2014 Revisions

FUEL & ~~LIME~~ EMISSIONS DEPARTMENT PROCUREMENT MANUAL

ADOPTED FEBRUARY 27, 1981

Revised: December ~~18~~16, 201~~3~~4

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

Keywords: Coal

1.0 Purpose

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

2.0 Terms and Definitions

2.1 Certificate of Insurance—Standard Association for Cooperative Operations Research and Development (ACORD) form that identifies the policies afforded by a supplier related to the requirements specified by EKPC contracts/purchase orders.

2.2 Coal—Bituminous fossil fuel used to fire boilers.

2.3 Coal Bidders List—List of current coal companies to submit requests for proposals stating their addresses, representative contacts, phone numbers, and applicable stations for bidding purposes (*Exhibit 7*).

2.4 Coal Proposal Form—Form completed and signed by potential supplier stating source, quality, quantity, and price of coal along with ownership disclosure in response to an RFP *(Exhibit 8)*.

2.5 Coal Purchase Order Log Book—Log book containing sequential purchase order numbers for new coal purchase orders issued that states company name, issued date, applicable station, terms and revision(s), tonnage and revision(s), comments, and price of each purchase order.

2.6 Coal Sampling Procedures—Document prepared by EKPC's Central Lab that defines how to sample and analyze coal in a method that is recognized within the industry.

2.7 Coal Specifications and Information—Data sheet specifying each power station's delivery, pricing, and specifications for coal purchases (*Exhibit 9*).

2.8 Contract—Document binding seller to sell and ship designated product that is stating terms and conditions for coal deliveries to EKPC's power stations sent to a supplier for signatures after approval and before deliveries begin, which is typically a longer term than a purchase order.

2.9 Contract Approval and Review Form—Form circulated to various EKPC personnel indicating they have reviewed the contract prior to the President and CEO's signature *(Exhibit 39)*.

Comment [MH1]: Item #14 (contract identifier fields)

2.910 Economy Purchase—Purchase made without competitive bidding in situations where the price is favorable in comparison with recent bids and unsolicited offers received and in comparison with published current market information.

2.11 Electronic Proposals—Proposals received through password protected e-mail accounts, managed by Fuel Analyst, and not viewed prior to proposal opening.

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Comment [MH2]: Item #9 (e-mail bids)

2.102 Emergency Purchase—Purchase made without competitive bidding when there is an immediate need for coal in situations including but not limited to: failure of a fuel supplier to perform; increased fuel usage due to an increase in power sales; labor or transportation strikes; severe weather conditions; or inability of power stations to receive fuel by normal means.

2.13 Financial Review—Typically includes the examination of an entities' balance sheet, income, and cash flow statements to determine the entities' financial health. Conducted on supplier agreements with an initial term greater than one year.

Comment [MH3]: Item #11 and #12 (financials)

2.114 Fixed Price—Price set in advance of issuance of a contract or purchase order. All applicable taxes, freight, fees, and profit margins are typically included.

2.125 Floating Price—Price that is subject to adjustments based upon predetermined indices or surcharges. All applicable taxes, freight, fees, and profit margins are typically included.

2.16 Fuel Evaluation Data Entry Verification Form—A form completed after initial proposal entry into the Fuel Evaluation System and subsequent revisions. This form shows power station, entry date, event number, brief description of evaluation, personnel involved in the initial proposal

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Comment [MH4]: Item #1 (document final rankings)

opening, and provides additional measures to aid in the accuracy of the data input into the Fuel Evaluation System.

2.1~~3~~7 Fuel Evaluation System—Model designed by EKPC used to rank each potential coal supplier's total evaluated price using many measurable variables to accurately reflect the coal-related cost of generation ~~per~~ in accordance with the various physical and chemical aspects of coal in conjunction with each power station's generating equipment attributes. *Exhibit 10* is a list of the variables that are reviewed annually or sooner if needed, and *Exhibit 11* is a manual that describes the program in further detail.

Comment [GV5]: Corrected grammar.

2.1~~4~~8 Fuel Negotiating Committee—Committee requiring a Board Director participation. The Director will be appointed annually ~~per~~ according to guidelines set in Section E, Management Committees from Policy No. 106 (*Exhibit 3*).

Comment [GV6]: Corrected grammar.

2.1~~5~~9 Governmental Imposition—Any change in federal, state, or local laws, regulations, ordinances, taxes, fees, special assessments, or similar levies, or a changed application, enforcement, or interpretation thereof, occurring after a date certain specified in a coal contract, directly relating to the mining, processing, or transportation of coal that results in a change of the seller's direct out-of-pocket costs.

2.~~16~~20 IRMC—Internal Risk Management Committee has the authority to approve and oversee the processes used to identify, evaluate, and manage enterprise risk.

2.1~~7~~21 Long-Term—Duration of more than one year.

2.~~18~~22 Policy No. AO31—EKPC administrative policy for the Delegation of Authority from EKPC's CEO to management and staff regarding procurement authority for energy, energy related commodities, and transportation (*Exhibit 2)*.

2.~~19~~23 Policy No. 106—EKPC Board of Directors policy for the Establishment of Board Committees and Respective Charters (*Exhibit 3*).

2.2~~0~~4 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure that all business affairs of EKPC are conducted in an ethical and businesslike manner in order to avoid all conflicts of interest or the appearance of any conflicts of interest in the conduct of the business affairs of EKPC (*Exhibit 4*).

2.2~~1~~5 Policy No. 404—EKPC Board of Directors Transaction Authority Limits for Energy and Energy Related Commodities and Transportation Policy

providing authority matrices to delegate procurement approval levels for commodities and fuels (*Exhibit 5*).

2.2~~2~~6 Policy No. 405—EKPC Board of Directors Hedging Policy (1) guides disciplined hedging of forecasted power supply needs; (2) provides a method for identifying EKPC's risk tolerance and time horizon for hedging; (3) clarifies EKPC's hedging objectives; and (4) more clearly integrates the energy risk management governance structure, trading authority, risk reporting, and portfolio management functions (*Exhibit 6*).

2.2~~3~~7 Power Stations—Coal-fired power stations owned and operated by EKPC: Dale, Cooper, and Spurlock.

2.2~~4~~8 Purchase Order—Document binding seller to sell and ship designated product that is stating terms and conditions for coal deliveries to EKPC's power stations sent to a supplier for an acceptance signature after approval and before deliveries begin, which is typically a shorter term than a contract.

2.2~~5~~9 RFP—Request for proposal sent to prospective suppliers on EKPC's Coal Bidders List *(Exhibit 7)*.

2.30 Sealed Proposals—Proposals received through a written RFP process not viewed prior to proposal opening (can include electronic proposals).

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Comment [MH7]: Item #9 (electronic bids)

2.2~~6~~31 Short-Term—Duration of one year or less.

2.~~27~~32 Spot Purchase—Purchase made with competitive bidding for a term of typically one year or less.

2.~~28~~33 Supplier Scorecard—Spreadsheet that tracks measurable parameters of quality, quantity, services, and miscellaneous items on a monthly basis. The suppliers can receive a ranking of problem, concern, acceptable, or exceptional *(Exhibit 12)*.

2.~~29~~34 Test Purchase—Purchase made without competitive bidding to test a particular fuel for its suitability and burning characteristics at EKPC's power stations.

2.3~~0~~5 Trading Authority Transaction Matrix—Delegation of procurement approval authority.

2.3~~1~~6 W-9—Form required by the Internal Revenue Service for tax purposes to be completed by all suppliers stating business name, address, and federal tax identification number before payment is issued (*Exhibit 13*).

3.0 Responsibilities

3.1 Fuel and Emissions Manager

3.1.1 Manages and directs Fuel Buyers, Administrative Assistant, and Fuel Analyst in the Fuel and Emissions department and assures compliance with Policy No. 116 *(Exhibit 4)*.

3.1.2 Ensures adequate coal deliveries to EKPC's power plants.

3.1.3 Assures that Fuel and Emissions staff follow procedures as described herein and in the Fuel, Emissions, Limestone, and Lime Strategy (*Exhibit 1*) for the purchase and delivery of coal.

3.1.4 Ensures all new contracts have been reviewed by legal, with the credit rating and insurance language reviewed by risk management.

3.1.5 May waive a price adjustment if the circumstances or conditions warrant.

3.1.6 Signs approval memos for all purchase order changes, and executes short-term purchase orders in accordance with Policy No. 404 *(Exhibit 5)* and No. A031 *(Exhibit 2)*.

~~3.1.7 Signs Approval Memos for all PO changes in accordance with Board Policy 404 and Admin Policy A031.~~

Comment [MH8]: Item #10 (reference 404 and AO31

Comment [GV9]: I suggest adding 3.1.6 to 3.1.7 as highlighted. This item would then be deleted.

3.2 Power Plant Personnel

3.2.1 Maintain the coal system at each of EKPC's relevant power stations to ensure its availability to unload coal deliveries.

3.2.2 Advise the Fuel and Emissions department of any concerns regarding the product or product delivery.

3.2.3 Measure and determine weights of incoming coal at power stations.

3.2.4 Unload coal meeting required quality specifications.

3.2.5 Collect coal samples daily to be analyzed.

3.3 Fuel Buyers

3.3.1 Determine quantities needed based on projected needs, inventories, and contracted purchases; generate RFPs; make purchase recommendations; and perform due diligence.

3.3.2 Monitor coal qualities.

3.3.3 Manage appropriate contract and/or purchase order(s) throughout the term of the order.

3.3.4 Manage coal deliveries and inventory levels at each of EKPC's power stations daily.

3.3.5 Review and ~~approve~~ verify monthly/quarterly fuel escalation adjustments prepared by Accounting.

3.4 Administrative Assistant

3.4.1 Assists in managing the RFP process.

3.4.2 Enters, revises, and finalizes compliant bids using the Fuel Evaluation System.

3.4.3 Verifies all documentation is received ~~per~~ according to checklist (*Exhibit 14*) and files with appropriate contract(s) and/or purchase order~~-~~(s).

Comment [GV10]: Corrected grammar.

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

3.5 Legal Counsel

3.5.1 Provides representation at long-term purchase proposal openings.

3.5.2 Advises in the development of legal documentation.

3.5.3 Reviews and approves documents as to legal form.

3.~~5~~6 Fuel Analyst

3.6.1 Manages receipt of electronic proposals through password protected e-mail account.

Comment [MH11]: Item #9 (e-mail bids)

Comment [GV12]: Deleted electronic lockbox and added this language

3.~~5~~6.~~1~~2 Manages the Trading Authority Transaction Matrix and suppliers' financial reviews.

Comment [MH13]: Item #2, #11, #12 (matrix & financials)

3.~~5~~6.~~2~~3 Assists in managing price adjustments.

3.~~5~~6.~~3~~4 Audits Governmental Imposition claims.

3.~~5~~6.~~4~~5 Provides forward-looking data of floating components for forecasting and sensitivity analysis as requested.

3.6.6 Validates suppliers methods for determining origin weights and analyses.

3.6.7 Identifies the fixed and floating component percentages of the year-to-date spend

3.~~6~~7 Central Lab Personnel

3.~~6~~7.1 Assist Power Plant Personnel in sampling of coal as needed.

3.~~6~~7.2 Perform coal analysis daily for Dale and Cooper Power Stations and weekly for Spurlock Power Station.

3.~~6~~7.3 Receive coal samples from Power Plant Personnel for analysis by independent commercial lab as needed.

3.~~6~~7.4 Provide proper analysis of coal quality to Accounting so that payment is made based upon agreed terms related to coal quality in the contract.

3.~~7~~8 Accounting

3.~~7~~8.1 Enters and reconciles documentation received from Power Plant Personnel, Fuel and Emissions, and Central Lab into the accounting coal system to generate coal invoices for payment.

Comment [MH14]: Item #16, #17 (coal accounting)

3.~~7~~8.2 Reconciles barge and rail invoices received for payment.

3.~~7~~8.3 Contacts responsible party to clarify any discrepancies in the invoices, receiving records, and/or lab analysis.

3.~~7~~8.4 Approves payment and sends to treasury for disbursement.

4.0 Procedure

Due to changing environmental laws or regulations, ~~the~~ Fuel and Emissions ~~department~~ representative(s) will maintain~~s~~ dialogue with ~~the~~ Environmental

Affairs ~~department~~ representative(s) to ensure that appropriate fuel quality is purchased~~, both short-term and long-term. The Fuel and Emissions department meets with the Environmental Affairs department to discuss any changes in plan of action before soliciting long-term supplies to account for any changes in laws or regulations~~.

Cooper Power Station has a maximum stockpile capacity of 268,000 tons and a maximum potential daily burn of 3,629 tons. Dale Power Station has a maximum stockpile capacity of 86,000 tons and a maximum potential daily burn of 2,413 tons. Spurlock Power Station Unit Nos. 1 and 2 have a maximum stockpile capacity of 450,000 tons and a maximum potential daily burn of 9,194 tons. Gilbert Unit No. 3 and Spurlock Unit No. 4 at Spurlock Power Station have a maximum stockpile capacity of 350,000 tons and a maximum potential daily burn of 7,004 tons.

4.1 Determine if an RFP is required.

4.1.1 Review projected burns from Power Supply.

4.1.2 Compare projected burns with the current contracts, purchase orders, and stockpile inventories to determine if there is a need to purchase coal in conjunction with Policy No. 405 *(Exhibit 6)*.

4.1.3 Determine the amount of coal to be purchased and type of purchase to be made (contract or purchase order) to maintain adequate inventories at each applicable coal-fired power station.

4.2 Determine if RFP should be written or verbal. (RFPs are not required for economy, test, or emergency, ~~or test hedge optimization~~ purchases.)

Comment [MH15]: Item #5 (blend and extend). Unlikely and addressed with revised Board Policy No. 405

4.2.1 Create a written RFP for contract purchases.

4.2.2 Create a written or verbal RFP for spot purchases. (Verbal RFPs are confirmed by written documentation.) Active proposals on file may also be considered for these purchases. Suppliers are notified through letters, trade publications, and personal conversations that EKPC is continuously evaluating spot market coal and will accept proposals at any time for consideration. Only suppliers who have demonstrated their ability to supply the appropriate coal required are contacted on verbal solicitations.

4.2.3 Identify need for an economy, test, or emergency, ~~or test hedge optimization~~ purchases in which no RFP is required. (There are no quantity limits on emergency purchases. Economy and test~~s~~ purchases shall not exceed 25,000 tons per month.)

4.3 Issue a written or verbal RFP to obtain approved contract(s) and/or purchase order(s). The steps for issuing an RFP are as follows:

4.3.1 Fuel Buyers determine term, quality, and quantity for coal of RFP based on projected needs using the Coal Specifications and Information data *(Exhibit 9)* as a guideline.

4.3.2 Fuel Buyers develop and coordinate test for possible product or handling improvement. Improvement may be in terms of economics, compatibility, flexibility, or dependability.

4.3.3 Fuel Buyers create an RFP template (*Exhibit 15*) stating applicable delivery locations, term, quality, quantity, and price options including the performance bond requirement and also include the Coal Specifications and Information data *(Exhibit 9)* as well as the Coal Proposal Form *(Exhibit 8)*.

4.3.4 Fuel and Emissions Manager and Administrative Assistant review RFP template before RFP is issued.

4.3.5 Issue RFP for sealed proposals for coal to bidders on EKPC's Coal Bidders Lists (*Exhibit 7*). (Economy, test, and emergency, ~~and test hedge optimization~~ coal proposals may be made verbally and confirmed by written documentation.)

4.4 Open all sealed proposals on or after due date of RFP.

4.4.1 Two Fuel and Emissions personnel must be present on proposal openings for spot purchase orders. A member of the Fuel Negotiating Committee, legal counsel, and two Fuel and Emissions personnel, or their designee(s), must be present on proposal openings for contracts. Receipt of proposals, both written and electronic, will be directly received and controlled by the ~~AA~~ Administrative Assistant and Fuel~~s~~ Analyst (respectively) prior to formal bid opening.

Comment [GV16]: AA needs to be spelled out as noted. Delete "s" on Fuel Analyst.

4.4.2 Administrative Assistant logs proposals reviewed.

4.4.3 Sign log of proposals by those present at opening.

4.4.4 Determine if price negotiations are warranted and obtain approval to negotiate from the Fuel Negotiating Committee for contracts.

4.5 Fuel Buyers evaluate valid opened coal proposals.

4.5.1 Handle proposals that are received after the deadline on a case-by-case basis to determine their eligibility for evaluation. If legitimate information can be obtained to determine that the proposal was sent to be received before the deadline, a proposal that is received after the deadline may be considered; otherwise, proposals received after the deadline will not be considered.

4.5.2 Determine weighted average price for each proposal.

4.5.3 Confirm parameters in the Fuel Evaluation System, and Administrative Assistant updates as needed.

4.5.4 Administrative Assistant enters proposals into the Fuel Evaluation System.

4.5.5 Fuel Buyer and Administrative Assistant perform data entry verification using the ~~proposal opening~~ Fuel Evaluation Data Entry Verification form *(Exhibit 16)* with every coal evaluation. ~~This form shows the personnel involved in opening the proposals and provides additional measures to aid in the accuracy of the data input.~~ *(should we mention who is required to sign??)*

Comment [MH17]: Item #1 (document final and best)

Comment [GV18]: Form was revised and name changed.

Comment [GV19]: Deleted this since we now state in the definitions. No need for redundancy.

Comment [GV20]: I don't think so. When you view the form in the exhibit, it states who signs.

So NO... it's in the exhibit.

4.5.6 Determine if the lowest evaluated, delivered priced proposal(s), as ranked by the Fuel Evaluation System, meets EKPC's requirements as specified in the corresponding RFP to develop a short list of potential supplier(s).

4.5.7 Evaluate supplier(s) performance capabilities as outlined in the Fuel, Emission, Limestone, and Lime Strategy (*Exhibit 1*).

4.5.8 Initiate concerted internal review process with Fuel and Emissions, Environmental Affairs, Power Production, Finance, Power Supply, and Legal departments as well as the IRMC to evaluate proposals as needed. This internal control step fosters a global perspective of the evaluation process and is particularly important for new projects.

4.5.9 Negotiate terms and conditions with selected supplier(s) from short list.

4.5.10 Conduct field visit(s), if necessary, to evaluate the facilities, reserves, quality, production capabilities, etc., of the supplier(s) with competitive proposals to evaluate physical risk.

4.5.11 Prepare a field evaluation report if a field visit is conducted.

4.5.12 Ensure that the necessary due diligence is done in evaluating the credit worthiness and financial stability of all potential suppliers for the Fuel and Emissions department before entering into any binding contracts. The financial evaluation for publically traded companies may be outsourced to a risk management service provider, which would have extensive experience and access to financial information for making a recommendation as to what extent EKPC should enter contractual commitments with reasonable financial risks. For privately held companies, ~~T~~this may also be performed internally by requesting the supplier's audited financial statement, ratios, and key performance indicators. This private information would then be provided to the Finance department for their review and ~~approval~~ recommendation. ~~Should outsourced financial reviews resulting in an unfavorable analysis as evidenced by a credit rating of less than xxx, secondary review and approval by Finance/CFO should be obtained and documented.~~ Outsourced financial reviews are subject to a secondary review where recommendation by the Finance department will be obtained and documented. Annual reviews, which will include market price reopeners, will be shared with the Finance department for informational purposes.

Comment [MH21]: Item #12 (financial review) All financials go to CFO for review and/or recommendation LDY: Don't think this addresses secondary review requirement for ACES analysis containing negative comments/low credit rating.

Comment [GV22]: Deleted this and included changes as highlighted. These same changes will need to be done in the other procedures as well.

4.5.13 Draft approval memorandum—including economy, emergency, and test purchases—to management (*Exhibit 17*) recommending the most economic supplier(s) of coal meeting the corresponding RFP's specifications while balancing risk.

4.5.14 ~~Typical RFPs have a defined term.~~ Upon issue, RFPs include a defined term, typically a shorter term~~ST~~ for ~~PO/spot~~ purchases orders and longer term~~LT~~ for contracts ~~agreements~~. If management determines a different term type is more advantageous, based on identification of a change in EKPC's needs or suppliers' responses to the RFP, justification of the term change will be noted in the approval memorandum and approval obtained in accordance with Policy Nos. 404 and AO31 for the new term type.

Comment [GV23]: We don't use the terms short and long-term. See my changes.

Comment [GV24]: Added the policy numbers.

4.5.15 Negotiation of contract language and terms can take approximately three to four months of negotiation with a supplier. If negotiations exceed six months, management will be updated in writing, and the circumstances regarding the lag time will be documented accordingly in the approval memorandum. In addition, multiple supply agreements may be executed from one RFP response to fulfill projected needs, which will also be documented accordingly in the approval memorandum. ~~If negotiations exceed six months resulting in an RFP to agreement~~

Comment [MH25]: Item #3 (lag time)

Comment [GV26]: We combined changes.

~~date lag time of greater than six months, management will be updated in writing and the circumstances will be documented accordingly in the Approval Memo.~~

~~4.5.16 Hedge optimization agreements may be utilized at various times for various reasons. No less than two comparison prices are required to validate the market to which the order is evaluated. Projected pricing such as Nymex, etc., may be used as sources.~~

4.5.14~~7~~ Management approves memorandum in accordance with Policy No. 404 *(Exhibit 5)* and No. AO31 *(Exhibit 2).*

4.6 Fuel Buyers prepare contract(s) and/or purchase order(s) that are ~~approved~~ reviewed by legal counsel, with credit rating and insurance requirements ~~to be approved~~ reviewed by risk management.

4.6.1 Contract(s) and/or purchase order(s) includes destination, quality, quantity, price, price adjustments, acceptance parameters, insurance terms, payment terms, and other terms and conditions.

4.6.2 Incorporate appropriate price adjustments of coal failing to meet the minimum specifications of the contract and/or purchase order using a price adjustment schedule that ensures the value of coal received is commensurate with the price paid.

4.6.3 Request W-9 (*Exhibit 13*) and Certificate of Insurance forms from selected supplier(s) if not already on file.

4.6.4 Administrative Assistant forwards W-9 *(Exhibit 13)* to Accounting, and Fuel Buyers forward Certificate of Insurance to risk management for approval.

4.6.5 Fuel Buyers send draft contract(s) and/or purchase order(s) to supplier(s) for review.

4.6.6 Request additional approval from the Fuel and Emissions Manager, ~~and~~ legal counsel, and risk management if changes are made to the previously approved draft developed from EKPC's approved template.

4.7 Fuel Buyers coordinate the execution of coal contract(s) and purchase order(s).

4.7.1 Fuel Buyers obtain a sequential purchase order number from the fuel and emission's Coal Purchase Order Log Book after appropriate review and/or approval is given by the Fuel and

Emissions Manager, ~~and~~ legal counsel, and risk management for purchase orders only and obtain an identifying number for contracts from Accounting.

4.7.2 Administrative Assistant reviews contract(s) and purchase order(s) and circulates for signatures prior to distribution utilizing the Contract Approval and Review form *(Exhibit 39)* for contracts only. *(should we specify who must sign?)*

4.7.3 Administrative Assistant, at the direction of the Fuel Buyers, distributes the executed contract(s) and/or purchase order(s) internally. These documents are posted to a shared directory with EKPC's risk management service provider within five business days after trade execution for capture in a risk management system as ~~per~~ accordance with Policy No. 404 (*Exhibit 5*) and No. A031 (*Exhibit 2*). The Administrative Assistant ~~confirms that the risk management provider has captured the posted documents and~~ promptly removes them from the shared directory.

4.7.4 Fuel Analyst logs approved contract(s) and purchase order(s) on Trading Authority Transaction Matrix and submits to risk management on a regular basis for informational purposes after reconciliation and Fuel and Emission Manager's approval. *(should we specify recon frequency?)*

4.7.5 Administrative Assistant files executed contract(s) and purchase order(s) in Fuel and Emissions' department files with documentation ~~per~~ according to checklist (*Exhibit 14*). Original contract is stored at an offsite storage facility for disaster mitigation.

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

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

4.9 Power Plant Personnel receive delivery of coal.

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

Comment [MH27]: Item #14 (contract identifiers)

Comment [GV28]: No. It's on the exhibit.

Comment [GV29]: Corrected grammar.

Comment [MH30]: Item #2 (trading authority matrix)

Comment [GV31]: See highlighted.

Comment [GV32]: Corrected grammar.

4.9.2 Use calibrated belt scales at Spurlock Power Station to verify barge origin weights or certified barge drafts for determination of destination weights for inventory measures and/or payment as specified by applicable contract or purchase order. (Barge Drafting *Exhibit 18*)

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

4.9.4 Collect adequate samples of coal deliveries for payment, when applicable, and quality control as required for their respective power station.

4.9.5 Collect and forward information to Accounting stating coal receipts, burn, and stockpile balance.

4.10 Central Lab Personnel assist Power Plant Personnel in sampling of coal as needed and perform coal analysis daily for Dale and Cooper Power Stations and weekly for Spurlock Power Station.

4.10.1 Perform sampling and analysis based on the Coal Sampling Procedures. (Copies are available upon request from Central Lab.)

4.10.2 Use origin samples and/or analysis by a third-party, commercial lab when appropriate.

4.11 Fuel Buyers monitor supplier performance.

4.11.1 Determine if the supplier has met the specifications as outlined on the applicable contract(s) and/or purchase order(s). Performance is trended using the Supplier Scorecard *(Exhibit 12).*

4.11.2 Consult with the Fuel and Emissions Manager if the contract specifications are not met.

4.11.3 The Fuel and Emissions Manager may approve waiving a price adjustment if the circumstances or conditions warrant.

4.12 Fuel Analyst tracks and documents financial reviews.

Comment [MH33]: Item 11 (track financials)

~~4.12.1 Documents due dates and execution of interim financial reviews.~~

4.12.1 Documents due dates and execution of interim financial reviews, tracking them on a monthly/quarterly basis as needed.

Comment [GV34]: Moved this first since due dates need to be determined BEFORE performance.

4.12.21 Performs interim supplier financial reviews for contracts at least annually or more if deemed necessary under the oversight of the Fuel and Emissions Manager who ensures its timely execution.

~~4.12.3 Tracks interim financial review due dates monthly/quarterly if necessary. Fuel &and Emissions MgrManager to oversees interim financial review process and ensures its timely execution.~~

Comment [GV35]: See highlighted addition to combine these items.

4.123 Verify receipt of deliveries, generate coal invoices, and reconcile freight invoices.

4.123.1 Fuel Analyst enters deliveries for each contract(s) and purchase order(s) on Trading Authority Transaction Matrix and reconciles regularly with a tracking report from EKPC's risk management service provider *(specify frequency – monthly/quarterly?)*. After reconciliation and Fuel and Emissions Manager's approval, Fuel Analyst submits matrix to risk management for informational purposes. *(should we specify to what document we are reconciling the Matrix?)*

Comment [MH36]: Item #2 (reconcile authority matrix)

Comment [GV37]: Addressed.

Comment [GV38]: Addressed as highlighted above.

4.123.2 Fuel Buyers review and verify floating price adjustments for production and transportation surcharges as needed.

4.13.3 Fuel Analyst requests documentation of independent bias test results and scale certification from each contract supplier.

4.123.34 Accounting reconciles documentation entered into the accounting computer system (e.g., receipt, burn, analysis, and contract and/or purchase order terms and conditions) from Power Plant Personnel, Fuel and Emissions, and Central Lab to generate coal invoices.

4.123.45 Accounting reconciles barge and rail invoices received for payment.

4.123.56 Accounting contacts responsible party to clarify any discrepancies.

4.123.67 Accounting receives Accounting supervisor approval on all invoices and sends to accounts payable for payment.

5.0 Effective Date

5.1 All departments at EKPC shall be fully compliant with this procedure by January 31, 20145, and this procedure will be reviewed annually.

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

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

Concurred by:_____ **Date:**_____
Don Mosier
Chief Operations Officer

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

Amended: 02/19/01
Amended: 07/12/04
Amended: 11/30/12
Amended: 12/18/13
Amended: 12/16/14

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

Keywords: Emission Allowances

1.0 Purpose

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

2.0 Terms and Definitions

2.1 Acquisition Schedule—Schedule prepared to designate, by quarter, the amount of allowances needed to be purchased to meet the dollar cost averaging method for hedging allowances *(Exhibit 23)*.

2.2 Acid Rain Program—A program established by Title IV of the 1990 Clean Air Act setting a decreasing cap on SO_2 emissions.

2.3 Allocations—Quantity of allowances provided to electric utilities for a given vintage year to be used to offset actual plant emissions occurring in that year or a later year.

2.4 Amortization Schedule—Schedule prepared to show allocations, projected purchases, emissions, and estimated inventory of SO_2, Seasonal NO_x, and Annual NO_x *(Exhibit 22)*.

2.5 Annual NO_x—NO_x that is controlled by an individual program within CAIR including its own separate allocations from seasonal NO_x for an entire calendar year.

2.6 Bid—The term used, within the trading system when utilizing a broker, to designate the amount a buyer would pay for one allowance (see also Offer).

2.7 Clean Air Markets Division ("CAMD") Business System—An interactive web based business application that enables sources to perform various tasks online, including, but not limited to, transfer allowances, view account balances, and track allowances.

2.8 Clean Air Interstate Rule ("CAIR")—A cap-and-trade program promulgated by the EPA in 2005, covering 28 states in the eastern United States and the District of Columbia. It was designed to reduce sulfur dioxide (SO_2) and nitrogen oxide (NO_x) emissions in order to help States meet their National Ambient Air Quality Standards (NAAQS) for ozone and particulate matter (PM2.5) and to require further emissions reductions already achieved through the Acid Rain Program and the NO_x State Implementation Plan call program. The rule was set to commence in 2009 for SO_2, seasonal NO_x, and annual NO_x emissions. Compliance with CAIR is required by the court system until EPA can revise the rule based on court imposed guidelines.

2.9 Clean Air Transport Rule ("CATR")—EPA rule finalized on July 6, 2011, to replace CAIR and require further reductions in SO_2 and NO_x. The rule was revised and is currently called CSAPR.

2.10 Combustion Turbine ("CT")—An electric generating unit utilizing natural gas or No. 2 fuel oil.

2.11 Confirmation—Form sent by broker or seller to document agreed upon product, price, vintage year, quantity, and term *(Exhibit 19)*.

2.12 Consent Decree for New Source Performance Standards ("CD")—A final, binding judicial decree or judgment between EKPC and the EPA memorializing a voluntary agreement between the parties to a suit in return for withdrawal of a criminal charge or an end to a civil litigation. It establishes various thresholds that EKPC cannot exceed, including, but not limited to, maximum tons of emissions by year for SO_2 and NO_x.

2.13 Contract Approval and Review Form—Form circulated to various EKPC personnel indicating they have reviewed the contract prior to the President and CEO's signature *(Exhibit 39)*.

2.1~~3~~4 Cross-State Air Pollution Rule ("CSAPR")—EPA rule finalized on July 6, 2011, to replace CAIR and require further reductions in SO_2 and NO_x. This rule was previously known as CATR and as of October 15, 2012, EPA has appealed the District of Columbia Court of Appeals action to remand CSAPR back to EPA and continue CAIR until revisions or a replacement rule can be established.

2.14~~5~~ Emissions—Constituents of the flue gas occurring as a result of the combustion of a fuel, and for the intent of this document, refers to SO_2, Seasonal NO_x, and Annual NO_x.

2.15~~6~~ Environmental Protection Agency ("EPA")—An agency of the United States federal government that was created for the purpose of protecting human health and the environment by writing and enforcing regulations based on laws passed by Congress.

2.17 National Ambient Air Quality Standards ("NAAQS")—The maximum permissible levels of common pollutants in the ambient (outdoor) air set by EPA.

2.18 Natural Gas—A naturally occurring hydrocarbon gas mixture consisting primarily of methane, with other hydrocarbons, carbon dioxide, nitrogen, and hydrogen sulfide. Natural gas is used in the production of electricity in its CT units at the J. K. Smith Power Station.

2.19 No. 2 Fuel Oil—Dyed ultra-low sulfur diesel fuel containing a maximum 15 ppm sulfur that is used for off-road purposes such as unit startups and flame stabilization in the coal-fired generation fleet and a backup fuel in the CT fleet (Unit Nos. 1 through 7).

2.20 NO_x State Implementation Plan (SIP) call program—This program established by the EPA required 22 states and the District of Columbia to provide NO_x emission reductions to mitigate ozone transport in the eastern United States. This was established for the warm summer months, referred to as the ozone season, when ground-level ozone concentrations are highest.

2.21 Nitrogen Oxides ("NO_x")—Refers to nitric oxide and nitrogen that are controlled through various programs and termed as Seasonal (Ozone) NO_x and Annual NO_x in the CAIR program.

2.22 Offer—The term used within the trading system when utilizing a broker to designate the amount a seller would sell one allowance (see also Bid).

2.23 Ozone (Seasonal) NO_x—Interchangeable terms for NO_x that is controlled by an individual program within CAIR including its own separate allocations from Annual NO_x for a time period beginning May 1 of each calendar year through September 30 of the same calendar year.

2.24 Policy No. AO31—EKPC administrative policy for the Delegation of Authority from EKPC's CEO to management and staff regarding procurement authority for energy, energy related commodities, and transportation (*Exhibit 2)*.

2.25 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure that all business affairs of EKPC are conducted in an ethical and businesslike manner in order to avoid all conflicts of interest or the appearance of any conflicts of interest in the conduct of the business affairs of EKPC (*Exhibit 4*).

2.26 Policy No. 404—EKPC Board of Directors Transaction Authority Limits for Energy and Energy Related Commodities and Transportation Policy providing authority matrices to delegate procurement approval levels for commodities and fuels (*Exhibit 5*).

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

2.28 Seasonal (Ozone) NO_x—Interchangeable terms for NO_x that is controlled by an individual program within CAIR including its own separate allocations from Annual NO_x for a time period beginning May 1 of each calendar year through September 30 of the same calendar year.

2.29 Sulfur Dioxide ("SO_2")—A toxic gas created in the combustion process of fuels that contain sulfur and are controlled through various programs such as CAIR.

2.30 Trading Authority Transaction Matrix—Delegation of procurement approval authority.

2.31 Transaction Schedule—Schedule showing all pertinent information of individual allowance purchases *(Exhibit 20)*.

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

2.33 W-9—Form required by the Internal Revenue Service for tax purposes to be completed by all suppliers stating business name, address, and federal tax identification number before payment is issued (*Exhibit 13*).

3.0 Responsibilities

3.1 Fuel and Emissions Manager

3.1.1 Manages and directs Fuel Buyers, Administrative Assistant, and Fuel Analyst in the Fuel and Emissions department and assures compliance with Policy No. 116 *(Exhibit 4)*.

3.1.2 Ensures adequate emission allowances are held in an amount equal to or greater than the quantity of actual emissions from EKPC's power station(s).

3.1.3 Assures that Fuel and Emissions staff follow procedures as described herein and in the Fuel, Emissions, Limestone, and Lime Strategy (*Exhibit 1*) for the purchase and delivery of emission allowances.

3.2 Legal Counsel

3.2.1 Advises in the development of legal documentation.

3.2.2 Reviews and approves documents as to legal form.

3.~~2~~3 Power Plant Personnel

3.2.1 Advise Fuel and Emissions and Power Supply Planning of generating unit outages that could affect the quantity of emissions.

3.~~3~~4 Fuel Buyers

3.3.1 Monitor EKPC's inventory of emission allowances and make recommendations regarding future allowance purchases.

3.3.2 Negotiate contract terms of emission allowance contracts.

3.3.3 Complete schedule of emission allowance position (receipts, usage, and inventory) for Environmental Affairs and Legal planning purposes.

3.~~4~~5 Administrative Assistant

3.4.1 Assists in managing the emissions contract process.

3.4.2 Completes emissions allowance Transaction Schedule *(Exhibit 20)*.

3.4.3 Verif~~y~~ies that W-9 *(Exhibit 13)* is received from the counterparty of each emission allowance contract.

Comment [GV1]: Corrected grammar.

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

3.~~5~~6 Fuel Analyst

3.5.1 Manages the Trading Authority Transaction Matrix.

Comment [GV2]: Corrected grammar.

3.~~6~~7 Power Supply Planning

3.6.1 Determines short- and long-term projected emissions.

Comment [GV3]: Corrected grammar.

3.~~7~~8 Environmental Affairs

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

Comment [GV4]: Corrected grammar.

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

Comment [GV5]: Corrected grammar.

3.~~8~~9 Accounting

3.8.1 Approves payment and sends to treasury for disbursement.

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

4.0 Procedure

EKPC is currently, as of October 1, 2012, operating under CAIR rules and receives allocations of emission allowances at the beginning of the year that can be used to offset actual emissions during the year. CAIR was remanded back to EPA by the court system for modifications. EPA then developed CATR which was then revised and re-termed CSAPR. The courts then ruled against CSAPR and EPA appealed the ruling. In ruling against CSAPR, the courts declared that CAIR remain in effect until CSAPR is revised or a replacement rule is developed. Under CAIR, two SO_2 allowances with a vintage year from January 1, 2010, through December 31, 2014, are surrendered for every one ton of emissions. Also, under CAIR, 2.86 SO_2 allowances with a vintage year of 2015 or later are surrendered for every one ton of emissions. On April 29, 2014, the U. S. Supreme Court reversed the lower court's ruling and upheld CSAPR. CSAPR is now set to begin for the year of 2015.

4.1 Determine power plant emissions.

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

4.1.2 Environmental Affairs communicates testing schedules to Power Supply Planning.

4.1.3 Fuel Buyer provides monthly SO_2, Seasonal NO_x, and Annual NO_x replacement cost *(Exhibit 21)*.

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

4.2 Determine quantity and timing of hedged purchases.

4.2.1 Fuel Buyer completes amortization schedule *(Exhibit 22)* and calculates quantity of purchases required over the following three-year period. Input is received from Power Supply Planning and Environmental Affairs including, but not limited to, projected emissions, variability anticipated, allocations, and any regulation changes.

4.2.2 Fuel Buyer completes acquisition schedule *(Exhibit 23)* using yearly projected purchase amounts from amortization schedule *(Exhibit 22)*.

4.3 Purchase emission allowances.

4.3.1 Fuel Buyer determines price estimate based on industry data and confirms with Fuel Manager.

4.3.2 Fuel Buyer contacts emissions broker or utility and conveys projected quantity. Determine price and quantity of bid for broker to attempt to fill based on current offers. This may be a reiterative process.

4.3.3 Fuel Buyer exercises agreement to price, quantity, and emission product based on Policy No. 404 *(Exhibit 5)* and No. AO31 *(Exhibit 2)*. If purchase is not within the Fuel Buyer authority, he will need to obtain a pre-approved authority limit from the Fuel Manager or Senior Vice President of Power Supply.

4.4 Confirm deal and negotiate contract.

4.4.1 Broker or counterparty sends confirmation *(Exhibit 19)*.

4.4.2 Fuel Buyer verifies confirmation *(Exhibit 19)* information.

4.4.3 Fuel Buyer sends draft contract to counterparty or receives/reviews draft from counterparty.

4.4.4 Negotiate contract with counterparty utilizing Legal and input from appropriate EKPC personnel as required.

4.4.5 Administrative Assistant adds contract information to emission allowance Transaction Schedule *(Exhibit 20)*.

4.5 Execute emission allowance contract.

4.5.1 Fuel Buyer coordinates the execution of the emission allowance contract.

4.5.2 Administrative Assistant circulates contract for review and signature prior to distribution utilizing the Contract Approval and Review form if contract requires President and CEO's signature.

4.5.3 Fuel Buyer and/or Administrative Assistant secure W-9 (*Exhibit 13)* from supplier.

4.5.4 Administrative Assistant, at the direction of the Fuel Buyers, distributes the executed contract(s) and/or purchase order(s) internally. These documents are posted to a shared directory with EKPC's risk management service provider within five business days after trade execution for capture in a risk management system ~~as per~~ in accordance with Policy No. 404 (*Exhibit 5*) and No. A031 (*Exhibit 2*). The Administrative Assistant ~~confirms that the risk management provider has captured the posted documents and~~ promptly removes them from the shared directory.

Comment [GV6]: Corrected grammar.

4.5.5 Fuel Analyst logs approved contract in Trading Authority Transaction Matrix and submits to risk management for informational purposes after reconciliation and Fuel and Emission Manager's approval.

4.5.6 Administrative Assistant files executed contract in Fuel and Emissions' department files with back-up documentation.

4.6 Confirm delivery of emission allowances.

4.6.1 Fuel Buyer verifies EPA confirmation of counterparty transfer into EKPC account including, but not limited to, counterparty, product, vintage year, quantity, and EKPC account.

4.6.2 Fuel Buyer investigates erroneous information, when applicable, with counterparty, EPA, and/or Environmental Affairs.

4.7 Ensure unit accounts have sufficient quantities of allowances.

4.7.1 Environmental Affairs uses the CAMD Business System to transfer and track allowances so that unit accounts have the appropriate quantity of allowances prior to EPA retiring the allowances.

4.7.2 Fuel Buyer confirms quantities and accounts initiated by Environmental Affairs.

4.7.3 Environmental Affairs in concert with Legal, determines if any further actions are required regarding the CD.

4.7.4 EPA retires Seasonal NO_x allowances from EKPC unit accounts, on a date certain, approximately November 1, to equal the total of emissions by EKPC power stations during May 1 through September 30 of the current calendar year.

4.7.5 EPA retires SO_2 and Annual NO_x allowances from EKPC unit accounts, on a date certain, approximately March 1, to equal the total of emissions by EKPC power stations during the prior calendar year.

4.8 Approve invoice.

4.8.1 Fuel Buyer receives counterparty and/or broker invoice and verifies quantity, price, and extended amount due.

4.8.2 Fuel Buyer investigates discrepancies on counterparty and/or broker invoice, if applicable.

4.8.3 Fuel Manager approves counterparty and broker invoice for payment.

4.8.4 Administrative Assistant sends invoice and a copy of the EPA delivery confirmation to Accounting for payment.

4.8.5 Accounting receives Accounting supervisor approval on invoice(s) and sends to accounts payable for payment.

4.8.6 Fuel Analyst enters purchase and delivery for each emission allowance contract on Trading Authority Transaction Matrix and

with a tracking report from EKPC's risk mgmt. service provider.

reconciles regularly. After reconciliation and Fuel and Emission Manager's approval, Fuel Analyst submits to risk management for informational purposes.

4.8.7 Accounting completes tracking worksheet including allowances and total cost for use in the environmental surcharge calculation.

5.0 Effective Date

5.1 All departments at EKPC shall be fully compliant with this procedure by January 31, 20145, and this procedure will be reviewed annually.

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

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

Concurred by:_____ **Date:**_____
Don Mosier
Chief Operations Officer

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

Amended: 11/30/12
Amended: 12/18/13
Amended: 12/16/14

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

Keywords: Lime, Lime Kiln Dust, and Limestone

1.0 Purpose

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

2.0 Terms and Definitions

2.1 Certificate of Insurance—Standard Association for Cooperative Operations Research and Development (ACORD) form that identifies the policies afforded by a supplier related to the requirements specified by EKPC contracts/purchase orders.

2.2 CFB—Circulating fluidized bed boilers in Gilbert Unit No. 3 at Spurlock Power Station and Spurlock Power Station Unit No. 4.

2.3 Contract—Document binding seller to sell and ship designated product that is stating terms and conditions for lime, lime kiln dust, and limestone deliveries to EKPC's power stations sent to a supplier for signatures after approval and before deliveries begin, which is typically a longer term than a purchase order.

2.4 Contract Approval and Review Form—Form circulated to various EKPC personnel indicating they have reviewed the contract prior to the President and CEO's signature *(Exhibit 39)*.

2.~~4~~5 Economy Purchase—Purchase made without competitive bidding in situations where the price is favorable in comparison with recent bids and unsolicited offers received and in comparison with purchased current market information.

2.6 Electronic Proposals—Proposals received through password projected e-mail accounts, managed by Fuel Analyst, and not viewed prior to proposal opening.

2.~~5~~7 Emergency Purchase—Purchase made without competitive bidding when there is an immediate need for lime, lime kiln dust, or limestone in situations including but not limited to: failure of a lime, lime kiln dust, or limestone supplier to perform; increased fuel usage due to an increase in power sales; labor or transportation strikes; severe weather conditions; or inability of power stations to receive lime, lime kiln dust, or limestone by normal means.

2.8 Financial Review—Typically includes the examination of an entities' balance sheet, income, and cash flow statements to determine the entities' financial health. Conducted on supplier agreements with an initial term greater than one year.

2.~~6~~9 Fixed Price—Price set in advance of issuance of a contract or purchase order. All applicable taxes, freight, fees, and profit margins are typically included.

2.~~7~~10 Floating Price—Price that is subject to adjustments based upon predetermined indices or surcharges. All applicable taxes, freight, fees, and profit margins are typically included.

2.~~8~~11 Fuel Negotiating Committee—Committee requiring Board of Director participation. The Director will be appointed annually ~~per~~ according to guidelines set in Section E, Management Committees from Policy No. 106 (*Exhibit 3*).

Comment [GV1]: Corrected grammar.

2.~~9~~12 IRMC—Internal Risk Management Committee has the authority to approve and oversee the processes used to identify, evaluate, and manage enterprise risk.

2.1~~0~~3 Lime—Calcium oxide (CaO) used to absorb SO_x emissions generated from the burning of coal at Cooper Power Station.

2.1~~1~~4 Lime Kiln Dust—Used to extend the life of the SCR catalysts in the scrubbed units of Spurlock Power Station Unit Nos. 1 and 2.

2.1~~2~~5 Limestone—Calcium carbonate ($CaCO_3$) used to absorb sulfur from the coal at Spurlock Power Station.

2.1~~3~~6 Policy No. AO31—EKPC administrative policy for the Delegation of Authority from EKPC's CEO to management and staff regarding

procurement authority for energy, energy related commodities, and transportation (*Exhibit 2)*.

2.147 Policy No. 106—EKPC Board of Directors policy for the Establishment of Board Committees and Respective Charters (*Exhibit 3*).

2.158 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure that all business affairs of EKPC are conducted in an ethical and businesslike manner in order to avoid all conflicts of interest or the appearance of any conflicts of interest in the conduct of the business affairs of EKPC (*Exhibit 4*).

2.169 Policy No. 404—EKPC Board of Directors Transaction Authority Limits for Energy and Energy Related Commodities and Transportation Policy providing authority matrices to delegate procurement approval levels for commodities and fuels (*Exhibit 5*).

2.1720 Power Stations—Coal-fired power stations owned and operated by EKPC: Dale, Cooper, and Spurlock. Cooper Power Station utilizes lime in a dry scrubber. Spurlock Power Station utilizes limestone in wet scrubbers and the CFB units as well as lime kiln dust in the scrubbed units.

2.1821 Purchase Order—Document binding seller to sell and ship designated product that is stating terms and conditions for lime, lime kiln dust, and limestone deliveries to EKPC's power stations sent to a supplier for an acceptance signature after approval and before deliveries begin, which is typically a shorter term than a contract.

2.1922 RFP—Request for proposal sent to prospective suppliers on EKPC's Lime and/or Limestone Bidders List *(Exhibit 24)* to bid for lime and/or limestone.

2.203 SCR—Selective catalytic reduction equipment used for the reduction of NO_x emissions in the scrubbed units.

2.214 Scrubber—Flue gas desulfurization equipment used for the reduction of SO_x emissions in the scrubbed units at Cooper and Spurlock Power Stations.

2.25 Sealed Proposals—Proposals received through a written RFP process not viewed prior to proposal opening (can include electronic proposals).

2.226 Test Purchase—Purchase made without competitive bidding to test a particular product for its suitability and burning characteristics at EKPC's power stations.

2.237 Trading Authority Transaction Matrix—Delegation of procurement approval authority.

2.248 W-9—Form required by the Internal Revenue Service for tax purposes to be completed by all suppliers stating business name, address, and federal tax identification number before payment is issued (*Exhibit 13*).

3.0 Responsibilities

3.1 Fuel and Emissions Manager

3.1.1 Manages and directs Fuel Buyers, Administrative Assistant, and Fuel Analyst in the Fuel and Emissions department and assures compliance with Policy No. 116 *(Exhibit 4)*.

3.1.2 Ensures adequate lime, lime kiln dust, and limestone deliveries to EKPC's power plants.

3.1.3 Assures that Fuel and Emissions staff follow procedures as described herein and in the Fuel, Emissions, Limestone, and Lime Strategy (*Exhibit 1*) for the purchase and delivery of lime, lime kiln dust, and limestone.

Signs approval memos for all purchase order changes, and

3.1.4 Executes short-term purchase orders in accordance with Policy No. 404 *(Exhibit 5)* and No. A031 *(Exhibit 2)*.

3.2 Power Plant Personnel

3.2.1 Maintain the lime, lime kiln dust, and limestone system at each of EKPC's relevant power stations to ensure its availability to unload lime, lime kiln dust, and limestone deliveries.

3.2.2 Monitor the lime, lime kiln dust, and limestone inventory levels at each of EKPC's relevant power stations daily.

3.2.3 Advise the Fuel and Emissions department of any concerns regarding the product or product delivery.

3.2.5 Collect lime, lime kiln dust, and limestone samples to be analyzed as needed.

3.2.6 Weigh trucks randomly to verify origin weights once a week when deliveries occur.

3.3 Fuel Buyers

3.3.1 Determine quantities needed based on historic and projected needs; generate RFPs; make purchase recommendations; and perform due diligence.

3.3.2 Monitor lime, lime kiln dust, and limestone qualities.

3.3.3 Manage appropriate contract and/or purchase order(s) throughout the term of the order.

3.3.4 Manage lime, lime kiln dust, and limestone deliveries and/or inventory levels at each of EKPC's power stations daily.

3.4 Administrative Assistant

3.4.1 Assists in managing the RFP process.

3.4.2 Reviews contracts and/or purchase order(s).

3.4.3 Verifies all documentation is received ~~per~~ according to checklist (*Exhibit 14*) and files with appropriate contract(s) and/or purchase order-(s).

Comment [GV2]: Corrected grammar.

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

3.5 Legal Counsel

3.5.1 Provides representation at long-term purchase proposal openings.

3.5.2 Advises in the development of legal documentation.

3.5.3 Reviews and approves documents as to legal form.

3.~~5~~6 Fuel Analyst

3.6.1 Manages receipt of electronic proposals through password protected e-mail account.

3.~~5~~6.~~1~~2 Manages the Trading Authority Transaction Matrix and suppliers' financial reviews.

3.~~5~~6.~~2~~3 Assists in managing price adjustments.

3.~~56~~.~~34~~ Identifyies the fixed and floating component percentages of the year-to-date spend.

Comment [GV3]: Corrected grammar.

3.~~6~~7 Central Lab Personnel

3.~~6~~7.1 Assist Cooper Power Station plant personnel in sampling and analysis of lime as needed.

3.~~6~~7.2 Receive limestone samples from Spurlock Power Station plant personnel for analysis by independent commercial lab.

3.~~7~~8 Accounting

3.~~7~~8.1 Reconciles all documentation from Power Plant Personnel and Fuel Buyers against invoices.

3.~~7~~8.2 Logs receipt information into accounting computer system.

3.~~7~~8.3 Contacts responsible party to clarify any discrepancies in the invoices, receiving records, and/or lab analysis.

3.~~7~~8.4 Approves payment and sends to treasury for disbursement.

4.0 Procedure

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

Spurlock Power Station has a scrubber limestone shed that holds approximately 4,000 tons and a CFB limestone shed that holds approximately 4,000 tons. These sheds are maintained at near capacity levels. A contingency stockpile of 20,000 tons of limestone is also maintained for the scrubbers and another 20,000 tons for the CFBs. Spurlock Power Station also has a silo that holds approximately 250 tons of lime kiln dust. It is maintained at near capacity level.

4.1 Issue RFP to obtain approved contract(s) and/or purchase order(s). The steps for issuing an RFP are as follows:

4.1.1 Fuel Buyers determine term, quality, and quantity for lime, lime kiln dust, and limestone of RFP based on historic and projected needs.

4.1.2 Develop and coordinate test for possible product or handling improvement. Improvement may be in terms of economics, compatibility, flexibility, or dependability.

4.1.3 Fuel Buyers create an RFP template (*Exhibit 25*) stating applicable delivery locations, term, quality, quantity, and price options.

4.1.4 Fuel and Emissions Manager and Administrative Assistant review RFP template *(Exhibit 25)* before RFP is issued.

4.1.5 Issue RFP for sealed proposals for lime and limestone to bidders on EKPC's Lime and/or Limestone Bidders Lists (*Exhibit 24*). (No RFP is currently required for lime kiln dust due to sole source. In addition, economy, test, emergency, ~~and test hedge optimization~~ lime and limestone proposals may be made verbally and confirmed by written documentation.)

4.2 Open all sealed proposals on or after due date of RFP.

4.2.1 Two Fuel and Emissions personnel must be present on proposal openings for purchase orders. A member of the Fuel Negotiating Committee, legal counsel, and two Fuel and Emissions personnel, or their designee(s), must be present on proposal openings for contracts. Receipt of proposals, both written and electronic, will be directly received and controlled by the Administrative Assistant and Fuel Analyst (respectively) prior to formal bid opening.

4.2.2 Administrative Assistant logs proposals reviewed.

4.2.3 Sign log of proposals by those present at opening.

4.2.4 Determine if price negotiations are warranted and obtain approval to negotiate from the Fuel Negotiating Committee for contracts.

4.3 Fuel Buyers evaluate valid opened lime, lime kiln dust, and limestone proposals.

4.3.1 Handle proposals that are received after the deadline on a case-by-case basis to determine their eligibility for evaluation. If legitimate information can be obtained to determine that the proposal was sent to be received before the deadline, a proposal that is received after the deadline may be considered; otherwise, proposals received after the deadline will not be considered.

4.3.~~1~~2 Rank opened proposals in order of lowest to highest cost for fixed and/or floating pricing.

4.3.~~2~~3 Determine if lowest priced proposal(s) meets EKPC's requirements as specified in the corresponding RFP.

4.3.~~3~~4 Evaluate supplier(s) performance capabilities.

4.3.~~4~~5 Initiate concerted internal review process with Fuel and Emissions, Environmental Affairs, Power Production, Finance, Power Supply, and Legal departments as well as the IRMC to evaluate proposals as needed. This internal control step fosters a global perspective of the evaluation process and is particularly important for new projects.

4.3.~~5~~6 Conduct field visit(s), if necessary, to evaluate the facilities, reserves, quality, production capabilities, etc., of the supplier(s) with competitive proposals to evaluate physical risk.

4.3.~~6~~7 Prepare a field evaluation report if field visit is conducted.

4.3.~~7~~8 Ensure that the necessary due diligence is done in evaluating the credit worthiness and financial stability of all potential suppliers for the Fuel and Emissions department before entering into any binding contracts. The financial evaluation for publically traded companies may be outsourced to a risk management service provider, which would have extensive experience and access to financial information for making a recommendation as to what extent EKPC should enter contractual commitments with reasonable financial risks. For privately held companies, ~~T~~this may also be performed internally by requesting the supplier's audited financial statement, ratios, and key performance indicators. This private information would then be provided to the finance department for their review and ~~approval~~recommendation. Outsourced financial reviews are subject to a secondary review where recommendation by the Finance department will be obtained and documented. Annual reviews, which include market price reopeners, will be shared with the Finance department for informational purposes.

4.3.~~8~~9 Draft approval memorandum to management (*Exhibit 26*) recommending the most economic supplier(s) of lime, lime kiln dust, and limestone meeting the corresponding RFP's specifications while balancing risk.

See 4.5.14 in coal procedures

4.3.10 ~~Typical RFPs have a defined term. If, based on responses, management determines a different term is advantageous, this will be noted in the approval memorandum.~~

4.3.11 Negotiation of contract language and terms can take approximately three to four months of negotiation with a supplier. If negotiations exceed six months, management will be updated in writing, and the circumstances regarding the lag time will be documented accordingly in the approval memorandum. In addition, multiple supply agreements may be executed from one RFP response to fulfill projected needs, which will also be documented accordingly in the approval memorandum.

4.3.12 ~~Hedge optimization agreements may be utilized at various times for various reasons. No less than two comparison prices are required to validate the market to which the order is evaluated. Projected pricing such as Nymex, etc., may be used as sources.~~

4.3.~~9~~13 Management approves memorandum in accordance with Policy No. 404 *(Exhibit 5)* and No. AO31 (*Exhibit 2*).

4.4 Fuel Buyers prepare contract(s) and/or purchase order(s) that are ~~approved~~ reviewed by legal counsel, with credit rating and insurance requirements reviewed by risk management.

4.4.1 Contract(s) and/or purchase order(s) includes destination, quality, quantity, price, acceptance parameters, and terms and conditions.

4.4.2 Request W-9 (*Exhibit 13*) and Certificate of Insurance forms from selected supplier(s) if not already on file.

4.4.3 Administrative Assistant forwards W-9 *(Exhibit 13)* to Accounting, and Fuel Buyers forward Certificate of Insurance to risk management for approval.

4.4.4 Fuel Buyers send draft contract(s) and/or purchase order(s) to supplier(s) for review.

4.4.5 Request additional approval from the Fuel and Emissions Manager and legal counsel if changes are made to the previously approved draft.

4.5 Fuel Buyers coordinate the execution of lime, lime kiln dust, and limestone contract(s) and purchase order(s).

4.5.1 Fuel Buyers obtain a sequential purchase order number from the fuel and emission's Oil Purchase Order Log Book after appropriate review and/or approval is given by the Fuel and Emissions Manager, ~~and~~ legal counsel, and risk management for purchase orders only and obtain an identifying number for contracts from Accounting.

4.5.2 Administrative Assistant reviews contract(s) and purchase order(s) and circulates for signatures prior to distribution utilizing the Contract Approval and Review form *(Exhibit 39)* for contracts only.

4.5.3 Administrative Assistant, at the direction of the Fuel Buyers, distributes the executed contract(s) and/or purchase order(s) internally. These documents are posted to a shared directory with EKPC's risk management service provider within five business days after trade execution for capture in a risk management system ~~as per~~ in accordance with Policy No. 404 (*Exhibit 5*) and No. A031 (*Exhibit 2*). The Administrative Assistant ~~confirms that the risk management provider has captured the posted documents and~~ promptly removes them from the shared directory.

Comment [GV4]: Corrected grammar.

4.5.4 Fuel Analyst logs approved contract(s) and purchase order(s) on Trading Authority Transaction Matrix and submits to risk management on a regular basis for informational purposes after reconciliation and Fuel and Emissions Manager's approval.

4.5.5 Administrative Assistant files executed contract(s) and purchase order(s) in Fuel and Emissions' department files with documentation ~~per~~ according to checklist (*Exhibit 14*). Original contract is stored at an offsite storage facility for disaster mitigation.

Comment [GV5]: Corrected grammar

4.6 Fuel and Emissions personnel schedule lime, lime kiln dust, and limestone from the then current contract(s) and/or purchase order(s) to replenish depleted power station supply based on power station need.

4.6.1 Provide selected lime, lime kiln dust, and limestone supplier(s) a projected delivery schedule for up to one year.

4.7 Power Plant Personnel receive delivery of lime, lime kiln dust, and limestone.

4.7.1 Collect bill of lading and forward to Accounting.

4.7.2 Perform adequate sampling on lime, lime kiln dust, and limestone deliveries or inventories for quality control as required for their respective power station.

4.7.3 Weigh trucks randomly once a week when deliveries occur using truck scales at the power stations to determine any net material discrepancies compared to the origin bill of lading. (Subtract tare weight from gross weight to determine net weight.)

4.7.4 Monitor unloading of trucks.

4.8 Central Lab Personnel assist Power Plant Personnel as needed with lime and limestone sampling and analysis.

4.9 Fuel Analyst tracks and documents financial reviews.

4.9.1 Documents due dates and execution of interim financial reviews, tracking them on a monthly/quarterly basis as needed.

4.9.2 Performs interim supplier financial reviews for contracts at least annually or more if deemed necessary under the oversight of the Fuel and Emissions Manager.

4.~~9~~10 Verify receipt and invoice approval.

4.~~9~~10.1 Fuel Analyst enters deliveries for each contract and purchase order on the Trading Authority Transaction Matrix and reconciles regularly with a tracking report from EKPC's risk management service provider. After reconciliation and Fuel and Emissions Manager's approval, Fuel Analyst submits matrix to risk management for informational purposes.

4.~~9~~10.2 Fuel Buyers review and verify floating price adjustments for production and transportation surcharges as needed.

4.~~9~~10.3 Accounting reconciles all documentation (e.g., bill of lading, surcharge and delivery spreadsheets) from Power Plant Personnel and Fuel Buyers against invoices.

4.~~9~~10.4 Accounting logs receipt information into accounting computer system.

4.~~9~~10.5 Accounting contacts responsible party to clarify any discrepancies in volume and pricing.

4.910.6 Accounting receives Accounting supervisor approval on invoice and sends to accounts payable for payment.

5.0 Effective Date

5.1 All departments at EKPC shall be fully compliant with this procedure by January 31, 20145, and this procedure will be reviewed annually.

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

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

Concurred by:_____ **Date:**_____
Don Mosier
Chief Operations Officer

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

Amended: 02/19/01
Amended: 07/12/04
Amended: 11/30/12
Amended: 12/18/13
Amended: 12/16/14

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

Keywords: Natural Gas

1.0 Purpose

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

2.0 Terms and Definitions

2.1 Combustion Turbine ("CT")—An electric generating unit utilizing natural gas or No. 2 fuel oil.

2.2 Confirmation—Form executed by Buyer and Seller to document agreed upon price, quantity, and term *(Exhibit 27)*.

2.3 Daily Natural Gas Update Report—Report containing, but not limited to, the current OBA, projected OBA, current average price paid, and any pipeline constraints or OFOs *(Exhibit 28)*.

2.4 Daily Price Report—Report containing projected pricing for day-ahead purchases and intra-day purchases *(Exhibit 29)*.

2.5 Day-Ahead Purchase—Purchase made prior to 9:00 a.m. c.s.t the calendar day before the gas day.

2.6 Dekatherm ("Dth")—Unit of energy equal to 10 therms or one million British thermal units.

2.7 Estimated Burn Profile—Hourly schedule showing projected usage of natural gas required by the transportation pipeline (*Exhibit 30)*.

2.8 External Natural Gas Manager—Company outside EKPC utilized to perform natural gas purchasing functions such as, but not limited to,

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

2.9 Federal Energy Regulatory Commission ("FERC")—An independent agency that regulates the interstate transmission of electricity, natural gas, and oil.

2.10 Form 552—Annual form required by FERC that summarizes natural gas purchases and sales.

2.11 Gas Day—The gas day runs from 9:00 a.m. c.s.t through the following 9:00 a.m. c.s.t. or as modified by the natural gas industry.

2.12 Intra-Day Purchase—Purchase made within the current gas day.

2.13 Mcf (Thousand Cubic Feet)—A measurement of volume in the oil and gas industry. In general 1 Mcf = 1 MMBtu = 1 Dth. On average, 1 Mcf contains 1.027 MMBtu although this will vary based on the quality of the natural gas.

2.14 Measurement & Regulation ("M & R") Station—A station comprised of piping, valves, and regulators used in controlling the flow and measuring the quantity from the pipeline to the next user.

2.15 Million Btu ("MMBtu")—One million British thermal units is the unit of measure for the price paid for natural gas purchases.

2.16 Natural Gas—A naturally occurring hydrocarbon gas mixture consisting primarily of methane, with other hydrocarbons, carbon dioxide, nitrogen, and hydrogen sulfide. Natural gas is used in the production of electricity in its CT units at the J. K. Smith Power Station.

2.17 No. 2 Fuel Oil—Dyed ultra-low sulfur diesel fuel containing a maximum 15 ppm sulfur that is used for off-road purposes such as unit startups and flame stabilization in the coal-fired generation fleet and a backup fuel in the CT fleet (Unit Nos. 1 through 7).

2.18 North American Energy Standards Board (NAESB)—Serves as an industry forum for the development and promotion of standards which will lead to a seamless marketplace for wholesale and retail natural gas and electricity, as recognized by its customers, business community, participants, and regulatory entities.

2.19 NAESB Natural Gas Contract—Standard contract for the purchase and sale of natural gas. These contracts only put forth the terms and

conditions agreed to by Buyer and Seller. Price, term, and quantity are agreed to on separate confirmations *(Exhibit 27)*.

2.20 Operational Balancing Agreement ("OBA")—Agreement setting forth the terms and conditions for scheduling nominations, deliveries, and balancing at the interconnection of the natural gas pipeline.

2.21 Operational Flow Order ("OFO")—Order which is issued by a pipeline to protect the operational integrity of the system. The orders may either restrict service or require actions by shippers to correct the problem and include increasing severity of penalties for failure to comply.

2.22 Policy No. AO31—EKPC administrative policy for the Delegation of Authority from EKPC's CEO to management and staff regarding procurement authority for energy, energy related commodities, and transportation (*Exhibit 2)*.

2.23 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure that all business affairs of EKPC are conducted in an ethical and businesslike manner in order to avoid all conflicts of interest or the appearance of any conflicts of interest in the conduct of the business affairs of EKPC (*Exhibit 4*).

2.24 Policy No. 404—EKPC Board of Directors Transaction Authority Limits for Energy and Energy Related Commodities and Transportation Policy providing authority matrices to delegate procurement approval levels for commodities and fuels (*Exhibit 5*).

2.25 Policy No. 405—EKPC Board of Directors Hedging Policy (1) guides disciplined hedging of forecasted power supply needs; (2) provides a method for identifying EKPC's risk tolerance and time horizon for hedging; (3) clarifies EKPC's hedging objectives; and (4) more clearly integrates the energy risk management governance structure, trading authority, risk reporting, and portfolio management functions (*Exhibit 6*).

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

2.27 Tennessee Gas Pipeline ("TGP")—Interstate natural gas transmission pipeline to which the J. K. Smith Power Station site is inter-connected.

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

3.5 Fuel Analyst

3.5.1 Manage the Trading Authority Transaction Matrix.

3.6 Power Supply Planning

3.6.1 Determines short- and long-term projected natural gas usage and prepare Estimated Burn Profile *(Exhibit 30)*.

Comment [GV2]: Corrected grammar.

3.6.2 Contacts external natural gas manager to revise and/or qualify projected natural gas usage.

Comment [GV3]: Corrected grammar.

3.6.3 Reviews CT unit starts and run hours in order to vary starts and run hours.

Comment [GV4]: Corrected grammar.

3.7 Environmental Affairs

3.7.1 Communicates testing schedules to appropriate personnel.

Comment [GV5]: Corrected grammar.

3.7.2 Reviews CT unit starts and run hours and alert appropriate personnel.

Comment [GV6]: Corrected grammar.

3.8 Accounting

3.8.1 Verifies volume and price per MMBtu from natural gas confirmations *(Exhibit 27)* with supplier invoice for accuracy.

3.8.2 Contacts responsible party and/or Fuel Buyer to clarify any discrepancies in the invoices.

3.8.3 Approves payment and sends to treasury for disbursement.

3.8.4 Prepares and files Form 552 annually with FERC.

4.0 Procedure

J. K. Smith Power Station has two interstate natural gas pipelines that service the site. The TGP, owned by Kinder Morgan, is inter-connected to the site approximately ½ mile from the CTs. The Texas Eastern pipeline, owned by Spectra Energy, is interconnected to the site with an approximate 6 mile lateral owned by EKPC. EKPC's OBA with TGP includes a cash settlement at the end of every month and under normal conditions can handle between +/- 40 – 60,000

Dths. EKPC's OBA with Texas Eastern contains an acceptable daily variance of not more than 7,500 Dths and an accumulated balance of not more than 15,000 Dths. The Texas Eastern OBA is not financially settled but is volumetrically settled the following month.

J. K. Smith Power Station CT Unit Nos. 1 through 7 may only be started 200 times each within a calendar year and Unit Nos. 9 and 10 only 365 times each. Unit Nos. 1 through 4 may only be operated 2,500 hours based on a rolling 12-month time period. Unit Nos. 5 through 7 have no operating hour limitation. Unit Nos. 9 and 10 may only be operated 4,000 hours on a rolling 12-month time period.

4.1 Determine natural gas usage.

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

4.1.2 Environmental Affairs communicates testing schedules to Power Supply Planning.

4.1.3 External gas manager provides daily estimate of day-ahead and intra-day pricing via Daily Price Report *(Exhibit 29)*.

4.1.4 Power Supply Planning calculates projected natural gas usage using various factors including, but not limited to, weather, price, and unit availability.

4.1.5 Power Supply Planning personnel completes Estimated Burn Profile *(Exhibit 30)* for use in determining appropriate purchases. This form is also required by the transportation pipeline.

4.2 Execute NAESB natural gas contracts with potential suppliers.

4.2.1 External natural gas manager and/or Fuel Buyer proposes new natural gas supplier based on, but not limited to, the number of current gas suppliers, supplier pipeline transportation, and other supplier history.

4.2.2 External natural gas manager initiates NAESB natural gas contract negotiation.

4.2.3 Fuel Buyer, Legal, and external natural gas manager negotiate an acceptable NAESB natural gas contract with supplier.

4.2.4 EKPC's risk management service provider checks the supplier's credit and assigns a credit limit based on EKPC's Director of Risk's approval.

4.2.5 Administrative Assistant obtains appropriate signature.

4.2.6 Fuel Buyer and/or Administrative Assistant secure W-9 *(Exhibit 13)* from supplier.

4.2.7 Administrative Assistant, at the direction of the Fuel Buyers, distributes the executed NAESB natural gas contract(s) internally. These documents are posted to a shared directory with EKPC's risk management service provider within five business days after trade execution for capture in a risk management system ~~as per~~ in accordance with Policy No. 404 (*Exhibit 5*) and No. A031 (*Exhibit 2*). The Administrative Assistant ~~confirms that the risk management provider has captured the posted documents and~~ promptly removes them from the shared directory.

Comment [GV7]: Corrected grammar

4.2.8 Fuel Analyst logs approved contract(s) on Trading Authority Transaction Matrix and submits to risk management for informational purposes after reconciliation and Fuel and Emission Manager's approval.

4.7.5 Administrative Assistant files executed contract(s) in Fuel and Emissions' department files. Original contract is stored at an offsite storage facility for disaster mitigation.

4.3 Purchase natural gas volumes required.

4.3.1 External natural gas manager determines quantity to be purchased, under normal pipeline operating conditions, based on Estimated Burn Profile *(Exhibit 30)*. Determination is made whether to make less expensive day-ahead purchases or to make intra-day purchases that aid in OBA management but are typically more expensive.

4.3.2 Fuel Buyer and Power Supply Planning, under adverse operating conditions on the pipeline, consult and advise external natural gas manager regarding purchase quantities.

4.3.3 External natural gas manager contacts several suppliers who have an existing NAESB natural gas contract with EKPC and requests quotes for the designated term and quantity.

4.3.4 External natural gas manager purchases natural gas based on, but not limited to, price, quantity, past performance, urgency of purchase, term of purchase, pipeline use, and transportation cost. Quantities are purchased in MMBtu, not Mcf, in order to pay for the heat content received.

4.3.5 Purchase is made within authority levels in accordance with Policy No. 404 (*Exhibit 5)*, Policy No. AO31 *(Exhibit 2),* and existing credit limits.

4.3.6 External natural gas manager or natural gas supplier makes nomination on TGP's or Texas Eastern's web-based system to confirm source, destination, and quantity of natural gas purchased.

4.3.7 Natural gas deliveries begin on the date specified and under the terms of the confirmation *(Exhibit 27)* and NAESB natural gas contract.

4.3.8 Fuel Manager, Fuel Buyer, Power Supply Planning, and Finance, to the extent possible, may hedge the future price on a portion of its natural gas purchases based on, but not limited to, future power prices, volume certainty, future natural gas prices, and future power prices to achieve the most desirable risk management scenario for EKPC and its members.

4.4 Prepare and review transaction documentation.

4.4.1 External gas manager enters transaction into Trade Data Gas Form *(Exhibit 31)*.

4.4.2 Confirmation *(Exhibit 27)* is sent from supplier to Fuel Buyer and external gas manager.

4.4.3 Fuel Buyer verifies date, quantities, and prices on Trade Data Gas Form *(Exhibit 31)* with individual confirmations *(Exhibit 27)* received from suppliers.

4.4.4 Fuel Buyer investigates any discrepancies with external gas manager and/or natural gas supplier.

4.5 Manage OBA.

4.5.1 External natural gas manager provides Daily Natural Gas Update Report *(Exhibit 28)*.

4.5.2 Fuel Buyer and external natural gas manager monitor OBA in order to minimize associated costs and ensure pipeline satisfaction.

4.5.3 Fuel Buyer confirms OBA level and investigates errors or inappropriate projected levels.

4.5.4 Fuel Buyer verifies month end OBA through TGP on-line system and external natural gas manager.

4.6 Manage OFO.

4.6.1 Designated personnel receive OFO notices from the pipeline directly (*Exhibit 32*).

4.6.2 Fuel Buyer acknowledges OFO to personnel, explains situation, and if it applies to EKPC.

4.6.3 External natural gas manager notes OFO information on the Daily Natural Gas Update Report *(Exhibit 28)* and informs EKPC personnel when applicable OFO occurs.

4.6.4 Fuel Buyer, Power Supply Planning, and external natural gas manager discuss projected usage before sending out Estimated Burn Profile *(Exhibit 30)*. These discussions shall include, but not necessarily be limited to, if intra-day purchases are an option; likelihood of projected usage materializing; OBA utilization; and if there are time constraints.

4.7 Ensure environmental compliance.

4.7.1 Fuel Buyer completes starts and run-hours schedule *(Exhibit 31)* indicating number of starts and amount of run hours, both current and projected.

4.7.2 Fuel Buyer, Power Supply Planning, Environmental Affairs, and J. K. Smith Power Station review the start and run-hours schedule *(Exhibit 33)* and contact the other departments if they recognize any current or future issues that may affect environmental compliance.

4.7.3 Power Supply Planning and J. K. Smith Power Station alter starts or run hours as necessary to achieve compliance.

4.8 Verify receipt and invoice approval.

4.8.1 Fuel Buyer prepares invoice estimate and submits to Accounting along with confirmations *(Exhibit 27)*, Trade Data Gas Form *(Exhibit 30)*, and OBA calculation backup.

4.8.2 Accounting verifies confirmations *(Exhibit 27)* and invoice estimate with respective supplier invoices.

4.8.3 Accounting and/or Fuel Buyer resolve discrepancies with external natural gas manager and/or respective supplier.

4.8.4 Accounting logs receipt information into accounting computer system.

4.8.5 Accounting receives Accounting supervisor approval on invoice(s) and sends to accounts payable for payment.

4.8.6 Fuel Analyst enters purchases and deliveries for a duration longer than one month for each NAESB natural gas contract on Trading Authority Transaction Matrix.*

4.8.7 Administrative Assistant enters purchases into natural gas pricing worksheet to track natural gas purchase performance.

4.8.8 Administrative Assistant completes natural gas purchase summary for approval ~~per~~ in accordance with Policy No. 404 *(Exhibit 5)* and No. AO31 *(Exhibit 2)*.

Comment [GV8]: Corrected grammar.

4.8.9 Accounting completes annual FERC Form 552 with assistance from Fuel Buyer and external natural gas manager.

*and reconciles regularly with a tracking report from EKPC's risk management service provider. After reconciliation an Fuel and Emissions Manager's approval, Fuel Analyst submits to risk management for informational purposes.

5.0 Effective Date

5.1 All departments at EKPC shall be fully compliant with this procedure by January 31, 201~~3~~5, and this procedure will be reviewed annually.

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

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

Concurred by:_____ **Date:**_____
Don Mosier
Chief Operations Officer

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

Amended: 11/30/12
Amended: 12/18/13
Amended: 12/16/14

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

Keywords: No. 2 fuel oil

1.0 Purpose

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

2.0 Terms and Definitions

2.1 Branded Price—Price for No. 2 fuel oil product that is brand specific, by the seller that is identified by tracers in the fuel oil. Price is typically regarded as more reliable in times of crisis such as hurricanes.

2.2 Certificate of Insurance—Standard Association for Cooperative Operations Research and Development (ACORD) form that identifies the policies afforded by a supplier related to the requirements specified by EKPC contracts/purchase orders.

2.3 Fuel Oil Bidders List—List of current oil supply companies to submit requests for proposals stating their addresses, representative contacts, phone numbers, and applicable stations for bidding purposes (*Exhibit 34*).

2.4 Contract— Document binding seller to sell and ship designated product that is stating terms and conditions for oil deliveries to EKPC's power stations sent to a supplier for signatures after approval and before deliveries begin, which is typically a longer term than a purchase order. (In terms of hedge quantities, a Nymex contract represents 1,000 barrels or 42,000 gallons of No. 2 fuel oil.)

2.5 Contract Approval and Review Form—Form circulated to various EKPC personnel indicating they have reviewed the contract prior to the President and CEO's signature *(Exhibit 39).*

2.6 Electronic Proposals—Proposals received through password projected e-mail accounts, managed by Fuel Analyst, and not viewed prior to proposal opening.

2.7 Financial Review—Typically includes the examination of an entities' balance sheet, income, and cash flow statements to determine the entities' financial health. Conducted on supplier agreements with an initial term greater than one year.

2.8~~5~~ Fixed Price—Price set in advance of issuance of a purchase order. All applicable taxes, freight, fees, and profit margins are included except for a demurrage charge if applicable.

2.9~~6~~ No. 2 Fuel Oil—Dyed ultra-low sulfur diesel fuel containing a maximum 15 ppm sulfur that is used for off-road purposes such as unit startups and flame stabilization in the coal-fired generation fleet and a backup fuel in the combustion turbine fleet (Unit Nos. 1 through 7).

2.10~~7~~ Oil Purchase Order Log Book—Log book containing sequential purchase order numbers for new oil purchase orders issued that states company name, issued date, applicable station, terms, gallons, price, and comments of each purchase order.

2.11~~8~~ Ownership Disclosure—Form to be completed by all oil suppliers designating company type (proprietorship, partnership, corporation); owners; authorized sales representative(s); and any affiliation with EKPC's Board of Directors, employees or EKPC, or their immediate family *(Exhibit 35)*.

2.12~~9~~ Policy No. AO31—EKPC administrative policy for the Delegation of Authority from EKPC's CEO to management and staff regarding procurement authority for energy, energy related commodities, and transportation (*Exhibit 2)*.

2.13~~0~~ Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure that all business affairs of EKPC are conducted in an ethical and businesslike manner in order to avoid all conflicts of interest or the appearance of any conflicts of interest in the conduct of the business affairs of EKPC (*Exhibit 4*).

2.14~~1~~ Policy No. 404—EKPC Board of Directors Transaction Authority Limits for Energy and Energy Related Commodities and Transportation Policy providing authority matrices to delegate procurement approval levels for commodities and fuels (*Exhibit 5*).

2.15~~2~~ Power Stations—Electric power generating plants owned and operated by EKPC: Dale, Cooper, Spurlock, and J. K. Smith. Dale, Cooper, and Spurlock Power Stations are coal-fired power plants, and J. K. Smith is a power plant compiled of seven combustion turbine (CT) generator units that are fueled by natural gas (primary) and No. 2 fuel oil (secondary). J .K. Smith also has two units that are natural gas only.

2.16~~3~~ Purchase Order—Document binding seller to sell and ship designated product that is stating terms and conditions for oil deliveries to EKPC's power stations sent to a supplier for an acceptance signature after approval and before deliveries begin, which is typically a shorter term than a contract.

2.17~~4~~ Rack-Plus Price—Either a branded or unbranded fuel oil price that is priced based on the specific rack location price plus a fixed adder that includes all applicable taxes, freight, fees, and profit margins. The adder is fixed throughout the term of the purchase, whereas the actual fuel price is the only variable except for a demurrage charge if applicable.

2.15~~8~~ Requisition—Form completed by Power Plant Personnel following up a verbal request for No. 2 fuel oil deliveries applying to the then current contract(s) and/or purchase order(s) *(Exhibit 38)*.

2.16~~9~~ RFP—Request for proposal sent to prospective suppliers on EKPC's Fuel Oil Bidders List *(Exhibit 34)* to bid for No. 2 fuel oil.

2.20 Sealed Proposals—Proposals received through a written RFP process not viewed prior to proposal opening (can include electronic proposals).

2.21~~17~~ Trading Authority Transaction Matrix—Delegation of procurement approval authority.

2.21~~18~~ Unbranded Price—Price for No. 2 fuel oil product that is not brand specific.

2.23~~19~~ W-9—Form required by the Internal Revenue Service for tax purposes to be completed by all suppliers stating business name, address, and federal tax identification number before payment is issued. (*Exhibit 13*)

3.0 Responsibilities

3.1 Fuel and Emissions Manager

3.1.1 Manages and directs Fuel Buyers, Administrative Assistant, and Fuel Analyst in the Fuel and Emissions department and assures compliance with Policy No. 116 *(Exhibit 4)*.

3.1.2 Ensures adequate fuel oil deliveries to EKPC's power stations.

3.1.3 Assures that Fuel and Emissions staff follow procedures as described herein and in the Fuel, Emissions, Limestone, and Lime Strategy (*Exhibit 1*) for the purchase and delivery of oil.

Signs approval memos for all purchase order changes, and

3.1.4 Executes short-term purchase orders in accordance with Policy No. 404 *(Exhibit 5)* and No. A031 *(Exhibit 2)*.

3.2 Power Plant Personnel

3.2.1 Maintain the fuel oil system at each of EKPC's power stations to ensure its availability to unload No. 2 fuel oil truck deliveries.

3.2.2 Advise the Fuel and Emissions department as a need arises for No. 2 fuel oil.

3.2.3 Collect and analyze No. 2 fuel oil sample during unloading as required, and stay with the truck during unloading to monitor in case of spills.

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

3.3 Fuel Buyers

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

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

3.3.3 Generate and execute appropriate contract(s) and/or purchase order(s).

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

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

3.3.6 Manage appropriate contract(s) and/or purchase order(s) throughout the term of the order.

3.4 Administrative Assistant

3.4.1 Assists in managing the RFP process.

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

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

3.4.4 Verifies all documentation is received ~~per~~ according to checklist (*Exhibit 14*) and files with appropriate contract(s) and/or purchase order (s).

Comment [GV1]: Corrected grammar.

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

3.5 Legal Counsel

3.5.1 Provides representation at long-term purchase proposal openings.

3.5.2 Advises in the development of legal documentation.

3.5.3 Reviews and approves documents as to legal form.

3.~~5~~6 Fuel Analyst

3.6.1 Manages receipt of electronic proposals through password projected e-mail account.

3.~~5~~6.~~1~~2 Manages the Trading Authority Transaction Matrix and suppliers' financial reviews.

3.~~5~~6.~~2~~3 Verifies rack pricing and validates total invoice price.

Comment [GV2]: Corrected grammar.

3.~~5~~6.~~3~~4 Compiles and forwards completed spreadsheet of purchases to Accounting.

3.6 Central Lab Personnel

3.6.1 Sample No. 2 fuel oil tank at Spurlock Power Station semi-annually to ensure emissions compliance for Spurlock Power Station Unit No. 4.

3.6.2 Analyze No. 2 fuel oil drawn from the storage tank at J. K. Smith Station for sulfur, Btu, specific gravity, and temperature to ensure emissions compliance whenever any of the combustion turbines are operating on fuel oil.

3.6.3 Sample and analyze the No. 2 fuel oil tank at J. K. Smith Station semi-annually for quality stability.

3.7 Accounting

3.7.1 Verifies spreadsheet volume and dollars from Fuel Analyst against manual log sheet generated from verbal communication followed by bill of lading documentation from Power Plant Personnel and invoices.

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

3.7.3 Logs receipt information into accounting computer system.

3.7.4 Approves payment and sends to treasury for disbursement.

4.0 Procedure

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

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

4.1 Issue RFP to obtain approved contract(s) and/or purchase order(s). The steps for issuing an RFP are as follows:

4.1.1 Fuel Buyers determine term and quantity for No. 2 fuel oil of RFP based on historic and projected needs.

4.1.2 Fuel Buyers create an RFP template (*Exhibit 34*) stating applicable delivery locations, term, quantity, and price options of fixed and/or rack plus.

4.1.3 Fuel and Emissions Manager and Administrative Assistant review RFP template *(Exhibit 36)* before RFP is issued.

4.1.4 Issue RFP for sealed proposals for No. 2 fuel oil to bidders on EKPC's Fuel Oil Bidders List (*Exhibit 34*).

4.2 Open all sealed proposals on or after due date of RFP.

4.2.1 Two Fuel and Emissions personnel must be present on proposal openings for purchase orders. A member of the Fuel Negotiating Committee, legal counsel, and two Fuel and Emissions personnel, or their designee(s), must be present on proposal openings for contracts. Receipt of proposals, both written and electronic, will be directly received and controlled by the Administrative Assistant and Fuel Analyst (respectively) prior to formal bid opening.

4.2.2 Administrative Assistant logs proposals reviewed.

4.2.3 Sign log of proposals by those present at opening.

4.2.4 Determine if price negotiations are warranted and obtain approval to negotiate from the Fuel Negotiating Committee for contracts.

4.3 Fuel Buyers evaluate valid opened No. 2 fuel oil proposals.

4.3.1 Handle proposals that are received after the deadline on a case-by-case basis to determine their eligibility for evaluation. If legitimate information can be obtained to determine that the proposal was sent to be received before the deadline, a proposal that is received after the deadline may be considered; otherwise, proposals received after the deadline will not be considered.

4.3.~~1~~2 Rank opened proposals in order of lowest to highest cost for rack plus and/or fixed pricing.

4.3.~~2~~3 Determine if lowest priced proposal(s) meets EKPC's requirements as specified in the corresponding RFP.

4.3.~~3~~4 Evaluate supplier(s) performance capabilities as outlined in the Fuel, Emission, Limestone, and Lime Strategy (*Exhibit 1*).

4.3.5 Ensure that the necessary due diligence is done in evaluating the credit worthiness and financial stability of all potential suppliers for the Fuel and Emissions department before entering into any binding contracts. The financial evaluation for publically traded companies may be outsourced to a risk management service provider, which would have extensive experience and access to financial information for making a recommendation as to what extent EKPC should enter contractual commitments with reasonable financial risks. For privately held companies, this may also be performed internally by requesting the supplier's audited financial statement, ratios, and key performance indicators. This private information would then be provided to the Finance department for their review and recommendation. Outsourced financial reviews are subject to a secondary review where recommendation by the Finance department will be obtained and documented. Annual reviews, which include market price reopeners, will be shared with the Finance department for informational purposes.

Comment [GV3]: Since we are including contracts throughout these procedures, I copied this from coal

4.3.~~4~~6 Draft approval memorandum to management (*Exhibit 37*) recommending the most economic supplier(s) of No. 2 fuel oil meeting the corresponding RFP's specifications while balancing risk.

4.3.7 Upon issue, RFPs include a defined term, typically a shorter term for purchase orders and longer term for contracts. If management determines a different term type is more advantageous, based on identification of a change in EKPC's needs or suppliers' responses to the RFP, justification of the term change will be noted in the approval memorandum and approval obtained in accordance with Policy No. 404 *(Exhibit 5)* and No. AO31 *(Exhibit 2)* for the new term type.

4.5.8 Negotiation of contract language and terms can take approximately three to four months of negotiation with a supplier. If negotiations exceed six months, management will be updated in writing, and the circumstances regarding the lag time will be documented accordingly in the approval memorandum. In addition, multiple supply agreements may be executed from one RFP response to fulfill projected needs, which will also be documented accordingly in the approval memorandum.

4.5.9 Hedge optimization agreements may be utilized at various times for various reasons. No less than two comparison prices are required to validate the market to which the order is evaluated. Projected pricing such as Nymex, etc., may be used as sources.

Comment [GV4]: Again, since we are including contracts, I copied this from coal

4.3.~~5~~10 Management approves memorandum in accordance with Policy No. 404 (*Exhibit 5)* and No. AO31 *(Exhibit 2).*

4.4 Fuel Buyers prepare contract(s) and/or purchase order(s) for No. 2 fuel oil based on a standard template approved by legal counsel, with credit rating and insurance requirements reviewed by risk management.

4.4.1 Contract(s) and ~~P~~purchase order(s) includes destination, quantity, price, acceptance parameters, and terms and conditions.

4.4.2 Request Ownership Disclosure (*Exhibit 35*), W-9 (*Exhibit 13*), and Certificate of Insurance forms from selected supplier(s) if not already on file.

4.4.3 Administrative Assistant forwards W-9 *(Exhibit 13)* to Accounting, and Fuel Buyers forward Certificate of Insurance to risk management for approval.

4.4.4 Fuel Buyers send draft contract(s) and/or purchase order(s) to supplier(s) for review if requested.

4.4.5 Request additional approval from the Fuel and Emissions Manager, ~~and~~ legal counsel, and risk managements if changes are made to the standard No. 2 fuel oil purchase order template.

4.5 Fuel Buyers execute No. 2 fuel oil contract(s) and/or purchase order(s).

4.5.1 Fuel Buyers obtain a sequential purchase order number from the fuel and emission's Oil Purchase Order Log Book after appropriate review and/or approval is given by the Fuel and Emissions Manager, ~~and~~ legal counsel, and risk management for purchase orders only and obtain a number for contracts from Accounting.

4.7.2 Administrative Assistant reviews contract(s) and/or purchase order(s) and circulates for signatures prior to distribution utilizing the Contract Approval and Review form *(Exhibit 39)* for contracts only.

4.5.2 Administrative Assistant, at the direction of the Fuel Buyers, distributes the executed contract(s) and/or purchase order(s)

internally. These documents are posted to a shared directory with EKPC's risk management service provider within five business days after trade execution for capture in a risk management system ~~as per~~ in accordance with Policy No. 404 (*Exhibit 5*) and No. A031 (*Exhibit 2*). The Administrative Assistant ~~confirms that the risk management provider has captured the posted documents and~~ promptly removes them from the shared directory.

Comment [GV5]: Corrected grammar.

4.5.3 Fuel Analyst logs approved contract(s) and/or purchase order(s) on Trading Authority Transaction Matrix and submits to risk management on a regular basis for informational purposes after reconciliation and Fuel and Emission Manager's approval.

4.5.4 Administrative Assistant files executed contract(s) and/or purchase order(s) in Fuel and Emissions' department files with documentation ~~per~~ according to checklist (*Exhibit 14*). Original contract is stored at an offsite storage facility for disaster mitigation.

Comment [GV6]: Corrected grammar.

4.6 Fuel and Emissions personnel order No. 2 fuel oil from the then current contract(s) and/or purchase order(s) to replenish depleted power station supply based on Power Plant Personnel request(s).

4.6.1 Receive request from Power Plant Personnel for a defined amount of No. 2 fuel oil, which is followed by a written requisition (*Exhibit 38*).

4.6.2 Contact applicable supplier(s) for requested delivery amount of No. 2 fuel oil.

4.7 Power Plant Personnel receive delivery of No. 2 fuel oil.

4.7.1 Log arrival and departure time of No. 2 fuel oil delivery.

4.7.2 Perform adequate sampling on No. 2 fuel oil deliveries to ensure quality control as required for their respective power station.

4.7.3 Monitor unloading of trucks to ensure no spills occur of the No. 2 fuel oil.

4.8 Central Lab Personnel analyze inventory samples on No. 2 fuel oil when collected at power station.

4.9 Fuel Analyst tracks and documents financial reviews.

4.9.1 Documents due dates and execution of interim financial reviews, tracking them on a monthly/quarterly basis as needed.

4.9.2 Performs interim supplier financial reviews for contracts at least annually or more if deemed necessary under the oversight of the Fuel and Emissions Manager.

4.~~9~~10 Verify receipt and invoice approval.

4.~~9~~10.1 Administrative Assistant receives and ~~reviews~~ verifies applicable pricing and invoices.

4.~~9~~10.2 Administrative Assistant contacts appropriate supplier(s) to clarify any discrepancies with the invoice(s).

4.~~9~~10.3 Administrative Assistant forwards pricing and invoices to Fuel Analyst for logging and also to Accounting.

4.~~9~~10.4 Fuel Analyst logs invoices on spreadsheet and verifies pricing.

4.~~9~~10.5 Fuel Analyst forwards completed spreadsheet to Accounting.

4.~~9~~10.6 Fuel Analyst enters deliveries for each contract and purchase order on the Trading Authority Transaction Matrix and reconciles regularly with a tracking report from EKPC's risk management service provider. After reconciliation and Fuel and Emissions Manager's approval, Fuel Analyst submits matrix to risk management for informational purposes.

4.~~9~~10.7 Accounting verifies spreadsheet volume and dollars from Fuel Analyst against manual log sheet generated from verbal communication and/or bill of lading documentation from Power Plant Personnel and invoices.

4.~~9~~10.8 Accounting contacts responsible party to clarify any discrepancies in volume and pricing.

4.~~9~~10.9 Accounting logs receipt information into accounting computer system.

4.~~9~~10.10 Accounting receives Accounting supervisor approval on invoice and sends to accounts payable for payment.

5.0 Effective Date

5.1 All departments at EKPC shall be fully compliant with this procedure by January 31, 20145, and this procedure will be reviewed annually.

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

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

Concurred by:_____ **Date:**_____
Don Mosier
Chief Operations Officer

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

Amended: 02/19/01
Amended: 07/12/04
Amended: 02/01/05
Amended: 11/30/12
Amended: 12/18/13
Amended: 12/16/14