

FUEL & EMISSIONS DEPARTMENT PROCUREMENT MANUAL

ADOPTED FEBRUARY 27, 1981

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Each member of the Fuel and Emissions department acknowledges the agreement and understanding of all procedures documented in this Fuel and Emissions Department Procurement Manual and shall be fully compliant with these procedures.

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COAL

PROCEDURE FOR THE PROCUREMENT OF COAL			C-1
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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 Approval and Review Form—Form circulated to various EKPC personnel indicating they have reviewed the document prior to senior management's signature ([Exhibit 39](#)).
- 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 Checklist for Fuel Department Transactions—List of documentation required and filed with each contract and purchase order completed and signed by Fuel and Emissions' Administrative Assistant. ([Exhibit 14](#))
- 2.4 Coal—Bituminous fossil fuel used to fire boilers.
- 2.5 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](#)).
- 2.6 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](#)).

- 2.7 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.
- 2.8 Coal Sampling Procedures—Document prepared by EKPC's Central Lab that defines how to sample and analyze coal in a method recognized within the industry.
- 2.9 Coal Specifications and Information—Data sheet specifying each power station's delivery, pricing, and specifications for coal purchases ([Exhibit 9](#)).
- 2.10 Contract—Document binding seller to sell and ship designated product that states 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.
- 2.11 Contract Tonnage Report—Report identifying the supplier name, term, security of performance expiration, reopener dates, commitments, and tonnage balances on current coal contracts ([Exhibit 49](#)).
- 2.12 Economy Spot Purchase—Spot 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. Will not exceed 25,000 tons per month unless approved by Senior Vice President of Power Supply.
- 2.13 Electronic Proposals—Proposals received through password protected e-mail accounts, managed by Fuel Analyst, and not viewed prior to proposal opening.
- 2.14 Emergency Spot Purchase—Spot 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.
- 2.15 Financial Review—Typically includes the examination of an entity's balance sheet, income, and cash flow statements to determine the entity's financial health. Conducted on supplier agreements with an initial term greater than one year.
- 2.16 Fixed Price—A price that does not change over the contracted period for a commodity with specified quality attributes. All applicable taxes, freight, fees, and profit margins are typically included.

- 2.17 Floating Price—Price subject to adjustments based upon predetermined indices or surcharges. All applicable taxes, freight, fees, and profit margins are typically included.
- 2.18 Fuel Evaluation Data Entry Verification Form—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 opening, and provides additional measures to aid in the accuracy of the data input into the Fuel Evaluation System ([Exhibit 16](#)).
- 2.19 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 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.
- 2.20 Fuel Negotiating Committee—Committee requiring a Board Director participation. The Director will be appointed annually according to guidelines set in Section E, Management Committees from Policy No. 106 ([Exhibit 3](#)).
- 2.21 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.
- 2.22 IRMC—Internal Risk Management Committee has the authority to approve and oversee the processes used to identify, evaluate, and manage enterprise risk.
- 2.23 Long-Term—Duration of more than one 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. 106—EKPC Board of Directors policy for the Establishment of Board Committees and Respective Charters ([Exhibit 3](#)).

- 2.26 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure 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*).
- 2.27 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*).
- 2.28 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*).
- 2.29 Power Stations—Electric power generating plants owned and operated by EKPC: Cooper and Spurlock.
- 2.30 Purchase Order—Document binding seller to sell and ship designated product that states 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.
- 2.31 RFP—Request for proposal sent to prospective suppliers on EKPC’s Coal Bidders List (*Exhibit 7*).
- 2.32 Sealed Proposals—Proposals received through a written RFP process not viewed prior to proposal opening (can include electronic proposals).
- 2.33 Security of Performance—A document providing at least a minimum level of assurance of performance by a contract supplier, in addition to normal remedies for contract breach.
- 2.34 Short-Term—Duration of one year or less.
- 2.35 Spot Purchase—Spot purchases are non-contract supply agreements that permit EKPC to purchase coal at a specific rate for a defined term, typically one year or less. Spot purchases allow EKPC the flexibility to respond quickly and efficiently to inventory needs while remaining in compliance with EKPC policy. There are four types of spot purchases including (1) *Traditional*, (2) *Economy*, (3) *Emergency*, and (4) *Test spot*

purchases. *Traditional* spot purchases are subject to the competitive bidding process, are initiated with either a written or verbal RFP, and are typically made for a term of one year or less. This is the most common type of spot purchase and is typically based on the long-term future burns projection. *Economy, Emergency, and Test* spot purchases do not require competitive bidding, are typically a shorter term than traditional spot, and may need to be executed timely within hours. Any spot purchase not subject to the competitive bidding process must have an identifiable trigger such as, but not limited, to the following: time being of the essence, low physical inventory, near-illiquid market conditions, hedge optimization, change in legislation, governmental imposition, Force Majeure Event, breach of contract, or the need for transportation flexibility. The option of making Economy, Emergency, and Test spot purchases must be approved in writing by the Senior Vice President, Power Supply or Executive Vice President/Chief Operating Officer prior to negotiating proposals. Economy, Emergency, and Test spot purchases will be subject to the standard approval process and levels as detailed in Policy No. 404 or Policy No. AO31 prior to execution of the short-term purchase order. Economy, Emergency, and Test spot purchases may involve specific need-based circumstances, and may include a provision by which there are no minimum requirements for either party. The no-minimum quantity purchase option allows management to optimize plant efficiency by facilitating the more precise matching and timing of deliveries with actual burn-based needs and may be applied at the discretion of the Fuel and Emissions Manager and approved in accordance with Policy. (See Section 4.7.2 for additional information regarding the procedures related to spot purchases.)

- 2.36 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](#)).
- 2.37 Test Spot Purchase—Spot purchase made without competitive bidding to test a supplier's performance or a particular fuel for its suitability and burning characteristics at EKPC's power stations. Will not exceed 25,000 tons per month unless approved by Senior Vice President of Power Supply.
- 2.38 Trading Authority Transaction Matrix—Delegation of procurement approval authority ([Exhibit 50](#)).
- 2.39 Traditional Spot Purchase—Spot purchase made with the competitive bidding process, initiated with a written or verbal RFP, for a term of typically one year or less. This is the most common type of spot purchase.

- 2.40 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 applicable policies, procedures, and strategies.
- 3.1.2 Ensures adequate coal deliveries to EKPC's power plants.
- 3.1.3 Ensures all new contracts have been reviewed by legal, with the credit rating and insurance language reviewed by risk management.
- 3.1.4 May waive a price adjustment if the circumstances or conditions warrant.
- 3.1.5 Signs approval memos for purchase order changes, and executes short-term purchase orders in accordance with Policy No. A031 (*Exhibit 2*).

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 Manage Coal Specifications and Information (*Exhibit 9*).
- 3.2.5 Unload coal meeting required quality specifications.
- 3.2.6 Collect coal samples daily to be analyzed.
- 3.2.7 Assist Production Engineering and Accounting with coal stockpile surveys.

3.3 Fuel Buyers

- 3.3.1 Determine quantities to purchase based on projected needs, hedge requirements, 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(s) 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 verify applicable fuel escalation adjustments prepared by Accounting.

3.4 Administrative Assistant

- 3.4.1 Assists in managing the RFP process.
- 3.4.2 Reviews contract(s) and/or purchase order(s).
- 3.4.3 Enters, revises, and finalizes compliant bids using the Fuel Evaluation System.
- 3.4.4 Verifies all documentation is received according to the Checklist for Fuel Department Transactions ([Exhibit 14](#)) and files with appropriate contract(s) and/or purchase order(s).
- 3.4.5 Posts fully-executed contract(s) and purchase order(s) to a shared location, and notifies EKPC's internal risk management and external 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.

3.6 Fuel Analyst

- 3.6.1 Manages receipt of electronic proposals through password protected e-mail account.
- 3.6.2 Manages the Trading Authority Transaction Matrix (*Exhibit 50*) and reconciles with EKPC's risk management service provider.
- 3.6.3 Assists in managing price adjustments.
- 3.6.4 Audits Governmental Imposition claims and manages suppliers' financial reviews.
- 3.6.5 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.

3.7 Central Lab Personnel

- 3.7.1 Assist Power Plant Personnel in sampling of coal as needed.
- 3.7.2 Perform coal analysis daily for Cooper Power Station and weekly for Spurlock Power Station.
- 3.7.3 Receive coal samples from Power Plant Personnel for analysis by independent commercial lab as needed.
- 3.7.4 Provide proper analysis and weights of coal to Accounting so payment is made based upon agreed terms related to coal quality in the contract.

3.8 Accounting

- 3.8.1 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.
- 3.8.2 Reconciles barge and rail invoices received for payment.

- 3.8.3 Contacts responsible party to clarify any discrepancies in the invoices, receiving records, and/or lab analysis.
- 3.8.4 Calculates payment and sends to treasury for disbursement.

4.0 Procedure

Due to changing environmental laws or regulations, Fuel and Emissions representative(s) will maintain dialogue with Environmental Affairs representative(s) to ensure appropriate fuel quality is purchased.

Cooper Power Station has a maximum stockpile capacity of 268,000 tons and a maximum potential daily burn of 3,629 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 400,000 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, emergency, or test spot purchases.)
 - 4.2.1 Create a written RFP (e.g., [Exhibit 15](#)) for contract purchases.
 - 4.2.2 Create a written or verbal RFP for traditional spot purchases. (Verbal RFPs are confirmed by written documentation.) Written proposals will be opened at a later time following the documented procedure. Active proposals on file may also be considered for these purchases. Suppliers are notified through e-mails, letters, trade publications, and personal conversations that EKPC is continuously evaluating spot market coal and will accept unsolicited 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, emergency, or test spot purchases in which no RFP is required. (There are no quantity limits on emergency spot purchases. Economy and test spot purchases shall not exceed 25,000 tons per month unless approved by Senior Vice President of Power Supply.)
- 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 may develop and coordinate a 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 (e.g., [Exhibit 15](#)) stating applicable delivery locations, term, quality, quantity, and price options including the security of performance 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 (e.g., [Exhibit 15](#)) before issuing.
 - 4.3.5 Issue RFP (e.g., [Exhibit 15](#)) for sealed proposals for coal to bidders on EKPC's Coal Bidders Lists ([Exhibit 7](#)). (Economy, emergency, and test spot coal proposals may be made verbally and confirmed by written documentation.)
 - 4.3.6 Fuel Manager notifies Executive Staff in writing of issued written RFP (e.g., [Exhibit 15](#)).
- 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 traditional 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 Administrative Assistant and Fuel Analyst (respectively), or their designee(s) prior to formal bid opening.

- 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 received after the deadline on a case-by-case basis to determine their eligibility for evaluation. If legitimate information can be obtained to determine the proposal was sent to be received before the deadline, a proposal 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 Fuel Evaluation Data Entry Verification form (*Exhibit 16*) with every coal evaluation.
 - 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 for contracts.
- 4.5.12 Ensure necessary due diligence is performed 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 to be used in EKPC's risk management provider's template for credit scoring. Publically traded and privately held financial evaluations would then be provided to the Finance department for their review and/or recommendation. Annual reviews, which include market price reopeners, will be shared with the Finance department for informational purposes.
- 4.5.13 Draft approval memorandum—including economy, emergency, and test spot 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 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 Policies No. 404 (*Exhibit 5*) and No. AO31 (*Exhibit 2*) for the new term type.
- 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.

- 4.5.16 Management approves memorandum in accordance with Policies No. 404 (*Exhibit 5*) and No. AO31 (*Exhibit 2*).
- 4.6 Fuel Buyers prepare contract(s) and/or purchase order(s) based on a standard template reviewed by legal counsel, with credit rating and insurance requirements submitted to 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 the W-9 (*Exhibit 13*) to Accounting, and Fuel Buyers forward the Certificate of Insurance to risk management for approval if not already on file.
 - 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, 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, 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 Approval and Review form ([Exhibit 39](#)) if senior management's signature is required. Written and verbal RFPs for traditional spot coal needs go through the competitive bidding process. Economy, emergency, and test spot purchases are less common and are the only exceptions to the competitive bidding process. Purchase order(s) executed without minimum purchase requirements are typically short-term spot purchases and subject to the same documentation, controls, and approval requirements set forth in this procedure and in accordance with Policies No. 404 and No. A031. Cooper Power Station is dependent exclusively on the spot coal market.
- 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 is received for capture in a risk management system in accordance with Policies No. 404 ([Exhibit 5](#)) and No. A031 ([Exhibit 2](#)). These documents are automatically set up by the Administrative Assistant to delete within seven days. If the documents are not retrieved from the shared directory, which functions as a portal to individuals at multiple geographic locations within seven days, the documents can be provided directly to the appropriate individual upon request from the risk management service provider.
- 4.7.4 Fuel Analyst logs approved contract(s) and purchase order(s) on the Trading Authority Transaction Matrix ([Exhibit 50](#)) and submits a summary to internal risk management on a regular basis for informational purposes after reconciliation and Fuel and Emissions Manager's approval.
- 4.7.5 Administrative Assistant files executed contract(s) and purchase order(s) in Fuel and Emissions' department files with documentation according to the Checklist for Fuel Department Transactions ([Exhibit 14](#)). Original contract(s) 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 Cooper Power Station for inventory measures and payment. Both gross and tare weights are taken and net weights are determined.
 - 4.9.2 Use calibrated belt scales at Spurlock Power Station to verify barge origin weights or certified barge drafts for determination of destination weights for inventory measures and/or payment as specified by applicable contract or purchase order. (Barge Drafting [Exhibit 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 Cooper Power Station 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 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.
 - 4.12.1 Documents due dates and execution of interim financial reviews, tracking them on a monthly/quarterly basis as needed.
 - 4.12.2 Performs interim supplier financial reviews for contracts at least annually or more if deemed necessary under the oversight of the Fuel and Emissions Manager who ensures timely execution.
- 4.13 Verify receipt of deliveries, generate coal invoices, and reconcile freight invoices.
 - 4.13.1 Fuel Analyst enters deliveries for each contract and purchase order on the Trading Authority Transaction Matrix ([Exhibit 50](#)) 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 a summary to internal risk management for informational purposes.
 - 4.13.2 Fuel Analyst reconciles the Trading Authority Transaction Matrix ([Exhibit 50](#)) with the monthly Contract Tonnage Report ([Exhibit 49](#)) for internal purposes only.
 - 4.13.3 Fuel Buyers review and verify floating price adjustments for production and transportation surcharges as needed.
 - 4.13.4 Fuel Analyst requests documentation of independent bias test results and scale certification from each contract supplier.
 - 4.13.5 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.
 - 4.13.6 Accounting reconciles barge and rail invoices received for payment.
 - 4.13.7 Accounting contacts responsible party to clarify any discrepancies.

4.13.8 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, 2023, and this procedure will be reviewed annually.

Concurred by: Mark Horn
Mark Horn
Manager, Fuel & Emissions

Date: 11/02/2022

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

Date: 11/02/2022

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EMISSIONS

PROCEDURE FOR THE PROCUREMENT OF EMISSION ALLOWANCES			E-1
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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, as required, 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 SO₂ 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 SO₂, Seasonal NO_x, and Annual NO_x ([Exhibit 22](#)).
- 2.5 Annual NO_x—NO_x controlled by an individual program within CAIR and/or CSAPR including its own separate allocations from seasonal NO_x for an entire calendar year.
- 2.6 Approval and Review Form—Form circulated to various EKPC personnel indicating they have reviewed the document prior to senior management's signature ([Exhibit 39](#)).

- 2.7 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).
- 2.8 Cagle Keystone—A poultry processing plant outside Albany, Kentucky, relying on oil-fired generators as back-up electrical supply should their main source of electricity be disrupted. EKPC owns the two units as well as purchases off-road ultra-low sulfur No. 2 fuel oil for the 6,000-gallon storage tank.
- 2.9 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.
- 2.10 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 District of Columbia. It was designed to reduce sulfur dioxide (SO₂) and nitrogen oxide (NO_x) emissions in order to help states meet their National Ambient Air Quality Standards (NAAQS) for ozone and particulate matter (PM_{2.5}) and to require further emissions reductions already achieved through the Acid Rain Program and NO_x State Implementation Plan call program. The rule was set to commence in 2009 for SO₂, seasonal NO_x, and annual NO_x emissions.
- 2.11 Clean Air Transport Rule (“CATR”)—EPA rule finalized on July 6, 2011, to replace CAIR and require further reductions in SO₂ and NO_x. The rule was revised and is currently called CSAPR.
- 2.12 Combustion Turbine (“CT”)—An electric generating unit utilizing natural gas or No. 2 fuel oil.
- 2.13 Confirmation—Form sent by broker or seller to document agreed upon product, price, vintage year, quantity, and term (*Exhibit 19*).
- 2.14 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 EKPC cannot exceed, including, but not limited to, maximum tons of emissions by year for SO₂ and NO_x. The consent decree for EKPC will end, but several parameters of the decree will continue on through the modification of EKPC plant permits.
- 2.15 Cross-State Air Pollution Rule (“CSAPR”)—EPA rule finalized on July 6, 2011, to replace CAIR and require further reductions in SO₂ and NO_x.

This rule was previously known as CATR as of October 15, 2012. The rule was originally slated for 2012 implementation with Phase II occurring in 2014. The rule actually began in 2015.

- 2.16 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 SO₂, Seasonal NO_x, and Annual NO_x.
- 2.17 Environmental Protection Agency (“EPA”)—An agency of the United States federal government created for the purpose of protecting human health and the environment by writing and enforcing regulations based on laws passed by Congress.
- 2.18 National Ambient Air Quality Standards (“NAAQS”)—The maximum permissible levels of common pollutants in the ambient (outdoor) air set by EPA.
- 2.19 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 the CT units at Bluegrass Generating Station and J. K. Smith Power Station.
- 2.20 No. 2 Fuel Oil—Dyed ultra-low sulfur diesel fuel containing a maximum 15 ppm sulfur used for off-road purposes such as unit startups and flame stabilization in the coal-fired generation fleet, a backup fuel in the CT fleet at Bluegrass Generating Station and J. K. Smith Unit Nos. 1 through 7, and fuel for Cagle Keystone.
- 2.21 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.
- 2.22 Nitrogen Oxides (“NO_x”)—Refers to nitric oxide and nitrogen controlled through various programs and termed as Seasonal (Ozone) NO_x and Annual NO_x in the CAIR and/or CSAPR program.
- 2.23 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).
- 2.24 Ozone (Seasonal) NO_x—Interchangeable terms for NO_x controlled by an individual program within CAIR and/or CSAPR 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.

- 2.25 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](#)).
- 2.26 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure 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](#)).
- 2.27 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](#)).
- 2.28 Power Stations—Electric power generating plants owned and operated by EKPC: Cooper, Spurlock, Bluegrass, and J. K. Smith. Cooper and Spurlock Power Stations are coal-fired power plants; Bluegrass is a power plant compiled of three CT units fueled by natural gas (primary) and No. 2 fuel oil (secondary); and J. K. Smith is a power plant compiled of seven CT units fueled by natural gas (primary) and No. 2 fuel oil (secondary). J.K. Smith also has two additional CT units that are natural gas only.
- 2.29 Seasonal (Ozone) NO_x—Interchangeable terms for NO_x controlled by an individual program within CAIR and/or CSAPR 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.
- 2.30 Sulfur Dioxide (“SO₂”)—A toxic gas created in the combustion process of fuels that contain sulfur and is controlled through various programs such as CAIR and/or CSAPR.
- 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 applicable policies, procedures, and strategies.
- 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).

3.2 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 Consults with external counsel for further expertise as needed.

3.3 Power Plant Personnel

- 3.3.1 Notify Fuel and Emissions and Power Supply Planning of unplanned generating unit outages that could affect the quantity of emissions.

3.4 Fuel Buyers

- 3.4.1 Monitor EKPC's inventory of emission allowances and make recommendations regarding future allowance purchases.
- 3.4.2 Negotiate contract terms of emission allowance contracts.
- 3.4.3 Complete schedule of emission allowance position (receipts, usage, and inventory) for Environmental Affairs and Legal planning purposes.

3.5 Administrative Assistant

- 3.5.1 Assists in managing the emissions contract process.
- 3.5.2 Reviews contract(s) and/or purchase order(s).
- 3.5.3 Completes emissions allowance Transaction Schedule ([Exhibit 20](#)).

- 3.5.4 Verifies that a W-9 (*Exhibit 13*) is received from the counterparty of each emission allowance contract.
- 3.5.5 Posts fully-executed contract(s) and purchase order(s) to a shared location, and notifies EKPC's internal risk management and external risk management service provider.
- 3.6 Power Supply Planning
 - 3.6.1 Determines short- and long-term projected emissions.
- 3.7 Environmental Affairs
 - 3.7.1 Communicates testing schedules to Power Supply Planning and Fuel & Emissions.
 - 3.7.2 Performs yearly process of transferring appropriate allowances to EPA unit accounts prior to EPA retiring allowances.
- 3.8 Accounting
 - 3.8.1 Calculates 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

As of January 1, 2015, EKPC is operating under Acid Rain Rules for SO₂ emissions and CSAPR Rules for SO₂, Ozone NO_x, and annual NO_x emissions. EKPC is allocated varying quantities of SO₂, Ozone NO_x, and Annual NO_x emission allowances on a yearly basis.

- 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 SO₂, 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, and applicable EPA rule allocations.
- 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 process may include multiple bids and offers.
 - 4.3.3 Fuel Buyer exercises agreement to price, quantity, and emission product based on Policies No. 404 ([Exhibit 5](#)) and No. AO31 ([Exhibit 2](#)). If purchase is not within the Fuel Buyer's 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 Fuel Buyer negotiates 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*) and submits to Accounting.
- 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 Approval and Review form if senior management's signature is required.
 - 4.5.3 Fuel Buyer and/or Administrative Assistant secure a W-9 (*Exhibit 13*) from supplier and forward to Accounting if not already on file.
 - 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 is received for capture in a risk management system in accordance with Policies No. 404 (*Exhibit 5*) and No. A031 (*Exhibit 2*). These documents are automatically set up by the Administrative Assistant to delete within seven days. If the documents are not retrieved from the shared directory, which functions as a portal to individuals at multiple geographic locations within seven days, the documents can be provided directly to the appropriate individual upon request from the risk management service provider.
 - 4.5.5 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 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 March 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 SO₂ 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 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, 2023, and this procedure will be reviewed annually.

Concurred by: Mark Horn
Mark Horn
Manager, Fuel & Emissions

Date: 11/02/2022

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

Date: 11/02/2022

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LIME/LIMESTONE

PROCEDURE FOR THE PROCUREMENT OF LIME, LIME KILN DUST, AND LIMESTONE			L-1
Author: Fuel and Emissions Department		Adopted: 02/27/81	Page 1 of 15
Revision: 13	By: Gail Varner	Revised Date: 11/2/22	Reviewed: Mark Horn

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 (or comparable product), and limestone to be used in Cooper Power Station Unit Nos. 1 and 2 and Spurlock Power Station Unit Nos. 1 and 2 (“scrubbers”), SCRs, circulating fluidized bed (“CFB”) units, and Spurlock Power Station’s waste water treatment and water mass balance processes for East Kentucky Power Cooperative, Inc.’s (“EKPC”) power stations.

2.0 Terms and Definitions

- 2.1 Approval and Review Form—Form circulated to various EKPC personnel indicating they have reviewed the document prior to senior management’s signature ([Exhibit 39](#)).
- 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 CFB—Circulating fluidized bed boilers in Gilbert Unit No. 3 at Spurlock Power Station and Spurlock Power Station Unit No. 4.
- 2.4 Checklist for Fuel Department Transactions—List of documentation required and filed with each contract and purchase order completed and signed by Fuel and Emissions’ Administrative Assistant. ([Exhibit 14](#))
- 2.5 Coal—Bituminous fossil fuel used to fire boilers.
- 2.6 Contract—Document binding seller to sell and ship designated product that states 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.

- 2.7 Economy Spot Purchase—Spot 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.
- 2.8 Electronic Proposals—Proposals received through password protected e-mail accounts, managed by Fuel Analyst, and not viewed prior to proposal opening.
- 2.9 Emergency Spot Purchase—Spot 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.
- 2.10 Financial Review—Typically includes the examination of an entity's balance sheet, income, and cash flow statements to determine the entity's financial health. Conducted on supplier agreements with an initial term greater than one year.
- 2.11 Fixed Price—A price that does not change over the contracted period for a commodity with specified quality attributes. All applicable taxes, freight, fees, and profit margins are typically included.
- 2.12 Floating Price—Price subject to adjustments based upon predetermined indices or surcharges. All applicable taxes, freight, fees, and profit margins are typically included.
- 2.13 Fuel Negotiating Committee—Committee requiring Board of Director participation. The Director will be appointed annually according to guidelines set in Section E, Management Committees from Policy No. 106 ([Exhibit 3](#)).
- 2.14 IRMC—Internal Risk Management Committee has the authority to approve and oversee the processes used to identify, evaluate, and manage enterprise risk.
- 2.15 Lime—Calcium oxide (CaO) used to absorb SO_x emissions generated from the burning of coal at Cooper Power Station. Includes hydrated lime used to absorb SO₃ emissions generated from the burning of coal and use

in the waste water treatment and water mass balance processes at Spurlock Power Station.

- 2.16 Lime and/or Limestone Bidders List—List of current lime and/or limestone companies to submit requests for proposals stating their addresses, representative contacts, phone numbers, and applicable stations for bidding purposes ([Exhibit 24](#)).
- 2.17 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. A comparable product may also be utilized in place of lime kiln dust.
- 2.18 Limestone—Calcium carbonate (CaCO₃) used to absorb sulfur from the coal at Spurlock Power Station.
- 2.19 Ownership Disclosure—Form to be completed by all lime, lime kiln dust, and limestone 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](#)).
- 2.20 Non-Coal Purchase Order Log Book—Log book containing sequential purchase order numbers for new purchase orders on ammonia, oil, TDF, and other commodities issued that states company name, issued date, applicable station, terms, quantity, price, and comments of each purchase order.
- 2.21 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](#)).
- 2.22 Policy No. 106—EKPC Board of Directors policy for the Establishment of Board Committees and Respective Charters ([Exhibit 3](#)).
- 2.23 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure 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 Power Stations—Electric power generating plants owned and operated by EKPC: Cooper and Spurlock. Cooper utilizes lime in a dry scrubber. Spurlock utilizes hydrated lime to absorb SO₃ emissions generated from the burning of coal and use in the waste water treatment and water mass balance processes. Spurlock utilizes limestone in wet scrubbers and the CFB units as well as lime kiln dust in the SCRs.
- 2.26 Purchase Order—Document binding seller to sell and ship designated product that states 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.
- 2.27 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.
- 2.28 SCR—Selective catalytic reduction, which utilizes a catalyst to reduce NO_x emissions from power plant's exhaust gas.
- 2.29 Scrubber—Flue gas desulfurization equipment used for the reduction of SO_x emissions in the scrubbed units at Cooper and Spurlock Power Stations.
- 2.30 Sealed Proposals—Proposals received through a written RFP process not viewed prior to proposal opening (can include electronic proposals).
- 2.31 Security of Performance—A document providing at least a minimum level of assurance of performance by a contract supplier, in addition to normal remedies for contract breach.
- 2.32 Spot Purchase— Spot purchases are non-contract supply agreements that permit EKPC to purchase lime, lime kiln dust, or limestone at a specific rate for a defined term, typically one year or less. Spot purchases allow EKPC the flexibility to respond quickly and efficiently to inventory needs while remaining in compliance with EKPC policy. There are four types of spot purchases including (1) *Traditional*, (2) *Economy*, (3) *Emergency*, and (4) *Test* spot purchases. *Traditional* spot purchases are subject to the competitive bidding process, are initiated with either a written or verbal RFP, and are typically made for a term of one year or less. This is the most common type of spot purchase and is typically based on the long-term future burns projection. *Economy*, *Emergency*, and *Test* spot purchases do not require competitive bidding, are typically a shorter-term than traditional spot, may need to be executed timely within hours. Any spot purchase not subject to the competitive bidding process must have an identifiable trigger such as, but not limited to, the following: time being of the essence, low physical inventory, near-illiquid market

conditions, hedge optimization, change in legislation, governmental imposition, Force Majeure Event, breach of contract, or the need for transportation flexibility. The option of making Economy, Emergency, and Test spot purchases must be approved in writing by the Senior Vice President, Power Supply or Executive Vice President/Chief Operating Officer prior to negotiating proposals. Economy, Emergency, and Test spot purchases will be subject to the standard approval process and levels as detailed in Policy No. 404 or Policy No. AO31 prior to execution of the short-term purchase order. Economy, Emergency, and Test spot purchases may involve specific need-based circumstances, and may include a provision by which there are no minimum requirements for either party. The no-minimum quantity purchase option allows management to optimize plant efficiency by facilitating the more precise matching and timing of deliveries with actual burn-based needs and may be applied at the discretion of the Fuel and Emissions Manager and approved in accordance with Policy. (See Section 4.5.2 for additional information regarding the procedures related to spot purchases.)

- 2.33 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](#)).
- 2.34 Test Spot Purchase—Spot purchase made without competitive bidding to test a particular product for its suitability and burning characteristics at EKPC's power stations.
- 2.35 Trading Authority Transaction Matrix—Delegation of procurement approval authority ([Exhibit 50](#)).
- 2.36 Traditional Spot Purchase—Spot purchase made with the competitive bidding process, initiated with a written or verbal RFP, for a term of typically one year or less. This is the most common type of spot purchase.
- 2.37 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 applicable policies, procedures, and strategies.
- 3.1.2 Ensures adequate lime, lime kiln dust, and limestone deliveries to EKPC's power plants.
- 3.1.3 Ensures all new contracts have been reviewed by legal, with the credit rating and insurance language reviewed by risk management.
- 3.1.4 Signs approval memos for purchase order changes, and executes short-term purchase orders in accordance with Policy 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.
- 3.2.4 Collect lime, lime kiln dust, and limestone samples to be analyzed as needed.
- 3.2.5 Weigh trucks randomly to verify origin weights.
- 3.2.6 Manage lime, lime kiln dust, and limestone specifications.
- 3.2.7 Assist Production Engineering and Accounting with limestone stockpile surveys.

3.3 Fuel Buyers

- 3.3.1 Determine quantities to purchase 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(s) 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 contract(s) and/or purchase order(s).
 - 3.4.3 Verifies all documentation is received according to the Checklist for Fuel Department Transactions (*Exhibit 14*) and files with appropriate contract(s) and/or purchase order(s).
 - 3.4.4 Posts fully-executed contract(s) and purchase order(s) to a shared location, and notifies EKPC's internal risk management and external 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.
- 3.6 Fuel Analyst
- 3.6.1 Manages receipt of electronic proposals through password protected e-mail account.
 - 3.6.2 Manages the Trading Authority Transaction Matrix and suppliers' (*Exhibit 50*) financial reviews.
 - 3.6.3 Assists in managing price adjustments.
 - 3.6.4 Identifies the fixed and floating component percentages of the year-to-date spend.

3.7 Central Lab Personnel

- 3.7.1 Assist Cooper Power Station plant personnel in sampling and analysis of lime as needed.
- 3.7.2 Receive limestone samples from Spurlock Power Station plant personnel for analysis by independent commercial lab.

3.8 Accounting

- 3.8.1 Reconciles all documentation from Power Plant Personnel and Fuel Buyers against invoices.
- 3.8.2 Logs receipt information into accounting computer system.
- 3.8.3 Contacts responsible party to clarify any discrepancies in the invoices, receiving records, and/or lab analysis.
- 3.8.4 Calculates 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 approximately 15,000 tons of limestone is also maintained for the scrubbers and approximately 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. Spurlock Power Station has an environmental control hydrated lime silo that holds approximately 70 tons, a waste water treatment hydrated lime silo that holds approximately 125 tons, and a water mass balance hydrated lime silo that holds approximately 50 tons. They are maintained near capacity level.

- 4.1 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:
 - 4.1.1 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 a written or verbal RFP (e.g., [Exhibit 25](#)) stating applicable delivery locations, term, quality, quantity, and price options including the security of performance requirement.
- 4.1.4 Fuel and Emissions Manager and Administrative Assistant review RFP (e.g., [Exhibit 25](#)) before issuing.
- 4.1.5 Issue RFP (e.g., [Exhibit 25](#)) 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, and emergency lime and limestone proposals may be made verbally and confirmed by written documentation. Written proposals will be opened at a later time following the documented procedure. Suppliers are notified through e-mails, letters, trade publications, and personal conversations that EKPC is continuously evaluating the market. Only suppliers who have demonstrated their ability to supply the appropriate commodity required are contacted on verbal solicitations.)
- 4.1.6 Fuel Manager notifies Executive Staff in writing of issued written RFP (e.g., [Exhibit 25](#)).
- 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 traditional 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 Administrative Assistant and Fuel Analyst (respectively), or their designee(s), 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 received after the deadline on a case-by-case basis to determine their eligibility for evaluation. If legitimate information can be obtained to determine the proposal was sent to be received before the deadline, a proposal received after the deadline may be considered; otherwise, proposals received after the deadline will not be considered.
 - 4.3.2 Rank opened proposals in order of lowest to highest evaluated cost for fixed and/or floating pricing.
 - 4.3.3 Determine if lowest priced proposal(s) meets EKPC's requirements as specified in the corresponding RFP.
 - 4.3.4 Evaluate supplier(s) performance capabilities.
 - 4.3.5 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.
 - 4.3.6 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.
 - 4.3.7 Prepare a field evaluation report if field visit is conducted for contracts.
 - 4.3.8 Ensure necessary due diligence is performed 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 to be used in EKPC's risk management provider's template for credit scoring. Publically traded and privately held financial evaluations would then be provided to the finance department for their review

and/or recommendation. Annual reviews, which include market price reopeners, will be shared with the Finance department for informational purposes.

- 4.3.9 Draft approval memorandum—including economy, emergency, and test spot purchases—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.
 - 4.3.10 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 Policies No. 404 ([Exhibit 5](#)) and No. AO31 ([Exhibit 2](#)) for the new term type.
 - 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 Management approves memorandum in accordance with Policies No. 404 ([Exhibit 5](#)) and No. AO31 ([Exhibit 2](#)).
- 4.4 Fuel Buyers prepare contract(s) and/or purchase order(s) based on a standard template reviewed by legal counsel, with credit rating and insurance requirements submitted to 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 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 the W-9 ([Exhibit 13](#)) to Accounting, and Fuel Buyers forward the Certificate of Insurance to risk management for approval if not already on file.

- 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 Non-Coal Purchase Order Log Book after appropriate review and/or approval is given by the Fuel and Emissions Manager, legal counsel, and risk management for purchase orders only. Contract numbers are developed as needed.
 - 4.5.2 Administrative Assistant reviews contract(s) and purchase order(s) and circulates for signatures prior to distribution utilizing the Approval and Review form ([Exhibit 39](#)) if senior management's signature is required. Written and verbal RFPs for traditional spot purchase needs go through the competitive bidding process. Economy, emergency, and test spot purchases are less common and are the only exceptions to the competitive bidding process. Purchase order(s) executed without minimum purchase requirements are typically short-term spot purchases and subject to the same documentation, controls, and approval requirements set forth in this procedure and in accordance with Policies No. 404 and No. A031.
 - 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 is received for capture in a risk management system in accordance with Policies No. 404 ([Exhibit 5](#)) and No. A031 ([Exhibit 2](#)). These documents are automatically set up by the Administrative Assistant to delete within seven days. If the documents are not retrieved from the shared directory, which functions as a portal to individuals at multiple geographic locations within seven days, the documents can be provided directly to the appropriate individual upon request from the risk management service provider.
 - 4.5.4 Fuel Analyst logs approved contract(s) and purchase order(s) on the Trading Authority Transaction Matrix ([Exhibit 50](#)) and submits

a summary to internal risk management on a regular basis for informational purposes 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 according to the Checklist for Fuel Department Transactions (*Exhibit 14*). Original contract(s) is stored at an offsite storage facility for disaster mitigation.
- 4.6 Power Plant 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.
 - 4.6.1 Fuel Buyers provide selected lime, lime kiln dust, and limestone supplier(s) a projected delivery schedule for up to one year.
 - 4.6.2 Fuel Buyers manage the commercial terms and conditions of the current contract(s) and/or purchase order(s).
- 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 when deliveries occur using truck scales 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 Buyers monitor supplier performance.
 - 4.9.1 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*).

- 4.9.2 Consult with the Fuel and Emissions Manager if the specifications are not met.
- 4.10 Fuel Analyst tracks and documents financial reviews.
 - 4.10.1 Documents due dates and execution of interim financial reviews, tracking them on a monthly/quarterly basis as needed.
 - 4.10.2 Performs interim supplier financial reviews for contracts at least annually or more if deemed necessary under the oversight of the Fuel and Emissions Manager who ensures timely execution.
- 4.11 Verify receipt and invoice approval.
 - 4.11.1 Fuel Analyst enters deliveries for each contract and purchase order on the Trading Authority Transaction Matrix ([Exhibit 50](#)). After Fuel and Emissions Manager's approval, Fuel Analyst submits a summary to internal risk management for informational purposes.
 - 4.11.2 Fuel Buyers review and verify floating price adjustments for production and transportation surcharges as needed.
 - 4.11.3 Accounting reconciles all documentation (e.g., bill of lading, surcharge and delivery spreadsheets) from Power Plant Personnel and Fuel Buyers against invoices.
 - 4.11.4 Accounting logs receipt information into accounting computer system.
 - 4.11.5 Accounting contacts responsible party to clarify any discrepancies in volume and pricing.
 - 4.11.6 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, 2023, and this procedure will be reviewed annually.

Concurred by: Mark Horn
Mark Horn
Manager, Fuel & Emissions

Date: 11/02/2022

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

Date: 11/02/2022

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NATURAL GAS

PROCEDURE FOR THE PROCUREMENT OF NATURAL GAS			NG-1
Author: Fuel and Emissions Department		Adopted: 02/01/05	Page 1 of 13
Revision: 9	By: Gail Varner	Revised Date: 11/30/22	Reviewed: Mark Horn

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 and natural gas transportation for use at East Kentucky Power Cooperative, Inc.’s (“EKPC”) power stations.

2.0 Terms and Definitions

- 2.1 Approval and Review Form—Form circulated to various EKPC personnel indicating they have reviewed the document prior to senior management’s signature ([Exhibit 39](#)).
- 2.2 Cagle Keystone—A poultry processing plant outside Albany, Kentucky, relying on oil-fired generators as back-up electrical supply should their main source of electricity be disrupted. EKPC owns the two units as well as purchases off-road ultra-low sulfur No. 2 fuel oil for the 6,000-gallon storage tank.
- 2.3 Combustion Turbine (“CT”)—An electric generating unit utilizing natural gas or No. 2 fuel oil.
- 2.4 Confirmation—Form executed by Buyer and Seller to document agreed upon price, quantity, and term ([Exhibit 27](#)).
- 2.5 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](#)).
- 2.6 Daily Price Report—Report containing projected pricing for day-ahead purchases and intra-day purchases ([Exhibit 29](#)).

- 2.7 Day-Ahead Purchase—Purchase made prior to 9:00 a.m. c.s.t the calendar day before the gas day and/or the calendar day before the weekend and/or holidays.
- 2.8 Dekatherm (“Dth”)—Unit of energy equal to 10 therms or one million British thermal units. (See also 2.13.)
- 2.9 Estimated Burn Profile—Hourly schedule showing CT projected usage of natural gas required by the transportation pipeline ([Exhibit 30](#)).
- 2.10 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.
- 2.11 Federal Energy Regulatory Commission (“FERC”)—An independent agency that regulates the interstate transmission of electricity, natural gas, and oil.
- 2.12 Forward Purchase—Purchase made for physical natural gas. Supply confirmations typically have a defined term of one year or less, but can be a supply agreement with a term of three years or less with transaction limits/controls detailed in Board Policy No. 404. Long-term agreements can have an unlimited term if approved by the Board of Directors. These natural gas transactions shall be evaluated on an as-needed basis and purchased with the consent of the CEO and BROCC. May be inclusive of transportation. (See 2.22 NAESB Natural Gas Contract).
- 2.13 Form 552—Annual form required by FERC that summarizes natural gas purchases and sales for the day ahead.
- 2.14 Gas Day—The gas day runs from 9:00 a.m. c.s.t up to the following 9:00 a.m. c.s.t., or as modified by the natural gas industry.
- 2.15 Intra-Day Purchase—Purchase made within the current gas day.
- 2.16 Mcf (Thousand Cubic Feet)—A measurement of volume in the oil and natural 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.
- 2.17 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.

- 2.18 Million Btu (“MMBtu”)—One million British thermal units is the unit of measure for the price paid for natural gas purchases.
- 2.19 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 generator units at Bluegrass Generating Station and J. K. Smith Power Station.
- 2.20 No. 2 Fuel Oil—Dyed ultra-low sulfur diesel fuel containing a maximum 15 ppm sulfur used for off-road purposes such as unit startups and flame stabilization in the coal-fired generation fleet, a backup fuel in the CT fleet at Bluegrass Generating Station and J. K. Smith Unit Nos. 1 through 7 and fuel for Cagle Keystone.
- 2.21 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.
- 2.22 NAESB Natural Gas Contract—Standard contract for the purchase and sale of natural gas. These contracts act as a master agreement and 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](#)).
- 2.23 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.
- 2.24 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.
- 2.25 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](#)).
- 2.26 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure 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](#)).

- 2.27 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*).
- 2.28 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*).
- 2.29 Power Stations—Electric power generating plants owned and operated by EKPC: Cooper, Spurlock, Bluegrass, and J. K. Smith. Cooper and Spurlock Power Stations are coal-fired power plants; Bluegrass is a power plant compiled of three CT generator units fueled by natural gas (primary) and No. 2 fuel oil (secondary); and J. K. Smith is a power plant compiled of seven CT generator units fueled by natural gas (primary) and No. 2 fuel oil (secondary). J. K. Smith also has two additional CT units that are natural gas only.
- 2.30 Spot Purchase—Purchase for physical natural gas. Supply confirmations typically have a defined term of seven days or less. Agreements may be inclusive of transportation.
- 2.31 Tennessee Gas Pipeline (“TGP”)—Interstate natural gas transmission pipeline to which the J. K. Smith Power Station site is inter-connected.
- 2.32 Texas Eastern Transmission Company (“TETCO”)—Interstate natural gas transmission pipeline to which the J. K. Smith Power Station site is inter-connected by an EKPC owned six-mile lateral.
- 2.33 Texas Gas Transmission (“TGT”)—Interstate natural gas transmission pipeline to which the Bluegrass Generating Station site is inter-connected.
- 2.34 Thousand Cubic Feet (“Mcf”)—A measurement of volume in the oil and natural 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.
- 2.35 Trade Data Gas Form—Form completed after purchase to record flow date, MMBtu purchased, price/MMBtu, total dollars, buy or sell, counterparty, pipeline, execution date, type of purchase, and trader name (*Exhibit 31*).

- 2.36 Trading Authority Transaction Matrix—Delegation of procurement approval authority (*Exhibit 50*).
- 2.37 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 applicable policies, procedures, and strategies.
- 3.1.2 Ensures adequate natural gas deliveries and associated transportation to EKPC's power station(s).
- 3.1.3 Evaluates hedging opportunities in accordance with Policy No. 405 (*Exhibit 6*).
- 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.
- 3.3 Power Plant Personnel
- 3.3.1 Maintain the natural gas system and M & R station at the Bluegrass Generation Station and J. K. Smith Power Station to ensure their availability to utilize natural gas.
- 3.3.2 Advise Fuel and Emissions and Power Supply Planning of generating unit, M & R station, and/or pipeline outages that could affect the quantity and/or deliverability of natural gas.
- 3.3.3 Track, review, and make adjustments in unit starts and/or run hours to achieve environmental compliance on each unit's maximum starts and/or run hours.
- 3.3.4 Develop, coordinate, and execute periodic testing of pipelines to ensure any pipeline can be used, operationally, for natural gas deliveries.

3.4 Fuel Buyers

- 3.4.1 Act as liaison between EKPC's external natural gas manager and EKPC's other department personnel.
- 3.4.2 Monitor EKPC's pipeline transportation OBA's and make recommendations regarding future natural gas purchases.
- 3.4.3 Ensure all affected EKPC personnel are aware when any pipeline initiated OFO is issued and make recommendations regarding a plan of action.
- 3.4.4 Complete and review schedule indicating number of starts and amount of run hours, both current and projected, and alert appropriate personnel.
- 3.5.4 Assist Accounting in collecting information used in completing the annual FERC Form 552.

3.5 Administrative Assistant

- 3.5.1 Assists in managing the NAESB natural gas contract process.
- 3.5.2 Completes natural gas pricing worksheet tracking performance of external natural gas manager.
- 3.5.3 Completes monthly natural gas purchase summary for approval in accordance with Policies No. 404 ([Exhibit 5](#)) and No. AO31 ([Exhibit 2](#)).
- 3.5.4 Posts fully-executed NAESB natural gas contract(s) to a shared location, and notifies EKPC's internal risk management and external risk management service provider.

3.6 Fuel Analyst

- 3.6.1 Manages the Trading Authority Transaction Matrix ([Exhibit 50](#)).

3.7 Power Supply Planning

- 3.7.1 Determines short- and long-term projected natural gas usage and prepares Estimated Burn Profile ([Exhibit 30](#)).
- 3.7.2 Contacts external natural gas manager to revise and/or qualify projected natural gas usage.

- 3.7.3 Reviews CT generator unit starts and run hours in order to vary starts and run hours.
- 3.8 Environmental Affairs
 - 3.8.1 Communicates testing schedules to appropriate personnel.
 - 3.8.2 Reviews CT generator unit starts and run hours and alerts appropriate personnel.
- 3.9 Accounting
 - 3.9.1 Verifies volume and price per MMBtu from natural gas confirmations (*Exhibit 27*) with supplier invoice for accuracy.
 - 3.9.2 Contacts responsible party and/or Fuel Buyer to clarify any discrepancies in the invoices.
 - 3.9.3 Calculates payment and sends to treasury for disbursement.
 - 3.9.4 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. TGP, owned by Kinder Morgan, is inter-connected to the site approximately ½ mile from the CTs. The TETCO pipeline, owned by Enbridge, Inc., is interconnected to the site with an approximate 6-mile lateral owned by EKPC. Bluegrass Generating Station has one interstate natural gas pipeline that services the site. TGT, owned by Boardwalk Partners, is interconnected at the site. EKPC's OBA with TGP includes a cash settlement at the end of every month and under normal conditions can handle between +/- 40,000 and 60,000 Dths. EKPC's OBA with TETCO contains an acceptable daily variance of not more than 7,500 Dths and an accumulated balance of not more than 15,000 Dths. The TETCO OBA is not financially settled but is volumetrically settled the following month. No OBA agreement is available at TGT; therefore, delivered natural gas is typically not advantageous.

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 run 2,500 hours based on a rolling 12-month time period. Unit Nos. 5 through 7 have no run-hour limitation. Unit Nos. 9 and 10 may only be operated 4,000 hours on a rolling 12-month time period. Bluegrass Generating Station cannot exceed 95 tons of NO_x, 245 tons of CO,

and cannot exceed 4,757 operating (run) hours for any 12 consecutive calendar months.

- 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 natural 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, PJM unit clearings, and unit availability. This can include Day-Ahead, Intra-Day, Spot, or Forward Purchases.
 - 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 and transportation pipelines.
 - 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 natural 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 and/or applicable various agreements/contracts with transportation pipeline.
 - 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 a W-9 (*Exhibit 13*) from supplier and forward to Accounting if not already on file.
 - 4.2.7 Administrative Assistant, at the direction of the Fuel Buyers, distributes the executed NAESB natural gas contract(s) and/or transportation agreement(s) internally. These documents are posted to a shared directory with EKPC's risk management service provider within five business days after trade execution is received for capture in a risk management system in accordance with Policies No. 404 (*Exhibit 5*) and No. A031 (*Exhibit 2*). The Administrative Assistant promptly removes them from the shared directory.
 - 4.2.8 Fuel Analyst logs approved contract(s) on the Trading Authority Transaction Matrix (*Exhibit 50*).
 - 4.2.9 Administrative Assistant files executed contract(s) in Fuel and Emissions' department files. Original contract(s) 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 Policies No. 404 (*Exhibit 5*) and No. AO31 (*Exhibit 2*) and existing credit limits.
 - 4.3.6 External natural gas manager or natural gas supplier makes nomination on TGP's, TETCO's, or TGT'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 and Emissions 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.
 - 4.3.9 A physical natural gas hedge position is established through Spot Purchases or Forward Purchases in accordance with Policies No. 404, No. AO31, and No. 405; the Fuel Cost Policy; the NAESB; and these approved Procedures. For these Spot and Forward Purchases, the Fuel Buyer will draft an approval memo to management recommending a physical hedge with the purpose of mitigating price volatility in the market while maintaining operational flexibility. If approved, the Fuel and Emissions Manager will communicate by e-mail with the external natural gas manager giving them authority, on behalf of EKPC, to purchase and schedule the physical natural gas hedge.
- 4.4 Prepare and review transaction documentation.
- 4.4.1 External natural 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 natural 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 natural 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 pipeline on-line system and/or 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 33*) 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 starts 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, Bluegrass Generating Station, and J. K. Smith Power Station manage 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 and transportation invoices.
 - 4.8.3 Accounting and/or Fuel Buyer resolve discrepancies with external natural gas manager, respective supplier, and/or pipeline.
 - 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 the Trading Authority Transaction Matrix ([Exhibit 50](#)).
 - 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 in accordance with Policies No. 404 ([Exhibit 5](#)) and No. AO31 ([Exhibit 2](#)).
 - 4.8.9 Accounting completes annual FERC Form 552 with assistance from Fuel Buyer and external natural gas manager.

5.0 Effective Date

5.1 All departments at EKPC shall be fully compliant with this procedure by January 31, 2023, and this procedure will be reviewed annually.

Concurred by: Mark Horn
Mark Horn
Manager, Fuel & Emissions

Date: 12/19/2022

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

Date: 12/19/2022

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OIL

PROCEDURE FOR THE PROCUREMENT OF FUEL OIL			O-1
Author: Fuel and Emissions Department	Adopted: 02/27/81		Page 1 of 15
Revision: 14	By: Gail Varner	Revised Date: 11/2/22	Reviewed: Mark Horn

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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 Approval and Review Form—Form circulated to various EKPC personnel indicating they have reviewed the document prior to senior management’s signature ([Exhibit 39](#)).
- 2.2 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.
- 2.3 Cagle Keystone—A poultry processing plant outside Albany, Kentucky, relying on oil-fired generators as back-up electrical supply should their main source of electricity be disrupted. EKPC owns the two units as well as purchases off-road ultra-low sulfur No. 2 fuel oil for the 6,000-gallon storage tank.
- 2.4 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.
- 2.5 Checklist for Fuel Department Transactions—List of documentation required and filed with each contract and purchase order completed and signed by Fuel and Emissions’ Administrative Assistant. ([Exhibit 14](#))

- 2.6 Combustion Turbine (“CT”)—An electric generating unit utilizing natural gas or No. 2 fuel oil.
- 2.7 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*).
- 2.8 Contract— Document binding seller to sell and ship designated product that states 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 New York Mercantile Exchange (NYMEX) contract represents 1,000 barrels or 42,000 gallons of No. 2 fuel oil.)
- 2.9 Economy Spot Purchase—Spot 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.
- 2.10 Electronic Proposals—Proposals received through password protected e-mail accounts, managed by Fuel Analyst, and not viewed prior to proposal opening.
- 2.11 Emergency Spot Purchase—Spot purchase made without competitive bidding when there is an immediate need for No. 2 fuel oil 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.
- 2.12 Financial Review—Typically includes the examination of an entity’s balance sheet, income, and cash flow statements to determine the entity’s financial health. Conducted on supplier agreements with an initial term greater than one year.
- 2.13 Fixed Price—A price that does not change over the contracted period for a commodity with specified quality attributes. All applicable taxes, freight, fees, and profit margins are included except for a demurrage charge if applicable.
- 2.14 Fuel Negotiating Committee—Committee requiring a Board Director participation. The Director will be appointed annually according to guidelines set in Section E, Management Committees from Policy No. 106 (*Exhibit 3*).

- 2.15 No. 2 Fuel Oil—Dyed ultra-low sulfur diesel fuel containing a maximum 15 ppm sulfur used for off-road purposes such as unit startups and flame stabilization in the coal-fired generation fleet, a backup fuel in the CT fleet (Bluegrass Generating Station and J. K. Smith Unit Nos. 1 through 7), and fuel for Cagle Keystone.
- 2.16 IRMC—Internal Risk Management Committee has the authority to approve and oversee the processes used to identify, evaluate, and manage enterprise risk.
- 2.17 Non-Coal Purchase Order Log Book—Log book containing sequential purchase order numbers for new purchase orders on ammonia, oil, TDF, and other commodities issued that states company name, issued date, applicable station, terms, quantity, price, and comments of each purchase order.
- 2.18 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](#)).
- 2.19 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](#)).
- 2.20 Policy No. 106—EKPC Board of Directors policy for the Establishment of Board Committees and Respective Charters ([Exhibit 3](#)).
- 2.21 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure 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](#)).
- 2.22 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](#)).
- 2.23 Power Stations—Electric power generating plants owned and operated by EKPC: Cooper, Spurlock, Bluegrass, and J. K. Smith. Cooper and Spurlock are coal-fired power plants; Bluegrass is a power plant compiled of three CT generating units fueled by natural gas (primary) and No. 2 fuel oil (secondary); and J. K. Smith is a power plant compiled of seven CT

generator units fueled by natural gas (primary) and No. 2 fuel oil (secondary). J.K. Smith also has two units that are natural gas only.

- 2.24 Purchase Order—Document binding seller to sell and ship designated product that states 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.
- 2.25 Rack-Plus Price—Either a branded or unbranded No. 2 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.
- 2.26 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](#)).
- 2.27 RFP—Request for proposal sent to prospective suppliers on EKPC’s Fuel Oil Bidders List ([Exhibit 34](#)) to bid for No. 2 fuel oil.
- 2.28 Sealed Proposals—Proposals received through a written RFP process not viewed prior to proposal opening (can include electronic proposals).
- 2.29 Spot Purchase— Spot purchases are non-contract supply agreements that permit EKPC to purchase No. 2 fuel oil at a specific rate for a defined term, typically one year or less. Spot purchases allow EKPC the flexibility to respond quickly and efficiently to inventory needs while remaining in compliance with EKPC policy. There are four types of spot purchases including (1) *Traditional*, (2) *Economy*, (3) *Emergency*, and (4) *Test* spot purchases. *Traditional* spot purchases are subject to the competitive bidding process, are initiated with either a written or verbal RFP, and are typically made for a term of one year or less. This is the most common type of spot purchase and is typically based on the long-term future burns projection. *Economy*, *Emergency*, and *Test* spot purchases do not require competitive bidding, are typically a shorter-term than traditional spot, and may need to be executed timely within hours. Any spot purchase not subject to the competitive bidding process must have an identifiable trigger such as, but not limited, to the following: time being of the essence, low physical inventory, near-illiquid market conditions, hedge optimization, change in legislation, governmental imposition, Force Majeure Event, breach of contract, or the need for transportation flexibility. The option of making Economy, Emergency, and Test spot purchases must be approved in writing by the Senior Vice President, Power Supply or Executive Vice President/Chief Operating Officer prior to negotiating proposals. Economy, Emergency, and Test spot purchases will be subject

to the standard approval process and levels as detailed in Policy No. 404 or Policy No. AO31 prior to execution of the short-term purchase order. Economy, Emergency, and Test spot purchases may involve specific need-based circumstances, and may include a provision by which there are no minimum requirements for either party. The no-minimum quantity purchase option allows management to optimize plant efficiency by facilitating the more precise matching and timing of deliveries with actual burn-based needs and may be applied at the discretion of the Fuel and Emissions Manager and approved in accordance with Policy. (See Section 4.5.2 for additional information regarding the procedures related to spot purchases.)

- 2.30 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](#)).
- 2.31 Test Spot Purchase—Spot purchase made without competitive bidding to test a supplier's performance or a particular fuel for its suitability and burning characteristics at EKPC's power stations.
- 2.32 Trading Authority Transaction Matrix—Delegation of procurement approval authority ([Exhibit 50](#)).
- 2.33 Traditional Spot Purchase—Spot purchase made with the competitive bidding process, initiated with a written or verbal RFP, for a term of typically one year or less. This is the most common type of spot purchase.
- 2.34 Unbranded Price—Price for No. 2 fuel oil product that is not brand specific.
- 2.35 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 applicable policies, procedures, and strategies

- 3.1.2 Ensures adequate No. 2 fuel oil deliveries to EKPC's power stations.
 - 3.1.3 Signs approval memos for purchase order changes, and executes short-term purchase orders in accordance with Policy 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 Bluegrass Generating Station's, J. K. Smith Power Station's, and Cagle Keystone's No. 2 fuel oil inventory.
 - 3.3.2 Issue and evaluate RFPs for No. 2 fuel oil for all power stations and Cagle Keystone.
 - 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.
 - 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 Reviews contract(s) and/or purchase order(s).
 - 3.4.3 Contacts appropriate supplier(s) for delivery of No. 2 fuel oil as requested.
 - 3.4.4 Receives and reviews pricing and invoices and contacts appropriate supplier(s) to clarify any discrepancies.
 - 3.4.5 Verifies all documentation is received according to the Checklist for Fuel Department Transactions (*Exhibit 14*) and files with appropriate contract(s) and/or purchase order (s).
 - 3.4.6 Posts fully-executed contract(s) and purchase order(s) to a shared location, and notifies EKPC's internal risk management and external 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.
- 3.6 Fuel Analyst
- 3.6.1 Manages receipt of electronic proposals through password projected e-mail account.
 - 3.6.2 Manages the Trading Authority Transaction Matrix (*Exhibit 50*) and suppliers' financial reviews.
 - 3.6.3 Verifies rack pricing and validates total invoice price.
 - 3.6.4 Compiles and forwards completed spreadsheet of purchases to Accounting.
- 3.7 Central Lab Personnel
- 3.7.1 Sample No. 2 fuel oil tank at Spurlock Power Station semi-annually to ensure emissions compliance for Spurlock Power Station Unit No. 4.
 - 3.7.2 Analyze No. 2 fuel oil drawn from the storage tank(s) at Bluegrass Generating Station and J. K. Smith Power Station for sulfur, Btu,

specific gravity, and temperature to ensure emissions compliance whenever any of the CTs are operating on No. 2 fuel oil.

- 3.7.3 Sample and analyze the No. 2 fuel oil tank(s) at Bluegrass Generating Station and J. K. Smith Power Station semi-annually for quality stability.
- 3.7.4 Sample and analyze deliveries of No. 2 fuel oil as needed.
- 3.7.5 Monitor compliance of bulk storage tanks.

3.8 Accounting

- 3.8.1 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.
- 3.8.2 Contacts responsible party to clarify any discrepancies in the invoices, receiving records, and/or lab analysis.
- 3.8.3 Logs receipt information into accounting computer system.
- 3.8.4 Calculates payment and sends to treasury for disbursement.

4.0 Procedure

Replenish levels for No. 2 fuel oil are approximately 15,000—20,000 gallons at Cooper Power Station and 200,000—250,000 gallons at Spurlock Power Station. Cooper Power Station has a 30,000-gallon capacity underground tank. It is maintained at near capacity. 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 No. 2 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. Bluegrass Generating Station has two, 636,872 gallon above-ground tanks. Replenishing No. 2 fuel oil inventory at Bluegrass Generating Station and 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 a minimum of 50 percent capacity (approximately 2,250,000 gallons) or as directed by the COO as backup to natural gas. The No. 2 fuel oil level at Bluegrass Generating Station is typically held at near capacity (approximately 1,100,000 gallons) or as directed by the COO as backup to natural gas.

Cagle Keystone has a 6,000 gallon above-ground tank. It is maintained at near capacity.

- 4.1 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:
 - 4.1.1 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 a written or verbal RFP (e.g., [Exhibit 36](#)) 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 (e.g., [Exhibit 36](#)) before issuing.
 - 4.1.4 Issue RFP (e.g., [Exhibit 36](#)) for sealed proposals for No. 2 fuel oil to bidders on EKPC's Fuel Oil Bidders List ([Exhibit 34](#)). Suppliers are notified through e-mails, letters, trade publications, and personal conversations that EKPC is continuously evaluating the market. Only suppliers who have demonstrated their ability to supply the appropriate commodity required are contacted on verbal solicitations. (Economy, emergency, and test spot No. 2 fuel oil proposals may be made verbally and confirmed by written documentation.)
 - 4.1.5 Fuel Manager notifies Executive Staff in writing of issued written RFP (e.g., [Exhibit 36](#)).
- 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 traditional 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 Administrative Assistant and Fuel Analyst (respectively), or their designee(s) 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 received after the deadline on a case-by-case basis to determine their eligibility for evaluation. If legitimate information can be obtained to determine the proposal was sent to be received before the deadline, a proposal received after the deadline may be considered; otherwise, proposals received after the deadline will not be considered.
 - 4.3.2 Rank opened proposals in order of lowest to highest evaluated cost for rack plus and/or fixed pricing.
 - 4.3.3 Determine if lowest priced proposal(s) meets EKPC's requirements as specified in the corresponding RFP.
 - 4.3.4 Evaluate supplier(s) performance capabilities as outlined in the Fuel, Emission, Limestone, and Lime Strategy (*Exhibit 1*).
 - 4.3.5 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.
 - 4.3.6 Ensure necessary due diligence is performed 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 to be used in EKPC's risk management provider's template for credit scoring. Publically traded and privately held financial evaluations would then be provided to the Finance department for their review and/or recommendation. Annual reviews, which include market price reopeners, will be shared with the Finance department for informational purposes.

- 4.3.7 Draft approval memorandum—including economy, emergency, and test spot purchases—to management ([Exhibit 37](#)) recommending the most economic supplier(s) of No. 2 fuel oil meeting the corresponding RFP's specifications while balancing risk.
- 4.3.8 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 Policies No. 404 ([Exhibit 5](#)) and No. AO31 ([Exhibit 2](#)) for the new term type.
- 4.3.9 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.
- 4.3.10 Management approves memorandum in accordance with Policies 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 submitted to risk management.
 - 4.4.1 Contract(s) and 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 the W-9 ([Exhibit 13](#)) to Accounting, and Fuel Buyers forward the Certificate of Insurance to risk management for approval if not already on file.
 - 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, 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 Non-Coal Purchase Order Log Book after appropriate review and/or approval is given by the Fuel and Emissions Manager, legal counsel, and risk management for purchase orders only. Contract numbers are developed as needed.
 - 4.5.2 Administrative Assistant reviews contract(s) and/or purchase order(s) and circulates for signatures prior to distribution utilizing the Approval and Review form ([Exhibit 39](#)) if senior management's signature is required. Written and verbal RFPs for traditional spot No. 2 fuel oil needs go through the competitive bidding process. Economy, emergency, and test spot purchases are less common and are the only exceptions to the competitive bidding process. Purchase order(s) executed without minimum purchase requirements are typically short-term spot purchases and subject to the same documentation, controls, and approval requirements set forth in this procedure and in accordance with Policies No. 404 and No. A031.
 - 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 is received for capture in a risk management system in accordance with Policies No. 404 ([Exhibit 5](#)) and No. A031 ([Exhibit 2](#)). These documents are automatically set up by the Administrative Assistant to delete within seven days. If the documents are not retrieved from the shared directory, which functions as a portal to individuals at multiple geographic locations within seven days, the documents can be provided directly to the appropriate individual upon request from the risk management service provider.
 - 4.5.4 Fuel Analyst logs approved contract(s) and/or purchase order(s) on the Trading Authority Transaction Matrix ([Exhibit 50](#)).
 - 4.5.5 Administrative Assistant files executed contract(s) and/or purchase order(s) in Fuel and Emissions' department files with documentation according to the Checklist for Fuel Department

Transactions (*Exhibit 14*). Original contract(s) is stored at an offsite storage facility for disaster mitigation.

- 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 as needed (*Exhibit 38*) for Bluegrass Generating Station, J. K. Smith, Cooper, and Spurlock Power Stations.
 - 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 Buyers monitor supplier performance.
 - 4.9.1 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*).
 - 4.9.2 Consult with the Fuel and Emissions Manager if the specifications are not met.
- 4.10 Fuel Analyst tracks and documents financial reviews.
 - 4.10.1 Documents due dates and execution of interim financial reviews, tracking them on a monthly/quarterly basis as needed.
 - 4.10.2 Performs interim supplier financial reviews for contracts at least annually or more if deemed necessary under the oversight of the Fuel and Emissions Manager who ensures timely execution.

- 4.11 Verify receipt and invoice approval.
 - 4.11.1 Administrative Assistant receives and verifies applicable pricing and invoices.
 - 4.11.2 Administrative Assistant contacts appropriate supplier(s) to clarify any discrepancies with the invoice(s).
 - 4.11.3 Administrative Assistant forwards pricing and invoices to Fuel Analyst for logging and also to Accounting.
 - 4.11.4 Fuel Analyst logs invoices on spreadsheet and verifies pricing.
 - 4.11.5 Fuel Analyst forwards completed spreadsheet to Accounting.
 - 4.11.6 Fuel Analyst enters deliveries for each contract and purchase order on the Trading Authority Transaction Matrix (*Exhibit 50*).
 - 4.11.7 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.
 - 4.11.8 Accounting contacts responsible party to clarify any discrepancies in volume and pricing.
 - 4.11.9 Accounting logs receipt information into accounting computer system.
 - 4.11.10 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, 2023, and this procedure will be reviewed annually.

Concurred by: Mark Horn
Mark Horn
Manager, Fuel & Emissions

Date: 11/02/2022

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

Date: 11/02/2022

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ANCILLARY COMMODITIES

PROCEDURE FOR THE PROCUREMENT OF ANCILLARY COMMODITIES			AC-1
Author: Fuel and Emissions Department		Adopted: 10/21/15	Page 1 of 13
Revision: 7	By: Gail Varner	Revised Date: 11/2/22	Reviewed: Mark Horn

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

Keywords: Ancillary Commodities

1.0 Purpose

This procedure outlines the procurement, delivery, confirmation, testing, and payment of ancillary commodities for use at East Kentucky Power Cooperative, Inc.’s (“EKPC”) power stations.

2.0 Terms and Definitions

- 2.1 Anhydrous Ammonia—A colorless, non-flammable liquefied gas used at Spurlock Power Station to activate the catalyst in the SCRs.
- 2.2 Approval and Review Form—Form circulated to various EKPC personnel indicating they have reviewed the document prior to senior management’s signature ([Exhibit 39](#)).
- 2.3 Aqueous Ammonia—A colorless, highly soluble gas used at Cooper and J. K. Smith Power Stations to aid in NO_x removal.
- 2.4 Bidders List—List of current supply companies to submit requests for proposals stating their addresses, representative contacts, and phone numbers for bidding purposes (e.g., [Exhibit 40](#)).
- 2.5 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.
- 2.6 Checklist for Fuel Department Transactions—List of documentation required and filed with each contract and purchase order completed and signed by Fuel and Emissions’ Administrative Assistant. ([Exhibit 14](#))

- 2.7 Coal—Bituminous fossil fuel used to fire boilers.
- 2.8 Contract— Document binding seller to sell and ship designated product that states terms and conditions for ancillary commodity 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 Economy Spot Purchase—Spot 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.
- 2.10 Electronic Proposals—Proposals received through password protected e-mail accounts, managed by Fuel Analyst, and not viewed prior to proposal opening.
- 2.11 Emergency Spot Purchase—Spot purchase made without competitive bidding when there is an immediate need for ancillary commodities in situations including but not limited to: failure of a supplier to perform; increased usage due to an increase in power sales; labor or transportation strikes; severe weather conditions; or inability of power stations to receive ancillary commodities by normal means.
- 2.12 Financial Review—Typically includes the examination of an entity's balance sheet, income, and cash flow statements to determine the entity's financial health. Conducted on supplier agreements with an initial term greater than one year.
- 2.13 Fuel Negotiating Committee—Committee requiring a Board Director participation. The Director will be appointed annually according to guidelines set in Section E, Management Committees from Policy No. 106 ([Exhibit 3](#)).
- 2.14 FuelSolv—A highly concentrated oil-based liquid additive that contains a trademark blend of metallic-based deposit inhibitors by General Electric Company. Its primary use is to reduce slagging in the radiant section of coal and solid fuel-fired boilers.
- 2.15 IRMC—Internal Risk Management Committee has the authority to approve and oversee the processes used to identify, evaluate, and manage enterprise risk.
- 2.16 MerControl—Product 7895 is a liquid-based method for increasing mercury oxidation rates to facilitate mercury capture across existing electrostatic precipitators, and Product 8034 is a polymeric additive that

specifically binds with mercury to reduce mercury re-emissions across flue gas desulfurization systems.

- 2.17 Non-Coal Purchase Order Log Book—Log book containing sequential purchase order numbers for new purchase orders on ammonia, oil, TDF, and other commodities issued that states company name, issued date, applicable station, terms, quantity, price, and comments of each purchase order.
- 2.18 Ownership Disclosure—Form to be completed by all ancillary commodity 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](#)).
- 2.19 Policy No. A031—EKPC administrative policy for the Delegation of Authority from EKPC's CEO to management and staff regarding procurement authority for energy, energy-related commodities, and transportation ([Exhibit 2](#)).
- 2.20 Policy No. 106—EKPC Board of Directors policy for the Establishment of Board Committees and Respective Charters ([Exhibit 3](#)).
- 2.21 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure 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](#)).
- 2.22 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](#)).
- 2.23 Power Stations—Electric power generating plants owned and operated by EKPC: Cooper, Spurlock, Bluegrass, and J. K. Smith.
- 2.24 Purchase Order—Document binding seller to sell and ship designated product that states terms and conditions for ancillary commodity 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.
- 2.25 RFP—Request for proposal sent to prospective suppliers on EKPC's Bidders List (e.g., [Exhibit 40](#)) to bid for ancillary commodities.

- 2.26 SCR—Selective catalytic reduction, which utilizes a catalyst to reduce NO_x emissions from power plant's exhaust gas.
- 2.27 Sealed Proposals—Proposals received through a written RFP process not viewed prior to proposal opening (can include electronic proposals).
- 2.28 Spot Purchase— Spot purchases are non-contract supply agreements that permit EKPC to purchase ancillary commodities at a specific rate for a defined term, typically one year or less. Spot purchases allow EKPC the flexibility to respond quickly and efficiently to inventory needs while remaining in compliance with EKPC policy. There are four types of spot purchases including (1) *Traditional*, (2) *Economy*, (3) *Emergency*, and (4) *Test* spot purchases. *Traditional* spot purchases are subject to the competitive bidding process, are initiated with either a written or verbal RFP, and are typically made for a term of one year or less. This is the most common type of spot purchase and is typically based on the long-term future burns projection. *Economy*, *Emergency*, and *Test* spot purchases do not require competitive bidding, are typically a shorter-term than traditional spot, and may need to be executed timely within hours. Any spot purchase not subject to the competitive bidding process must have an identifiable trigger such as, but not limited, to the following: time being of the essence, low physical inventory, near-illiquid market conditions, hedge optimization, change in legislation, governmental imposition, Force Majeure Event, breach of contract, or the need for transportation flexibility. The option of making Economy, Emergency, and Test spot purchases must be approved in writing by the Senior Vice President, Power Supply or Executive Vice President/Chief Operating Officer prior to negotiating proposals. Economy, Emergency, and Test spot purchases will be subject to the standard approval process and levels as detailed in Policy No. 404 or Policy No. AO31 prior to execution of the short-term purchase order. Economy, Emergency, and Test spot purchases may involve specific need-based circumstances, and may include a provision by which there are no minimum requirements for either party. The no-minimum quantity purchase option allows management to optimize plant efficiency by facilitating the more precise matching and timing of deliveries with actual burn-based needs and may be applied at the discretion of the Fuel and Emissions Manager and approved in accordance with Policy. (See Section 4.5.2 for additional information regarding the procedures related to spot purchases.)
- 2.29 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](#)).

- 2.31 Test Spot Purchase—Spot purchase made without competitive bidding to test a supplier's performance or a particular ancillary commodity for its suitability and burning characteristics at EKPC's power stations.
- 2.32 Trading Authority Transaction Matrix—Delegation of procurement approval authority ([Exhibit 50](#)).
- 2.33 Traditional Spot Purchase—Spot purchase made with the competitive bidding process, initiated with a written or verbal RFP, for a term of typically one year or less. This is the most common type of spot purchase.
- 2.34 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 applicable policies, procedures, and strategies.
 - 3.1.2 Ensures adequate ancillary commodity deliveries to EKPC's power stations.
 - 3.1.3 Signs approval memos for purchase order changes, and executes short-term purchase orders in accordance with Policy No. A031 ([Exhibit 2](#)).
- 3.2 Power Plant Personnel
 - 3.2.1 Maintain systems at each of EKPC's power stations to ensure its availability to utilize ancillary commodities.
 - 3.2.2 Advise the Fuel and Emissions department as a need arises for ancillary commodities.
 - 3.2.3 Monitor the unloading of ancillary commodities meeting required quality specifications.
 - 3.2.4 Log any unusual occurrences during delivery.
- 3.3 Fuel Buyers

- 3.3.1 Issue and evaluate RFPs for ancillary commodities for all power stations.
 - 3.3.2 Generate and execute appropriate contract(s) and/or purchase order(s).
 - 3.3.3 Contact appropriate supplier(s) for ancillary commodity deliveries as requested by Power Plant Personnel if needed.
 - 3.3.4 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 Reviews contract(s) and/or purchase order(s).
 - 3.4.3 Verifies all documentation is received according to the Checklist for Fuel Department Transactions ([Exhibit 14](#)) and files with appropriate contract(s) and/or purchase order(s).
 - 3.4.4 Posts fully-executed contract(s) and purchase order(s) to a shared location, and notifies EKPC's internal risk management and external 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.
- 3.6 Fuel Analyst
- 3.6.1 Manages receipt of electronic proposals through password protected e-mail account.
 - 3.6.2 Manages the Trading Authority Transaction Matrix ([Exhibit 50](#)) and suppliers' financial reviews if applicable.
- 3.7 Accounting

- 3.7.1 Reconciles documentation received from Power Plant Personnel and Fuel and Emissions to verify invoices for payment.
- 3.7.2 Contacts responsible party to clarify any discrepancies in the invoices.
- 3.8.3 Calculates payment and sends to treasury for disbursement.

4.0 Procedure

Anhydrous Ammonia is utilized to activate the catalyst in the SCRs at Spurlock Power Station. Aqueous ammonia is utilized to aid in NO_x removal at both Cooper and J. K. Smith Power Stations.

FuelSolv works by combating the buildup of slag and aiding the soot blowers to remove slag formed at both Cooper and Spurlock Power Stations.

MerControl Product 7895 is utilized, if needed, on the coal belt as a fuel additive that oxidizes mercury in the coal during combustion in the boiler, enabling a portion of the mercury to be removed at Spurlock Power Station. MerControl Product 8034 is utilized in the scrubbers to prevent the remittance of the mercury into the flu gas at Spurlock Power Station.

Specialty and commodity chemicals are utilized in Spurlock Power Station's waste water treatment and water mass balance processes.

- 4.1 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:
 - 4.1.1 Fuel Buyers determine term and quantity for ancillary commodities of RFP based on historic and projected needs.
 - 4.1.2 Fuel Buyers create an RFP (e.g., [Exhibit 41](#)) stating applicable delivery locations, term, quantity, and price.
 - 4.1.3 Fuel and Emissions Manager and Administrative Assistant review RFP (e.g., [Exhibit 41](#)) before issuing.
 - 4.1.4 Fuel Buyers issue RFP (e.g., [Exhibit 41](#)) for sealed proposals for ancillary commodities to bidders on EKPC's Bidders List (e.g., [Exhibit 40](#)). Suppliers are notified through e-mails, letters, trade publications, and personal conversations that EKPC is continuously evaluating the market. Only suppliers who have demonstrated their ability to supply the appropriate commodity

required are contacted on verbal solicitations. (Economy, emergency, and test spot ancillary commodity proposals may be made verbally and confirmed by written documentation.)

- 4.1.5 Fuel Manager notifies Executive Staff in writing of issued written RFP (e.g., *Exhibit 41*).
- 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 traditional spot 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), or their designee(s), 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 ancillary commodity proposals.
 - 4.3.1 Handle proposals received after the deadline on a case-by-case basis to determine their eligibility for evaluation. If legitimate information can be obtained to determine the proposal was sent to be received before the deadline, a proposal received after the deadline may be considered; otherwise, proposals received after the deadline will not be considered.
 - 4.3.2 Rank opened proposals in order of lowest to highest evaluated cost.
 - 4.3.3 Determine if lowest priced proposal(s) meets EKPC's requirements as specified in the corresponding RFP.
 - 4.3.4 Evaluate supplier(s) performance capabilities.
 - 4.3.5 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.

- 4.3.6 Ensure necessary due diligence is performed 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 to be used in EKPC's risk management provider's template for credit scoring. Publically traded and privately held financial evaluations would then be provided to the Finance department for their review and/or recommendation. Annual reviews, which include market price reopeners, will be shared with the Finance department for informational purposes.
- 4.3.7 Draft approval memorandum—including economy, emergency, and test spot purchases—to management (e.g., [Exhibit 42](#)) recommending the most economic supplier(s) of ancillary commodities meeting the corresponding RFP's specifications while balancing risk.
- 4.3.8 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 Policies No. 404 ([Exhibit 5](#)) and No. A031 ([Exhibit 2](#)) for the new term type.
- 4.3.9 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.

- 4.3.10 Management approves memorandum in accordance with Policies No. 404 (*Exhibit 5*) and No. A031 (*Exhibit 2*).
- 4.4 Fuel Buyers prepare contract(s) and/or purchase order(s) for ancillary commodities based on a standard template approved by legal counsel, with credit rating and insurance requirements submitted to risk management.
 - 4.4.1 Contract(s) and 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 the W-9 (*Exhibit 13*) to Accounting, and Fuel Buyers forward the Certificate of Insurance to risk management for approval if not already on file.
 - 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, legal counsel, and risk managements if changes are made to the standard ancillary commodity purchase order template.
- 4.5 Fuel Buyers execute ancillary commodity contract(s) and/or purchase order(s).
 - 4.5.1 Fuel Buyers obtain a sequential purchase order number from the fuel and emission's Non-Coal Purchase Order Log Book after appropriate review and/or approval is given by the Fuel and Emissions Manager, legal counsel, and risk management for purchase orders only. Contract numbers are developed as needed.
 - 4.5.2 Administrative Assistant reviews contract(s) and/or purchase order(s) and circulates for signatures prior to distribution utilizing the Approval and Review form (*Exhibit 39*) if senior management's signature is required. Written and verbal RFPs for traditional spot ancillary commodity needs go through the competitive bidding process. Economy, emergency, and test spot purchases are less common and are the only exceptions to the competitive bidding process. Purchase order(s) executed without minimum purchase requirements are typically short-term spot

purchases and subject to the same documentation, controls, and approval requirements set forth in this procedure and in accordance with Policies No. 404 and No. A031.

- 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 is received for capture in a risk management system in accordance with Policies No. 404 (*Exhibit 5*) and No. A031 (*Exhibit 2*). These documents are automatically set up by the Administrative Assistant to delete within seven days. If the documents are not retrieved from the shared directory, which functions as a portal to individuals at multiple geographic locations within seven days, the documents can be provided directly to the appropriate individual upon request from the risk management service provider.
- 4.5.4 Fuel Analyst logs applicable approved contract(s) and/or purchase order(s) on the Trading Authority Transaction Matrix (*Exhibit 50*).
- 4.5.5 Administrative Assistant files executed contract(s) and/or purchase order(s) in Fuel and Emissions' department files with documentation according to the Checklist for Fuel Department Transactions (*Exhibit 14*). Original contract(s) is stored at an offsite storage facility for disaster mitigation.
- 4.6 Power Plant Personnel order ancillary commodities from the then current contract(s) and/or purchase order(s) to replenish depleted power station supply.
 - 4.6.1 Fuel Buyers manage the commercial terms and conditions of the current contract(s) and/or purchase order(s).
- 4.7 Power Plant Personnel receive delivery of ancillary commodities.
 - 4.7.1 Perform sampling as needed on ancillary commodity deliveries to ensure quality control as required for their respective power station.
 - 4.7.2 Monitor unloading of deliveries.

- 4.8 Fuel Buyers monitor supplier performance.
 - 4.8.1 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*).
 - 4.8.2 Consult with the Fuel and Emissions Manager if the specifications are not met.
 - 4.8.3 Inform Central Lab of all Toxic Release Inventory commodities including purchases and inventories.
- 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 who ensures timely execution.
- 4.10 Verify receipt of deliveries and reconcile ancillary commodity invoices.
 - 4.10.1 Fuel Analyst enters applicable deliveries for each contract and purchase order on the Trading Authority Transaction Matrix (*Exhibit 50*).
 - 4.10.2 Accounting reconciles documentation entered into the accounting computer system (e.g., receipt and contract and/or purchase order terms and conditions) from Power Plant Personnel and Fuel and Emissions to reconcile ancillary commodity invoices.
 - 4.10.3 Accounting contacts responsible party to clarify any discrepancies in volume and pricing.
 - 4.10.4 Accounting logs receipt information into accounting computer system.
 - 4.10.5 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, 2023, and this procedure will be reviewed annually.

Concurred by: Mark Horn
Mark Horn
Manager, Fuel & Emissions

Date: 11/02/2022

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

Date: 11/02/2022

- Amended: 09/21/16
- Amended: 09/28/17
- Amended: 10/18/18
- Amended: 09/04/19
- Amended: 10/01/20
- Amended: 11/23/21
- Amended: 11/02/22

TDF & ALTERNATIVE FUELS

PROCEDURE FOR THE PROCUREMENT OF TIRE-DERIVED FUEL AND ALTERNATIVE FUELS			TDF-1
Author: Fuel and Emissions Department		Adopted: 10/21/15	Page 1 of 13
Revision: 7	By: Gail Varner	Revised Date: 11/2/22	Reviewed: Mark Horn

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

Keywords: Tire-Derived Fuel; Alternative Fuels

1.0 Purpose

This procedure outlines the procurement, delivery, confirmation, testing, and payment of tire-derived fuel (“TDF”) and alternative fuels for use at East Kentucky Power Cooperative, Inc.’s (“EKPC”) power stations.

2.0 Terms and Definitions

- 2.1 Alternative Fuels—Fuel burned at EKPC’s power stations other than coal (i.e., switchgrass and biomass).
- 2.2 Approval and Review Form—Form circulated to various EKPC personnel indicating they have reviewed the document prior to senior management’s signature ([Exhibit 39](#)).
- 2.3 Bidders List—List of current TDF and alternative fuel supply companies to submit requests for proposals stating their addresses, representative contacts, and phone numbers for bidding purposes (e.g., [Exhibit 43](#)).
- 2.4 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.
- 2.5 Checklist for Fuel Department Transactions—List of documentation required and filed with each contract and purchase order completed and signed by Fuel and Emissions’ Administrative Assistant. ([Exhibit 14](#))
- 2.6 Contract— Document binding seller to sell and ship designated product that states terms and conditions for TDF and alternative fuel 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.

- 2.7 Economy Spot Purchase—Spot 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.
- 2.8 Electronic Proposals—Proposals received through password protected e-mail accounts, managed by Fuel Analyst, and not viewed prior to proposal opening.
- 2.9 Emergency Spot Purchase—Spot purchase made without competitive bidding when there is an immediate need for TDF 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.
- 2.10 Financial Review—Typically includes the examination of an entity's balance sheet, income, and cash flow statements to determine the entity's financial health. Conducted on supplier agreements with an initial term greater than one year.
- 2.11 Fuel Negotiating Committee—Committee requiring a Board Director participation. The Director will be appointed annually according to guidelines set in Section E, Management Committees from Policy No. 106 ([Exhibit 3](#)).
- 2.12 IRMC—Internal Risk Management Committee has the authority to approve and oversee the processes used to identify, evaluate, and manage enterprise risk.
- 2.13 Non-Coal Purchase Order Log Book—Log book containing sequential purchase order numbers for new purchase orders on ammonia, oil, TDF, and other commodities issued that states company name, issued date, applicable station, terms, quantity, price, and comments of each purchase order.
- 2.14 Ownership Disclosure—Form to be completed by all TDF and alternative fuel 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](#)).

- 2.15 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*).
- 2.16 Policy No. 106—EKPC Board of Directors policy for the Establishment of Board Committees and Respective Charters (*Exhibit 3*).
- 2.17 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure 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*).
- 2.18 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*).
- 2.19 Power Stations—Electric power generating plants owned and operated by EKPC: Cooper and Spurlock.
- 2.20 Purchase Order—Document binding seller to sell and ship designated product that states terms and conditions for TDF and alternative fuel 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.
- 2.21 RFP—Request for proposal sent to prospective suppliers on EKPC’s Bidders List (e.g., *Exhibit 43*).
- 2.22 Sealed Proposals—Proposals received through a written RFP process not viewed prior to proposal opening (can include electronic proposals).
- 2.23 Spot Purchase— Spot purchases are non-contract supply agreements that permit EKPC to purchase TDF at a specific rate for a defined term, typically one year or less. Spot purchases allow EKPC the flexibility to respond quickly and efficiently to inventory needs while remaining in compliance with EKPC policy. There are four types of spot purchases including (1) *Traditional*, (2) *Economy*, (3) *Emergency*, and (4) *Test* spot purchases. *Traditional* spot purchases are subject to the competitive bidding process, are initiated with either a written or verbal RFP, and are typically made for a term of one year or less. This is the most common type of spot purchase and is typically based on the long-term future burns projection. *Economy*, *Emergency*, and *Test* spot purchases do not require competitive bidding, are typically a shorter-term than traditional spot, and

may need to be executed timely within hours. Any spot purchase not subject to the competitive bidding process must have an identifiable trigger such as, but not limited to, the following: time being of the essence, low physical inventory, near-illiquid market conditions, hedge optimization, change in legislation, governmental imposition, Force Majeure Event, breach of contract, or the need for transportation flexibility. The option of making Economy, Emergency, and Test spot purchases must be approved in writing by the Senior Vice President, Power Supply or Executive Vice President/Chief Operating Officer prior to negotiating proposals. Economy, Emergency, and Test spot purchases will be subject to the standard approval process and levels as detailed in Policy No. 404 or Policy No. AO31 prior to execution of the short-term purchase order. Economy, Emergency, and Test spot purchases may involve specific need-based circumstances, and may include a provision by which there are no minimum requirements for either party. The no-minimum quantity purchase option allows management to optimize plant efficiency by facilitating the more precise matching and timing of deliveries with actual burn-based needs and may be applied at the discretion of the Fuel and Emissions Manager and approved in accordance with Policy. (See Section 4.5.2 for additional information regarding the procedures related to spot purchases.)

- 2.24 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](#)).
- 2.25 TDF—Tire-derived fuel, bead wire free, shredded tires that are permitted to be utilized in Gilbert Unit No. 3 and Spurlock Power Station Unit No. 4.
- 2.26 Test Spot Purchase—Spot purchase made without competitive bidding to test a supplier's performance or a particular fuel for its suitability and burning characteristics at EKPC's power stations.
- 2.27 Trading Authority Transaction Matrix—Delegation of procurement approval authority ([Exhibit 50](#)).
- 2.28 Traditional Spot Purchase—Spot purchase made with the competitive bidding process, initiated with a written or verbal RFP, for a term of typically one year or less. This is the most common type of spot purchase.
- 2.29 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 applicable policies, procedures, and strategies.
- 3.1.2 Ensures adequate TDF and alternative fuel deliveries to EKPC's power stations.
- 3.1.3 Signs approval memos for purchase order changes, and executes short-term purchase orders in accordance with Policy No. A031 (*Exhibit 2*).

3.2 Power Plant Personnel

- 3.2.1 Maintain the systems at each of EKPC's power stations to ensure its availability to utilize TDF and alternative fuels.
- 3.2.2 Advise the Fuel and Emissions department as a need arises for TDF and alternative fuels.
- 3.2.3 Monitor the unloading of TDF and alternative fuels meeting required quality specifications.
- 3.2.4 Collect TDF and alternative fuel samples as needed to be analyzed.
- 3.2.5 Log any unusual occurrences.

3.3 Fuel Buyers

- 3.3.1 Determine quantities to purchase based on projected needs, inventories, and contracted purchases.
- 3.3.2 Issue and evaluate RFPs for TDF and alternative fuels.
- 3.3.3 Generate and execute appropriate contract(s) and/or purchase order(s).
- 3.3.4 Contact appropriate supplier(s) for delivery of TDF and alternative fuels as requested by Power Plant Personnel if needed.

3.3.5 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 Reviews contract(s) and/or purchase order(s).

3.4.3 Verifies all documentation is received according to the Checklist for Fuel Department Transactions (*Exhibit 14*) and files with appropriate contract(s) and/or purchase order(s).

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

3.6 Fuel Analyst

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

3.6.2 Manages the Trading Authority Transaction Matrix (*Exhibit 50*).

3.6.3 Manages suppliers' financial reviews.

3.7 Central Lab Personnel

3.7.1 Coordinate lab analysis of TDF and alternative fuels as needed.

3.8 Accounting

3.8.1 Reconciles documentation received from Power Plant Personnel and Fuel and Emissions utilizing a spreadsheet to verify TDF and alternative fuel invoices for payment.

- 3.8.2 Contacts responsible party to clarify any discrepancies in the invoices, receiving records, and/or lab analysis.
- 3.8.3 Calculates payment and sends to treasury for disbursement.

4.0 Procedure

Spurlock Power Station is currently permitted to burn up to 10 percent TDF by weight in Gilbert Unit No. 3 and Spurlock Unit No. 4. One ton of TDF replaces approximately 1.31 tons of coal due to the higher Btu content. Spurlock Power Station's TDF inventory capacity is approximately 1,500 tons.

To date, TDF is only utilized in Gilbert Unit No. 3. Currently, TDF requires special handling using the backup limestone system. Increased quantities of TDF may require the evaluation of an independent handling system.

Cooper Power Station is currently permitted to burn 3 percent biomass by weight.

- 4.1 Issue written or verbal 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 TDF and alternative fuels of RFP based on historic and projected needs.
 - 4.1.2 Fuel Buyers create an RFP (e.g., [Exhibit 44](#)) stating applicable delivery locations, term, quantity, and price.
 - 4.1.3 Fuel and Emissions Manager and Administrative Assistant review RFP (e.g., [Exhibit 44](#)) before issuing.
 - 4.1.4 Fuel Buyers issue RFP (e.g., [Exhibit 44](#)) for sealed proposals for TDF and alternative fuels to bidders on EKPC's Bidders List (e.g., [Exhibit 43](#)). Suppliers are notified through e-mails, letters, trade publications, and personal conversations that EKPC is continuously evaluating the market. Only suppliers who have demonstrated their ability to supply the appropriate commodity required are contacted on verbal solicitations. (Economy, emergency, and test spot TDF proposals may be made verbally and confirmed by written documentation.)
 - 4.1.5 Fuel Manager notifies Executive Staff in writing of issued written RFP (e.g., [Exhibit 44](#)).

- 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 traditional spot 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), or their designee(s), 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 TDF and alternative fuel proposals.
 - 4.3.1 Handle proposals received after the deadline on a case-by-case basis to determine their eligibility for evaluation. If legitimate information can be obtained to determine the proposal was sent to be received before the deadline, a proposal received after the deadline may be considered; otherwise, proposals received after the deadline will not be considered.
 - 4.3.2 Rank opened proposals in order of lowest to highest evaluated cost.
 - 4.3.3 Determine if lowest priced proposal(s) meets EKPC's requirements as specified in the corresponding RFP.
 - 4.3.4 Evaluate supplier(s) performance capabilities as outlined in the Fuel, Emission, Limestone, and Lime Strategy ([Exhibit 1](#)).
 - 4.3.5 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.
 - 4.3.6 Ensure necessary due diligence is performed 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 to be used in EKPC's risk management provider's template for credit scoring. Publically traded and privately held financial evaluations would then be provided to the Finance department for their review and/or recommendation. Annual reviews, which include market price reopeners, will be shared with the Finance department for informational purposes.

- 4.3.7 Draft approval memorandum—including economy, emergency, and test spot purchases—to management (*Exhibit 45*) recommending the most economic supplier(s) of TDF and alternative fuels meeting the corresponding RFP's specifications while balancing risk.
- 4.3.8 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 Policies No. 404 (*Exhibit 5*) and No. AO31 (*Exhibit 2*) for the new term type.
- 4.3.9 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.
- 4.3.10 Management approves memorandum in accordance with Policies No. 404 (*Exhibit 5*) and No. AO31 (*Exhibit 2*).

- 4.4 Fuel Buyers prepare contract(s) and/or purchase order(s) for TDF and alternative fuels based on a standard template approved by legal counsel, with credit rating and insurance requirements submitted to risk management.
 - 4.4.1 Contract(s) and 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 the W-9 ([Exhibit 13](#)) to Accounting, and Fuel Buyers forward the Certificate of Insurance to risk management for approval if not already on file.
 - 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, legal counsel, and risk managements if changes are made to the standard TDF and alternative fuel purchase order templates.
- 4.5 Fuel Buyers execute TDF and alternative fuel contract(s) and/or purchase order(s).
 - 4.5.1 Fuel Buyers obtain a sequential purchase order number from the fuel and emission's Non-Coal Purchase Order Log Book after appropriate review and/or approval is given by the Fuel and Emissions Manager, legal counsel, and risk management for purchase orders only. Contract numbers are developed as needed.
 - 4.5.2 Administrative Assistant reviews contract(s) and/or purchase order(s) and circulates for signatures prior to distribution utilizing the Approval and Review form ([Exhibit 39](#)) if senior management's signature is required. Written and verbal RFPs for traditional spot TDF needs go through the competitive bidding process. Economy, emergency, and test spot purchases are less common and are the only exceptions to the competitive bidding process. Purchase order(s) executed without minimum purchase requirements are typically short-term spot purchases and subject to the same documentation, controls, and approval requirements set forth in this procedure and in accordance with Policies No. 404 and No. A031.

- 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 is received for capture in a risk management system in accordance with Policies No. 404 (*Exhibit 5*) and No. A031 (*Exhibit 2*). These documents are automatically set up by the Administrative Assistant to delete within seven days. If the documents are not retrieved from the shared directory, which functions as a portal to individuals at multiple geographic locations within seven days, the documents can be provided directly to the appropriate individual upon request from the risk management service provider.
- 4.5.4 Fuel Analyst logs approved contract(s) and/or purchase order(s) on the Trading Authority Transaction Matrix (*Exhibit 50*).
- 4.5.5 Administrative Assistant files executed contract(s) and/or purchase order(s) in Fuel and Emissions' department files with documentation according to the Checklist for Fuel Department Transactions (*Exhibit 14*). Original contract(s) is stored at an offsite storage facility for disaster mitigation.
- 4.6 Fuel and Emissions personnel order TDF and alternative fuels from the then current contract(s) and/or purchase order(s) to replenish depleted TDF and alternative fuel supplies based on Power Plant Personnel request(s).
 - 4.6.1 Contact applicable supplier(s) for requested delivery amount of TDF and alternative fuels.
- 4.7 Power Plant Personnel receive delivery of TDF and alternative fuels.
 - 4.7.1 Perform adequate sampling as needed on TDF and alternative fuel deliveries to ensure quality control as required.
 - 4.7.2 Monitor unloading of trucks.
- 4.8 Central Lab Personnel coordinate lab analysis of TDF and alternative fuels as needed.

- 4.9 Fuel Buyers monitor supplier performance.
 - 4.9.1 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*).
 - 4.9.2 Consult with the Fuel and Emissions Manager if the specifications are not met.
 - 4.9.3 Inform Central Lab of all Toxic Release Inventory commodities including purchases and inventories.
- 4.10 Fuel Analyst tracks and documents financial reviews.
 - 4.10.1 Documents due dates and execution of interim financial reviews, tracking them on a monthly/quarterly basis as needed.
 - 4.10.2 Performs interim supplier financial reviews for contracts at least annually or more if deemed necessary under the oversight of the Fuel and Emissions Manager who ensures timely execution.
- 4.11 Verify receipt of deliveries and reconcile TDF and alternative fuel invoices.
 - 4.11.1 Fuel Analyst enters deliveries for each contract and purchase order on the Trading Authority Transaction Matrix (*Exhibit 50*).
 - 4.11.2 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 and Fuel and Emissions to reconcile TDF and alternative fuel invoices.
 - 4.11.3 Accounting contacts responsible party to clarify any discrepancies in volume and pricing.
 - 4.11.4 Accounting logs receipt information into accounting computer system.
 - 4.11.5 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, 2023, and this procedure will be reviewed annually.

Concurred by: Mark Horn
Mark Horn
Manager, Fuel & Emissions

Date: 11/02/2022

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

Date: 11/02/2022

- Amended: 09/21/16
- Amended: 09/28/17
- Amended: 10/18/18
- Amended: 09/04/19
- Amended: 10/01/20
- Amended: 11/23/21
- Amended: 11/02/22

TRANSPORTATION

PROCEDURE FOR THE PROCUREMENT OF TRANSPORTATION			T-1
Author: Fuel and Emissions Department	Adopted: 10/21/15		Page 1 of 15
Revision: 7	By: Gail Varner	Revised Date: 11/2/22	Reviewed: Mark Horn

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

Keywords: Transportation

1.0 Purpose

This procedure outlines the procurement, confirmation, and payment of transportation of commodities for use at East Kentucky Power Cooperative, Inc.'s ("EKPC") power stations. Natural gas transportation is described under the Procedure for the Procurement of Natural Gas.

2.0 Terms and Definitions

- 2.1 Approval and Review Form—Form circulated to various EKPC personnel indicating they have reviewed the document prior to senior management's signature ([Exhibit 39](#)).
- 2.2 Certificate of Insurance—Standard Association for Cooperative Operations Research and Development (ACORD) form that identifies the policies afforded by a transportation company related to the requirements specified by EKPC contracts/purchase orders.
- 2.3 Checklist for Fuel Department Transactions—List of documentation required and filed with each contract and purchase order completed and signed by Fuel and Emissions' Administrative Assistant. ([Exhibit 14](#))
- 2.4 Coal—Bituminous fossil fuel used to fire boilers.
- 2.5 Contract—Document binding transportation company to ship designated product stating terms and conditions to transport commodities to EKPC's power stations sent to a transportation company for signatures after approval and before deliveries begin, which is typically a longer term than a purchase order.

- 2.6 Electronic Proposals—Proposals received through password protected e-mail accounts, managed by Fuel Analyst, and not viewed prior to proposal opening.
- 2.7 Emergency Spot Purchase—Spot purchase made without competitive bidding when there is an immediate need for transportation in situations including but not limited to: failure of a transportation company to perform; labor or transportation strikes; severe weather conditions; or inability of power stations to receive commodities by normal means.
- 2.8 Financial Review—Typically includes the examination of an entity's balance sheet, income, and cash flow statements to determine the entity's financial health. Conducted on transportation agreements with an initial term greater than one year.
- 2.9 Fixed Price—A price that does not change over the contracted period for a commodity with specified quality attributes. All applicable taxes, fees, and profit margins are typically included.
- 2.10 Floating Price—Price subject to adjustments based upon predetermined indices or surcharges. All applicable taxes, fees, and profit margins are typically included.
- 2.11 Fuel Negotiating Committee—Committee requiring a Board Director participation. The Director will be appointed annually according to guidelines set in Section E, Management Committees from Policy No. 106 ([Exhibit 3](#)).
- 2.12 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 transportation contract, directly relating to the transportation of commodities that results in a change of the transportation company's direct out-of-pocket costs.
- 2.13 IRMC—Internal Risk Management Committee has the authority to approve and oversee the processes used to identify, evaluate, and manage enterprise risk.
- 2.14 Long-Term—Duration of more than one year.
- 2.15 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](#)).

- 2.16 Policy No. 106—EKPC Board of Directors policy for the Establishment of Board Committees and Respective Charters ([Exhibit 3](#)).
- 2.17 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure 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](#)).
- 2.18 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](#)).
- 2.19 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](#)).
- 2.20 Power Stations— Electric power generating plants owned and operated by EKPC: Cooper, Spurlock, Bluegrass, and J. K. Smith.
- 2.21 Purchase Order—Document binding transportation company to ship designated product stating terms and conditions to transport commodities to EKPC’s power stations sent to a transportation company for an acceptance signature after approval and before deliveries begin, which is typically a shorter term than a contract.
- 2.22 RFP—Request for proposal sent to prospective transportation companies on EKPC’s Transportation Bidders List ([Exhibit 46](#)).
- 2.23 Sealed Proposals—Proposals received through a written RFP process not viewed prior to proposal opening (can include electronic proposals).
- 2.24 Security of Performance—A document providing at least a minimum level of assurance of performance by a contract supplier, in addition to normal remedies for contract breach.
- 2.25 Short-Term—Duration of one year or less.
- 2.26 Spot Purchase— Spot purchases are non-contract supply agreements that permit EKPC to purchase transportation at a specific rate for a defined term, typically one year or less. Spot purchases allow EKPC the flexibility to respond quickly and efficiently to inventory needs while

remaining in compliance with EKPC policy. There are three types of spot purchases including (1) *Traditional*, (2) *Emergency*, and (3) *Test* spot purchases. *Traditional* spot purchases are subject to the competitive bidding process, are initiated with either a written or verbal RFP, and are typically made for a term of one year or less. This is the most common type of spot purchase and is typically based on the long-term future burns projection. *Emergency* and *Test* spot purchases do not require competitive bidding, are typically a shorter-term than traditional spot, and may need to be executed timely within hours. Any spot purchase not subject to the competitive bidding process must have an identifiable trigger such as, but not limited to, the following: time being of the essence, low physical inventory, near-illiquid market conditions, hedge optimization, change in legislation, governmental imposition, Force Majeure Event, breach of contract, or the need for transportation flexibility. The option of making Economy, Emergency, and Test spot purchases must be approved in writing by the Senior Vice President, Power Supply or Executive Vice President/Chief Operating Officer prior to negotiating proposals. Economy, Emergency, and Test spot purchases will be subject to the standard approval process and levels as detailed in Policy No. 404 or Policy No. AO31 prior to execution of the short-term purchase order. Economy, Emergency, and Test spot purchases may, involve specific need-based circumstances, and may include a provision by which there are no minimum requirements for either party. The no-minimum quantity purchase option allows management to optimize plant efficiency by facilitating the more precise matching and timing of deliveries with actual burn-based needs and may be applied at the discretion of the Fuel and Emissions Manager and approved in accordance with Policy. (See Section 4.7.2 for additional information regarding the procedures related to spot purchases.) Competitive bidding is also not required a single-source transportation company.

- 2.27 Supplier Scorecard—Spreadsheet that tracks measurable parameters of quality, quantity, services, and miscellaneous items on a monthly basis. The transportation companies can receive a ranking of problem, concern, acceptable, or exceptional ([Exhibit 12](#)).
- 2.28 TDF—Tire derived fuel, bead wire free, shredded tires that are permitted to be utilized in Gilbert Unit No. 3 and Spurlock Power Station Unit No. 4.
- 2.29 Test Spot Purchase—Spot purchase made without competitive bidding to test a transportation company for its suitability at EKPC's power stations.
- 2.30 Trading Authority Transaction Matrix—Delegation of procurement approval authority ([Exhibit 50](#)).

- 2.31 Traditional Spot Purchase—Spot purchase made with the competitive bidding process, initiated with a written or verbal RFP, for a term of typically one year or less. This is the most common type of spot purchase.
- 2.32 Transportation Bidders List—List of current transportation companies to submit requests for proposals stating their addresses, representative contacts, phone numbers, and applicable stations for bidding purposes ([Exhibit 46](#)).
- 2.33 W-9—Form required by the Internal Revenue Service for tax purposes to be completed by all transportation companies 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 applicable policies, procedures, and strategies.
 - 3.1.2 Ensures adequate transportation to EKPC's power plants.
 - 3.1.3 Ensures all new contracts have been reviewed by legal, with the credit rating and insurance language reviewed by risk management.
 - 3.1.4 May waive a price adjustment if the circumstances or conditions warrant.
 - 3.1.5 Signs approval memos for purchase order changes, and executes short-term purchase orders in accordance with Policy No. A031 ([Exhibit 2](#)).
- 3.2 Power Plant Personnel
 - 3.2.1 Maintain the systems at each of EKPC's relevant power stations to ensure its availability to unload and store deliveries.
 - 3.2.2 Advise the Fuel and Emissions department of any concerns regarding transportation.
 - 3.2.3 Implement tracking mechanism when necessary.

3.3 Fuel Buyers

- 3.3.1 Determine quantities to purchase based on projected needs, inventories, and contracted purchases; generate RFPs; make purchase recommendations; and perform due diligence.
- 3.3.2 Monitor transportation availability and performance.
- 3.3.3 Manage appropriate contract and/or purchase order(s) throughout the term of the order.
- 3.3.4 Manage deliveries at each of EKPC's power stations.
- 3.3.5 Review and verify applicable fuel escalation adjustments prepared by Accounting.

3.4 Administrative Assistant

- 3.4.1 Assists in managing the RFP process.
- 3.4.2 Reviews contract(s) and/or purchase order(s).
- 3.4.3 Verifies all documentation is received according to the Checklist for Fuel Department Transactions (*Exhibit 14*) and files with appropriate contract(s) and/or purchase order(s).
- 3.4.4 Posts fully-executed contract(s) and purchase order(s) to a shared location, and notifies EKPC's internal risk management and external 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.

3.6 Fuel Analyst

- 3.6.1 Manages receipt of electronic proposals through password protected e-mail account.
- 3.6.2 Manages the Trading Authority Transaction Matrix (*Exhibit 50*).

- 3.6.3 Assists in managing price adjustments.
 - 3.6.4 Audits Governmental Imposition claims and manages transportation companies' financial reviews.
 - 3.6.5 Provides forward-looking data of floating components for forecasting and sensitivity analysis as requested.
- 3.7 Accounting
- 3.7.1 Enters and reconciles documentation received from Power Plant Personnel and Fuel and Emissions into the appropriate accounting system.
 - 3.7.2 Reconciles transportation invoices received for payment.
 - 3.7.3 Contacts responsible party to clarify any discrepancies in the invoices.
 - 3.7.4 Calculates payment and sends to treasury for disbursement.

4.0 Procedure

Due to changing environmental laws or regulations, Fuel and Emissions representative(s) will maintain dialogue with Environmental Affairs representative(s) to ensure the appropriate transportation method is utilized.

Cooper Power Station receives coal by truck and Norfolk Southern rail. Ammonia and lime are both delivered by truck. Spurlock Power Station receives coal by barge and CSX rail. In certain circumstances and for a short duration, Spurlock Power Station can receive coal by truck. Limestone and lime kiln dust (or a comparable product) deliveries are made by truck but may be delivered by barge or rail in the future. Spurlock Power Station receives ammonia deliveries by truck. Deliveries of TDF can be made by barge, rail, or truck. Ammonia is delivered to Smith Power Station by truck. No. 2 fuel oil, as well as most other commodities, are all delivered by truck to EKPC's power stations.

- 4.1 Determine if an RFP is required.
 - 4.1.1 Review projected usage from Power Supply and Power Stations.

- 4.1.2 Compare projected usage with the current contracts and purchase orders to determine if there is a need to purchase transportation in conjunction with Policy No. 405 ([Exhibit 6](#)).
- 4.1.3 Determine the amount of transportation to be purchased and type of purchase to be made (contract or purchase order) to maintain adequate inventories at each applicable power station.
- 4.2 Determine if RFP should be written or verbal. (RFPs are not required for emergency and test spot purchases or a single-source transportation company.)
 - 4.2.1 Create a written RFP (e.g., [Exhibit 47](#)) for contract purchases.
 - 4.2.2 Create a written or verbal RFP for traditional spot purchases. (Verbal RFPs are confirmed by written documentation.) Written proposals will be opened at a later time following the documented procedure. Active proposals on file may also be considered for these purchases. Transportation companies are notified through e-mails, letters, trade publications, and personal conversations that EKPC is continuously evaluating transportation methods and will accept unsolicited proposals at any time for consideration. Only transportation companies who have demonstrated their ability to supply the appropriate transportation required are contacted on verbal solicitations.
 - 4.2.3 Identify need for emergency or test spot purchases in which no RFP is required.
- 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 and quantity for transportation of RFP based on projected needs.
 - 4.3.2 Fuel Buyers may develop and coordinate test for transportation or handling improvement. Improvement may be in terms of economics, compatibility, flexibility, or dependability.
 - 4.3.3 Fuel Buyers create an RFP (e.g., [Exhibit 47](#)) stating applicable delivery locations, term, quantity, and price options including the security of performance requirement.
 - 4.3.4 Fuel and Emissions Manager and Administrative Assistant review RFP (e.g., [Exhibit 47](#)) before issuing.

- 4.3.5 Fuel Buyers issue RFP (e.g., [Exhibit 47](#)) for sealed proposals for transportation to bidders on EKPC's Transportation Bidders List ([Exhibit 46](#)). (Emergency and test spot purchase proposals may be made verbally and confirmed by written documentation.)
- 4.3.6 Fuel Manager notifies Executive Staff in writing of issued written RFP (e.g., [Exhibit 47](#)).
- 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 traditional 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 Administrative Assistant and Fuel Analyst (respectively), or their designee(s), prior to formal bid opening.
 - 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 transportation proposals.
 - 4.5.1 Handle proposals received after the deadline on a case-by-case basis to determine their eligibility for evaluation. If legitimate information can be obtained to determine the proposal was sent to be received before the deadline, a proposal 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 approved evaluation criteria.
 - 4.5.4 Determine if the lowest evaluated, delivered priced proposal(s) meets EKPC's requirements as specified in the corresponding RFP to develop a short list of potential transportation company(s).
 - 4.5.5 Evaluate transportation company(s) performance capabilities as outlined in the Fuel, Emission, Limestone, and Lime Strategy ([Exhibit 1](#)).

- 4.5.6 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.
- 4.5.7 Negotiate terms and conditions with selected transportation company(s) from short list.
- 4.5.8 Conduct field visit(s), if necessary, to evaluate the facilities, capabilities, etc., of the transportation company(s) with competitive proposals to evaluate physical risk.
- 4.5.9 Prepare a field evaluation report if a field visit is conducted.
- 4.5.10 Ensure necessary due diligence is performed in evaluating the credit worthiness and financial stability of all potential transportation companies 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 transportation company's audited financial statement, ratios, and key performance indicators to be used in EKPC's risk management provider's template for credit scoring. Publically traded and privately held financial evaluations would then be provided to the Finance department for their review and/or recommendation. Annual reviews, which include market price reopeners, will be shared with the Finance department for informational purposes.
- 4.5.11 Draft approval memorandum—including emergency and test spot purchases—to management ([Exhibit 48](#)) recommending the most economic supplier(s) of transportation meeting the corresponding RFP's specifications while balancing risk.
- 4.5.12 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 transportation companies' responses to the RFP, justification of the term change

will be noted in the approval memorandum and approval obtained in accordance with Policies No. 404 ([Exhibit 5](#)) and No. AO31 ([Exhibit 2](#)) for the new term type.

- 4.5.13 Negotiation of contract language and terms can take approximately three to four months of negotiation with a transportation company. 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 transportation agreements may be executed from one RFP response to fulfill projected needs, which will also be documented accordingly in the approval memorandum.
- 4.5.14 Management approves memorandum in accordance with Policies No. 404 ([Exhibit 5](#)) and No. AO31 ([Exhibit 2](#)).
- 4.6 Fuel Buyers prepare contract(s) and/or purchase order(s) based on a standard template reviewed by legal counsel, with credit rating and insurance requirements submitted to risk management.
 - 4.6.1 Contract(s) and/or purchase order(s) includes destination, quantity, price, price adjustments, acceptance parameters, insurance terms, payment terms, and other terms and conditions.
 - 4.6.2 Request Ownership Disclosure ([Exhibit 35](#)), W-9 ([Exhibit 13](#)), and Certificate of Insurance forms from selected transportation company(s) if not already on file.
 - 4.6.3 Administrative Assistant forwards the W-9 ([Exhibit 13](#)) to Accounting, and Fuel Buyers forward the Certificate of Insurance to risk management for approval if not already on file.
 - 4.6.4 Fuel Buyers send draft contract(s) and/or purchase order(s) to transportation company(s) for review.
 - 4.6.5 Request additional approval from the Fuel and Emissions Manager, 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 transportation contract(s) and purchase order(s).
 - 4.7.1 Fuel Buyers obtain a sequential purchase order number from the fuel and emission's Non-Coal Purchase Order Log Book after

appropriate review and/or approval is given by the Fuel and Emissions Manager, legal counsel, and risk management for purchase orders only. Contract numbers are developed as needed.

- 4.7.2 Administrative Assistant reviews contract(s) and purchase order(s) and circulates for signatures prior to distribution utilizing the Approval and Review form ([Exhibit 39](#)) if senior management's signature is required. Written and verbal RFPs for traditional spot transportation needs go through the competitive bidding process. Emergency and test spot purchases are less common and are the only exceptions to the competitive bidding process. Purchase order(s) executed without minimum purchase requirements are typically short-term spot purchases and subject to the same documentation, controls, and approval requirements set forth in this procedure and in accordance with Policies No. 404 and No. A031.
- 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 is received for capture in a risk management system as accordance with Policies No. 404 ([Exhibit 5](#)) and No. A031 ([Exhibit 2](#)). These documents are automatically set up by the Administrative Assistant to delete within seven days. If the documents are not retrieved from the shared directory, which functions as a portal to individuals at multiple geographic locations within seven days, the documents can be provided directly to the appropriate individual upon request from the risk management service provider.
- 4.7.4 Fuel Analyst logs approved contract(s) and purchase order(s) on the Trading Authority Transaction Matrix ([Exhibit 50](#)).
- 4.7.5 Administrative Assistant files executed contract(s) and purchase order(s) in Fuel and Emissions' department files with documentation according to the Checklist for Fuel Department Transactions ([Exhibit 14](#)). Original contract(s) is stored at an offsite storage facility for disaster mitigation.

- 4.8 Fuel and Emissions personnel schedule transportation 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 transportation company(s) and barge and train carriers, if applicable, a projected delivery schedule each month for EKPC's power stations.
- 4.9 Power Plant Personnel receive deliveries.
 - 4.9.1 Weigh trucks daily using certified scales at Cooper Power Station for inventory measures and payment. Both gross and tare weights are taken and net weights are determined.
 - 4.9.2 Use calibrated belt scales at Spurlock Power Station to verify barge origin weights or certified barge drafts for determination of destination weights for inventory measures and/or payment as specified by applicable contract or purchase order. (Barge Drafting [Exhibit 18](#))
 - 4.9.3 Use weights taken and reported by the railroad transporting commodities to the power station. Certified transportation company weights approved by the railroad transporting the commodities may be used.
 - 4.9.4 Collect and forward transportation information to Accounting.
- 4.10 Fuel Buyers monitor transportation company performance.
 - 4.10.1 Determine if the transportation company 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](#)).
 - 4.10.2 Consult with the Fuel and Emissions Manager if the specifications are not met.
- 4.11 Fuel Analyst tracks and documents financial reviews.
 - 4.11.1 Documents due dates and execution of interim financial reviews, tracking them on a monthly/quarterly basis as needed.
 - 4.11.2 Performs interim transportation company financial reviews for contracts at least annually or more if deemed necessary under the oversight of the Fuel and Emissions Manager who ensures timely execution.

- 4.12 Verify receipt of deliveries and reconcile freight invoices.
 - 4.12.1 Fuel Analyst enters deliveries for each contract and purchase order on the Trading Authority Transaction Matrix ([Exhibit 50](#)).
 - 4.12.2 Fuel Buyers review and verify floating price adjustments for production and transportation surcharges as needed.
 - 4.12.3 Accounting reconciles documentation entered into the appropriate accounting system (e.g., receipt, and contract and/or purchase order terms and conditions) from Power Plant Personnel and Fuel and Emissions.
 - 4.12.4 Accounting calculates and verifies applicable contract price escalation.
 - 4.12.5 Accounting reconciles transportation invoices received for payment.
 - 4.12.6 Accounting contacts responsible party to clarify any discrepancies.
 - 4.12.7 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, 2023, and this procedure will be reviewed annually.

Concurred by: Mark Horn
Mark Horn
Manager, Fuel & Emissions

Date: 11/02/2022

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

Date: 11/02/2022

- Amended: 09/21/16
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FUEL & EMISSIONS DEPARTMENT PROCUREMENT MANUAL

ADOPTED FEBRUARY 27, 1981

Revised: November ~~2330~~, 2021

PROCEDURE FOR THE PROCUREMENT OF COAL			C-1
Author: Fuel and Emissions Department		Adopted: 02/27/81	Page 1 of 17
Revision: <u>123</u>	By: Gail Varner	Revised Date: 11/23/21 11/2/22	Reviewed: Mark Horn

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 Approval and Review Form—Form circulated to various EKPC personnel indicating they have reviewed the document prior to senior management's signature (*Exhibit 39*).
- 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 Checklist for Fuel Department Transactions—List of documentation required and filed with each contract and purchase order completed and signed by Fuel and Emissions' Administrative Assistant. (*Exhibit 14*)
- 2.4 Coal—Bituminous fossil fuel used to fire boilers.
- 2.5 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*).
- 2.6 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*).

- 2.7 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.
- 2.8 Coal Sampling Procedures—Document prepared by EKPC's Central Lab that defines how to sample and analyze coal in a method recognized within the industry.
- 2.9 Coal Specifications and Information—Data sheet specifying each power station's delivery, pricing, and specifications for coal purchases ([Exhibit 9](#)).
- 2.10 Contract—Document binding seller to sell and ship designated product that states 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.
- 2.11 Contract Tonnage Report—Report identifying the supplier name, term, security of performance expiration, reopener dates, commitments, and tonnage balances on current coal contracts ([Exhibit 49](#)).
- 2.12 Economy Spot Purchase—Spot 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. Will not exceed 25,000 tons per month unless approved by Senior Vice President of Power Supply.
- 2.13 Electronic Proposals—Proposals received through password protected e-mail accounts, managed by Fuel Analyst, and not viewed prior to proposal opening.
- 2.14 Emergency Spot Purchase—Spot 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.
- 2.15 Financial Review—Typically includes the examination of an entity's balance sheet, income, and cash flow statements to determine the entity's financial health. Conducted on supplier agreements with an initial term greater than one year.
- 2.16 Fixed Price—A price that does not change over the contracted period for a commodity with specified quality attributes. All applicable taxes, freight, fees, and profit margins are typically included.

- 2.17 Floating Price—Price subject to adjustments based upon predetermined indices or surcharges. All applicable taxes, freight, fees, and profit margins are typically included.
- 2.18 Fuel Evaluation Data Entry Verification Form—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 opening, and provides additional measures to aid in the accuracy of the data input into the Fuel Evaluation System ([Exhibit 16](#)).
- 2.19 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 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.
- 2.20 Fuel Negotiating Committee—Committee requiring a Board Director participation. The Director will be appointed annually according to guidelines set in Section E, Management Committees from Policy No. 106 ([Exhibit 3](#)).
- 2.21 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.
- 2.22 IRMC—Internal Risk Management Committee has the authority to approve and oversee the processes used to identify, evaluate, and manage enterprise risk.
- 2.23 Long-Term—Duration of more than one 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. 106—EKPC Board of Directors policy for the Establishment of Board Committees and Respective Charters ([Exhibit 3](#)).

- 2.26 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure 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*).
- 2.27 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*).
- 2.28 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*).
- 2.29 Power Stations—Electric power generating plants owned and operated by EKPC: Cooper and Spurlock.
- 2.30 Purchase Order—Document binding seller to sell and ship designated product that states 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.
- 2.31 RFP—Request for proposal sent to prospective suppliers on EKPC’s Coal Bidders List (*Exhibit 7*).
- 2.32 Sealed Proposals—Proposals received through a written RFP process not viewed prior to proposal opening (can include electronic proposals).
- 2.33 Security of Performance—A document providing at least a minimum level of assurance of performance by a contract supplier, in addition to normal remedies for contract breach.
- 2.34 Short-Term—Duration of one year or less.
- 2.35 Spot Purchase—Spot purchases are non-contract supply agreements that permit EKPC to purchase coal at a specific rate for a defined term, typically one year or less. Spot purchases allow EKPC the flexibility to respond quickly and efficiently to inventory needs while remaining in compliance with EKPC policy. There are four types of spot purchases including (1) *Traditional*, (2) *Economy*, (3) *Emergency*, and (4) *Test spot*

purchases. *Traditional* spot purchases are subject to the competitive bidding process, are initiated with either a written or verbal RFP, and are typically made for a term of one year or less. This is the most common type of spot purchase and is typically based on the long-term future burns projection. *Economy, Emergency, and Test* spot purchases do not require competitive bidding, are typically a shorter-term than traditional spot, and may need to be executed timely within hours. Any spot purchase not subject to the competitive bidding process must have an identifiable trigger such as, but not limited, to the following: time being of the essence, low physical inventory, near-illiquid market conditions, hedge optimization, change in legislation, governmental imposition, Force Majeure Event, breach of contract, or the need for transportation flexibility. The option of making Economy, Emergency, and Test spot purchases must be approved in writing by the Senior Vice President, Power Supply or Executive Vice President/Chief Operating Officer prior to negotiating proposals. Economy, Emergency, and Test spot purchases will be subject to the standard approval process and levels as detailed in Policy No. 404 or Policy No. AO31 prior to execution of the short-term purchase order. Economy, Emergency, and Test spot purchases may, involve specific need-based circumstances, and may include a provision by which there are no minimum requirements for either party. The no-minimum quantity purchase option allows management to optimize plant efficiency by facilitating the more precise matching and timing of deliveries with actual burn-based needs and may be applied at the discretion of the Fuel and Emissions Manager and approved in accordance with Policy. (See Section 4.7.2 for additional information regarding the procedures related to spot purchases.)

- 2.36 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](#)).
- 2.37 Test Spot Purchase—Spot purchase made without competitive bidding to test a supplier's performance or a particular fuel for its suitability and burning characteristics at EKPC's power stations. Will not exceed 25,000 tons per month unless approved by Senior Vice President of Power Supply.
- 2.38 Trading Authority Transaction Matrix—Delegation of procurement approval authority ([Exhibit 50](#)).
- 2.39 Traditional Spot Purchase—Spot purchase made with the competitive bidding process, initiated with a written or verbal RFP, for a term of typically one year or less. This is the most common type of spot purchase.

- 2.40 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 applicable policies, procedures, and strategies.
- 3.1.2 Ensures adequate coal deliveries to EKPC's power plants.
- 3.1.3 Ensures all new contracts have been reviewed by legal, with the credit rating and insurance language reviewed by risk management.
- 3.1.4 May waive a price adjustment if the circumstances or conditions warrant.
- 3.1.5 Signs approval memos for purchase order changes, and executes short-term purchase orders in accordance with Policy No. A031 (*Exhibit 2*).

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 Manage Coal Specifications and Information (*Exhibit 9*).
- 3.2.5 Unload coal meeting required quality specifications.
- 3.2.6 Collect coal samples daily to be analyzed.
- 3.2.7 Assist Production Engineering and Accounting with coal stockpile surveys.

3.3 Fuel Buyers

- 3.3.1 Determine quantities to purchase based on projected needs, hedge requirements, 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(s) 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 verify applicable fuel escalation adjustments prepared by Accounting.

3.4 Administrative Assistant

- 3.4.1 Assists in managing the RFP process.
- 3.4.2 Reviews contract(s) and/or purchase order(s).
- 3.4.3 Enters, revises, and finalizes compliant bids using the Fuel Evaluation System.
- 3.4.4 Verifies all documentation is received according to the Checklist for Fuel Department Transactions (*Exhibit 14*) and files with appropriate contract(s) and/or purchase order(s).
- 3.4.5 Posts fully-executed contract(s) and purchase order(s) to a shared location, and notifies EKPC's internal risk management and external 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.

3.6 Fuel Analyst

- 3.6.1 Manages receipt of electronic proposals through password protected e-mail account.
- 3.6.2 Manages the Trading Authority Transaction Matrix (*Exhibit 50*) and reconciles with EKPC's risk management service provider.
- 3.6.3 Assists in managing price adjustments.
- 3.6.4 Audits Governmental Imposition claims and manages suppliers' financial reviews.
- 3.6.5 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.

3.7 Central Lab Personnel

- 3.7.1 Assist Power Plant Personnel in sampling of coal as needed.
- 3.7.2 Perform coal analysis daily for Cooper Power Station and weekly for Spurlock Power Station.
- 3.7.3 Receive coal samples from Power Plant Personnel for analysis by independent commercial lab as needed.
- 3.7.4 Provide proper analysis and weights of coal to Accounting so payment is made based upon agreed terms related to coal quality in the contract.

3.8 Accounting

- 3.8.1 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.
- 3.8.2 Reconciles barge and rail invoices received for payment.

- 3.8.3 Contacts responsible party to clarify any discrepancies in the invoices, receiving records, and/or lab analysis.
- 3.8.4 Calculates payment and sends to treasury for disbursement.

4.0 Procedure

Due to changing environmental laws or regulations, Fuel and Emissions representative(s) will maintain dialogue with Environmental Affairs representative(s) to ensure appropriate fuel quality is purchased.

Cooper Power Station has a maximum stockpile capacity of 268,000 tons and a maximum potential daily burn of 3,629 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 400,000 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, emergency, or test spot purchases.)
 - 4.2.1 Create a written RFP (e.g., [Exhibit 15](#)) for contract purchases.
 - 4.2.2 Create a written or verbal RFP for traditional spot purchases. (Verbal RFPs are confirmed by written documentation.) Written proposals will be opened at a later time following the documented procedure. Active proposals on file may also be considered for these purchases. Suppliers are notified through e-mails, letters, trade publications, and personal conversations that EKPC is continuously evaluating spot market coal and will accept unsolicited 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, emergency, or test spot purchases in which no RFP is required. (There are no quantity limits on emergency spot purchases. Economy and test spot purchases shall not exceed 25,000 tons per month unless approved by Senior Vice President of Power Supply.)
- 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 may develop and coordinate a 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 (e.g., [Exhibit 15](#)) stating applicable delivery locations, term, quality, quantity, and price options including the security of performance 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 (e.g., [Exhibit 15](#)) before issuing.
 - 4.3.5 Issue RFP (e.g., [Exhibit 15](#)) for sealed proposals for coal to bidders on EKPC's Coal Bidders Lists ([Exhibit 7](#)). (Economy, emergency, and test spot coal proposals may be made verbally and confirmed by written documentation.)
 - 4.3.6 Fuel Manager notifies Executive Staff in writing of issued written RFP (e.g., [Exhibit 15](#)).
- 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 traditional 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 Administrative Assistant and Fuel Analyst (respectively), or their designee(s) prior to formal bid opening.

- 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 received after the deadline on a case-by-case basis to determine their eligibility for evaluation. If legitimate information can be obtained to determine the proposal was sent to be received before the deadline, a proposal 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 Fuel Evaluation Data Entry Verification form (*Exhibit 16*) with every coal evaluation.
 - 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 for contracts.
- 4.5.12 Ensure necessary due diligence is performed 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 to be used in EKPC's risk management provider's template for credit scoring. Publically traded and privately held financial evaluations would then be provided to the Finance department for their review and/or recommendation. Annual reviews, which include market price reopeners, will be shared with the Finance department for informational purposes.
- 4.5.13 Draft approval memorandum—including economy, emergency, and test spot 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 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 Policies No. 404 (*Exhibit 5*) and No. AO31 (*Exhibit 2*) for the new term type.
- 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.

- 4.5.16 Management approves memorandum in accordance with Policies No. 404 (*Exhibit 5*) and No. AO31 (*Exhibit 2*).
- 4.6 Fuel Buyers prepare contract(s) and/or purchase order(s) based on a standard template reviewed by legal counsel, with credit rating and insurance requirements submitted to 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 the W-9 (*Exhibit 13*) to Accounting, and Fuel Buyers forward the Certificate of Insurance to risk management for approval if not already on file.
 - 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, 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, 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 Approval and Review form ([Exhibit 39](#)) if senior management's signature is required. Written ~~RFPs~~ and verbal RFPs for traditional spot coal needs go through the competitive bidding process. Economy-~~spot~~, emergency-~~spot~~, and test spot purchases are less common and are the only exceptions to the competitive bidding process. Purchase order(s) executed without minimum purchase requirements are typically short-term spot purchases and subject to the same documentation, controls, and approval requirements set forth in this procedure and in accordance with Policies No. 404 and No. A031. Cooper Power Station is dependent exclusively on the spot coal market.
- 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 is received for capture in a risk management system in accordance with Policies No. 404 ([Exhibit 5](#)) and No. A031 ([Exhibit 2](#)). These documents are automatically set up by the Administrative Assistant to delete within seven days. If the documents are not retrieved from the shared directory, which functions as a portal to individuals at multiple geographic locations within seven days, the documents can be provided directly to the appropriate individual upon request from the risk management service provider-Administrative Assistant promptly removes them from the shared directory.
- 4.7.4 Fuel Analyst logs approved contract(s) and purchase order(s) on the Trading Authority Transaction Matrix ([Exhibit 50](#)) and submits a summary to internal risk management on a regular basis for informational purposes after reconciliation and Fuel and Emissions Manager's approval.
- 4.7.5 Administrative Assistant files executed contract(s) and purchase order(s) in Fuel and Emissions' department files with documentation according to the Checklist for Fuel Department Transactions ([Exhibit 14](#)). Original contract(s) 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 Cooper Power Station for inventory measures and payment. Both gross and tare weights are taken and net weights are determined.
 - 4.9.2 Use calibrated belt scales at Spurlock Power Station to verify barge origin weights or certified barge drafts for determination of destination weights for inventory measures and/or payment as specified by applicable contract or purchase order. (Barge Drafting [Exhibit 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 Cooper Power Station 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 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.
 - 4.12.1 Documents due dates and execution of interim financial reviews, tracking them on a monthly/quarterly basis as needed.
 - 4.12.2 Performs interim supplier financial reviews for contracts at least annually or more if deemed necessary under the oversight of the Fuel and Emissions Manager who ensures timely execution.
- 4.13 Verify receipt of deliveries, generate coal invoices, and reconcile freight invoices.
 - 4.13.1 Fuel Analyst enters deliveries for each contract and purchase order on the Trading Authority Transaction Matrix ([Exhibit 50](#)) 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 a summary to internal risk management for informational purposes.
 - 4.13.2 Fuel Analyst reconciles the Trading Authority Transaction Matrix ([Exhibit 50](#)) with the monthly Contract Tonnage Report ([Exhibit 49](#)) for internal purposes only.
 - 4.13.3 Fuel Buyers review and verify floating price adjustments for production and transportation surcharges as needed.
 - 4.13.4 Fuel Analyst requests documentation of independent bias test results and scale certification from each contract supplier.
 - 4.13.5 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.
 - 4.13.6 Accounting reconciles barge and rail invoices received for payment.
 - 4.13.7 Accounting contacts responsible party to clarify any discrepancies.

4.13.8 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, 20223, and this procedure will be reviewed annually.

Concurred by: _____

Mark Horn
Manager, Fuel & Emissions

Date: _____

Approved by: _____

David Crews
Sr. Vice President, Power Supply

Date: _____

Amended: 02/19/01

Amended: 07/12/04

Amended: 11/30/12

Amended: 12/18/13

Amended: 12/16/14

Amended: 10/21/15

Amended: 09/21/16

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Amended: 10/18/18

Amended: 09/04/19

Amended: 10/01/20

Amended: 11/23/21

Amended: 11/02/22

PROCEDURE FOR THE PROCUREMENT OF EMISSION ALLOWANCES			E-1
Author: Fuel and Emissions Department		Adopted: 07/12/04	Page 1 of 10
Revision: <u>910</u>	By: Gail Varner	Revised Date: 10/1/2011 <u>11/2/22</u>	Reviewed: Mark Horn

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, as required, 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 SO₂ 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 SO₂, Seasonal NO_x, and Annual NO_x (*Exhibit 22*).
- 2.5 Annual NO_x—NO_x controlled by an individual program within CAIR and/or CSAPR including its own separate allocations from seasonal NO_x for an entire calendar year.
- 2.6 Approval and Review Form—Form circulated to various EKPC personnel indicating they have reviewed the document prior to senior management's signature (*Exhibit 39*).

- 2.7 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).
- 2.8 Cagle Keystone—A poultry processing plant outside Albany, Kentucky, relying on oil-fired generators as back-up electrical supply should their main source of electricity be disrupted. EKPC owns the two units as well as purchases off-road ultra-low sulfur No. 2 fuel oil for the 6,000-gallon storage tank.
- 2.9 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.
- 2.10 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 District of Columbia. It was designed to reduce sulfur dioxide (SO₂) and nitrogen oxide (NO_x) emissions in order to help states meet their National Ambient Air Quality Standards (NAAQS) for ozone and particulate matter (PM_{2.5}) and to require further emissions reductions already achieved through the Acid Rain Program and NO_x State Implementation Plan call program. The rule was set to commence in 2009 for SO₂, seasonal NO_x, and annual NO_x emissions.
- 2.11 Clean Air Transport Rule (“CATR”)—EPA rule finalized on July 6, 2011, to replace CAIR and require further reductions in SO₂ and NO_x. The rule was revised and is currently called CSAPR.
- 2.12 Combustion Turbine (“CT”)—An electric generating unit utilizing natural gas or No. 2 fuel oil.
- 2.13 Confirmation—Form sent by broker or seller to document agreed upon product, price, vintage year, quantity, and term (*Exhibit 19*).
- 2.14 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 EKPC cannot exceed, including, but not limited to, maximum tons of emissions by year for SO₂ and NO_x. The consent decree for EKPC will end, but several parameters of the decree will continue on through the modification of EKPC plant permits.
- 2.15 Cross-State Air Pollution Rule (“CSAPR”)—EPA rule finalized on July 6, 2011, to replace CAIR and require further reductions in SO₂ and NO_x.

This rule was previously known as CATR as of October 15, 2012. The rule was originally slated for 2012 implementation with Phase II occurring in 2014. The rule actually began in 2015.

- 2.16 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 SO₂, Seasonal NO_x, and Annual NO_x.
- 2.17 Environmental Protection Agency (“EPA”)—An agency of the United States federal government created for the purpose of protecting human health and the environment by writing and enforcing regulations based on laws passed by Congress.
- 2.18 National Ambient Air Quality Standards (“NAAQS”)—The maximum permissible levels of common pollutants in the ambient (outdoor) air set by EPA.
- 2.19 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 the CT units at Bluegrass Generating Station and J. K. Smith Power Station.
- 2.20 No. 2 Fuel Oil—Dyed ultra-low sulfur diesel fuel containing a maximum 15 ppm sulfur used for off-road purposes such as unit startups and flame stabilization in the coal-fired generation fleet, a backup fuel in the CT fleet at Bluegrass Generating Station and J. K. Smith Unit Nos. 1 through 7, and fuel for Cagle Keystone.
- 2.21 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.
- 2.22 Nitrogen Oxides (“NO_x”)—Refers to nitric oxide and nitrogen controlled through various programs and termed as Seasonal (Ozone) NO_x and Annual NO_x in the CAIR and/or CSAPR program.
- 2.23 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).
- 2.24 Ozone (Seasonal) NO_x—Interchangeable terms for NO_x controlled by an individual program within CAIR and/or CSAPR 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.

- 2.25 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*).
- 2.26 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure 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*).
- 2.27 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*).
- 2.28 Power Stations—Electric power generating plants owned and operated by EKPC: Cooper, Spurlock, Bluegrass, and J. K. Smith. Cooper and Spurlock Power Stations are coal-fired power plants; Bluegrass is a power plant compiled of three CT units fueled by natural gas (primary) and No. 2 fuel oil (secondary); and J. K. Smith is a power plant compiled of seven CT units fueled by natural gas (primary) and No. 2 fuel oil (secondary). J.K. Smith also has two additional CT units that are natural gas only.
- 2.29 Seasonal (Ozone) NO_x—Interchangeable terms for NO_x controlled by an individual program within CAIR and/or CSAPR 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.
- 2.30 Sulfur Dioxide (“SO₂”)—A toxic gas created in the combustion process of fuels that contain sulfur and is controlled through various programs such as CAIR and/or CSAPR.
- 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 applicable policies, procedures, and strategies.
- 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).

3.2 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 Consults with external counsel for further expertise as needed.

3.3 Power Plant Personnel

- 3.3.1 Notify Fuel and Emissions and Power Supply Planning of unplanned generating unit outages that could affect the quantity of emissions.

3.4 Fuel Buyers

- 3.4.1 Monitor EKPC's inventory of emission allowances and make recommendations regarding future allowance purchases.
- 3.4.2 Negotiate contract terms of emission allowance contracts.
- 3.4.3 Complete schedule of emission allowance position (receipts, usage, and inventory) for Environmental Affairs and Legal planning purposes.

3.5 Administrative Assistant

- 3.5.1 Assists in managing the emissions contract process.
- 3.5.2 Reviews contract(s) and/or purchase order(s).
- 3.5.3 Completes emissions allowance Transaction Schedule ([Exhibit 20](#)).

3.5.4 Verifies that a W-9 (*Exhibit 13*) is received from the counterparty of each emission allowance contract.

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

3.6 Power Supply Planning

3.6.1 Determines short- and long-term projected emissions.

3.7 Environmental Affairs

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

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

3.8 Accounting

3.8.1 Calculates 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

As of January 1, 2015, EKPC is operating under Acid Rain Rules for SO₂ emissions and CSAPR Rules for SO₂, Ozone NO_x, and annual NO_x emissions. EKPC is allocated varying quantities of SO₂, Ozone NO_x, and Annual NO_x emission allowances on a yearly basis.

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 SO₂, 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, and 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 process may include multiple bids and offers.
 - 4.3.3 Fuel Buyer exercises agreement to price, quantity, and emission product based on Policies No. 404 (*Exhibit 5*) and No. AO31 (*Exhibit 2*). If purchase is not within the Fuel Buyer's 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 Fuel Buyer negotiates 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*) and submits to Accounting.
- 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 Approval and Review form if senior management's signature is required.
 - 4.5.3 Fuel Buyer and/or Administrative Assistant secure a W-9 (*Exhibit 13*) from supplier and forward to Accounting if not already on file.
 - 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 is received for capture in a risk management system in accordance with Policies No. 404 (*Exhibit 5*) and No. A031 (*Exhibit 2*). ~~These documents are automatically set up by the Administrative Assistant to delete within seven days. If the documents are not retrieved from the shared directory, which functions as a portal to individuals at multiple geographic locations within seven days, the documents can be provided directly to the appropriate individual upon request from the risk management service provider. Administrative Assistant promptly removes them from the shared directory.~~
 - 4.5.5 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 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 March 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 SO₂ 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 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, 202~~13~~3, and this procedure will be reviewed annually.

Concurred by: _____
Mark Horn
Manager, Fuel & Emissions

Date: _____

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

Date: _____

- Amended: 11/30/12
- Amended: 12/18/13
- Amended: 12/16/14
- Amended: 10/21/15
- Amended: 09/21/16
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- Amended: 10/18/18
- Amended: 09/04/19
- Amended: 10/01/20
- Amended: 11/02/22

PROCEDURE FOR THE PROCUREMENT OF LIME, LIME KILN DUST, AND LIMESTONE			L-1
Author: Fuel and Emissions Department		Adopted: 02/27/81	Page 1 of 15
Revision: <u>123</u>	By: Gail Varner	Revised Date: <u>11/23/21</u> <u>11/2/22</u>	Reviewed: Mark Horn

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 (or comparable product), and limestone to be used in Cooper Power Station Unit Nos. 1 and 2 and Spurlock Power Station Unit Nos. 1 and 2 (“scrubbers”), SCRs, circulating fluidized bed (“CFB”) units, and Spurlock Power Station’s waste water treatment and water mass balance processes for East Kentucky Power Cooperative, Inc.’s (“EKPC”) power stations.

2.0 Terms and Definitions

- 2.1 Approval and Review Form—Form circulated to various EKPC personnel indicating they have reviewed the document prior to senior management’s signature (*Exhibit 39*).
- 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 CFB—Circulating fluidized bed boilers in Gilbert Unit No. 3 at Spurlock Power Station and Spurlock Power Station Unit No. 4.
- 2.4 Checklist for Fuel Department Transactions—List of documentation required and filed with each contract and purchase order completed and signed by Fuel and Emissions’ Administrative Assistant. (*Exhibit 14*)
- 2.5 Coal—Bituminous fossil fuel used to fire boilers.
- 2.6 Contract—Document binding seller to sell and ship designated product that states 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.

- 2.7 Economy Spot Purchase—~~Spot P~~urchase 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.
- 2.8 Electronic Proposals—Proposals received through password protected e-mail accounts, managed by Fuel Analyst, and not viewed prior to proposal opening.
- 2.9 Emergency Spot Purchase—~~Spot P~~urchase 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.
- 2.10 Financial Review—Typically includes the examination of an entity's balance sheet, income, and cash flow statements to determine the entity's financial health. Conducted on supplier agreements with an initial term greater than one year.
- 2.11 Fixed Price—A price that does not change over the contracted period for a commodity with specified quality attributes. All applicable taxes, freight, fees, and profit margins are typically included.
- 2.12 Floating Price—Price subject to adjustments based upon predetermined indices or surcharges. All applicable taxes, freight, fees, and profit margins are typically included.
- 2.13 Fuel Negotiating Committee—Committee requiring Board of Director participation. The Director will be appointed annually according to guidelines set in Section E, Management Committees from Policy No. 106 (*Exhibit 3*).
- 2.14 IRMC—Internal Risk Management Committee has the authority to approve and oversee the processes used to identify, evaluate, and manage enterprise risk.
- 2.15 Lime—Calcium oxide (CaO) used to absorb SO_x emissions generated from the burning of coal at Cooper Power Station. Includes hydrated lime used to absorb SO₃ emissions generated from the burning of coal and use

in the waste water treatment and water mass balance processes at Spurlock Power Station.

- 2.16 Lime and/or Limestone Bidders List—List of current lime and/or limestone companies to submit requests for proposals stating their addresses, representative contacts, phone numbers, and applicable stations for bidding purposes ([Exhibit 24](#)).
- 2.17 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. A comparable product may also be utilized in place of lime kiln dust.
- 2.18 Limestone—Calcium carbonate (CaCO₃) used to absorb sulfur from the coal at Spurlock Power Station.
- 2.19 Ownership Disclosure—Form to be completed by all lime, lime kiln dust, and limestone 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](#)).
- 2.20 Non-Coal Purchase Order Log Book—Log book containing sequential purchase order numbers for new purchase orders on ammonia, oil, TDF, and other commodities issued that states company name, issued date, applicable station, terms, quantity, price, and comments of each purchase order.
- 2.21 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](#)).
- 2.22 Policy No. 106—EKPC Board of Directors policy for the Establishment of Board Committees and Respective Charters ([Exhibit 3](#)).
- 2.23 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure 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 Power Stations—Electric power generating plants owned and operated by EKPC: Cooper and Spurlock. Cooper utilizes lime in a dry scrubber. Spurlock utilizes hydrated lime to absorb SO₃ emissions generated from the burning of coal and use in the waste water treatment and water mass balance processes. Spurlock utilizes limestone in wet scrubbers and the CFB units as well as lime kiln dust in the SCRs.
- 2.26 Purchase Order—Document binding seller to sell and ship designated product that states 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.
- 2.27 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.
- 2.28 SCR—Selective catalytic reduction, which utilizes a catalyst to reduce NO_x emissions from power plant’s exhaust gas.
- 2.29 Scrubber—Flue gas desulfurization equipment used for the reduction of SO_x emissions in the scrubbed units at Cooper and Spurlock Power Stations.
- 2.30 Sealed Proposals—Proposals received through a written RFP process not viewed prior to proposal opening (can include electronic proposals).
- 2.31 Security of Performance—A document providing at least a minimum level of assurance of performance by a contract supplier, in addition to normal remedies for contract breach.
-
- 2.32 Spot Purchase— Spot purchases are non-contract supply agreements that permit EKPC to purchase lime, lime kiln dust, or limestone at a specific rate for a defined term, typically one year or less. Spot purchases allow EKPC the flexibility to respond quickly and efficiently to inventory needs while remaining in compliance with EKPC policy. There are four types of spot purchases including (1) Traditional, (2) Economy, (3) Emergency, and (4) Test spot purchases. Traditional spot purchases are subject to the competitive bidding process, are initiated with either a written or verbal RFP, and are typically made for a term of one year or less. This is the most common type of spot purchase and is typically based on the long-term future burns projection. Economy, Emergency, and Test spot purchases do not require competitive bidding, are typically a shorter-term than traditional spot, may need to be executed timely within hours. Any spot purchase not subject to the competitive bidding process must have an identifiable trigger such as, but not limited, to the following: time being of the essence, low physical inventory, near-illiquid market

conditions, hedge optimization, change in legislation, governmental imposition, Force Majeure Event, breach of contract, or the need for transportation flexibility. The option of making Economy, Emergency, and Test spot purchases must be approved in writing by the Senior Vice President, Power Supply or Executive Vice President/Chief Operating Officer prior to negotiating proposals. Economy, Emergency, and Test spot purchases will be subject to the standard approval process and levels as detailed in Policy No. 404 or Policy No. AO31 prior to execution of the short-term purchase order. Economy, Emergency, and Test spot purchases may involve specific need-based circumstances, and may include a provision by which there are no minimum requirements for either party. The no-minimum quantity purchase option allows management to optimize plant efficiency by facilitating the more precise matching and timing of deliveries with actual burn-based needs and may be applied at the discretion of the Fuel and Emissions Manager and approved in accordance with Policy. (See Section 4.5.2 for additional information regarding the procedures related to spot purchases.)

- 2.323 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*).
- 2.334 Test Spot Purchase—Spot Ppurchase made without competitive bidding to test a particular product for its suitability and burning characteristics at EKPC's power stations.
- 2.345 Trading Authority Transaction Matrix—Delegation of procurement approval authority (*Exhibit 50*).
-
- 2.36 Traditional Spot Purchase—Spot purchase made with the competitive bidding process, initiated with a written or verbal RFP, for a term of typically one year or less. This is the most common type of spot purchase.
- 2.357 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 applicable policies, procedures, and strategies.
- 3.1.2 Ensures adequate lime, lime kiln dust, and limestone deliveries to EKPC's power plants.
- 3.1.3 Ensures all new contracts have been reviewed by legal, with the credit rating and insurance language reviewed by risk management.
- 3.1.4 Signs approval memos for purchase order changes, and executes short-term purchase orders in accordance with Policy 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.
- 3.2.4 Collect lime, lime kiln dust, and limestone samples to be analyzed as needed.
- 3.2.5 Weigh trucks randomly to verify origin weights.
- 3.2.6 Manage lime, lime kiln dust, and limestone specifications.
- 3.2.7 Assist Production Engineering and Accounting with limestone stockpile surveys.

3.3 Fuel Buyers

- 3.3.1 Determine quantities to purchase 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(s) 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 contract(s) and/or purchase order(s).
 - 3.4.3 Verifies all documentation is received according to the Checklist for Fuel Department Transactions (*Exhibit 14*) and files with appropriate contract(s) and/or purchase order(s).
 - 3.4.4 Posts fully-executed contract(s) and purchase order(s) to a shared location, and notifies EKPC's internal risk management and external 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.
- 3.6 Fuel Analyst
- 3.6.1 Manages receipt of electronic proposals through password protected e-mail account.
 - 3.6.2 Manages the Trading Authority Transaction Matrix and suppliers' (*Exhibit 50*) financial reviews.
 - 3.6.3 Assists in managing price adjustments.
 - 3.6.4 Identifies the fixed and floating component percentages of the year-to-date spend.

3.7 Central Lab Personnel

- 3.7.1 Assist Cooper Power Station plant personnel in sampling and analysis of lime as needed.
- 3.7.2 Receive limestone samples from Spurlock Power Station plant personnel for analysis by independent commercial lab.

3.8 Accounting

- 3.8.1 Reconciles all documentation from Power Plant Personnel and Fuel Buyers against invoices.
- 3.8.2 Logs receipt information into accounting computer system.
- 3.8.3 Contacts responsible party to clarify any discrepancies in the invoices, receiving records, and/or lab analysis.
- 3.8.4 Calculates 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 approximately 15,000 tons of limestone is also maintained for the scrubbers and approximately 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. Spurlock Power Station has an environmental control hydrated lime silo that holds approximately 70 tons, a waste water treatment hydrated lime silo that holds approximately 125 tons, and a water mass balance hydrated lime silo that holds approximately 50 tons. They are maintained near capacity level.

- 4.1 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:
 - 4.1.1 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 a written or verbal RFP (e.g., [Exhibit 25](#)) stating applicable delivery locations, term, quality, quantity, and price options including the security of performance requirement.
- 4.1.4 Fuel and Emissions Manager and Administrative Assistant review RFP (e.g., [Exhibit 25](#)) before issuing.
- 4.1.5 Issue RFP (e.g., [Exhibit 25](#)) 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, and emergency lime and limestone proposals may be made verbally and confirmed by written documentation. Written proposals will be opened at a later time following the documented procedure. Suppliers are notified through e-mails, letters, trade publications, and personal conversations that EKPC is continuously evaluating the market. Only suppliers who have demonstrated their ability to supply the appropriate commodity required are contacted on verbal solicitations.)
- 4.1.6 Fuel Manager notifies Executive Staff in writing of issued written RFP (e.g., [Exhibit 25](#)).
- 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 traditional 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 Administrative Assistant and Fuel Analyst (respectively), or their designee(s), 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 received after the deadline on a case-by-case basis to determine their eligibility for evaluation. If legitimate information can be obtained to determine the proposal was sent to be received before the deadline, a proposal received after the deadline may be considered; otherwise, proposals received after the deadline will not be considered.
 - 4.3.2 Rank opened proposals in order of lowest to highest evaluated cost for fixed and/or floating pricing.
 - 4.3.3 Determine if lowest priced proposal(s) meets EKPC's requirements as specified in the corresponding RFP.
 - 4.3.4 Evaluate supplier(s) performance capabilities.
 - 4.3.5 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.
 - 4.3.6 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.
 - 4.3.7 Prepare a field evaluation report if field visit is conducted for contracts.
 - 4.3.8 Ensure necessary due diligence is performed 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 to be used in EKPC's risk management provider's template for credit scoring. Publically traded and privately held financial evaluations would then be provided to the finance department for their review

and/or recommendation. Annual reviews, which include market price reopeners, will be shared with the Finance department for informational purposes.

- 4.3.9 Draft approval memorandum—including economy, emergency, and test spot purchases—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.
- 4.3.10 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 Policies No. 404 (*Exhibit 5*) and No. AO31 (*Exhibit 2*) for the new term type.
- 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 Management approves memorandum in accordance with Policies No. 404 (*Exhibit 5*) and No. AO31 (*Exhibit 2*).
- 4.4 Fuel Buyers prepare contract(s) and/or purchase order(s) based on a standard template reviewed by legal counsel, with credit rating and insurance requirements submitted to 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 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 the W-9 (*Exhibit 13*) to Accounting, and Fuel Buyers forward the Certificate of Insurance to risk management for approval if not already on file.

- 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 Non-Coal Purchase Order Log Book after appropriate review and/or approval is given by the Fuel and Emissions Manager, legal counsel, and risk management for purchase orders only. Contract numbers are developed as needed.
 - 4.5.2 Administrative Assistant reviews contract(s) and purchase order(s) and circulates for signatures prior to distribution utilizing the Approval and Review form ([Exhibit 39](#)) if senior management's signature is required. Written and verbal RFPs for traditional spot purchase needs go through the competitive bidding process. Economy, emergency, and test spot purchases are less common and are the only exceptions to the competitive bidding process. Purchase order(s) executed without minimum purchase requirements are typically short-term spot purchases and subject to the same documentation, controls, and approval requirements set forth in this procedure and in accordance with Policies No. 404 and No. A031.
 - 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 is received for capture in a risk management system in accordance with Policies No. 404 ([Exhibit 5](#)) and No. A031 ([Exhibit 2](#)). These documents are automatically set up by the Administrative Assistant to delete within seven days. If the documents are not retrieved from the shared directory, which functions as a portal to individuals at multiple geographic locations within seven days, the documents can be provided directly to the appropriate individual upon request from the risk management service provider-Administrative Assistant promptly removes them from the shared directory.

- 4.5.4 Fuel Analyst logs approved contract(s) and purchase order(s) on the Trading Authority Transaction Matrix ([Exhibit 50](#)) and submits a summary to internal risk management on a regular basis for informational purposes 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 according to the Checklist for Fuel Department Transactions ([Exhibit 14](#)). Original contract(s) is stored at an offsite storage facility for disaster mitigation.
- 4.6 Power Plant 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.
 - 4.6.1 Fuel Buyers provide selected lime, lime kiln dust, and limestone supplier(s) a projected delivery schedule for up to one year.
 - 4.6.2 Fuel Buyers manage the commercial terms and conditions of the current contract(s) and/or purchase order(s).
- 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 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 Buyers monitor supplier performance.
 - 4.9.1 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](#)).

- 4.9.2 Consult with the Fuel and Emissions Manager if the specifications are not met.
- 4.10 Fuel Analyst tracks and documents financial reviews.
 - 4.10.1 Documents due dates and execution of interim financial reviews, tracking them on a monthly/quarterly basis as needed.
 - 4.10.2 Performs interim supplier financial reviews for contracts at least annually or more if deemed necessary under the oversight of the Fuel and Emissions Manager who ensures timely execution.
- 4.11 Verify receipt and invoice approval.
 - 4.11.1 Fuel Analyst enters deliveries for each contract and purchase order on the Trading Authority Transaction Matrix (*Exhibit 50*). After Fuel and Emissions Manager's approval, Fuel Analyst submits a summary to internal risk management for informational purposes.
 - 4.11.2 Fuel Buyers review and verify floating price adjustments for production and transportation surcharges as needed.
 - 4.11.3 Accounting reconciles all documentation (e.g., bill of lading, surcharge and delivery spreadsheets) from Power Plant Personnel and Fuel Buyers against invoices.
 - 4.11.4 Accounting logs receipt information into accounting computer system.
 - 4.11.5 Accounting contacts responsible party to clarify any discrepancies in volume and pricing.
 - 4.11.6 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, 202~~2~~3, and this procedure will be reviewed annually.

Concurred by: _____
Mark Horn
Manager, Fuel & Emissions

Date: _____

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

Date: _____

- Amended: 02/19/01
- Amended: 07/12/04
- Amended: 11/30/12
- Amended: 12/18/13
- Amended: 12/16/14
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- Amended: 09/28/17
- Amended: 10/18/18
- Amended: 09/04/19
- Amended: 10/01/20
- Amended: 11/23/21
- Amended: 11/02/22

PROCEDURE FOR THE PROCUREMENT OF NATURAL GAS			NG-1
Author: Fuel and Emissions Department	Adopted: 02/01/05	Page 1 of 13	
Revision: 89	By: Gail Varner	Revised Date: 10/1/2011 1/30/22	Reviewed: Mark Horn

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 and natural gas transportation for use at East Kentucky Power Cooperative, Inc.'s ("EKPC") power stations.

2.0 Terms and Definitions

- 2.1 Approval and Review Form—Form circulated to various EKPC personnel indicating they have reviewed the document prior to senior management's signature ([Exhibit 39](#)).
- 2.2 Cagle Keystone—A poultry processing plant outside Albany, Kentucky, relying on oil-fired generators as back-up electrical supply should their main source of electricity be disrupted. EKPC owns the two units as well as purchases off-road ultra-low sulfur No. 2 fuel oil for the 6,000-gallon storage tank.
- 2.3 Combustion Turbine ("CT")—An electric generating unit utilizing natural gas or No. 2 fuel oil.
- 2.4 Confirmation—Form executed by Buyer and Seller to document agreed upon price, quantity, and term ([Exhibit 27](#)).
- 2.5 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](#)).
- 2.6 Daily Price Report—Report containing projected pricing for day-ahead purchases and intra-day purchases ([Exhibit 29](#)).

- 2.7 Day-Ahead Purchase—Purchase made prior to 9:00 a.m. c.s.t the calendar day before the gas day and/or the calendar day before the weekend and/or holidays.
- 2.8 Dekatherm (“Dth”)—Unit of energy equal to 10 therms or one million British thermal units. (See also 2.13.)
- 2.9 Estimated Burn Profile—Hourly schedule showing CT projected usage of natural gas required by the transportation pipeline ([Exhibit 30](#)).
- 2.10 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.
- 2.11 Federal Energy Regulatory Commission (“FERC”)—An independent agency that regulates the interstate transmission of electricity, natural gas, and oil.
- ~~2.12 Forward Purchase—Purchase made Ffor physical natural gas.; sSupply confirmations that typically have a defined term of one year or less, but can be a supply agreement with a term of three years or less with transaction limits/controls detailed in Board Policy No. 404. Long-term agreements can have an unlimited term if approved by the Board of Directors. These natural gas transactions shall be evaluated on an as-needed basis and purchased with the consent of the CEO and BROCC. May be inclusive of transportation. (See 2.22 NAESB Natural Gas Contract).~~
- 2.1~~23~~23 Form 552—Annual form required by FERC that summarizes natural gas purchases and sales for the day ahead.
- 2.1~~34~~34 Gas Day—The gas day runs from 9:00 a.m. c.s.t up to the following 9:00 a.m. c.s.t., or as modified by the natural gas industry.
- 2.1~~45~~45 Intra-Day Purchase—Purchase made within the current gas day.
- 2.1~~56~~56 Mcf (Thousand Cubic Feet)—A measurement of volume in the oil and natural 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.
- 2.1~~67~~67 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.

- 2.178 Million Btu (“MMBtu”)—One million British thermal units is the unit of measure for the price paid for natural gas purchases.
- 2.189 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 generator units at Bluegrass Generating Station and J. K. Smith Power Station.
- 2.1920 No. 2 Fuel Oil—Dyed ultra-low sulfur diesel fuel containing a maximum 15 ppm sulfur used for off-road purposes such as unit startups and flame stabilization in the coal-fired generation fleet, a backup fuel in the CT fleet at Bluegrass Generating Station and J. K. Smith Unit Nos. 1 through 7 and fuel for Cagle Keystone.
- 2.201 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.
- 2.242 NAESB Natural Gas Contract—Standard contract for the purchase and sale of natural gas. These contracts act as a master agreement and 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*).
- 2.223 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.
- 2.234 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.
- 2.245 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*).
- 2.256 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure 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*).

- 2.267 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*).
- 2.278 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*).
- 2.289 Power Stations—Electric power generating plants owned and operated by EKPC: Cooper, Spurlock, Bluegrass, and J. K. Smith. Cooper and Spurlock Power Stations are coal-fired power plants; Bluegrass is a power plant compiled of three CT generator units fueled by natural gas (primary) and No. 2 fuel oil (secondary); and J. K. Smith is a power plant compiled of seven CT generator units fueled by natural gas (primary) and No. 2 fuel oil (secondary). J .K. Smith also has two additional CT units that are natural gas only.
-
- 2.30 Spot Purchase—Purchase for physical natural gas; Supply confirmations that typically have a defined term of seven days or less. Agreements may be inclusive of transportation.
- 2.2931 Tennessee Gas Pipeline (“TGP”)—Interstate natural gas transmission pipeline to which the J. K. Smith Power Station site is inter-connected.
- 2.302 Texas Eastern Transmission Company (“TETCO”)—Interstate natural gas transmission pipeline to which the J. K. Smith Power Station site is inter-connected by an EKPC owned six-mile lateral.
- 2.343 Texas Gas Transmission (“TGT”)—Interstate natural gas transmission pipeline to which the Bluegrass Generating Station site is inter-connected.
- 2.324 Thousand Cubic Feet (“Mcf”)—A measurement of volume in the oil and natural 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.
- 2.335 Trade Data Gas Form—Form completed after purchase to record flow date, MMBtu purchased, price/MMBtu, total dollars, buy or sell, counterparty, pipeline, execution date, type of purchase, and trader name (*Exhibit 31*).

2.346 Trading Authority Transaction Matrix—Delegation of procurement approval authority ([Exhibit 50](#)).

2.357 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 applicable policies, procedures, and strategies.

3.1.2 Ensures adequate natural gas deliveries and associated transportation to EKPC's power station(s).

3.1.3 Evaluates hedging opportunities in accordance with Policy No. 405 ([Exhibit 6](#)).

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.

3.3 Power Plant Personnel

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

3.3.2 Advise Fuel and Emissions and Power Supply Planning of generating unit, M & R station, and/or pipeline outages that could affect the quantity and/or deliverability of natural gas.

3.3.3 Track, review, and make adjustments in unit starts and/or run hours to achieve environmental compliance on each unit's maximum starts and/or run hours.

3.3.4 Develop, coordinate, and execute periodic testing of pipelines to ensure any pipeline can be used, operationally, for natural gas deliveries.

3.4 Fuel Buyers

- 3.4.1 Act as liaison between EKPC's external natural gas manager and EKPC's other department personnel.
- 3.4.2 Monitor EKPC's pipeline transportation OBA's and make recommendations regarding future natural gas purchases.
- 3.4.3 Ensure all affected EKPC personnel are aware when any pipeline initiated OFO is issued and make recommendations regarding a plan of action.
- 3.4.4 Complete and review schedule indicating number of starts and amount of run hours, both current and projected, and alert appropriate personnel.
- 3.5.4 Assist Accounting in collecting information used in completing the annual FERC Form 552.

3.5 Administrative Assistant

- 3.5.1 Assists in managing the NAESB natural gas contract process.
- 3.5.2 Completes natural gas pricing worksheet tracking performance of external natural gas manager.
- 3.5.3 Completes monthly natural gas purchase summary for approval in accordance with Policies No. 404 ([Exhibit 5](#)) and No. AO31 ([Exhibit 2](#)).
- 3.5.4 Posts fully-executed NAESB natural gas contract(s) to a shared location, and notifies EKPC's internal risk management and external risk management service provider.

3.6 Fuel Analyst

- 3.6.1 Manages the Trading Authority Transaction Matrix ([Exhibit 50](#)).

3.7 Power Supply Planning

- 3.7.1 Determines short- and long-term projected natural gas usage and prepares Estimated Burn Profile ([Exhibit 30](#)).
- 3.7.2 Contacts external natural gas manager to revise and/or qualify projected natural gas usage.

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

3.8 Environmental Affairs

3.8.1 Communicates testing schedules to appropriate personnel.

3.8.2 Reviews CT generator unit starts and run hours and alerts appropriate personnel.

3.9 Accounting

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

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

3.9.3 Calculates payment and sends to treasury for disbursement.

3.9.4 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. TGP, owned by Kinder Morgan, is inter-connected to the site approximately ½ mile from the CTs. The TETCO pipeline, owned by Enbridge, Inc., is interconnected to the site with an approximate 6-mile lateral owned by EKPC. Bluegrass Generating Station has one interstate natural gas pipeline that services the site. TGT, owned by Boardwalk Partners, is interconnected at the site. EKPC's OBA with TGP includes a cash settlement at the end of every month and under normal conditions can handle between +/- 40,000 and 60,000 Dths. EKPC's OBA with TETCO contains an acceptable daily variance of not more than 7,500 Dths and an accumulated balance of not more than 15,000 Dths. The TETCO OBA is not financially settled but is volumetrically settled the following month. No OBA agreement is available at TGT; therefore, delivered natural gas is typically not advantageous.

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 run 2,500 hours based on a rolling 12-month time period. Unit Nos. 5 through 7 have no run-hour limitation. Unit Nos. 9 and 10 may only be operated 4,000 hours on a rolling 12-month time period. Bluegrass Generating Station cannot exceed 95 tons of NO_x, 245 tons of CO,

and cannot exceed 4,757 operating (run) hours for any 12 consecutive calendar months.

- 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 natural 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, PJM unit clearings, and unit availability. This can include Day-Ahead, Intra-Day, Spot, or Forward Purchases.
 - 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 and transportation pipelines.
 - 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 natural 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 and/or applicable various agreements/contracts with transportation pipeline.
 - 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 a W-9 ([Exhibit 13](#)) from supplier and forward to Accounting if not already on file.
 - 4.2.7 Administrative Assistant, at the direction of the Fuel Buyers, distributes the executed NAESB natural gas contract(s) and/or transportation agreement(s) internally. These documents are posted to a shared directory with EKPC's risk management service provider within five business days after trade execution is received for capture in a risk management system in accordance with Policies No. 404 ([Exhibit 5](#)) and No. A031 ([Exhibit 2](#)). The Administrative Assistant promptly removes them from the shared directory.
 - 4.2.8 Fuel Analyst logs approved contract(s) on the Trading Authority Transaction Matrix ([Exhibit 50](#)).
 - 4.2.9 Administrative Assistant files executed contract(s) in Fuel and Emissions' department files. Original contract(s) 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 Policies No. 404 (*Exhibit 5*) and No. AO31 (*Exhibit 2*) and existing credit limits.
- 4.3.6 External natural gas manager or natural gas supplier makes nomination on TGP's, TETCO's, or TGT'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 **and Emissions** 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.

4.3.9 A physical natural gas hedge position is established through Spot Purchases or Forward Purchases in accordance with Policies No. 404, and No. AO31, and Policy No. 405; the Fuel Cost Policy; the NAESB; and these approved Procedures. For these Spot and Forward Purchases, the Fuel Buyer will draft an approval memo to management recommending a physical hedge with the purpose of mitigating price volatility in the market while maintaining operational flexibility. If approved, the Fuel and Emissions Manager will communicate by e-mail with the external natural gas manager giving them authority, on behalf of EKPC, to purchase and schedule the physical natural gas hedge.

- 4.4 Prepare and review transaction documentation.
 - 4.4.1 External natural 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 natural 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 natural 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 pipeline on-line system and/or 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 33*) 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 starts 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, Bluegrass Generating Station, and J. K. Smith Power Station manage 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 and transportation invoices.
 - 4.8.3 Accounting and/or Fuel Buyer resolve discrepancies with external natural gas manager, respective supplier, and/or pipeline.
 - 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 the Trading Authority Transaction Matrix (*Exhibit 50*).
 - 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 in accordance with Policies No. 404 (*Exhibit 5*) and No. AO31 (*Exhibit 2*).
 - 4.8.9 Accounting completes annual FERC Form 552 with assistance from Fuel Buyer and external natural gas manager.

5.0 Effective Date

- 5.1 All departments at EKPC shall be fully compliant with this procedure by January 31, 202~~4~~²³, and this procedure will be reviewed annually.

Concurred by: _____

Date: _____

Mark Horn

Manager, Fuel & Emissions

Approved by: _____

David Crews
Sr. Vice President, Power Supply

Date: _____

Amended: 11/30/12

Amended: 12/18/13

Amended: 12/16/14

Amended: 10/21/15

Amended: 09/21/16

Amended: 09/28/17

Amended: 09/04/19

Amended: 10/01/20

Amended: 11/30/22

PROCEDURE FOR THE PROCUREMENT OF FUEL OIL			O-1
Author: Fuel and Emissions Department		Adopted: 02/27/81	Page 1 of 15
Revision: <u>134</u>	By: Gail Varner	Revised Date: 11/23/21 11/2/22	Reviewed: Mark Horn

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 Approval and Review Form—Form circulated to various EKPC personnel indicating they have reviewed the document prior to senior management's signature ([Exhibit 39](#)).
- 2.2 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.
- 2.3 Cagle Keystone—A poultry processing plant outside Albany, Kentucky, relying on oil-fired generators as back-up electrical supply should their main source of electricity be disrupted. EKPC owns the two units as well as purchases off-road ultra-low sulfur No. 2 fuel oil for the 6,000-gallon storage tank.
- 2.4 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.
- 2.5 Checklist for Fuel Department Transactions—List of documentation required and filed with each contract and purchase order completed and signed by Fuel and Emissions' Administrative Assistant. ([Exhibit 14](#))

- 2.6 Combustion Turbine (“CT”)—An electric generating unit utilizing natural gas or No. 2 fuel oil.
- 2.7 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*).
- 2.8 Contract— Document binding seller to sell and ship designated product that states 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 New York Mercantile Exchange (NYMEX) ~~ymex~~ contract represents 1,000 barrels or 42,000 gallons of No. 2 fuel oil.)
-
- 2.9 Economy Spot Purchase—Spot 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.
- 2.910 Electronic Proposals—Proposals received through password protected e-mail accounts, managed by Fuel Analyst, and not viewed prior to proposal opening.
-
- 2.11 Emergency Spot Purchase—Spot purchase made without competitive bidding when there is an immediate need for No. 2 fuel oil 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.
- 2.102 Financial Review—Typically includes the examination of an entity’s balance sheet, income, and cash flow statements to determine the entity’s financial health. Conducted on supplier agreements with an initial term greater than one year.
- 2.143 Fixed Price—A price that does not change over the contracted period for a commodity with specified quality attributes. All applicable taxes, freight, fees, and profit margins are included except for a demurrage charge if applicable.
- 2.124 Fuel Negotiating Committee—Committee requiring a Board Director participation. The Director will be appointed annually according to guidelines set in Section E, Management Committees from Policy No. 106 (*Exhibit 3*).

- 2.1~~35~~ No. 2 Fuel Oil—Dyed ultra-low sulfur diesel fuel containing a maximum 15 ppm sulfur used for off-road purposes such as unit startups and flame stabilization in the coal-fired generation fleet, a backup fuel in the CT fleet (Bluegrass Generating Station and J. K. Smith Unit Nos. 1 through 7), and fuel for Cagle Keystone.
- 2.1~~46~~ IRMC—Internal Risk Management Committee has the authority to approve and oversee the processes used to identify, evaluate, and manage enterprise risk.
- 2.1~~57~~ Non-Coal Purchase Order Log Book—Log book containing sequential purchase order numbers for new purchase orders on ammonia, oil, TDF, and other commodities issued that states company name, issued date, applicable station, terms, quantity, price, and comments of each purchase order.
- 2.1~~68~~ 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*).
- 2.1~~79~~ 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*).
- 2.1~~820~~ Policy No. 106—EKPC Board of Directors policy for the Establishment of Board Committees and Respective Charters (*Exhibit 3*).
- 2.1~~921~~ Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure 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~~02~~ 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~~43~~ Power Stations—Electric power generating plants owned and operated by EKPC: Cooper, Spurlock, Bluegrass, and J. K. Smith. Cooper and Spurlock are coal-fired power plants; Bluegrass is a power plant compiled of three CT generating units fueled by natural gas (primary) and No. 2 fuel oil (secondary); and J. K. Smith is a power plant compiled of seven CT

generator units fueled by natural gas (primary) and No. 2 fuel oil (secondary). J.K. Smith also has two units that are natural gas only.

- 2.224 Purchase Order—Document binding seller to sell and ship designated product that states 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.
- 2.235 Rack-Plus Price—Either a branded or unbranded No. 2 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.
- 2.246 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*).
- 2.257 RFP—Request for proposal sent to prospective suppliers on EKPC’s Fuel Oil Bidders List (*Exhibit 34*) to bid for No. 2 fuel oil.
- 2.268 Sealed Proposals—Proposals received through a written RFP process not viewed prior to proposal opening (can include electronic proposals).
-
- 2.29 Spot Purchase— Spot purchases are non-contract supply agreements that permit EKPC to purchase No. 2 fuel oil at a specific rate for a defined term, typically one year or less. Spot purchases allow EKPC the flexibility to respond quickly and efficiently to inventory needs while remaining in compliance with EKPC policy. There are four types of spot purchases including (1) Traditional, (2) Economy, (3) Emergency, and (4) Test spot purchases. Traditional spot purchases are subject to the competitive bidding process, are initiated with either a written or verbal RFP, and are typically made for a term of one year or less. This is the most common type of spot purchase and is typically based on the long-term future burns projection. Economy, Emergency, and Test spot purchases do not require competitive bidding, are typically a shorter-term than traditional spot, and may need to be executed timely within hours. Any spot purchase not subject to the competitive bidding process must have an identifiable trigger such as, but not limited, to the following: time being of the essence, low physical inventory, near-illiquid market conditions, hedge optimization, change in legislation, governmental imposition, Force Majeure Event, breach of contract, or the need for transportation flexibility. The option of making Economy, Emergency, and Test spot purchases must be approved in writing by the Senior Vice President, Power Supply or Executive Vice President/Chief Operating Officer prior to negotiating proposals. Economy, Emergency, and Test spot purchases will be subject

to the standard approval process and levels as detailed in Policy No. 404 or Policy No. AO31 prior to execution of the short-term purchase order. Economy, Emergency, and Test spot purchases may involve specific need-based circumstances, and may include a provision by which there are no minimum requirements for either party. The no-minimum quantity purchase option allows management to optimize plant efficiency by facilitating the more precise matching and timing of deliveries with actual burn-based needs and may be applied at the discretion of the Fuel and Emissions Manager and approved in accordance with Policy. (See Section 4.5.2 for additional information regarding the procedures related to spot purchases.)

2.2730 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*).

2.31 Test Spot Purchase—Spot purchase made without competitive bidding to test a supplier’s performance or a particular fuel for its suitability and burning characteristics at EKPC’s power stations.

2.2832 Trading Authority Transaction Matrix—Delegation of procurement approval authority (*Exhibit 50*).

2.33 Traditional Spot Purchase—Spot purchase made with the competitive bidding process, initiated with a written or verbal RFP, for a term of typically one year or less. This is the most common type of spot purchase.

2.2934 Unbranded Price—Price for No. 2 fuel oil product that is not brand specific.

2.305 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 applicable policies, procedures, and strategies

- 3.1.2 Ensures adequate No. 2 fuel oil deliveries to EKPC's power stations.
- 3.1.3 Signs approval memos for purchase order changes, and executes short-term purchase orders in accordance with Policy 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 Bluegrass Generating Station's, J. K. Smith Power Station's, and Cagle Keystone's No. 2 fuel oil inventory.
- 3.3.2 Issue and evaluate RFPs for No. 2 fuel oil for all power stations and Cagle Keystone.
- 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.
- 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 Reviews contract(s) and/or purchase order(s).
 - 3.4.3 Contacts appropriate supplier(s) for delivery of No. 2 fuel oil as requested.
 - 3.4.4 Receives and reviews pricing and invoices and contacts appropriate supplier(s) to clarify any discrepancies.
 - 3.4.5 Verifies all documentation is received according to the Checklist for Fuel Department Transactions (*Exhibit 14*) and files with appropriate contract(s) and/or purchase order (s).
 - 3.4.6 Posts fully-executed contract(s) and purchase order(s) to a shared location, and notifies EKPC's internal risk management and external 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.
- 3.6 Fuel Analyst
- 3.6.1 Manages receipt of electronic proposals through password projected e-mail account.
 - 3.6.2 Manages the Trading Authority Transaction Matrix (*Exhibit 50*) and suppliers' financial reviews.
 - 3.6.3 Verifies rack pricing and validates total invoice price.
 - 3.6.4 Compiles and forwards completed spreadsheet of purchases to Accounting.
- 3.7 Central Lab Personnel
- 3.7.1 Sample No. 2 fuel oil tank at Spurlock Power Station semi-annually to ensure emissions compliance for Spurlock Power Station Unit No. 4.
 - 3.7.2 Analyze No. 2 fuel oil drawn from the storage tank(s) at Bluegrass Generating Station and J. K. Smith Power Station for sulfur, Btu,

specific gravity, and temperature to ensure emissions compliance whenever any of the CTs are operating on No. 2 fuel oil.

- 3.7.3 Sample and analyze the No. 2 fuel oil tank(s) at Bluegrass Generating Station and J. K. Smith Power Station semi-annually for quality stability.
- 3.7.4 Sample and analyze deliveries of No. 2 fuel oil as needed.
- 3.7.5 Monitor compliance of bulk storage tanks.

3.8 Accounting

- 3.8.1 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.
- 3.8.2 Contacts responsible party to clarify any discrepancies in the invoices, receiving records, and/or lab analysis.
- 3.8.3 Logs receipt information into accounting computer system.
- 3.8.4 Calculates payment and sends to treasury for disbursement.

4.0 Procedure

Replenish levels for No. 2 fuel oil are approximately 15,000—20,000 gallons at Cooper Power Station and 200,000—250,000 gallons at Spurlock Power Station. Cooper Power Station has a 30,000-gallon capacity underground tank. It is maintained at near capacity. 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 No. 2 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. Bluegrass Generating Station has two, 636,872 gallon above-ground tanks. Replenishing No. 2 fuel oil inventory at Bluegrass Generating Station and 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 a minimum of 50 percent capacity (approximately 2,250,000 gallons) or as directed by the COO as backup to natural gas. The No. 2 fuel oil level at Bluegrass Generating Station is typically held at near capacity (approximately 1,100,000 gallons) or as directed by the COO as backup to natural gas.

Cagle Keystone has a 6,000 gallon above-ground tank. It is maintained at near capacity.

- 4.1 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:
 - 4.1.1 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 a written or verbal RFP (e.g., [Exhibit 36](#)) 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 (e.g., [Exhibit 36](#)) before issuing.
 - 4.1.4 Issue RFP (e.g., [Exhibit 36](#)) for sealed proposals for No. 2 fuel oil to bidders on EKPC's Fuel Oil Bidders List ([Exhibit 34](#)). Suppliers are notified through e-mails, letters, trade publications, and personal conversations that EKPC is continuously evaluating the market. Only suppliers who have demonstrated their ability to supply the appropriate commodity required are contacted on verbal solicitations. (Economy, emergency, and test spot No. 2 fuel oil proposals may be made verbally and confirmed by written documentation.)
 - 4.1.5 Fuel Manager notifies Executive Staff in writing of issued written RFP (e.g., [Exhibit 36](#)).
- 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 traditional 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 Administrative Assistant and Fuel Analyst (respectively), or their designee(s) 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 received after the deadline on a case-by-case basis to determine their eligibility for evaluation. If legitimate information can be obtained to determine the proposal was sent to be received before the deadline, a proposal received after the deadline may be considered; otherwise, proposals received after the deadline will not be considered.
 - 4.3.2 Rank opened proposals in order of lowest to highest evaluated cost for rack plus and/or fixed pricing.
 - 4.3.3 Determine if lowest priced proposal(s) meets EKPC's requirements as specified in the corresponding RFP.
 - 4.3.4 Evaluate supplier(s) performance capabilities as outlined in the Fuel, Emission, Limestone, and Lime Strategy (*Exhibit 1*).
 - 4.3.5 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.
 - 4.3.6 Ensure necessary due diligence is performed 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 to be used in EKPC's risk management provider's template for credit scoring. Publically traded and privately held financial evaluations would then be provided to the Finance department for their review and/or recommendation. Annual reviews, which include market price reopeners, will be shared with the Finance department for informational purposes.

- 4.3.7 Draft approval memorandum—including economy, emergency, and test spot purchases—to management (*Exhibit 37*) recommending the most economic supplier(s) of No. 2 fuel oil meeting the corresponding RFP's specifications while balancing risk.
- 4.3.8 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 Policies No. 404 (*Exhibit 5*) and No. AO31 (*Exhibit 2*) for the new term type.
- 4.3.9 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.
- 4.3.10 Management approves memorandum in accordance with Policies 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 submitted to risk management.
- 4.4.1 Contract(s) and 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 the W-9 (*Exhibit 13*) to Accounting, and Fuel Buyers forward the Certificate of Insurance to risk management for approval if not already on file.
- 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, 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 Non-Coal Purchase Order Log Book after appropriate review and/or approval is given by the Fuel and Emissions Manager, legal counsel, and risk management for purchase orders only. Contract numbers are developed as needed.
- 4.5.2 Administrative Assistant reviews contract(s) and/or purchase order(s) and circulates for signatures prior to distribution utilizing the Approval and Review form ([Exhibit 39](#)) if senior management's signature is required. Written and verbal RFPs for traditional spot No. 2 fuel oil needs go through the competitive bidding process. Economy, emergency, and test spot purchases are less common and are the only exceptions to the competitive bidding process. Purchase order(s) executed without minimum purchase requirements are typically short-term spot purchases and subject to the same documentation, controls, and approval requirements set forth in this procedure and in accordance with Policies No. 404 and No. A031.
- 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 is received for capture in a risk management system in accordance with Policies No. 404 ([Exhibit 5](#)) and No. A031 ([Exhibit 2](#)). These documents are automatically set up by the Administrative Assistant to delete within seven days. If the documents are not retrieved from the shared directory, which functions as a portal to individuals at multiple geographic locations within seven days, the documents can be provided directly to the appropriate individual upon request from the risk management service provider-Administrative Assistant promptly removes them from the shared directory.
- 4.5.4 Fuel Analyst logs approved contract(s) and/or purchase order(s) on the Trading Authority Transaction Matrix ([Exhibit 50](#)).
- 4.5.5 Administrative Assistant files executed contract(s) and/or purchase order(s) in Fuel and Emissions' department files with

documentation according to the Checklist for Fuel Department Transactions (*Exhibit 14*). Original contract(s) is stored at an offsite storage facility for disaster mitigation.

- 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 as needed (*Exhibit 38*) for Bluegrass Generating Station, J. K. Smith, Cooper, and Spurlock Power Stations.
 - 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 Buyers monitor supplier performance.
 - 4.9.1 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*).
 - 4.9.2 Consult with the Fuel and Emissions Manager if the specifications are not met.
- 4.10 Fuel Analyst tracks and documents financial reviews.
 - 4.10.1 Documents due dates and execution of interim financial reviews, tracking them on a monthly/quarterly basis as needed.
 - 4.10.2 Performs interim supplier financial reviews for contracts at least annually or more if deemed necessary under the oversight of the Fuel and Emissions Manager who ensures timely execution.

- 4.11 Verify receipt and invoice approval.
 - 4.11.1 Administrative Assistant receives and verifies applicable pricing and invoices.
 - 4.11.2 Administrative Assistant contacts appropriate supplier(s) to clarify any discrepancies with the invoice(s).
 - 4.11.3 Administrative Assistant forwards pricing and invoices to Fuel Analyst for logging and also to Accounting.
 - 4.11.4 Fuel Analyst logs invoices on spreadsheet and verifies pricing.
 - 4.11.5 Fuel Analyst forwards completed spreadsheet to Accounting.
 - 4.11.6 Fuel Analyst enters deliveries for each contract and purchase order on the Trading Authority Transaction Matrix ([Exhibit 50](#)).
 - 4.11.7 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.
 - 4.11.8 Accounting contacts responsible party to clarify any discrepancies in volume and pricing.
 - 4.11.9 Accounting logs receipt information into accounting computer system.
 - 4.11.10 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, 202~~2~~3, and this procedure will be reviewed annually.

Concurred by: _____
Mark Horn
Manager, Fuel & Emissions

Date: _____

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

Date: _____

- Amended: 02/19/01
- Amended: 07/12/04
- Amended: 02/01/05
- Amended: 11/30/12
- Amended: 12/18/13
- Amended: 12/16/14
- Amended: 10/21/15
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- Amended: 09/04/19
- Amended: 10/01/20
- Amended: 11/23/21
- Amended: 11/02/22

PROCEDURE FOR THE PROCUREMENT OF ANCILLARY COMMODITIES			AC-1
Author: Fuel and Emissions Department	Adopted: 10/21/15		Page 1 of 13
Revision: 67	By: Gail Varner	Revised Date: 11/23/21 11/2/22	Reviewed: Mark Horn

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

Keywords: Ancillary Commodities

1.0 Purpose

This procedure outlines the procurement, delivery, confirmation, testing, and payment of ancillary commodities for use at East Kentucky Power Cooperative, Inc.’s (“EKPC”) power stations.

2.0 Terms and Definitions

- 2.1 Anhydrous Ammonia—A colorless, non-flammable liquefied gas used at Spurlock Power Station to activate the catalyst in the SCRs.
- 2.2 Approval and Review Form—Form circulated to various EKPC personnel indicating they have reviewed the document prior to senior management’s signature ([Exhibit 39](#)).
- 2.3 Aqueous Ammonia—A colorless, highly soluble gas used at Cooper and J. K. Smith Power Stations to aid in NO_x removal.
- 2.4 Bidders List—List of current supply companies to submit requests for proposals stating their addresses, representative contacts, and phone numbers for bidding purposes (e.g., [Exhibit 40](#)).
- 2.5 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.
- 2.6 Checklist for Fuel Department Transactions—List of documentation required and filed with each contract and purchase order completed and signed by Fuel and Emissions’ Administrative Assistant. ([Exhibit 14](#))

- 2.7 Coal—Bituminous fossil fuel used to fire boilers.
- 2.8 Contract— Document binding seller to sell and ship designated product that states terms and conditions for ancillary commodity 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 Economy Spot Purchase—Spot 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.~~
- 2.910 Electronic Proposals—Proposals received through password protected e-mail accounts, managed by Fuel Analyst, and not viewed prior to proposal opening.
- ~~2.11 Emergency Spot Purchase—Spot purchase made without competitive bidding when there is an immediate need for ancillary commodities in situations including but not limited to: failure of a supplier to perform; increased usage due to an increase in power sales; labor or transportation strikes; severe weather conditions; or inability of power stations to receive ancillary commodities by normal means.~~
- 2.102 Financial Review—Typically includes the examination of an entity's balance sheet, income, and cash flow statements to determine the entity's financial health. Conducted on supplier agreements with an initial term greater than one year.
- 2.143 Fuel Negotiating Committee—Committee requiring a Board Director participation. The Director will be appointed annually according to guidelines set in Section E, Management Committees from Policy No. 106 (*Exhibit 3*).
- 2.124 FuelSolv—A highly concentrated oil-based liquid additive that contains a trademark blend of metallic-based deposit inhibitors by General Electric Company. Its primary use is to reduce slagging in the radiant section of coal and solid fuel-fired boilers.
- 2.135 IRMC—Internal Risk Management Committee has the authority to approve and oversee the processes used to identify, evaluate, and manage enterprise risk.
- 2.146 MerControl—Product 7895 is a liquid-based method for increasing mercury oxidation rates to facilitate mercury capture across existing electrostatic precipitators, and Product 8034 is a polymeric additive that

specifically binds with mercury to reduce mercury re-emissions across flue gas desulfurization systems.

- 2.157 Non-Coal Purchase Order Log Book—Log book containing sequential purchase order numbers for new purchase orders on ammonia, oil, TDF, and other commodities issued that states company name, issued date, applicable station, terms, quantity, price, and comments of each purchase order.
- 2.168 Ownership Disclosure—Form to be completed by all ancillary commodity 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](#)).
- 2.179 Policy No. A031—EKPC administrative policy for the Delegation of Authority from EKPC's CEO to management and staff regarding procurement authority for energy, energy-related commodities, and transportation ([Exhibit 2](#)).
- 2.1820 Policy No. 106—EKPC Board of Directors policy for the Establishment of Board Committees and Respective Charters ([Exhibit 3](#)).
- 2.1921 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure 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](#)).
- 2.202 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](#)).
- 2.243 Power Stations—Electric power generating plants owned and operated by EKPC: Cooper, Spurlock, Bluegrass, and J. K. Smith.
- 2.224 Purchase Order—Document binding seller to sell and ship designated product that states terms and conditions for ancillary commodity 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.
- 2.235 RFP—Request for proposal sent to prospective suppliers on EKPC's Bidders List (e.g., [Exhibit 40](#)) to bid for ancillary commodities.

- 2.246 SCR—Selective catalytic reduction, which utilizes a catalyst to reduce NO_x emissions from power plant's exhaust gas.
- 2.257 Sealed Proposals—Proposals received through a written RFP process not viewed prior to proposal opening (can include electronic proposals).
- 2.28 Spot Purchase— Spot purchases are non-contract supply agreements that permit EKPC to purchase ancillary commodities at a specific rate for a defined term, typically one year or less. Spot purchases allow EKPC the flexibility to respond quickly and efficiently to inventory needs while remaining in compliance with EKPC policy. There are four types of spot purchases including (1) Traditional, (2) Economy, (3) Emergency, and (4) Test spot purchases. Traditional spot purchases are subject to the competitive bidding process, are initiated with either a written or verbal RFP, and are typically made for a term of one year or less. This is the most common type of spot purchase and is typically based on the long-term future burns projection. Economy, Emergency, and Test spot purchases do not require competitive bidding, are typically a shorter-term than traditional spot, and may need to be executed timely within hours. Any spot purchase not subject to the competitive bidding process must have an identifiable trigger such as, but not limited, to the following: time being of the essence, low physical inventory, near-illiquid market conditions, hedge optimization, change in legislation, governmental imposition, Force Majeure Event, breach of contract, or the need for transportation flexibility. The option of making Economy, Emergency, and Test spot purchases must be approved in writing by the Senior Vice President, Power Supply or Executive Vice President/Chief Operating Officer prior to negotiating proposals. Economy, Emergency, and Test spot purchases will be subject to the standard approval process and levels as detailed in Policy No. 404 or Policy No. AO31 prior to execution of the short-term purchase order. Economy, Emergency, and Test spot purchases may involve specific need-based circumstances, and may include a provision by which there are no minimum requirements for either party. The no-minimum quantity purchase option allows management to optimize plant efficiency by facilitating the more precise matching and timing of deliveries with actual burn-based needs and may be applied at the discretion of the Fuel and Emissions Manager and approved in accordance with Policy. (See Section 4.5.2 for additional information regarding the procedures related to spot purchases.)
- 2.269 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*).

2.31 Test Spot Purchase—Spot purchase made without competitive bidding to test a supplier’s performance or a particular ancillary commodity for its suitability and burning characteristics at EKPC’s power stations.

2.2732 Trading Authority Transaction Matrix—Delegation of procurement approval authority (*Exhibit 50*).

2.33 Traditional Spot Purchase—Spot purchase made with the competitive bidding process, initiated with a written or verbal RFP, for a term of typically one year or less. This is the most common type of spot purchase.

2.2834 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 applicable policies, procedures, and strategies.

3.1.2 Ensures adequate ancillary commodity deliveries to EKPC’s power stations.

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

3.2 Power Plant Personnel

3.2.1 Maintain systems at each of EKPC’s power stations to ensure its availability to utilize ancillary commodities.

3.2.2 Advise the Fuel and Emissions department as a need arises for ancillary commodities.

3.2.3 Monitor the unloading of ancillary commodities meeting required quality specifications.

3.2.4 Log any unusual occurrences during delivery.

3.3 Fuel Buyers

- 3.3.1 Issue and evaluate RFPs for ancillary commodities for all power stations.
- 3.3.2 Generate and execute appropriate contract(s) and/or purchase order(s).
- 3.3.3 Contact appropriate supplier(s) for ancillary commodity deliveries as requested by Power Plant Personnel if needed.
- 3.3.4 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 Reviews contract(s) and/or purchase order(s).
- 3.4.3 Verifies all documentation is received according to the Checklist for Fuel Department Transactions ([Exhibit 14](#)) and files with appropriate contract(s) and/or purchase order(s).
- 3.4.4 Posts fully-executed contract(s) and purchase order(s) to a shared location, and notifies EKPC's internal risk management and external 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.

3.6 Fuel Analyst

- 3.6.1 Manages receipt of electronic proposals through password protected e-mail account.
- 3.6.2 Manages the Trading Authority Transaction Matrix ([Exhibit 50](#)) and suppliers' financial reviews if applicable.

3.7 Accounting

- 3.7.1 Reconciles documentation received from Power Plant Personnel and Fuel and Emissions to verify invoices for payment.
- 3.7.2 Contacts responsible party to clarify any discrepancies in the invoices.
- 3.8.3 Calculates payment and sends to treasury for disbursement.

4.0 Procedure

Anhydrous Ammonia is utilized to activate the catalyst in the SCRs at Spurlock Power Station. Aqueous ammonia is utilized to aid in NO_x removal at both Cooper and J. K. Smith Power Stations.

FuelSolv works by combating the buildup of slag and aiding the soot blowers to remove slag formed at both Cooper and Spurlock Power Stations.

MerControl Product 7895 is utilized, if needed, on the coal belt as a fuel additive that oxidizes mercury in the coal during combustion in the boiler, enabling a portion of the mercury to be removed at Spurlock Power Station. MerControl Product 8034 is utilized in the scrubbers to prevent the remittance of the mercury into the flu gas at Spurlock Power Station.

Specialty and commodity chemicals are utilized in Spurlock Power Station's waste water treatment and water mass balance processes.

- 4.1 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:
 - 4.1.1 Fuel Buyers determine term and quantity for ancillary commodities of RFP based on historic and projected needs.
 - 4.1.2 Fuel Buyers create an RFP (e.g., [Exhibit 41](#)) stating applicable delivery locations, term, quantity, and price.
 - 4.1.3 Fuel and Emissions Manager and Administrative Assistant review RFP (e.g., [Exhibit 41](#)) before issuing.
 - 4.1.4 Fuel Buyers issue RFP (e.g., [Exhibit 41](#)) for sealed proposals for ancillary commodities to bidders on EKPC's Bidders List (e.g., [Exhibit 40](#)). Suppliers are notified through e-mails, letters, trade publications, and personal conversations that EKPC is continuously evaluating the market. Only suppliers who have

demonstrated their ability to supply the appropriate commodity required are contacted on verbal solicitations. (Economy, emergency, and test spot ancillary commodity proposals may be made verbally and confirmed by written documentation.)

- 4.1.5 Fuel Manager notifies Executive Staff in writing of issued written RFP (e.g., *Exhibit 41*).
- 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 traditional spot 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), or their designee(s), 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 ancillary commodity proposals.
 - 4.3.1 Handle proposals received after the deadline on a case-by-case basis to determine their eligibility for evaluation. If legitimate information can be obtained to determine the proposal was sent to be received before the deadline, a proposal received after the deadline may be considered; otherwise, proposals received after the deadline will not be considered.
 - 4.3.2 Rank opened proposals in order of lowest to highest evaluated cost.
 - 4.3.3 Determine if lowest priced proposal(s) meets EKPC's requirements as specified in the corresponding RFP.
 - 4.3.4 Evaluate supplier(s) performance capabilities.
 - 4.3.5 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.

- 4.3.6 Ensure necessary due diligence is performed 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 to be used in EKPC's risk management provider's template for credit scoring. Publically traded and privately held financial evaluations would then be provided to the Finance department for their review and/or recommendation. Annual reviews, which include market price reopeners, will be shared with the Finance department for informational purposes.
- 4.3.7 Draft approval memorandum ~~—including economy, emergency, and test spot purchases—~~to management (e.g., [Exhibit 42](#)) recommending the most economic supplier(s) of ancillary commodities meeting the corresponding RFP's specifications while balancing risk.
- 4.3.8 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 Policies No. 404 ([Exhibit 5](#)) and No. A031 ([Exhibit 2](#)) for the new term type.
- 4.3.9 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.

- 4.3.10 Management approves memorandum in accordance with Policies No. 404 ([Exhibit 5](#)) and No. A031 ([Exhibit 2](#)).
- 4.4 Fuel Buyers prepare contract(s) and/or purchase order(s) for ancillary commodities based on a standard template approved by legal counsel, with credit rating and insurance requirements submitted to risk management.
 - 4.4.1 Contract(s) and 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 the W-9 ([Exhibit 13](#)) to Accounting, and Fuel Buyers forward the Certificate of Insurance to risk management for approval if not already on file.
 - 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, legal counsel, and risk managements if changes are made to the standard ancillary commodity purchase order template.
- 4.5 Fuel Buyers execute ancillary commodity contract(s) and/or purchase order(s).
 - 4.5.1 Fuel Buyers obtain a sequential purchase order number from the fuel and emission's Non-Coal Purchase Order Log Book after appropriate review and/or approval is given by the Fuel and Emissions Manager, legal counsel, and risk management for purchase orders only. Contract numbers are developed as needed.
 - 4.5.2 Administrative Assistant reviews contract(s) and/or purchase order(s) and circulates for signatures prior to distribution utilizing the Approval and Review form ([Exhibit 39](#)) if senior management's signature is required. Written and verbal RFPs for traditional spot ancillary commodity needs go through the competitive bidding process. Economy, emergency, and test spot purchases are less common and are the only exceptions to the competitive bidding process. Purchase order(s) executed without minimum purchase requirements are typically short-term spot

purchases and subject to the same documentation, controls, and approval requirements set forth in this procedure and in accordance with Policies No. 404 and No. A031.

- 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 is received for capture in a risk management system in accordance with Policies No. 404 (*Exhibit 5*) and No. A031 (*Exhibit 2*). ~~These documents are automatically set up by the Administrative Assistant to delete within seven days. If the documents are not retrieved from the shared directory, which functions as a portal to individuals at multiple geographic locations within seven days, the documents can be provided directly to the appropriate individual upon request from the risk management service provider-Administrative Assistant promptly removes them from the shared directory.~~
- 4.5.4 Fuel Analyst logs applicable approved contract(s) and/or purchase order(s) on the Trading Authority Transaction Matrix (*Exhibit 50*).
- 4.5.5 Administrative Assistant files executed contract(s) and/or purchase order(s) in Fuel and Emissions' department files with documentation according to the Checklist for Fuel Department Transactions (*Exhibit 14*). Original contract(s) is stored at an offsite storage facility for disaster mitigation.
- 4.6 Power Plant Personnel order ancillary commodities from the then current contract(s) and/or purchase order(s) to replenish depleted power station supply.
 - 4.6.1 Fuel Buyers manage the commercial terms and conditions of the current contract(s) and/or purchase order(s).
- 4.7 Power Plant Personnel receive delivery of ancillary commodities.
 - 4.7.1 Perform sampling as needed on ancillary commodity deliveries to ensure quality control as required for their respective power station.
 - 4.7.2 Monitor unloading of deliveries.

- 4.8 Fuel Buyers monitor supplier performance.
 - 4.8.1 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*).
 - 4.8.2 Consult with the Fuel and Emissions Manager if the specifications are not met.
 - 4.8.3 Inform Central Lab of all Toxic Release Inventory commodities including purchases and inventories.
- 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 who ensures timely execution.
- 4.10 Verify receipt of deliveries and reconcile ancillary commodity invoices.
 - 4.10.1 Fuel Analyst enters applicable deliveries for each contract and purchase order on the Trading Authority Transaction Matrix (*Exhibit 50*).
 - 4.10.2 Accounting reconciles documentation entered into the accounting computer system (e.g., receipt and contract and/or purchase order terms and conditions) from Power Plant Personnel and Fuel and Emissions to reconcile ancillary commodity invoices.
 - 4.10.3 Accounting contacts responsible party to clarify any discrepancies in volume and pricing.
 - 4.10.4 Accounting logs receipt information into accounting computer system.
 - 4.10.5 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, 202~~2~~3, and this procedure will be reviewed annually.

Concurred by: _____
Mark Horn
Manager, Fuel & Emissions

Date: _____

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

Date: _____

- Amended: 09/21/16
- Amended: 09/28/17
- Amended: 10/18/18
- Amended: 09/04/19
- Amended: 10/01/20
- Amended: 11/23/21
- Amended: 11/02/22

PROCEDURE FOR THE PROCUREMENT OF TIRE-DERIVED FUEL AND ALTERNATIVE FUELS			TDF-1
Author: Fuel and Emissions Department	Adopted: 10/21/15		Page 1 of 13
Revision: 67	By: Gail Varner	Revised Date: 11/23/21 11/2/22	Reviewed: Mark Horn

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

Keywords: Tire-Derived Fuel; Alternative Fuels

1.0 Purpose

This procedure outlines the procurement, delivery, confirmation, testing, and payment of tire-derived fuel (“TDF”) and alternative fuels for use at East Kentucky Power Cooperative, Inc.’s (“EKPC”) power stations.

2.0 Terms and Definitions

- 2.1 Alternative Fuels—Fuel burned at EKPC’s power stations other than coal (i.e., switchgrass and biomass).
- 2.2 Approval and Review Form—Form circulated to various EKPC personnel indicating they have reviewed the document prior to senior management’s signature ([Exhibit 39](#)).
- 2.3 Bidders List—List of current TDF and alternative fuel supply companies to submit requests for proposals stating their addresses, representative contacts, and phone numbers for bidding purposes (e.g., [Exhibit 43](#)).
- 2.4 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.
- 2.5 Checklist for Fuel Department Transactions—List of documentation required and filed with each contract and purchase order completed and signed by Fuel and Emissions’ Administrative Assistant. ([Exhibit 14](#))
- 2.6 Contract— Document binding seller to sell and ship designated product that states terms and conditions for TDF and alternative fuel 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.

2.7 Economy Spot Purchase—Spot 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.

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

2.9 Emergency Spot Purchase—Spot purchase made without competitive bidding when there is an immediate need for TDF 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.

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

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

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

2.143 Non-Coal Purchase Order Log Book—Log book containing sequential purchase order numbers for new purchase orders on ammonia, oil, TDF, and other commodities issued that states company name, issued date, applicable station, terms, quantity, price, and comments of each purchase order.

2.124 Ownership Disclosure—Form to be completed by all TDF and alternative fuel 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*).

- 2.1~~35~~ 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*).

- 2.1~~46~~ Policy No. 106—EKPC Board of Directors policy for the Establishment of Board Committees and Respective Charters (*Exhibit 3*).

- 2.1~~57~~ Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure 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*).

- 2.1~~68~~ 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*).

- 2.1~~79~~ Power Stations—Electric power generating plants owned and operated by EKPC: Cooper and Spurlock.

- 2.1~~820~~ Purchase Order—Document binding seller to sell and ship designated product that states terms and conditions for TDF and alternative fuel 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.

- 2.1~~921~~ RFP—Request for proposal sent to prospective suppliers on EKPC’s Bidders List (e.g., *Exhibit 43*).

- 2.2~~02~~ Sealed Proposals—Proposals received through a written RFP process not viewed prior to proposal opening (can include electronic proposals).

- 2.23 Spot Purchase— Spot purchases are non-contract supply agreements that permit EKPC to purchase TDF at a specific rate for a defined term, typically one year or less. Spot purchases allow EKPC the flexibility to respond quickly and efficiently to inventory needs while remaining in compliance with EKPC policy. There are four types of spot purchases including (1) Traditional, (2) Economy, (3) Emergency, and (4) Test spot purchases. Traditional spot purchases are subject to the competitive bidding process, are initiated with either a written or verbal RFP, and are typically made for a term of one year or less. This is the most common type of spot purchase and is typically based on the long-term future burns projection. Economy, Emergency, and Test spot purchases do not require competitive bidding, are typically a shorter-term than traditional spot, and

may need to be executed timely within hours. Any spot purchase not subject to the competitive bidding process must have an identifiable trigger such as, but not limited, to the following: time being of the essence, low physical inventory, near-illiquid market conditions, hedge optimization, change in legislation, governmental imposition, Force Majeure Event, breach of contract, or the need for transportation flexibility. The option of making Economy, Emergency, and Test spot purchases must be approved in writing by the Senior Vice President, Power Supply or Executive Vice President/Chief Operating Officer prior to negotiating proposals. Economy, Emergency, and Test spot purchases will be subject to the standard approval process and levels as detailed in Policy No. 404 or Policy No. AO31 prior to execution of the short-term purchase order. Economy, Emergency, and Test spot purchases may involve specific need-based circumstances, and may include a provision by which there are no minimum requirements for either party. The no-minimum quantity purchase option allows management to optimize plant efficiency by facilitating the more precise matching and timing of deliveries with actual burn-based needs and may be applied at the discretion of the Fuel and Emissions Manager and approved in accordance with Policy. (See Section 4.5.2 for additional information regarding the procedures related to spot purchases.)

2.24 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).

2.245 TDF—Tire-derived fuel, bead wire free, shredded tires that are permitted to be utilized in Gilbert Unit No. 3 and Spurlock Power Station Unit No. 4.

2.26 Test Spot Purchase—Spot purchase made without competitive bidding to test a supplier’s performance or a particular fuel for its suitability and burning characteristics at EKPC’s power stations.

2.272 Trading Authority Transaction Matrix—Delegation of procurement approval authority (Exhibit 50).

2.28 Traditional Spot Purchase—Spot purchase made with the competitive bidding process, initiated with a written or verbal RFP, for a term of typically one year or less. This is the most common type of spot purchase.

2.293 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 applicable policies, procedures, and strategies.
- 3.1.2 Ensures adequate TDF and alternative fuel deliveries to EKPC's power stations.
- 3.1.3 Signs approval memos for purchase order changes, and executes short-term purchase orders in accordance with Policy No. A031 (*Exhibit 2*).

3.2 Power Plant Personnel

- 3.2.1 Maintain the systems at each of EKPC's power stations to ensure its availability to utilize TDF and alternative fuels.
- 3.2.2 Advise the Fuel and Emissions department as a need arises for TDF and alternative fuels.
- 3.2.3 Monitor the unloading of TDF and alternative fuels meeting required quality specifications.
- 3.2.4 Collect TDF and alternative fuel samples as needed to be analyzed.
- 3.2.5 Log any unusual occurrences.

3.3 Fuel Buyers

- 3.3.1 Determine quantities to purchase based on projected needs, inventories, and contracted purchases.
- 3.3.2 Issue and evaluate RFPs for TDF and alternative fuels.
- 3.3.3 Generate and execute appropriate contract(s) and/or purchase order(s).
- 3.3.4 Contact appropriate supplier(s) for delivery of TDF and alternative fuels as requested by Power Plant Personnel if needed.

3.3.5 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 Reviews contract(s) and/or purchase order(s).

3.4.3 Verifies all documentation is received according to the Checklist for Fuel Department Transactions (*Exhibit 14*) and files with appropriate contract(s) and/or purchase order(s).

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

3.6 Fuel Analyst

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

3.6.2 Manages the Trading Authority Transaction Matrix (*Exhibit 50*).

3.6.3 Manages suppliers' financial reviews.

3.7 Central Lab Personnel

3.7.1 Coordinate lab analysis of TDF and alternative fuels as needed.

3.8 Accounting

3.8.1 Reconciles documentation received from Power Plant Personnel and Fuel and Emissions utilizing a spreadsheet to verify TDF and alternative fuel invoices for payment.

- 3.8.2 Contacts responsible party to clarify any discrepancies in the invoices, receiving records, and/or lab analysis.
- 3.8.3 Calculates payment and sends to treasury for disbursement.

4.0 Procedure

Spurlock Power Station is currently permitted to burn up to 10 percent TDF by weight in Gilbert Unit No. 3 and Spurlock Unit No. 4. One ton of TDF replaces approximately 1.31 tons of coal due to the higher Btu content. Spurlock Power Station's TDF inventory capacity is approximately 1,500 tons.

To date, TDF is only utilized in Gilbert Unit No. 3. Currently, TDF requires special handling using the backup limestone system. Increased quantities of TDF may require the evaluation of an independent handling system.

Cooper Power Station is currently permitted to burn 3 percent biomass by weight.

- 4.1 Issue written or verbal 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 TDF and alternative fuels of RFP based on historic and projected needs.
 - 4.1.2 Fuel Buyers create an RFP (e.g., [Exhibit 44](#)) stating applicable delivery locations, term, quantity, and price.
 - 4.1.3 Fuel and Emissions Manager and Administrative Assistant review RFP (e.g., [Exhibit 44](#)) before issuing.
 - 4.1.4 Fuel Buyers issue RFP (e.g., [Exhibit 44](#)) for sealed proposals for TDF and alternative fuels to bidders on EKPC's Bidders List (e.g., [Exhibit 43](#)). Suppliers are notified through e-mails, letters, trade publications, and personal conversations that EKPC is continuously evaluating the market. Only suppliers who have demonstrated their ability to supply the appropriate commodity required are contacted on verbal solicitations. (Economy, emergency, and test spot TDF proposals may be made verbally and confirmed by written documentation.)
 - 4.1.5 Fuel Manager notifies Executive Staff in writing of issued written RFP (e.g., [Exhibit 44](#)).

- 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 traditional spot 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), or their designee(s), 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 TDF and alternative fuel proposals.
 - 4.3.1 Handle proposals received after the deadline on a case-by-case basis to determine their eligibility for evaluation. If legitimate information can be obtained to determine the proposal was sent to be received before the deadline, a proposal received after the deadline may be considered; otherwise, proposals received after the deadline will not be considered.
 - 4.3.2 Rank opened proposals in order of lowest to highest evaluated cost.
 - 4.3.3 Determine if lowest priced proposal(s) meets EKPC's requirements as specified in the corresponding RFP.
 - 4.3.4 Evaluate supplier(s) performance capabilities as outlined in the Fuel, Emission, Limestone, and Lime Strategy (*Exhibit 1*).
 - 4.3.5 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.
 - 4.3.6 Ensure necessary due diligence is performed 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 to be used in EKPC's risk management provider's template for credit scoring. Publically traded and privately held financial evaluations would then be provided to the Finance department for their review and/or recommendation. Annual reviews, which include market price reopeners, will be shared with the Finance department for informational purposes.

- 4.3.7 Draft approval memorandum—including economy, emergency, and test spot purchases—to management (*Exhibit 45*) recommending the most economic supplier(s) of TDF and alternative fuels meeting the corresponding RFP's specifications while balancing risk.
- 4.3.8 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 Policies No. 404 (*Exhibit 5*) and No. AO31 (*Exhibit 2*) for the new term type.
- 4.3.9 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.
- 4.3.10 Management approves memorandum in accordance with Policies No. 404 (*Exhibit 5*) and No. AO31 (*Exhibit 2*).

- 4.4 Fuel Buyers prepare contract(s) and/or purchase order(s) for TDF and alternative fuels based on a standard template approved by legal counsel, with credit rating and insurance requirements submitted to risk management.
- 4.4.1 Contract(s) and 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 the W-9 ([Exhibit 13](#)) to Accounting, and Fuel Buyers forward the Certificate of Insurance to risk management for approval if not already on file.
 - 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, legal counsel, and risk managements if changes are made to the standard TDF and alternative fuel purchase order templates.
- 4.5 Fuel Buyers execute TDF and alternative fuel contract(s) and/or purchase order(s).
- 4.5.1 Fuel Buyers obtain a sequential purchase order number from the fuel and emission's Non-Coal Purchase Order Log Book after appropriate review and/or approval is given by the Fuel and Emissions Manager, legal counsel, and risk management for purchase orders only. Contract numbers are developed as needed.
 - 4.5.2 Administrative Assistant reviews contract(s) and/or purchase order(s) and circulates for signatures prior to distribution utilizing the Approval and Review form ([Exhibit 39](#)) if senior management's signature is required. Written and verbal RFPs for traditional spot TDF needs go through the competitive bidding process. Economy, emergency, and test spot purchases are less common and are the only exceptions to the competitive bidding process. Purchase order(s) executed without minimum purchase requirements are typically short-term spot purchases and subject to the same documentation, controls, and approval requirements set forth in this procedure and in accordance with Policies No. 404 and No. A031.

- 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 is received for capture in a risk management system in accordance with Policies No. 404 (*Exhibit 5*) and No. A031 (*Exhibit 2*). These documents are automatically set up by the Administrative Assistant to delete within seven days. If the documents are not retrieved from the shared directory, which functions as a portal to individuals at multiple geographic locations within seven days, the documents can be provided directly to the appropriate individual upon request from the risk management service provider. Administrative Assistant promptly removes them from the shared directory.
- 4.5.4 Fuel Analyst logs approved contract(s) and/or purchase order(s) on the Trading Authority Transaction Matrix (*Exhibit 50*).
- 4.5.5 Administrative Assistant files executed contract(s) and/or purchase order(s) in Fuel and Emissions' department files with documentation according to the Checklist for Fuel Department Transactions (*Exhibit 14*). Original contract(s) is stored at an offsite storage facility for disaster mitigation.
- 4.6 Fuel and Emissions personnel order TDF and alternative fuels from the then current contract(s) and/or purchase order(s) to replenish depleted TDF and alternative fuel supplies based on Power Plant Personnel request(s).
- 4.6.1 Contact applicable supplier(s) for requested delivery amount of TDF and alternative fuels.
- 4.7 Power Plant Personnel receive delivery of TDF and alternative fuels.
- 4.7.1 Perform adequate sampling as needed on TDF and alternative fuel deliveries to ensure quality control as required.
- 4.7.2 Monitor unloading of trucks.
- 4.8 Central Lab Personnel coordinate lab analysis of TDF and alternative fuels as needed.

- 4.9 Fuel Buyers monitor supplier performance.
 - 4.9.1 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*).
 - 4.9.2 Consult with the Fuel and Emissions Manager if the specifications are not met.
 - 4.9.3 Inform Central Lab of all Toxic Release Inventory commodities including purchases and inventories.
- 4.10 Fuel Analyst tracks and documents financial reviews.
 - 4.10.1 Documents due dates and execution of interim financial reviews, tracking them on a monthly/quarterly basis as needed.
 - 4.10.2 Performs interim supplier financial reviews for contracts at least annually or more if deemed necessary under the oversight of the Fuel and Emissions Manager who ensures timely execution.
- 4.11 Verify receipt of deliveries and reconcile TDF and alternative fuel invoices.
 - 4.11.1 Fuel Analyst enters deliveries for each contract and purchase order on the Trading Authority Transaction Matrix (*Exhibit 50*).
 - 4.11.2 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 and Fuel and Emissions to reconcile TDF and alternative fuel invoices.
 - 4.11.3 Accounting contacts responsible party to clarify any discrepancies in volume and pricing.
 - 4.11.4 Accounting logs receipt information into accounting computer system.
 - 4.11.5 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, 202~~2~~3, and this procedure will be reviewed annually.

Concurred by: _____
Mark Horn
Manager, Fuel & Emissions

Date: _____

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

Date: _____

- Amended: 09/21/16
- Amended: 09/28/17
- Amended: 10/18/18
- Amended: 09/04/19
- Amended: 10/01/20
- Amended: 11/23/21
- Amended: 11/02/22

PROCEDURE FOR THE PROCUREMENT OF TRANSPORTATION			T-1
Author: Fuel and Emissions Department	Adopted: 10/21/15	Page 1 of 15	
Revision: 67	By: Gail Varner	Revised Date: 11/23/21 11/2/22	Reviewed: Mark Horn

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

Keywords: Transportation

1.0 Purpose

This procedure outlines the procurement, confirmation, and payment of transportation of commodities for use at East Kentucky Power Cooperative, Inc.'s ("EKPC") power stations. Natural gas transportation is described under the Procedure for the Procurement of Natural Gas.

2.0 Terms and Definitions

- 2.1 Approval and Review Form—Form circulated to various EKPC personnel indicating they have reviewed the document prior to senior management's signature ([Exhibit 39](#)).
- 2.2 Certificate of Insurance—Standard Association for Cooperative Operations Research and Development (ACORD) form that identifies the policies afforded by a transportation company related to the requirements specified by EKPC contracts/purchase orders.
- 2.3 Checklist for Fuel Department Transactions—List of documentation required and filed with each contract and purchase order completed and signed by Fuel and Emissions' Administrative Assistant. ([Exhibit 14](#))
- 2.4 Coal—Bituminous fossil fuel used to fire boilers.
- 2.5 Contract—Document binding transportation company to ship designated product stating terms and conditions to transport commodities to EKPC's power stations sent to a transportation company for signatures after approval and before deliveries begin, which is typically a longer term than a purchase order.

- 2.6 Electronic Proposals—Proposals received through password protected e-mail accounts, managed by Fuel Analyst, and not viewed prior to proposal opening.
- 2.7 Emergency Spot Purchase—Spot purchase made without competitive bidding when there is an immediate need for transportation in situations including but not limited to: failure of a transportation company to perform; labor or transportation strikes; severe weather conditions; or inability of power stations to receive commodities by normal means.
- 2.8 Financial Review—Typically includes the examination of an entity's balance sheet, income, and cash flow statements to determine the entity's financial health. Conducted on transportation agreements with an initial term greater than one year.
- 2.9 Fixed Price—A price that does not change over the contracted period for a commodity with specified quality attributes. All applicable taxes, fees, and profit margins are typically included.
- 2.10 Floating Price—Price subject to adjustments based upon predetermined indices or surcharges. All applicable taxes, fees, and profit margins are typically included.
- 2.11 Fuel Negotiating Committee—Committee requiring a Board Director participation. The Director will be appointed annually according to guidelines set in Section E, Management Committees from Policy No. 106 ([Exhibit 3](#)).
- 2.12 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 transportation contract, directly relating to the transportation of commodities that results in a change of the transportation company's direct out-of-pocket costs.
- 2.13 IRMC—Internal Risk Management Committee has the authority to approve and oversee the processes used to identify, evaluate, and manage enterprise risk.
- 2.14 Long-Term—Duration of more than one year.
- 2.15 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](#)).

- 2.16 Policy No. 106—EKPC Board of Directors policy for the Establishment of Board Committees and Respective Charters ([Exhibit 3](#)).
- 2.17 Policy No. 116—EKPC Board of Directors Conflict of Interest Policy to ensure 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](#)).
- 2.18 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](#)).
- 2.19 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](#)).
- 2.20 Power Stations— Electric power generating plants owned and operated by EKPC: Cooper, Spurlock, Bluegrass, and J. K. Smith.
- 2.21 Purchase Order—Document binding transportation company to ship designated product stating terms and conditions to transport commodities to EKPC’s power stations sent to a transportation company for an acceptance signature after approval and before deliveries begin, which is typically a shorter term than a contract.
- 2.22 RFP—Request for proposal sent to prospective transportation companies on EKPC’s Transportation Bidders List ([Exhibit 46](#)).
- 2.23 Sealed Proposals—Proposals received through a written RFP process not viewed prior to proposal opening (can include electronic proposals).
- 2.24 Security of Performance—A document providing at least a minimum level of assurance of performance by a contract supplier, in addition to normal remedies for contract breach.
- 2.25 Short-Term—Duration of one year or less.
- 2.26 Spot Purchase— Spot purchases are non-contract supply agreements that permit EKPC to purchase transportation at a specific rate for a defined term, typically one year or less. Spot purchases allow EKPC the flexibility to respond quickly and efficiently to inventory needs while

remaining in compliance with EKPC policy. There are three types of spot purchases including (1) Traditional, (2) Emergency, and (3) Test spot purchases. Traditional spot purchases are subject to the competitive bidding process, are initiated with either a written or verbal RFP, and are typically made for a term of one year or less. This is the most common type of spot purchase and is typically based on the long-term future burns projection. Emergency and Test spot purchases do not require competitive bidding, are typically a shorter-term than traditional spot, and may need to be executed timely within hours. Any spot purchase not subject to the competitive bidding process must have an identifiable trigger such as, but not limited, to the following: time being of the essence, low physical inventory, near-illiquid market conditions, hedge optimization, change in legislation, governmental imposition, Force Majeure Event, breach of contract, or the need for transportation flexibility. The option of making Economy, Emergency, and Test spot purchases must be approved in writing by the Senior Vice President, Power Supply or Executive Vice President/Chief Operating Officer prior to negotiating proposals. Economy, Emergency, and Test spot purchases will be subject to the standard approval process and levels as detailed in Policy No. 404 or Policy No. AO31 prior to execution of the short-term purchase order. Economy, Emergency, and Test spot purchases may, involve specific need-based circumstances, and may include a provision by which there are no minimum requirements for either party. The no-minimum quantity purchase option allows management to optimize plant efficiency by facilitating the more precise matching and timing of deliveries with actual burn-based needs and may be applied at the discretion of the Fuel and Emissions Manager and approved in accordance with Policy. (See Section 4.7.2 for additional information regarding the procedures related to spot purchases.)~~Purchase made with competitive bidding for a term of typically one year or less. Competitive bidding is also not required for emergency and test spot purchases or a single-source transportation company.~~

- 2.27 Supplier Scorecard—Spreadsheet that tracks measurable parameters of quality, quantity, services, and miscellaneous items on a monthly basis. The transportation companies can receive a ranking of problem, concern, acceptable, or exceptional (*Exhibit 12*).
- 2.28 TDF—Tire derived fuel, bead wire free, shredded tires that are permitted to be utilized in Gilbert Unit No. 3 and Spurlock Power Station Unit No. 4.
- 2.29 Test Spot Purchase—Spot purchase made without competitive bidding to test a transportation company for its suitability at EKPC’s power stations.
- 2.30 Trading Authority Transaction Matrix—Delegation of procurement approval authority (*Exhibit 50*).

2.31 Traditional Spot Purchase—Spot purchase made with the competitive bidding process, initiated with a written or verbal RFP, for a term of typically one year or less. This is the most common type of spot purchase.

2.312 Transportation Bidders List—List of current transportation companies to submit requests for proposals stating their addresses, representative contacts, phone numbers, and applicable stations for bidding purposes (*Exhibit 46*).

2.323 W-9—Form required by the Internal Revenue Service for tax purposes to be completed by all transportation companies 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 applicable policies, procedures, and strategies.

3.1.2 Ensures adequate transportation to EKPC's power plants.

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

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

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

3.2 Power Plant Personnel

3.2.1 Maintain the systems at each of EKPC's relevant power stations to ensure its availability to unload and store deliveries.

3.2.2 Advise the Fuel and Emissions department of any concerns regarding transportation.

3.2.3 Implement tracking mechanism when necessary.

3.3 Fuel Buyers

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

3.3.2 Monitor transportation availability and performance.

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

3.3.4 Manage deliveries at each of EKPC's power stations.

3.3.5 Review and verify applicable fuel escalation adjustments prepared by Accounting.

3.4 Administrative Assistant

3.4.1 Assists in managing the RFP process.

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

3.4.3 Verifies all documentation is received according to the Checklist for Fuel Department Transactions ([Exhibit 14](#)) and files with appropriate contract(s) and/or purchase order(s).

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

3.6 Fuel Analyst

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

- 3.6.2 Manages the Trading Authority Transaction Matrix (*Exhibit 50*).
 - 3.6.3 Assists in managing price adjustments.
 - 3.6.4 Audits Governmental Imposition claims and manages transportation companies' financial reviews.
 - 3.6.5 Provides forward-looking data of floating components for forecasting and sensitivity analysis as requested.
- 3.7 Accounting
- 3.7.1 Enters and reconciles documentation received from Power Plant Personnel and Fuel and Emissions into the appropriate accounting system.
 - 3.7.2 Reconciles transportation invoices received for payment.
 - 3.7.3 Contacts responsible party to clarify any discrepancies in the invoices.
 - 3.7.4 Calculates payment and sends to treasury for disbursement.

4.0 Procedure

Due to changing environmental laws or regulations, Fuel and Emissions representative(s) will maintain dialogue with Environmental Affairs representative(s) to ensure the appropriate transportation method is utilized.

Cooper Power Station receives coal by truck and Norfolk Southern rail. Ammonia and lime are both delivered by truck. Spurlock Power Station receives coal by barge and CSX rail. In certain circumstances and for a short duration, Spurlock Power Station can receive coal by truck. Limestone and lime kiln dust (or a comparable product) deliveries are made by truck but may be delivered by barge or rail in the future. Spurlock Power Station receives ammonia deliveries by truck. Deliveries of TDF can be made by barge, rail, or truck. Ammonia is delivered to Smith Power Station by truck. No. 2 fuel oil, as well as most other commodities, are all delivered by truck to EKPC's power stations.

- 4.1 Determine if an RFP is required.
 - 4.1.1 Review projected usage from Power Supply and Power Stations.

- 4.1.2 Compare projected usage with the current contracts and purchase orders to determine if there is a need to purchase transportation in conjunction with Policy No. 405 ([Exhibit 6](#)).
- 4.1.3 Determine the amount of transportation to be purchased and type of purchase to be made (contract or purchase order) to maintain adequate inventories at each applicable power station.
- 4.2 Determine if RFP should be written or verbal. (RFPs are not required for emergency and test spot purchases or a single-source transportation company.)
 - 4.2.1 Create a written RFP (e.g., [Exhibit 47](#)) for contract purchases.
 - 4.2.2 Create a written or verbal RFP for traditional spot purchases. (Verbal RFPs are confirmed by written documentation.) Written proposals will be opened at a later time following the documented procedure. Active proposals on file may also be considered for these purchases. Transportation companies are notified through e-mails, letters, trade publications, and personal conversations that EKPC is continuously evaluating transportation methods and will accept unsolicited proposals at any time for consideration. Only transportation companies who have demonstrated their ability to supply the appropriate transportation required are contacted on verbal solicitations.
 - 4.2.3 Identify need for emergency or test spot purchases in which no RFP is required.
- 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 and quantity for transportation of RFP based on projected needs.
 - 4.3.2 Fuel Buyers may develop and coordinate test for transportation or handling improvement. Improvement may be in terms of economics, compatibility, flexibility, or dependability.
 - 4.3.3 Fuel Buyers create an RFP (e.g., [Exhibit 47](#)) stating applicable delivery locations, term, quantity, and price options including the security of performance requirement.
 - 4.3.4 Fuel and Emissions Manager and Administrative Assistant review RFP (e.g., [Exhibit 47](#)) before issuing.

- 4.3.5 Fuel Buyers issue RFP (e.g., [Exhibit 47](#)) for sealed proposals for transportation to bidders on EKPC's Transportation Bidders List ([Exhibit 46](#)). (Emergency and test spot purchase proposals may be made verbally and confirmed by written documentation.)
- 4.3.6 Fuel Manager notifies Executive Staff in writing of issued written RFP (e.g., [Exhibit 47](#)).
- 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 traditional 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 Administrative Assistant and Fuel Analyst (respectively), or their designee(s), prior to formal bid opening.
 - 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 transportation proposals.
 - 4.5.1 Handle proposals received after the deadline on a case-by-case basis to determine their eligibility for evaluation. If legitimate information can be obtained to determine the proposal was sent to be received before the deadline, a proposal 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 approved evaluation criteria.
 - 4.5.~~34~~ Determine if the lowest evaluated, delivered priced proposal(s) meets EKPC's requirements as specified in the corresponding RFP to develop a short list of potential transportation company(s).
 - 4.5.~~45~~ Evaluate transportation company(s) performance capabilities as outlined in the Fuel, Emission, Limestone, and Lime Strategy ([Exhibit 1](#)).

- 4.5.56 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.
- 4.5.67 Negotiate terms and conditions with selected transportation company(s) from short list.
- 4.5.78 Conduct field visit(s), if necessary, to evaluate the facilities, capabilities, etc., of the transportation company(s) with competitive proposals to evaluate physical risk.
- 4.5.89 Prepare a field evaluation report if a field visit is conducted.
- 4.5.910 Ensure necessary due diligence is performed in evaluating the credit worthiness and financial stability of all potential transportation companies 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 transportation company's audited financial statement, ratios, and key performance indicators to be used in EKPC's risk management provider's template for credit scoring. Publically traded and privately held financial evaluations would then be provided to the Finance department for their review and/or recommendation. Annual reviews, which include market price reopeners, will be shared with the Finance department for informational purposes.
- 4.5.101 Draft approval memorandum—including emergency and test spot purchases—to management (*Exhibit 48*) recommending the most economic supplier(s) of transportation meeting the corresponding RFP's specifications while balancing risk.
- 4.5.142 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 transportation companies' responses to the RFP, justification of the term change

will be noted in the approval memorandum and approval obtained in accordance with Policies No. 404 (*Exhibit 5*) and No. AO31 (*Exhibit 2*) for the new term type.

4.5.1~~23~~³³ Negotiation of contract language and terms can take approximately three to four months of negotiation with a transportation company. 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 transportation agreements may be executed from one RFP response to fulfill projected needs, which will also be documented accordingly in the approval memorandum.

4.5.1~~34~~³⁴ Management approves memorandum in accordance with Policies No. 404 (*Exhibit 5*) and No. AO31 (*Exhibit 2*).

4.6 Fuel Buyers prepare contract(s) and/or purchase order(s) based on a standard template reviewed by legal counsel, with credit rating and insurance requirements submitted to risk management.

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

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

4.6.3 Administrative Assistant forwards the W-9 (*Exhibit 13*) to Accounting, and Fuel Buyers forward the Certificate of Insurance to risk management for approval if not already on file.

4.6.4 Fuel Buyers send draft contract(s) and/or purchase order(s) to transportation company(s) for review.

4.6.5 Request additional approval from the Fuel and Emissions Manager, 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 transportation contract(s) and purchase order(s).

4.7.1 Fuel Buyers obtain a sequential purchase order number from the fuel and emission's Non-Coal Purchase Order Log Book after

appropriate review and/or approval is given by the Fuel and Emissions Manager, legal counsel, and risk management for purchase orders only. Contract numbers are developed as needed.

- 4.7.2 Administrative Assistant reviews contract(s) and purchase order(s) and circulates for signatures prior to distribution utilizing the Approval and Review form ([Exhibit 39](#)) if senior management's signature is required. Written and verbal RFPs for traditional spot transportation needs go through the competitive bidding process. Emergency and test spot purchases are less common and are the only exceptions to the competitive bidding process. Purchase order(s) executed without minimum purchase requirements are typically short-term spot purchases and subject to the same documentation, controls, and approval requirements set forth in this procedure and in accordance with Policies No. 404 and No. A031.
- 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 is received for capture in a risk management system as accordance with Policies No. 404 ([Exhibit 5](#)) and No. A031 ([Exhibit 2](#)). These documents are automatically set up by the Administrative Assistant to delete within seven days. If the documents are not retrieved from the shared directory, which functions as a portal to individuals at multiple geographic locations within seven days, the documents can be provided directly to the appropriate individual upon request from the risk management service provider. Administrative Assistant promptly removes them from the shared directory.
- 4.7.4 Fuel Analyst logs approved contract(s) and purchase order(s) on the Trading Authority Transaction Matrix ([Exhibit 50](#)).
- 4.7.5 Administrative Assistant files executed contract(s) and purchase order(s) in Fuel and Emissions' department files with documentation according to the Checklist for Fuel Department Transactions ([Exhibit 14](#)). Original contract(s) is stored at an offsite storage facility for disaster mitigation.

- 4.8 Fuel and Emissions personnel schedule transportation 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 transportation company(s) and barge and train carriers, if applicable, a projected delivery schedule each month for EKPC's power stations.
- 4.9 Power Plant Personnel receive deliveries.
 - 4.9.1 Weigh trucks daily using certified scales at Cooper Power Station for inventory measures and payment. Both gross and tare weights are taken and net weights are determined.
 - 4.9.2 Use calibrated belt scales at Spurlock Power Station to verify barge origin weights or certified barge drafts for determination of destination weights for inventory measures and/or payment as specified by applicable contract or purchase order. (Barge Drafting [Exhibit 18](#))
 - 4.9.3 Use weights taken and reported by the railroad transporting commodities to the power station. Certified transportation company weights approved by the railroad transporting the commodities may be used.
 - 4.9.4 Collect and forward transportation information to Accounting.
- 4.10 Fuel Buyers monitor transportation company performance.
 - 4.10.1 Determine if the transportation company 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](#)).
 - 4.10.2 Consult with the Fuel and Emissions Manager if the specifications are not met.
- 4.11 Fuel Analyst tracks and documents financial reviews.
 - 4.11.1 Documents due dates and execution of interim financial reviews, tracking them on a monthly/quarterly basis as needed.
 - 4.11.2 Performs interim transportation company financial reviews for contracts at least annually or more if deemed necessary under the oversight of the Fuel and Emissions Manager who ensures timely execution.

- 4.12 Verify receipt of deliveries and reconcile freight invoices.
 - 4.12.1 Fuel Analyst enters deliveries for each contract and purchase order on the Trading Authority Transaction Matrix ([Exhibit 50](#)).
 - 4.12.2 Fuel Buyers review and verify floating price adjustments for production and transportation surcharges as needed.
 - 4.12.3 Accounting reconciles documentation entered into the appropriate accounting system (e.g., receipt, and contract and/or purchase order terms and conditions) from Power Plant Personnel and Fuel and Emissions.
 - 4.12.4 Accounting calculates and verifies applicable contract price escalation.
 - 4.12.5 Accounting reconciles transportation invoices received for payment.
 - 4.12.6 Accounting contacts responsible party to clarify any discrepancies.
 - 4.12.7 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, 202~~2~~3, and this procedure will be reviewed annually.

Concurred by: _____
Mark Horn
Manager, Fuel & Emissions

Date: _____

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

Date: _____

- Amended: 09/21/16
- Amended: 09/28/17
- Amended: 10/18/18
- Amended: 09/04/19
- Amended: 10/01/20
- Amended: 11/23/21
- Amended: 11/02/22

EAST KENTUCKY POWER COOPERATIVE

POLICY NO. 405

February 9, 2015

HEDGING POLICY

I. OBJECTIVE

This Hedge Policy was created as a supporting policy to the Enterprise Risk Management Policy to assist East Kentucky Power Cooperative (EKPC) in achieving the objectives set forth by EKPC's Board. The Hedge Policy is designed to reduce price volatility to owner-members. The Hedge Policy will:

- (1) Establish the strategy for volume, time horizon and inventory of fuel and other related commodities at each generation asset;
- (2) Establish the strategy for managing Auction Revenue and Financial Transmission Rights;
- (3) Describe how to calculate the hedge contribution of EKPC generation assets and power supply purchases;
- (4) Calculate EKPC's net energy position;
- (5) Communicate EKPC's net energy position and the price/volume exposure to EKPC's Executive Leadership and EKPC Board for guidance on the use of financial instruments to further reduce EKPC's exposure to energy market price fluctuations.

II. HEDGE POLICY CRITERIA

EKPC's generation assets contribute to lowering price volatility but regulatory and operating constraints are such that all of the market price risk for any time horizon cannot be mitigated solely by physically purchasing fuel. This policy sets fuel purchasing strategies for each generation asset based on the asset's projected operations. The aggregate of these individual plant hedging strategies contribute to reducing EKPC's net energy position. The fuel purchasing strategies largely employ a price-averaging strategy of declining percentage of fuel purchases over future time periods. Purchasing fuel in this way mitigates the adverse impacts that could result in either significant price increases or decreases, and is oriented with higher hedge levels in the near term when there is more volatility and with lower hedge levels in later years. There are different strategies for each generation plant because each plant has a different price position in the power market and the generation plant's dispatch is driven by its dispatch cost. The plant's projected dispatch, the plant's market position, the plant's hedge potential and supply chain concerns drive how much fuel needs to be purchased on a ratable basis each forward year and the fuel inventory targets (if applicable).

Auction Revenue Rights ("ARRs") and Financial Transmission Rights (FTRs") are financial tools which PJM developed to provide a revenue stream for firm transmission customers to hedge against congestion charges. As a Load Serving Entity (LSE), EKPC is a firm transmission customer that manages the congestion cost volatility for its load. Congestion is the result of "uneconomic" dispatch to resolve reliability issues on the transmission system. EKPC has participated in the ARR allocation and FTR Auctions since becoming a member of PJM.

EKPC's net energy position starts with the load forecast and is reduced by the hedge contribution of the generation fleet, forward power supply purchases and EKPC interruptible customer contracts. Once the net energy position is known, risk analytics will be run on a monthly basis to describe the price risk exposure. The results of the risk analytics will be communicated to EKPC's CEO, COO, CFO and SVP Power Supply (EKPC Executive Leadership). EKPC Executive Leadership will examine the price exposure and mitigation opportunities at the Internal Risk Management Committee ("IRMC"). EKPC Executive Leadership will present the price exposure and mitigation opportunities to the Board Risk Oversight Committee ("BROC") on a monthly basis.

Financial hedge transactions (i.e. those that do not involve physical delivery of a commodity such as electricity, coal or natural gas) must be recommended by EKPC's Executive Leadership, BROC and approved in advance by the EKPC Board.

Speculative transactions are strictly prohibited.

III. GENERATION FLEET HEDGE CONTRIBUTION AND FUEL PURCHASE STRATEGY

As a member of PJM, the EKPC energy requirement to serve load is served by market purchases while EKPC-owned generation and purchase power agreements are sold as market sales. EKPC native load purchases in PJM are partially price-hedged by EKPC's generation assets. While the Fuel Purchase Strategy contributes to hedging EKPC's native load, the Fuel Purchasing Strategy is driven by the dispatch of the fleet into the PJM Day Ahead and Real Time markets. **The result is that Fuel Purchasing Strategy may include sales of energy into the PJM market over and above EKPC's native load.**

The forecasted dispatch for each plant (forecast burn) is calculated once a month by running a portfolio model (an interactive computer model used to analyze macro level implications on EKPC's generation portfolio resulting from changing a variety of conditions, such as generator availability, market conditions, transmission constraints and availability, and prices) against the individual power plant forward pricing curve to simulate how EKPC's generation will be dispatched in the PJM market. While this modeling projects the economic EKPC generation in PJM market, the generation not economically dispatched by PJM serves as ceiling to EKPC native load Average Variable Cost (AVC) especially when there is an upward pressure on the market power price in the spot/forward power market.

The calculation of the generation fleet price-hedge contribution to reduce the EKPC net open position for each month is the sum of the following:

- 1) Expected economic generation MWh at each generation facility hedged by fuel contracts;
- 2) The sum of fuel purchases and fuel inventory for generation. The MWh equivalent hedge from fuel purchases and inventory will be the volume of MMBTU of fuel for the unit or contract divided by the expected average heat rate (in BTU/kWh) of the generation unit or contract divided by 1,000;
- 3) Fuel inventory will be assigned to the current delivery year up to 100% of the forecasted dispatch of the unit. Inventory in excess of that required to meet 100% of the forecasted dispatch shall be assigned to the next year's forecasted dispatch;
- 4) The hedge contribution shall be limited by the monthly forecasted load. Sales that exceed the monthly forecasted load shall not be included in the calculation of EKPC native load hedge.

EKPC generating stations will be segregated into "in the money" generation and "out of the money" generation and available/no fuel generation hedges. A plant's contribution to the "in the money" hedge position is described by the number of MWh the plants variable costs (fixed price fuel is available) are less than the forward energy curve. A plant's contribution to the "out of the money" hedge position is described by the number of MWh the plants are available to run, but the variable costs (fixed price fuel) are greater than the forward energy curve, and EKPC has an energy need. A plant's contribution to the "Available/No Fuel" hedge position is described by the number of MWh the plants are available to run, but fuel has not been purchased forward, and EKPC has an energy need.

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Fuel Purchasing Strategy

The Fuel Purchasing Strategy is driven by and measured against the forecasted dispatch. Each of EKPC's generating units will be dispatched against the PJM forward energy curve provided by ACES. The projected dispatch is translated into an amount of fuel necessary to allow the unit to operate for the projected dispatch. Table 1 describes the Fuel Purchasing Strategy for each of EKPC's generation units.

Coal producers are frequently unwilling to commit to fixed price for greater than three years because of unforeseeable production cost increases. The result is that the hedge contribution from the generation fleet is typically limited to three years.

The EKPC generation fleet hedge contribution will vary over time because of the relative position of EKPC's generation assets in the market.

- Spurlock provides most of the economic hedge potential of the EKPC generation fleet. Spurlock's favorable market position results in a higher projected burn and allows EKPC to purchase 60% of projected fuel burn or greater in the delivery year. Inventory is also driven by supply chain concerns related to barging, such as lock and dam closures, and requires 25 to 45 days of coal inventory at max burn.
- Cooper's dispatch varies based on reliability needs and market prices in PJM and may vary from the annual forecasts significantly because Cooper's dispatch cost is typically higher than the marginal cost unit in PJM in any given hour. Fluctuations in PJM market pricing driven by weather, supply/demand imbalances, congestion and natural gas prices have significant impacts on Cooper's dispatch. To ensure adequate coal during these periods, Cooper should enter winter and summer with 25 to 60 days of coal inventory.
- Bluegrass is projected to dispatch with a Capacity Factor considerably lower than Spurlock. Forward gas purchases for Bluegrass shall be on a case-by-case basis and with the consent of the CEO and BROCC. The three units at Bluegrass have fuel oil backup capability. The fuel oil inventory will be maintained at levels directed by the COO.
- Smith is projected to dispatch with a Capacity Factor considerably lower than Spurlock. Forward gas purchases for Smith shall be on a case-by-case basis and with the consent of the CEO and BROCC. Unit Nos. 1 through 7 at Smith can run on fuel oil when natural gas is not available. The fuel oil inventory will be maintained at levels directed by the COO.
- Other hedges are provided by PPAs (Purchase Power Agreements), such as SEPA (Southeastern Electric Power Administration) for hydroelectric and LFG (Landfill Gas) energy.

A key criterion of this Policy is to purchase fuel within defined volumetric ranges during specified calendar year timeframes as identified in Table 1. These ranges identify the percentage of EKPC's projected fuel requirements that will be procured with a fixed base price over a given time period.

Table 1
Fuel Procurement Strategy

	Calendar Year 1*	Calendar Year 2	Calendar Year 3	Calendar Year 4
Reporting Frequency	Monthly	Monthly	Monthly	Monthly
Plant	% of expected Fuel Burn	% of expected Fuel Burn	% of expected Fuel Burn	% of expected Fuel Burn
Spurlock Contracts	>60	40-80	10-65	0-45
Spurlock Inventory	25 to 45 days of Max Burn	Any excess from prior year	Any excess from prior year	
Cooper Contracts	Spot Purchases	Spot Purchases	Spot Purchases	Spot Purchases
Cooper Inventory	25-60 days of Max Burn	Any excess from prior year	Any excess from prior year	
Smith Natural Gas Contracts	Spot or Forward Purchases	Spot or Forward Purchases	Spot or Forward Purchases	Spot or Forward Purchases
Smith Inventory	Oil Inventory	-	-	-
Bluegrass Natural Gas Contracts	Spot or Forward Purchases	Spot or Forward Purchases	Spot or Forward Purchases	Spot or Forward Purchases
Bluegrass Inventory	Oil Inventory			
LFG	Projected Generation	Projected Generation	Projected Generation	Projected Generation

* Current delivery year.

Note: Contracts can include spot or forward purchases.

Table 1 Definitions:

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- Coal Spot Purchase: This typically is a purchase order that has a defined term of one year or less. This can also include alternative fuels.
- Coal Contract Purchase: This typically is a supply agreement that has a defined term of three years or less, but can have an unlimited term if approved by the Board of Directors.
- Fuel Oil Spot Purchase: This typically is a purchase order that has a defined term of one year or less.
- Natural Gas Spot Purchase: This typically has a defined term of seven days or less.
- Natural Gas Forward Purchase: This typically has a defined term of one year or less, but can be a contract with a term of three years or less with transaction limits/controls detailed in Board Policy No. 404. Long-term contracts can have an unlimited term if approved by the Board of Directors. Forward transactions for natural gas purchases shall be evaluated on an as-needed basis, and purchased with the consent of the CEO and BROCC.

IV. ARR and FTR Strategy

ARRs are entitlements allocated annually to firm transmission service customers that entitle the holder to receive an allocation of the revenues (or charges) from the Annual FTR Auction. Since EKPC's need for FTRs varies significantly by month, it has proven to be more beneficial to hold the ARR and receive the associated credits.

FTRs are financial instruments awarded to bidders in the FTR Auctions that entitle the holder to a stream of revenues (or charges) based on hourly day-ahead congestion price differences across the path.

Historically, ARR strategy for EKPC is driven by monetizing ARRs in the annual auction as opposed to converting them to annual FTRs. EKPC's need for positive FTRs varies significantly each month, so annual allocations do not meet our current needs. EKPC shall continue to monetize ARRs in the annual auction unless there are major changes in PJM delivery system that changes the inherent supply of power to EKPC load zone.

The need for FTRs and the resulting amounts can vary by month based on expected load, generation outages and/or transmission outages. EKPC personnel, its consultants, and ACES shall evaluate expected EKPC position for congestion expenses for a minimum of three months forward and as far ahead as the next three years on a scheduled basis prior to all FTR auctions. All recommended FTR actions, either purchases or choosing not to purchase, shall adhere to EKPC Board Policy "404 Trading Authority" and "AO31 Administrative Policy."

On a quarterly basis, an FTR position report will be provided to EKPC Executive Leadership, IRMC, BROCC, and the Board.

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V. CALCULATION OF EKPC HEDGE

The generation hedge contribution is segregated into three categories:

- 1) Generation that is “In the Money”
- 2) Generation that is “Out of the Money”
- 3) Generation that is “Available/No Forward Fuel Purchased”

ACES will run the EKPC Portfolio Model considering “In the Money” generation, “Out of the Money” generation, EKPC interruptible contracts, EKPC electric energy purchases and EKPC electric energy sales. ACES will provide EKPC’s Monthly Net Open energy position and AVC based for the next 12 months. ACES will provide EKPC’s Annual Net Open energy position and AVC for the following three years. ACES will also run a sensitivity that includes the “Available/No Fuel” generation.

When the EKPC Net Open Position and expected Average Variable Cost are known, the EKPC IRMC will review and make recommendations to the BROCC.

Definitions:

- Measurement Period: This is the period that hedges will be measured for policy compliance reporting purposes.
- Reporting Frequency: This is the minimum frequency that hedge compliance will be calculated and reported.
- Plant: Hedge contribution will be measured and reported for each generating asset.
- Hedge Sum: This represents total MWh hedged
- Projected EKPC Native Load: Monthly projections for EKPC native load for the term specified in Table 1.
- Hedge %: Represents the maximum % of native load MWh hedged by EKPC.

VI. RISK MEASUREMENT AND COMPLIANCE REPORTING

The end cost to EKPC’s members is largely driven by the costs of providing power supply. The EKPC portfolio model provides a forward look at a range of possible costs for supplying power for member load and contract energy sales. It takes into account power and fuel market conditions, projected forward prices, native load requirements, generation characteristics and a number of variables that directly impact the cost to serve EKPC’s native load.

Risk measurement and compliance with the volumetric and lead time criteria outlined in this Policy will be demonstrated on a regular basis in a monthly portfolio model risk report. A portfolio model risk report will generally cover four years of projections. An outline of the contents of the monthly report is contained below:

1. Purpose

A consistent monthly report to formally communicate risk, hedging activities, and other information to EKPC Executive Leadership, IRMC, BROCC and the Board, including:

- EKPC’s net open energy position;
- Potential changes in EKPC’s net open energy position and projected Average Variable Cost (AVC) due to stress events such as changes in power/gas prices, changes in native load among others;
- Expected Average Variable Cost (AVC);

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- Changes in projections compared to the previous monthly portfolio report;
- Market changes;
- AVC at risk at 95th percentile;
- Potential changes in EKPC's projected costs due to stress events such as changes in power/gas prices, changes in native load among others;
- Fuel purchases and inventories compared to the Hedge Policy ranges
 - "In the money" generation fleet hedge contribution
 - "Out of the money" generation fleet hedge contribution (For out of the money hedges, the position report will report the notional value of the difference between out of the money hedge and the observed forward price)
 - "Available/No Fuel" generation fleet hedge contribution
- Compliance with this Policy

2. Addendums

Periodically, or as necessary, the report may contain risk assessments or decision support information for issues such as:

- Hedging opportunities outside of policy (e.g. long term transaction/power plant investments)
- Longer term portfolio risk assessments

3. Compliance

The portfolio model is updated each month to determine the net open energy position and the hedge % against the most current forward curve for power and underlying commodities. Compliance is measured against the parameters listed in Table 1. During the fourth quarter of the current year, the next calendar year and subsequent years' upper limits are adjusted to the upper hedging limit of the current years' limit and subsequent years' limits to accommodate purchases to prepare for the following year.

- Before Sep 30th each year, the IRMC shall review Policy 405 and examine the need to revise the hedge policy due to changes in environmental regulations and/or change in market conditions. The IRMC shall then make necessary recommendations to the BROCC for their consideration. The BROCC shall review the IRMC's recommendations and submit to the Board for consideration as necessary.
- If the fuel procurement strategy at any generation plant deviates from the range specified in Table 1, such deviations shall be reported to the IRMC and the BROCC at the next scheduled meeting. The BROCC Chair shall report such deviations to the Board at the next scheduled Board meeting.
- Market conditions are subject to change and may result in deviations above or below the ranges specified in Table 1. It is not a violation if the projected burn levels are revised resulting deviations above or below the specified ranges. A report of this event will be given to EKPC Executive Leadership, IRMC, the Director of Risk and BROCC Scheduled outages are planned for each generating asset to perform maintenance and overhauls. These scheduled outages are included in EKPC's hedging compliance strategy.
- Unplanned outages of generation and transmission facilities may occur and are beyond the control of management. Such outages may result in noncompliance with Table 1 and are not considered a violation. A report will be made to EKPC Executive Leadership, IRMC, the Director of Risk and BROCC.
- The Fuels Department has 30 days to develop strategies to bring fuel hedges back into compliance with Table 1.

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VII. RESPONSIBILITY

It shall be the responsibility of the Board, through the duly appointed Board Risk Oversight Committee (BROC), and the President/CEO, to oversee compliance with this Policy.

The President/CEO shall be accountable for the management and administration of the Hedging process, within the limits prescribed in the Policy. The President/CEO is authorized to designate specific day-to-day Hedging responsibilities to one or more senior executives, subject to the President/CEO's continued direction and oversight. Implementation of this Policy shall at all times adhere to the authority granted in the EKPC Board Policy "404 Trading Authority" and "AO31 Administrative Policy".

APPROVED BY THE BOARD OF DIRECTORS



BOARD CHAIRMAN

EFFECTIVE DATE: 6-13-2016

LAST DATE REVIEWED: 03-14-23

REVISED DATE(S): 6-13-2016

7-11-2017

11-10-2020

10-17-2022

03-14-2023

EAST KENTUCKY POWER COOPERATIVE

POLICY NO. 405

February 9, 2015

HEDGING POLICY

I. OBJECTIVE

This Hedge Policy was created as a supporting policy to the Enterprise Risk Management Policy to assist East Kentucky Power Cooperative (EKPC) in achieving the objectives set forth by EKPC's Board. The Hedge Policy is designed to reduce price volatility to owner-members. The Hedge Policy will:

- (1) Establish the strategy for volume, time horizon and inventory of fuel and other related commodities at each generation asset;
- (2) Establish the strategy for managing Auction Revenue and Financial Transmission Rights;
- (3) Describe how to calculate the hedge contribution of EKPC generation assets and power supply purchases;
- (4) Calculate EKPC's net energy position;
- (5) Communicate EKPC's net energy position and the price/volume exposure to EKPC's Executive Leadership and EKPC Board for guidance on the use of financial instruments to further reduce EKPC's exposure to energy market price fluctuations.

II. HEDGE POLICY CRITERIA

EKPC's generation assets contribute to lowering price volatility but regulatory and operating constraints are such that all of the market price risk for any time horizon cannot be mitigated solely by physically purchasing fuel. This policy sets fuel purchasing strategies for each generation asset based on the asset's projected operations. The aggregate of these individual plant hedging strategies contribute to reducing EKPC's net energy position. The fuel purchasing strategies largely employ a price-averaging strategy of declining percentage of fuel purchases over future time periods. Purchasing fuel in this way mitigates the adverse impacts that could result in either significant price increases or decreases, and is oriented with higher hedge levels in the near term when there is more volatility and with lower hedge levels in later years. There are different strategies for each generation plant because each plant has a different price position in the power market and the generation plant's dispatch is driven by its dispatch cost. The plant's projected dispatch, the plant's market position, the plant's hedge potential and supply chain concerns drive how much fuel needs to be purchased on a ratable basis each forward year and the fuel inventory targets (if applicable).

Auction Revenue Rights ("ARRs") and Financial Transmission Rights (FTRs") are financial tools which PJM developed to provide a revenue stream for firm transmission customers to hedge against congestion charges. As a Load Serving Entity (LSE), EKPC is a firm transmission customer that manages the congestion cost volatility for its load. Congestion is the result of "uneconomic" dispatch to resolve reliability issues on the transmission system. EKPC has participated in the ARR allocation and FTR Auctions since becoming a member of PJM.

EKPC's net energy position starts with the load forecast and is reduced by the hedge contribution of the generation fleet, forward power supply purchases and EKPC interruptible customer contracts. Once the net energy position is known, risk analytics will be run on a monthly basis to describe the price risk exposure. The results of the risk analytics will be communicated to EKPC's CEO, COO, CFO and SVP Power Supply (EKPC Executive Leadership). EKPC Executive Leadership will examine the price exposure and mitigation opportunities at the Internal Risk Management Committee ("IRMC"). ~~The results of the risk analytics will also be communicated to the Director of Risk and the Director of Treasury and Finance.~~ EKPC Executive

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Leadership will present the price exposure and mitigation opportunities to the Board Risk Oversight Committee (“BROC”) on a monthly basis.

Financial hedge transactions (i.e. those that do not involve physical delivery of a commodity such as electricity, coal or natural gas) must be recommended by EKPC’s Executive Leadership, BROC and approved in advance by the EKPC Board.

Speculative transactions are strictly prohibited.

III. GENERATION FLEET HEDGE CONTRIBUTION AND FUEL PURCHASE STRATEGY

As a member of PJM, the EKPC energy requirement to serve load is served by market purchases while EKPC-owned generation and purchase power agreements are sold as market sales. EKPC native load purchases in PJM are partially price-hedged by EKPC’s generation assets. While the Fuel Purchase Strategy contributes to hedging EKPC’s native load, the Fuel Purchasing Strategy is driven by the dispatch of the fleet into the PJM Day Ahead and Real Time markets. **The result is that Fuel Purchasing Strategy may include sales of energy into the PJM market over and above EKPC’s native load.**

The forecasted dispatch for each plant (forecast burn) is calculated once a month by running a portfolio model (an interactive computer model used to analyze macro level implications on EKPC’s generation portfolio resulting from changing a variety of conditions, such as generator availability, market conditions, transmission constraints and availability, and prices) against the individual power plant forward pricing curve to simulate how EKPC’s generation will be dispatched in the PJM market. While this modeling projects the economic EKPC generation in PJM market, the generation not economically dispatched by PJM serves as ceiling to EKPC native load Average Variable Cost (AVC) especially when there is an upward pressure on the market power price in the spot/forward power market. ~~Cooper 1 and 2 are examples of assets that have not been economically dispatched by PJM but serve as ceiling to EKPC native load AVC.~~

The calculation of the generation fleet price-hedge contribution to reduce the EKPC net open position for each month is the sum of the following:

- 1) Expected economic generation MWh at each generation facility hedged by fuel contracts;
- 2) The sum of fuel purchases and fuel inventory for generation. The MWh equivalent hedge from fuel purchases and inventory will be the volume of MMBTU of fuel for the unit or contract divided by the expected average heat rate (in BTU/kWh) of the generation unit or contract divided by 1,000;
- 3) Fuel inventory will be assigned to the current delivery year up to 100% of the forecasted dispatch of the unit. Inventory in excess of that required to meet 100% of the forecasted dispatch shall be assigned to the next year’s forecasted dispatch;
- 4) The hedge contribution shall be limited by the monthly forecasted load. Sales that exceed the monthly forecasted load shall not be included in the calculation of EKPC native load hedge.

EKPC generating stations will be segregated into “in the money” generation and “out of the money” generation and available/no fuel generation hedges. A plant’s contribution to the “in the money” hedge position is described by the number of MWh the plants variable costs (fixed price fuel is available) are less than the forward energy curve. A plant’s contribution to the “out of the money” hedge position is described by the number of MWh the plants are available to run, but the variable costs (fixed price fuel) are greater than the forward energy curve, and EKPC has an energy need. A plant’s contribution to the “Available/No Fuel” hedge position is described by the number of MWh the plants are available to run, but fuel has not been purchased forward, and EKPC has an energy need.

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Fuel Purchasing Strategy

The Fuel Purchasing Strategy is driven by and measured against the forecasted dispatch. Each of EKPC's generating units will be dispatched against the PJM forward energy curve provided by ACESs. The projected dispatch is translated into an amount of fuel necessary to allow the unit to operate for the projected dispatch. Table 1 describes the Fuel Purchasing Strategy for each of EKPC's generation units.

Coal producers are frequently unwilling to commit to fixed price for greater than three years because of unforeseeable production cost increases. The result is that the hedge contribution from the generation fleet is typically limited to three years.

The EKPC generation fleet hedge contribution will vary over time because of the relative position of EKPC's generation assets in the market.

- Spurlock provides most of the economic hedge potential of the EKPC generation fleet. Spurlock's favorable market position results in a higher projected burn and allows EKPC to purchase 60% of projected fuel burn or greater in the delivery year. Inventory is also driven by supply chain concerns related to barging, such as lock and dam closures, and requires 25 to 45 days of coal inventory at max burn.
- Cooper's dispatch ~~varies based on reliability needs and market prices in PJM- and~~ may vary from the annual forecasts significantly because Cooper's dispatch cost is typically higher than the marginal cost unit in PJM in any given hour. Fluctuations in PJM market pricing driven by weather, supply/demand imbalances, congestion and natural gas prices have significant impacts on Cooper's dispatch. ~~Long-term production cost modeling indicate Cooper will have limited economic dispatch and will be relegated to brief periods during winter and summer months, and for environmental testing needs.~~ To ensure adequate coal during these periods, Cooper should enter winter and summer with 25 to 60 days of coal inventory.
- Bluegrass is projected to dispatch ~~with a Capacity Factor considerably lower than Spurlock, at less than a 10% Capacity Factor. Forward gas purchases for Bluegrass shall be on a case-by-case basis and with the consent of the CEO and BROCC, has no firm natural gas contracts because of the intermittent nature of Bluegrass' dispatch.~~ The three units at Bluegrass have fuel oil backup capability ~~as of the fall of 2020. The fuel oil inventory will be maintained at levels directed by the COO.~~
- Smith is projected to dispatch ~~with a Capacity Factor considerably lower than Spurlock at less than a 10% Capacity Factor. Forward gas purchases for Smith shall be on a case-by-case basis and with the consent of the CEO and BROCC, Smith has no firm natural gas contracts because of the intermittent nature of Smith's dispatch. Seven of the Unit Nos. 1 through 7 at Smith units~~ can run on fuel oil when ~~natural~~ gas is not available. The ~~fuel~~ oil inventory ~~at Smith~~ will be maintained at levels directed by the COO.
- Other hedges are provided by PPAs (Purchase Power Agreements), such as SEPA (Southeastern Electric Power Administration) for hydroelectric and LFG (Landfill Gas) energy.

A key criterion of this Policy is to purchase fuel within defined volumetric ranges during specified calendar year timeframes as identified in Table 1. These ranges identify the percentage of EKPC's projected fuel requirements that will be procured with a fixed base price over a given time period.

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Table 1
Fuel Procurement Strategy

	Calendar Year 1*	Calendar Year 2	Calendar Year 3	Calendar Year 4
Reporting Frequency	Monthly	Monthly	Monthly	Monthly
Plant	% of expected Fuel Burn	% of expected Fuel Burn	% of expected Fuel Burn	% of expected Fuel Burn
Spurlock Contracts	>60	40-80	10-65	0-45
Spurlock Inventory	25 to 45 days of Max Burn	Any excess from prior year	Any excess from prior year	
Cooper Contracts	Spot Purchases	Spot Purchases	Spot Purchases	Spot Purchases
Cooper Inventory	25-60 days of Max Burn	Any excess from prior year	Any excess from prior year	
Smith Natural Gas Contracts	Spot <u>or Forward</u> Purchases	Spot <u>or Forward</u> Purchases	Spot <u>or Forward</u> Purchases	Spot <u>or Forward</u> Purchases
Smith Inventory	Oil Inventory	-	-	-
Bluegrass Natural Gas Contracts	Spot <u>or Forward</u> Purchases	Spot <u>or Forward</u> Purchases	Spot <u>or Forward</u> Purchases	Spot <u>or Forward</u> Purchases
Bluegrass Inventory	Oil Inventory			
LFG	Projected Generation	Projected Generation	Projected Generation	Projected Generation

* Current delivery year.

Note: Contracts can include spot or forward purchases orders.
~~The generation hedge contribution is segregated into three categories:~~

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Table 1 Definitions:

- Coal Spot Purchase: This typically is a purchase order that has a defined term of one year or less. This can also include alternative fuels.
- Coal Contract Purchase: This typically is a supply agreement that has a defined term of three years or less, but can have an unlimited term if approved by the Board of Directors.
- Fuel Oil Spot Purchase: This typically is a purchase order that has a defined term of one year or less.
- Natural Gas Spot Purchase: This typically has a defined term of seven days or less.
- Natural Gas Forward Purchase: This typically has a defined term of one year or less, but can be a contract with a term of three years or less with transaction limits/controls detailed in Board Policy No. 404. Long-term contracts can have an unlimited term if approved by the Board of Directors. **Forward transactions for natural gas purchases shall be evaluated on an as-needed basis, and purchased with the consent of the CEO and BROC.**

- 1) ~~Generation that is "In the Money"~~
- 2) ~~Generation that is "Out of the Money"~~
- 3) ~~Generation that is "Available/No Fuel"~~

Commented [GV1]: This section was moved under V.

IV. ARR and FTR Strategy

ARRs are entitlements allocated annually to firm transmission service customers that entitle the holder to receive an allocation of the revenues (or charges) from the Annual FTR Auction. Since EKPC’s need for FTRs varies significantly by month, it has proven to be more beneficial to hold the ARR and receive the associated credits.

FTRs are financial instruments awarded to bidders in the FTR Auctions that entitle the holder to a stream of revenues (or charges) based on hourly day-ahead congestion price differences across the path.

Historically, ARR strategy for EKPC is driven by monetizing ARRs in the annual auction as opposed to converting them to annual FTRs. EKPC’s need for positive FTRs varies significantly each month, so annual allocations do not meet our current needs. EKPC shall continue to monetize ARRs in the annual auction unless there are major changes in PJM delivery system that changes the inherent supply of power to EKPC load zone.

The need for FTRs and the resulting amounts can vary by month based on expected load, generation outages and/or transmission outages. EKPC personnel, its consultants, and ACES shall evaluate expected EKPC position for congestion expenses for a minimum of three months forward and as far ahead as the next three years on a scheduled basis prior to all FTR auctions. All recommended FTR actions, either purchases or choosing not to purchase, shall adhere to EKPC Board Policy “404 Trading Authority” and “AO31 Administrative Policy.”

On a quarterly basis, an FTR position report will be provided to EKPC Executive Leadership, IRMC, BROC, and the Board.

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V. CALCULATION OF EKPC HEDGE

The generation hedge contribution is segregated into three categories:

- 1) Generation that is “In the Money”
- 2) Generation that is “Out of the Money”
- 3) Generation that is “Available/No Forward Fuel Purchased”

ACES~~s~~ will run the EKPC Portfolio Model considering “In the Money” generation, “Out of the Money” generation, EKPC interruptible contracts, EKPC electric energy purchases and EKPC electric energy sales. ACES~~s~~ will provide EKPC’s Monthly Net Open energy position and AVC based for the next 12 months. ACES~~s~~ will provide EKPC’s Annual Net Open energy position and AVC for the following three years. ACES~~s~~ will also run a sensitivity that includes the “Available/No Fuel” generation.

When the EKPC Net Open Position and expected Average Variable Cost are known, the EKPC IRMC will review and make recommendations to the BROCC.

Definitions:

- Measurement Period: This is the period that hedges will be measured for policy compliance reporting purposes.
- Reporting Frequency: This is the minimum frequency that hedge compliance will be calculated and reported.
- Plant: Hedge contribution will be measured and reported for each generating asset.
- Hedge Sum: This represents total MWh hedged
- Projected EKPC Native Load: Monthly projections for EKPC native load for the term specified in Table 1.
- Hedge %: Represents the maximum % of native load MWh hedged by EKPC.

VI. RISK MEASUREMENT AND COMPLIANCE REPORTING

The end cost to EKPC’s members is largely driven by the costs of providing power supply. The EKPC portfolio model provides a forward look at a range of possible costs for supplying power for member load and contract energy sales. It takes into account power and fuel market conditions, projected forward prices, native load requirements, generation characteristics and a number of variables that directly impact the cost to serve EKPC’s native load.

Risk measurement and compliance with the volumetric and lead time criteria outlined in this Policy will be demonstrated on a regular basis in a monthly portfolio model risk report. A portfolio model risk report will generally cover four years of projections. An outline of the contents of the monthly report is contained below:

1. Purpose
A consistent monthly report to formally communicate risk, hedging activities, and other information to EKPC Executive Leadership, IRMC, BROCC and the Board, including:
 - EKPC’s net open energy position;
 - Potential changes in EKPC’s net open energy position and projected Average Variable Cost (AVC) due to stress events such as changes in power/gas prices, changes in native load among others;
 - Expected Average Variable Cost (AVC);

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- Changes in projections compared to the previous monthly portfolio report;
- Market changes;
- AVC at risk at 95th percentile;
- Potential changes in EKPC's projected costs due to stress events such as changes in power/gas prices, changes in native load among others;

- Fuel purchases and inventories compared to the Hedge Policy ranges
 - "In the money" generation fleet hedge contribution
 - "Out of the money" generation fleet hedge contribution (For out of the money hedges, the position report will report the notional value of the difference between out of the money hedge and the observed forward price)
 - "Available/No Fuel" generation fleet hedge contribution
- Compliance with this Policy

2. Addendums

Periodically, or as necessary, the report may contain risk assessments or decision support information for issues such as:

- Hedging opportunities outside of policy (e.g. long term transaction/power plant investments)
- Longer term portfolio risk assessments

3. Compliance

The portfolio model is updated each month to determine the net open energy position and the hedge % against the most current forward curve for power and underlying commodities. Compliance is measured against the parameters listed in Table 1. During the fourth quarter of the current year, the next calendar year and subsequent years' upper limits are adjusted to the upper hedging limit of the current years' limit and subsequent years' limits to accommodate purchases to prepare for the following year.

- Before Sep 30th each year, the IRMC shall review Policy 405 and examine the need to revise the hedge policy due to changes in environmental regulations and/or change in market conditions. The IRMC shall then make necessary recommendations to the BROC for their consideration. The BROC shall review the IRMC's recommendations and submit to the Board for consideration as necessary.
- If the fuel procurement strategy at any generation plant deviates from the range specified in Table 1, such deviations shall be reported to the IRMC and the BROC at the next scheduled meeting. The BROC Chair shall report such deviations to the Board at the next scheduled Board meeting.
- Market conditions are subject to change and may result in deviations above or below the ranges specified in Table 1. It is not a violation if the projected burn levels are revised resulting deviations above or below the specified ranges. A report of this event will be given to EKPC Executive Leadership, IRMC, the Director of Risk and BROC Scheduled outages are planned for each generating asset to perform maintenance and overhauls. These scheduled outages are included in EKPC's hedging compliance strategy.
- Unplanned outages of generation and transmission facilities may occur and are beyond the control of management. Such outages may result in noncompliance with Table 1 and are not considered a violation. A report will be made to EKPC Executive Leadership, IRMC, the Director of Risk and BROC.
- The Fuels Department has 30 days to develop strategies to bring fuel hedges back into compliance with Table 1.

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VII. RESPONSIBILITY

It shall be the responsibility of the Board, through the duly appointed Board Risk Oversight Committee (BROC), and the President/CEO, to oversee compliance with this Policy.

The President/CEO shall be accountable for the management and administration of the Hedging process, within the limits prescribed in the Policy. The President/CEO is authorized to designate specific day-to-day Hedging responsibilities to one or more senior executives, subject to the President/CEO's continued direction and oversight. Implementation of this Policy shall at all times adhere to the authority granted in the EKPC Board Policy "404 Trading Authority" and "AO31 Administrative Policy".

APPROVED BY THE BOARD OF DIRECTORS

BOARD CHAIRMAN

EFFECTIVE DATE: 6-13-2016

REVISED DATE(S): 6-13-2016
14-23

LAST DATE REVIEWED: ~~11-10-2003-~~

7-11-2017

11-10-2020

03-14-23