

SULLIVAN, MOUNTJOY, STAINBACK & MILLER PSC  
ATTORNEYS AT LAW

Ronald M. Sullivan  
Jesse T. Mountjoy  
Frank Stainback  
James M. Miller  
Michael A. Fiorella  
Allen W. Holbrook  
R. Michael Sullivan  
Bryan R. Reynolds\*  
Tyson A. Kamuf  
Mark W. Starnes  
C. Ellsworth Mountjoy  
Mary L. Moorhouse

October 24, 2012

Jeff DeRouen  
Executive Director  
Public Service Commission  
211 Sower Boulevard, P.O. Box 615  
Frankfort, Kentucky 40602-0615

RECEIVED

OCT 25 2012

PUBLIC SERVICE  
COMMISSION

\*Also Licensed in Indiana

Re: In the Matter of: An Examination of the Application of the  
Fuel Adjustment Clause of Big Rivers Electric Corporation  
from November 1, 2011 Through April 30, 2012, Public  
Service Commission, Case No. 2012-00323

Dear Mr. DeRouen:

Enclosed are an original and ten copies of Big Rivers Electric Corporation's  
responses to the requests for information from the October 11, 2012, hearing  
in the above referenced matter.

Sincerely,



Tyson Kamuf

TAK/ej  
Enclosures

cc: Albert Yockey


Telephone (270) 926-4000  
Telecopier (270) 683-6694

100 St. Ann Building  
PO Box 727  
Covington, Kentucky  
42302-0727

www.westkylaw.com

**ORIGINAL**



Your Touchstone Energy® Cooperative 

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

**In the Matter of:**

**AN EXAMINATION OF THE APPLICATION )  
OF THE FUEL ADJUSTMENT CLAUSE )  
OF BIG RIVERS ELECTRIC CORPORATION )  
FROM )  
NOVEMBER 1, 2011 THROUGH APRIL 30, 2012 )**

**Case No. 2012-  
00323**

**Responses to Commission Staff's Request for Information  
from the Hearing of October 11, 2012**

**FILED: October 25, 2012**

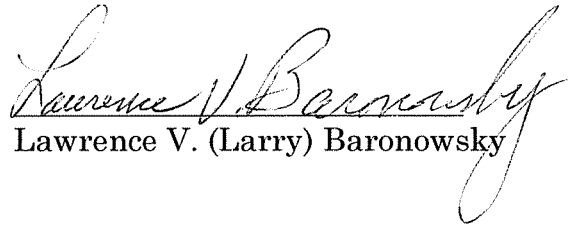
**ORIGINAL**

**BIG RIVERS ELECTRIC CORPORATION**

**AN EXAMINATION OF THE APPLICATION OF THE FUEL ADJUSTMENT  
CLAUSE OF BIG RIVERS ELECTRIC CORPORATION  
FROM NOVEMBER 1, 2011 THROUGH APRIL 30, 2012  
CASE NO. 2012-00323**

**VERIFICATION**

I, Lawrence V. (Larry) Baronowsky, verify, state, and affirm that the data request responses filed with this verification for which I am listed as a witness are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

  
Lawrence V. (Larry) Baronowsky

COMMONWEALTH OF KENTUCKY )  
COUNTY OF HENDERSON )

SUBSCRIBED AND SWORN TO before me by Lawrence V. (Larry)  
Baronowsky on this the 22<sup>nd</sup> day of October, 2012.

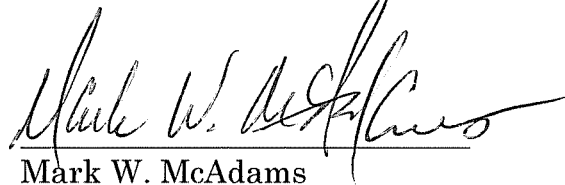
  
Notary Public, Ky. State at Large  
My Commission Expires 1-12-13

**BIG RIVERS ELECTRIC CORPORATION**

**AN EXAMINATION OF THE APPLICATION OF THE FUEL ADJUSTMENT  
CLAUSE OF BIG RIVERS ELECTRIC CORPORATION  
FROM NOVEMBER 1, 2011 THROUGH APRIL 30, 2012  
CASE NO. 2012-00323**

**VERIFICATION**

I, Mark W. McAdams, verify, state, and affirm that the data request responses filed with this verification for which I am listed as a witness are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

  
Mark W. McAdams

COMMONWEALTH OF KENTUCKY )  
COUNTY OF HENDERSON )

SUBSCRIBED AND SWORN TO before me by Mark W. McAdams on this the 22<sup>nd</sup> day of October, 2012.

  
Notary Public, Ky. State at Large  
My Commission Expires 1-12-13

**BIG RIVERS ELECTRIC CORPORATION**

**AN EXAMINATION OF THE APPLICATION OF THE FUEL ADJUSTMENT  
CLAUSE OF BIG RIVERS ELECTRIC CORPORATION  
FROM NOVEMBER 1, 2011 THROUGH APRIL 30, 2012  
CASE NO. 2012-00323**


**VERIFICATION**

I, Michael J. (Mike) Mattox, verify, state, and affirm that the data request responses filed with this verification for which I am listed as a witness are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

  
\_\_\_\_\_  
Michael J. (Mike) Mattox

COMMONWEALTH OF KENTUCKY )  
COUNTY OF HENDERSON )

SUBSCRIBED AND SWORN TO before me by Michael J. (Mike) Mattox on  
this the 22<sup>nd</sup> day of October, 2012.

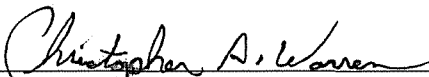
  
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**BIG RIVERS ELECTRIC CORPORATION**

**AN EXAMINATION OF THE APPLICATION OF THE FUEL ADJUSTMENT  
CLAUSE OF BIG RIVERS ELECTRIC CORPORATION  
FROM NOVEMBER 1, 2011 THROUGH APRIL 30, 2012  
CASE NO. 2012-00323**


**VERIFICATION**

I, Christopher A. (Chris) Warren, verify, state, and affirm that the data request responses filed with this verification for which I am listed as a witness are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

  
Christopher A. (Chris) Warren

COMMONWEALTH OF KENTUCKY )  
COUNTY OF HENDERSON )

SUBSCRIBED AND SWORN TO before me by Christopher A. (Chris) Warren  
on this the 25<sup>th</sup> day of October, 2012.

  
Notary Public, Ky. State at Large  
My Commission Expires 1-12-13

**BIG RIVERS ELECTRIC CORPORATION**

**AN EXAMINATION OF THE APPLICATION OF THE FUEL  
ADJUSTMENT CLAUSE OF BIG RIVERS ELECTRIC CORPORATION  
FROM NOVEMBER 1, 2011 THROUGH APRIL 30, 2012  
CASE NO. 2012-00323**

**Response to Commission Staff's Request for Information  
from the Hearing of October 11, 2012**

**October 25, 2012**

1 **Item 1)** *Provide a redline of the policies and procedures which Big*  
2 *Rivers provided in response to Item 15 of the Commission Staff's Request*  
3 *for Information dated August 22, 2012.*

4

5 **Response)** Attached hereto are redline versions of the following documents,  
6 clean versions of which were originally provided in Big Rivers' response to Item 15  
7 of the Commission Staff's Request for Information dated August 22, 2012 –

8

- 9 1. Fuel Procurement Policies and Procedures (Policy 120);  
10 2. Hedge Policy (Policy 111);  
11 3. Energy Related Transaction Authority Policy (Policy 105); and  
12 4. Appendix A to the Energy Related Transaction Authority Policy  
13 (Policy 105).

14

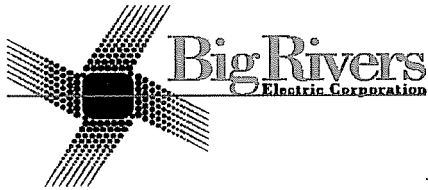
15

16 **Witnesses)** Mark W. McAdams and

17 Michael J. Mattox

18

Subject: <b>Fuel Procurement Policies and Procedures</b>	Original Effective Date <u>06/15/2007</u> Original Approval Date <u>06/15/2007</u> Date Last Revised <u>02/21/2012</u>	Approved By: <b>Board</b>
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**COMPANY POLICY**

~~POLICY NUMBER: \_\_\_\_\_ ORIGINAL EFFECTIVE DATE: 12-21-07~~  
~~APPROVED BY: Board ORIGINAL APPROVAL DATE: 12-21-07~~  
~~DATE LAST REVISED: \_\_\_\_\_~~

The purpose of the Fuel Procurement Policies and Procedures guidelines is to present the principles that govern the procurement of fuel, reagent, and associated transportation. This document is not intended to provide a step-by-step procedural flow, but place an emphasis on procurement policies and a concise overview of appropriate procurement practices. The awarding of Contracts and Purchase Orders will comply with business controls including corporate governance, authority limit matrices, auditing recommendations, and other established practices and limitations.

**FUEL PROCUREMENT POLICIES AND PROCEDURES**

**A. Definitions:**

1. "Agreement" means a legally binding document, in which one party agrees to sell and the other agrees to buy fuel, reagent, or transportation services for such, which is executed by both Buyer and Seller.
2. "Award Recommendation" means the Company's approval process for the review and approval by Senior Management of a recommended fuel, reagent, or transportation purchase that fall outside the limits established in the Company's granted authority limits.
3. "Company" means Big Rivers Electric Corporation.
4. "Contract" is an Agreement, Letter Agreement, Purchase Order, or Spot Contract for fuel supply, reagent, or such transportation with certain terms and conditions that describe the business transaction under which the Company procures fuel, reagent, and related transportation.
5. "Contract purchase" means any purchase of fuel, reagent, or transportation on behalf of the Company under a contract, typically more than one year's duration.
6. "Department" means the Company's Fuels Department.



Subject: <b>Fuel Procurement Policies and Procedures</b>	Original Effective Date <u>07/16/2009</u> Original Approval Date <u>12/21/2007</u> Date Last Revised <u>03/16/2012</u>	Approved By:  <b>Board</b>
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7. "Director" means the Company's Director of Fuels.
8. "Emergency" means extraordinary conditions affecting ~~Fuel~~fuel production, transportation, or usage, including but not limited to strikes, lockouts or other labor problems, embargoes, mining impediments and other problems affecting the production or transportation of ~~Fuel~~fuel, existing and/or forecasted extreme weather conditions, or any other conditions or circumstances that could be reasonably foreseen as impairing the continued supply of ~~Fuel~~fuel to Company facilities.
9. "Environmental standards" mean the legal requirements for compliance with emission levels or other environmental requirements applicable to one or more of the Company's generating units.
10. "Fuel" means combustibles purchased by the Company for one or more of its generating stations.
11. "~~Senior Vice President Energy Services and Chief Energy Officer~~Production" means the Company's principal ~~senior officer~~individual responsible for power generation and fuel procurement, among other duties.
- ~~12. "Vice President Power Production and Chief Production Officer" means the Company's principal senior officer responsible for power generation, among other duties.~~
- ~~13~~12. "Solicitation" means the process of soliciting bids (written or oral) for the supply of fuel, reagent, and/or related transportation services.
- ~~14~~13. "Spot Contract" is a type of agreement that may be issued by the Company for the supply of fuel, reagent, or related transportation of such with a term of typically one year or less.
- ~~15~~14. "Spot Purchase" means any purchase of fuel, reagent, or related transportation on behalf of the Company where the terms and conditions are incorporated in the Letter Agreement, Purchase Order or Spot Contract and the term is typically of one year or less.
- ~~16~~15. "Station" means one of the Company's generating facilities.
- ~~17~~16. "Supplier" means the seller or counterparty to an agreement who is obligated to comply with and fulfill the agreement's terms and conditions.
- ~~18~~17. "Unit" means a generating unit at a station.
18. "Unit bus bar cost" is the total variable production cost including the maintenance cost associated with burning the fuel.

**B. Fuel Procurement Policies:**

Subject: <b>Fuel Procurement Policies and Procedures</b>	Original Effective Date <u>07/16/2009</u> Original Approval Date <u>12/21/2007</u> Date Last Revised <u>03/16/2012</u>	Approved By:  <b>Board</b>
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The Company's fuel procurement policy is to obtain an adequate supply of fuel and reagent of sufficient quality at the most competitive overall evaluated cost on a unit bus bar basis consistent with the Company's obligations to provide adequate and reliable service to its customers, to meet operational and ~~Environmental Standards~~ environmental standards, and to meet any other applicable legal requirements. The Company will use its best efforts to secure its fuel and reagent supply at competitive prices through solicitation for such.

Implementation of this policy is of highest priority to the Company. The Fuels Department shall be organized and staffed, and fuel procurement procedures and administration shall be conducted, in an efficient and practical manner consistent with this policy. Fuel, reagent, and related transportation shall be purchased at competitive prices considering all material factors. The factors include but are not limited to: quantity needed to maintain an adequate supply, quality necessary to ensure generating unit operating and maintenance characteristics and environmental standards, reliability of the supplier, creditworthiness, and forward planning to meet projected system requirements, and meeting emergency or other unusual circumstances that might affect operating conditions. From time to time, the Director of Fuels will review the Company's Fuel Procurement Policies and Procedures and ~~update the policies~~ recommend updates as appropriate.

**C. Organization:**

1. Department Structure. The Department shall be organized and staffed to effectively administer the Company's fuel procurement function.
2. Organizational Responsibility. The ~~Senior Vice President Energy Services and Chief Energy Officer~~ Production to whom the Director reports, has the responsibility for fuel procurement. The Director is responsible for the Department. Other departments may be called upon by the Department to the extent the Director or ~~Senior Vice President Energy Services and Chief Energy Officer~~ Production considers advisable in the execution of the functions of the Department.
3. Approval Authority (Award Recommendation). An Award Recommendation will be prepared for all fuel purchases that exceed the term, tenor, or notional amount of authority of the Director of Fuels which is specified in the single transaction authority limits by the Company. The Award Recommendation will be drafted by the Director, reviewed by Fuels legal counsel, and executed by the ~~Senior Vice President Energy Services and Chief Energy Officer~~ Production within the authority granted by the ~~Trading~~ Energy Related Transaction Authority Policy. Greater expenditures shall require the signature of the Company's President and Chief Executive Officer and within his trading authority as established by the Board of Directors. These levels of authority may be amended, supplemented, or superseded as dictated by the Company.
4. Reports. The Director will instruct the Department to prepare, maintain and distribute reports to management and others as deemed necessary for business operations and regulatory requirements.

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5. **Records.** The Department shall maintain the following records:

a. ~~a.~~ **Open Contract Files.** The Department shall maintain the following on open status for at least one-year or longer as the contract term or other conditions warrant:

1. ~~(1)~~ For each current contract supplier, the files will contain:

a) ~~(a)~~ Contract documents, amendments, purchase orders and escalation documentation;

b) ~~(b)~~ General correspondence;

c) ~~(c)~~ Invoices and invoice verification data;

d) ~~(d)~~ Delivery records and quality analyses data;

e) ~~(e)~~ Inspection reports and other data.

2. ~~(2)~~ A record of transportation equipment owned or leased by the Company (as applicable).

3. ~~(3)~~ A list containing current suppliers and known potential Suppliers of fuel.

b. ~~b.~~ **Closed Contract Files.** The Department shall maintain its files according to the Company's record retention plan.

6. **General Administrative Duties.**

The Department shall subscribe to and have membership in appropriate trade and industry publications and/or associations, to include reports of governmental or consulting agencies concerning fuel, reagent, and related transportation market information, to include fuel prices and/or projections. Department personnel shall use their best efforts to keep current with fuel market conditions, prices and availability, and other developments relating to fuel procurement.

**D. Fuel Supply Procedures:**

Subject: <b>Fuel Procurement Policies and Procedures</b>	Original Effective Date <u>07/16/2009</u> Original Approval Date <u>12/21/2007</u> Date Last Revised <u>03/16/2012</u>	Approved By:  <b>Board</b>
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1. Projections. In conjunction with other departments of the Company, the Department shall prepare annually a projection of fuel usage and cost at each Station for the number of years required for use in the Company's planning process.
2. Contract/Spot Mix. Subject to the approval of the ~~Senior Vice President Energy Services and Chief Energy Officer~~ Production, the Director shall determine whether a contract purchase is advisable, considering the following factors: (a) the availability of adequate supplies from qualified suppliers, (b) the advisability or need to have an adequate supply committed for an existing or planned unit (subject to inventory limits specified by the Company), (c) the desire to maintain practical flexibility as to market conditions and other factors affecting price and availability, (d) existing and anticipated ~~Environmental Standards~~ environmental standards, (e) such other factors as may reasonably affect the implementation of the Company's Fuel ~~procurement policy~~ Procurement Policy and (f) fuel impact on generation facilities' operation and maintenance.
3. Current Requirements. The Department shall review and analyze the data available to the Department for purposes of conducting fuel and reagent purchases in a timely manner to meet the requirements of the Company.
4. Supplier Qualifications. The Company shall select potential suppliers on the basis of evaluation, market intelligence, performance information (as available), industry research, and creditworthiness, as determined by the Director and his staff. No potential qualified supplier shall be preferred or discriminated against because of race, religion, color, sex, age or marital status of the supplier or any of its representatives.

———A supplier evaluation (to include site visit and mine engineering and/or performance report) may be performed to determine if a supplier has the ability to deliver in the time frame requested the quantity and quality of coal or reagent bid at the offered price.

5. Solicitations. The Department shall maintain a current list of Suppliers and shall review that list from time to time to ensure that it remains current. Normally, the Company shall purchase its ~~Fuel~~ fuel and reagent through sealed bid solicitations; however, the Company reserves the right to utilize its market intelligence to seize opportunity purchases of ~~Fuels~~ fuels and reagent, request oral, written, or electronic offers, potentially followed by negotiations, when in its judgment market conditions provide an opportunity to obtain ~~Fuel~~ fuel or reagent more advantageously than through mailed bid solicitations and usual procedures. When the Company foregoes the solicitation process, documentation shall be appended to the resulting purchase order file describing the conditions.

A notice of a request for quotation ("RFQ") shall be provided to normal industry newsletters and information postings. The normal solicitation process shall require that potential suppliers be notified in writing as to the general quantities, terms and quality specifications required. An RFQ number will be assigned to for the quotation package. An RFQ will include: instructions to bidders (date and time due); scope of supply (quantity and quality); potential term; standard terms and conditions of typical agreements.

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Offers from potential suppliers shall be returned by the requested date and time or they will be rejected. A bid log shall be kept for logging in receipt of bid offers. Attendees viewing the opening of the bid shall initial the bid document as opened and the log as at the completion of the opening. Offers shall be opened and logged in the presence of the ~~Senior Vice President Energy Services and Chief Energy Officer~~ Production and Director of Fuel or their representative in their absence, and another selected representative outside of the Fuels Department.

All appropriate bid data shall be documented and electronically categorized for the process of evaluation of the various offerings of ~~Fuel~~ fuel and reagent. The documents shall be maintained in a secured area and shall be kept pursuant to normal record keeping practices.

6. Contract Awards. The Department shall review and analyze each Contract offer. The Director, or his/her representative, may engage in preliminary negotiations to determine which offers warrant further consideration. The Director and/or representative shall investigate the potential supplier and proposed source of supply; and, as to any offer for fuel, the Department shall verify the adequacy of the proposed source of supply as to quantity, quality, and timely deliverability.

———The evaluation shall include, but not necessarily be limited to, the response to the RFQ (items required by the RFQ for satisfactory operational, environmental, and economic criteria); diversity of supply; supplier credit assessment; transportation mode and cost; and diversity of suppliers to provide the lowest evaluated cost of electrical energy to the Unit bus bar over the long term.

———From this initial evaluation, a select group of potential suppliers (a “short-list”) of suppliers shall be developed for more in-depth evaluation. The Department may then engage in preliminary discussions to ensure that the offer warrants further evaluation and consideration. The objective of the negotiating discussions is to ensure that the Company achieves balanced terms and conditions and the lowest evaluated electrical energy delivered to the Unit bus bar and reliable supply consistent with other qualifiers related to supplier reliability, environmental restraints, transportation options, etc.

———The recommended Supplier(s) shall be selected by the negotiating team based upon the evaluation criteria and the results of the negotiating discussions. The Department shall prepare a detailed Award Recommendation for approval. The Award Recommendation shall document the selection criteria and pertinent factors, and in circumstances where more than one company is selected, the recommendation shall describe the tonnage requirements and other responsibilities of each of the other recommended Suppliers.

All contracts for which the term, tenor or notional amount exceed the limits specified for the Director of Fuels must be approved and signed by ~~applicable Senior Officer(s)~~ individual(s) authorized per the Energy Related Transaction Authority Policy.

7. Spot Purchases. Spot purchases may be made by the Company whenever considered advisable by the Director in furtherance of the Company's ~~Fuel~~ fuel and reagent needs, subject to the limit of authority as outlined by the Company.

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8. Documentation. Contracts shall be signed by a duly appointed officer of the Supplier and an Officer of the Company. A purchase order may be issued for a spot purchase. A purchase order shall contain all terms of that purchase. Further, the Department shall maintain documentation of the final list (log) of bidders, a copy of the entire bid package; bidder's responses; and the bid evaluation summary used for decision support.

9. Fuel Oil. Fuel Supply Procedures principally address procurement of solid fuel. Fuel oil is procured on an "as-needed" basis due to the infrequency of use of this fuel and the nature of the oil markets. When the need for oil arises, the Fuels Department shall act to solicit vendors for offers. Orders are assigned on the basis of lowest delivered cost per mmBTU and ability to fill the order. Solicitation results shall be documented and purchase orders issued in the Fuels Department for those purchases initiated and completed by the Department.

**E. Fuel Supply and Reagent Agreement Administration:**

1. Compliance. The Department shall review and analyze daily business and operational reports to properly administer all fuel and transportation agreements.

2. Coal weights. Coal weights shall be obtained by either the Company or by Supplier, upon agreement by Company. Coal weight is obtained by scale or draft method, depending upon Company site or methodology employed by Supplier to ascertain weights. In either event, coal weights are obtained by industry-accepted standards, and in cases where scales are utilized, are duly tested and maintained in proper order for such purpose. In cases where draft weights are utilized, the Company employs processes to verify actions to obtain draft weights and that such measures are by industry-accepted standards. Coal quantity is obtained by Station personnel and reported through the fuels information system or is provided by the Supplier pursuant to the contract agreement.

3. Coal sampling. Coal sampling and analysis shall be performed by either the Company or the Supplier, upon agreement by Company. Coal sampling and analysis shall be performed according to procedures adopted by the Company's laboratory in accordance with A.S.T.M. standards for coal sampling, coal sample preparation, coal sample identification, handling of sample, and coal analysis. Coal quality is assessed and reported through the fuels information system by the Company's laboratory personnel or is provided by the Supplier pursuant to the contract agreement.

4. Amendments. A contract shall not be materially amended except after analysis by the Department and recommendation of the Director of Fuels or the ~~Senior Vice President Energy Services and Chief Energy Officer, Production~~. No material contract or purchase order addendum shall be made except upon recommendation of the Director and subject to the approval limits of the Company.

5. Contract Administration. The Director and the Department shall remain informed as to the terms and conditions of each current contract, and maintain the necessary data to administer the contracts. Every supplier request for a change in terms, conditions, or prices must be written and supported by adequate data in conformity with the contract. Each such request shall be analyzed by the Department against the contract provisions, and reported with recommendations to the

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Director. After review by the Director, the supplier request and Department's recommendations shall be approved as required by the Company. If any request is not approved in whole or in part, the Director shall advise the supplier, specifying the Company's objections with an adequate explanation. If the supplier's request is not approved, negotiation between the supplier and Company as dictated by contract terms shall be the primary method of resolving the issue.

6. Force Majeure. A supplier's claim for relief from compliance with fuel supply agreement terms due to force majeure conditions must be in writing with an adequate description of conditions warranting nonperformance. Each force majeure claim shall be reviewed by the Director and the company's legal counsel.
7. Inspections. The Director shall request inspections of mining and other facilities of a contract fuel and/or reagent supplier or other facilities as required or deemed necessary to manage the performance and contractual relationship (Contract Administration).

**F. Fuel and Reagent Supply Agreement Enforcement:**

1. General Enforcement Policy. Supplier obligations under Fuel or Reagent Supply Agreements shall be enforced by the Company in a reasonable, fair, and practical manner to achieve supplier compliance with the Company's overall procurement policy and the continuing supply of fuel to meet current and anticipated system requirements.
2. Director Responsibility. Whenever it is determined that a shipment does not meet Fuel Supply or Reagent Agreement terms, the Director, or his/her designee, shall inform the supplier and direct that subsequent shipments be in compliance. When necessary the ~~Senior Vice President Energy Services and Chief Energy Officer~~ Production and the Director may determine, or receive advice, as to further action needed to assure fuel or reagent supply agreement compliance.
3. Legal Assistance. The Department shall have access to, and shall receive advice from, legal counsel as provided by the Company on any matter relating to ~~Fuel~~ fuel, reagent, and related transportation procurement, contracts and amendments thereto, administration, and enforcement. Should a dispute as to a supplier's performance fail to be satisfactorily resolved by the Director, the matter shall be referred to legal counsel. Legal counsel may consider further negotiation, arbitration (if provided by the contract), or litigation. No arbitration or litigation shall commence except on the advice of said counsel with approval by senior management.

**G. Inventory Levels:**

The Company has an obligation to ensure continuous low cost, reliable service to its members. Decisions affecting fuel inventory shall consider these obligations.

The Company shall maintain an adequate inventory while allowing for enough flexibility to permit inventory levels to be responsive to known and anticipated changes in conditions in an attempt to avoid risks and stoppages due to unforeseen conditions. Inventory shall be

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	Original Approval Date	<u>12/21/2007</u>	
	Date Last Revised	<u>03/16/2012</u>	

recommended based upon, but not limited to, supplier performance, environmental conditions, labor matters, logistical issues and concerns, and generation requirements and dispatch. The

general level of inventory shall be monitored for such matters and recommendations to adjust inventory to meet anticipated conditions shall be made from time to time. Such inventory recommendations shall be made by the Director for approval by the Senior Management of the Company.

Coal inventories and reagent shall be monitored and reported regularly via the Company's fuel information system(s).

**H. Emergency Procurement:**

Any one or more of the procedures described herein may be waived by the ~~Senior Vice President Energy Services and Chief Energy Officer~~ Production, when, in the informed judgment of the Director, and on his recommendation, fuel must be purchased without complying with one or more of such provisions due to extraordinary conditions including strikes, lockouts or other labor problems affecting fuel production, embargoes, mining or other problems affecting production or transportation, existing and/or forecasted extreme weather conditions, or any other conditions or circumstances that can be reasonably foreseen as impairing the continued supply of ~~Fuel~~ fuel and reagent to the Company from its existing suppliers. When such a purchase is made, documentation of circumstances will be appended to the purchase order and/or contract file.

**I. Transportation Services Contracts:**

———Transportation services bids shall be requested and Contracts negotiated whenever appropriate. Consideration shall be given to plant requirements, supplier loading capabilities, relative location of supplier to Stations, transportation mix, unloading capabilities and capacities at Stations, logistic constraints, transportation provider economics, Station material handling economics, and any other factor which might affect the delivery of Fuel and reagent to the Company's Stations.

———Unless otherwise dictated by Emergency situations, the Solicitation process will be utilized for transportation services. The selection of transportation provider will generally be based upon, but not necessarily limited to cost, reliability, insurance, past / current performance, container availability and suitability for purpose, material handling capacities and constraints, transportation mix, and any other mitigating factors in terms of logistics.

———All transportation service agreements shall be in written contractual form duly executed by an authorized supplier of service and the Company.

**J. Ethics and Conduct:**

The Company recognizes the importance of following appropriate ~~Business Conduct~~ business ethics to guide the conduct of the Fuels Department in the performance of its duties and responsibilities ~~and as such has added a guide as addendum to this document.~~



Subject: <b>Fuel Procurement Policies and Procedures</b>	Original Effective Date <u>07/16/2009</u> Original Approval Date <u>12/21/2007</u> Date Last Revised <u>03/16/2012</u>	Approved By:  <b>Board</b>
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~~\_\_\_\_\_ Fuels staff shall endeavor to serve the best interests of the Company, its members, and stakeholders in the performance of their duties and responsibilities.~~

\_\_\_\_\_ Fuels staff shall adhere to the ethical standards and policies of the Company. Each including, but not limited to, the Business Ethics Policy and the Conflicts of Interest Policy for Big Rivers' Employees. Also, each contractual document shall denote that the contract was prepared and executed in ethical dealing.

\_\_\_\_\_ Fuels staff shall endeavor to serve the best interests of the Company, its Members, and stakeholders in the performance of their duties and responsibilities.


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Subject: <b>Fuel Procurement Policies and Procedures</b>	Original Effective Date <u>07/16/2009</u> Original Approval Date <u>12/21/2007</u> Date Last Revised <u>03/16/2012</u>	Approved By:  <b>Board</b>
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<u>Number</u>	<u>Date</u>	<u>Notes</u>	<u>Approved by</u>
<u>Original</u>	<u>12/21/2007</u>	<u>Approved to be effective at close of unwind</u>	<u>Board</u>
<u>Rev. 1</u>	<u>03/16/2012</u>	<u>Update out of date language and staffing changes</u>	<u>Board</u>

Subject: <b>Energy Related Transaction Authority Policy</b>	Original Effective Date <u>06/15/2007</u>	Approved By:  Board
	Original Approval Date <u>06/15/2007</u>	
	Date Last Revised <u>02/21/2012</u>	



Your Touchstone Energy® Cooperative 

**COMPANY POLICY**

~~POLICY NUMBER: 101 EFFECTIVE DATE: 10-16-09~~

~~APPROVED BY: Board APPROVAL DATE: 10-16-09~~

~~Revision 1~~

~~ENERGY RELATED TRANSACTION AUTHORITY POLICY~~

**1. Policy Purpose**

The purpose of this policy is to define the authority granted by the Big Rivers Electric Corporation (“Big Rivers”) Board of Directors (“Board”) to the President & Chief Executive Officer (“CEO”) to execute, or to delegate authority to execute energy-related transactions. Furthermore, it sets forth clarity and empowerment among those with transaction authority and is designed to encourage communication among individuals with transaction authority and the Board.

**2. Objective**

The objective of Big Rivers’ Energy Related Transaction Authority Policy is to define:

- Who has authority to execute transactions,
- The commodities and products that can be transacted,
- The authorized lead-time and term for each transaction,
- The authorized maximum price and volume,
- Counterparty contract and credit requirements,
- The process for approving new commodities, products or locations,
- Big Rivers’ intention regarding hedging and speculating,
- Other relevant factors associated with due diligence in authorizing transactions to be executed.

**3. Procedural Requirements**

<p><b>Subject:</b> <u>Energy Related Transaction Authority Policy</u></p>	<p><b>Original Effective Date</b> <u>06/15/2007</u>  <b>Original Approval Date</b> <u>06/15/2007</u>  <b>Date Last Revised</b> <u>02/21/2012</u></p>	<p><b>Approved By:</b>  Board</p>
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The following defines the procedural requirements that apply to all commodities and products transacted pursuant to this policy.

**Execution Authority**

Execution Authority is outlined by commodity in the authority matrix sections found below. All column limits in these matrices are applied independently of one another for each authority level, in that no individual column limit may be exceeded without authorization, regardless of whether a transaction does not exceed another column limit for that same authority level. Limits for each level of authority are cumulative, and include all column limits up to and including that level. The authority granted in this policy should not violate any other policy limits.

The transaction limits apply to both purchases and sales. Daily limits are applied to gross amounts transacted in total for the day, and not to purchases and sales netted together.

This policy identifies Board-authorized levels for the CEO and explicitly gives the CEO the authority to delegate authority levels to Big Rivers' staff and ACES Power Marketing ("APM"). The CEO has the authority to modify delegated authority levels (noted in Appendix A) at his sole discretion as long as the delegated authority does not exceed his own authority per this policy. All delegated authority levels below the ~~Senior-VP Energy Services~~Production level will be recommended by the ~~Senior-VP Energy Services~~Production and approved by the CEO.

**Contract Requirements**

Transactions with counterparties shall only be permitted if Big Rivers has either:

- An active, valid, and executed agreement enabling such transaction activity with that counterparty,
- Long-form confirmations may be used as a valid agreement in lieu of a permanent agreement, when necessary if approved in writing by the Big Rivers CEO.

**Credit Requirements**

Credit limits for each counterparty shall not be intentionally exceeded. *(Note: Since credit exposures are a function of not only positions transacted, but also a function of market pricing and volatility, credit exposure to counterparty may unintentionally exceed a credit limit purely due to changes in the forward market).*

Entering into unsecured transactions with a counterparty that has total credit exposure greater than or equal to its open line of credit and the total of any security currently provided will not be allowed unless approved in writing by the Big Rivers CEO.

**Credit Slewing**

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All sleeving transactions for credit purposes shall be approved by the CEO. *(Note: Sleeving is an arrangement where a more financially reputable entity acts as middleman for a smaller, undercapitalized entity in the purchase or sale of power.)*

**Contract Sleeving**

This policy does not prohibit Big Rivers from being positioned between another member or customer of APM and an external counterparty in order to bridge a contract gap that exists. The sleeve must:

- Be only for physical power, transmission or natural gas, not transportation,
- Be only for terms of one month or less.

Contract sleeving on behalf of Big Rivers is approved when it is either the only or the most economical path to pursue at the discretion of APM, with prompt after-the-fact notice to the Big Rivers Senior VP Energy Services Production.

**Transaction Communications**

All communications for bilateral electric power transactions must be transacted via a recorded communication method. Examples include, but are not limited to, voice recorded communication land or

cellular phone, instant messaging or via an online broker account. Recorded communications must be maintained and controlled by personnel who are independent of the transaction function.

**Deal Capture**

Any transactions executed by a Big Rivers employee must be promptly forwarded to APM after the deal execution.

**Speculation**

Speculation refers to a purchase or sales transaction in which the intent was to realize a profit without taking physical delivery. No speculative transaction activities shall be permitted, and no speculative transaction positions shall be initiated. Transactions will be permitted only for purposes of hedging and portfolio optimization.

**Non-Standard Products**

<p><b>Subject:</b> <u>Energy Related Transaction Authority Policy</u></p>	<p><b>Original Effective Date</b> <u>06/15/2007</u>  <b>Original Approval Date</b> <u>06/15/2007</u>  <b>Date Last Revised</b> <u>02/21/2012</u></p>	<p><b>Approved By:</b>  Board</p>
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The Board must pre-approve any transaction that involves commodities or products not listed in this policy.

**Transactions Requiring Board Approval**

Transactions which meet any of the following criteria must be pre-approved by the Board prior to execution:

- The transaction is a new commodity or within the list of commodities not previously transacted by Big Rivers,
- The transaction is at a location in which no transactions are permitted,
- The transaction is for something other than: physical spot or forward electricity, natural gas, fuel oil, solid fuel, ancillary services, capacity, power transmission, financial transmission rights, gas transportation, gas imbalance and storage, solid fuel transportation, exchange transacted energy products, over-the-counter (OTC) financial energy transactions, OTC energy options, federal SO2 or NOx emission allowances, renewable energy credits or a unit outage insurance product.

Examples of new instruments would include the use of derivatives with different risk characteristics or the use of derivatives to implement different business strategies or goals. New instruments or locations would also include those instruments or locations that may be transacted on a “one-off” basis, which would be implementation of a derivative instrument or entry into a commodity market that, despite the anticipation of being transacted just once, would still fit the definition of a new instrument or location.

The purpose of defining a process for such transactions as noted above is to ensure that the exposures associated with them are thoroughly reviewed and understood by the Board and appropriate transaction

controls are in place. The Board must approve the use of such transactions prior to execution using the process defined below:

- a) Transaction Proposal - The proposal is the responsibility of the person or business group proposing the transaction. The proposal should address the business need, risks, transaction controls, valuation methodology, accounting methodology, operations workflow/ methodology, and assessment of legal and regulatory issues.
- b) Board Review - The Board will perform a review of the benefits and risks of the proposed transaction. The Board will assess the proposed transaction and make a determination whether to add the proposed transaction to the approved list.

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- c) Approval (Pilot Program) – The Board may approve limited use of the proposed transaction to ensure that proper controls are in place to monitor the activity. The Board may approve the proposed transaction without instituting a Pilot Program if the proposed transaction is going to be used once (one off), where it would not be prudent to test it in a shorter time frame or smaller quantity due to constraints such as liquidity or length of term of product. The Board will use more scrutiny in approval of one-off transactions.

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**4. Bilateral Electric Power and Transmission Transaction Authority**

The following outlines transaction limits, definitions, and procedural requirements for power and power transmission transactions.

Title	Product	Per Transaction Limits (up to)				Per Delivery Day Limits (up to)		Aggregate Limits	
		Term	Lead Time	MW Size	\$/MWH	Total Volume _MWH	Total \$	Total Volume _MWH	Total \$
Board	Electric Power and Transmission	No Limit	No Limit	No Max.	No Max.	No Max.	No Max.	No Max.	No Max.
CEO	Electric Power and Transmission	> 1 Year	≤ 2 Years	50	\$150	21,600	\$10.8	1,800,000	\$110 million
		≤ 3 Years		No Max.	No Max.		million		
		≤ 1 Year							

**Power Authority Matrix Explanations**

- Transaction limits represent the MW volume per hour and dollars/MWH for each transaction executed.
- Per Delivery Day Limits represent the total MWH volume and dollars for all transactions delivered in a given transaction day.
- Aggregate Limits represent the sum total MWH volume and dollars for all forward transactions.
- Lead time represents the time period from the date the transaction is executed to the start of the transaction.
- Authorized products include electric power, both forwards and options, transmission, including both physical transactions, as well as capacity and ancillary services financial derivatives. Options may only be entered into by the Big Rivers CEO or his designee.
- Authority for PJM and MISO products is defined in the authority matrices below.



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**Delivery Locations**

Transactions at delivery locations outside the eastern interconnect are not permitted. Transaction at delivery locations that are normal to the daily course of business for Big Rivers, to the extent transmission is available, are authorized as follows:

**Unrestricted Delivery Locations**

- SERC Reliability Region
- MISO
- PJM
- RFC Reliability Region
- SPP

Transaction at any other delivery locations within the eastern interconnection shall be restricted as follows:

**Restricted Delivery Locations**

Other eastern interconnection locations only with approval by the Big Rivers CEO.

**Firmness of Power**

The product firmness of all transactions must be provided for in an executed agreement between Big Rivers and the appropriate counterparty. Sales commitments must never be more firm than the supply source, including the purchase side of back-to-back sales, swaps, sleeves or spreads unless the Big Rivers CEO gives explicit written authority to sell power that is more firm than the supply source. Energy purchased as firm liquidated damages may be resold as such.

**Transmission Firmness and Volume**

Transmission purchases need to be of equal firmness and volume to the energy component that such transmission purchase is associated with, unless pre-approved otherwise by the Big Rivers CEO. (Note:

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Purchasing small percentages of additional transmission to cover transmission losses is permitted.) In addition, transmission may be reserved but not utilized if an energy schedule is not confirmed prior to scheduling deadlines outside of Big Rivers' or APM's control. When this occurs it is not considered a violation of this policy.

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**5. MISO Transaction Authority (Non-Bilateral)**

The following outlines transaction limits, definitions, and procedural requirements for MISO products.

		MISO Per Transaction Limits (up to)			
Title	Product	Delivery Lead Time	Term	MW Size	\$/MWh
Board	All MISO Products	No Limit	No Limit	No Max	No Max
CEO	Generation Awards	Not	Not	Not	Not
	Demand Awards	Presently	Presently	Presently	Presently
	Ancillary Service Awards	Transacted	Transacted	Transacted	Transacted
		<u>As Required by MISO</u>	<u>1 Operating Day</u>	<u>No Max</u>	<u>MISO Price Cap</u>
	Capacity	<u>≤ 3 Years</u>	<u>≤ 3 Years</u>	<u>500</u>	
	Financial Transmission Rights	<u>≤ 2 ≤ 4 Years</u>	<u>≤ 1 Year ≤ 4 Years</u>	<u>400425</u>	<u>\$1420</u>
	Virtual Transaction Awards Imports/Exports	As Required by MISO	1 Operating Day	No Max	MISO Price Cap

**MISO Authority Matrix Explanations**

- Virtual transaction award limits are per each bid/offer nodal point. Virtual purchase awards and virtual sales awards are monitored separately.
- Imports and exports are per location and are monitored separately.
- Generation Award Limits are per generating unit.
- Demand Award Limits are per each load nodal point.
- Limits for Ancillary Service Awards apply to the Regulation and Operating (Spinning and Supplemental) Reserve Market only.
- Capacity limits apply to bilateral transactions executed to meet MISO resource adequacy requirements such as MISO Aggregate Planning Resource Credits (APRC) as well as capacity transacted via the MISO Capacity Auction.
- Only Financial Transmission Rights that are bought and sold via the annual and monthly auctions or in the secondary market are monitored per the limits above. Participation in the Annual Allocation of financial transmission rights is not considered a transaction subject to this Policy.

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- Delivery lead time represents the time period between trade execution and start of flow.

Note that all MISO ISO day-ahead transactions, such as price-sensitive offers and bids for importing and exporting from MISO, are financially firm. Hence an exception from the firmness of power for adjustments to these day ahead transactions intraday is acceptable due to the fact that these adjustments are hourly and non-firm.

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**6. PJM Transaction Authority (Non-Bilateral)**

The following outlines transaction limits, definitions, and procedural requirements for PJM products.

Title	Product	PJM Per Transaction Limits (up to)			
		Delivery _Lead Time	Term	MW Size	\$/MWh
Board	<b>All PJM Products</b>	No Limit	No Limit	No Max	No Max
CEO	Generation Awards	Not	Not	Not	Not
	Demand Awards	_Presently	_Presently	_Presently	_Presently
	Ancillary Service Awards				
	Capacity	_Transacted	_Transacted	_Transacted	_Transacted
	Financial Transmission Rights	<u>≤ 2 ≤ 4</u> Years	<u>≤ 1 Year ≤ 4</u> Years	<u>400425</u>	<u>\$1420</u>
	<b>Virtual Transaction Awards</b> <b>Imports/Exports</b>	As Required by PJM	1 Operating Day	No Max	PJM Price Cap

**PJM Authority Matrix Explanations**

- Virtual transaction award limits are per each bid/offer nodal point. Incremental purchase awards and decremental sales awards are monitored separately.
- Imports and exports are per location and are each monitored separately.
- Only financial transmission rights that are bought and sold via the annual and monthly auctions or in the secondary market are monitored per the limits above. Participation in the Annual Allocation of financial transmission rights is not considered a transaction subject to this Policy.

Note that PJM RTO day-ahead transactions, such as price-sensitive offers and bids for importing and exporting from PJM are financially firm. Hence an exception from the firmness of power for adjustments to these day ahead transactions intraday is acceptable due to the fact that these adjustments are hourly and non-firm.

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**7. Natural/Synthetic Gas and Transportation Transaction Authority**

The following outlines transaction limits, definitions, and procedural requirements for natural/synthetic gas (Gas) and transportation transactions.

Title	Product	Per Transaction Limits (up to)				Per <del>Transaction</del> Delivery Day Limits (up to)		Aggregate Limits (up to)	
		Term	Lead Time	Physical Volume per Day MMBtu	\$/ MMBtu	Physical Volume MMBtu	Total \$	Total Physical Volume MMBtu	Total \$
Board	Gas Products	No Limit	No Limit	No Max.	No Max.	No Max.	No Max.	No Max.	No Max.
CEO	Physical	> 1 Year	≤ 2 Years	25,000	\$2015	25,000	\$500,375,000	1.2 million	\$2418 million
		≤ 1 Year		No Max.	No Max.	No Max.	No Max.		

**Gas Authority Matrix Explanations**

- Transaction limits represent the physical MMBtu volume per day and dollars/MMBtu for each transaction executed.
- Per ~~transaction~~ delivery day limits represent the total physical MMBtu volume and dollars for all transactions delivered in a given ~~transaction~~ day.
- Aggregate limits represent the total physical MMBtu volume and dollars for all forward transactions.
- Lead time represents the time period from the date a transaction is executed to the start of the transaction.
- The dollar limits are based upon commodity gas only and do not include transportation, however, the term, lead time, and volume limits do apply to transportation.
- ~~One monthly NYMEX contract contains 10,000 MMBtu.~~
- Gas products include physical gas, as well as transportation, imbalance and storage. The above authority matrix applies to both exchange transacted and OTC derivative products.

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**Gas Firmness**

The product firmness of all transactions must be provided for in an executed agreement between Big Rivers and the appropriate counterparty. Sales commitments of Gas must never be more firm than the Gas supply source unless pre-approved by the Big Rivers CEO.

**Transportation Firmness and Volume**

Transportation purchases need to be of equal firmness and volume to the Gas component that such transportation purchase is associated with, unless pre-approved otherwise by the Big Rivers CEO.

**Delivery Locations**

Gas transactions may only be executed at the following locations:

- ~~• Henry Hub,~~
- Pipelines and hubs that serve Big Rivers' gas powered generation unit(s).
- ~~• Gas transactions may only be executed at the following locations:~~
- ~~• Pipelines and hubs that can directly serve Big Rivers' gas powered generation unit(s).~~

Physical Gas transactions may only be executed at other locations upon approval of the Big Rivers CEO and such transactions must support the hedging needs of Big Rivers.

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~~8. Fuel Oil Transaction Authority~~

8. Fuel Oil Transaction Authority

The following outlines transaction limits, definitions, and procedural requirements for- physical fuel oil transactions.

Fuel oil hedging will be conducted to hedge price risk associated with fuel oil used for plant start-up or to hedge potential fuel oil or diesel fuel price risk contained within solid fuel contracts.

<u>Title</u>	<u>Product</u>	<u>Per Transaction Limits (up to)</u>				<u>Aggregate Limits (up to)</u>	
		<u>Term</u>	<u>Lead Time</u>	<u>Physical - Volume Gallons</u>	<u>\$/Gallon</u>	<u>Total Physical - Volume Gallons</u>	<u>Total \$</u>
Board	-Physical Fuel Oil	No Limit	No Limit	No Max	No Max	No Max	No Max
CEO	Physical Fuel Oil	> 1 Year-≤	≤ 2 Years	1,000,000	\$6	6,000,000	\$36 million
		≤ 3 Years		No Max	No Max		
		≤ 1 Year	No Max	No Max			

**Fuel Oil Authority Matrix Explanations**

- Transaction limits represent the total gallons and dollars/gallon for each transaction executed.
- Aggregate limits represent the sum total gallon volume and dollars for all forward transactions.
- ~~One monthly NYMEX contract represents 42,000 Gallons (1,000 Barrels).~~
- Lead time represents the time period from the date a transaction is executed to the start of the transaction.



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Title	Product	Per Transaction Limits (up to)				Aggregate Limits (up to)	
		Term	Lead Time	Volume Tons	\$/Ton MMBtu	Total Volume Tons	Total \$
Board of Directors	Physical Solid Fuel	No Limit	No Limit	No Max	No Max	No Max	No Max
CEO	Physical Solid Fuel	> 1 Year <= 3 Months	<= 2 Years	1,500,000	\$2.50	2 million	\$100 million
		<= 1 Year <= 3 Months		1,000,000	\$502.85		

~~9. Solid Fuel Transaction Authority~~

9. Solid Fuel Transaction Authority

The following outlines transaction limits, definitions, and procedural requirements for solid fuel transactions.

**Solid Fuel Authority Matrix Explanations**

- Authorized products include physical spot and forward transactions and options on physical forwards.
- Per transaction limits represent the total quantity in tons and dollars/tonMMBtu for each transaction executed.
- Aggregate limits represent the sum total quantity in tons and dollars for all forward transactions.
- Lead time represents the time period from the date a transaction is executed to the start of the transaction.

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**10. Solid Fuel Transportation Transaction Authority**

The following outlines transaction limits, definitions, and procedural requirements for solid fuel transportation transactions.

Title	Product	Per Transaction Limits (up to)				Aggregate Limits (up to)	
		Term	Lead Time	Volume _Tons	\$/Ton	Total Volume _Tons	Total \$
Board	Barge, Rail or Truck Transportation	No Limit	No Limit	No Max	No Max	No Max	No Max
CEO	Barge, Rail or Truck Transportation	> 1 Year ≤ ≤ 3 Years	≤ 2 Years	3 _million	\$9	6 _million	\$54 _million
		≤ 1 Year		No Max	No Max		

**Solid Fuel Transportation Authority Matrix Explanations**

- Authorized products include barge, rail and truck transportation transactions.
- Per transaction limits represent the total quantity in tons and dollars/ton for each transaction executed.
- Aggregate limits represent the sum total quantity in tons and dollars for all forward transactions.
- Lead time represents the time period from the date a transaction is executed to the start of the transaction.

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**11. Emission Allowances Transaction Authority\***

The following outlines transaction limits, definitions, and procedural requirements for emissions transactions.

Title	Product	Per Transaction Limits (up to)				Aggregate Limits (up to)	
		Term	Lead Time	Volume Tons	\$/Ton	Total Volume Tons	Total \$
Board	Federal SO <sub>2</sub> and NO <sub>x</sub> Emission Allowances	No Limit	No Limit	No Max	No Max	No Max	No Max
CEO	Federal SO <sub>2</sub> Emission Allowances	> 1 Year ≤ 2 Years	≤ 2 Years	5,000	\$500	20,000	\$10 million
		≤ 1 Year		No Max	No Max		
	Federal NO <sub>x</sub> Emission Allowances	> 1 Year ≤ 2 Years		2,500	<del>\$4,000</del> 2.50	12,500	\$50 30 million
		≤ 1 Year		No Max	No Max		

**Emission Allowance Authority Matrix Explanations**

- The authority matrix above represents authority for SO<sub>2</sub> and NO<sub>x</sub> emission allowances.
- Per transaction limits represent the total quantity in tons and dollars/ton for each transaction executed.
- Aggregate limits represent the sum total quantity in tons and dollars for all forward transactions.
- Lead time represents the time period from the date a transaction is executed to the start of the transaction.

\*Per Appendix A of the Kentucky Public Service Commission order dated March 6, 2009 in case 2007-00455 Big Rivers commits to not sell SO<sub>2</sub> allowances in its inventory (excluding the 14,000 SO<sub>2</sub> allowances acquired in conjunction with the Unwind Transaction) unless the sale is cost-effective based on a written policy which reflects short- and long-term allowance needs and prices.



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**12. Limestone Reagent Transaction Authority**

The following outlines transaction limits, definitions, and procedural requirements for limestone reagent transactions.

Title	Product	Per Transaction Limits (up to)				Aggregate Limits (up to)	
		Term	Lead Time	Volume Tons	\$/Ton	Total Volume Tons	Total \$
Board of Directors	Physical Limestone Reagent	No Limit	No Limit	No Max	No Max	No Max	No Max
CEO	Physical Limestone Reagent	> 3 Months	≤ 2 Years	750,000	\$20	1.50 million	\$30 million
		≤ 3 Years		No Max	No Max		
		≤ 3 Months					

**Limestone Reagent Authority Matrix Explanations**

- Authorized products include physical spot and forward transactions and options on physical forwards.
- Per transaction limits represent the total quantity in tons and dollars for each transaction executed.
- Aggregate limits represent the sum total quantity in tons and dollars for all forward transactions.
- Lead time represents the time period from the date a transaction is executed to the start of the transaction.

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**13. Lime Reagent Transaction Authority**

The following outlines transaction limits, definitions, and procedural requirements for lime reagent transactions.

Title	Product	Per Transaction Limits (up to)				Aggregate Limits (up to)	
		Term	Lead Time	Volume Tons	\$/Ton	Total Volume Tons	Total \$
Board of Directors	Physical Lime Reagent	No Limit	No Limit	No Max	No Max	No Max	No Max
CEO	Physical Lime Reagent	$\geq 3$ Months	$\leq 2$ Years	650,000	\$125	650,000	\$81 million
		$\leq 3$ Years		No Max	No Max		
		$\leq 3$ Months					

**Lime Reagent Authority Matrix Explanations**

- Authorized products include physical spot and forward transactions and options on physical forwards.
- Per transaction limits represent the total quantity in tons and dollars for each transaction executed.
- Aggregate limits represent the sum total quantity in tons and dollars for all forward transactions.
- Lead time represents the time period from the date a transaction is executed to the start of the transaction.

Subject: <u>Energy Related Transaction Authority Policy</u>	Original Effective Date	<u>06/15/2007</u>	Approved By:  Board
	Original Approval Date	<u>06/15/2007</u>	
	Date Last Revised	<u>02/21/2012</u>	

**14. Acknowledgements**

**Clear Authority and Staff and APM Authority Delegations**

Where authority is further downward delegated, it must be approved by written signature of the next authority level up prior to any execution. In no case will the delegation of authority to Big Rivers staff or APM-transaction delegations exceed that of the Big Rivers CEO.

**Violations and Sanctions**

Violations of this Authority Policy must not occur. Any person covered by this policy who becomes aware of a violation of the Authority Policy has an affirmative duty to report the violation to the department head in which the violation occurred and to the Vice President of Governmental Relations and Enterprise Risk Management who in turn shall inform the Big Rivers CEO. However, if it is believed that the Big Rivers CEO is involved then the Big Rivers Chairman of the Board shall be notified. The responsible party (ies) will be sanctioned according to Big Rivers Risk Management Sanctions Policy (for Big Rivers Employees only, APM employees are governed by the ACES Power Marketing Trading Sanctions Policy).

**Policy Effective**

This Transaction Authority Policy is in effect upon the Board's approval and shall remain in effect until a revised policy has been approved by the Board.

**Responsibility**

It shall be the responsibility of the Board, the CEO, the Big Rivers-IRMC and the APM-IRMC to ensure compliance with this policy.

Big Rivers Policy 101 Revision Record			
Number	Date	Notes	Approved by




<b>Subject:</b> <u>Energy Related Transaction Authority Policy</u>	<b>Original Effective Date</b> <u>06/15/2007</u>	<b>Approved By:</b>  Board
	<b>Original Approval Date</b> <u>06/15/2007</u>	
	<b>Date Last Revised</b> <u>02/21/2012</u>	


<del>Rev. 0</del>	<del>06-15-07</del>	<del>Trading Authority</del> <u>Replaced Risk Management</u>	<del>Big Rivers'</del> Board
<del>Rev.</del>	<del>10-16-</del>	<del>Energy Related Transaction</del> <u>Trading Authority</u>	<del>Big Rivers'</del> Board
<del>Original</del>	<del>0906/15/2007</del>	<del>Policy 101 w/o matrices</del>	
<u>Rev 1</u>	<u>10/16/2009</u>	<u>Name change to Energy Related Transaction Authority Policy with matrices</u>	<u>Board</u>
<u>Rev 2</u>	<u>11/19/2010</u>	<u>MISO Transaction Authority added</u>	<u>Board</u>
<u>Rev 3</u>	<u>12/17/2010</u>	<u>Updated Solid Fuel Transaction Authority</u>	<u>Board</u>
<u>Rev 4</u>	<u>03/18/2011</u>	<u>Added limestone and lime, general cleanup</u>	<u>Board</u>
<u>Rev 5</u>	<u>02/21/2012</u>	<u>Made revisions to account for retirement of Senior VP Energy Services</u>	<u>Board</u>

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**Appendix A to Energy Related Transaction Authority Policy ~~404~~105**

APPROVED BY: CEO _____	APPROVAL DATE: 11-04-09
_____ CEO Signature _____	
Revision 0	
<u>STAFF AND APM TRANSACTING AUTHORITY DELEGATIONS</u>	

APPROVED BY: CEO _____	APPROVAL DATE: _____
_____ CEO Signature _____	
Revision 6	
<u>STAFF AND APM TRANSACTING AUTHORITY DELEGATIONS</u>	

**1. Purpose**

The purpose of this appendix is to define the authority granted by the Big Rivers CEO (“CEO”) to Big Rivers’ staff and APM to execute energy-related transactions.

**2. Objective**

The objective of this appendix is to extend authority within Policy ~~404~~105 to Big Rivers’ internal staff and APM.

**3. Procedural Requirements**

As an appendix to Policy ~~404~~105, all requirements and criteria stated within Policy ~~404~~105 apply to this appendix.

**Delegation of authority regarding Contract Requirements**

The CEO delegates his authority to use a long form confirmation as a valid agreement in lieu of a master agreement when necessary to the Senior-VP Production and the Managing Director Energy Services and ~~designated Directors:~~ the Director of Resources and Forecasting.

**4. Bilateral Electric Power and Transmission Transaction Authority**

The following outlines Big Rivers' staff and APM transaction limits for power and power transmission transactions.

Title	Product	Per Transaction Limits (up to)				Per Delivery Day Limits (up to)		Aggregate Limits (up to)	
		Term	Lead Time	MW Size	\$/MWH	Total Volume MWH	Total \$	Total Volume MWH	Total \$
Senior VP Energy Services Production	Electric Power and Transmission	> 1 Month	≤ 1 Year	≤ 105	\$85	16,200	\$8.1 million	657,000	\$55.8 million
		≤ 1 Year		200	No Max				
Director of Power Portfolio Optimization and Director of Resources & Forecasting Managing Director Energy Services	Electric Power and Transmission	> 1 Month	≤ 1 Year	≤ 105	\$75	14,000	\$7.0 million	500,000	\$37.5 million
		≤ 3 Months		105	\$100				
		> 1 Week ≤ 1 Month		No Max.	No Max.				
Director of Resources & Forecasting	Electric Power and Transmission	≥ 1 Month	≤ 1 Year	≤ 105	\$75	14,000	\$7.0 million	500,000	\$37.5 million
		≤ 3 Months		105	\$100				
		> 1 Week ≤ 1 Month		No Max.	No Max.				
APM Power Scheduling Analyst	Electric Power and Transmission	≤ 1 Daily	≤ 1 Week	450	No Max.	10,800	\$5.46 million	100,000	\$125 million
APM	Electric Power and Transmission	≤ 1 Daily	≤ 1 Week	450	No Max.	10,800	\$5.4 million	100,000	\$12 million

**Delegation of authority regarding Firmness of Power**

The CEO delegates his authority to sell power that is more firm than the supply source to the Senior VP Energy Services Production.

**Delegation of authority regarding Transmission Firmness and Volume**

The CEO delegates his authority to execute transmission purchases not of equal firmness and volume to the energy component that such transmission purchase is associated with to the ~~Senior VP Energy Services~~Production.

**Delegation of authority regarding Restricted Delivery Locations**

The CEO delegates his authority to execute transactions ~~to~~at other Eastern interconnection locations to the ~~Senior VP Energy Services~~Production.

**5. MISO Transaction Authority (Non-Bilateral)**

The following outlines Big Rivers' staff and APM transaction limits for MISO products.

		<b>MISO Per Transaction Limits (up to)</b>			
<b>Title</b>	<b>Product</b>	<b>Delivery Lead Time</b>	<b>Term</b>	<b>MW Size</b>	<b>\$/MWh</b>
Senior-VP Energy Services Product ion	Generation Awards	Not Presently Transacted As Required by MISO	Not Presently Transacted 1 Operating Day	Not Presently Transacted 4 25 1750 425	Not Presently Transacted MISO Price Cap
	Demand Awards				
	Ancillary Service Awards				
	Capacity	< 2 Years	< 2 Years	425	\$20
	Financial Transmission Rights	< 1 Year	< 1 Year	425	\$20
	Virtual Transaction Awards Imports/Exports	As Required by MISO	1 Operating Day	No Max No Max	MISO Price Cap
Managing Director of Power Portfolio Optimization Energy Services and Director of Resources & Forecasting	Generation Awards	Not Presently Transacted As Required by MISO	Not Presently Transacted 1 Operating Day	Not Presently Transacted 4 25 1700 425	Not Presently Transacted MISO Price Cap
	Demand Awards				
	Ancillary Service Awards				
	Capacity	< 1 Year	< 1 Year	425	\$15
	Financial Transmission Rights	< 6 months	< 6 months	425	\$12
	Virtual Transaction Awards Imports/Exports	As Required by MISO	1 Operating Day	400 500	MISO Price Cap
APM Power Scheduling Analyst	Generation Awards	Not Presently Transacted As Required by MISO	Not Presently Transacted 1 Operating Day	Not Presently Transacted 4 25 1675 425	Not Presently Transacted MISO Price Cap
	Demand Awards				
	Ancillary Service Awards				
	Capacity	< 6 Months	< 6 Months	425	\$12
	Financial Transmission Rights	Not Authorized	Not Authorized	Not Authorized	Not Authorized
	Virtual Transaction Awards Imports/Exports	As Required by MISO	1 Operating Day	400 400450	MISO Price Cap
APM	Generation Awards	As Required by MISO	1 Operating Day	425 1650 425	MISO Price Cap
	Demand Awards				
	Ancillary Service Awards				
	Capacity	< 6 Months	< 6 Months	425	\$8
	Financial Transmission Rights	< 6 Months	< 6 Months	425	\$10
	Virtual Transaction Awards Imports/Exports	As Required by MISO	1 Operating Day	400 400	MISO Price Cap

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**6. PJM Transaction Authority (Non-Bilateral)**

The following outlines Big Rivers' staff and APM transaction limits for PJM products.

		<b>PJM Per Transaction Limits (up to)</b>			
<b>Title</b>	<b>Product</b>	<b>Delivery Lead Time</b>	<b>Term</b>	<b>MW Size</b>	<b>\$/MWh</b>
<u>Senior-VP Energy Services</u> <u>Product ion</u>	Generation Awards	Not Presently Transacted	Not Presently Transacted	Not Presently Transacted	Not Presently Transacted
	Demand Awards				
	Ancillary Service Awards				
	Capacity	≤ 1 Year	≤ 1 Year	210	\$20
	Financial Transmission Rights	As Required by PJM	1 Operating Day	No Max	PJM Price Cap
	Virtual Transaction Awards			No Max	
<u>Managing Director of Power Portfolio Optimization</u> <u>Energy Services and Director of Resources &amp; Forecasting</u>	Generation Awards	Not Presently Transacted	Not Presently Transacted	Not Presently Transacted	Not Presently Transacted
	Demand Awards				
	Ancillary Service Awards				
	Capacity	≤ 1 Year	≤ 3 months	105	\$12
	Financial Transmission Rights	As Required by PJM	1 Operating Day	400	PJM Price Cap
	Virtual Transaction Awards			500	
<u>APM Power Scheduling Analyst</u>	Generation Awards	Not Presently Transacted	Not Presently Transacted	Not Presently Transacted	Not Presently Transacted
	Demand Awards				
	Ancillary Service Awards				
	Capacity	Not Authorized	Not Authorized	Not Authorized	Not Authorized
	Financial Transmission Rights	As Required by PJM	1 Operating Day	400	PJM Price Cap
	Virtual Transaction Awards			400/450	
<u>APM</u>	Generation Awards	Not Presently Transacted	Not Presently Transacted	Not Presently Transacted	Not Presently Transacted
	Demand Awards				
	Ancillary Service Awards				
	Capacity	Not Authorized	Not Authorized	Not Authorized	Not Authorized
	Financial Transmission Rights	As Required by PJM	1 Operating Day	400	PJM Price Cap
	Virtual Transaction Awards			400	
	Imports/Exports				



## 7. Natural/Synthetic Gas and Transportation Transaction Authority

The following outlines Big Rivers' staff and APM transaction limits for natural/synthetic gas (Gas) and transportation transactions.

Title	Product	Per Transaction Limits (up to)				Per Transaction Delivery Day Limits (up to)		Aggregate Limits (up to)	
		Term	Lead Time	Physical MMBtu Volume per Day	\$/ MMBtu	Total Physical Volume MMBtu	Total \$	Total Physical Volume MMBtu	Total \$
Senior VP Energy Services Production	Physical	> 1 Month ≤ 1 Year	≤ 1 Year	20,000	\$15	20,000	\$300,000	400,000	\$6 million
		≤ 1 Month		No Max	No Max	No Max	No Max		
Director of Power Portfolio Optimization and Director of Resources & Forecasting Managing Director Energy Services	Physical	> 1 Week ≤ 1 Month	≤ 1 Year	10,000	\$15	10,000	\$150,000	200,000	\$3 million
		≤ 1 Week	≤ 1 Month	No Max	No Max	No Max	No Max		
APM Director of Resources & Forecasting	Physical	<u>As directed</u> > 1 Week < 1 Month	<u>As directed</u> < 1 Year	<u>As directed</u> 10,000	<u>As directed</u> \$15	<u>As directed</u> 10,000	<u>As directed</u> \$150,000	<u>As directed</u> 200,000	<u>As Directed</u> \$3 million
		≤ 1 Week	≤ 1 Month	No Max	No Max	No Max	No Max		
APM	Physical*	≤ 1 Week	≤ 1 Week	20,000	\$15	20,000	\$300,000	100,000	\$1.5 million
	Pipeline Payback	≤ 1 Week	≤ 1 Week	60,000	\$15	60,000	\$900,000	60,000	\$900,000

\*Excludes purchases for pipeline payback. Purchases for pipeline payback are addressed separately in the row below.

### Delegation of authority regarding Gas Firmness

The CEO delegates his authority to sell gas that is more firm than the supply source to the Senior VP Energy Services Production.

### Delegation of authority regarding Transportation Firmness and Volume

The CEO delegates his authority to execute transportation purchases not of equal firmness and volume to the gas component that such transportation purchase is associated with to the Senior VP Energy Services Production.

## 8. Fuel Oil Transaction Authority

The following outlines Big Rivers' staff and APM transaction limits for fuel oil transactions.

<u>Title</u>	<b>Product</b>	<b>Per Transaction Limits (up to)</b>				<b>Aggregate Limits (up to)</b>	
		<b>Term</b>	<b>Lead Time</b>	<b>Physical-Volume Gallons</b>	<b>\$/Gallon</b>	<b>Total Volume Gallons</b>	<b>Total \$</b>
Senior-VP Energy Services Production	Physical Fuel Oil	> 1 Month ≤ 1 Year	≤ 1 Year	750,000	\$6	4,000,000	\$24 Million
		≤ 1 Month		No Max	No Max		
Director of Fuels Procurement	Physical Fuel Oil	> 1 Week ≤ 1 Month	≤ 1 Year	500,000	\$6	1,000,000	\$6 million
		≤ 1 Week	≤ 1 Month	No Max	No Max		
APM	Physical Fuel Oil	As directed	As directed	As directed	As directed	As directed	As directed

**9. Solid Fuel Transaction Authority**

The following outlines Big Rivers' staff transaction limits for solid fuel.

Title	Product	Per Transaction Limits (up to)				Aggregate Limits (up to)	
		Term	Lead Time	Volume Tons	\$/Ton <del>MM</del> Btu	Total Volume Tons	Total \$
Senior VP Energy Services Production	Physical Solid Fuel	> 1 Month ≤ 3 Months ≤ 1 Year	≤ 1 Year	500,000	\$2.50	1.0 million	\$500 million
		≤ 3 Months		100,000	\$2.85		
Director of Fuels Procurement	Physical Solid Fuel	> 1 Month ≤ 3 Months ≤ 6 Months	≤ 1 Year	250,000	\$2.50	500,000	\$250 million
		≤ 1 Month ≤ 3 Months	≤ 1 Month	No Max 50,000	No Max \$2.85		

**10. Solid Fuel Transportation Authority**

The following outlines Big Rivers' staff transaction limits for solid fuel transportation transactions.

Title	Product	Per Transaction Limits (up to)				Aggregate Limits (up to)	
		Term	Lead Time	Volume _Tons	\$/Ton	Total Volume _Tons	Total \$
Senior VP Energy Services Production	Barge, Rail or Truck Transportation	> 1 Month-3 Months ≤ 3 Years	≤ 1 Year	2.5 _million	\$5	45 million	\$20 million
		≤ 3 Months		No Max	No Max		
Director of Fuels Procurement	Barge, Rail or Truck Transportation	> 1 Week Month ≤ 1 Year	≤ 1 Year	750,000	\$5	2 million	\$10 million
		≤ 1 Month	≤ 1 Month	No Max	No Max		

**11. Emission Allowance Transaction Authority**

The following outlines Big Rivers' staff and APM transaction limits for emission allowance transactions.

Title	Product	Per Transaction Limits (up to)				Aggregate Limits (up to)	
		Term	Lead Time	Volume Tons	\$/Ton	Total Volume Tons	Total \$
Senior-VP Energy Services Production	Federal SO2 Emission Allowances	> 1 Month ≤ 1 Year	≤ 1 Year	2,500	\$300	10,000	\$3 million
	Federal NOx Emission Allowances	≤ 1 MonthYear r		1,250	\$2,500000	5,000	\$42.510 million
Director of Fuels Procurement, Managing Director Energy Services and Director of Resources & Forecasting	Federal SO2 Emission Allowances	≤ 1 MonthYear r	≤ 6 months	2,000	\$275	5,000	\$1million1 million
	Federal NOx Emission Allowances	≤ 1 MonthYear r		50500	\$2,0001.50 0	2,000	\$700,0003 million
APM	Federal SO2 Emission Allowances	As directed	As directed	As Directeddir ected	As Directed directed	As directed	As Directed directed
	Federal NOx Emission Allowances	As directed		As directed	As Directed directed		

**12. Limestone Reagent Transaction Authority**

The following outlines Big Rivers' staff transaction limits for limestone reagent transactions.

<u>Title</u>	<u>Product</u>	<u>Per Transaction Limits</u> <u>(up to)</u>				<u>Aggregate Limits</u> <u>(up to)</u>	
		<u>Term</u>	<u>Lead Time</u>	<u>Volume Tons</u>	<u>\$/Ton</u>	<u>Total Volume Tons</u>	<u>Total \$</u>
<u>VP Production</u>	<u>Physical Limestone Reagent</u>	<u>≤ 1 Year</u>	<u>≤ 1 Year</u>	<u>187,500</u>	<u>\$18</u>	<u>375,000</u>	<u>\$6.75 million</u>
<u>Director of Fuels Procurement</u>	<u>Physical Limestone Reagent</u>	<u>≤ 3 Months</u>	<u>≤ 1 Year</u>	<u>93,750</u>	<u>\$18</u>	<u>187,500</u>	<u>\$3.375 million</u>

**13. Lime Reagent Transaction Authority**

The following outlines Big Rivers' staff transaction limits for lime reagent transactions.

<u>Title</u>	<u>Product</u>	<u>Per Transaction Limits</u> (up to)				<u>Aggregate Limits</u> (up to)	
		<u>Term</u>	<u>Lead Time</u>	<u>Volume Tons</u>	<u>\$/Ton</u>	<u>Total Volume Tons</u>	<u>Total \$</u>
<u>VP Production</u>	<u>Physical Lime Reagent</u>	<u>≤ 1 Year</u>	<u>≤ 1 Year</u>	<u>162,500</u>	<u>\$120</u>	<u>162,500</u>	<u>\$19.5 million</u>
<u>Director of Fuels Procurement</u>	<u>Physical Lime Reagent</u>	<u>≤ 3 Months</u>	<u>≤ 1 Year</u>	<u>81,250</u>	<u>\$120</u>	<u>81,250</u>	<u>\$9.75 million</u>

## 14. Acknowledgements

### Violations and Sanctions

Violations of this Authority Policy must not occur. Any person covered by this policy who becomes aware of a violation of the Authority Policy has an affirmative duty to report the violation to the department head in which the violation occurred and to the Vice President of Governmental Relations and Enterprise Risk Management who in turn shall inform the Big Rivers CEO. However, if it is believed that the Big Rivers CEO is involved then the Big Rivers Chairman of the Board shall be notified. The responsible party-(ies) will be sanctioned according to Big Rivers Risk Management Sanctions Policy (for Big Rivers Employees only, APM employees are governed by the ACES Power Marketing Trading Sanctions Policy).

### Appendix Effective

This Transaction Authority Appendix is in effect upon the CEO's approval and shall remain in effect until a replacement appendix has been approved by the CEO.

### Responsibility

It shall be the responsibility of the CEO, Senior-VP Energy Services, Production and the Big Rivers-IRMC and the APM-IRMC to ensure compliance with this policy.

### Revisions

<u>Big Rivers Policy 101105/Appendix A Revision Record</u>			
<u>Number</u>	<u>Date</u>	<u>Notes</u>	<u>Approved by</u>
<u>Rev. 0</u>	<u>11-04-09</u>	<u>Energy Related Transaction Authority Policy 101/Appendix A-Trans</u>	<u>Mark Bailey</u>
<u>Rev. 1</u>	<u>11-22-10</u>	<u>MISO and other misc. updates</u>	<u>Mark Bailey</u>
<u>Rev. 2</u>	<u>1-4-11</u>	<u>Updated Solid Fuel Transaction Authority</u>	<u>Mark Bailey</u>
<u>Rev. 3</u>	<u>3-18-11</u>	<u>Added Limestone and Lime, general cleanup</u>	<u>Mark Bailey</u>
<u>Rev. 4</u>	<u>12-5-11</u>	<u>Update Bi-Lateral and Emission limits, add authority for PJM FTRs, add VP of Production</u>	<u>Mark Bailey</u>
<u>Rev. 5</u>	<u>5-7-11</u>	<u>Remove Senior VP Energy Services from document due to retirement/elimination of role</u>	<u>Mark Bailey</u>



<u>Rev. 6</u>		<u>Change Director of Power Portfolio Optimization to Managing Director Energy Services</u>	<u>Mark Bailey</u>

**BIG RIVERS ELECTRIC CORPORATION**

**AN EXAMINATION OF THE APPLICATION OF THE FUEL  
ADJUSTMENT CLAUSE OF BIG RIVERS ELECTRIC CORPORATION  
FROM NOVEMBER 1, 2011 THROUGH APRIL 30, 2012  
CASE NO. 2012-00323**

**Response to Commission Staff's Request for Information  
from the Hearing of October 11, 2012**

**October 25, 2012**

1 **Item 2)** *In its Order dated November 17, 2011, in Case No. 2011-00036,*  
2 *the Commission authorized Big Rivers spending \$37.4 million annually on*  
3 *plant maintenance. Provide the amount spent by Big Rivers on plant*  
4 *maintenance in 2011 and, if less than \$37.4 million, explain the difference.*  
5 *Also, provide the amount Big Rivers plans to spend on plant maintenance*  
6 *in 2012 and, if less than \$37.4 million, explain the difference.*

7

8 **Response)** The attachment to this response provides a summary of Big Rivers  
9 net margins, MFIR, plant maintenance expenditures and wholesale power net  
10 margins vs. budget for years 2010, 2011 and 2012, as well as the reduction in the  
11 requested rate increase revenue for years 2011 and 2012 following the PSC Order  
12 in Case No. 2011-00036.

13 Big Rivers reduced its plant maintenance expense below planned  
14 levels in 2010, 2011, and 2012. The primary reason for the reductions was the  
15 weaker wholesale power market each year compared to earlier periods. Mr. C.  
16 William Blackburn, Big Rivers' former Senior Vice President Financial & Energy  
17 Services and Chief Financial Officer, explained in his direct testimony in Case No.  
18 2011-00036, at page 8, lines 15 through 22, "Big Rivers MFIR for its last fiscal  
19 year, calendar year 2010, was 1.15 based on margins of \$7.0 million. Big Rivers  
20 attained its MFIR for that period by very carefully planning and executing its  
21 business strategies. As a result of lower power prices for power in the wholesale  
22 market it was necessary for Big Rivers to take extraordinary steps to lower its  
23 expenses. A major part of the business strategy was corporate-wide cost-cutting  
24 and implementation of cost-deferral measures, including postponing planned

**BIG RIVERS ELECTRIC CORPORATION**

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1 generating unit maintenance outages, transmission maintenance, and  
2 administrative & general discretionary expenses.”

3           The downturn in the wholesale power market in 2010 produced Big  
4 Rivers' wholesale net margins of \$21,234,601 vs. a budget of \$23,221,572, a  
5 difference of negative \$1,986,971. After exhausting its options to reduce non-  
6 maintenance expenses in 2010, the only remaining option for Big Rivers to achieve  
7 the magnitude of expense reductions it needed to meet its MFIR obligation was to  
8 defer maintenance. As Big Rivers noted in Case No. 2011-00036, between  
9 November 1, 2009 and October 31, 2010, company management deferred  
10 \$1,511,091 of planned plant *non-outage* maintenance expenses and \$3,866,966 of  
11 planned plant *outage* maintenance expense. When it became apparent the  
12 wholesale power market was not returning to previous levels soon, Big Rivers also  
13 began preparing a rate case toward the end of 2010 to help assure it would earn  
14 sufficient future revenue to perform acceptable levels of maintenance and meet its  
15 debt covenants.

16           To achieve these objectives, Big Rivers filed its rate application in  
17 Case No. 2011-00036 on March 1, 2011. In that case, Big Rivers sought to  
18 increase its base rates to offset a revenue deficiency of approximately \$39.3  
19 million which included (i) a request to increase plant *non-outage* operations and  
20 maintenance (“O&M”) expense by approximately \$5.6 million over what was spent  
21 in the historical test year for total annual plant maintenance expenditures of  
22 approximately \$38.8 million, and (ii) a request to increase planned plant *outage*  
23 expense by approximately \$2.7 million over what was spent in the historical test  
24 year for total annual plant planned outage maintenance expenditures of

**BIG RIVERS ELECTRIC CORPORATION**

**AN EXAMINATION OF THE APPLICATION OF THE FUEL  
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CASE NO. 2012-00323**

**Response to Commission Staff's Request for Information  
from the Hearing of October 11, 2012**

**October 25, 2012**

1 approximately \$14.4 million. Big Rivers sought to make clear throughout that  
2 case that, although it was specifically seeking to include approximately \$53.2  
3 million for plant maintenance expense in its rates (\$38.8 million for *non-outage*  
4 O&M expense *plus* \$14.4 million for planned plant outage expenses), "...even if  
5 Big Rivers receives the full amount of the requested adjustments relating to  
6 maintenance costs, if it does not receive the full increase it is seeking, the only  
7 option available to Big Rivers to meet the required margin(s) for interest ratio  
8 ("MFIR") and maintain credit ratings as required in its long-term debt agreements  
9 would be to reduce plant maintenance, which would have an adverse impact on  
10 reliability and ultimately increase costs to Big Rivers." <sup>1</sup>

11 On page 15, lines 2 through 12 of his Direct Testimony in Case No.  
12 2011-00036, Mr. Mark A. Bailey, Big Rivers' President and Chief Executive  
13 Officer, explained, "Without the additional revenue requirement associated with  
14 pro forma adjustment, Big Rivers will be required to reduce expenditures in order  
15 to meet its MFIR and maintain credit ratings as required in its long-term debt  
16 agreements. If it is not granted an adequate revenue increase in this proceeding,  
17 the only option available to Big Rivers to meet its MFIR requirements would be to  
18 reduce plant maintenance, which would have adverse impact on reliability." In  
19 addition, on page 1, lines 10 through 16 of Big Rivers' response to Item 2 of the  
20 Commission's Staff Second Request for Information, dated April 1, 2011, in Case  
21 No. 2011-00036, Mr. Bailey noted, "If however, any of the major assumptions in  
22 the 2011 Budget do not materialize, additional cost cutting or maintenance

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<sup>1</sup> See page 4, lines 15 through 19, of the Direct Testimony of Mr. Robert W. Berry, Big Rivers' Vice President Production, in Case No. 2011-00036 which was filed on March 1, 2011.

**BIG RIVERS ELECTRIC CORPORATION**

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from the Hearing of October 11, 2012**

**October 25, 2012**

1 deferrals will be employed to ensure Big Rivers maintains at least a 1.10 MFIR.  
2 For example, the 2011 Budget assumes an average off-system sales price of \$41.81  
3 per MWh. If the actual average off-system sales price for 2011 is materially less,  
4 Big Rivers will need to employ other strategies, principally additional cost cutting  
5 and cost deferral, to ensure the minimum required MFIR is achieved.”

6 In its November 17, 2011, Order in Case No. 2011-00036 (“the  
7 November 17 Order), the Commission granted Big Rivers an annual revenue  
8 increase of only \$26,744,776, (\$12,744,776 less than Big Rivers’ original request of  
9 \$39,324,089). As such Big Rivers was granted an increase of \$4,263,292 for plant  
10 *non-outage* O&M expense and an increase of \$2,726,965 for planned plant *outage*  
11 expense, which corresponds to total annual plant *non-outage* O&M expense of  
12 \$37,480,160 and total planned plant *outage* expense of \$14,437,513, respectively.  
13 Big Rivers filed for rehearing of the November 17 Order, and the rehearing is still  
14 pending.

15 In 2011 Big Rivers spent less on maintenance than was allowed in  
16 Case No. 2011-00036. Planned plant *outage* maintenance was reduced by about  
17 \$4.5 million in 2011 (from \$9.2 million budgeted to \$4.7 million actual) and its  
18 *non-outage* plant O&M expense by about \$1.9 million in 2011 (from \$38.4 million  
19 budgeted to \$36.5 million actual). Big Rivers’ 2011 wholesale power net revenue  
20 was \$25,320,213 vs. a budget of \$24,595,250; a positive difference of \$724,963.  
21 The reason Big Rivers was able to exceed its 2011 budget for wholesale power net  
22 revenue was its generating fleet was able to generate more power resulting in  
23 approximately \$1.9 million additional wholesale power margins than planned  
24 because planned outages were deferred to reduce expenses to meet MFIR. Thus

**BIG RIVERS ELECTRIC CORPORATION**

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1 Big Rivers' 2011 wholesale power net revenue would have been negative to budget  
2 if the scheduled outages had been performed and no additional generation was  
3 available to be sold into the wholesale market. In addition, the 2011 impact of the  
4 lower rate increase the Commission approved in Case No. 2010-00036 versus the  
5 rate increase Big Rivers requested was \$4,204,592 for the remainder of the year  
6 following the November 17 Order. Rates reflecting those increases became  
7 effective September 1, 2011.

8 In total, Big Rivers reduced plant maintenance expense by  
9 approximately \$6.4 million in 2011 to offset \$3,286,720 of MISO expense not  
10 recovered during the period January through August prior to the November 17  
11 Order and \$4,204,592 revenue shortfall associated with the November 17 Order.  
12 Big Rivers' 2011 net margins were \$5,600,382 and its MFIR was 1.12.

13 Big Rivers projects it will reduce planned plant *outage* expense by  
14 \$16.9 million in 2012 (from \$22.7 million budgeted to \$5.8 million actual) and its  
15 *non-outage* plant O&M expense by \$2.5 million in 2012 (from \$37.6 million  
16 budgeted to \$35.1 million actual). In total, Big Rivers projects it will reduce plant  
17 maintenance expense by approximately \$19.3 million in 2012 to offset projected  
18 negative wholesale power net margins of \$17,465,645 below budget, and the  
19 \$12,579,313 annual revenue shortfall associated with the November 17 Order,  
20 which together total over \$30 million less revenue than budgeted.

21 In 2012, Big Rivers expects to spend \$35,135,044 on plant *non-outage*  
22 O&M expense and \$5,806,111 on plant planned *outage* expense. In 2012, Big  
23 Rivers forecasts wholesale power net revenue to be \$2,199,879 vs. a budget of

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1 \$19,665,524; a negative difference of \$17,465,645. Big Rivers expects 2012  
2 margins will be \$6,261,646, and projects 2012 MFIR to be 1.14.

3 Big Rivers had no choice but to reduce expenses in 2010, 2011, and  
4 2012 to ensure it achieved the minimum 1.10 MFIR required by its loan  
5 agreements. Although Big Rivers reduced expenses in all non-maintenance  
6 expense categories as far as reasonably possible and still meet its obligation to  
7 safely deliver reliable, low cost wholesale power, these reductions were insufficient  
8 leaving maintenance as the only remaining area where expense reductions of the  
9 magnitude required could be made.

10 Big Rivers continues to believe that it has insufficient revenue to  
11 perform necessary levels of on-going maintenance and still maintain its debt  
12 covenant MFIR requirements and anticipates filing another rate case in the near  
13 future in part, to address this ongoing issue.

14

15

16 **Witnesses)** Lawrence V. Baronowsky and

17 Christopher A. Warren

18

**Big Rivers Electric Corporation**  
**Case No. 2012-00323**

<b>Wholesale Revenue</b>				
	<b>2010</b>	<b>2011</b>	<b>2012 Forecast</b>	
Actual Wholesale MWh*	1,421,993	2,682,084 +	1,218,779	
Actual Wholesale \$/MWh	\$ 37.94	\$ 33.38	\$ 28.03	
Actual Wholesale Revenue	\$ 53,949,174	\$ 89,535,861	\$ 34,157,993	
Actual Wholesale Variable Expense	32,714,572	64,215,648	31,958,114	
Net Actual Wholesale Margin	\$ 21,234,601	\$ 25,320,213	\$ 2,199,879	
Budget Wholesale MWh	783,031	1,397,890	1,602,630	
Budget Wholesale \$/MWh	\$ 52.51	\$ 41.85	\$ 40.77	
Budget Wholesale Revenue	\$ 41,113,325	\$ 58,500,720	\$ 65,345,878	
Budget Wholesale Variable Expense	17,891,753	33,905,470	45,680,354	
Net Budget Wholesale Margin	\$ 23,221,572	\$ 24,595,250	\$ 19,665,524	
Unrecovered MISO Expense (Jan-Aug 2011)		\$ (3,286,720)		
<b>Wholesale Revenue (Deficiency)/Surplus</b>	<b>(a)</b>	\$ (1,986,971)	<b>+</b>	\$ (17,465,645)
* Adjusted for Smelter surplus sales.				

+ Because a number of planned outages were reduced in scope or deferred to achieve required MFIR the units in question were able to generate 196,379 more MWh resulting in approximately \$1.9 million higher wholesale margins.

<b>Impact of 2011 Rate Case (Case No. 2011-00036)</b>				
		<b>2011</b>	<b>2012 Forecast</b>	
Rate Case Request		\$ 13,143,942	<b>+</b>	\$ 39,324,089
Commission Order dated 2011-11-17		8,939,350	26,744,776	
Rate Case (Deficiency)/Surplus	<b>(b)</b>	\$ (4,204,592)	<b>+</b>	\$ (12,579,313)
Impact of Wholesale Margins & Rate Case	<b>= (a)+(b)</b>	\$ (1,986,971)	<b>+</b>	\$ (30,044,958)

Case No. 2012-00323

Attachment for Response to Staff Hearing Item 2

Witnesses: Lawrence V. Baronowsky (Production OandM) and Christopher A. Warren (All Other Schedules)



**Big Rivers Electric Corporation**  
**Case No. 2012-00323**

<b>Production O&amp;M</b>			
	<b>2010</b>	<b>2011</b>	<b>2012 Forecast</b>
<b>Actual Outage Expense</b>	\$ 7,987,000	\$ 4,724,000	\$ 5,806,111
<b>Actual Non-Outage Expense</b>	33,724,776	36,442,919	35,135,044
<b>Total Actual Production O&amp;M</b>	\$ 41,711,776	\$ 41,166,919	\$ 40,941,155
<b>Budget Outage Expense</b>	\$ 6,977,000	\$ 9,162,000	\$ 22,664,000
<b>Budget Non-Outage Expense</b>	34,875,076	38,361,850	37,610,375
<b>Total Budget Production O&amp;M</b>	\$ 41,852,076	\$ 47,523,850	\$ 60,274,375
<b>Outage Increase/(Reduction)</b>	\$ 1,010,000	\$ (4,438,000)	\$ (16,857,889)
<b>Non-Outage Increase/(Reduction)</b>	(1,150,300)	(1,918,931)	(2,475,331)
<b>Total Production O&amp;M Increase/(Reduction)</b>	\$ (140,300)	\$ (6,356,931)	\$ (19,333,220)

<b>Margins For Interest Ratio (MFIR)</b>				
		<b>2010</b>	<b>2011</b>	<b>2012 Forecast</b>
<b>Taxes</b>	(a)	\$ 262,798	\$ 98,939	\$ 4,061
<b>Interest on Long-Term Debt</b>	(b)	\$ 47,064,226	\$ 45,715,144	\$ 45,014,924
<b>Net Margins</b>	(c)	\$ 6,990,915	\$ 5,600,382	\$ 6,261,646
<b>MFIR</b>	= [(a)+(b)+(c)] / (b)	1.15	1.12	1.14
<b>Difference between Actual Margins and 1.10 Minimum MFIR</b>	= (c) - [(b)*0.1] + (a)	\$ 2,547,291	\$ 1,127,806	\$ 1,764,215
<b>Change in Net Margins to Achieve 1.24 MFIR</b>	= - (c)+[(b)*0.24]-(a)	\$ 4,041,701	\$ 5,272,314	\$ 4,537,875

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1 **Item 3)** *Refer to Big Rivers' response to Item 19b.i of the Commission*  
2 *Staff's Request for Information dated August 22, 2012. Big Rivers stated,*  
3 *"Due to [a] change in software provider for the web site, we do not have*  
4 *the number of downloads available to report." Will Big Rivers be able to*  
5 *provide this information in the future?*

6

7 **Response)** Big Rivers is working with its website vendor to provide information  
8 regarding the viewing and downloads of its coal supply bids. During the period of  
9 the last coal supply solicitation, the prior analytics provider (Microsoft) stopped  
10 providing services and support to Big Rivers' website vendor. Because of the  
11 switch to a new analytics provider (Google), Big Rivers was unable to provide  
12 information on bid BREC-12-04, as it has in the past, regarding viewings and  
13 downloads.

14 Using the new analytics system, the website vendor was able to  
15 ascertain that our recent coal bid issued September 14, 2012, and returned  
16 October 5, 2012 (bid BREC-12-05) received 56 "exits" from the specific web page  
17 containing the bid document. Big Rivers' corporate communication team  
18 continues working with the website vendor to modify the website analytics system  
19 in an effort to ensure that Big Rivers will be able to obtain additional data  
20 regarding the number of "downloads" of the coal supply solicitation(s). This  
21 remains a work-in-progress, but the website vendor is optimistic they can  
22 customize the new analytics system to meet our needs going forward.

23 According to the outcome, Big Rivers may continue the web-based  
24 process of bid distribution (given adequate assurance of distribution via response  
25 statistics); or, Big Rivers may elect to employ other measures to distribute the coal

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1 supply solicitations in the event it cannot be assured of proper dissemination  
2 among potential bidders. Big Rivers seeks to provide its coal supply solicitation to  
3 all interested potential suppliers to ensure that it is procuring coal economically  
4 and reliably.

5

6

7 **Witness)** Mark W. McAdams

8