

# Goss ■ Samford PLLC



November 25, 2014

*VIA HAND DELIVERY*

Mr. Jeff Derouen  
Executive Director  
Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40602

RECEIVED

NOV 25 2014

PUBLIC SERVICE  
COMMISSION

Re: PSC Case No. 2014-00226

Dear Mr. Derouen:

Please find enclosed for filing with the Commission in the above-referenced case an original and ten copies of East Kentucky Power Cooperative, Inc.'s ("EKPC") responses to the Commission's Post-Hearing Data Requests arising from the hearing held on November 12, 2014.

Should you have any questions, please give me a call.

Sincerely,

David S. Samford  
Counsel

Enclosures

cc: W. Jeffrey Scott (w/enclosures)

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE  
COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF )  
THE FUEL ADJUSTMENT CLAUSE OF EAST )  
KENTUCKY POWER COOPERATIVE, INC. )  
INC. FROM NOVEMBER 1, 2013 THROUGH APRIL )  
30, 2014 )

CASE NO.  
2014-00226

RESPONSE OF EAST KENTUCKY POWER COOPERATIVE, INC.  
TO COMMISSION'S INFORMATION REQUEST AT  
HEARING HELD ON NOVEMBER 12, 2014



COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

AN EXAMINATION OF THE APPLICATION OF )  
THE FUEL ADJUSTMENT CLAUSE OF EAST )  
KENTUCKY POWER COOPERATIVE, INC. )  
INC. FROM NOVEMBER 1, 2013 THROUGH APRIL )  
30, 2014 )

CASE NO.  
2014-00226

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PUBLIC SERVICE  
COMMISSION

CERTIFICATE

STATE OF KENTUCKY )  
COUNTY OF CLARK )

Mark Horn, being duly sworn, states that he has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Commission's Information Request at the hearing held on November 12, 2014, and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.

*Mark Horn*

Subscribed and sworn before me on this 20<sup>th</sup> day of November, 2014.

*Gwyn M. Willoughby #50044*  
Notary Public









EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2014-00226  
FUEL ADJUSTMENT CLAUSE  
RESPONSE TO INFORMATION REQUEST

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PUBLIC SERVICE  
COMMISSION

COMMISSION'S INFORMATION REQUEST AT HEARING HELD ON 11/12/14  
REQUEST 1

RESPONSIBLE PARTY: Craig A. Johnson

Request 1. Provide the basis for low gas pressure outages.

Response 1. The low gas pressure was a result of having a failed regulator in the Tennessee Natural Gas Metering and Regulating Yard. All Smith combustion turbine units were online at the time with exception to Unit 1. The failed regulator caused a rapid dip in gas pressure which resulted in Units 7, 9 and 10 tripping. Plant Operators were able to keep Units 2 through 6 online during this event.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2014-00226

FUEL ADJUSTMENT CLAUSE

RESPONSE TO INFORMATION REQUEST

COMMISSION'S INFORMATION REQUEST AT HEARING HELD ON 11/12/14  
REQUEST 2

RESPONSIBLE PARTY: Mark Horn

Request 2. Provide the status of the claims deadline in the bankruptcy court.

Response 2. The Trustee shall have through and including December 31, 2014 to file any objections to the Supply Contract Claims.

**EAST KENTUCKY POWER COOPERATIVE, INC.**

**PSC CASE NO. 2014-00226**

**FUEL ADJUSTMENT CLAUSE**

**RESPONSE TO INFORMATION REQUEST**

**COMMISSION'S INFORMATION REQUEST AT HEARING HELD ON 11/12/14  
REQUEST 3**

**RESPONSIBLE PARTY: Mark Horn**

**Request 3.** Please provide a copy of the Fuel and Lime Procurement Manual with the changes tracked.

**Response 3.** Please see pages 2 through 43 of this response for the tracked changes of the Fuel and Lime Procurement Manual.



# 2013 Revisions

4.7.3 ~~Administrative Assistant, at the direction of the Fuel Buyers, distributes the executed contract(s) and/or purchase order(s) internally as well as to EKPC's risk management service provider within five business days after trade execution for capture in a risk management system as per Policy No. 404 (Exhibit 4).~~  
Administrative Assistant, at the direction of the Fuel Buyers, distributes the executed contract(s) and/or purchase order(s) internally. These documents are posted to a shared directory with EKPC's risk management service provider within five business days after trade execution for capture in a risk management system as per Policy No. 404 (Exhibit 5) and No. A031 (Exhibit 2). The documents must be deleted from the shared directory within five business days for internal control.

The Admin is to give  
 Assistants contract  
 the the risk management  
 provider was  
 captured the pos  
 documents and promptly  
 removes them from the  
 shared directory

4.7.4 Fuel Analyst logs approved contract(s) and purchase order(s) on Trading Authority Transaction Matrix.

4.7.5 Administrative Assistant files executed contract(s) and purchase order(s) in Fuel and Emissions' department files with documentation per checklist (Exhibit 134).

Fuel and Emissions personnel schedule coal from the then current contract(s) and/or purchase order(s) to replenish depleted power station supply based on power station need.

4.8.1 Provide selected supplier(s) and barge and train carriers, if applicable, a projected delivery schedule each month for Spurlock Power Station.

4.9 Power Plant Personnel receive delivery of coal.

4.9.1 Weigh trucks daily using certified scales at Dale and Cooper Power Stations for inventory measures and payment. Both gross and tare weights are taken and net weights are determined.

4.9.2 Use calibrated belt scales at Spurlock Power Station to verify barge origin weights or certified barge drafts for determination of destination weights for inventory measures and/or payment as specified by applicable contract or purchase order. (Barge Drafting Exhibit 178)

4.9.3 Use weights taken and reported by the railroad transporting the coal to the power station. Certified supplier weights approved by the railroad transporting the coal may be used.

<b>PROCEDURE FOR THE PROCUREMENT OF EMISSION ALLOWANCES</b>			E-1
Author: Fuel and Emissions Department	Adopted: 07/12/04	Page 1 of <del>9</del> 10	
Revision: <del>4</del> 2	By: Gail Varner	Revised Date: <del>11/30/12</del> 12/10/13	Reviewed: Ernie Huff

Applies to: Fuel and Emissions, Environmental Affairs, Power Production, Finance, Power Supply, and Legal

Keywords: Emission Allowances

## 1.0 Purpose

This procedure outlines the procurement, delivery, confirmation, and payment of emission allowances for use at East Kentucky Power Cooperative, Inc.'s ("EKPC") power stations.

## 2.0 Terms and Definitions

- 2.1 Acquisition Schedule—Schedule prepared to designate, by quarter, the amount of allowances needed to be purchased to meet the dollar cost averaging method for hedging allowances (*Exhibit 223*).
- 2.2 Acid Rain Program—A program established by Title IV of the 1990 Clean Air Act setting a decreasing cap on SO<sub>2</sub> emissions.
- 2.3 Allocations—Quantity of allowances provided to electric utilities for a given vintage year to be used to offset actual plant emissions occurring in that year or a later year.
- 2.4 Amortization Schedule—Schedule prepared to show allocations, projected purchases, emissions, and estimated inventory of SO<sub>2</sub>, Seasonal NO<sub>x</sub>, and Annual NO<sub>x</sub> (*Exhibit 242*).
- 2.5 Annual NO<sub>x</sub>—NO<sub>x</sub> that is controlled by an individual program within CAIR including its own separate allocations from seasonal NO<sub>x</sub> for an entire calendar year.
- 2.6 Bid—The term used, within the trading system when utilizing a broker, to designate the amount a buyer would pay for one allowance (see also Offer).



- 2.7 Clean Air Markets Division ("CAMD") Business System—An interactive web based business application that enables sources to perform various tasks online, including, but not limited to, transfer allowances, view account balances, and track allowances.
- 2.8 Clean Air Interstate Rule ("CAIR")—A cap-and-trade program promulgated by the EPA in 2005, covering 28 states in the eastern United States and the District of Columbia. It was designed to reduce sulfur dioxide (SO<sub>2</sub>) and nitrogen oxide (NO<sub>x</sub>) emissions in order to help States meet their National Ambient Air Quality Standards (NAAQS) for ozone and particulate matter (PM<sub>2.5</sub>) and to require further emissions reductions already achieved through the Acid Rain Program and the NO<sub>x</sub> State Implementation Plan call program. The rule was set to commence in 2009 for SO<sub>2</sub>, seasonal NO<sub>x</sub>, and annual NO<sub>x</sub> emissions. Compliance with CAIR is required by the court system until EPA can revise the rule based on court imposed guidelines.
- 2.9 Clean Air Transport Rule ("CATR")—EPA rule finalized on July 6, 2011, to replace CAIR and require further reductions in SO<sub>2</sub> and NO<sub>x</sub>. The rule was revised and is currently called CSAPR.
- 2.10 Combustion Turbine ("CT")—An electric generating unit utilizing natural gas or No. 2 fuel oil.
- 2.11 Confirmation—Form sent by broker or seller to document agreed upon product, price, vintage year, quantity, and term (*Exhibit 189*).
- 2.12 Consent Decree for New Source Performance Standards ("CD")—A final, binding judicial decree or judgment between EKPC and the EPA memorializing a voluntary agreement between the parties to a suit in return for withdrawal of a criminal charge or an end to a civil litigation. It establishes various thresholds that EKPC cannot exceed, including, but not limited to, maximum tons of emissions by year for SO<sub>2</sub> and NO<sub>x</sub>.
- 2.13 Cross-State Air Pollution Rule ("CSAPR")—EPA rule finalized on July 6, 2011, to replace CAIR and require further reductions in SO<sub>2</sub> and NO<sub>x</sub>. This rule was previously known as CATR and as of October 15, 2012, EPA has appealed the District of Columbia Court of Appeals action to remand CSAPR back to EPA and continue CAIR until revisions or a replacement rule can be established.
- 2.14 Emissions—Constituents of the flue gas occurring as a result of the combustion of a fuel, and for the intent of this document, refers to SO<sub>2</sub>, Seasonal NO<sub>x</sub>, and Annual NO<sub>x</sub>.

- 2.15 Environmental Protection Agency ("EPA")—An agency of the United States federal government that was created for the purpose of protecting human health and the environment by writing and enforcing regulations based on laws passed by Congress.
- 2.17 National Ambient Air Quality Standards ("NAAQS")—The maximum permissible levels of common pollutants in the ambient (outdoor) air set by EPA.
- 2.18 Natural Gas—A naturally occurring hydrocarbon gas mixture consisting primarily of methane, with other hydrocarbons, carbon dioxide, nitrogen, and hydrogen sulfide. Natural gas is used in the production of electricity in its CT units at the J. K. Smith Power Station.
- 2.19 No. 2 Fuel Oil—Dyed ultra-low sulfur diesel fuel containing a maximum 15 ppm sulfur that is used for off-road purposes such as unit startups and flame stabilization in the coal-fired generation fleet and a backup fuel in the CT fleet (Unit Nos. 1 through 7).
- 2.20 NO<sub>x</sub> State Implementation Plan (SIP) call program—This program established by the EPA required 22 states and the District of Columbia to provide NO<sub>x</sub> emission reductions to mitigate ozone transport in the eastern United States. This was established for the warm summer months, referred to as the ozone season, when ground-level ozone concentrations are highest.
- 2.21 Nitrogen Oxides ("NO<sub>x</sub>")—Refers to nitric oxide and nitrogen that are controlled through various programs and termed as Seasonal (Ozone) NO<sub>x</sub> and Annual NO<sub>x</sub> in the CAIR program.
- 2.22 Offer—The term used within the trading system when utilizing a broker to designate the amount a seller would sell one allowance (see also Bid).
- 2.23 Ozone (Seasonal) NO<sub>x</sub>—Interchangeable terms for NO<sub>x</sub> that is controlled by an individual program within CAIR including its own separate allocations from Annual NO<sub>x</sub> for a time period beginning May 1 of each calendar year through September 30 of the same calendar year.
- 2.24 Policy No. A031—EKPC administrative policy for the Delegation of Authority from EKPC's CEO to management and staff regarding procurement authority for energy, energy related commodities, and transportation (Exhibit 2).
- 2.245 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure that all business affairs of EKPC are conducted in an ethical and businesslike manner in order to avoid all conflicts of interest or the



appearance of any conflicts of interest in the conduct of the business affairs of EKPC (*Exhibit 34*).

**2.256** Policy No. 404—EKPC Board of Directors Transaction Authority Limits for Energy and Energy Related Commodities and Transportation Policy providing authority matrices to delegate procurement approval levels for commodities and fuels (*Exhibit 45*).

**2.267** Power Stations—Electric power generating plants owned and operated by EKPC: Dale, Cooper, Spurlock, and J. K. Smith. Dale, Cooper, and Spurlock Power Stations are coal-fired power plants, and J. K. Smith is a power plant compiled of seven CT units that are fueled by natural gas (primary) and No. 2 fuel oil (secondary). J. K. Smith also has two units that are natural gas only.

**2.278** Seasonal (Ozone) NO<sub>x</sub>—Interchangeable terms for NO<sub>x</sub> that is controlled by an individual program within CAIR including its own separate allocations from Annual NO<sub>x</sub> for a time period beginning May 1 of each calendar year through September 30 of the same calendar year.

**2.289** Sulfur Dioxide ("SO<sub>2</sub>")—A toxic gas created in the combustion process of fuels that contain sulfur and are controlled through various programs such as CAIR.

**2.2930** Trading Authority Transaction Matrix—Delegation of procurement approval authority.

**2.301** Transaction Schedule—Schedule showing all pertinent information of individual allowance purchases (*Exhibit 1920*).

**2.342** Vintage Year—The date of the allowance certificate and the first allowable year in which the allowance can be used to apply towards emissions.

**2.323** W-9—Form required by the Internal Revenue Service for tax purposes to be completed by all suppliers stating business name, address, and federal tax identification number before payment is issued (*Exhibit 123*).

### **3.0 Responsibilities**

#### **3.1 Fuel and Emissions Manager**

**3.1.1** Manages and directs Fuel Buyers, Administrative Assistant, and Fuel Analyst in the Fuel and Emissions department and assures compliance with Policy No. 116 (*Exhibit 34*).



- 3.1.2 Ensures adequate emission allowances are held in an amount equal to or greater than the quantity of actual emissions from EKPC's power station(s).
- 3.1.3 Assures that Fuel and Emissions staff follow procedures as described herein and in the Fuel, Emissions, Limestone, and Lime Strategy (*Exhibit 1*) for the purchase and delivery of emission allowances.
- 3.2 Power Plant Personnel
  - 3.2.1 Advise Fuel and Emissions and Power Supply Planning of generating unit outages that could affect the quantity of emissions.
- 3.3 Fuel Buyers
  - 3.3.1 Monitor EKPC's inventory of emission allowances and make recommendations regarding future allowance purchases.
  - 3.3.2 Negotiate contract terms of emission allowance contracts.
  - 3.3.3 Complete schedule of emission allowance position (receipts, usage, and inventory) for Environmental Affairs and Legal planning purposes.
- 3.4 Administrative Assistant
  - 3.4.1 Assists in managing the emissions contract process.
  - 3.4.2 Completes emissions allowance Transaction Schedule (*Exhibit 1920*).
  - 3.4.3 Verify that W-9 (*Exhibit 123*) is received from the counterparty of each emission allowance contract.
  - 3.4.4 Posts fully executed contract(s) and purchase order(s) to a shared location, and notifies EKPC's risk management service provider.
- 3.5 Fuel Analyst
  - 3.5.1 Manage the Trading Authority Transaction Matrix.
- 3.6 Power Supply Planning

3.6.1 Determine short- and long-term projected emissions.

3.7 Environmental Affairs

3.7.1 Communicate testing schedules to Power Supply Planning and Fuel & Emissions.

3.7.2 Perform yearly process of transferring appropriate allowances to EPA unit accounts prior to EPA retiring allowances.

3.8 Accounting

3.8.1 Approves payment and sends to treasury for disbursement.

3.8.2 Maintains schedule of allowances and cost for use in the environmental surcharge.

4.0 Procedure

EKPC is currently, as of October 1, 2012, operating under CAIR rules and receives allocations of emission allowances at the beginning of the year that can be used to offset actual emissions during the year. CAIR was remanded back to EPA by the court system for modifications. EPA then developed CATR which was then revised and re-termed CSAPR. The courts then ruled against CSAPR and EPA appealed the ruling. In ruling against CSAPR, the courts declared that CAIR remain in effect until CSAPR is revised or a replacement rule is developed. Under CAIR, two SO<sub>2</sub> allowances with a vintage year from January 1, 2010, through December 31, 2014, are surrendered for every one ton of emissions. Also, under CAIR, 2.86 SO<sub>2</sub> allowances with a vintage year of 2015 or later are surrendered for every one ton of emissions.

4.1 Determine power plant emissions.

4.1.1 Power Plant Personnel communicate daily to Power Supply Planning the availability of each unit.

4.1.2 Environmental Affairs communicates testing schedules to Power Supply Planning.

4.1.3 Fuel Buyer provides monthly SO<sub>2</sub>, Seasonal NO<sub>x</sub>, and Annual NO<sub>x</sub> replacement cost (*Exhibit 201*).

4.1.4 Power Supply Planning calculates projected emissions using various factors including, but not limited to, weather, price, unit availability, applicable EPA rule allocations, and CD requirements.

- 4.2 Determine quantity and timing of hedged purchases.
  - 4.2.1 Fuel Buyer completes amortization schedule (*Exhibit 212*) and calculates quantity of purchases required over the following three-year period. Input is received from Power Supply Planning and Environmental Affairs including, but not limited to, projected emissions, variability anticipated, allocations, and any regulation changes.
  - 4.2.2 Fuel Buyer completes acquisition schedule (*Exhibit 223*) using yearly projected purchase amounts from amortization schedule (*Exhibit 212*).
- 4.3 Purchase emission allowances.
  - 4.3.1 Fuel Buyer determines price estimate based on industry data and confirms with Fuel Manager.
  - 4.3.2 Fuel Buyer contacts emissions broker or utility and conveys projected quantity. Determine price and quantity of bid for broker to attempt to fill based on current offers. This may be a reiterative process.
  - 4.3.3 Fuel Buyer exercises agreement to price, quantity, and emission product based on Policy No. 404 (*Exhibit 45*) and No. AO31 (*Exhibit 2*). If purchase is not within the Fuel Buyer authority, he will need to obtain a pre-approved authority limit from the Fuel Manager or Senior Vice President of Power Supply.
- 4.4 Confirm deal and negotiate contract.
  - 4.4.1 Broker or counterparty sends confirmation (*Exhibit 189*).
  - 4.4.2 Fuel Buyer verifies confirmation (*Exhibit 189*) information.
  - 4.4.3 Fuel Buyer sends draft contract to counterparty or receives/reviews draft from counterparty.
  - 4.4.4 Negotiate contract with counterparty utilizing Legal and input from appropriate EKPC personnel as required.
  - 4.4.5 Administrative Assistant adds contract information to emission allowance Transaction Schedule (*Exhibit 1920*).
- 4.5 Execute emission allowance contract.



- 4.5.1 Fuel Buyer coordinates the execution of the emission allowance contract.
- 4.5.2 Administrative Assistant circulates contract for review and signature prior to distribution.
- 4.5.3 Fuel Buyer and/or Administrative Assistant secure W-9 (Exhibit 13) from supplier.
- 4.5.4 ~~Administrative Assistant, at the direction of the Fuel Buyer, distributes the executed contract internally as well as to EKPC's risk management service provider within five business days after trade execution for capture in a risk management system as per Policy No. 404 (Exhibit 4). Administrative Assistant, at the direction of the Fuel Buyers, distributes the executed contract(s) and/or purchase order(s) internally. These documents are posted to a shared directory with EKPC's risk management service provider within five business days after trade execution for capture in a risk management system as per Policy No. 404 (Exhibit 5) and No. A031 (Exhibit 2). The documents must be deleted from the shared directory within five business days for internal control.~~
- 4.5.5 Fuel Analyst logs approved contract in Trading Authority Transaction Matrix.
- 4.5.6 Administrative Assistant files executed contract in Fuel and Emissions' department files with back-up documentation.
- 4.6 Confirm delivery of emission allowances.
- 4.6.1 Fuel Buyer verifies EPA confirmation of counterparty transfer into EKPC account including, but not limited to, counterparty, product, vintage year, quantity, and EKPC account.
- 4.6.2 Fuel Buyer investigates erroneous information, when applicable, with counterparty, EPA, and/or Environmental Affairs.
- 4.7 Ensure unit accounts have sufficient quantities of allowances.
- 4.7.1 Environmental Affairs uses the CAMD Business System to transfer and track allowances so that unit accounts have the appropriate quantity of allowances prior to EPA retiring the allowances.

Same as Coal

- 4.7.2 Fuel Buyer confirms quantities and accounts initiated by Environmental Affairs.
  - 4.7.3 Environmental Affairs in concert with Legal, determines if any further actions are required regarding the CD.
  - 4.7.4 EPA retires Seasonal NO<sub>x</sub> allowances from EKPC unit accounts, on a date certain, approximately November 1, to equal the total of emissions by EKPC power stations during May 1 through September 30 of the current calendar year.
  - 4.7.5 EPA retires SO<sub>2</sub> and Annual NO<sub>x</sub> allowances from EKPC unit accounts, on a date certain, approximately March 1, to equal the total of emissions by EKPC power stations during the prior calendar year.
- 4.8 Approve invoice.
- 4.8.1 Fuel Buyer receives counterparty and/or broker invoice and verifies quantity, price, and extended amount due.
  - 4.8.2 Fuel Buyer investigates discrepancies on counterparty and/or broker invoice, if applicable.
  - 4.8.3 Fuel Manager approves counterparty and broker invoice for payment.
  - 4.8.4 Administrative Assistant sends invoice and a copy of the EPA delivery confirmation to Accounting for payment.
  - 4.8.5 Accounting receives Accounting supervisor approval on invoice(s) and sends to accounts payable for payment.
  - 4.8.6 Fuel Analyst enters purchase and delivery for each emission allowance contract on Trading Authority Transaction Matrix.
  - 4.8.7 Accounting completes tracking worksheet including allowances and total cost for use in the environmental surcharge calculation.

## 5.0 Effective Date

- 5.1 All departments at EKPC shall be fully compliant with this procedure by January 31, 2013~~4~~.



**Concurred by:** \_\_\_\_\_ **Date:** \_\_\_\_\_  
Craig Johnson  
Sr. Vice President, Power Production

**Concurred by:** \_\_\_\_\_ **Date:** \_\_\_\_\_  
Mike McNalley  
Chief Financial Officer & Executive VP

**Concurred by:** \_\_\_\_\_ **Date:** \_\_\_\_\_  
Don Mosier  
Chief Operations Officer

**Approved by:** \_\_\_\_\_ **Date:** \_\_\_\_\_  
David Crews  
Sr. Vice President, Power Supply

**SIGNATURE:** \_\_\_\_\_

**APPROVED:** \_\_\_\_\_

Amended: 11/30/12  
Amended: \_\_\_\_\_

<b>PROCEDURE FOR THE PROCUREMENT OF NATURAL GAS</b>		NG-1
Author: Fuel and Emissions Department	Adopted: 02/01/05	Page 1 of 11
Revision: <del>12</del>	By: Gail Varner	Revised Date: <del>11/30/12</del> 12/10/13
		Reviewed: Ernie Huff

Applies to: Fuel and Emissions, Environmental Affairs, Power Production, Finance, Power Supply, and Legal

Keywords: Natural Gas

## 1.0 Purpose

This procedure outlines the procurement, delivery, confirmation, and payment of natural gas for use at East Kentucky Power Cooperative, Inc.'s ("EKPC") power stations.

## 2.0 Terms and Definitions

- 2.1 Combustion Turbine ("CT")—An electric generating unit utilizing natural gas or No. 2 fuel oil.
- 2.2 Confirmation—Form executed by Buyer and Seller to document agreed upon price, quantity, and term (*Exhibit 267*).
- 2.3 Daily Natural Gas Update Report—Report containing, but not limited to, the current OBA, projected OBA, current average price paid, and any pipeline constraints or OFOs (*Exhibit 278*).
- 2.4 Daily Price Report—Report containing projected pricing for day-ahead purchases and intra-day purchases (*Exhibit 289*).
- 2.5 Day-Ahead Purchase—Purchase made prior to 9:00 a.m. c.s.t the calendar day before the gas day.
- 2.6 Dekatherm ("Dth")—Unit of energy equal to 10 therms or one million British thermal units.
- 2.7 Estimated Burn Profile—Hourly schedule showing projected usage of natural gas required by the transportation pipeline (*Exhibit 2930*).
- 2.8 External Natural Gas Manager—Company outside EKPC utilized to perform natural gas purchasing functions such as, but not limited to,

supplier contact, OBA management, and assisting in NAESB natural gas contract negotiation.

- 2.9 Federal Energy Regulatory Commission ("FERC")—An independent agency that regulates the interstate transmission of electricity, natural gas, and oil.
- 2.10 Form 552—Annual form required by FERC that summarizes natural gas purchases and sales.
- 2.11 Gas Day—The gas day runs from 9:00 a.m. c.s.t through the following 9:00 a.m. c.s.t.
- 2.12 Intra-Day Purchase—Purchase made within the current gas day.
- 2.13 Mcf (Thousand Cubic Feet)—A measurement of volume in the oil and gas industry. In general 1 Mcf = 1 MMBtu = 1 Dth. On average, 1 Mcf contains 1.027 MMBtu although this will vary based on the quality of the natural gas.
- 2.14 Measurement & Regulation ("M & R") Station—A station comprised of piping, valves, and regulators used in controlling the flow and measuring the quantity from the pipeline to the next user.
- 2.15 Million Btu ("MMBtu")—One million British thermal units is the unit of measure for the price paid for natural gas purchases.
- 2.16 Natural Gas—A naturally occurring hydrocarbon gas mixture consisting primarily of methane, with other hydrocarbons, carbon dioxide, nitrogen, and hydrogen sulfide. Natural gas is used in the production of electricity in its CT units at the J. K. Smith Power Station.
- 2.17 No. 2 Fuel Oil—Dyed ultra-low sulfur diesel fuel containing a maximum 15 ppm sulfur that is used for off-road purposes such as unit startups and flame stabilization in the coal-fired generation fleet and a backup fuel in the CT fleet (Unit Nos. 1 through 7).
- 2.18 North American Energy Standards Board (NAESB)—Serves as an industry forum for the development and promotion of standards which will lead to a seamless marketplace for wholesale and retail natural gas and electricity, as recognized by its customers, business community, participants, and regulatory entities.
- 2.19 NAESB Natural Gas Contract—Standard contract for the purchase and sale of natural gas. These contracts only put forth the terms and



conditions agreed to by Buyer and Seller. Price, term, and quantity are agreed to on separate confirmations (*Exhibit 267*).

- 2.20 Operational Balancing Agreement ("OBA")—Agreement setting forth the terms and conditions for scheduling nominations, deliveries, and balancing at the interconnection of the natural gas pipeline.
- 2.21 Operational Flow Order ("OFO")—Order which is issued by a pipeline to protect the operational integrity of the system. The orders may either restrict service or require actions by shippers to correct the problem and include increasing severity of penalties for failure to comply.
- 2.22 Policy No. AO31—EKPC administrative policy for the Delegation of Authority from EKPC's CEO to management and staff regarding procurement authority for energy, energy related commodities, and transportation (*Exhibit 2*).
- 2.223 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure that all business affairs of EKPC are conducted in an ethical and businesslike manner in order to avoid all conflicts of interest or the appearance of any conflicts of interest in the conduct of the business affairs of EKPC (*Exhibit 34*).
- 2.234 Policy No. 404—EKPC Board of Directors Transaction Authority Limits for Energy and Energy Related Commodities and Transportation Policy providing authority matrices to delegate procurement approval levels for commodities and fuels (*Exhibit 45*).
- 2.245 Policy No. 405—EKPC Board of Directors Hedging Policy (1) guides disciplined hedging of forecasted power supply needs; (2) provides a method for identifying EKPC's risk tolerance and time horizon for hedging; (3) clarifies EKPC's hedging objectives; and (4) more clearly integrates the energy risk management governance structure, trading authority, risk reporting, and portfolio management functions (*Exhibit 56*).
- 2.256 Power Stations—Electric power generating plants owned and operated by EKPC: Dale, Cooper, Spurlock, and J. K. Smith. Dale, Cooper, and Spurlock Power Stations are coal-fired power plants, and J. K. Smith is a power plant compiled of seven CT units that are fueled by natural gas (primary) and No. 2 fuel oil (secondary). J.K. Smith also has two units that are natural gas only.
- 2.267 Tennessee Gas Pipeline ("TGP")—Interstate natural gas transmission pipeline to which the J. K. Smith Power Station site is inter-connected.

- 2.278 Texas Eastern—Interstate natural gas transmission pipeline to which the J. K. Smith Power Station site is inter-connected by an EKPC owned six-mile lateral.
- 2.289 Thousand Cubic Feet ("Mcf")—A measurement of volume in the oil and gas industry. In general 1 Mcf = 1 MMBtu = 1 Dth. On average, 1 Mcf contains 1.027 MMBtu although this will vary based on the quality of the natural gas.
- 2.2930 Trade Data Gas Form—Form completed after purchase to record flow date, MMBtu purchased, price/MMBtu, total dollars, buy or sell, counterparty, pipeline, execution date, type of purchase, and trader name (*Exhibit 301*).
- 2.301 Trading Authority Transaction Matrix—Delegation of procurement approval authority.
- 2.312 W-9—Form required by the Internal Revenue Service for tax purposes to be completed by all suppliers stating business name, address, and federal tax identification number before payment is issued (*Exhibit 123*).

### 3.0 Responsibilities

#### 3.1 Fuel and Emissions Manager

- 3.1.1 Manages and directs Fuel Buyers, administrative assistant, and Fuel Analyst in the Fuel and Emissions department and assures compliance with Policy No. 116 (*Exhibit 34*).
- 3.1.2 Ensures adequate natural gas deliveries to EKPC's power station(s).
- 3.1.3 Assures that Fuel and Emissions staff follow procedures as described herein and in the Fuel, Emissions, Limestone, and Lime Strategy (*Exhibit 1*) for the purchase and delivery of natural gas.
- 3.1.4 Evaluate hedging opportunities in accordance with Policy No. 405 (*Exhibit 56*).

#### 3.2 Power Plant Personnel

- 3.2.1 Maintain the natural gas system and M & R station at the J. K. Smith Power Station to ensure their availability to utilize natural gas.



- 3.2.2 Advise Fuel and Emissions and Power Supply Planning of generating unit, M & R station, and/or pipeline outages that could affect the quantity and/or deliverability of natural gas.
- 3.2.3 Track, review, and make adjustments in unit starts and/or run hours to achieve environmental compliance on each units maximum starts and/or run hours.
- 3.2.4 Develop, coordinate, and execute periodic testing of pipelines to ensure that any pipeline can be used, operationally, for natural gas deliveries.

### 3.3 Fuel Buyers

- 3.3.1 Act as liaison between EKPC's external natural gas manager and EKPC's other department personnel.
- 3.3.2 Monitor EKPC's pipeline transportation OBA's and make recommendations regarding future natural gas purchases.
- 3.3.3 Ensure all affected EKPC personnel are aware when any pipeline initiated OFO is issued and make recommendations regarding a plan of action.
- 3.3.4 Complete and review schedule indicating number of starts and amount of run hours, both current and projected, and alert appropriate personnel.

### 3.4 Administrative Assistant

- 3.4.1 Assists in managing the NAESB natural gas contract process.
- 3.4.2 Completes natural gas pricing worksheet tracking performance of external natural gas manager.
- 3.4.3 Complete monthly natural gas purchase summary for approval per Policy No. 404 (Exhibit 45) and No. AO31 (Exhibit 2).
- 3.4.4 Posts fully executed NAESB natural gas contract(s) to a shared location, and notifies EKPC's risk management service provider.

### 3.5 Fuel Analyst

- 3.5.1 Manage the Trading Authority Transaction Matrix.

### 3.6 Power Supply Planning

Why is this done?  
How long?

- 3.6.1 Determine short- and long-term projected natural gas usage and prepare Estimated Burn Profile (*Exhibit 2930*).
- 3.6.2 Contact external natural gas manager to revise and/or qualify projected natural gas usage.
- 3.6.3 Review CT unit starts and run hours in order to vary starts and run hours.

### 3.7 Environmental Affairs

- 3.7.1 Communicate testing schedules to appropriate personnel.
- 3.7.2 Review CT unit starts and run hours and alert appropriate personnel.

### 3.8 Accounting

- 3.8.1 Verifies volume and price per MMBtu from natural gas confirmations (*Exhibit 267*) with supplier invoice for accuracy.
- 3.8.2 Contacts responsible party and/or Fuel Buyer to clarify any discrepancies in the invoices.
- 3.8.3 Approves payment and sends to treasury for disbursement.
- 3.8.4 Prepares and files Form 552 annually with FERC.

## 4.0 Procedure

J., K. Smith Power Station has two interstate natural gas pipelines that service the site. The TGP, owned by Kinder Morgan, is inter-connected to the site approximately ½ mile from the CTs. The Texas Eastern pipeline, owned by Spectra Energy, is interconnected to the site with an approximate 6 mile lateral owned by EKPC. EKPC's OBA with TGP includes a cash settlement at the end of every month and under normal conditions can handle between +/- 40 – 60,000 Dths. EKPC's OBA with Texas Eastern contains an acceptable daily variance of not more than 7,500 Dths and an accumulated balance of not more than 15,000 Dths. The Texas Eastern OBA is not financially settled but is volumetrically settled the following month.

J. K. Smith Power Station CT Unit Nos. 1 through 7 may only be started 200 times each within a calendar year and Unit Nos. 9 and 10 only 365 times each. Unit Nos. 1 through 4 may only be operated 2,500 hours based on a rolling 12-

month time period. Unit Nos. 5 through 7 have no operating hour limitation. Unit Nos. 9 and 10 may only be operated 4,000 hours on a rolling 12-month time period.

- 4.1 Determine natural gas usage.
  - 4.1.1 Power Plant Personnel communicate daily to Power Supply Planning the availability of each unit.
  - 4.1.2 Environmental Affairs communicates testing schedules to Power Supply Planning.
  - 4.1.3 External gas manager provides daily estimate of day-ahead and intra-day pricing via Daily Price Report (*Exhibit 289*).
  - 4.1.4 Power Supply Planning calculates projected natural gas usage using various factors including, but not limited to, weather, price, and unit availability.
  - 4.1.5 Power Supply Planning personnel completes Estimated Burn Profile (*Exhibit 2930*) for use in determining appropriate purchases. This form is also required by the transportation pipeline.
- 4.2 Execute NAESB natural gas contracts with potential suppliers.
  - 4.2.1 External natural gas manager and/or Fuel Buyer proposes new natural gas supplier based on, but not limited to, the number of current gas suppliers, supplier pipeline transportation, and other supplier history.
  - 4.2.2 External natural gas manager initiates NAESB natural gas contract negotiation.
  - 4.2.3 Fuel Buyer, Legal, and external natural gas manager negotiate an acceptable NAESB natural gas contract with supplier.
  - 4.2.4 EKPC's risk management service provider checks the supplier's credit and assigns a credit limit based on EKPC's Director of Risk's approval.
  - 4.2.5 Administrative Assistant obtains appropriate signature.
  - 4.2.6 Fuel Buyer and/or Administrative Assistant secure W-9 (*Exhibit 123*) from supplier.



4.2.7 ~~Administrative Assistant, at the direction of the Fuel Buyers, distributes the executed NAESB natural gas contract(s) internally as well as ensures that EKPC's risk management service provider receives confirmed trades within five business days after trade execution for capture in a risk management system as per Policy No. 404 (Exhibit 4). Administrative Assistant, at the direction of the Fuel Buyers, distributes the executed NAESB natural gas contract(s) internally. These documents are posted to a shared directory with EKPC's risk management service provider within five business days after trade execution for capture in a risk management system as per Policy No. 404 (Exhibit 5) and No. A031 (Exhibit 2). The documents must be deleted from the shared directory within five business days for internal control.~~

See as well

4.3 Purchase natural gas volumes required.

- 4.3.1 External natural gas manager determines quantity to be purchased, under normal pipeline operating conditions, based on Estimated Burn Profile (*Exhibit 2930*). Determination is made whether to make less expensive day-ahead purchases or to make intra-day purchases that aid in OBA management but are typically more expensive.
- 4.3.2 Fuel Buyer and Power Supply Planning, under adverse operating conditions on the pipeline, consult and advise external natural gas manager regarding purchase quantities.
- 4.3.3 External natural gas manager contacts several suppliers who have an existing NAESB natural gas contract with EKPC and requests quotes for the designated term and quantity.
- 4.3.4 External natural gas manager purchases natural gas based on, but not limited to, price, quantity, past performance, urgency of purchase, term of purchase, pipeline use, and transportation cost. Quantities are purchased in MMBtu, not Mcf, in order to pay for the heat content received.
- 4.3.5 Purchase is made within authority levels in accordance with Policy No. 404 (*Exhibit 45*), Policy No. A031 (*Exhibit 2*), and existing credit limits.
- 4.3.6 External natural gas manager or natural gas supplier makes nomination on TGP's or Texas Eastern's web-based system to confirm source, destination, and quantity of natural gas purchased.



- 4.3.7 Natural gas deliveries begin on the date specified and under the terms of the confirmation (*Exhibit 267*) and NAESB natural gas contract.
  - 4.3.8 Fuel Manager, Fuel Buyer, Power Supply Planning, and Finance, to the extent possible, may hedge the future price on a portion of its natural gas purchases based on, but not limited to, future power prices, volume certainty, future natural gas prices, and future power prices to achieve the most desirable risk management scenario for **KEEKPC** and its members.
- 4.4 Prepare and review transaction documentation.
- 4.4.1 External gas manager enters transaction into Trade Data Gas Form (*Exhibit 301*).
  - 4.4.2 Confirmation (*Exhibit 267*) is sent from supplier to Fuel Buyer and external gas manager.
  - 4.4.3 Fuel Buyer verifies date, quantities, and prices on Trade Data Gas Form (*Exhibit 301*) with individual confirmations (*Exhibit 267*) received from suppliers.
  - 4.4.4 Fuel Buyer investigates any discrepancies with external gas manager and/or natural gas supplier.
- 4.5 Manage OBA.
- 4.5.1 External natural gas manager provides Daily Natural Gas Update Report (*Exhibit 278*).
  - 4.5.2 Fuel Buyer and external natural gas manager monitor OBA in order to minimize associated costs and ensure pipeline satisfaction.
  - 4.5.3 Fuel Buyer confirms OBA level and investigates errors or inappropriate projected levels.
  - 4.5.4 Fuel Buyer verifies month end OBA through TGP on-line system and external natural gas manager.
- 4.6 Manage OFO.
- 4.6.1 Designated personnel receive OFO notices from the pipeline directly (*Exhibit 312*).

- 4.6.2 Fuel Buyer acknowledges OFO to personnel, explains situation, and if it applies to EKPC.
  - 4.6.3 External natural gas manager notes OFO information on the Daily Natural Gas Update Report (*Exhibit 278*) and informs EKPC personnel when applicable OFO occurs.
  - 4.6.4 Fuel Buyer, Power Supply Planning, and external natural gas manager discuss projected usage before sending out Estimated Burn Profile (*Exhibit 2930*). These discussions shall include, but not necessarily be limited to, if intra-day purchases are an option; likelihood of projected usage materializing; OBA utilization; and if there are time constraints.
- 4.7 Ensure environmental compliance.
- 4.7.1 Fuel Buyer completes starts and run-hours schedule (*Exhibit 301*) indicating number of starts and amount of run hours, both current and projected.
  - 4.7.2 Fuel Buyer, Power Supply Planning, Environmental Affairs, and J. K. Smith Power Station review the start and run-hours schedule (*Exhibit 323*) and contact the other departments if they recognize any current or future issues that may affect environmental compliance.
  - 4.7.3 Power Supply Planning and J. K. Smith Power Station alter starts or run hours as necessary to achieve compliance.
- 4.8 Verify receipt and invoice approval.
- 4.8.1 Fuel Buyer prepares invoice estimate and submits to Accounting along with confirmations (*Exhibit 267*), Trade Data Gas Form (*Exhibit 30*), and OBA calculation backup.
  - 4.8.2 Accounting verifies confirmations (*Exhibit 267*) and invoice estimate with respective supplier invoices.
  - 4.8.3 Accounting and/or Fuel Buyer resolve discrepancies with external natural gas manager and/or respective supplier.
  - 4.8.4 Accounting logs receipt information into accounting computer system.
  - 4.8.5 Accounting receives Accounting supervisor approval on invoice(s) and sends to accounts payable for payment.

- 4.8.6 Fuel Analyst enters purchases and deliveries for each NAESB natural gas contract on Trading Authority Transaction Matrix.
- 4.8.7 Administrative Assistant enters purchases into natural gas pricing worksheet to track natural gas purchase performance.
- 4.8.8 Administrative Assistant completes natural gas purchase summary for approval per Policy No. 404 (Exhibit 45) and No. AO31 (Exhibit 2).
- 4.8.9 Accounting completes annual FERC Form 552 with assistance from Fuel Buyer and external natural gas manager.

**5.0 Effective Date**

- 5.1 All departments at EKPC shall be fully compliant with this procedure by January 31, 2013.

**Concurred by:** \_\_\_\_\_ **Date:** \_\_\_\_\_  
Craig Johnson  
Sr. Vice President, Power Production

**Concurred by:** \_\_\_\_\_ **Date:** \_\_\_\_\_  
Mike McNalley  
Chief Financial Officer & Executive VP

**Concurred by:** \_\_\_\_\_ **Date:** \_\_\_\_\_  
Don Mosier  
Chief Operations Officer

**Approved by:** \_\_\_\_\_ **Date:** \_\_\_\_\_  
David Crews  
Sr. Vice President, Power Supply

**SIGNATURE:** \_\_\_\_\_

**APPROVED:** \_\_\_\_\_

Amended: 11/30/12  
Amended: \_\_\_\_\_



<b>PROCEDURE FOR THE PROCUREMENT OF LIME, LIME KILN DUST, AND LIMESTONE</b>			L-1
Author: Fuel and Emissions Department	Adopted: 02/27/81		Page 1 of <u>910</u>
Revision: <u>34</u>	By: Gail Varner	Revised Date: <u>11/30/12</u> <u>12/10/13</u>	Reviewed: Ernie Huff

Applies to: Fuel and Emissions, Environmental Affairs, Power Production, Finance, Power Supply, and Legal

Keywords: Lime, Lime Kiln Dust, and Limestone

## 1.0 Purpose

This procedure outlines the procurement, delivery, confirmation, testing, and payment of lime, lime kiln dust, and limestone to be used in the scrubbers, SCRs, and circulating fluidized bed units for East Kentucky Power Cooperative, Inc.'s ("EKPC") power stations.

## 2.0 Terms and Definitions

- 2.1 Certificate of Insurance—Standard Association for Cooperative Operations Research and Development (ACORD) form that identifies the policies afforded by a supplier related to the requirements specified by EKPC contracts/purchase orders.
- 2.2 CFB—Circulating fluidized bed boilers in Gilbert Unit No. 3 at Spurlock Power Station and Spurlock Power Station Unit No. 4.
- 2.3 Contract—Document binding seller to sell and ship designated product that is stating terms and conditions for lime, lime kiln dust, and limestone deliveries to EKPC's power stations sent to a supplier for signatures after approval and before deliveries begin, which is typically a longer term than a purchase order.
- 2.4 Economy Purchase—Purchase made without competitive bidding in situations where the price is favorable in comparison with recent bids and unsolicited offers received and in comparison with purchased current market information.
- 2.5 Emergency Purchase—Purchase made without competitive bidding when there is an immediate need for lime, lime kiln dust, or limestone in situations including but not limited to: failure of a lime, lime kiln dust, or



limestone supplier to perform; increased fuel usage due to an increase in power sales; labor or transportation strikes; severe weather conditions; or inability of power stations to receive lime, lime kiln dust, or limestone by normal means.

- 2.6 Fixed Price—Price set in advance of issuance of a contract or purchase order. All applicable taxes, freight, fees, and profit margins are typically included.
- 2.7 Floating Price—Price that is subject to adjustments based upon predetermined indices or surcharges. All applicable taxes, freight, fees, and profit margins are typically included.
- 2.8 Fuel Negotiating Committee—Committee requiring Board of Director participation. The Director will be appointed annually per guidelines set in Section E, Management Committees from Policy No. 106 (*Exhibit 23*).
- 2.9 IRMC—Internal Risk Management Committee has the authority to approve and oversee the processes used to identify, evaluate, and manage enterprise risk.
- 2.10 Lime—Calcium oxide (CaO) used to absorb SO<sub>x</sub> emissions generated from the burning of coal at Cooper Power Station.
- 2.11 Lime Kiln Dust—Used to extend the life of the SCR catalysts in the scrubbed units of Spurlock Power Station Unit Nos. 1 and 2.
- 2.12 Limestone—Calcium carbonate (CaCO<sub>3</sub>) used to absorb sulfur from the coal at Spurlock Power Station.
- 2.13 Policy No. AO31—EKPC administrative policy for the Delegation of Authority from EKPC's CEO to management and staff regarding procurement authority for energy, energy related commodities, and transportation (*Exhibit 2*).
- 2.134 Policy No. 106—EKPC Board of Directors policy for the Establishment of Board Committees and Respective Charters (*Exhibit 23*).
- 2.145 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure that all business affairs of EKPC are conducted in an ethical and businesslike manner in order to avoid all conflicts of interest or the appearance of any conflicts of interest in the conduct of the business affairs of EKPC (*Exhibit 34*).
- 2.156 Policy No. 404—EKPC Board of Directors Transaction Authority Limits for Energy and Energy Related Commodities and Transportation Policy

providing authority matrices to delegate procurement approval levels for commodities and fuels (*Exhibit 45*).

- 2.167 Power Stations—Coal-fired power stations owned and operated by EKPC: Dale, Cooper, and Spurlock. Cooper Power Station utilizes lime in a dry scrubber. Spurlock Power Station utilizes limestone in wet scrubbers and the CFB units as well as lime kiln dust in the scrubbed units.
- 2.178 Purchase Order—Document binding seller to sell and ship designated product that is stating terms and conditions for lime, lime kiln dust, and limestone deliveries to EKPC's power stations sent to a supplier for an acceptance signature after approval and before deliveries begin, which is typically a shorter term than a contract.
- 2.189 RFP—Request for proposal sent to prospective suppliers on EKPC's Lime and/or Limestone Bidders List (*Exhibit 234*) to bid for lime and/or limestone.
- 2.1920 SCR—Selective catalytic reduction equipment used for the reduction of NO<sub>x</sub> emissions in the scrubbed units.
- 2.201 Scrubber—Flue gas desulfurization equipment used for the reduction of SO<sub>x</sub> emissions in the scrubbed units at Cooper and Spurlock Power Stations.
- 2.242 Test Purchase—Purchase made without competitive bidding to test a particular product for its suitability and burning characteristics at EKPC's power stations.
- 2.223 Trading Authority Transaction Matrix—Delegation of procurement approval authority.
- 2.234 W-9—Form required by the Internal Revenue Service for tax purposes to be completed by all suppliers stating business name, address, and federal tax identification number before payment is issued (*Exhibit 123*).

### 3.0 Responsibilities

#### 3.1 Fuel and Emissions Manager

- 3.1.1 Manages and directs Fuel Buyers, Administrative Assistant, and Fuel Analyst in the Fuel and Emissions department and assures compliance with Policy No. 116 (*Exhibit 34*).

- 3.1.2 Ensures adequate lime, lime kiln dust, and limestone deliveries to EKPC's power plants.
  - 3.1.3 Assures that Fuel and Emissions staff follow procedures as described herein and in the Fuel, Emissions, Limestone, and Lime Strategy (*Exhibit 1*) for the purchase and delivery of lime, lime kiln dust, and limestone.
- 3.2 Power Plant Personnel
- 3.2.1 Maintain the lime, lime kiln dust, and limestone system at each of EKPC's relevant power stations to ensure its availability to unload lime, lime kiln dust, and limestone deliveries.
  - 3.2.2 Monitor the lime, lime kiln dust, and limestone inventory levels at each of EKPC's relevant power stations daily.
  - 3.2.3 Advise the Fuel and Emissions department of any concerns regarding the product or product delivery.
  - 3.2.5 Collect lime, lime kiln dust, and limestone samples to be analyzed as needed.
  - 3.2.6 Weigh trucks randomly to verify origin weights once a week when deliveries occur.
- 3.3 Fuel Buyers
- 3.3.1 Determine quantities needed based on historic and projected needs.
  - 3.3.2 Monitor lime, lime kiln dust, and limestone qualities.
  - 3.3.3 Manage appropriate contract and/or purchase order(s) throughout the term of the order.
  - 3.3.4 Manage lime, lime kiln dust, and limestone deliveries and/or inventory levels at each of EKPC's power stations daily.
- 3.4 Administrative Assistant
- 3.4.1 Assists in managing the RFP process.
  - 3.4.2 Reviews contracts and/or purchase order(s).



3.4.3 Verifies all documentation is received per checklist (*Exhibit 134*) and files with appropriate contract(s) and/or purchase order (s).

3.4.4 Posts fully executed contract(s) and purchase order(s) to a shared location, and notifies EKPC's risk management service provider.

### 3.5 Fuel Analyst

3.5.1 Manages the Trading Authority Transaction Matrix.

3.5.2 Assists in managing price adjustments.

3.5.3 Identify the fixed and floating component percentages of the year-to-date spend.

### 3.6 Central Lab Personnel

3.6.1 Assist Cooper Power Station plant personnel in sampling and analysis of lime as needed.

3.6.2 Receive limestone samples from Spurlock Power Station plant personnel for analysis by independent commercial lab.

### 3.7 Accounting

3.7.1 Reconciles all documentation from Power Plant Personnel and Fuel Buyers against invoices.

3.7.2 Logs receipt information into accounting computer system.

3.7.3 Contacts responsible party to clarify any discrepancies in the invoices, receiving records, and/or lab analysis.

3.7.4 Approves payment and sends to treasury for disbursement.

## 4.0 Procedure

Cooper Power Station has an above-ground silo that holds approximately 1,067 tons of lime. This silo is maintained at near capacity level.

Spurlock Power Station has a scrubber limestone shed that holds approximately 4,000 tons and a CFB limestone shed that holds approximately 4,000 tons. These sheds are maintained at near capacity levels. A contingency stockpile of 20,000 tons of limestone is also maintained for the scrubbers and another 20,000

tons for the CFBs. Spurlock Power Station also has a silo that holds approximately 250 tons of lime kiln dust. It is maintained at near capacity level.

- 4.1 Issue RFP to obtain approved contract(s) and/or purchase order(s). The steps for issuing an RFP are as follows:
  - 4.1.1 Fuel Buyers determine term, quality, and quantity for lime, lime kiln dust, and limestone of RFP based on historic and projected needs.
  - 4.1.2 Develop and coordinate test for possible product or handling improvement. Improvement may be in terms of economics, compatibility, flexibility, or dependability.
  - 4.1.3 Fuel Buyers create an RFP template (*Exhibit 245*) stating applicable delivery locations, term, quality, quantity, and price options.
  - 4.1.4 Fuel and Emissions Manager and Administrative Assistant review RFP template (*Exhibit 245*) before RFP is issued.
  - 4.1.5 Issue RFP for sealed proposals for lime and limestone to bidders on EKPC's Lime and/or Limestone Bidders Lists (*Exhibit 234*). (No RFP is currently required for lime kiln dust due to sole source. In addition, economy, emergency, and test lime and limestone proposals may be made verbally and confirmed by written documentation.)
- 4.2 Open all sealed proposals on or after due date of RFP.
  - 4.2.1 Two Fuel and Emissions personnel must be present on proposal openings for purchase orders. A member of the Fuel Negotiating Committee, legal counsel, and two Fuel and Emissions personnel must be present on proposal openings for contracts.
  - 4.2.2 Administrative Assistant logs proposals reviewed.
  - 4.2.3 Sign log of proposals by those present at opening.
- 4.3 Fuel Buyers evaluate valid opened lime, lime kiln dust, and limestone proposals.
  - 4.3.1 Rank opened proposals in order of lowest to highest cost for fixed and/or floating pricing.

- 4.3.2 Determine if lowest priced proposal(s) meets EKPC's requirements as specified in the corresponding RFP.
- 4.3.3 Evaluate supplier(s) performance capabilities.
- 4.3.4 Initiate concerted internal review process with Fuel and Emissions, Environmental Affairs, Power Production, Finance, Power Supply, and Legal departments as well as the IRMC to evaluate proposals as needed. This internal control step fosters a global perspective of the evaluation process and is particularly important for new projects.
- 4.3.5 Conduct field visit(s), if necessary, to evaluate the facilities, reserves, quality, production capabilities, etc., of the supplier(s) with competitive proposals to evaluate physical risk.
- 4.3.6 Prepare a field evaluation report if field visit is conducted.
- 4.3.7 Ensure that the necessary due diligence is done in evaluating the credit worthiness and financial stability of all potential suppliers for the Fuel and Emissions department before entering into any binding contracts. The financial evaluation may be outsourced to a risk management service provider, which would have extensive experience and access to financial information for making a recommendation as to what extent EKPC should enter contractual commitments with reasonable financial risks. This may also be performed internally by requesting the supplier's audited financial statement, ratios, and key performance indicators. This information would then be provided to the finance department for their review and approval.
- 4.3.8 Draft approval memorandum to management (*Exhibit 256*) recommending the most economic supplier(s) of lime, lime kiln dust, and limestone meeting the corresponding RFP's specifications while balancing risk.
- 4.3.9 Management approves memorandum in accordance with Policy No. 404 (*Exhibit 45*) and No. AO31 (*Exhibit 2*).
- 4.4 Fuel Buyers prepare contract(s) and/or purchase order(s) that are approved by legal counsel.
  - 4.4.1 Contract(s) and/or purchase order(s) includes destination, quality, quantity, price, acceptance parameters, and terms and conditions.



- 4.4.2 Request W-9 (*Exhibit 123*) and Certificate of Insurance forms from selected supplier(s) if not already on file.
- 4.4.3 Administrative Assistant forwards W-9 (*Exhibit 123*) to Accounting, and Fuel Buyers forward Certificate of Insurance to ~~Director of Risk~~ risk management for approval.
- 4.4.4 Fuel Buyers send draft contract(s) and/or purchase order(s) to supplier(s) for review.
- 4.4.5 Request additional approval from the Fuel and Emissions Manager and legal counsel if changes are made to the previously approved draft.
- 4.5 Fuel Buyers coordinate the execution of lime, lime kiln dust, and limestone contract(s) and purchase order(s).
  - 4.5.1 Fuel Buyers obtain a sequential purchase order number from the fuel and emission's Oil Purchase Order Log Book after appropriate review and/or approval is given by the Fuel and Emissions Manager and legal counsel for purchase orders only.
  - 4.5.2 Administrative Assistant reviews contract(s) and purchase order(s) and circulates for signatures prior to distribution.
  - 4.5.3 ~~Administrative Assistant, at the direction of the Fuel Buyers, distributes the executed contract(s) and/or purchase order(s) internally as well as to EKPC's risk management service provider within five business days after trade execution for capture in a risk management system as per Policy No. 404 (Exhibit 4).~~ Administrative Assistant, at the direction of the Fuel Buyers, distributes the executed contract(s) and/or purchase order(s) internally. These documents are posted to a shared directory with EKPC's risk management service provider within five business days after trade execution for capture in a risk management system as per Policy No. 404 (Exhibit 5) and No. A031 (Exhibit 2). ~~The documents must be deleted from the shared directory within five business days for internal control.~~
  - 4.5.4 Fuel Analyst logs approved contract(s) and purchase order(s) on Trading Authority Transaction Matrix.
  - 4.5.5 Administrative Assistant files executed contract(s) and purchase order(s) in Fuel and Emissions' department files with documentation per checklist (*Exhibit 134*).

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- 4.6 Fuel and Emissions personnel schedule lime, lime kiln dust, and limestone from the then current contract(s) and/or purchase order(s) to replenish depleted power station supply based on power station need.
  - 4.6.1 Provide selected lime, lime kiln dust, and limestone supplier(s) a projected delivery schedule for up to one year.
- 4.7 Power Plant Personnel receive delivery of lime, lime kiln dust, and limestone.
  - 4.7.1 Collect bill of lading and forward to Accounting.
  - 4.7.2 Perform adequate sampling on lime, lime kiln dust, and limestone deliveries or inventories for quality control as required for their respective power station.
  - 4.7.3 Weigh trucks randomly once a week when deliveries occur using truck scales at the power stations to determine any net material discrepancies compared to the origin bill of lading. (Subtract tare weight from gross weight to determine net weight.)
  - 4.7.4 Monitor unloading of trucks.
- 4.8 Central Lab Personnel assist Power Plant Personnel as needed with lime and limestone sampling and analysis.
- 4.9 Verify receipt and invoice approval.
  - 4.9.1 Fuel Analyst enters deliveries for each contract(s) and purchase order(s) on Trading Authority Transaction Matrix.
  - 4.9.2 Fuel Buyers review and verify floating price adjustments for production and transportation surcharges as needed.
  - 4.9.3 Accounting reconciles all documentation (e.g., bill of lading, surcharge and delivery spreadsheets) from Power Plant Personnel and Fuel Buyers against invoices.
  - 4.9.4 Accounting logs receipt information into accounting computer system.
  - 4.9.5 Accounting contacts responsible party to clarify any discrepancies in volume and pricing.
  - 4.9.6 Accounting receives Accounting supervisor approval on invoice and sends to accounts payable for payment.

**5.0 Effective Date**

5.1 All departments at EKPC shall be fully compliant with this procedure by January 31, 20134.

**Concurred by:** \_\_\_\_\_ **Date:** \_\_\_\_\_  
Craig Johnson  
Sr. Vice President, Power Production

**Concurred by:** \_\_\_\_\_ **Date:** \_\_\_\_\_  
Mike McNalley  
Chief Financial Officer & Executive VP

**Concurred by:** \_\_\_\_\_ **Date:** \_\_\_\_\_  
Don Mosier  
Chief Operations Officer

**Approved by:** \_\_\_\_\_ **Date:** \_\_\_\_\_  
David Crews  
Sr. Vice President, Power Supply

**SIGNATURE:** \_\_\_\_\_

**APPROVED:** \_\_\_\_\_

Amended: 02/19/01  
Amended: 07/12/04  
Amended: 11/30/12  
Amended: \_\_\_\_\_



<b>PROCEDURE FOR THE PROCUREMENT OF FUEL OIL</b>			O-1
Author: Fuel and Emissions Department	Adopted: 02/27/81		Page 1 of <u>910</u>
Revision: <u>45</u>	By: Gail Varner	Revised Date: <del>11/30/12</del> 12/10/13	Reviewed: Ernie Huff

Applies to: Fuel and Emissions, Environmental Affairs, Power Production, Finance, Power Supply, and Legal

Keywords: No. 2 fuel oil

## 1.0 Purpose

This procedure outlines the procurement, delivery, confirmation, testing, and payment of No. 2 fuel oil for use at East Kentucky Power Cooperative, Inc.'s ("EKPC") power stations.

## 2.0 Terms and Definitions

- 2.1 **Branded Price**—Price for No. 2 fuel oil product that is brand specific, by the seller that is identified by tracers in the fuel oil. Price is typically regarded as more reliable in times of crisis such as hurricanes.
- 2.2 **Certificate of Insurance**—Standard Association for Cooperative Operations Research and Development (ACORD) form that identifies the policies afforded by a supplier related to the requirements specified by EKPC contracts/purchase orders.
- 2.3 **Fuel Oil Bidders List**—List of current oil supply companies to submit requests for proposals stating their addresses, representative contacts, phone numbers, and applicable stations for bidding purposes (*Exhibit 334*).
- 2.4 **Contract**—In terms of hedge quantities, a contract represents 1,000 barrels or 42,000 gallons of No. 2 fuel oil.
- 2.5 **Fixed Price**—Price set in advance of issuance of a purchase order. All applicable taxes, freight, fees, and profit margins are included except for a demurrage charge if applicable.
- 2.6 **No. 2 Fuel Oil**—Dyed ultra-low sulfur diesel fuel containing a maximum 15 ppm sulfur that is used for off-road purposes such as unit startups and

flame stabilization in the coal-fired generation fleet and a backup fuel in the combustion turbine fleet (Unit Nos. 1 through 7).

- 2.7 Oil Purchase Order Log Book—Log book containing sequential purchase order numbers for new oil purchase orders issued that states company name, issued date, applicable station, terms, gallons, price, and comments of each purchase order.
- 2.8 Ownership Disclosure—Form to be completed by all oil suppliers designating company type (proprietorship, partnership, corporation); owners; authorized sales representative(s); and any affiliation with EKPC's Board of Directors, employees or EKPC, or their immediate family (*Exhibit 345*).
- 2.9 Policy No. AO31—EKPC administrative policy for the Delegation of Authority from EKPC's CEO to management and staff regarding procurement authority for energy, energy related commodities, and transportation (*Exhibit 2*).
- 2.92.10 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure that all business affairs of EKPC are conducted in an ethical and businesslike manner in order to avoid all conflicts of interest or the appearance of any conflicts of interest in the conduct of the business affairs of EKPC (*Exhibit 34*).
- 2.101 Policy No. 404—EKPC Board of Directors Transaction Authority Limits for Energy and Energy Related Commodities and Transportation Policy providing authority matrices to delegate procurement approval levels for commodities and fuels (*Exhibit 45*).
- 2.142 Power Stations—Electric power generating plants owned and operated by EKPC: Dale, Cooper, Spurlock, and J. K. Smith. Dale, Cooper, and Spurlock Power Stations are coal-fired power plants, and J. K. Smith is a power plant compiled of seven combustion turbine (CT) generator units that are fueled by natural gas (primary) and No. 2 fuel oil (secondary). J. K. Smith also has two units that are natural gas only.
- 2.123 Purchase Order—Document binding seller to sell and ship designated product that is stating terms and conditions for oil deliveries to EKPC's power stations sent to a supplier for an acceptance signature after approval and before deliveries begin.
- 2.134 Rack-Plus Price—Either a branded or unbranded fuel oil price that is priced based on the specific rack location price plus a fixed adder that includes all applicable taxes, freight, fees, and profit margins. The adder



is fixed throughout the term of the purchase, whereas the actual fuel price is the only variable except for a demurrage charge if applicable.

- 2.145 Requisition—Form completed by Power Plant Personnel following up a verbal request for No. 2 fuel oil deliveries applying to the then current purchase order(s) (*Exhibit 378*).
- 2.156 RFP—Request for proposal sent to prospective suppliers on EKPC's Fuel Oil Bidders List (*Exhibit 334*) to bid for No. 2 fuel oil.
- 2.167 Trading Authority Transaction Matrix—Delegation of procurement approval authority.
- 2.178 Unbranded Price—Price for No. 2 fuel oil product that is not brand specific.
- 2.189 W-9—Form required by the Internal Revenue Service for tax purposes to be completed by all suppliers stating business name, address, and federal tax identification number before payment is issued. (*Exhibit 123*)

### 3.0 Responsibilities

#### 3.1 Fuel and Emissions Manager

- 3.1.1 Manages and directs Fuel Buyers, Administrative Assistant, and Fuel Analyst in the Fuel and Emissions department and assures compliance with Policy No. 116 (*Exhibit 34*).
- 3.1.2 Ensures adequate fuel oil deliveries to EKPC's power stations.
- 3.1.3 Assures that Fuel and Emissions staff follow procedures as described herein and in the Fuel, Emissions, Limestone, and Lime Strategy (*Exhibit 1*) for the purchase and delivery of oil.

#### 3.2 Power Plant Personnel

- 3.2.1 Maintain the fuel oil system at each of EKPC's power stations to ensure its availability to unload No. 2 fuel oil truck deliveries.
- 3.2.2 Advise the Fuel and Emissions department as a need arises for No. 2 fuel oil.
- 3.2.3 Collect No. 2 fuel oil sample during unloading as required, and stay with the truck during unloading to monitor in case of spills.



3.2.4 Log arrival and departure times of No. 2 fuel oil truck deliveries. Also, log any unusual occurrences while the truck is on site.

### 3.3 Fuel Buyers

3.3.1 Monitor J. K. Smith Power Station's No. 2 fuel oil inventory.

3.3.2 Issue and evaluate RFPs for No. 2 fuel oil for all power stations.

3.3.3 Generate and execute appropriate purchase order(s).

3.3.4 Contact appropriate supplier(s) for delivery of No. 2 fuel oil as requested by Power Plant Personnel if needed.

3.3.5 Evaluate and give direction of purchase from fixed or rack-plus agreement(s).

3.3.6 Manage appropriate purchase order(s) throughout the term of the order.

### 3.4 Administrative Assistant

3.4.1 Assists in managing the RFP process.

3.4.2 Contacts appropriate supplier(s) for delivery of No. 2 fuel oil as requested by Power Plant Personnel.

3.4.3 Receives and reviews pricing and invoices and contacts appropriate supplier(s) to clarify any discrepancies.

3.4.54 Verifies all documentation is received per checklist (*Exhibit 134*) and files with appropriate contract(s) and/or purchase order (s).

3.4.5 Posts fully executed contract(s) and purchase order(s) to a shared location, and notifies EKPC's risk management service provider.

### 3.5 Fuel Analyst

3.5.1 Manages the Trading Authority Transaction Matrix.

3.5.2 Verifies rack pricing and validate total invoice price.

3.5.3 Compiles and forwards completed spreadsheet of purchases to Accounting.

### 3.6 Central Lab Personnel

- 3.6.1 Sample No. 2 fuel oil tank at Spurlock Power Station semi-annually to ensure emissions compliance for Spurlock Power Station Unit No. 4.
- 3.6.2 Analyze No. 2 fuel oil drawn from the storage tank at J. K. Smith Station for sulfur, Btu, specific gravity, and temperature to ensure emissions compliance whenever any of the combustion turbines are operating on fuel oil.
- 3.6.3 Sample and analyze the No. 2 fuel oil tank at J. K. Smith Station semi-annually for quality stability.

### 3.7 Accounting

- 3.7.1 Verifies spreadsheet volume and dollars from Fuel Analyst against manual log sheet generated from verbal communication followed by bill of lading documentation from Power Plant Personnel and invoices.
- 3.7.2 Contacts responsible party to clarify any discrepancies in the invoices, receiving records, and/or lab analysis.
- 3.7.3 Logs receipt information into accounting computer system.
- 3.7.4 Approves payment and sends to treasury for disbursement.

## 4.0 Procedure

Replenish levels for No. 2 fuel oil are approximately 8,000—12,000 gallons at Dale Power Station; 15,000—20,000 gallons at Cooper Power Station; and 200,000—250,000 gallons at Spurlock Power Station. Dale and Cooper Power Stations both have underground tanks with 20,000-gallon and 30,000-gallon capacities, respectively. They are maintained at near capacity levels. Spurlock Power Station has one, usable 350,000 gallon capacity above-ground tank. All inventory levels are based in part on the plant's ability to deplete the fuel oil in large amounts from start-ups and multiple trips of units and may be adjusted accordingly.

J. K. Smith Power Station has a 4.5 million gallon above-ground tank. Replenishing No. 2 fuel oil inventory at J. K. Smith Power Station is based on market, delivery, and power station conditions. The No. 2 fuel oil level at J. K. Smith Power Station varies based on market conditions, oil turnover, etc., but is typically held at 2,250,000—2,925,000 gallons as backup to natural gas.

- 4.1 Issue RFP to obtain approved purchase order(s). The steps for issuing an RFP are as follows:
  - 4.1.1 Fuel Buyers determine term and quantity for No. 2 fuel oil of RFP based on historic and projected needs.
  - 4.1.2 Fuel Buyers create an RFP template (*Exhibit 354*) stating applicable delivery locations, term, quantity, and price options of fixed and/or rack plus.
  - 4.1.3 Fuel and Emissions Manager and Administrative Assistant review RFP template (*Exhibit 356*) before RFP is issued.
  - 4.1.4 Issue RFP for sealed proposals for No. 2 fuel oil to bidders on EKPC's Fuel Oil Bidders List (*Exhibit 334*).
- 4.2 Open all sealed proposals on or after due date of RFP.
  - 4.2.1 Two Fuel and Emissions personnel must be present.
  - 4.2.2 Administrative Assistant logs proposals reviewed.
  - 4.2.3 Sign log of proposals by those present at opening.
- 4.3 Fuel Buyers evaluate valid opened No. 2 fuel oil proposals.
  - 4.3.1 Rank opened proposals in order of lowest to highest cost for rack plus and/or fixed pricing.
  - 4.3.2 Determine if lowest priced proposal(s) meets EKPC's requirements as specified in the corresponding RFP.
  - 4.3.3 Evaluate supplier(s) performance capabilities as outlined in the Fuel, Emission, Limestone, and Lime Strategy (*Exhibit 1*).
  - 4.3.4 Draft approval memorandum to management (*Exhibit 367*) recommending the most economic supplier(s) of No. 2 fuel oil meeting the corresponding RFP's specifications while balancing risk.
  - 4.3.5 Management approves memorandum in accordance with Policy No. 404 (*Exhibit 45*) and No. AO31 (*Exhibit 2*).



- 4.4 Fuel Buyers prepare purchase order(s) for No. 2 fuel oil based on a standard template approved by legal counsel.
- 4.4.1 Purchase order(s) includes destination, quantity, price, acceptance parameters, and terms and conditions.
  - 4.4.2 Request Ownership Disclosure (*Exhibit 345*), W-9 (*Exhibit 123*), and Certificate of Insurance forms from selected supplier(s) if not already on file.
  - 4.4.3 Administrative Assistant forwards W-9 (*Exhibit 123*) to Accounting, and Fuel Buyers forward Certificate of Insurance to Director of Risk-risk management for approval.
  - 4.4.4 Fuel Buyers send draft purchase order(s) to supplier(s) for review if requested.
  - 4.4.5 Request additional approval from the Fuel and Emissions Manager and legal counsel if changes are made to the standard No. 2 fuel oil purchase order template.
- 4.5 Fuel Buyers execute No. 2 fuel oil purchase order(s).
- 4.5.1 Fuel Buyers obtain a sequential purchase order number from the fuel and emission's Oil Purchase Order Log Book after appropriate review and/or approval is given by the Fuel and Emissions Manager and legal counsel.
  - 4.5.2 ~~Administrative Assistant, at the direction of the Fuel Buyers, reviews purchase order(s) and distributes the executed purchase order(s) internally as well as to EKPC's risk management service provider within five business days after trade execution for capture in a risk management system as per Policy No. 404 (Exhibit 4). Administrative Assistant, at the direction of the Fuel Buyers, distributes the executed contract(s) and/or purchase order(s) internally. These documents are posted to a shared directory with EKPC's risk management service provider within five business days after trade execution for capture in a risk management system as per Policy No. 404 (Exhibit 5) and No. A031 (Exhibit 2). The documents must be deleted from the shared directory within five business days for internal control.~~
  - 4.5.3 Fuel Analyst logs approved purchase order(s) on Trading Authority Transaction Matrix.

Save as coal

- 4.5.4 Administrative Assistant files executed purchase order(s) in Fuel and Emissions' department files with documentation per checklist (*Exhibit 134*).
- 4.6 Fuel and Emissions personnel order No. 2 fuel oil from the then current purchase order(s) to replenish depleted power station supply based on Power Plant Personnel request(s).
  - 4.6.1 Receive request from Power Plant Personnel for a defined amount of No. 2 fuel oil, which is followed by a written requisition (*Exhibit 378*).
  - 4.6.2 Contact applicable supplier(s) for requested delivery amount of No. 2 fuel oil.
- 4.7 Power Plant Personnel receive delivery of No. 2 fuel oil.
  - 4.7.1 Log arrival and departure time of No. 2 fuel oil delivery.
  - 4.7.2 Perform adequate sampling on No. 2 fuel oil deliveries to ensure quality control as required for their respective power station.
  - 4.7.3 Monitor unloading of trucks to ensure no spills occur of the No. 2 fuel oil.
- 4.8 Central Lab Personnel analyze inventory samples on No. 2 fuel oil when collected at power station.
- 4.9 Verify receipt and invoice approval.
  - 4.9.1 Administrative Assistant receives and reviews applicable pricing and invoices.
  - 4.9.2 Administrative Assistant contacts appropriate supplier(s) to clarify any discrepancies with the invoice(s).
  - 4.9.3 Administrative Assistant forwards pricing and invoices to Fuel Analyst for logging and also to Accounting.
  - 4.9.4 Fuel Analyst logs invoices on spreadsheet and verifies pricing.
  - 4.9.5 Fuel Analyst forwards completed spreadsheet to Accounting.
  - 4.9.6 Fuel Analyst enters deliveries for each purchase order(s) on Trading Authority Transaction Matrix.

- 4.9.7 Accounting verifies spreadsheet volume and dollars from Fuel Analyst against manual log sheet generated from verbal communication and/or bill of lading documentation from Power Plant Personnel and invoices.
- 4.9.8 Accounting contacts responsible party to clarify any discrepancies in volume and pricing.
- 4.9.9 Accounting logs receipt information into accounting computer system.
- 4.9.10 Accounting receives Accounting supervisor approval on invoice and sends to accounts payable for payment.

**5.0 Effective Date**

- 5.1 All departments at EKPC shall be fully compliant with this procedure by January 31, 20134.

**Concurred by:** \_\_\_\_\_ **Date:** \_\_\_\_\_  
Craig Johnson  
Sr. Vice President, Power Production

**Concurred by:** \_\_\_\_\_ **Date:** \_\_\_\_\_  
Mike McNalley  
Chief Financial Officer & Executive VP

**Concurred by:** \_\_\_\_\_ **Date:** \_\_\_\_\_  
Don Mosier  
Chief Operations Officer

**Approved by:** \_\_\_\_\_ **Date:** \_\_\_\_\_  
David Crews  
Sr. Vice President, Power Supply

**SIGNATURE:** \_\_\_\_\_

**APPROVED:** \_\_\_\_\_



Amended: 02/19/01  
Amended: 07/12/04  
Amended: 02/01/05  
Amended: 11/30/12  
Amended:

**EAST KENTUCKY POWER COOPERATIVE, INC.**

**PSC CASE NO. 2014-00226  
FUEL ADJUSTMENT CLAUSE  
RESPONSE TO INFORMATION REQUEST**

**COMMISSION'S INFORMATION REQUEST AT HEARING HELD ON 11/12/14  
REQUEST 4**

**RESPONSIBLE PARTY:            Julia J. Tucker**

**Request 4.**            Explain the nature of the change in the start-up period for Dale Station (i.e. from how long to five days?)

**Response 4.**            The time required for PJM to notify EKPC that it would want the Dale units (3 and 4) on line for dispatch changed from 36 hours to 5 days (notification period) when EKPC winterized the Dale units in December 2013.

**EAST KENTUCKY POWER COOPERATIVE, INC.**

**PSC CASE NO. 2014-00226**

**FUEL ADJUSTMENT CLAUSE**

**RESPONSE TO INFORMATION REQUEST**

**COMMISSION'S INFORMATION REQUEST AT HEARING HELD ON 11/12/14  
REQUEST 5**

**RESPONSIBLE PARTY: Michelle K. Carpenter**

**Request 5.** If the Commission chose to disallow any portion of EKPC's claimed fuel expense for FAC purchases, would that have any impact upon EKPC's books?

**Response 5.** EKPC believes that only allowable fuel costs were recovered during the period under review. Any disallowance of fuel costs included in the FAC would directly reduce EKPC's margin in the year recognized. In order to present its financial statements in accordance with Generally Accepted Accounting Principles (GAAP), EKPC must accrue liabilities when they are probable and estimable. Also, given that EKPC is a regulated utility and subject to ASC Topic 980, Regulated Operations, the liability would be recorded based upon the timing of the Commission's order and the stipulations contained within that order. Should the Commission disallow a portion of the fuel costs recovered through the FAC mechanism during the period under review, EKPC would prefer for the order to require that EKPC record the disallowance as



an over-recovery in 2014 given the majority of the costs were incurred and recovered during this timeframe. However, if the Commission is unable to complete its review and issue an order before March 1, 2015, EKPC would ask that the Commission consider including a requirement in the order for EKPC to recognize the over-recovery in 2015 to ensure that EKPC's 2014 annual independent audit can be issued timely to meet RUS and other lender loan covenant requirements.