

Status of GRU 2012 - 2013 Coal Supply Contracting Process

1) The Request for Proposals

- Performance Coal (1.5 – 3.0 Pounds SO₂/MMBtu)
 - Received 18 proposals from 14 suppliers.
 - Proposals primarily from Central Appalachia with wide variety of mines, shipping points and price points.
- High Sulfur Coal (3.0 Pounds SO₂/MMBtu – 4.5 Pounds SO₂/MMBtu)
 - Received 12 proposals from 6 suppliers.
 - Proposals were primarily from Illinois basin with some participation by Northern Appalachia and Central Appalachia.

2) The Analysis

- Input detailed coal quality analysis, coal commodity prices, emission allowance prices, environmental commodity prices, current rail transport prices, etc into VISTA computer simulation of Deerhaven.
- VISTA calculated coal consumption, emissions, lime consumption, urea consumption, equipment derates, replacement power costs, maintenance expense, forced outage hours, etc to generate a total annual expense and cost/MWH.
- GRU Fuels selected the most economical performance coals for a secondary evaluation of potential plant operating problems.
- Preliminary results indicate that a 70%/30% blend of performance coal and high sulfur, low fusion temperature coals was the optimum mix.

3) The Selections

- Performance Coal
 - Selected three performance coal suppliers from CAPP.
 - Each supplier will ship one train (12,300 tons) per month or approximately 150,000 tons/year.
 - Total coal under contract is 450,000 tons for 2012. Normal purchase volume is 550K – 600K per year. The contracted volume is 75-80% of requirements.
 - All contracts are one year contracts.
 - Proposals have been accepted and confirmed by all Parties. Draft contracts are in markup and negotiation.
 - One contract is in final form and will be submitted to Energy Supply Management for execution.
 - As directed by the RUC, all suppliers have agreed to include contract language requiring self reporting of significant environmental violations. The format of reporting, threshold for significance, and frequency of reporting is under negotiation.
 - Due to high heat contents and lower transport rates, deep mine coals competed well in the analysis.
 - Alpha Natural Resources was awarded one train which will originate from a 100% deep mine operation for 33% of total supply.
 - Cargill/Blackhawk's operation has a 40% deep mine component.
 - Peabody deep mine content will range from 33% to 100%.

- Overall, GRU high quality, washed deep mine shipments will range from approximately 58% to 80%, depending upon final negotiations of the primary mine source for the Peabody contract.

- **High Sulfur Coals**
 - Three suppliers selected on the basis of the VISTA analysis.
 - No contracts have been awarded due to the need to test burn performance coal contracts and implement the Illinois Coal Blending program during 2012.
 - GRU Fuels has been authorized to purchase test coal on a spot basis from each selected supplier.
 - GRU has schedule to test burn contract coal during first quarter 2012 and implement the Illinois Blending program thru October 2012.
 - The objective is to have the capability to continuously burn to a 70% CAPP/30%ILLB blend beginning 10/01/2012, if commodity costs, transport, plant operating experience, emissions and environmental commodity economics are confirmed.

- **Other Related Issues**
 - New contract prices and transport rates will allow GRU to purchase coal below its FY 2012 budget.