

**FUEL & LIME PROCUREMENT MANUAL**

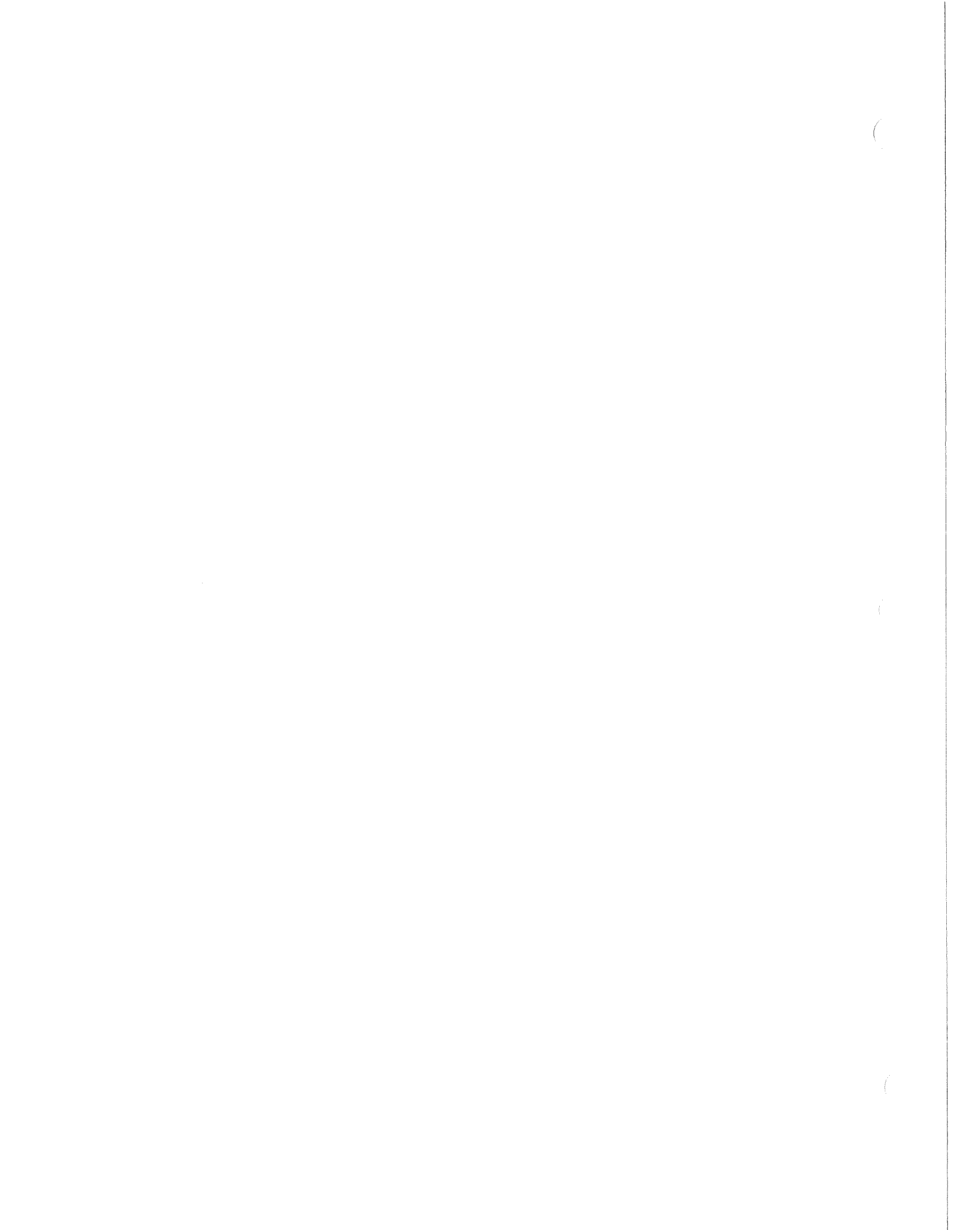
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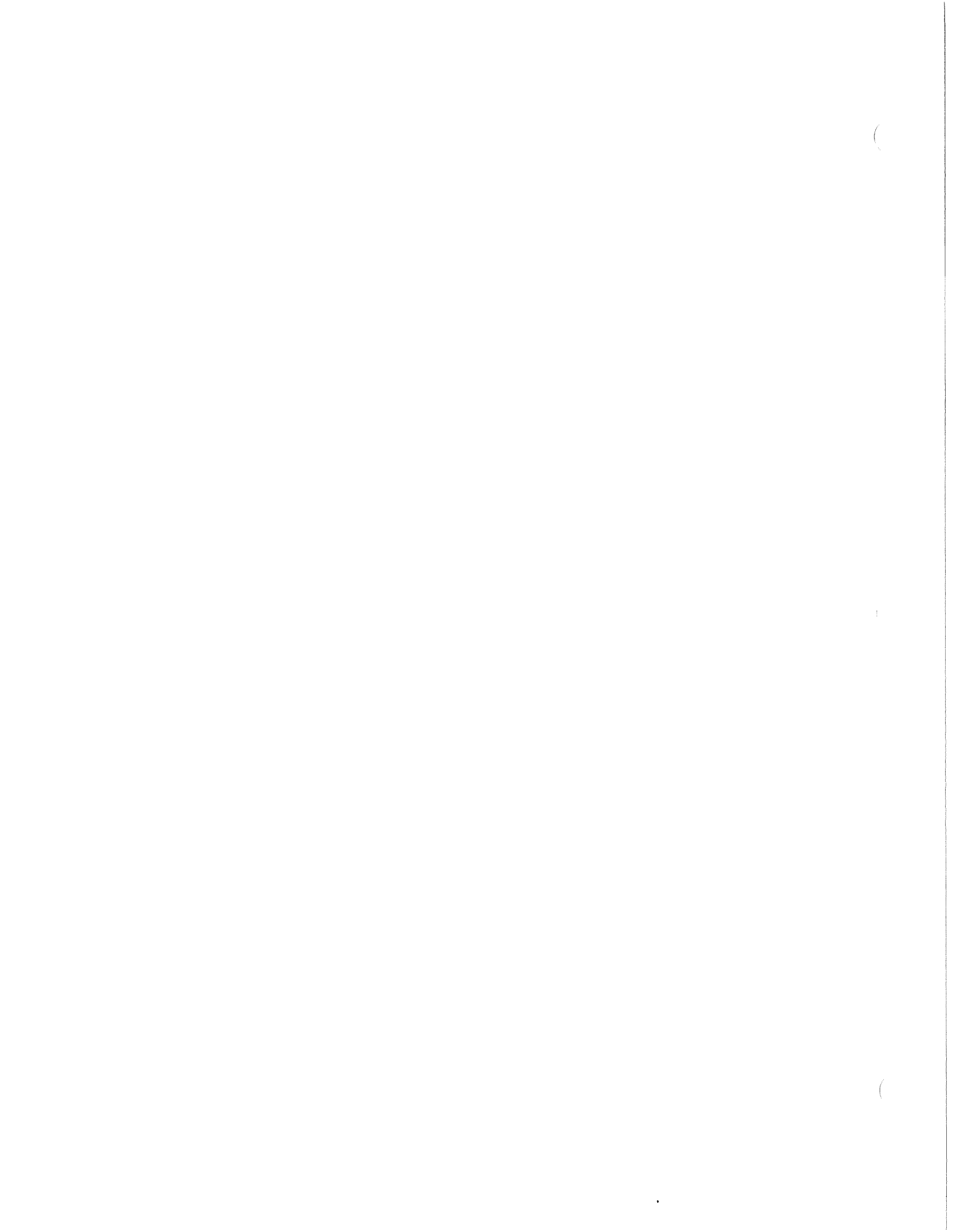
**EAST KENTUCKY POWER COOPERATIVE, INC.  
FUEL AND LIME PROCUREMENT MANUAL  
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Amended: 02/19/01

Amended: 07/12/04

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## EAST KENTUCKY POWER COOPERATIVE

POLICY NO. 105

JULY 6, 1979

### COMMITTEES OF THE BOARD OF DIRECTORS

#### I. OBJECTIVE

To provide for the creation of committees so as to achieve the mission, objectives, goals, and programs of East Kentucky Power Cooperative ("EKPC").

#### II. CONTENT

- A. The standing committees of the Board of Directors ("Board") shall be the Operations, Services and Support Committee, the Fuel and Power Supply Committee and the Power Delivery Committee as set forth in Board Policy No. 106. An Audit Committee shall be selected from each of the three standing committees, as outlined in Board Policy No. 106. The Board shall also establish any other committees as required by Board policy, and may establish or abolish any other committees, as it deems desirable.
- B. Each committee shall have such powers and perform such duties as may be delegated to it by the Board, in accordance with provisions of the Bylaws. The Chairman of the Board, with the advice and consent of the other officers of the Board, and in consultation with the President and Chief Executive Officer ("President and CEO"), shall appoint the members of all committees established by the Board, except for the Audit Committee whose members shall be appointed by the officers of the Board, as further explained in Board Policy No. 106, paragraph III, E. CEOs of member systems may serve on such committees in accordance with the Bylaws, but no member system shall have more than one representative on any Board committee.
- C. Dates of all committee meetings shall be by notice. An agenda shall be prepared for each meeting of a standing committee by the President and CEO and transmitted electronically, by mail or otherwise to each Board member and member system manager at least five days in advance of the committee meeting. An agenda shall be prepared for each meeting of the Audit Committee by the Audit Committee Chairman and transmitted electronically at least five days in advance of the committee meeting. In the case of any special committee meeting, the agenda shall be prepared by the committee chairman in consultation with the President and CEO or his designee, and the committee members shall be so notified at least five days in advance of said meeting. These requirements may be waived by a majority of the committee.

- D. Minutes shall be kept of each meeting of all committees as directed by the General Counsel.

III. RESPONSIBILITY

- A. It shall be the responsibility of the Board to establish or abolish committees, approve changes in their functions and procedures and receive and act upon their reports or recommendations.

Amended: 10-06-87

Amended: 08-03-93

Amended: 12-05-00

Amended: 09-09-03



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# EAST KENTUCKY POWER COOPERATIVE

POLICY NO. 106

JULY 6, 1979

## STATEMENT OF FUNCTIONS OF STANDING COMMITTEES OF BOARD OF DIRECTORS

### I. BASIC FUNCTION

The basic function of the three standing committees of the Board of Directors ("Board") is to study and review all agenda items and other issues that come before the Board, and to make recommendations to the Board on these items and issues as appropriate; and to perform any other duties and undertake any other tasks as set forth in these board policies, the bylaws or requested by the Board of East Kentucky Power Cooperative ("EKPC").

The basic functions and duties of the Audit Committee are described in Section II, other Committees, paragraph A.

### II. DUTIES AND RESPONSIBILITIES

#### Standing Committees

- A. OPERATIONS, SERVICES AND SUPPORT COMMITTEE – The Operations, Services and Support Committee shall have primary responsibility for consideration of all matters relating to the financial and operational aspects of EKPC not delegated to another standing committee, or the Audit Committee, including the following:
1. Review of the EKPC Annual Budget & Work Plan as recommended by the President and Chief Executive Officer ("President and CEO") with submission to the Board in December with the committee's recommendations.
  2. Review of proposed changes to the Bylaws or Board policies and making appropriate recommendations to the Board.
  3. Review of and making appropriate recommendations to the Board on items relating to personnel or human resource issues.
  4. Review of items and issues relating to services and support functions provided by EKPC including without limitation, strategic planning, member services, public affairs, economic development, marketing, and pricing, and making appropriate recommendations to the Board.

5. Review of other items and issues relating to the financial and operational aspects of EKPC, and the provision of service and support functions by EKPC, and making appropriate recommendations to the Board.
- B. FUEL AND POWER SUPPLY COMMITTEE – The Fuel and Power Supply Committee shall have primary responsibility for consideration of all matters relating to fuel and power supply of EKPC including the following:
1. Review of items and issues relating to fuel procurement and making appropriate recommendations to the Board.
  2. Review and approval of applicable fuel purchases pursuant to Board Policy No. 403.
  3. Review of items and issues relating to power supply planning and making appropriate recommendations to the Board.
  4. Review of other items and issues relating to fuel, generation, and power supply and making appropriate recommendations to the Board.
- C. POWER DELIVERY COMMITTEE – The Power Delivery Committee shall have primary responsibility for consideration of all matters relating to transmission and power delivery of EKPC, including the following:
1. Review of all items and issues relating to all aspects of transmission including without limitation, planning and reliability and making appropriate recommendations to the Board.
  2. Review of all items and issues relating to communications, telecommunications and information transfers by or for EKPC, both internal and external, and making appropriate recommendations to the Board.
  3. Review of other items and issues regarding all other aspects of the power delivery function of EKPC and making appropriate recommendations to the Board.

#### Other Committees

- A. AUDIT COMMITTEE – The Audit Committee shall have primary responsibility for consideration of all matters relating to accounting policies and internal controls of EKPC, including the following:
1. Review of selection of an external auditor to perform an annual independent

financial audit on the operations of EKPC, determination of the scope of such audit, review of the report on the financial audit with the external auditor and making any appropriate recommendations to the Board.

2. Perform other duties as outlined in the Audit Committee Charter (Attachment 1).

### III. ORGANIZATIONAL RELATIONSHIPS

- A. Each of the three standing committees and the Audit Committee shall report directly to the Board.
- B. Each committee shall undertake and perform the functions and duties as described above consistent with the delegation of authority to the President and CEO in Board Policy No. 103. The President and CEO shall make the determination as to which committee shall review any particular item or issue.
- C. With respect to any item or issue which has not been included in the Board approved EKPC Annual Budget & Work Plan, or for which there are other related financial, operational or other issues, the committee which has responsibility for review of the subject matter of that item or issue pursuant to this policy, shall also review any related financing, budgetary, operational or other issues related to that item or issue and make appropriate recommendations to the Board, regardless of whether the related items or issues may otherwise lie within the responsibility of another committee.
- D. The committees, other than the Audit Committee, shall have as close to an equal number of members as is possible given the number of member systems existing at any given time. Each committee shall have as close to an equal number of Directors and Managers/CEOs of member systems as possible with no member system having more than one representative on any one committee.
- E. Each Standing Committee will meet monthly on the day before each Board meeting, the day of the Board meeting, or at the call of the Chairman of the Board or the Committee Chairman. A meeting of the committee may also be called by any three members of the Committee. The Audit Committee will meet at least two times per year at times selected by the Audit Committee Chairman, pursuant to appropriate notice. The Audit Committee may hold meetings by telephone, pursuant to appropriate notice and if circumstances dictate. The Audit Committee Chairman will be appointed by the Chairman of the Board and Board officers, considering the qualifications of the Chairman as outlined in the Audit Committee Charter. The Audit Committee Chairman will consult with the Board officers in selecting a

member from each of the three standing Board Committees, resulting in an Audit Committee comprised of two regular directors and two alternate directors.

- F. Each Standing Committee is a continuing one and the term of each member shall run for one year, coincident with the term of the Chairman of the Board, and until his successor is elected or appointed. Standing Committee members will rotate on a staggered basis to ensure that no member serves for more than three continuous years on any one committee. The Audit Committee membership will stand until the Chairman of the Board makes a change, with the advice and consultation of the other officers of the Board.
- G. At the first meeting following election of Directors, each Standing Committee shall elect a Chairman, Vice-Chairman and Secretary, with the Chairman and Vice-Chairman both being regular Directors. If the Secretary is not a regular Director, in the absence of both the Chairman and Vice-Chairman at any given meeting, the Committee shall elect a Chairman Pro Tem from among the regular Directors to conduct the meeting and present the Committee reports to the Board. No Board officer shall also serve as a Standing Committee Chairman, but may serve as Chairman of the Audit Committee.

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 Amended: 09-09-03



## **Attachment to Board Policy #106**

### **EAST KENTUCKY POWER COOPERATIVE, INC. AUDIT COMMITTEE CHARTER**

One committee of the East Kentucky Power Board of Directors (“Board”) will be known as the Audit Committee. The Chairman of the Board will consult with the Board officers in appointing the Audit Committee chairperson who will then consult with the Board officers in selecting one member from each of the three standing Board committees (Operations, Services and Support Committee, the Fuel and Power Supply Committee, and the Power Delivery Committee.) As a result, the Audit Committee will be comprised of two regular directors and two alternate directors. The Chairman of the Audit Committee must have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience, which results in “financial sophistication.” Each member of the Audit Committee should be able to read and understand fundamental financial statements, including the balance sheet, statement of operations, and cash flow statement.

The primary function of the Audit Committee is to assist the board in fulfilling its oversight responsibilities by reviewing the financial information that will be provided to the member owners and others, the systems of internal controls management and the Board have established, and all audit processes.

#### **I. General responsibilities**

- A. The Audit Committee provides open avenues of communication between the independent accountant and the Board.
- B. The Audit Committee must report committee actions to the full Board and may make appropriate recommendations.
- C. The Audit Committee has the power to conduct or authorize investigations into matters within the committee's scope of responsibilities. The committee is authorized to retain independent counsel, accountants, or others it needs to assist in an investigation.
- D. The committee will meet at least twice each year, or more frequently if circumstances make that preferable. The Audit Committee chairman has the power to call a committee meeting whenever he or she thinks there is a need. An Audit Committee member should not vote on any matter in which he or she is not independent. The committee may ask members of management or others to attend the meeting and is authorized to receive all pertinent information from management.

- E. The Audit Committee will do whatever else the law, the Cooperative's charter or bylaws, or the Board requires.

II. Responsibilities for engaging independent accountants

- A. The Audit Committee will select the independent accountants for Cooperative audits. The committee's selection is subject to approval by the full Board. The Audit Committee also will review and set any fees paid to the independent accountants and review and approve dismissal of the independent accountants.
- B. The Audit Committee will confirm and assure the independence of the independent accountant. The Audit Committee will ensure that no prohibited consulting services are performed by the independent accountant.
- C. The Audit Committee will consider, in consultation with the independent accountant, the audit scope and procedural plans made by the independent accountant.
- D. The Audit Committee will consider requests from management and the primary independent accountant if either thinks there might be a need to engage additional auditors. The Audit Committee will decide whether to engage an additional firm and, if so, which one.

III. Responsibilities for reviewing the annual external audit and the review of quarterly and annual financial statements

- A. The Audit Committee will ensure that the independent accountant considers the board of directors as its client, that it will be available to the full Board at least annually, and that it will provide the committee with a timely analysis of significant financial reporting issues.
- B. The Audit Committee will serve as the Risk Oversight Committee.
- C. The Audit Committee will review the following with the independent accountant:
  - 1. The adequacy of the Cooperative's internal controls, including computerized information system controls and security.
  - 2. Any significant findings and recommendations made by the independent accountant, together with management's responses to them.

- D. Shortly after the annual audit is completed, the Audit Committee will review the following with management and the independent accountant:
1. The Cooperative's annual financial statements and related footnotes.
  2. The independent accountant's audit of and report on the financial statements.
  3. The independent accountant's qualitative judgments about the appropriateness, not just the acceptability, of accounting principles and financial disclosures and how aggressive (or conservative) the accounting principles and underlying estimates are.
  4. Any serious difficulties or disputes with management encountered during the course of the audit.
  5. All other aspects of the audit procedures or findings that GAAS requires the auditors to discuss with the committee.
- E. The Audit Committee will consider and review with management any significant findings during the year and management's responses to them.
- F. The Audit Committee will review annual financial filings with the Public Service Commission and other published documents containing the Cooperative's financial statements and will consider whether the information in the filings is consistent with the information in the financial statements.
- G. The Audit Committee will review the interim financial reports with management and the independent accountant before those interim reports are released to the public or filed with the Public Service Commission or other regulators.
- H. The Audit Committee will prepare a letter for inclusion in the annual report that describes the committee's composition and responsibilities and how the responsibilities were fulfilled.

#### IV. Periodic responsibilities

- A. Review and update the Audit Committee's charter annually.
- B. Review policies and procedures covering officers' expense accounts and perquisites, including their use of corporate assets, and consider the results of any review of those areas by the independent accountant.

- C. Review, with the independent accountant, the results of their examination of compliance with the Cooperative's code of conduct.
- D. Review legal and regulatory matters that may have a material effect on the Cooperative's financial statements, compliance policies and programs, and reports from regulators.
- E. Meet with the independent accountant and management in separate executive sessions to discuss any matters the committee or these groups believe should be discussed privately with the Audit Committee.
- F. Perform oversight on other financial matters, as required.



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## EAST KENTUCKY POWER COOPERATIVE

POLICY NO. 403

September 10, 1979

### FUEL PROCUREMENT COAL, OIL, AND NATURAL GAS

#### I. OBJECTIVE

To ensure East Kentucky Power Cooperative ("EKPC") of an adequate supply of fuel of proper quality, purchased at competitive prices and in accordance with the requirements of lending and regulatory agencies; to ensure that ethical, fair, and sound business practices are followed; and to avoid any conflict of interest or appearance of any such conflict of interest.

#### II. CONTENT

- A. Various fuel procurement techniques, such as formal competitive bids, informal competitive bids, spot purchases, and any such negotiations as may be appropriate, may be utilized in carrying out the intent of this policy.
- B. Pertinent factors in addition to price, such as suitability of the fuel for its intended use and dependability of supply, shall be given due consideration in the procurement of fuel. The specifications, quantity, and term shall be defined in advance of any bidding.
- C. A register for each station will be maintained of potential suppliers who have indicated their interest to provide fuel to meet EKPC's specifications at competitive prices.
- D. Suppliers on the above lists will be provided requests for proposals, in writing, indicating quantity and quality of fuel required and will be asked to submit their written bids. If time does not permit, verbal bids may be solicited. To the extent possible, field visits will be made to inspect the facilities, quality, and production capabilities of competitive bids.
- E. Bids for the sale of fuel to EKPC will be reviewed by the Fuel & Power Supply Committee, taking into consideration the following evaluation factors: (1) prices; (2) quality; (3) quantity available; (4) method and cost of delivery; (5) whether the bid is from a producer or broker; refinery or distributor; producer or marketer; (6) past and anticipated performance; (7) source and location of fuel; (8) any special terms and conditions; (9) production and delivery capability; and (10) security of supply.

- F. Where applicable, the Fuel & Power Supply Committee will make an appropriate recommendation to the Board of Directors ("Board") as to which bid, if any, should be accepted by EKPC.
- G. Negotiation and administration of fuel procurement and fuel transportation contracts and orders shall be accomplished by ethical, fair, and sound business practices.
- H. All contracts and purchase orders for fuel shall contain provisions requiring representative sampling for the accurate analysis of the quality of the fuel. Also, such contracts and purchase orders for coal shall contain provisions for appropriate adjustments in the price, or similar considerations, for variations in quality above or below the required quality standards of EKPC, to ensure that the value received is commensurate with the price paid. The provisions of such contracts shall be diligently enforced, consistent with fair and sound business practices.
- I. In order to assure that, to the greatest extent possible, EKPC's fuel procurement practices are beyond reproach, Directors and employees of EKPC, Managers and Directors of member systems, or the immediate families of such persons shall not be involved, either directly or indirectly, in the sale of fuel, mining property, or mining equipment to EKPC. Any exceptions to this provision require the unanimous consent of the Fuel & Power Supply Committee, which shall disclose the relationship and make an appropriate recommendation to the full Board. The term "immediate family" means children, husband, wife, sister, brother, parents, foster parents, foster children, grandchildren, foster brother and sister, nieces, nephews, grandparents, aunts, uncles, mother or father-in-law, sister or brother-in-law, or any relative residing in the employee's, Manager's, or Director's household. Any person affected by this policy who has knowledge of any prohibited involvement in the proposed purchase of fuel, mining property, or mining equipment shall have the responsibility of advising EKPC of this interest.
- J. The Fuel & Power Supply Committee shall review formal or informal bids for the purchase of fuel (including spot purchases), proposals for purchase of mines and mine equipment, the adequacy of the coal inventory, contracts for the transportation of coal or the purchase of transportation equipment, and shall provide general oversight of procurement and transportation of fuel.



- K. As outlined in EKPC's Fuel Strategy, a portion of the fuel for firmly projected long-term requirements shall be procured by ownership of reserves, or by long-term (5 years or more) or short-term (1 to 5 years) contracts awarded by evaluated competitive bids and approved by the Board, so as to assure continuity of supply, at reasonable costs, under fluctuating conditions.
- (1) On a date certain, opening of requested proposals for short and long-term contract fuel shall be conducted with the Fuel Negotiating Committee present. Such committee shall consist of at least one (1) Director member of the Fuel & Power Supply Committee, the President and Chief Executive Officer ("President and CEO") or his designee, the Vice President, Power Production or his designee, and the Fuel Process Manager or his designee. After proposals are opened, they shall be recorded and evaluated by the Fuel Department, with an evaluated report presented to the Fuel & Power Supply Committee.
  - (2) If the Negotiating Committee elects to negotiate with the bidders recommended by the Fuel Process, it shall give the most competitive bidders an opportunity to negotiate until any questions related to the bidder's proposal have been clarified and until a final price is reached. No prices or relative positions of bidders shall be revealed.
- L. Spot purchases of fuel are purchase orders normally of less than one year in duration. Procedures for such purchases shall be as follows:
- (1) Spot fuel purchases for a 3-month delivery term or longer shall be by competitive bids, with approval from the Fuel & Power Supply Committee and review by the Board. All other spot fuel purchases (except for economy, emergency, and test purchases, as discussed below) shall be by competitive bids, with approval from the President and CEO and reviewed by the Fuel & Power Supply Committee and the Board.
  - (2) Economy and emergency spot purchases may be made without competitive bidding in cases where the price is deemed economical in comparison with recent bids and unsolicited offers received, and in comparison with published current market information; or in emergency situations including, but not limited to: failure of a coal supplier to perform, increased coal usage due to an increase in power sales, coal miners' or transportation strikes, severe weather conditions, or inability of power plants to receive coal by normal means. Economy and emergency spot purchases are to be approved by the President and CEO and reviewed by the Fuel & Power Supply Committee and the Board.

- (3) Test spot purchases are purchases made in advance of entering a contract or purchase order to test a particular fuel for its suitability and burning characteristics in an EKPC power station. Test spot purchases are to be approved by the President and CEO and reviewed by the Fuel & Power Supply Committee and the Board.
  - (4) Fuel oil No. 2 shall be acquired through competitive bidding. Purchases shall be made in accordance with the current fuel strategy. Approval will be made within the appropriate authority levels of the Power Production Business Unit Leader and President and CEO. Purchases in excess of the Power Production Business Unit Leader's authority level will also be reviewed by the Fuel & Power Supply Committee and the Board.
  - (5) Spot natural gas purchases shall be made through competitive bidding whenever possible. Factors unique to natural gas and the operation of the combustion turbines may make the use of competitive bidding impossible in certain situations. Spot purchases of natural gas when competitive bidding is not possible shall be ratified by the President and CEO, and reviewed by the Fuel & Power Supply Committee and the Board.
- M. A portion of the spot coal requirement may be set aside each month for the Run-of-Mine ("R.O.M.") Coal Procurement Program. The R.O.M. Procurement Program purchases coal to be processed and blended at EKPC's facility or by area coal facilities, under the direction of EKPC personnel, as needed to meet the quality specifications for EKPC's power stations. These purchases shall be made by EKPC personnel designated by the President and CEO. The final average evaluated price, to each power station, for R.O.M. purchases shall be competitive with the highest evaluated prices being paid at the time at the power station. R.O.M. prices may be adjusted as the coal market changes. R.O.M. purchases shall be presented to the President and CEO, the Fuel & Power Supply Committee, and the Board for their review. R.O.M. processing and transportation agreements shall be approved by the President and CEO and presented to the Fuel & Power Supply Committee and the Board for their review.
- N. Fuel procurement practices shall be approved, as required, and in compliance with the requirements of lending and regulatory agencies, and Board policy.
- O. All fuel procurement contracts, excluding purchase orders, providing for a delivery period of one year or more, shall contain provisions designed to provide at least a minimum level of assurance of performance by the fuel supplier, in addition to normal remedies for contract breach. Such provisions shall provide for performance bonds, irrevocable letters of credit, escrow accounts, or similar security measures,

in amounts to be related to the tonnage amount of the contract, and pursuant to the guidelines set by the Fuel & Power Supply Committee of the Board. Upon the recommendation of the staff, the Fuel & Power Supply Committee may waive such security requirements, or allow modified provisions, where special circumstances provide sufficient assurances of performance by the fuel supplier.

### III. RESPONSIBILITY

The Chairman of the Board, the President and CEO, and Fuel & Power Supply Committee shall see that this policy is adhered to and that all appropriate applicable policies and procedures of lending and regulatory agencies are complied with.

Amended: 01-13-81

Amended: 12-13-83

Amended: 05-08-84

Amended: 08-05-86

Amended: 03-10-87

Amended: 09-12-89

Amended: 07-29-91

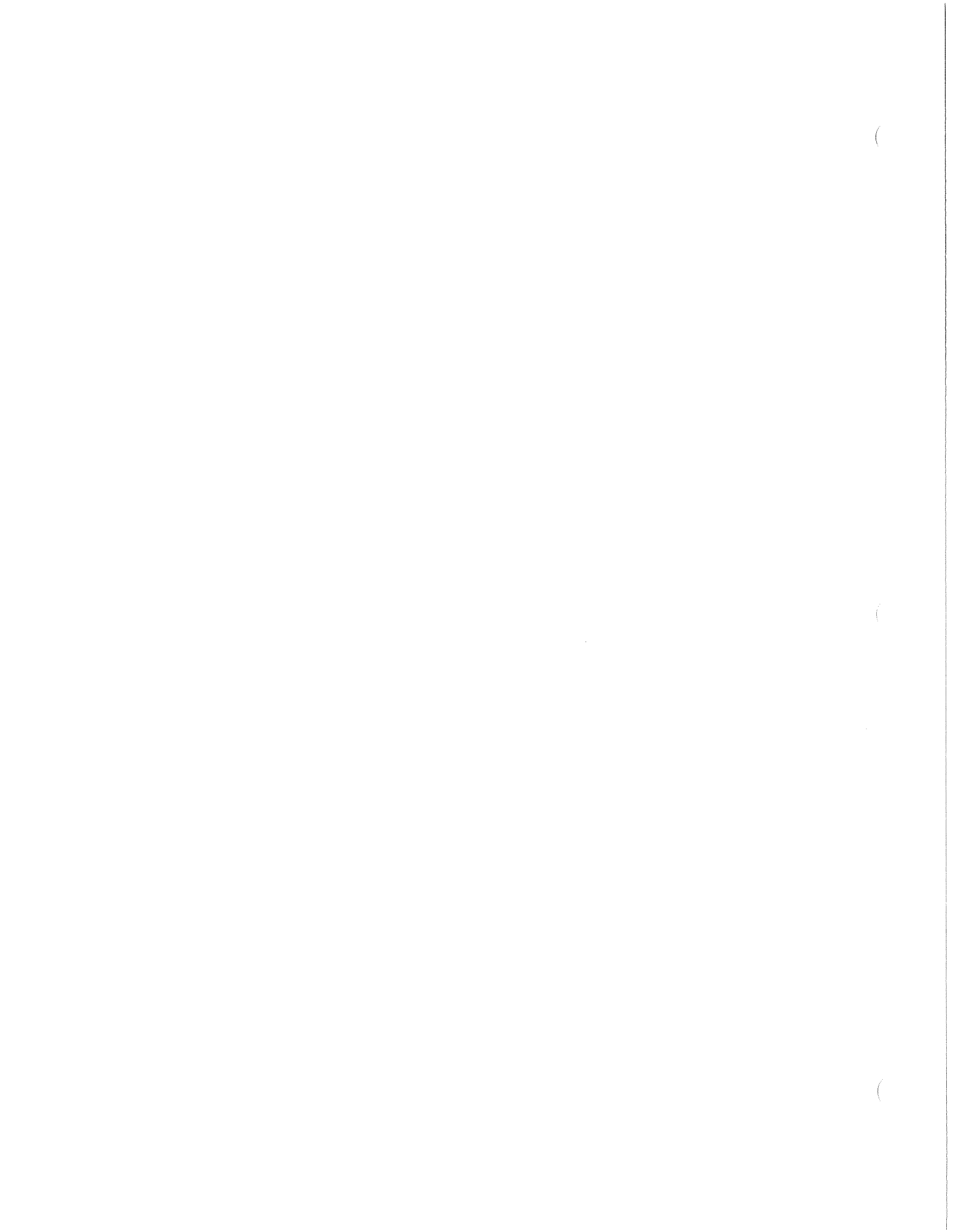
Amended: 08-03-93

Amended: 11-08-94

Amended: 12-06-94

Amended: 11-12-96

Amended: 06-14-05





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**COAL SPECIFICATIONS & INFORMATION**  
**EAST KENTUCKY POWER COOPERATIVE, INC.**

**Dale Power Station - Ford, Kentucky**

Delivery - By Truck or CSX Railroad

Pricing - If by Truck: Per Million BTU, F.O.B. Dale Station  
If by Rail: Per Million BTU, F.O.B. Railcar

Specifications

Minimum BTU-----	11,500	Size-----	2" x 0"
Maximum Ash-----	12%		(Maximum 1/4" and under--40%)
Maximum Moisture -----	8%	Minimum Hardgrove	
		Grindability -----	45

Maximum Sulfur Percentage Allowed is Computed by the Formula:

$$\frac{1.8 \times \text{Btu/lb.}}{19,500}$$

Ash Softening Temperature (Reducing Atmosphere)

Initial Deformation-----	2200°F Minimum
Softening (H=W)-----	2300°F Minimum
Softening (H=W/2)-----	2420°F Minimum
Fluid-----	2550°F Minimum

**Cooper Power Station - Burnside, Kentucky**

Delivery - By Truck or Norfolk Southern Railroad

Pricing - If by Truck: Per Million BTU, F.O.B. Cooper Station  
If by Rail: Per Million BTU, F.O.B. Railcar

Specifications

Minimum BTU-----	11,500	Size-----	2" x 0"
Maximum Ash-----	12%		(Maximum 1/4" and under--40%)
Maximum Moisture -----	8%	Minimum Hardgrove	
		Grindability -----	45

Maximum Sulfur Percentage Allowed is Computed by the Formula:

$$\frac{3.3 \times \text{Btu/lb.}}{19,500}$$

Ash Softening Temperature (Reducing Atmosphere)

Initial Deformation-----	2200°F Minimum
Softening (H=W)-----	2300°F Minimum
Softening (H=W/2)-----	2420°F Minimum
Fluid-----	2550°F Minimum

**OVER**

**Spurlock Power Station - Charleston Bottoms, Kentucky**

Delivery - By: Barge, CSX Railroad, or TTI Railroad

Pricing - If by Rail: Per Million BTU, F.O.B. Railcar  
If by Barge: Per Million BTU, F.O.B. Barge

Spurlock Unit Nos. 1 and 2 Specifications

Minimum BTU-----	11,000	Size-----	2" x 0"
Maximum Ash-----	14%		(Maximum 1/4" and under--40%)
Maximum Moisture -----	9%	Minimum Hardgrove	
Maximum Chlorine-----	0.15%	Grindability -----	45

Maximum Sulfur for Unit 1 & Unit 2 with Scrubber is Computed by the Formula:

$$\frac{6.0 \times \text{Btu/lb.}}{19,500}$$

Maximum Sulfur for Unit 2 without Scrubber is Computed by the Formula:

$$\frac{1.15 \times \text{Btu/lb.}^*}{19,500}$$

Ash Softening Temperature (Reducing Atmosphere)

Initial Deformation-----	2050°F Minimum
Softening (H=W) -----	2150°F Minimum
Softening (H=W/2)-----	2300°F Minimum
Fluid-----	2450°F Minimum

\*Current operating mode.

Gilbert Unit 3 Specifications

Minimum BTU-----	9,000	Size-----	2" x 0"
Maximum Ash-----	30%		(Maximum 1/4" and under--40%)
Maximum Moisture -----	10%		

Maximum Sulfur Percentage Allowed is Computed by the Formula:

$$\frac{9.75 \times \text{Btu/lb.}}{19,500}$$

Amended: 02/19/01  
Amended: 03/31/03  
Amended: 02/01/05

## **FUEL SUPPLY CAPABILITIES AND RESTRICTIONS**

### **Dale**

**Coal Delivery**—By truck or CSX Railroad; single car; bottom dump; 8-car siding.

**Coal Stockpile**—Estimated 85,000 tons capacity; one pile.

### **Cooper**

**Coal Delivery**—By truck or Norfolk Southern Railroad; single car; bottom dump; 50-car siding.

**Coal Stockpile**—Estimated 200,000 tons capacity; one pile.

### **Spurlock**

**Coal Delivery**—By barge, CSX Railroad, or TTI Railroad; unit train; rotary dump; 250-car siding.

**Coal Stockpile**—Spurlock 1 estimated 230,000 tons capacity; Spurlock 2 estimated 330,000 tons capacity; Gilbert 3 estimated 380,000 tons capacity.

### **Smith CT**

**Fuel**—Natural gas or No. 2 fuel oil.

**Fuel Oil Storage**—One tank; approximately 4.3 million gallons maximum storage.

**Natural Gas Interconnect**—Two lines with El Paso's Tennessee Gas interstate pipeline.  
Two lines with Duke's Texas Eastern interstate pipeline.

Amended: 02/01/05







## **PROCEDURE FOR THE PROCUREMENT OF COAL UNDER SHORT- AND LONG-TERM CONTRACTS**

### **I. Objective**

To outline the proper procedure for the procurement of the portion of East Kentucky Power Cooperative, Inc.'s ("EKPC") coal needs that are to be satisfied by short- and/or long-term contracts.

### **II. Procedure**

- A.** The Resource Planning Process will prepare the long-range fuel requirement projection based on information furnished by the Fuel Procurement, Resource Planning, and Market Research Processes.
- B.** Based upon this information along with the EKPC Fuel and Lime Strategy for projected fuel requirements under short- and long-term contracts, a tonnage requirement will be developed. At the same time, delivery dates and contract terms desired will be determined.
- C.** Requests for sealed proposals (*Exhibit 2*) shall be sent out in writing to each supplier on the appropriate Bidders' List (*Exhibit 3*) for the power station requiring the coal.
- D.** After the due date for the proposals has passed, all proposals received (*Exhibit 4*) shall be opened on a certain date by the Fuel Negotiating Committee, posted in the Proposal Log, and the Proposal Log shall be signed by those present at the opening (*Exhibit 5*).
- E.** The proposals shall be ranked on an "evaluated cost" basis by entering the proposal data in EKPC's Fuel Cost Evaluation Computer Program. An example of the evaluation report is shown in *Exhibit 6*.
- F.** Field visits should be made to evaluate the facilities, reserves, quality, production capability, etc., of suppliers with competitive bids.
- G.** Contract terms and conditions shall be negotiated with competitive suppliers. If it is determined that price negotiations are warranted, then the Fuel Negotiating Committee approval shall be obtained.
- H.** Final negotiated proposals are then ranked.

- I. If test orders are desired, approval shall be obtained from the President and Chief Executive Officer and reviewed by the Fuel and Power Supply Committee.
- J. Draft coal contracts shall be developed for selected competitive suppliers and reviewed by the Legal Business Unit.
- K. A recommendation shall be prepared that includes a contract recommendation (*Exhibit 8*) and Fuel Evaluation Report sorted by evaluated cost (*Exhibit 6*).
- L. The recommendation shall be presented to the Power Production Business Unit Leader and President and Chief Executive Officer for their approval.
- M. The recommendation shall then be presented to the Fuel and Power Supply Committee and Board of Directors ("Board") for their approval (*Exhibits 9 and 10*).
- N. The contract shall be executed after all reviews, including Legal, and approvals are obtained. The Certification Regarding Debarment form (*Exhibit 11*) and Certification Regarding Lobbying form (*Exhibit 12*) shall be executed, also.
- O. Copies of the executed contract (*Exhibit 13*) shall be sent to the appropriate persons on the Contract Distribution List, the Kentucky Public Service Commission, and National Rural Utilities Cooperative Finance Corporation, with transmittal letters sent to Rural Utilities Service.
- P. Contract documentation shall be prepared for the Fuel Procurement Process' files, which includes an executed copy of the contract (*Exhibit 13*), contract proposal, contract recommendation (*Exhibit 8*), Fuel Evaluation Report sorted by "evaluated cost" (*Exhibit 6*), Coal Mine Evaluation Report (*Exhibit 7*), financial evaluation, mine permit (front page only), and Fuel and Power Supply Committee and Board minutes and/or resolutions (*Exhibits 9 and 10*) approving the contract.
- Q. Coal deliveries may begin on the date specified and under the terms of the executed contract.



- R.** When conducting price reopeners in long-term contracts, EKPC shall solicit proposals as described in Policy No. 403, L (1) unless EKPC determines that, based on individual circumstances such as market price, number of suppliers, etc., it would be in EKPC's best interest to make a verbal solicitation. The Fuel and Power Supply Committee shall be informed when a decision is made to use verbal solicitations rather than written solicitations.

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**PROCEDURE FOR THE PROCUREMENT OF SPOT COAL  
FOR A DELIVERY TERM OF THREE MONTHS OR LONGER**

**I. Objective**

To outline the proper procedure for the procurement of the portion of East Kentucky Power Cooperative, Inc.'s ("EKPC") coal needs that are to be satisfied by spot coal purchases for a delivery term of three months or longer.

**II. Procedure**

- A. The Fuel Procurement Process will prepare short-range fuel requirement projections (*Exhibit 14*) based on the annual energy projections in the budget, plus any revisions (*Exhibit 15*) such as increases in outside power sales.
- B. Based on the above information, a determination will be made as to the amount of spot coal purchases required and the time period desired.
- C. If time allows, requests for proposals (*Exhibit 16*) shall be sent out in writing to each supplier on the appropriate Bidders' List (*Exhibit 3*) for the power station requiring the coal. If time does not permit, verbal proposals may be requested from suppliers known to be capable of supplying the required coal. Active proposals on file may also be considered for these purchases. Suppliers are notified through letters, trade publications, and personal conversations that EKPC is continuously purchasing spot market coal and will accept proposals at any time for consideration. Faxes and e-mail proposals will not be accepted in response to EKPC written solicitations.
- D. Proposals shall be handled as described in the Procedure for Proposal Handling and Fuel Cost Evaluation Computer Program.
- E. The proposals shall be evaluated on an "evaluated cost" basis by entering the proposal data in EKPC's Fuel Cost Evaluation Computer Program. An example of the Fuel Evaluation Report is shown in *Exhibit 17*.
- F. Field visits should be made, as time permits, to evaluate the facilities, reserves, quality, production capability, etc., of suppliers with competitive bids. A Coal Mine Evaluation Report should be prepared (*Exhibit 7*).
- G. Purchase order terms and conditions shall be negotiated with competitive suppliers.

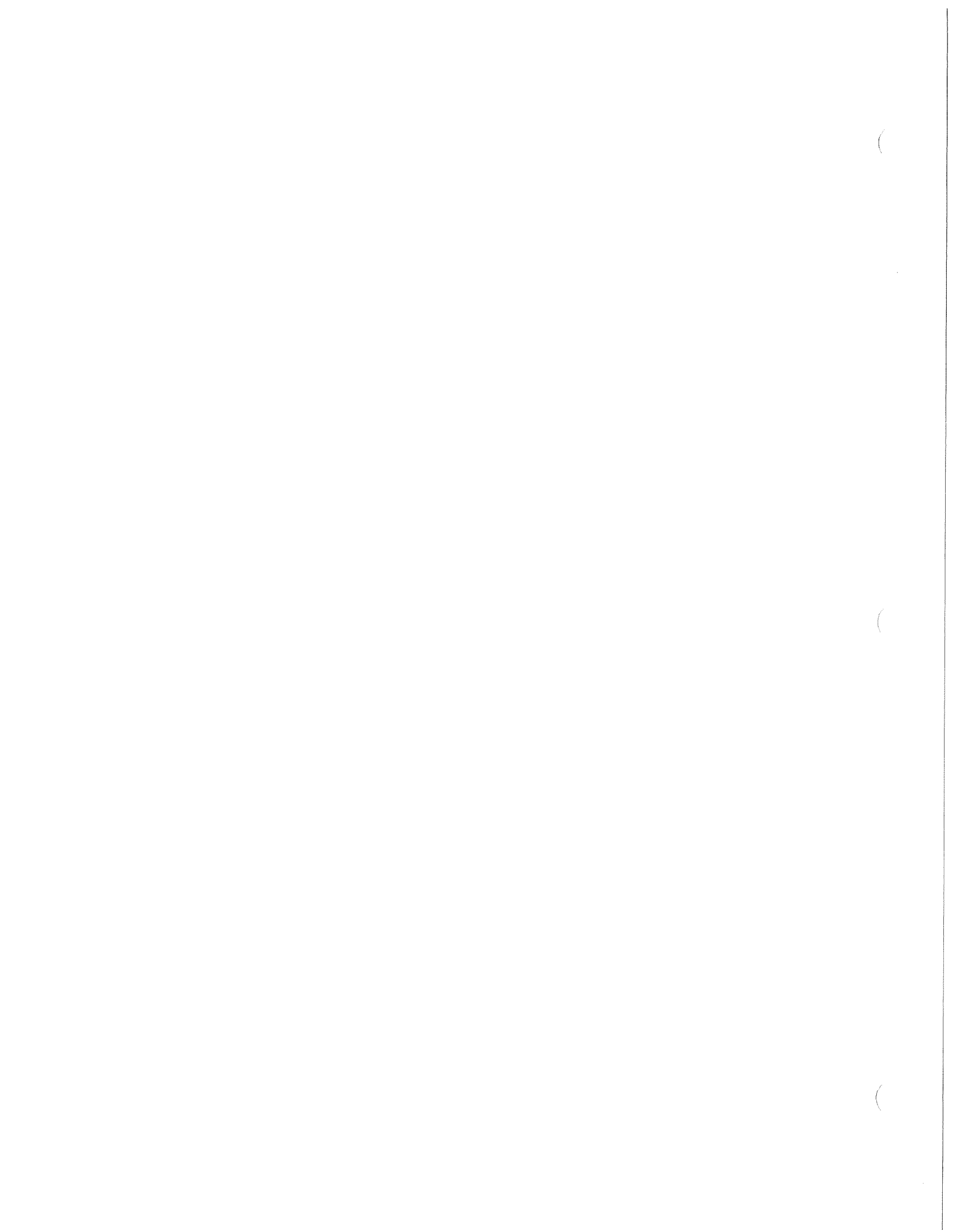
- H. Final negotiated proposals are then re-evaluated.
- I. A recommendation shall be prepared that includes a purchase order recommendation (*Exhibit 18*) and Fuel Evaluation Report sorted by evaluated cost (*Exhibit 17*).
- J. The recommendation shall be presented to the Power Production Business Unit Leader and President and Chief Executive Officer.
- K. The recommendation is then presented to the Fuel and Power Supply Committee for approval. All spot coal purchases are to be reviewed by the Board of Directors ("Board") (*Exhibit 20*).
- L. The purchase order (*Exhibit 21*) shall be executed after all approvals are obtained.
- M. Copies of the executed purchase order shall be sent to the appropriate persons on the Purchase Order Distribution List and the Kentucky Public Service Commission.
- N. Spot purchase order documentation shall be prepared for the Fuel Procurement Process' files, which includes an executed copy of the purchase order, a purchase order recommendation (*Exhibit 18*), Fuel Evaluation Report sorted by evaluated cost (*Exhibit 17*), coal proposal, Coal Mine Evaluation Report (*Exhibit 7*), approval of the President and Chief Executive Officer or Fuel and Power Supply Committee (*Exhibit 19*) approving the purchase, and Board minutes and/or resolution (*Exhibit 20*).
- O. Coal delivered may begin on the date specified and under the terms of the executed purchase order.

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**PROCEDURE FOR THE PROCUREMENT OF SPOT COAL  
FOR A DELIVERY TERM LESS THAN THREE MONTHS**

**I. Objective**

To outline the proper procedure for the procurement of emergency or spot coal purchases for a delivery term of less than three months for East Kentucky Power Cooperative, Inc.'s ("EKPC") generating stations.

**II. Procedure**

- A. As changes are made to the short-range fuel requirement projections (*Exhibit 14*), a determination will be made on the amount of spot coal to be purchased and the time period desired.
- B. Based on the above information, verbal proposals from suppliers who have demonstrated their ability to supply the appropriate coal required shall be requested. Active proposals on file may also be considered for these purchases.
- C. The proposals shall be evaluated on an "evaluated cost" basis by entering the proposal data in EKPC's Fuel Cost Evaluation Computer Program, if applicable.
- D. Field visits should be made, as time permits, to evaluate the facilities, reserves, quality, production capability, etc., of such suppliers with competitive bids. A Coal Mine Evaluation Report should be prepared (*Exhibit 7*).
- E. Purchase order terms and conditions shall be negotiated with competitive suppliers.
- F. Negotiated proposals are then re-evaluated.
- G. A recommendation shall be prepared that includes a purchase order recommendation (*Exhibit 22*), which includes a price comparison or Fuel Evaluation Report sorted by "evaluated cost," if applicable.
- H. The recommendation shall be presented to the Power Production Business Unit Leader and to the President and Chief Executive Officer for his approval (*Exhibit 22*).
- I. The purchase order (*Exhibit 21*) shall be executed after all approvals are obtained.

- J. Copies of the executed purchase order shall be sent to the appropriate persons on the Purchase Order Distribution List and the Kentucky Public Service Commission.
- K. These spot coal purchases are to be presented to the Fuel and Power Supply Committee and Board of Directors ("Board") for their information and review.
- L. Spot coal purchase order documentation shall be prepared for the Fuel Process' files that includes an executed copy of the purchase order, purchase order recommendation with the approval of the President and Chief Executive Officer (*Exhibit 22*), Fuel Evaluation Report sorted by "evaluated cost", written coal proposal if applicable, Coal Mine Evaluation Report (*Exhibit 7*), and Fuel and Power Supply Committee minutes. Also, include Board minutes and/or resolution, if applicable.
- M. Coal deliveries may begin on the date specified and under the terms of the executed purchase order.

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**PROCEDURE FOR THE PROCUREMENT  
OF ECONOMY COAL**

**I. Objective**

To outline the proper procedure for the procurement of economy coal for East Kentucky Power Cooperative, Inc.'s ("EKPC") generating stations.

**II. Procedure**

- A. A determination shall be made as to whether the quoted coal quality meets the specifications and can be utilized at the appropriate power station.
- B. The proposal shall be evaluated on an "evaluated cost" basis and compared with recent bids, unsolicited offers, and published current market conditions.
- C. Field visits should be made, as time permits, to evaluate the facilities, reserves, quality, production capability, etc. A Coal Mine Evaluation Report (*Exhibit 7*) should be prepared.
- D. Purchase order terms and conditions shall be negotiated with the supplier.
- E. A recommendation shall be prepared that includes a purchase order recommendation (*Exhibit 23*), which includes a price comparison or Fuel Evaluation Report sorted by "evaluated cost," if applicable.
- F. The recommendation shall be presented to the Power Production Business Unit Leader and to the President and Chief Executive Officer for his approval (*Exhibit 23*).
- G. The purchase order (*Exhibit 21*) shall be executed after all approvals are obtained.
- H. Copies of the executed purchase order shall be sent to the appropriate persons on the Purchase Order Distribution List and the Kentucky Public Service Commission.
- I. Economy coal purchases are to be presented to the Fuel and Power Supply Committee and Board of Directors ("Board") for their information and review.
- J. Economy purchase order documentation shall be prepared for the Fuel Process' files that includes an executed copy of the purchase order, purchase order

recommendation with the approval of the President and Chief Executive Officer (*Exhibit 23*), Coal Mine Evaluation Report (*Exhibit 7*), written proposal, if applicable, and Fuel and Power Supply Committee minutes. Also, include Board minutes and/or resolution, if applicable.

- K.** Coal deliveries may begin on the date specified and under the terms of the executed purchase order.

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**PROCEDURE FOR THE PROCUREMENT  
OF TEST COAL**

**I. Objective**

To outline the proper procedure for the procurement of test coal for East Kentucky Power Cooperative, Inc.'s ("EKPC") generating stations.

**II. Procedure**

- A. When test purchase orders are desired, the tonnage, time period, and terms shall be determined.
- B. The price shall be negotiated based on contract negotiations or general market conditions.
- C. Purchase order terms and conditions shall be negotiated with each supplier.
- D. A recommendation shall be prepared that includes a purchase order recommendation (*Exhibit 24*), which includes a price comparison or Fuel Evaluation Report sorted by "evaluated cost," if applicable.
- E. The recommendation shall be presented to the Power Production Business Unit Leader and to the President and Chief Executive Officer for his approval (*Exhibit 24*).
- F. The purchase order (*Exhibit 21*) shall be executed after all approvals are obtained.
- G. Copies of the executed purchase order shall be sent to the appropriate persons on the Purchase Order Distribution List and the Kentucky Public Service Commission.
- H. Test coal purchases are to be presented to the Fuel and Power Supply Committee and Board of Directors ("Board") for their information and review.
- I. Test purchase order documentation shall be prepared for the Fuel Process' files that includes an executed copy of the purchase order, purchase order recommendation with the approval of the President and Chief Executive Officer (*Exhibit 24*), Coal Mine Evaluation Report (*Exhibit 7*), written proposal, if applicable, and Fuel and Power Supply Committee minutes. Also, include Board minutes and/or resolution, if applicable.

**J.** Coal deliveries may begin on the date specified and under the terms of the executed purchase order.

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**PROCEDURE FOR THE PROCUREMENT  
OF RUN-OF-MINE COAL**

**I. Objective**

To outline the proper procedure for the procurement of run-of-mine ("ROM") coal to be processed at area coal tipples and East Kentucky Power Cooperative, Inc.'s ("EKPC") generation stations.

**II. Procedure**

- A. A portion of each month's spot coal requirements will be set aside for the ROM Fuel Procurement Program.
- B. A determination will be made as to the tonnage of ROM coal purchases required and the time period specified.
- C. Contacts with coal suppliers will be made through personal visits, telephone conversations, etc.
- D. Field visits should be made, as time permits, to evaluate facilities, reserves, quality, production capability, etc., of each individual supplier.
- E. Purchase order terms and conditions shall be negotiated with each supplier as follows:
  - 1. Negotiated prices will be evaluated on a total "evaluated cost" basis. These prices must be competitive with the current market price or the highest current priced coal delivered to the appropriate station.
  - 2. ROM purchases made with deliveries to an area coal facility or EKPC facility may be paid on a weekly payment plan.
  - 3. Appropriate price adjustments will be included in each purchase order for coal failing to meet the minimum specification of the agreement. Various price adjustments may be used as long as they ensure the value of coal received is commensurate with the price paid. The Price Adjustment Schedule (*Exhibit 25*) is used as a guideline to determine the price adjustments.

4. Weighing and sampling will be based on the EKPC Weighing and Sampling Procedures for ROM coal (*Exhibit 26*) or independent laboratory analysis.
- F. The fuel buyer may approve purchases up to a specified tonnage set by the Power Production Services Process Owner, and the tonnage above this quantity must have the Power Production Services Process Owner's approval.
- G. The ROM purchase order (*Exhibit 27*) shall be executed after all approvals are obtained.
- H. Copies of the executed ROM purchase order shall be sent to the appropriate persons on the ROM Purchase Order Distribution List and the Kentucky Public Service Commission.
- I. A monthly report of ROM coal purchases (*Exhibit 28*) shall be made to the Power Production Business Unit Leader, President and Chief Executive Officer, Fuel and Power Supply Committee, and Board of Directors for their information and review.
- J. ROM purchase order documentation shall be prepared for the Fuel Procurement Process' files that includes an executed ROM purchase order, ROM Coal Purchase Report (*Exhibit 28*), and ROM Evaluation Report (*Exhibit 29*).
- K. Coal deliveries may begin on the date specified and under the terms of the executed purchase order.

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**PROCEDURE FOR PRICE ADJUSTMENTS FOR COAL  
PROCURED UNDER PURCHASE ORDERS AND CONTRACTS**

**I. Objective**

To outline the proper procedure for administering price adjustments for coal that does not meet the minimum specification of a purchase order or contract.

**II. Procedure**

- A. All purchase orders and contracts shall contain provisions for the appropriate adjustment in the price of coal failing to meet the minimum specifications of the agreement.
- B. In general, the East Kentucky Power Cooperative, Inc., Price Adjustment Schedule (*Exhibit 25*) shall be used as a guideline in writing the price adjustment portion of the purchase order. Other price adjustments may be used as long as they ensure that the value of coal received is commensurate with the price paid.
- C. Run-of-mine purchases are generally made based on a price per ton and under a variety of conditions. Price adjustments will be made on a purchase-by-purchase basis and follow the guidelines of *Exhibit 25* and value received concept.
- D. When a supplier does not meet the minimum specifications as outlined in the purchase order or contract, determine to what extent the supplier has failed to meet the overall specifications.
- E. Evaluate all extenuating circumstances that could cause the failure to meet the specifications.
- F. The Power Production Services Process Owner may approve waiving a price adjustment if the circumstances or conditions warrant.

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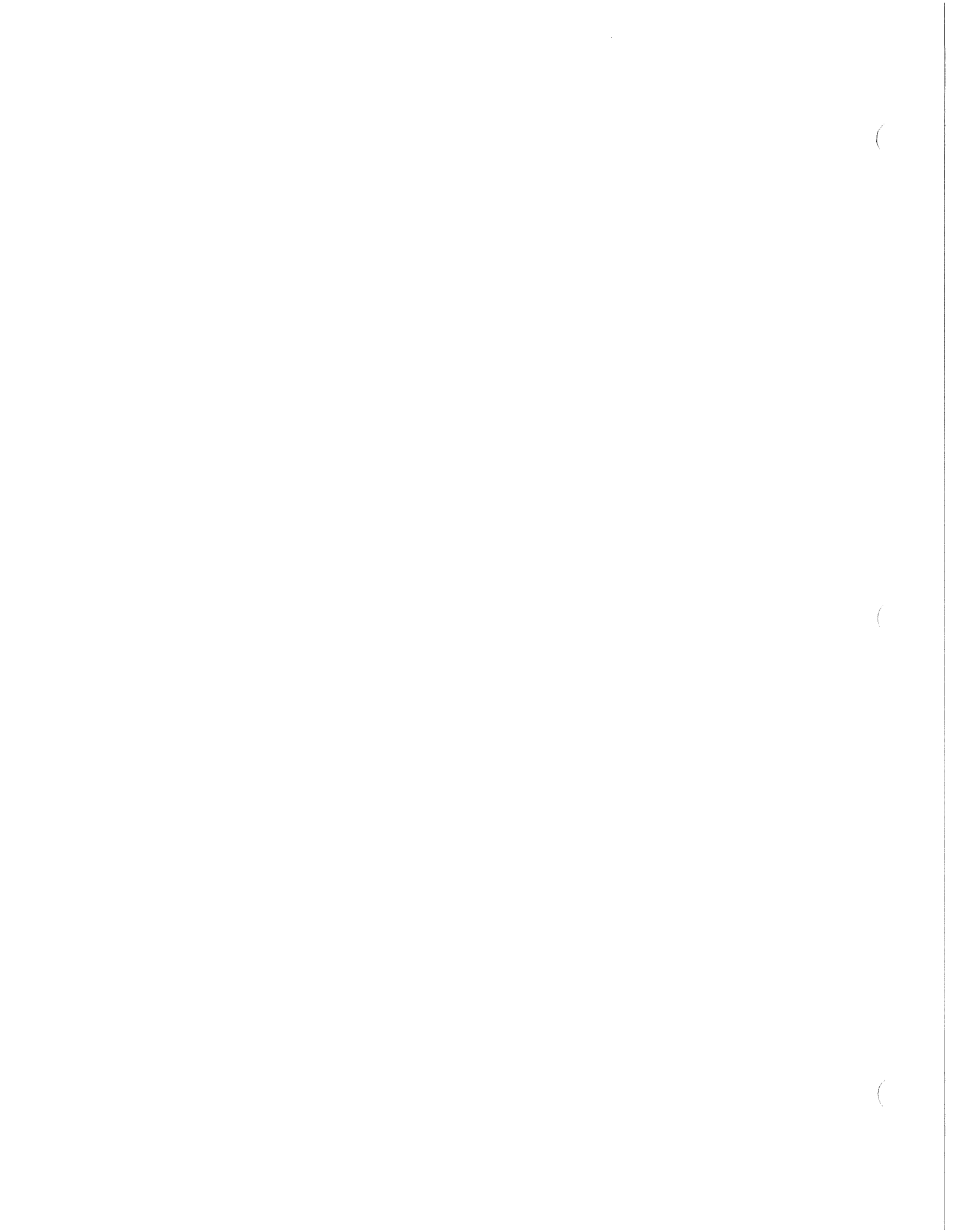
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**PROCEDURE FOR THE WEIGHING OF COAL  
LIME, OR LIMESTONE**

**I. Objective**

To outline the proper procedure to be used to weigh coal, lime, or limestone delivered to East Kentucky Power Cooperative, Inc.'s generating stations.

**II. Procedure**

- A. Truck Delivered Method—Weights of coal received will be determined based on platform weights taken at the power station or run-of-mine coal tipple or loading facility. Both gross and tare weights will be taken and net weights determined.
- B. Rail Delivered Method—Weights of coal received will be based on 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 when desired.
- C. Barge Delivered Method—Weights of coal received will be determined by drafting each barge for gross and tare weights and net weights determined or by belt scale weights. (See Barge Drafting Procedure.)

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