



Policy Title: AEP Procurement Policy

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| Title: | AEP Procurement Policy | Effective Date: | July 1, 2013 |
| Owner: | Brian Tierney, Chief Financial Officer | Sponsoring Area(s): | Supply Chain, Procurement & Fleet |

Policy/Purpose Statement:

This Policy establishes the minimum requirements that a Business Unit shall follow for the Acquisition of Goods and Services. Additionally, it sets expectations for all Business Units within AEP having an influence on cost, quality, and delivery of Goods and Services.

Detail:

1.0 Scope: This Policy shall apply to the Acquisition of Goods and Services. The Policy governing Procurement of fuels, transportation, and related products is part of the Coal Procurement Policy and is administered separately. Acquisitions of Goods and Services for Joint Ventures shall be governed by the agreements, policies, and protocols established for each Joint Venture.

2.0 Definitions: Refer to Attachment A for the definition of any capitalized terms herein.

3.0 Compliance: The provisions set forth in this Policy shall be followed when acquiring any Goods or Services on behalf of AEP. Failure to comply with these provisions may result in disciplinary action up to and including termination. Any exceptions to this Policy shall be approved in writing by the owner of this Policy.

4.0 Approval of Commitments: All Contracts, Purchase Requisitions, lease agreements, Releases, and other agreements/expenditures that commit funds of the Company for the Acquisition of Goods and Services shall comply with the AEP Authorization Policy. The Authorization Policy can be found on the AEP Policy Central website.

5.0 Sourcing and Selection:

5.1 Standards:

5.1.1 Acceptable Transaction Methods: The Acquisition of Goods or Services will be requested through the use of the following methods. Every effort should be made to buy Goods through established AEP Catalogs (Asset Suite, Office Supplies).

- Material Requests resulting in material issuances, transfers or Purchase Orders
- Purchase Requisitions resulting in Purchase Orders
- Contract Requisitions resulting in Contracts
- Other BU requests processed into Purchase Orders or Contracts
- Credit Card purchases in accordance with the AEP Corporate Credit Card Policy

5.1.1.1 Exceptions to Acceptable Transaction Methods:

- Contributions and membership dues
- Telephone, water, sewerage, electric, and other utility services
- Services provided by the AEP Service Corporation or other affiliated companies of the AEP system unless the affiliate is a Competitive Affiliate
- Employee expense accounts



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- Dividend Payments, Banking Transactions, and Tax Permits
- Payments to Local, State or Federal governments
- Emergency situations (storm restoration) where time is not available to establish a contract in advance of the service
- **Payments to individual law enforcement personnel for Services (excluding routine building security)**

5.1.2 Required Use of Sourcing Professional: Acquisition of Goods or Services with an estimated value over \$100,000.00 must utilize a designated Sourcing Professional as defined by this Policy. A Sourcing Professional may also be involved with an event less than \$100,000.00 as requested.

5.1.3 Competitive Bidding Threshold: Unless exempted under Section 5.1.4 of this Policy, any Acquisition of Goods and Services with an estimated value above \$100,000 shall be made through competitive bidding. For Acquisitions of Goods and Services below the \$100,000 threshold, the use of competitive bidding to Procure Goods and Services, regardless of the value, is strongly encouraged as a good business practice.

5.1.4 Exceptions to Competitive Bidding:

- Sole/Direct Source Goods and or Services (in accordance with 5.1.5)
- Releases, Work Authorizations, or Purchase Orders issued against a Blanket Purchase Order, Blanket Contract or Blanket Service Agreement
- Contributions and membership dues
- Telephone, water, sewerage, electric, and other utility services
- Services provided by the AEP Service Corporation or other affiliated companies of the AEP system unless the affiliate is a Competitive Affiliate
- Employee expense accounts
- Dividend payments, banking transactions, and tax permits
- Payments to local, state or federal governments

5.1.5 Sole/Direct Source Justification: Any non-competitive Acquisition of Goods and Services (including Blanket Contracts that do not establish a firm financial commitment, often referred to as "0" dollar blankets), with an estimated value above \$100,000 shall have a Justification Statement approved at the next Authorization Level above the level having the dollar authorization to make the commitment (see section 5.3.3).



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5.1.6 Zero Dollar Blankets - Blanket Contracts/Purchase Orders which provide no financial commitment, but establish a commercial Contract relationship with a supplier, require the oversight and approval outlined below:

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| Estimated value >\$10,000,000 | Competitively Bid | Sole/Directly Sourced |
| Procurement Review | Director of Procurement | VP of Supply Chain, Procurement & Fleet Operation |
| Business Unit Approval | Vice President | Executive Vice President |

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| Estimated value <\$10,000,000 | Competitively Bid | Sole/Directly Sourced |
| Procurement Review | Director of Procurement | VP of Supply Chain, Procurement & Fleet Operation |
| Business Unit Approval | Vice President | Next authorization level above the level having the dollar authorization to make the commitment (capped at Executive Vice President or OpCo President) |

Procurement review shall be represented by initials on the "Justification for Sole/Direct Source or Other than Low Bid Acquisition" Form.

5.1.7 Intentional Transaction Split: Acquisition of Goods or Services shall not be split into multiple transactions with the same Supplier in order to avoid the requirements of competitive bidding.

5.1.8 Competitive Affiliates: Competitive bidding that includes a Competitive Affiliate must meet additional requirements contained in the state codes of conduct. The state codes of conduct can be found on AEP's Ethics & Compliance web site <http://ethics/codes/SourceDocuments/>.

5.2 Methods and Form of Solicitations:

5.2.1 Methods of Solicitation: Any Acquisition of Goods or Services valued above the Competitive Bidding Threshold defined in Section 5.1.3 shall utilize one or more of the formal methods of solicitation as defined in Attachment A and listed below:

- Request For Bid (RFB)
- Request For Information (RFI)
- Request For Proposal (RFP)
- Request For Quote (RFQ)
- Request for Professional Qualifications (RFPQ)

5.2.2 Solicitation Documentation:

5.2.2.1 Control Desk: An RFB or RFP response (manual or electronic) must be strictly controlled through the formal establishment of a Control Desk in order to receive a bid or proposal from a Supplier. The electronic submission of a Supplier's response through a secure Electronic Sourcing Tool ("EST") does not require the establishment of a Control Desk provided the EST functions in a method that prevents access to a response until the bid open date and time.



5.3 Evaluation and Selection:

- 5.3.1 Evaluations:** Evaluation and analysis of a Supplier's response shall be conducted in a fair and impartial manner and the Award made to the Lowest and Best Supplier responsive to the requirements described in the Rules Document.
- 5.3.2 Other Than Low Bidder:** Prior to an Award of a Contract that was competitively bid as part of Section 5.2.1 of this Policy, but that will not be awarded to the lowest price bidder, a Justification Statement must be written and approved by the individual having the dollar authorization to make the commitment.
- 5.3.3 Justification Statement:** As a minimum, the Justification Statement shall include, but not be limited to: 1) Business Unit; 2) description of the Goods or Services being acquired; 3) dollar value; 4) detailed description of why only this suggested source can furnish the requirements 5) signature of the individual(s) writing and approving the Justification Statement. A standard template that shall be used for a Justification Statement can be found as Attachment B to this Policy.

5.4 Awards and Approvals:

- 5.4.1 Certificate of Award (COA):** A Certificate of Award shall be executed for any Acquisition that results in the Award of a Contract to a Supplier for the purchase of Goods and Services above \$100,000.
- 5.4.2 Award Notifications:** All Suppliers participating in an RFB or RFP shall be formally notified (electronically or by letter) as to the status of an Award by the Sourcing Professional conducting the RFB or RFP.
- 5.4.3 Limited Notice To Proceed (LNTP):** All LNTP's, regardless of the value, shall be reviewed and approved by AEP Legal.

6.0 Contract Standards, Documents, & Modifications:

6.1 Contract Standards:

- 6.1.1 General:** Notwithstanding the use of a credit card in accordance with the AEP Credit Card Policy, any transaction that contains the provisions of an Offer, Acceptance, and Consideration shall utilize one or more Forms of the Contract Documents residing on AEP Legal's website: <http://legal/contractforms/> or in another Form acceptable to AEP Legal.
- 6.1.2 General Terms and Conditions:** Unless approved by AEP Legal, all Contracts shall reference AEP Terms and Conditions as the governing terms.
- 6.1.3 Legal Review of Contracts:** Any commitments that include changes to the various sets of AEP terms and conditions must be reviewed and approved by AEP Legal. Notwithstanding the provisions of the AEP Legal Contract Review Policy for Business Logistics/Supply Chain and Generation Business Services letter date September 28, 2005, all Contracts with a commitment value over \$500,000 shall be reviewed and approved as to Form by AEP Legal. Any Amendments that modify the General Terms and Conditions of a Contract or present a substantial modification in risk shall be reviewed and approved by AEP Legal. Notwithstanding the provisions of the AEP Legal Contract Review Policy for Business Logistics/Supply Chain and Generation Business Services letter dated September 28, 2005, all exceptions to AEP Terms and Conditions shall be approved by AEP Legal.

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7.0 Documentation and Records Retention:

7.1 Retention of Bid and Contract Files: Bid documents and Contracts must be retained in accordance with AEP's Records Retention Manual which can be found on the following website: <http://dsapp2or/DATABASE/CORPSRVS/CSRRM00a.nsf?OpenDatabase>

Review / Revision:

Every policy must be reviewed and certified as current on an annual or more frequent basis. The most current of those dates and the employee conducting it should be shown here, with that date added to the top of the first page and the footer of all pages. At the discretion of the owner, more detailed "Edit History" and/or "Approvals" areas may be maintained here, showing all activity on this policy over the specified time period.

Reviewers/Approver:

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| Reviewed by: | Rich Mueller, VP, Audit Services | 04/15/13 |
| Reviewed by: | Craig Rhoades, VP Supply Chain, Procurement & Fleet | 04/15/13 |
| Approved by: | Brian Tierney, Chief Financial Officer | 06/05/13 |

Revision History:

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|--|---|----------|
| Revision 001, Paragraphs 5.1.1.1 and 5.1.6 – additions are highlighted | | |
| Reviewed by: | Rich Mueller, VP, Audit Services | 10/01/13 |
| Reviewed by: | Craig Rhoades, VP Supply Chain, Procurement & Fleet | 10/01/13 |
| Approved by: | Brian Tierney, Chief Financial Officer | 12/12/13 |



Attachment A Definitions

The following words, terms, and phrases defined in this attachment shall have the meanings set forth below whenever they appear in this Policy, except where:

- 1) the context in which they are used clearly requires a different meaning; or
- 2) a different definition is prescribed for a particular section or provision.

Words not defined shall be given the meaning provided under their common and ordinary meaning unless the context suggests otherwise.

Acceptance – the decision by a Business Unit to agree to an Offer from a Supplier. One part of Contract formation

Acquisition - the taking of possession and control (in the form of title and ownership) of property from a third party

Amendment – any change or modification to the original Terms and Conditions of a Contract or other document

Authorization Level – the specific dollar amount to which an individual may commit or legally bind AEP

Award – the formal Acceptance by the Business Unit of an Offer of Goods or Services made by a Supplier

Blanket Contract – A Contract that is funded for future Services, which is parceled as needed in the form of a Release

Blanket Purchase Order – A Purchase Order that is funded for future Goods, which is parceled as needed in the form of a Release

Business Unit – an entity within AEP having specific responsibilities and identified by a unique accounting string

Catalog ID Items – Goods that are assigned a unique numeric identifier in Asset Suite

Competitive Affiliate - an unregulated AEP affiliate whose business includes providing products in the open market

Consideration – something of value which is given by both parties in a Contract which induces the parties to enter into the subject agreement and to exchange mutual performance

Control Desk - the location to which bids/proposals are sent, logged, and kept under lock and key during an RFX that specifies requirements for sealed bids

Contract – the agreement detailing the specific terms of the Offer and Acceptance for the provision of Goods or Services between AEP and a Supplier in return for Consideration. Some examples of Contracts are Service Agreements, Standard Contracts or Blanket Contracts

Goods – all tangible items

Joint Venture – an association of two or more companies engaged in a solitary business enterprise for profit without actual partnership or incorporation

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Justification Statement – a document which clearly indicates the reason for not competitively bidding the Acquisition of a Good and/or Service or for not making an Award to the low bidder

LNTP – an instrument used to place a Supplier on notice to start a Service or deliver a Good prior to the execution of a Contract and is normally contingent upon successful negotiation of the terms and condition

Lowest and Best – as applied to ranking of bids or proposals; lowest and best refers to the identification of a bid or proposal that provides the best outcome (without reference to cost) and then the ranking from lowest to highest price. The lowest and best is determined by the lowest price of those bids or proposals which are deemed to be responsive to providing the best solution

Material Request – the electronic document in AEP's Enterprise Asset Management tool whereby an individual initiates a request for Goods

Offer – a promise that, according to its terms, is contingent upon a particular act or promise given in exchange for the original promise

Procurement – the act of buying, purchasing, renting, or otherwise acquiring any Goods or Services for AEP. Procurement also includes all functions that pertain to the afore-stated, including, but not limited to: description of requirements, selection and solicitation of sources, preparation and Award of Contracts, and all phases of contract administration

Proposal – an Offer by a Supplier in response to an RFP invitation

Purchase Order - an Offer made to a Supplier through AEP's Enterprise Asset Management tool to purchase Goods from a Supplier contingent upon the Supplier meeting the terms included in the Offer

Purchase Requisitions – the electronic document in AEP's Enterprise Asset Management tool whereby an individual initiates a request for a Purchase Order

Release(s) – see Work Authorization. Release has a specific legal definition and for this Policy will only refer to the name given to the mechanism for issuing work against a Blanket Contract or Purchase Order in AssetSuite

Rules Document - the document provided with an RFx that provides the instructions for its completion and submission

Request for Information (RFI) - may be used to solicit information about a potential or existing Supplier's experience, service or product, capability, quality, and other information required to screen potential Suppliers prior to the formal process of requesting an RFP, RFB, or RFQ, RFPQ, quote, or proposal

Request for Proposal (RFP) - shall be used to solicit an Offer from a Supplier when the scope, product, or work is not defined specifically enough, or when AEP is soliciting a solution to a product or Service requirement. This method will normally include the negotiation of both price and non-price factors for Award and shall be delineated in the Rules Document

Request for Bid (RFB) - shall be used to solicit an Offer from a Supplier when the scope, product, or work solution is known and specified by AEP. This method will normally include the negotiation of non-price factors, but not price for Award and shall be delineated in the Rules Document

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Request for Quote (RFQ) - an RFQ may be utilized as an acceptable method to solicit and document a price for Goods or Services under the specific terms issued as part of a Contract or Service Agreement for Goods or Services resulting in a Work Authorization, Release, or Purchase Order as defined by this Policy

Request for Professional Qualifications (RFPQ) - Used to solicit a qualification statement from a Supplier who provides Professional Services as defined by this Policy. This method is used to determine the best qualified Supplier for the Service requirement. This method of solicitation does not solicit a price proposal from the Supplier(s) until a short-list of qualified Suppliers is established

RFx – refers to any of the family of “Request For” documents, see RFB, RFI, RFP, RFQ, RFPQ

Service Agreement – the Form of Contract for Services that are generally low risk and up to \$500,000 in value. The Service Agreement is intended to be used with the Service Agreement Terms and Conditions

Service – any activity performed by a third party for the benefit of AEP, including, but not limited to labor, consulting, construction, training, maintenance and/or staff augmentation

Sole/Direct Source - not competitively bidding the Acquisition of a Good and/or Service

Sourcing – the act of identifying potential or existing Suppliers who are able to meet the form, fit, function, design or Service requirements identified in Contracts

Sourcing Professional – an individual within Procurement; Generation Contract Services; or Cook Procurement who possess specialized knowledge, skills, abilities, education, and experience to facilitate an RFx event

Supplier – one who provides Goods and/or Services

Standard Contract – the Form of Contract Services that are generally moderate or high risk and are over \$500,000 in value

Work Authorization - a specialized Contract Form, issued against a Blanket Contract, that authorizes a Supplier to perform Services and/or deliver Goods as described in its body or attached documents

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**AEP PROCUREMENT POLICY ATTACHMENT B
JUSTIFICATION FOR SOLE/DIRECT SOURCE
OR OTHER THAN LOW BID ACQUISITION**

I certify the statements enclosed and the information provided is complete and correct to the best of my knowledge. I understand that the processing of a sole source justification precludes the use of full and open competition in accordance with American Electric Power's Procurement Policy dated July 1, 2013. Section 5 requires that all purchases in excess of the Competitive Bid threshold of \$100,000 require competitive bidding unless justified by a Sole/Direct Source Justification. I understand further that Awards to Other than Low Bidder must be similarly justified. Requisitioners are required to justify a Sole Source or Other than Low Bid selection of a supplier in accordance with the instructions in the policy. This form must be completed and forwarded with the Contract and/or Purchase Requisition to proceed with the acquisition process.

The preliminary estimated dollar expenditure for this material, software and/or services is: \$ _____

Requisitioner:

Signature _____

Name
Title
Date

Item(s) or service(s): (Description of Goods or Services)

Suggested source/supplier: (Supplier Name)

Contract/PO number (if known): (Contract No.)

Describe in detail why only this suggested source can furnish the requirements to the exclusion of other sources.

Procurement Review (Required for Zero Dollar Blanket Purchase Orders or Contracts):

Initials _____
Title

Approver:

Signature _____

Name
Title
Date