station Two is retired, to reduce customer bills based on the revenues Big Rivers would receive associated with depreciation expense on Station Two, that Big Rivers would establish a TIER Credit to reduce existing regulatory assets in the event Big Rivers achieves a TIER in excess of 1.45 in 2019 or 2020, and that in Big Rivers' next general rate case, the intervenors would support Big Rivers' recovery of the Station Two, Wilson plant, and, conditionally, the Coleman plant regulatory assets. On October 23, 2018, the KPSC issued a final order approving the Settlement Agreement in full. RUS approved the Settlement Agreement on February 22, 2019. Big Rivers retired Station Two on January 31, 2019. On February 26, 2019, Big Rivers filed revised tariff sheets with the KPSC to incorporate the Station Two Depreciation Credit. For the year ended December 31, 2019, the amount of Station Two assets transferred from utility plant to the Station Two regulatory asset was \$84,936; the Station Two Depreciation Credit was \$5,490; and Big Rivers' TIER Credit was \$27,743.

On December 12, 2018, the KPSC approved Big Rivers' request to phase out its existing Demand Side Management (DSM) programs, to establish a new Low-Income Weatherization Program, and to establish a regulatory liability for the savings associated with the phase out of the existing DSM programs.

# **BIG RIVERS ELECTRIC CORPORATION**

Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

In connection with the rate matters discussed above, the following tables provide a summary of Regulatory Assets and Liabilities reflected in the Balance Sheet as of December 31, 2019 and 2018:

		<b>Regulatory assets</b>	
		<b>2019</b>	<b>2018</b>
Coleman plant deferred depreciation	\$	37,245	31,418
Wilson plant deferred depreciation		120,544	99,949
Rate case expense and other		676	676
Non-FAC PPA		8,313	8,293
Asset retirement obligations		13,169	10,272
Environmental costs (CCR)		7,934	1,068
Station Two contract termination		90,424	2,306
Subtotal regulatory assets	\$	278,305	153,982
TIER Credit		(27,743)	—
Total regulatory assets	\$	250,562	153,982
		<b>Regulatory liabilities</b>	
		<b>2019</b>	<b>2018</b>
Economic reserve-member rate mitigation	\$	1,406	2,031
Demand side management		705	—
Total regulatory liabilities	\$	2,111	2,031

On February 7, 2020, Big Rivers filed an application with the KPSC for approval of Big Rivers' 2020 Environmental Compliance Plan ("2020 ECP"), which includes requests for authority to close the Green Station and Station Two ash ponds, to move the Coleman Station flue gas desulfurization system (FGD) to Wilson Station to replace Wilson's FGD, and to complete several CCR-related projects. Big Rivers also requested authority to close the Coleman Station ash ponds should Big Rivers be required to do so in compliance with certain environmental regulations. The total capital cost of the projects included in the 2020 ECP (including the Coleman ash ponds) is projected to be \$232,340. In the 2020 ECP proceeding, Big Rivers is also requesting the authority to recover through its existing environmental surcharge tariff rider the costs of the 2020 ECP, including the costs of the new projects in the plan as well as the costs of Big Rivers' existing CCR-related regulatory assets. The 2020 ECP case is pending.

On February 28, 2020, Big Rivers filed an application with the KPSC seeking approval to cease the deferral of the Coleman and Wilson Station depreciation expense; to retire the Coleman Station and Reid Station Unit 1 subject to receiving the KPSC's and RUS' approval to establish regulatory assets for the remaining net book value of both stations and for other costs related to their retirement, including the cost to decommission the units; to cease deferring DSM-related savings through the DSM regulatory liability; to recover through existing rates the Coleman and Wilson depreciation-related regulatory assets, the Station



## **BIG RIVERS ELECTRIC CORPORATION**

### **Notes to Financial Statements**

**December 31, 2019 and 2018**

**(Dollars in thousands)**

Two contract termination-related regulatory asset, and the Coleman and Reid Unit 1 retirement-related regulatory assets (collectively, the “Smelter Loss Mitigation Regulatory Assets”) by amortizing the balance of those assets (less the current balance of the DSM regulatory liability and 80% of the headroom Big Rivers has in equity over the minimum equity levels required by its loan covenants) over the remaining life of all-requirements contracts with its Members (i.e., through December 31, 2043). In addition, Big Rivers proposes a new TIER credit, and the modification of its MRSM tariff, under which one-half of the margins Big Rivers earns over the margins that would produce a 1.30 TIER is credited to Members and the other half is used to further reduce the balances of the Smelter Loss Mitigation Regulatory Assets. This case is pending.

#### **(6) Income Taxes**

At December 31, 2019, Big Rivers had a Non-Patron Net Operating Loss (NOL) Carryforward of approximately \$30,467 expiring at various times between 2029 and 2039 which was entirely offset by a full valuation allowance.

At December 31, 2019, the Company also had an Alternative Minimum Tax (AMT) Credit Carryforward of \$107. The Company expects to claim a refund of AMT credit carryforwards of \$54 on its 2019 federal tax return.

On December 22, 2017, the U.S. government enacted comprehensive Federal tax legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 (the “Tax Act”). The Tax Act significantly modified the U.S. corporate income tax system by, among other things, reducing the corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017. The income tax effects of changes in tax laws are recognized in the period when enacted. In addition to the reduction to the corporate tax rate, the Tax Act also repealed AMT as well as IRC Section 168(k)(4). For tax years beginning in 2018, 2019, and 2020, to the extent that AMT credit carryovers exceed regular tax liability (as reduced by certain other credits), 50% of the excess AMT credit carryovers are refundable. Any remaining AMT credits will be fully refundable in 2021. The Tax Act also requires deferred AMT refunds previously reported on the balance sheet in Other Deferred Charges to be reported as a long-term receivable. At December 31, 2019 and 2018, Big Rivers reported \$54 and \$200, respectively, as Federal Tax Receivable.

# **BIG RIVERS ELECTRIC CORPORATION**

## Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

The components of the net deferred tax assets as of December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Deferred tax assets:		
Net operating loss carryforward	\$ 7,602	4,223
Fixed asset basis difference	1,730	707
Total deferred tax assets	<u>9,332</u>	<u>4,930</u>
Deferred tax liabilities:		
RUS Series B Note	(3,343)	(3,343)
Bond refunding costs	(62)	(67)
Total deferred tax liabilities	<u>(3,405)</u>	<u>(3,410)</u>
Net deferred tax asset (prevaluation allowance)	5,927	1,520
Valuation allowance	(5,927)	(1,520)
Net deferred tax asset	<u>\$ —</u>	<u>—</u>

A reconciliation of the Company's effective tax rate for 2019, 2018, and 2017 is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Federal rate	21.0%	21.0%	35.0%
State rate – net of federal benefit	4.0	4.0	4.7
Permanent differences	0.5	0.3	0.4
Patronage allocation to members	(25.4)	(25.3)	(40.2)
Alternative minimum tax credit recovery	<u>(0.3)</u>	<u>(0.3)</u>	<u>—</u>
Effective tax rate	<u>(0.2)%</u>	<u>(0.3)%</u>	<u>(0.1)%</u>

The Company files a federal income tax return, as well as certain state income tax returns. The years currently open for federal income tax examination are 2016 through 2018. The major state tax jurisdiction currently open for income tax examination is Kentucky for years 2015 through 2018. The Company has not recorded any unrecognized tax benefits or liabilities related to federal or state income taxes.

The Company classifies tax-related interest and penalties as an operating expense on the statement of operations and accrued expenses on the balance sheet. No material tax-related interest or penalties have been recorded during 2019, 2018, or 2017.

## BIG RIVERS ELECTRIC CORPORATION

Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

### (7) Pension Plans

#### (a) *Defined-Benefit Plans*

Big Rivers has a noncontributory defined-benefit pension plan covering substantially all employees who meet minimum age and service requirements and who were employed by the Company prior to the plan closure dates cited below. The plan provides 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 plan in accordance with the requirements of the Employee Retirement Income Security Act of 1974.

Prior to January 1, 2014, Big Rivers had two separate defined-benefit pension plans. 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.

In order to meet minimum participation requirements, Big Rivers' salaried employees defined benefit plan was merged into the bargaining employees defined benefit plan. The merger was effective January 1, 2014 for purposes of Internal Revenue Code and effective December 31, 2014 for all other purposes. Effective January 1, 2017, participation was frozen in the merged plan for highly compensated employees in order to comply with IRS code section 401(a)(26).

The Company has adopted FASB ASC 715, *Compensation – Retirement Benefits*, including the requirement to recognize the funded status of its pension plan and other postretirement plans (Note 11 – Postretirement Benefits Other than Pensions). 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.

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 of 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, 2019 and 2018.

# **BIG RIVERS ELECTRIC CORPORATION**

## Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

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

A reconciliation of the Company's benefit obligations of its noncontributory defined-benefit pension plan at December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Benefit obligation – beginning of period	\$ 20,962	22,176
Service cost – benefits earned during the period	599	766
Interest cost on projected benefit obligation	834	762
Benefits paid	(2,233)	(2,304)
Actuarial loss (gain)	<u>1,458</u>	<u>(438)</u>
Benefit obligation – end of period	<u>\$ 21,620</u>	<u>20,962</u>

Big Rivers' defined-benefit pension plan provides retirees and terminated employees with a lump-sum payment option. Benefits paid in 2019 include lump-sum payments totaling \$2,193 – the result of five retirees or terminated employees electing the lump-sum payment option. Benefits paid in 2018 include lump-sum payments totaling \$2,264 – the result of four retirees or terminated employees electing the lump-sum payment option.

The accumulated benefit obligation for the defined-benefit pension plan was \$17,545 and \$16,934 at December 31, 2019 and 2018, respectively.

A reconciliation of the Company's pension plan assets at December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Fair value of plan assets – beginning of period	\$ 18,973	19,851
Employer contributions	—	1,971
Actual return on plan assets	4,158	(545)
Benefits paid	<u>(2,233)</u>	<u>(2,304)</u>
Fair value of plan assets – end of period	<u>\$ 20,898</u>	<u>18,973</u>

The funded status of the Company's pension plan at December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Benefit obligation – end of period	\$ (21,620)	(20,962)
Fair value of plan assets – end of period	<u>20,898</u>	<u>18,973</u>
Funded status	<u>\$ (722)</u>	<u>(1,989)</u>

# **BIG RIVERS ELECTRIC CORPORATION**

## Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

Components of net periodic pension costs for the years ended December 31, 2019, 2018, and 2017 were as follows:

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Service cost	\$ 599	766	798
Interest cost	834	762	801
Expected return on plan assets	(1,194)	(1,243)	(1,262)
Amortization of prior service cost	(33)	(33)	(33)
Amortization of actuarial loss	325	304	409
Settlement loss	268	533	—
Net periodic benefit cost	<u>\$ 799</u>	<u>1,089</u>	<u>713</u>

A reconciliation of the pension plan amounts in accumulated other comprehensive income at December 31, 2019 and 2018 is as follows:

	<b>2019</b>	<b>2018</b>
Prior service cost	\$ 22	55
Unamortized actuarial loss	(2,617)	(4,716)
Accumulated other comprehensive income	<u>\$ (2,595)</u>	<u>(4,661)</u>

In 2020, \$33 of prior service credit and \$47 of actuarial loss is expected to be amortized to periodic pension benefit cost.

The recognized adjustments to other comprehensive income at December 31, 2019 and 2018 are as follows:

	<b>2019</b>	<b>2018</b>
Prior service cost	\$ —	—
Unamortized actuarial gain/(loss)	(2,065)	546
Other comprehensive (income)/loss	<u>\$ (2,065)</u>	<u>546</u>

At December 31, 2019 and 2018, amounts recognized in the balance sheets were as follows:

	<b>2019</b>	<b>2018</b>
Deferred credits and other	\$ (722)	(1,989)

**BIG RIVERS ELECTRIC CORPORATION**

## Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

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

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Discount rate – projected benefit obligation	2.99%	4.12%	3.44%
Discount rate – net periodic benefit cost	4.12	3.44	3.80
Rates of increase in compensation levels	4.00	4.00	4.00
Expected long-term rate of return on assets	6.50	6.50	7.00

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 plan. The expected long-term rate of return on assets is based on the median expected rate of return for a passively-managed portfolio plus the incremental return from active management.

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, 2019 and 2018, the investment allocation was 55% and 54%, respectively, in U.S. equities, 12% and 11%, respectively, in international equities, and 33% and 35%, 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 plan. 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.

# **BIG RIVERS ELECTRIC CORPORATION**

## Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

At December 31, 2019 and 2018, the fair value of Big Rivers' defined-benefit pension plan assets by asset category are as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>December 31, 2019</b>
Cash and money market	\$ 607	—	607
Equity securities:			
Common stock	8,792	—	8,792
Preferred stock	538	—	538
Mutual funds	5,183	—	5,183
Fixed:			
Tax exempt bonds and notes	—	2,250	2,250
Corporate bonds and notes	—	3,528	3,528
	<u>\$ 15,120</u>	<u>5,778</u>	<u>20,898</u>
	<b>Level 1</b>	<b>Level 2</b>	<b>December 31, 2018</b>
Cash and money market	\$ 932	—	932
Equity securities:			
Common stock	6,939	—	6,939
Preferred stock	425	—	425
Mutual funds	5,478	—	5,478
Fixed:			
Tax exempt bonds and notes	—	2,426	2,426
Corporate bonds and notes	—	2,773	2,773
	<u>\$ 13,774</u>	<u>5,199</u>	<u>18,973</u>



## BIG RIVERS ELECTRIC CORPORATION

### Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

Expected retiree pension benefit payments projected to be required during the years following 2019 are as follows:

	<u>Amount</u>
Year ending December 31:	
2020	\$ 1,099
2021	1,785
2022	1,584
2023	1,729
2024	2,412
Thereafter	<u>9,089</u>
Total	<u>\$ 17,698</u>

#### **(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 \$4,749, \$5,124, and \$5,087 for the years ended December 31, 2019, 2018 and 2017, 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 employer contribution for December 31, 2019 and 2018 was \$156 and \$136, respectively, and the deferred compensation expense for December 31, 2019, 2018, and 2017 was \$248, \$136, and \$103, respectively. As of December 31, 2019, the trust asset was \$895 and the deferred liability was \$895.

# **BIG RIVERS ELECTRIC CORPORATION**

Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

## **(8) Restricted Investments**

The amortized costs and fair values (Level 1 measurement) of Big Rivers' restricted investments held for Member rate mitigation at December 31, 2019 and 2018 were as follows:

	<b>2019</b>		<b>2018</b>	
	<b>Amortized costs</b>	<b>Fair values</b>	<b>Amortized costs</b>	<b>Fair values</b>
Debt securities:				
U.S. Treasury – Money Market	\$ 1,391	1,391	691	691
Total	<u>\$ 1,391</u>	<u>1,391</u>	<u>691</u>	<u>691</u>

There were no gross unrealized gains or losses on restricted investments at December 31, 2019 and 2018.

	<b>2019</b>		<b>2018</b>	
	<b>Gains</b>	<b>Losses</b>	<b>Gains</b>	<b>Losses</b>
Debt securities:				
U.S. Treasury – Money Market	\$ —	—	—	—
Total	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>

Debt securities at December 31, 2019 and 2018 mature, according to their contractual terms, as follows (actual maturities may differ due to call or prepayment rights):

	<b>2019</b>		<b>2018</b>	
	<b>Amortized costs</b>	<b>Fair values</b>	<b>Amortized costs</b>	<b>Fair values</b>
In one year or less	\$ 1,391	1,391	691	691
Total	<u>\$ 1,391</u>	<u>1,391</u>	<u>691</u>	<u>691</u>

# **BIG RIVERS ELECTRIC CORPORATION**

## Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

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, 2019 and 2018 were as follows:

	<b>2019</b>		<b>2018</b>	
	<b>Less than 12 months</b>		<b>Less than 12 months</b>	
	<b>Losses</b>	<b>Fair values</b>	<b>Losses</b>	<b>Fair values</b>
Debt securities:				
U.S. Treasury – Money Market	\$ —	1,391	—	691
Total	\$ —	1,391	—	691

None of the Company's restricted investments held for Member rate mitigation were in an unrealized loss position as of December 31, 2019 or 2018.

In conjunction with the CFC \$302,000 secured term loan (Note 4), Big Rivers was required to invest in CFC 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, they do not have readily determinable fair values and are accounted for at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.. The Company's investment in these CTCs at December 31, 2019 and 2018 was \$31,609 and \$33,416, respectively.

## **(9) Short-Term Investments**

At December 31, 2019, the Company's short-term investments included \$5,022 of investments in debt securities and \$4,415 of investments in certificates of deposits (CDs), which are both included in the Company's balance sheet at amortized cost. At December 31, 2018, the Company's short-term investments included \$4,987 of investments in debt securities and \$4,620 of investments in CDs, which are both included in the Company's balance sheet at amortized cost. The investments in debt securities are classified as held-to-maturity, based on management's intent and ability to hold them to maturity. Both CDs and investments in debt securities are included in "Cash and Cash Equivalents" (if the original maturity date is less than or equal to three months) or "Short-term-investments" (if the original maturity date is greater than three months but less than one year).

# **BIG RIVERS ELECTRIC CORPORATION**

## Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

The amortized costs and fair values (Level 1 measurement) of Big Rivers' short-term investments at December 31, 2019 and 2018, were as follows:

	<b>2019</b>		<b>2018</b>	
	<b>Amortized costs</b>	<b>Fair values</b>	<b>Amortized costs</b>	<b>Fair values</b>
Debt securities:				
Corporate notes	\$ 1,223	1,226	1,215	1,219
U.S. Treasuries	3,799	3,812	3,390	3,408
U.S. Government agency	—	—	382	384
Total debt securities	5,022	5,038	4,987	5,011
Other:				
Certificates of deposit	4,415	4,423	4,620	4,615
Total short-term investments	<u>\$ 9,437</u>	<u>9,461</u>	<u>9,607</u>	<u>9,626</u>

Gross unrealized gains and losses on short-term investments at December 31, 2019 and 2018, were as follows:

	<b>2019</b>		<b>2018</b>	
	<b>Gains</b>	<b>Losses</b>	<b>Gains</b>	<b>Losses</b>
Debt securities:				
Corporate notes	\$ 3	—	4	—
U.S. Treasuries	13	—	18	—
U.S. government agency	—	—	2	—
Total debt securities	16	—	24	—
Other:				
Certificates of deposit	8	—	—	(5)
Total short-term investments	<u>\$ 24</u>	<u>—</u>	<u>24</u>	<u>(5)</u>

### **(10) 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, 2019 and 2018, the Company's cash and cash equivalents included short-term

# **BIG RIVERS ELECTRIC CORPORATION**

## Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

investments in an institutional U.S. government money market portfolio account classified as trading securities under ASC 320, *Investments – Debt and Equity Securities*, that were recorded at fair value which was determined using quoted market prices for identical assets without regard to valuation adjustment or block discount (a Level 1 measure), as follows:

	<u>2019</u>	<u>2018</u>
Institutional U.S. government money market portfolio	\$ 28,744	35,606

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, 2019, consisted of CFC notes totaling \$246,941, a CoBank note in the amount of \$171,442, an RUS note totaling \$195,027, RUS guaranteed FFB loans totaling \$43,064, and fixed-rate pollution control bonds in the amount of \$83,300 (Note 4). The CFC, CoBank, RUS and FFB debt cannot be traded in the market, and therefore, a value other than their outstanding principal amounts cannot be determined. At December 31, 2019, the fair value of Big Rivers' fixed-rate Series 2010A Bonds, was determined based on quoted prices available for the most recent trades of those bonds occurring in the dealer market on or near the balance sheet date (Level 1 measure) and totaled \$84,341.

### **(11) 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 age 55 to 61. 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 \$1.25 per year of service up to 30 years. 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:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Discount rate – projected benefit obligation	3.34%	4.34%	3.66%
Discount rate – net periodic benefit cost	4.34	3.66	4.21



# **BIG RIVERS ELECTRIC CORPORATION**

## Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

The healthcare cost trend rate assumptions as of December 31, 2019 and 2018 were as follows:

	<b>2019</b>	<b>2018</b>
Initial trend rate	5.98%	6.24%
Ultimate trend rate	4.50	4.50
Year ultimate trend is reached	2038	2038

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

	<b>2019</b>	<b>2018</b>
One-percentage-point decrease:		
Effect on total service and interest cost components	\$ (113)	(136)
Effect on year-end benefit obligation	(1,321)	(1,265)
One-percentage-point increase:		
Effect on total service and interest cost components	\$ 143	175
Effect on year-end benefit obligation	1,654	1,553

A reconciliation of the Company's benefit obligations of its postretirement plan at December 31, 2019 and 2018 is as follows:

	<b>2019</b>	<b>2018</b>
Benefit obligation – beginning of period	\$ 13,892	14,348
Service cost – benefits earned during the period	447	551
Interest cost on projected benefit obligation	544	530
Participant contributions	369	288
Plan amendments	227	—
Plan curtailments	98	—
Special termination benefits	204	—
Benefits paid	(1,829)	(1,412)
Actuarial loss (gain)	722	(413)
Benefit obligation – end of period	<u>\$ 14,674</u>	<u>13,892</u>

# **BIG RIVERS ELECTRIC CORPORATION**

## Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

Big Rivers revised the eligibility requirements for postretirement medical with regard to age and service. Beginning January 1, 2013, eligibility for retirement is age 62 with 10 years of service. The service requirement is waived for active employees on December 31, 2012 who will not have 10 years of service at age 62. A reconciliation of the Company's postretirement plan assets at December 31, 2019 and 2018 is as follows:

	<b>2019</b>	<b>2018</b>
Fair value of plan assets – beginning of period	\$ —	—
Employer contributions	1,460	1,124
Participant contributions	369	288
Benefits paid	<u>(1,829)</u>	<u>(1,412)</u>
Fair value of plan assets – end of period	<u>\$ —</u>	<u>—</u>

The funded status of the Company's postretirement plan at December 31, 2019 and 2018 is as follows:

	<b>2019</b>	<b>2018</b>
Benefit obligation – end of period	\$ (14,674)	(13,892)
Fair value of plan assets – end of period	<u>—</u>	<u>—</u>
Funded status	<u>\$ (14,674)</u>	<u>(13,892)</u>

The components of net periodic postretirement benefit costs for the years ended December 31, 2019, 2018, and 2017 were as follows:

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Service cost	\$ 447	551	475
Interest cost	544	530	551
Amortization of prior service cost	(138)	(138)	(138)
Amortization of gain	(198)	(30)	(170)
Curtailment recognized	(49)	—	—
Special termination benefits	<u>204</u>	<u>—</u>	<u>—</u>
Net periodic benefit cost	<u>\$ 810</u>	<u>913</u>	<u>718</u>

# **BIG RIVERS ELECTRIC CORPORATION**

## Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

A reconciliation of the postretirement plan amounts in accumulated other comprehensive income at December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Prior service credit	\$ 605	1,018
Unamortized actuarial gain	<u>1,963</u>	<u>2,981</u>
Accumulated other comprehensive income	<u>\$ 2,568</u>	<u>3,999</u>

In 2020, \$112 of prior service cost and \$37 of actuarial gain is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income (loss) at December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Prior service cost	\$ (414)	(138)
Unamortized actuarial gain (loss)	(820)	413
Amortization of net gain	<u>(198)</u>	<u>(30)</u>
Other comprehensive income/(loss)	<u>\$ (1,432)</u>	<u>245</u>

At December 31, 2019 and 2018, amounts recognized in the balance sheets were as follows:

	<u>2019</u>	<u>2018</u>
Accounts payable	\$ (1,445)	(1,151)
Deferred credits and other	<u>(13,229)</u>	<u>(12,741)</u>
Net amount recognized	<u>\$ (14,674)</u>	<u>(13,892)</u>

## BIG RIVERS ELECTRIC CORPORATION

### Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

Expected retiree benefit payments projected to be required during the years following 2019 are as follows:

		<u>Amount</u>
Year:		
2020	\$	1,445
2021		1,281
2022		1,169
2023		1,042
2024		944
Thereafter		<u>4,292</u>
Total	\$	<u><u>10,173</u></u>

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 \$676 and \$682 at December 31, 2019 and 2018, respectively. The postretirement expense recorded was \$61, \$72, and \$83, for 2019, 2018, and 2017, respectively, and the benefits paid were \$67, \$21, and \$5 for 2019, 2018, and 2017, respectively.

### (12) Related Parties

For the years ended December 31, 2019, 2018, and 2017, Big Rivers had tariff sales to its members of \$256,280, \$263,792, and \$248,389, respectively. In addition, for the years ended December 31, 2019, 2018, and 2017, Big Rivers had certain sales to Kenergy for the Domtar Paper Co. load of \$4,182, \$3,833, and \$2,336, respectively.

At December 31, 2019 and 2018, Big Rivers had accounts receivable from its members of \$20,903 and \$21,826, respectively.

### (13) Commitments and Contingencies

Big Rivers is involved in ongoing litigation with the City of Henderson and the City of Henderson Utility Commission doing business as Henderson Municipal Power and Light (collectively, "HMP&L") in which Big Rivers is seeking damages from HMP&L relating to HMP&L's refusal to pay the costs associated with Excess Henderson Energy produced at Station Two. In December 2017, Big Rivers and HMP&L entered into an agreement to settle all claims relating to Excess Henderson Energy. Under the settlement agreement, HMP&L agreed to be responsible for all costs related to Excess Henderson Energy generated after the effective date of the settlement agreement. Big Rivers has filed a claim against HMP&L for those costs, and HMP&L has filed a counterclaim alleging that if HMP&L is required to pay the costs of the Excess Henderson Energy, it is entitled to an offset for the revenues related to that energy. Big Rivers does not dispute that HMP&L is entitled to the Excess Henderson Energy-related revenues if it pays the costs of that energy.

## BIG RIVERS ELECTRIC CORPORATION

Notes to Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

On May 1, 2018, the contracts under which Big Rivers was operating Station Two terminated as a result of the Station Two units no longer being capable of the economically competitive production of electricity (Note 5). To allow HMP&L time to make alternate arrangements for its power supply, Big Rivers continued to operate the units under the terms of the Station Two contracts until the units were retired on January 31, 2019. The termination of the Station Two contracts has given rise to disputes between the parties, including a declaratory judgment action HMP&L has filed relating to the interpretation of the deed to the real estate on which the Station Two units were constructed, a claim HMP&L has filed seeking amounts HMP&L claims it is owed as a result of the annual budget settlement process that occurred during the term of the Station Two contracts, and a proceeding Big Rivers filed with the KPSC to resolve all outstanding disputes between it and HMP&L. The Company believes there will be no material adverse effect to its financial statements when the litigation and disputes with HMP&L are resolved.

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.

### **(14) Subsequent Events**

See Note 4(d) relating to the pollution control bonds.

See Note 4(h) relating to the amendment and extension of the line of credit.

See Note 5 relating to Case No. 2020-00064, *Application of Big Rivers Electric Corporation for Approval to Modify its MRSM Tariff, Cease Deferring Depreciation Expenses, Establish Regulatory Assets, Amortize Regulatory Assets, and Other Appropriate Relief*, which Big Rivers anticipates will begin in part in December 2020 and in full beginning January 2021, filed with the KPSC on February 28, 2020.

In March 2020, the World Health Organization declared the novel strain of the coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of the date of this filing, the Company does not expect the COVID-19 disruption to materially impact its 2020 results of operations or financial position. However, the Company cannot reasonably estimate the overall length or severity of this pandemic, or the extent to which a prolonged disruption may impact the Company's financial position or results of operations beyond 2020.

Management evaluated subsequent events up to and including April 15, 2020, the date the financial statements were available to be issued.



# BIG RIVERS BOARD OF DIRECTORS, LEADERSHIP TEAM, AND MEMBER-OWNERS

## BOARD OF DIRECTORS

**PAUL EDD BUTLER**, CHAIR, MEADE COUNTY RECC   **WAYNE ELLIOT**, VICE CHAIR, JACKSON PURCHASE ENERGY CORP.   **BILL DENTON**, SECRETARY-TREASURER, KENERGY CORP   **DR. JAMES SILLS**, MEADE COUNTY RECC   **ERICK HARRIS**, JACKSON PURCHASE ENERGY CORP.   **JOHN WARREN**, KENERGY CORP   **TYSON KAMUF**, CORPORATE COUNSEL

## SENIOR LEADERSHIP TEAM

**ROBERT BERRY**, PRESIDENT AND CHIEF EXECUTIVE OFFICER   **PAULA MITCHELL AND AMANDA JACKSON**, EXECUTIVE ASSISTANT   **PAUL SMITH**, CHIEF FINANCIAL OFFICER   **MIKE CHAMBLISS**, VP SYSTEM OPERATIONS   **MIKE PULLEN**, VP PRODUCTION   **MARK EACRET**, VP ENERGY SERVICES   **LINDSAY DURBIN**, VP HUMAN RESOURCES   **JENNIFER KEACH**, DIRECTOR COMMUNICATIONS AND COMMUNITY RELATIONS   **SHARLA WELLS**, DIRECTOR LEGISLATIVE AFFAIRS AND GOVERNMENTAL RELATIONS

## MEMBER-OWNERS

<div>JACKSON PURCHASE ENERGY CORPORATION</div>	<div><b>GREG GRISSOM</b>, PRESIDENT AND CEO</div> <div><b>SERVES:</b> BALLARD, CARLISLE, GRAVES, LIVINGSTON, MARSHALL AND MCCrackEN COUNTIES</div> <div><b>HEADQUARTERED:</b> PADUCAH, KENTUCKY</div> <div><b>NUMBER OF ACCOUNTS:</b> 30,057</div> <div><b>MILES OF LINES:</b> 2,964</div>
<div>KENERGY CORP</div>	<div><b>JEFFREY HOHN</b>, PRESIDENT AND CEO</div> <div><b>SERVES:</b> BRECKINRIDGE, CALDWELL, CRITTENDEN, DAVIESS, HANCOCK, HENDERSON, HOPKINS, LIVINGSTON, LYON, MCLEAN, MUHLENBERG, OHIO, UNION AND WEBSTER COUNTIES</div> <div><b>HEADQUARTERED:</b> HENDERSON, KENTUCKY</div> <div><b>NUMBER OF ACCOUNTS:</b> 58,104</div> <div><b>MILES OF LINES:</b> 7,178</div>
<div>MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION</div>	<div><b>MARTIN LITTREL</b>, PRESIDENT AND CEO</div> <div><b>SERVES:</b> BRECKINRIDGE, GRAYSON, HANCOCK, HARDIN, MEADE AND OHIO COUNTIES</div> <div><b>HEADQUARTERED:</b> BRANDENBURG, KENTUCKY</div> <div><b>NUMBER OF ACCOUNTS:</b> 29,905</div> <div><b>MILES OF LINES:</b> 3,242</div>



**Big Rivers Electric Corporation**

P.O. Box 24, Henderson, KY 42419-0024

Tel: 270.827.2561

[www.bigrivers.com](http://www.bigrivers.com)

AARON LEACH DEBBIE LIGON ZACH LILES TOM LILLY LESLIE LOVAN CHRISTA LUCAS DWIGHT  
LUCAS MIKE MADDOX GEORGE MARSHALL JEREMY MARTIN CHAD MARVEL BRIAN MATTINGLY  
CHRIS MATTINGLY RON MATTINGLY TOM MATTINGLY ALLEN MAYFIELD KEVIN MAYFIELD  
MARK MCADAMS STEPHANIE MCCOMBS HOWIE MCCORMICK JENNIFER MCCORMICK MARK  
MCDOLE ANDY MCINTYRE ERIC MCLEAN DAVE MEDLEY JOHNNY MEFFORD DIANA MERRITT  
JACOB MESSER STEVE MICHAEL GRANT MILES JIM MILLER ADAM MILLS DEREK MILLS WAYNE  
MILLS TOM MOODY CHRIS MOORE NICK MOORMAN DAVID MORGAN BOB MOSS BRUCE  
MURPHY DONNA NALLY JEFF NEWMAN MELISSA NICHOLS DANNY O'NAN REECE O'NAN RYAN  
O'NAN BRANDON OSBORNE TYLER OVERFIELD JUSTIN OWEN NANCY OWEN RICHIE PARKER  
RICHARD PARKER JOY PARSLEY MARLENE PARSLEY JERRY PATTERSON CHASE PAYNE CHRIS  
PAYNE VICKY PAYNE JEFF PAYNE SEAN PEARSON KERRY PENCE MIKE PENCE JOHN PFEIFFER  
BEAU PHILLIPS CHAD PHILLIPS GREG PHILLIPS JIMMIE PIPER RUSS POGUE JERRY POILES JEFF  
POLIVICK TROY POLLARD DARRYL PRATHER NATHAN PRUITT MIKE PULLEN BRENT PULLIAM  
PHILLIP PURYEAR DALE RECTOR JEFF REYNOLDS STEVE RICHMOND HUNTER RICKARD CHAD  
RIDEOUT JR RIES KATIE RISLEY STEVE RITTMAYER BOBBI ROBB CINDY ROYBAL MIKE  
ROYBAL JANA RUSSELBURG TERESA SALLEE TY SALSAMAN GEORGE SCHADLER ERIC SCHMIDT  
MICHAEL SCHULZ JULIE SCOTT KEITH SCOTT MIKE SCOTT SUE SCOTT BOBBY SHAW TOM  
SHAW LYNDON SHEARN BRUCE SHELTON CHARLIE SHELTON DON SHELTON JOE SHELTON  
SONNY SHELTON STACY SHELTON DON SIMPSON DOUG SIMPSON JOE SIPES DARRIN SMITH  
DEREK SMITH JIM SMITH PAUL SMITH SUSAN SMITH TRAVIS SNEED JAMES SNELLING SALLY  
SNYDER DEANNA SPEED DAVID STALLINGS STEVE STEARSMAN MARK STERLING NATHAN  
STIFF SAM STILLEY HEATH STONE JENNIFER STONE MEREDITH STONE DAWN STORCKMAN  
DANNY STOVALL TROY STOVALL JOSH STOVER PHIL STRATMAN JARET STRICKLAND DEBBIE  
STROUSE DAVID SUGG BLAKE SWEENEY CHARLIE SWEENEY JERRAME SWIFT KINSEL SWIHART  
DARRELL TALLEY SCOTT TAPP TIM TAPP JEREMY TATE JOHN TAUL TERESA TAYLOR BRANDON  
TEAGUE JERROD THOMAS MIKE THOMAS BRIAN THOMAS STEVE THOMAS KYLE THOMPSON  
ROBERT THORNTON BARRY TICHENOR GARY TIVITT HEATHER TODD ROB TOERNE BILLY  
TRAVIS DAVID TRAVIS MICHELLE TROVATO CHUCK TUCKER CHUCK TURNER ELIZABETH TUTOR  
JEFF VANDIVER STEVE VOLLE JAMES WADLINGTON DEWAYNE WALTRIP DESSI WAPLE CHRIS  
WARREN BOB WARREN JIM WEDDING SHARLA WELLS KEVIN WEST TIM WEST DARYL WHEAT  
JASON WHITLEDGE JEREMY WHITLEDGE ERIC WILLIS BRUCE WILLIS JERRY WILSON DONNA  
WINDHAUS RON WOLFE DANNY WOODARD JOHN WOODCOCK JOSH WOODS TIM WOODS  
DONNIE WORKINS MIKE WORKINS JUSTIN WRIGHT KENNY WRIGHT DEBBIE YATES ALLEN  
YOUNG KYLE YOUNG