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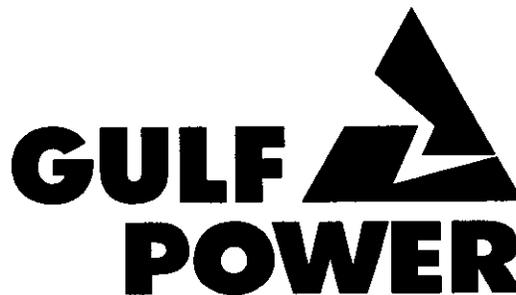
020001-EI

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GULF POWER COMPANY

Risk Management Plan
For
Fuel Procurement
Docket No. 020001-EI

Date of Filing: September 20, 2002



A SOUTHERN COMPANY

(entire DN) *MR 7.6.04*
DECLASSIFIED

DOCUMENT NUMBER 10999
OCT 10 2002

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DECLASSIFIED

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Plan Summary

Gulf Power's forecasted fuel purchase budget for next year is approximately \$304 million dollars. Coal makes up approximately 67% of the total expected fuel purchases and gas approximately 33%. There is also a small amount of oil costs associated mainly with boiler lighting.

GULF POWER - 2003 PROJECTED PURCHASE FUEL COSTS /1				
	Coal	Natural Gas	Oil	Total
Fixed Price Commodity				
- Tons / MMBtu / bbl	3,466,713 Ton			
- Average Price	\$ 20.94 Ton			
- Cost	\$ 72,583,078			\$ 72,583,078
Variable Price Commodity				
- Tons / MMBtu / bbl	2,302,487 Ton	21,824,863 MMBtu /2	16,277 bbl	
- Average Price	\$ 26.07 Ton	\$ 3.68 MMBtu	\$ 26.98 bbl	
- Cost	\$ 60,036,610	\$ 80,315,497	\$ 439,159	\$140,791,266
- % of Fuel Type Costs	29.4%	80.6%	100.0%	
- % of Total Costs	19.7%	26.4%	0.1%	46.2%
Potential Amount to Hedge		24,007,350 MMBtu /3		
Variable Transportation	\$ 71,724,246 /4	\$ 157,140		\$ 71,881,386
Fixed Storage & Transport		\$ 19,200,082		\$ 19,200,082
Total Cost	\$204,343,934	\$ 99,672,719	\$ 439,159	\$304,455,812
- % of Total	67.1%	32.7%	0.1%	
Notes:				
/1 Does not match fuel filing which is based on burns, not purchases				
/2 Natural gas purchases grossed up by 3.12% fuel retention				
/3 Natural gas purchases multiplied by 110%				
/4 Contracts with variable volume				

The above table shows a breakdown of the fuel costs in the purchase budget. The fixed commodity costs, transportation costs, and other recoverable expenses are generally under fixed price contracts and not subject to fuel price risk. Price risk is associated with the non-contracted costs represented by the variable priced commodity.

The variable portion of the coal purchase budget makes up approximately 29% of the total 2003 forecast delivered coal purchase costs. This is the portion that is subject to fluctuations in coal market prices. Gulf Power's goal is to contract for 65 - 75% of the upcoming year's projected coal purchases as a way to hedge against price swings and to provide needed reliability. Gulf Power does not contract for 100% of its projected coal purchases because of potential swings in coal burns. Coal burns fluctuate for a variety of reasons including weather, economy, plant outages etc. Coal burns also fluctuate as a result of changes in the dispatch order. Gulf's mix of generation capacity helps to mitigate the impact of price spikes. When gas prices rise relative to coal prices, more electricity is generated using coal. If gas prices drop relative to coal prices, more electricity is generated using gas. Since Gulf Power's dispatch order fluctuates between gas and coal depending on which is cheaper, high coal inventories could result if Gulf Power contracts for too much of its forecasted coal needs. Gulf Power feels that fixing the price of 70% of its projected coal

purchases in 2003 is an appropriate hedge against fluctuations in coal prices while allowing the necessary burn flexibility to manage its coal inventories.

Since natural gas is purchased on an index basis, the variable portion of the gas budget accounts for approximately 81% of the total 2003 forecasted gas costs. While Gulf's mix of generation capacity helps to mitigate some of the impact of fluctuations in gas prices, Gulf Power proposes to further limit this price risk by financially hedging up to 110% of its budgeted gas purchases, including pipeline fuel retention volumes. Gulf Power feels that this will provide the ability to effectively manage the natural gas price risk. Gulf Power isn't proposing any set schedule, formula or triggering schema to enter into the financial hedges. Instead, it proposes to take hedging positions when it identifies an opportune time to hedge because gas prices are low or it feels it needs to eliminate future price risk when natural gas prices are rising. In this way, Gulf Power can employ both short-term technical and long-term fundamental hedging approaches to most effectively manage its natural gas price risk.

Gulf does not propose to take any hedging positions on oil since it represents such a small portion of the overall fuel budget.

Coal transportation is hedged through the use of fixed price contracts (some with escalators and/or inflation / deflation adjustments) for variable volumes such that Gulf only pays for the transportation it needs.

Gas transportation for base-loaded Smith 3 is hedged through a fixed price, fixed volume contract.

Details of the Risk Management Plan are contained in the attached files:

- 1) Gulf Power Coal Procurement Strategy
- 2) Gulf Power Coal Transportation Strategy
- 3) Gulf Power Gas Procurement Strategy
- 4) Gulf Power Oil Procurement Strategy
- 5) Gulf Power Company Risk Management Policy
- 6) Southern Company GEM Merchant Floor Risk Management Policy
- 7) Gulf Risk Oversight Organizational Chart

GULF POWER COMPANY LONG-TERM COAL PROCUREMENT STRATEGY AND TACTICAL PLAN DECEMBER 2001

Introduction

Gulf Power Company reliably serves over 370,000 customers. In year 2000, Gulf Power generated almost 13 billion KWH's with over \$215 million in fuel expense. Coal represented over 98% of Gulf Power's generation sources. Gulf Power Company operates three coal-fired plants with a combined nameplate capacity of 1,355 Mw and with annual coal consumption of over 3 million tons. The procurement of this coal is critical to the success of Gulf Power Company.

Competition in the electricity industry, consolidation in the coal industry, and environmental laws and regulations are just a few of the challenges facing power generators today. As the electric utility industry evolves, a procurement strategy must address several issues in order to provide a reliable, cost-competitive, environmentally acceptable fuel supply.

The following is provided in order to achieve this goal: 1) a review of the current coal program including current commitments and uncommitted requirements, 2) a procurement strategy that identifies and addresses specific risks and risk mitigation strategies and discusses a strategic plan, and 3) a tactical plan detailing specific actions required in order to achieve the strategy.

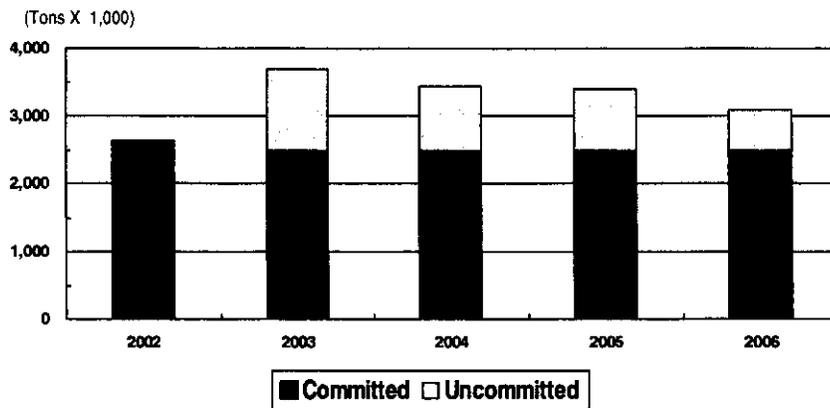
Fuel Program Overview

Coal for Plants Crist and Smith is provided by barge transportation. These plants have one long-term coal contract with Peabody COALSALES Company totaling 1.9 million tons of base coal and 600,000 tons of Right-To-Supply (RTS) coal. Due to the fact that they share a common transportation mode as well as a common contract, these plants will be grouped together in formulating a procurement strategy. Currently, the sourcing under this contract is American Coal Company's Galatia Mine which is located in the Illinois Basin. Plant Crist has no committed short-

term (spot) coal and no remaining need in 2002. Plant Smith has a slight need in 2002 which will be supplied with short-term (spot) coal purchases. The Peabody contract is due to expire in 2007. This contract provides for a market review in February 2003.

In the following charts, the projected requirements for year 2002 are from the November 2001 fuel requirements update and from the 2002 fuel budget for future years. For year 2002, the burn for Crist and Smith is lower than future years because the Georgia and Alabama programs have low cost contract options available to them used in marginal dispatch. For year 2003 and beyond, the budget is based on market pricing and not these lower Georgia and Alabama cost contract options. The chart below illustrates the projected burn and commitments of coal for Crist and Smith through 2006:

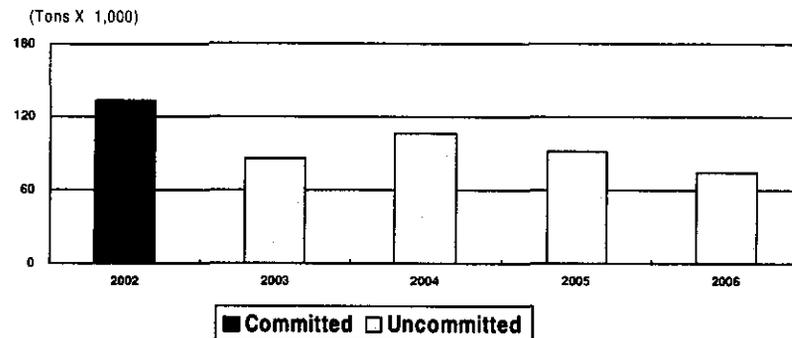
Plants Crist & Smith Fuel Program Status



Plant Scholz is rail served and has one long-term contract with Black Mountain Resources, LLC in place for 2002. This contract is a requirements contract with a maximum cap of 150,000 tons and expires at the end of 2002. The remaining need, if any, will be supplied with short-term (spot) coal. There are no committed tons at Scholz for 2003 and beyond.

The following chart illustrates the projected burn and commitments of coal for Scholz through 2006:

Plant Scholz Fuel Program Status



Procurement Strategy

As previously stated, the long-term coal procurement goal for Gulf Power Company will be to provide a reliable, cost-competitive, environmentally acceptable coal supply. The successful coal program must provide flexibility in volume and pricing, become more diverse by pursuing other supply regions, create competition for supply, focus on reliability of supply, and adhere to changing environmental laws and guidelines.

The following section will address the risks associated with each of these areas and identify strategies to mitigate them. Also included in this section is a discussion of a strategic plan that incorporates several of these mitigation techniques.

Risks and Risk Mitigation Strategies

Volume Risk and Strategy

Uncertainty in the amount of coal generation, and therefore coal supply that will be needed in the future is one of the most critical risks that must be addressed in developing a strategy for long-term coal procurement. Uncertainty in coal burn requirements due to weather has always been a challenge; however, the increasing uncertainty of the predictable load base of the past, due to competition in the electricity industry, provides new

challenges. Also, the opportunity for more frequent and larger purchases and sales of electricity, coupled with competition with new gas-fired generation, will result in the potential for more frequent and larger swings in coal requirements.

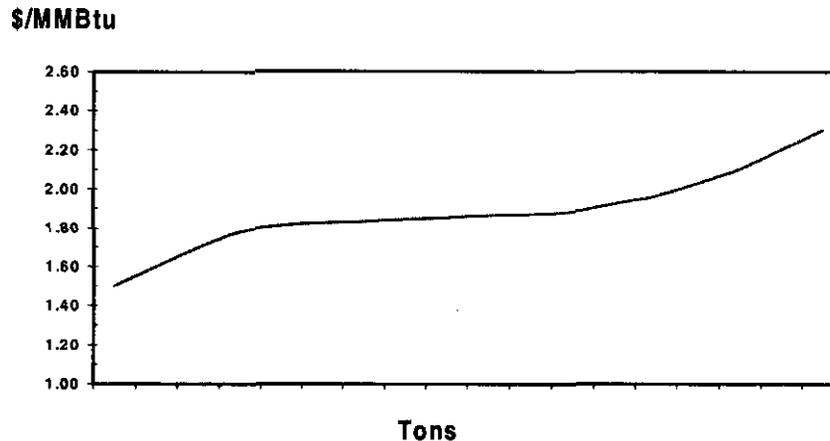
A portion of projected coal requirements should be firmly committed under long-term agreements in order to provide a reliable and consistent supply of fuel. Coal suppliers also require a certain portion of long-term commitments in order to make financial investments in mining operations. Uncommitted requirements can be obtained through short-term (spot) purchases as needed. Also, volume options can be incorporated into the long-term contracts. The combination of these firm commitments, spot purchases and contract options should be optimized in order to provide sufficient flexibility to adjust to changing requirements and market conditions. Generating plants that are considered "base-load" have less uncertainty and should be firmly committed to a higher percentage of future coal requirements. Base-load plants should utilize contract volume options primarily for pricing advantages as will be discussed later. Plants that are considered "intermediate" or "swing" plants possess more uncertainty relating to future requirements and should have firm commitments but at a lesser percentage than base-load plants. The intermediate plants should incorporate more short-term spot purchases and/or contract option flexibility. Plants that are considered "peaking" should have little or no firm commitments. These plants should rely on short-term spot purchases as needed or long-term agreements with volume commitments tied to the requirements of the plant.

Pricing Risk and Strategy

Providing Gulf customers with low cost electricity, as well as competing for energy market share with other utilities and power marketers, requires competitive energy pricing. With over 50% of the electricity cost for coal-fired generation being fuel, competitively priced coal supplies must be maintained. The objective is to have a portfolio of long-term contracts and spot coal supplies that provide pricing at or below market at any given point in time. Mechanisms to achieve this objective include: (1) starting the contract at or below market prices, (2) keeping the price fixed, or allowing only small annual price increases, below the expected rate of price inflation, (3) including contract volume options that can be optimized based on current market conditions, and (4) reopening the contract (market reviews) every three years or less in order to adjust the contract price to the market price of coal. Also, because of the size of the Southern electric system, the volume of purchases made at a particular time can impact the market. Typically, pricing varies from the low cost producers to the higher

cost operations. Ranking bid proposals in order of least cost and

Fuel Price Curve



cumulative volume produces the following price curve.

Purchasing large volumes of coal requires purchasing higher on the pricing curve. This risk can be mitigated by staggering the term of all long term agreements such that no more than 20-30% of the agreements expire or are subject to market review in any one year. Where market power permits, additional mechanisms which can keep coal prices low include (1) the use of unilateral price reviews, which provide the ability to maintain contract pricing at or below market pricing, and (2) multi-year contracts which have fixed prices throughout their terms. Other desirable pricing terms include (1) buy-out clauses, to enable us to reduce future liability for unneeded or uneconomical coal, (2) caps on suppliers' governmental imposition claims, and (3) the use of quality penalties to discourage the shipment of lower quality coal.

Diversity of Supply Risk and Strategy

Procuring coal from various regions and suppliers is increasingly important. There is a risk in relying on one or two large producers from a single supply region to meet supply needs. Having the ability to utilize coal from various regions will decrease the availability risk associated with lack of supply in a particular region. The advantages of a diverse portfolio of long-term commitments from various regions and the associated economic impact must be evaluated. Diversifying will also keep the competition strong not only among the suppliers, but among the regions as well.

Close involvement with plant personnel will be required to actively pursue alternate sources including testing and plant modifications if required.

The objective will be to continue to create competition among the regions and avoid being captive to one or two markets. As mergers and acquisitions continue in the coal industry, there is value in keeping some of the smaller producers healthy to ensure adequate competition among coal suppliers for the future.

Reliability Risk and Strategy

Reliability of coal supply has not been a major issue for the past twenty years. The events occurring today pertaining to reliability of supply was last seen surrounding the events of the oil embargo of the 1970's. At that time, contracts were not being honored in much the same respect as today. Since that time, the coal industry has lived in an oversupply situation. During the past 10 years, the financial health of the coal industry has deteriorated such that many companies have either entered bankruptcy proceedings or have been sold. This has resulted in consolidation of the industry. In the current world of supply and demand imbalance, reliability of supply has once again surfaced and poses a risk that needs to be mitigated now and into the future.

Securing business with producers that have performed well during times of unreliable supply can mitigate risk. To capture the inefficiencies associated with supplier non-delivery issues, etc., stronger replacement cost language will be incorporated into future coal contracts. The producer will be obligated under this language to supply the amount of coal required under the Agreement, or pay to the Purchaser, the difference in the Seller's delivered cost and the delivered cost of replacement tons, including the differential cost of freight and sulfur emission allowances. Also, Purchaser shall have the right to offset any and all sums owed to Purchaser as a result of tonnage shortfall against any sums owed to Seller by Purchaser. Realizing that bankruptcy may render replacement cost language ineffective, other mechanisms, such as performance bonds, should be evaluated for inclusion in future contract negotiations.

At some point in the future it may be desirable to include language in coal contracts that offer incentives or premiums to producers who continue to perform and deliver on schedule, or even offer up front premiums to producers who agree to incorporate replacement cost language in contracts. Reliability has value, and it will have a key role in future coal procurement strategies.

Environmental Risk and Strategy

When procuring coal for a term greater than 12 months, a major risk is the potential impact from future changes in environmental laws and regulations that may preclude the burning of coal or render its use non-economic to our system. With the current ongoing discussions of new multi-pollutant legislation, it should lead us to be most guarded in any future coal supply commitments which do not allow the company to clearly terminate or otherwise escape from these agreements. We cannot assume future environmental risk in coal agreements. When signing new long-term coal supply agreements we will include the most current environmental language that allows the company the maximum flexibility and discretion to modify and or terminate such agreements based on our sole judgment. Based on "lessons learned" from the SO₂ program, where we also attempted to invoke "environmental force majeure", new environmental language must be absolutely clear that neither coal nor transportation vendors have the right to review and or question our selected compliance strategy.

Strategic Plan

When procuring coal for Gulf Power Company, Plants Crist and Smith will be grouped together because of their common supply source and transportation mode. Diversity of supply and flexibility will be important aspects of their fuel supply strategy. On the other hand, Plant Scholz can burn similar quality coals but their transportation mode differs because it is served by rail transportation. Consideration of the similarities and differences in these plants will help establish a long-term coal procurement strategy. Also, as discussed earlier, the strategic plan should be determined based on the type of plant being considered, i.e. base-load, intermediate, or peaking. The plants for Gulf Power Company are as follows:

Plant Crist - Plant Crist is barge served by the Orgulf Transportation Company. Historically and on average, Crist has burned approximately 2.3 million tons of coal a year and must comply with a state SO₂ emission limit of 5.9 lbs/mmBtu. However, Gulf Power Company seeks to maintain an SO₂ emission limit of 1.7 lbs/mmBtu to meet the local ambient air quality standards. For the last several years, Crist has been burning low sulfur Illinois Basin coal from the Galatia mine that is supplied under the Peabody long-term contract. Crist can also burn some Colombian import coals, as well as coals from Colorado and the Central Appalachian regions. Plant Crist is considered an intermediate to base-load coal plant with a projected capacity factor in the 60%-70% range.

Plant Smith – Plant Smith is also barge served by the Orgulf Transportation Company. Historically and on average, Smith has burned approximately 900,000 tons of coal a year. Smith must comply with the state SO₂ emission limit of 2.1 lbs/mmBtu. Smith can burn a variety of coals including import coals such as Colombian, Australian and Venezuelan. Domestic sources such as Colorado and Central Appalachian coals have also been burned in the past. The Peabody contract contains a right-to-supply (RTS) provision whereby Peabody can match the price and quality of offered coal for up to 600,000 tons in each year of the contract. Plant Smith is considered an intermediate load coal plant with a projected capacity factor in the 60%-70% range.

Plant Scholz – Plant Scholz is rail served by the CSX Railroad. Historically and on average, Scholz has burned approximately 100,000 tons of coal a year and must comply with a state SO₂ emission limit of 6.17 lbs/mmBtu. Scholz has burned Central Appalachian coals in the past. Scholz currently has a requirements contract for up to 150,000 tons that expires at the end of 2002. Plant Scholz is considered a peaking-load coal plant with a projected capacity factor in the 10%-20% range.

The risk mitigation strategies discussed earlier will be incorporated into the procurement strategies for these plants. Uncertainty in burn for the coal-fired plants is a major challenge. Due to the intermediate to base-load nature of Crist and Smith, the goal is to maintain firm commitments of 65-75% of the projected requirements for the following year (year 1), a minimum of 40-50% of the projected requirements for year 2, 20-30% of the projected requirements for year 3, and not more than 10% for year 4. If higher percentages of firm commitments are made for the future years, market price review provisions will be incorporated. Firm commitments will be less for this intermediate group because of more uncertainty of burn requirements. Maximizing the amount of contract options will be a primary goal, even if it requires a small premium. For Scholz, a peaking plant, the fuel supply will be based on limited or no long-term firm commitments. Commitments will be short-term of one year or less. If commitments are made for over 50% of the projected requirements, they will be tied to the plant requirements.

The Peabody contract volume commitment ranges from 70-80% firm through 2007 for Plants Crist and Smith collectively. This is slightly higher than the desired 65-75% range for intermediate to base load plants but still allows for the mitigation of risk discussed earlier. The remaining need at these plants will be managed with short-term spot coal purchases. This

contract contains a price review in February 2003 in which Gulf Power must submit a market adjusted delivered price for Peabody to match based on bids received for a similar quality and quantity of coal. Due to Peabody's desire to maintain a contractual relationship with Gulf Power, there is a high probability that Peabody will accept the new pricing and continue its contractual relationship with Gulf Power. Currently, the Galatia mine in the Illinois Basin is supplying coal for Peabody under this contract. Due to ever increasing environmental constraints, this coal is viewed as a less favorable long-term supply source than other coals for future years. Gulf Power is currently undergoing a test program at Crist and Smith to diversify their supply of coals. These tests consist of import coals and have three purposes: (1) to develop and approve new sources of coal which will allow for a broader and more competitive price review to be conducted in February 2003, (2) to increase the sources available to Peabody under their right-to-supply provision of the contract, and (3) to diversify the supply of import coal purchases as the availability of domestic sources continue to be negatively impacted due to production issues and increased production costs. The strategic objective will be to find an alternative coal source that (1) will replace a significant portion, if not all, of the current supply source, (2) will meet Gulf's environmental restrictions, and (3) be competitively priced in the upcoming price review process.

Traditionally, these plants have utilized domestic sources such as Illinois Basin medium-sulfur coals. Since 1999, market conditions, including production problems and lack of availability of supply in some domestic regions, and environmental awareness have emphasized the need to diversify with other sources, including Colombian and other import coals. With the reliability and availability issues that currently exist in the domestic market and existing Colombian sources, these other coal sources, transportation arrangements and plant limitations will be actively evaluated. Ports, terminals and other transportation issues associated with these alternative sources will be addressed in the transportation strategy. Another strategic objective will be to include these import sources as a large portion of future coal commitments, both long-term and short-term. As part of this objective, plant limitations due to the quality specifications of various coal sources and ways to expand the acceptable ranges of these parameters will be explored through an active test burn program.

The primary environmental issues over the next few years are SO₂ and NO_x. SO₂ emission limits imposed by Phase II (beginning 2000) of the Clean Air Act remain a concern. Continued utilization of a combination of low sulfur coal and "banked" allowances will meet or exceed these

restrictions. NOx emission limits imposed by Title I of the Clean Air Act are currently not as stringent at Gulf Power because of its proximity below the 32nd parallel, although there is a remote possibility that the EPA could pass regulations that sets an eight hour CIP limit affecting the Pensacola area. This could possibly occur in the 2005-2006 timeframe. Other environmental regulations that are possible in the 2007-2010 timeframe include PM 2.5, regional haze, and multi-pollutant legislation. With all the uncertainties that lie ahead with environmental issues, coal commitments will be structured to minimize the risk if laws and regulations change.

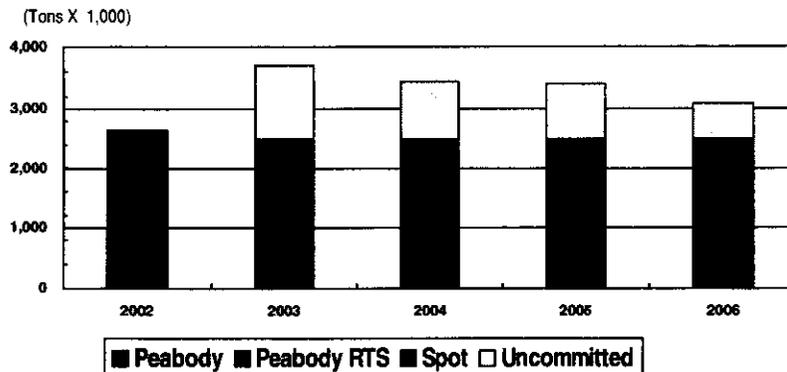
Another key area of increasing opportunity is coal trading and hedging. The benefits of financial risk mitigation instruments, currently available in the natural gas markets, are only now developing in the coal markets. With approximately 3 million tons annually in coal assets, increasing volatility in the coal industry, and an expanding world-wide coal trading network, opportunities may exist to mitigate Gulf Power Company's financial exposure with their \$215 million per year coal program. These opportunities will be pursued, as they have been in the natural gas program.

Tactical Plan

Crist and Smith

The chart below shows a breakdown of the current Crist and Smith suppliers and volume commitments, including options, through 2006:

**Plants Crist & Smith
Fuel Program Status
Supplier Breakdown**



The strategy that has been identified for Plants Crist and Smith as intermediate to base-load plants is to have firm commitments of 65-75% of the projected requirements for the following year (year 1), with a minimum of 40-50% of the projected requirements for year two, 20-30% of the projected requirements for year three and not more than 10% for year four. However, due to the fact that the Peabody contract has a high probability of extending through 2007, the firm commitments for the next six years will range within 70-80% each year (See attachment A for details). Any uncommitted needs will be met with short-term spot coal.

The focus during 2002 will be to diversify coal supply for these plants through a test program of various import coals predominately. As discussed previously, the development of new approved sources available for use during the Peabody price review in February 2003 is vital to the successful outcome of this process. Diversification of supply sources will benefit Gulf Power not only for sourcing under the Peabody contract but for short-term spot purchases as well.

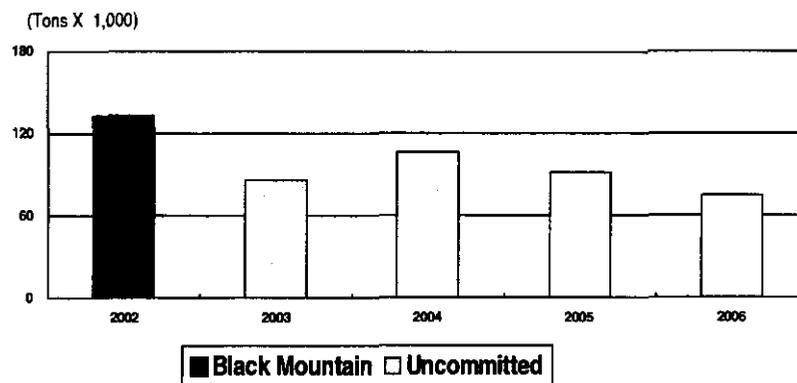
The risk of supply disruption is greatly reduced with increased diversity of supply. Diversity of supply will also enhance competition for coal to be supplied to these plants. Under the existing Peabody contract, Peabody is free to source all tons from one supplier. However, as part of the price review process, negotiations will seek to encourage Peabody to diversify supply sources. Another important element of this diversification philosophy is that Crist and Smith could share coal supplies such that inventories at both plants could be optimized should operational, supply or transportation problems occur at either plant.

In addition to diversification of sourcing, this price review presents other opportunities for Gulf Power to negotiate favorable enhancements to this contract. These enhancements include amending the force majeure sections to include make-up rights for Gulf Power; changing the escalation to a fixed percentage or modifying the quarterly GDP calculation; implementing clear barge quality rejection procedures; changing the deferred tonnage section so that Gulf Power obtains make-up rights; eliminating the 60,000 ton test burn requirement; reducing the Ohio River origin requirements from 1.3 million tons to 500,000 tons to match the Orgulf transportation contract; and changing the right-to-supply section to include pricing for Crist as well as Smith.

Scholz

The chart below shows a breakdown of the current Scholz suppliers and volume commitments, including options, through 2006:

**Plant Scholz
Fuel Program Status
Supplier Breakdown**



Due to its peaking nature, the strategy identified for Plant Scholz is to have little or no firm commitments. Plant Scholz will rely on short-term spot coal purchases as needed or long-term agreements with volume commitments tied to the requirements of the plant. In 2002, a solicitation will be issued to secure 2003 needs and beyond if economical.

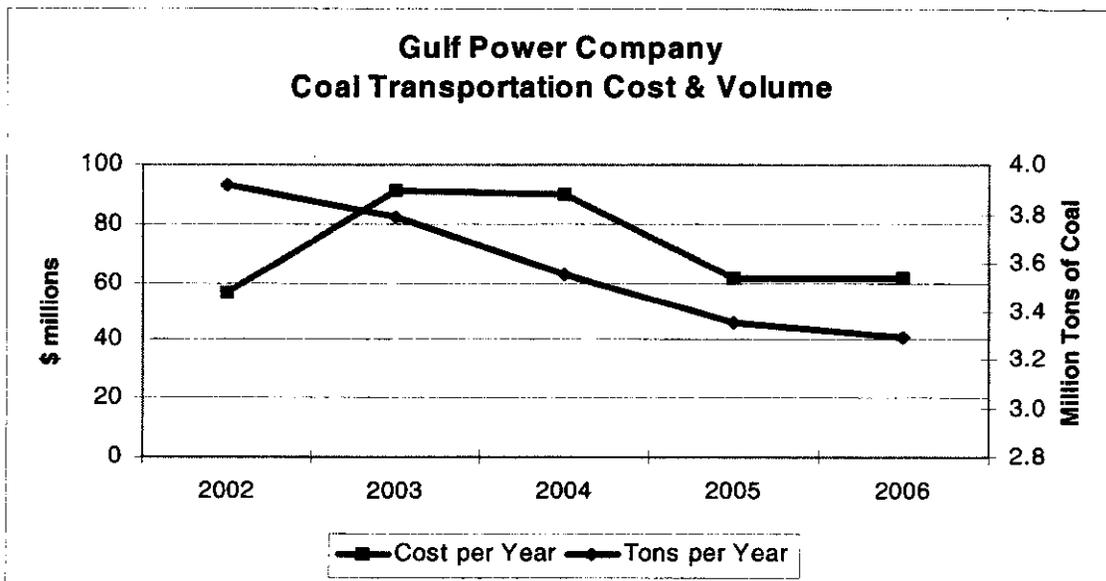
Gulf Power Company Transportation Strategy -December 2001-

Gulf Power Company (GULF) operates three coal plants that can generate over 1,355 MW's. These plants are Plant's Crist, Smith and Scholtz. Over the next five years, the budget forecast shows these plants burning over 3 million tons of coal per year. Plant Scholz is a peaking plant and is served by rail. Plant's Crist and Smith are intermediate plants and are served by barge.

Gulf has access to Appalachian coal by barge and rail. Illinois Basin, Powder River Basin (Wyoming and Montana), and Colorado sources can be accessed through the BNSF, UP, NS, CSX and IC Railroads. Foreign coal can be accessed at the ports of New Orleans and Mobile for either barge or rail shipment.

Plants Crist and Smith can receive shipments of western, Illinois Basin, Central Appalachian or ocean-vessel foreign coal. Western coals are transported by the BNSF or the UP railroads to load outs on the Mississippi River and then barged to the plant. Also, Illinois or Central Appalachian river load outs can be used to move coal by barge to these Plants. Plant Scholz is served by the CSX railroad.

Over the next five years, the 2002 budget forecast shows Gulf transporting 3.3 to 3.9 million tons of coal per year. The cost to transport this coal is estimated to vary from \$60 to \$90 million from 2002 to 2006.



Strategic Plans:

Strategy Key Points

1. Maintain a reliable, cost-effective coal transportation system with a strong emphasis on reliability and service.
2. Insure competitive transportation rates through periodically bidding transporters or considering alternative transportation modes and routes.
3. Seek transportation terms that are i) congruent with coal purchases, ii) minimize volume commitments, and iii) increase flexibility to meet changing supply needs.
4. Maintain and improve communication between the vendors, plants and SCS personnel.
5. As one of the largest coal users in the U.S, continue to be a key participant in coal industry groups that promote our interest for better competition between coal transporters. Also, help protect Gulf's interest in maintaining reliable and cost-effective coal transportation with government bodies that govern coal transportation. This is especially important with the western coal movements because of recent congestion.
6. Evaluate cost optimizing actions that are consistent with a more competitive environment. This includes, but is not limited to, negotiating better train cycle times, improving barge and rail communications between plants, SCS personnel & the mines and minimizing barge and rail demurrage. Also, includes improving available railroad data on railcars, i. e. location of train sets and cars, combining rail maintenance shops, evaluating new railcar equipment that reduces fuel consumption, and leasing of cars not being used.
7. Continue to maintain and develop relationships with transporters. This is important because of the need to gain timely responses on pricing, evaluating reliability and receiving special cooperation when emergencies or special requirements happen. This includes continuing to educate transporters on competition and marginal dispatch to promote lower rates for Gulf plants.

Strategy Discussion

Although improving, the railroads continue to have low financial returns. This means that capital expenditures by the railroad companies are reduced and they continue to have shareholder and management pressure to raise rates. Additionally, the railroads have gone through a major consolidation that has resulted in five Class 1 railroads serving coal regions (CSX, CN, BNSF, UP & NS). This has advantages and disadvantages. With less numbers of railroads, competition is less. However, single railroads typically are better operationally. This improved efficiency results in lower operating costs and better cycle time performance. This lowers the number of railcars that Gulf must own to deliver its coal. This lowers the number of railcars that Gulf must own to deliver its coal. The recent railroad company consolidations have not provided the financial benefits to stockholders that were used to justify merger costs. As a result, the railroads have stated they will be increasing rates to offset the financial gains that were projected but have not been realized.

Most barge companies have similar low financial returns. Consolidation continues to occur as major barge companies merge or are acquired by electric utilities. Currently, six barge lines move or can move coal on the Ohio River to New Orleans. These are: 1) ACBL (majority owned by CSX Railroad and for sale), 2) AEP River Transportation Co, 3) Orgulf Transport Company (for sale), 4) Ingram Barge Line, 5) Mid-South Towing Co (owned by TECO Energy) and 6) Crouse. Smaller barge lines such as Parker Towing, and WGN compete for barge business in the Mobile or Tennessee-Tombigbee Waterway area. Crouse specializes through the lower draft of some of its barges in barge movements on the Tennessee-Tombigbee Waterway.

The majority of the U.S. barge fleet is aging and will require replacement over the next ten years. As a result, barge rates will need to rise to finance this replacement. Also, the continued consolidation of barge lines and the acquisition by power competitors like AEP will likely cause barge rates to rise over the next decade.

With the changes in environmental requirements for cleaner air from coal-fired plants, pressure is on the electric utilities to reduce coal burn by switching to alternative fuels, such as, natural gas, and by burning lower sulfur coals. Also, the construction of substantial numbers of gas-fired merchant plants is increasing the likelihood of electricity purchases from other generators. Switching fuels to natural gas and buying electricity by wire can reduce coal shipments and reduce barge and railroad revenue. Finally, the volatility of natural gas prices means that this switching can occur rapidly. This in turn can cause wide changes in coal burn.

Burn uncertainty means that coal transportation agreements need to minimize volume commitments. However, this need to reduce volume commitment must be

balanced with the need for reliability and cost. Railroads will not offer discounts to tariff rates without volume commitments. Railroads, barge and transloading companies need commitments, in order, to justify capital investments. Because of congestion or the need to develop new supply sources, volume commitments may be required to insure that capacity through a transloading facility or railroad is available to be used. All these factors must be considered when evaluating commitments. It is clear the goal of the railroads, barge, and transloading companies is to secure volume commitments sufficient to justify capital investment. However, it is also very clear that due to ever increasing burn uncertainty it is in the best interest of Gulf to sign agreements that place the risk of burn uncertainty back onto the transportation carrier. The need to minimize volume commitments, which may result in higher rates, must be balanced with the risk of take or pay on freight. Some methods of mitigating the risk would be terms that reflect percentage of burn and/or requirements of a plant or group of plants.

Switching to lower sulfur fuels may require longer rail movements because a large part of the lower-cost, low-sulfur coal reserves are in the Western U.S. Furthermore, because of the labor shortages, environmental and permitting issues, and the recent long-cycle of low coal prices, coal producers have failed to invest capital in maintaining and expanding coal production. As a result, in 2001, Appalachian coal deliveries have fallen below demand. This has resulted in a large increase in demand for Powder River Basin (PRB) and foreign import coal. The large increase in western coal demand has caused railcar congestion and delays in receiving PRB coal. Therefore, a major risk is that the government and/or the railroads will impose rail slot allocation rules that will reduce the reliability of PRB coal and/or increase the cost to transport PRB and/or Appalachian coals. In any event, the increased congestion results in longer cycle times, which increases costs. It also has resulted in the railroads increasing rates for spot coal shipments from the west. However, this increased transportation cost is the most economical alternative to increase coal and environmental options at designated plants in the Southern Electric System.

Another risk is volume commitments on coal transportation agreements. Because of changing environmental requirements and a more competitive electricity market, forecasting of coal burn is more uncertain. This means that firm commitments to move coal volumes is riskier than in previous years. However, term agreements with transporters are a key to reliability too. This gives transporters the assurance of revenue they need to maintain and improve their equipment and facilities. It assures Gulf of fixed-term rates for shipments of coal so that costs are known. Furthermore, firm volume and cycle time commitments by railroads can assure reliability where transportation mode is congested. Therefore, for base and intermediate load generating plants, coal transportation agreements that primarily have terms of two-years with some volume commitments will be sought. The term is short enough to avoid lengthy volume commitments that may not be necessary. Of course, the term of a coal transportation agreement must consider the term of coal being purchased. This reduces price and congestion risks. For peaking plants, spot or short-term coal

transportation agreements will be used. This reduces costs of volume commitments to plants where load factors are uncertain.

On a case by case basis, longer-term volume commitments to transporters are considered in order to achieve better reliability and/or more competitive rates. Longer-term volume commitments, i.e. greater than two-years, carry more risk because of the changing market and possible changes in environmental rules that can affect coal requirements. This must be weighed against possible lower rates and improved reliability that may be gained by longer-term commitments. Certainly, shorter-term agreements are arranged as the need arises for spot coal purchases.

Gulf does have access to foreign coal from ocean vessel terminals located in Mobile, AL. Because of the increasing importance for import coal to the Gulf fuel program, competition and fuel handling capacity in Mobile must be evaluated to determine if longer term commitments can be justified in order to expand unloading capacity and improve reliability and service.

The highest priority for a coal transportation strategy is to maintain a reliable transportation mode. This helps assure our electricity customers that fuel will be available to generate electricity. Having reliable coal transportation assures access to coal supplies. This is achieved by periodically developing, reviewing, evaluating, and bidding coal transportation alternatives. It also includes assessing and monitoring the performance of transporters.

The creation of competition is vital to any transportation strategy with the result being to lower Gulf's transportation costs. Competition is achieved by periodically bidding transportation alternatives and educating transporters on marginal dispatch. Where possible, more than one mode of transportation, such as, two railroads or a railroad and barge is sought for each plant. This is limited by the high cost that may be incurred to build the infrastructure necessary for more than one mode of transportation into a plant. Finally, periodic meetings with transporters are held to discuss how marginal dispatch is affecting the amount of volume that they are moving. This helps them understand that even though they may be the only railroad or transportation mode serving a plant, they do have competition.

To maintain a reliable transport system, communication is a key. When communication fails, demurrage costs and cycle times increase. Communication between Gulf coal operating personnel at each plant, SCS Fuel Service Department, and the various transporters is vital in maintaining reliable and efficient operations. You do not want trainloads or barges of coal being parked because a plant cannot unload the coal. You also do not want a plant to run out of coal because of problems of congestion on the railroad, rivers, transloading facilities, and/or the mines. To avoid these problems, effective and timely communication of transportation plans, orders, problems and maintenance are critical.

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Below, the tactical plan to meet the coal strategy is outlined. In addition, the existing coal transportation is discussed for each Gulf plant.

Gulf Power Company

Coal Transportation Tactical Plan

Plants Crist and Smith

Orgulf Transport Company Barge Contract No. GU72001B provides barge transportation from various Central Appalachian and Illinois Basin river loadouts on the Mississippi and Ohio rivers and from Gulf Coast terminals to Plants Crist and Smith. The term of the Agreement is through December 31, 2007. The Agreement is evergreen year to year thereafter unless canceled by either party by 9/01/07. The Agreement is for 100% of Gulf's waterborne coal transportation requirements with a minimum volume commitment of 1.9 million tons per year. Of this 1.9 million tons per year, a minimum of 500,000 tons must move from loading points on the Ohio River. The Agreement has price openers in 2002 and 2005 to establish prices to be effective July 1, 2002 and July 1, 2005. During the price re-opener, Orgulf must provide new base rates and Gulf is required to seek bids. Orgulf has the right to match the lowest bid. If Orgulf does not match the low bid, Gulf is free to accept alternative proposal.

Union Pacific Rail Agreement 37827 provides for rail transportation of western coal to Cahokia River Terminal near St. Louis. The term of this Agreement is through December 31, 2003. The agreement has no minimum volume for Gulf plants.

The action plan for Plants Crist and Smith will be to administer the price reopener in 2002 to establish new rates effective July 1, 2002. Buyer will issue an RFP in the first half of 2002 for a three year period July 1, 2002 through June 30, 2005. Negotiations will be held with Orgulf to determine whether Buyer will accept new rates proposed by Orgulf or whether Orgulf will match the rates received through RFP process. Rail agreements and transloading agreements will be negotiated from time to time to provide movement of coal to barges.

Plant Scholz

For Plant Scholz, Rail Agreement CSX- C-64881 provides for transportation of Central Appalachian coal through December 31, 2003. The Agreement requires Gulf to ship 100% of the Plant requirements through CSX rail. If this does not occur, then Gulf pays a \$9 per ton penalty for each ton not shipped on CSX rail. The Agreement does not have any minimum volume requirement. Gulf has the sole option to extend this contract an additional three years.

The coal-transportation action plan for Plant Scholz will be to maintain a flexible rail transportation agreement that provides reliable coal transportation to the Plant. The terms of the Agreement will be reviewed in 2003 and terms will be negotiated to be congruent with coal purchasing plan and minimize volume commitments.

Mobile, Alabama Transloading Facilities

Gulf uses either the Mobile River Terminal operated by WGN or the Alabama State Docks to transload coal from ocean vessels to barges. The term of the Alabama State Docks Agreement expires March 31, 2002. This Agreement will be negotiated to extend the term. The transloading agreement with WGN expires December 31, 2002. Neither Agreement has any volume commitment. During the first quarter of 2002, the unloading options in Mobile will be studied to determine the optimum strategy and agreements for unloading foreign coal. Vendors have indicated that capital improvements in facilities could be made that would reduce demurrage if longer-term commitments were made. Also, Gulf is in the process of installing environmental equipment at Plant Crist that will restrict the amount of coal that can be stockpiled at the Plant. Therefore, as part of the evaluation, the unloading facilities in Mobile will be considered as possible locations to provide additional long-term coal stockpiles for Plant Crist. New Orleans is an option when considering transloading facilities from either rail or ocean vessels for Gulf Power. However, these facilities have proven to be uneconomical in the past. This option will continue to be explored.

Cahokia Marine Terminal

Cahokia Marine Terminal is used to transload coal from western trains to barges on the Mississippi River near St. Louis. Gulf has an agreement with Cahokia Marine Services to store up to 13,000 tons of coal at the Cahokia Marine Terminal. The term of this agreement ends December 31, 2003. The agreement has no minimum volume commitment. Rates and other terms to use this terminal are included in rail through rates.

Gulf Power's Natural Gas Procurement Strategy

September 2002

Gas Program Overview

Natural Gas is used as the primary fuel at Crist units 1-3, for boiler lighter fuel at Crist units 4-7, and as the primary fuel at the Smith 3 combined cycle unit. In the past, natural gas represented a relatively small portion of Gulf's overall fuel budget. With the addition of the Smith 3 combined cycle unit in 2002, natural gas makes up a more significant portion of Gulf's overall fuel budget.

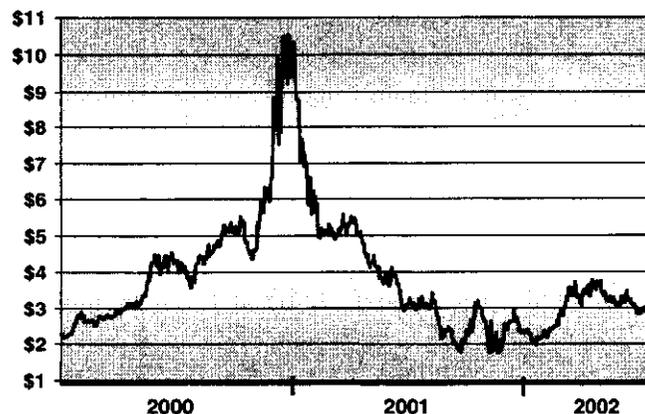
Gulf Power's natural gas procurement strategy is to produce a cost effective yet highly reliable fuel supply. Securing competitive fuel prices for its customers is the governing consideration in all of Gulf's fuel decisions.

Procurement Strategy

Gulf's strategy for gas procurement is to purchase the commodity at market prices. For non-peaking plants, Gulf arranges long-term firm transportation with adequate firm storage capacity. For peaking plants, Gulf purchases natural gas on the spot market, and transports the gas using interruptible transportation, released seasonal firm transportation capacity, or delivered natural gas (priced to the plant). For Gulf, spot market contracts have a term of less than one year and long-term contracts have a term of 1 year or longer. All natural gas, regardless of whether it is bought under long-term contracts or spot market contracts, is purchased at market-based prices.

While fuel purchased at market over long periods is a low cost option for customers, it does expose the customers to short-term price fluctuations. Since these price fluctuations can be severe, Gulf Power, with the authorization of the Florida Public Service Commission will attempt to protect its customers against short-term price fluctuations by

Henry Hub Prices per MMBTU



utilizing hedging tools. It is understood that the cost of hedging against such price fluctuations may sometimes lead to fuel costs that are higher than market prices.

Pricing Strategy

Gulf Power will continue to purchase gas, both under long-term and spot contracts at market based prices. However, pursuant to Commission order, Gulf Power will begin to financially hedge gas prices in order to protect against short-term price swings and to provide some level of price certainty. Gulf Power will attempt to take advantage of opportunities in the futures and derivatives markets that benefit the customer. Since the hedging program is a new program being implemented subsequent to Commission action in Docket 011605-EI, no specific pricing strategy has been established. Gulf Power will employ both technical and fundamental analysis to determine appropriate times to hedge. While various analyses will be used, Gulf Power is not proposing any set schedule, formula or triggering schema to dictate when it takes financial positions. Instead, the hedging strategy will maintain the flexibility needed to address market condition in a timely and effective manner.

In Gulf's view hedging should be used only to mitigate the customer's risk from short-term price hikes and not for speculative purposes. Speculative hedges are those that are entered into with the intent of profiting solely from the rise and fall in price where the transaction lacks any element of shifting or managing risk.

While the hedging program will protect the customer from short-term price spikes, hedges can also lead to higher costs when natural gas prices fall subsequent to entering hedges. This risk is exaggerated if hedges are entered into for speculation purposes. Gulf Power will internally protect against speculation by limiting the amount of fixed-price hedges to 100% of the projected fuel burn for the upcoming year. In addition, Gulf Power will limit option priced hedges to 110% of its projected burn. Finally, in order to protect its customers from market exposure in subsequent years, Gulf Power will take forward hedge positions of up to 42 months.

Gulf Power's Oil Procurement Strategy

September 2002

Oil Program Overview

Oil is used at Gulf predominantly for boiler lighting. Oil is used as a boiler lighter fuel at Crist units 4-7, Daniel 1&2, Scherer 3, Scholz 1&2 and Smith 1&2. Oil is also the primary fuel at the Smith A CT unit. Overall, oil use at Gulf is a small portion of Gulf's overall fuel budget.

Procurement Strategy

Gulf's strategy for oil procurement is to purchase the commodity at market prices. Fuel purchased at-market over a long period is a low cost option for customers.

Gulf purchases fuel oil on an annual basis through a formal bidding process. Gulf purchases fuel oil at index based prices. Gulf negotiates predetermined contracts for each plant and purchases fuel oil quantities throughout the year (as needed).

Pricing Strategy

Since fuel oil is such a small portion of the overall fuel budget, Gulf does not currently plan to hedge oil prices unless Gulf's oil use significantly increases or some other need warrants doing so.

Gulf Power Company Risk Management Policy

I. Introduction

Natural gas has become a large part of the Gulf Power Company (Company) fuel program. This increased need, combined with the market price volatility associated with natural gas has created a need to begin hedging the risks related to the Company's overall fuel program.

II. Objectives

The primary objective of this Risk Management Policy (RMP) is to establish guidelines for use of hedging transactions associated with the Company's fuel program. Hedging transactions will allow the Company to:

- Reduce price volatility
- Provide more predictable stability to customers, and
- Provide additional flexibility and options in the procurement of fuel.

III. Guidelines

The risk management guidelines of The Southern Company require any business unit engaging in risk management activities to establish a Risk Oversight Committee (ROC). The officer listed below in Section IV will chair the Company's ROC for this program.

The Southern Company Derivatives Policy states:

"It is the policy of The Southern Company that derivatives are to be used only in a controlled manner, which includes identification, measurement, management, control and monitoring of risks. This includes, but is not limited to, well-defined segregation of duties, limits on capital at risk, and established credit policies. When the use of derivatives is contemplated, this policy requires that a formal risk management plan be developed that adheres to The Southern Company Risk Oversight Committee Business Unit Guidelines. This policy also requires that, prior to initiation of a risk management program that makes use of derivatives; the risk management program must be approved by

Gulf Power Company Risk Management Policy

both the Chief Financial Officer of the respective Southern Company subsidiary and the Chief Financial Officer of the Southern Company.”

The Southern Generation & Energy Marketing Merchant Floor Risk Management Policy (GEM RMP) will be the governing policy in the administration of the Company’s fuel procurement program. The GEM RMP provides all criteria specified in the above extract from the Southern Company Derivatives Policy.

The Gulf Power Company Board of Directors has authorized the use of hedging transactions relating to contracts and other agreements for fuel supplies. The board resolution is shown below:

“RESOLVED, That The Southern Company System Policy on Use of Derivatives (the “Policy”) as presented to the meeting is hereby approved; and

RESOLVED FURTHER, That the Officers are hereby authorized to effect derivative transactions that comply with the Policy, including swaps, caps, collars, floors, swap options, futures, forwards and options, relating to energy and associated commodities, weather, interest rates, currencies, and contracts and other arrangements for fuel supplies; and

RESOLVED FURTHER, That, in connection with the foregoing, the officers are hereby authorized to take any and all actions and to execute, deliver and perform on behalf of the Company any and all agreements and other instruments as they consider necessary, appropriate or advisable, each such agreement or other instrument to be in such form as the officer or officers executing the same shall approve, the execution thereof to constitute conclusive evidence of such approval.”

IV. Process

Certain officers of the Company have the authority to enter into hedging transactions that they consider necessary in order to reduce risk associated with procuring fuel and energy. The authorized

Gulf Power Company Risk Management Policy

officer is the Vice President, Chief Financial Officer and Comptroller for Gulf Power Company or his designee.

Once authorization has been received, Southern Company Services Fuel Services, agent for Gulf Power Company, will conduct all hedging transactions in accordance with the Southern Generation & Energy Marketing Merchant Floor Risk Management Policy.

It is the responsibility of GEM Risk Control (the mid-office) to inform the Fuel Manager for Gulf Power Company or the Assistant Comptroller for Gulf Power Company about the use of hedging transactions associated with Gulf generation resources and to provide open position values (mark to market) to the above noted individuals and the Gulf's Chief Financial Officer and Comptroller.

Southern Generation & Energy Marketing (GEM)

Merchant Floor
Risk Management Policy

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GEM Merchant Floor Risk Management Policy
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GEM Merchant Floor Risk Management Policy
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I. Introduction

In August 1997 the Southern Company Risk Oversight Committee (Southern ROC) approved a set of risk management guidelines. These guidelines outline the Southern Company philosophy toward risk and the responsibilities of the Southern ROC and business units that engage in risk management activities.

The risk management guidelines require any business unit engaging in risk management activities to establish a risk oversight committee. The Southern Generation & Energy Marketing Risk Control and Oversight Committee (GEM RCOC) has been established in accordance with the guidelines, and its objectives and responsibilities are contained in a separate document, "GEM Risk Control and Oversight Committee Policy."

The Southern ROC risk management guidelines also require any business unit engaging in risk management activities to develop a risk management policy to ensure that risk management activities are conducted in accordance with Southern Company risk management guidelines.

II. Purpose

This GEM Merchant Floor Risk Management Policy (RMP) applies to the shorter-term trading activities performed on the Merchant Floor of GEM and the associated risk management activities as defined within this RMP. The purpose of this RMP is to:

- Provide preset limits and guidelines for each employee authorized to legally bind the Operating Companies to transactions covered by this RMP.
- Establish sound guidelines to follow in managing and controlling risks.
- Define the responsibilities for managing and monitoring risks.

III. Business Objectives

The business objectives for the trading activities performed on the Merchant Floor of GEM are shown in appendix A.

IV. Business Strategies

The business objectives are achieved by entering into transactions involving the approved commodities shown in appendix B.

Since risk is a part of fulfilling the business objectives, Merchant Floor personnel have the responsibility to evaluate the opportunities available and to ensure that the returns

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achieved are commensurate with the risks undertaken. Taking risks unrelated to the business objectives is inappropriate, including the trading of speculative positions, and should not be undertaken.

Various contract types or financial instruments will be used to insure that business exposures to risks are eliminated, reduced, or transferred as appropriate. These instruments are used to:

- Manage the risk of energy price uncertainty associated with energy purchases and sales.
- Protect revenues produced by generation assets from adverse price moves.
- Protect territorial customers from adverse power (capacity and energy) price moves.
- Extract market information.

The Approved Risk Management Instruments are shown in appendix C.

V. Authorizations

Appendix D contains the individuals, boards, and committees authorized to carry out various activities, reviews, and approvals.

VI. Segregation of Duties

The following functions are separated to ensure that the risk management activities are properly carried out:

- Origination.
- Structuring.
- Confirmation.
- Monitoring and reporting.
- Settlement.
- Cash management.

This separation increases the likelihood that the activities will be carried out in accordance with management's expectations and that deviations from the objectives will be properly brought to management's attention.

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Appendix E represents the functional separation organizationally as specified in this RMP. The following is a summary of the responsibilities of the different functions:

Origination: The function of origination includes the following responsibilities:

1. Entering into transactions with approved counterparties.
2. Completing a deal ticket for each transaction and distributing the deal ticket to the middle office for processing.
3. Coordinating the physical delivery of energy.
4. Determining the appropriate level of risk, within the approved limits, to be accepted on behalf of the portfolio.

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5. Developing and implementing risk management strategies.
6. Ensuring that the portfolio complies with limits of risk exposure.

Structuring: The function of structuring, besides other responsibilities, is responsible for assisting the middle office in reviewing all structured transactions and identifying all applicable risks.

Confirmation, Monitoring, and Reporting: The functions of trade confirmation, risk monitoring, and risk reporting include the following responsibilities:

1. Confirming transactions with counterparties.
2. Entering transactions into the risk book(s) from confirmed deal tickets.
3. Monitoring and determining that transactions are in compliance with established procedures and limits, with approved counterparties, and within counterparty credit limits.
4. Reporting unauthorized transactions.
5. Reporting over-limit occurrences.
6. Valuing of risks.
7. Generating daily portfolio positions.
8. Generating daily risk exposure reports.
9. Generating daily profit/loss reports.
10. Generating daily credit reports.
11. Maintaining a counterparty credit concerns list.
12. Resolving credit issues with counterparties.
13. Calculating collateral requirements and management of posted collateral.
14. Maintaining guarantees, letters of credit, and other security provided by counterparties.

Settlement: The function of settlement includes the following responsibilities:

1. Generating invoices to counterparties.
2. Notifying Southern Company Services, Inc., (SCS) Treasury of account payable/receivable with counterparties.
3. Producing monthly financial accounting reports.
4. Reconciling position reports and statements prior to authorizing fund disbursement.
5. Recording transactions with counterparties in the receivable/payable sub ledgers.
6. Notifying SCS Treasury of margin requirements related to exchange-traded transactions.
7. Filing required reports with State and Federal regulatory agencies.

Cash Management: SCS Treasury is responsible for receiving and disbursing all funds from or to counterparties and for the delivery of margin requirements. SCS Treasury will also be responsible for investment of collateral provided by counterparties.

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Accounting: SCS Accounting is responsible for posting transactions to the general ledger and reconciling the sub ledgers to the general ledger.

VII. Market Risk Identification

Risks for the approved commodities and approved instruments will be identified and captured in the appropriate risk book(s). It is the responsibility of the middle office to ensure all risk components associated with the risk management activities covered by this RMP are identified and captured in the appropriate risk book(s) in a timely manner.

VIII. Market Risk Measurement and Valuation

1. All approved commodities will be converted to standard units of risk and will be reported in agreed measurement units shown in appendix F.
2. Positions will be maintained in a notional- and present-value format.
3. The daily portfolio value (DPV) will be reported on a daily mark-to-market (MTM) basis and will be subject to daily income notification levels as set forth in appendix G.
4. Value at risk will be calculated daily utilizing the methodology(s) contained in appendix F.
5. Positions shall be aggregated by delivery point and period and reported separately for each commodity.
6. Stress testing should be performed on the portfolio periodically.

IX. Market Risk Limits

Exposure Limits	The maximum exposure limits are shown in appendix H. The maximum exposure limit for each business objective should not exceed the limits specified in appendix H.
Net Open Position Limits	The Net Open Position in each risk book for any one approved commodity should not exceed the limits specified in appendix H.
Options	To test compliance with net open position limits, the delta adjusted option volume will be used.
Daily Income Notification	If the end of the day change in MTM value or for a 30-day period exceeds the daily income notification levels shown in appendix G then

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certain notification activities are required as specified in appendix G.

Limit Excess Reporting Irrespective of other provisions contained in this RMP, limit overages may occur. Each occurrence shall be promptly reported by the Manager, Risk Control to individuals identified in appendix G, Daily Income Notification Levels.

X. Credit Risk

SCS Treasury evaluates and monitors the credit worthiness of trading counterparties and customers, assigns ratings, establishes maximum credit limits, and maintains Southern Company credit policy. The middle office will monitor the status of counterparties and customers accounts against their approved credit limits, as well as monitor the portfolio versus other requirements of Southern Company credit policy. The middle office may establish credit limits below maximum limits as set forth in Southern Company credit policy.

XI. New Products

Structured transactions may be developed from time to time and may contain new risks or require new infrastructure support. The responsibilities associated with the approval of each structured transaction include the following:

- Origination is responsible for developing a description of the structured transaction including all terms and conditions.
- The Risk Manager is responsible for identifying the risk components of each structured transaction.
- The appropriate management team (see appendix I) is responsible for final approval of each structured transaction.
- The middle office is responsible for insuring all risks have been identified and may rely on the structuring function for independent validation of the risks.
- Contract Administration is responsible for insuring the infrastructure support for the structured transaction is in place.
- Origination is responsible for offering the structured transaction to the market.

All approved structured transactions should be reviewed by SCS Treasury.

XII. Funding Liquidity

The Merchant Floor may face funding liquidity needs associated with its energy risk management activities as a result of exchange-imposed margin deposits, collateral for over-the-counter (OTC)

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transactions, and the timing of realized losses versus realized gains. The Merchant Floor will provide and update a funding liquidity forecast, including scenario analysis of potential increases in short- or long-term funding needs. Such forecasts will be reviewed periodically with SCS Treasury to ensure adequate funding, particularly in the event of adverse conditions.

XIII. Operating Procedures and Systems

Processes. Manual and/or automated processes that monitor value at risk, daily income reports, and net open position limits, as described in this RMP, will be maintained by the middle office.

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Recording Transactions. All transactions shall be promptly reflected and accurately recorded in the appropriate risk book(s). The originator of each transaction shall complete a deal ticket and review the confirmation for accuracy. The middle office will insure that the transaction is properly recorded and confirmed. This will insure the transaction is accurately reflected, the appropriate documentation is completed, and the transaction is confirmed.

Contract Administration. Origination will be responsible for the execution of new master agreements with counterparties. The middle office will be responsible for preparing, reviewing, distributing, and managing confirmations. Middle office personnel will work with SCS Treasury to obtain necessary information to establish credit limits for the counterparties. The executing trader or originator shall be responsible for reviewing and approving all confirmations for accuracy prior to finalizing. It is the responsibility of the middle office to obtain legal approval for any nonstandard terms documented on a confirmation prior to execution. Contract Administration will be responsible for the ongoing contract administration activities associated with each agreement, including implementation of each such agreement.

Operating Procedures. Operating procedures, including accompanying flowcharts, will be maintained under separate cover. The procedures cover the flow of a transaction from deal inception through settlement. These procedures will be periodically revised to properly reflect changing processes.

XIV. Accounting and Tax

One purpose of the RMP is to assist management in managing the risk inherent in this business. Hedge treatment will be used for accounting and income tax purposes for all derivative transactions when applicable. Hedge accounting contemplates the ability to account for a derivative instrument as either a fair-value hedge or a cash-flow hedge under FAS 133, "Accounting for Derivative Instruments and Hedging Activities." It also contemplates deferral of the income tax consequences of any gain or loss on the hedge instrument until the period in which the gains or losses on the hedged transaction are recognized. Appendix J contains the accounting and tax approach that will be utilized for the Merchant Floor risk management activities. The Senior Vice President, Comptroller, and chief financial officer of SCS are responsible for specifying the appropriate accounting treatment of transactions.

XV. Legal

Legal counsel will be retained to assist in managing the legal and regulatory aspects of the energy risk management activities covered by this RMP. Legal counsel will be retained for advice on contracts and will submit regulatory filings to ensure that energy risk management activities comply with the regulatory requirements of various agencies. In addition, legal counsel assists in the development of initial master purchase and sales agreements including credit terms and

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confirmation format. Legal counsel also reviews contracts and nonstandard confirmation documents prior to execution.

XVI. Monitoring and Reporting

Middle office personnel will prepare a daily risk report. The report shall be distributed to the Origination function, the vice president of GEM, the vice president of Fuel Services, the chairman of the GEM RCOC, and SCS Treasury. The daily risk report shall include the net open position from all risk books; the change in the daily portfolio value; the value at risk; and, a full description of any RMP violations. The month-end reports will be provided to the GEM RCOC.

XVII. Personnel

All GEM employees, any Fuel Services employee associated with natural gas procurement activities, and any employee physically located on the Merchant Floor are prohibited from trading any approved commodity for their own account or for the benefit of any party other than the operating companies.

XVIII. Business Recovery

The business recovery plans that will allow Merchant Floor activities to continue uninterrupted are contained in a separate document.

XIX. Compliance

Each GEM employee and any employee physically located on the Merchant Floor shall be provided a copy of this RMP and will be required to review it and clarify any questions regarding it with management. Each such employee shall acknowledge in writing (see appendix K) receipt of this RMP, confirm his or her understanding of the requirements contained herein, and agree to fully comply with it prior to receiving any authorizations described herein.

Each employee shall have an affirmative duty to alert management, including the chairman of the GEM RCOC, immediately upon learning of any apparent RMP violations or other risks not captured or adequately reflected by RMP methodologies and systems.

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XX. Independent Review

SCS Internal Auditing is responsible for performing independent reviews of the RMP activities. These reviews will determine adequacy of controls to ensure that the Merchant Floor activities are being carried out in accordance with this policy. These reviews include periodic testing to ensure compliance with control procedures and risk exposure limits. Results of these reviews will be provided to the GEM RCOC.

XXI. Policy Amendments

Amendments to this RMP will be required from time to time. The SCS Board of Directors must approve all proposed amendments to this RMP, to appendix B – Approved Commodities, as well as to the overall market risk limit prior to implementation. All approved changes to this RMP will fall under the compliance section of this RMP (see section XIX), requiring:

- Communication of changes to affected employees.
- Review of those changes by the affected employees and the opportunity for them to clarify any questions regarding those changes with management.
- Acknowledgement in writing by each affected employee that he or she has:
 - Received communication of the changes.
 - Confirmed his or her understanding of the requirements associated with the changes.
 - Agreed to fully comply with the updated RMP prior to continuing to receive the authorizations described herein.

All revisions to this RMP will be distributed to the Southern ROC for their review.

XXII. Terminology

Definitions of terminology used in this RMP are contained in appendix L.

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APPENDIX A
APPROVED BUSINESS OBJECTIVES

SOUTHERN GENERATION & ENERGY MARKETING

Fleet Operations and Trading

The primary objectives of Fleet Operations and Trading are to:

1. Deliver the lowest possible energy cost to the territorial customers (through economic purchases and economic deployment of the power supply portfolio).
2. Maximize returns on Southern Company generating resources.
3. Provide/support reliability of power supply.

To perform these objectives the secondary activities and opportunities of Fleet Operations and Trading are to:

- Discover price.
- Take advantage of arbitrage opportunities.
- Take advantage of location spreads.
- Take advantage of cross-commodity spreads.
- Take advantage of market positions.
- Provide risk management services.

SCS FUEL SERVICES

Natural Gas Fulfillment Function

The primary objectives of the Natural Gas Fulfillment Function are to:

1. Deliver risk-optimized gas supply to generating resources for the territorial customers.
2. Deliver risk-optimized gas supply to support sales of Southern Generation & Energy Marketing.
3. Optimize natural gas assets associated with gas supply, gas transportation, and storage.
4. Support Fleet Operations and Trading cross-commodity spreads.

To perform these objectives, the secondary activities and opportunities of the natural gas fulfillment function are to:

- Take advantage of arbitrage opportunities.

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- Take advantage of time and location spreads.
- Take advantage of cross-commodity spreads.
- Provide risk management services.

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APPENDIX B
APPROVED COMMODITIES

The approved commodities for this RMP are:

- Electric power.
- Natural gas.
- Coal.

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APPENDIX C
APPROVED INSTRUMENTS

The approved instruments for this RMP are:

- Futures.
- Forwards.
- Options.
- Swaps.

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APPENDIX D
AUTHORIZATIONS

Name	Authority
SCS Board of Directors	<ol style="list-style-type: none">1) Approve GEM Risk Management Policy.2) Approve overall risk limit.3) Approve commodities.
GEM RCOC	<ol style="list-style-type: none">1) Approve risk management procedures.2) Establish daily income notification levels.3) Approve risk measurement methodologies.
Sr. Vice President, Comptroller and Chief Financial Officer of SCS	<ol style="list-style-type: none">1) Open and close broker accounts for exchange-traded commodities.
Manager, Risk Control	<ol style="list-style-type: none">1) Maintain the list of authorized individuals with each counterparty.2) Resolve credit issues with counterparties.

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**APPENDIX D
AUTHORIZATIONS (continued)
Southern Generation & Energy Marketing**

Name	Authority
Vice President, GEM	<ol style="list-style-type: none"> 1) Approve fleet operations and trading business objectives. 2) Allocate the overall risk limit among the GEM business objectives. 3) Approve instruments for GEM. 4) Approve any exceptions to transaction limits.
GEM Management Team	<ol style="list-style-type: none"> 1) Approve structured transactions, new products, and unusual transactions.
Vice President, Fleet Operations and Trading	<ol style="list-style-type: none"> 1) Set risk exposure sublimits for GEM secondary activities. 2) Resolve over-limit conditions. 3) Identify authorized individuals that can execute electricity transactions (including transmission and ancillary services). 4) Set individual limits for fleet operations and trading personnel. 5) Approve trading in illiquid markets. 6) Establish guidelines and identify individuals that can conduct off-premises transactions.
Risk Manager	<ol style="list-style-type: none"> 1) Manage portfolio risk on a daily basis within risk exposure limits.
Manager, Energy Trading	<ol style="list-style-type: none"> 1) Manage portfolio risk on a daily basis within risk exposure limits.
Merchants	<ol style="list-style-type: none"> 1) Execute transactions for primary business objectives. 2) Execute transactions for secondary activities. 3) Manage portfolio risk on a daily basis within risk exposure limits.
Energy Coordinators	<ol style="list-style-type: none"> 1) Execute transactions for primary business objectives up to a term limit of 1 week. 2) Execute arbitrage transactions under secondary activities and opportunities.

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<ul style="list-style-type: none">• Transmission Project Coordinators• Energy Schedulers	1) Procure transmission and ancillary services for transactions executed by the merchants and energy coordinators.
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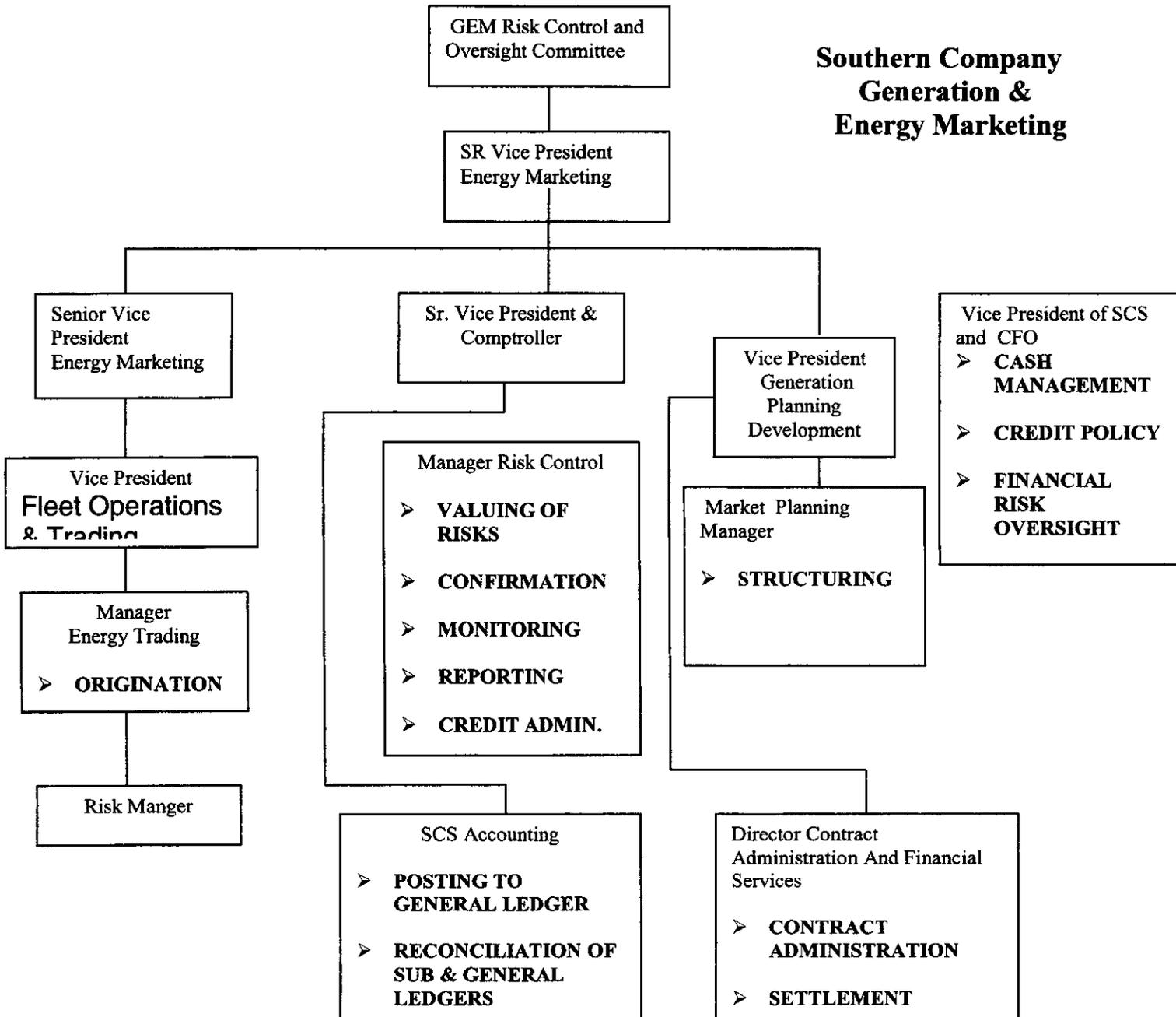
**APPENDIX D
AUTHORIZATIONS (continued)
SCS Fuel Services**

Name	Authority
Vice President, Fuel Services	<ol style="list-style-type: none"> 1) Approve Fuel Services business objectives. 2) Allocate the overall risk limit among the Fuel Services business objectives. 3) Approve instruments for Fuel Services. 4) Approve any exceptions to transaction limits. 5) Establish guidelines for off-premises transactions.
General Manager, Procurement and Planning	<ol style="list-style-type: none"> 1) Set risk exposure sublimits for Fuel Services secondary activities. 2) Identify authorized individuals that can execute natural gas transactions.
Manager, Gas Procurement	<ol style="list-style-type: none"> 1) Manage portfolio risk on a daily basis within risk exposure limits. 2) Set individual limits for Fuel Services natural gas personnel. 3) Resolve over-limit conditions.
Team Leader, Gas Procurement	<ol style="list-style-type: none"> 1) Manage portfolio risk on a daily basis within risk exposure limits.
Natural Gas Buyers	<ol style="list-style-type: none"> 1) Execute transactions for Fuel Services primary business objectives. 2) Execute transactions for Fuel Services secondary activities.
Natural Gas Schedulers	<ol style="list-style-type: none"> 1) Procure transportation for transactions executed by Natural Gas Buyers.
Natural Gas Project Personnel	<ol style="list-style-type: none"> 1) Negotiate long-term natural gas contracts associated with natural gas supply, gas transportation, and natural gas storage.

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APPENDIX E
SEGREGATION OF DUTIES

To ensure that risk management activities are properly carried out, certain functions will be separated. The following chart identifies these functions (depicted as **BOLD** bullet items) and their reporting process.

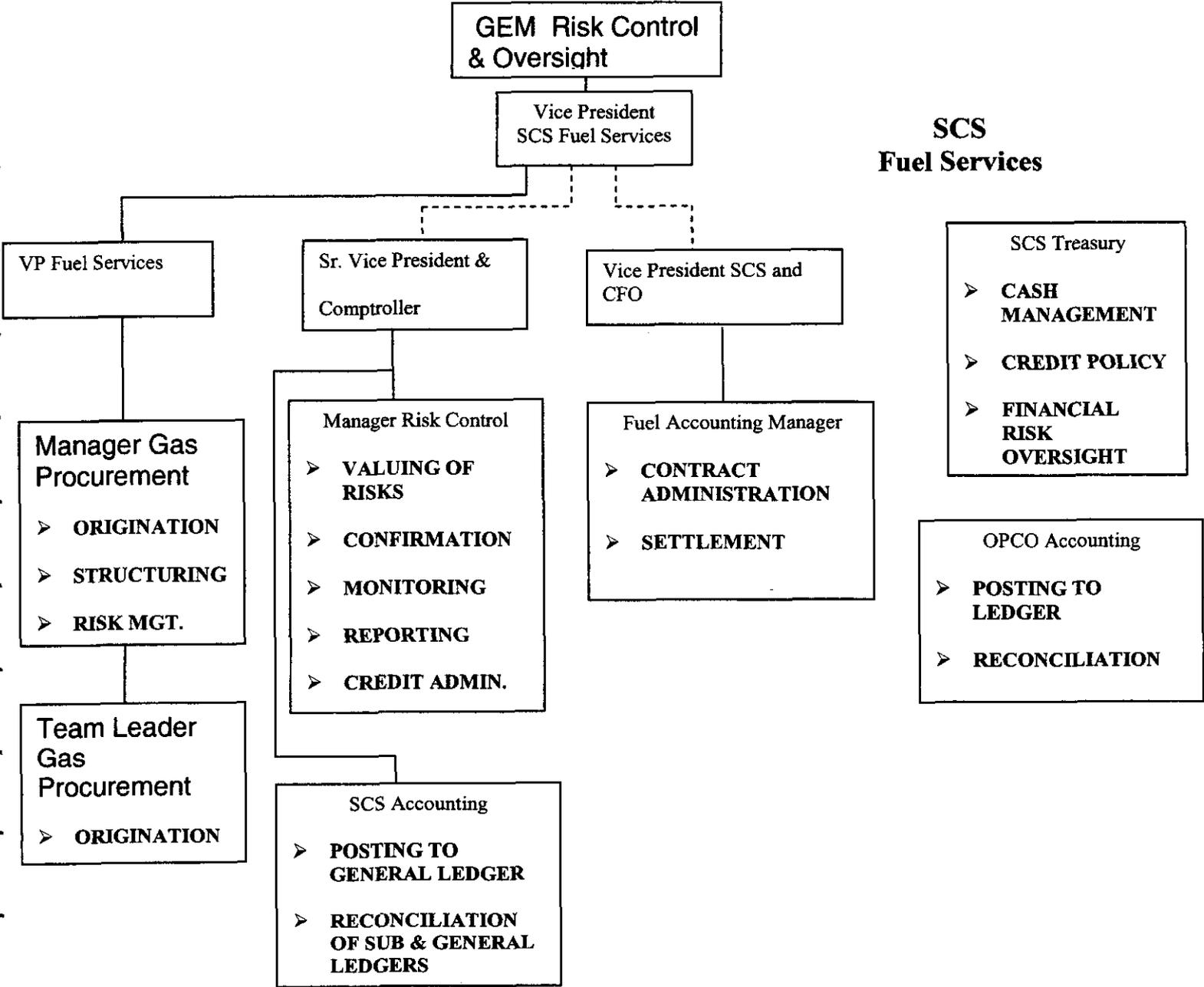


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APPENDIX E

APPENDIX E SEGREGATION OF DUTIES (continued)

To ensure that risk management activities are properly carried out, certain functions will be separated. The following chart identifies these functions (depicted as **BOLD** bullet items) and their reporting process.



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APPENDIX F
MARKET RISK MEASUREMENT

Approved Commodities	Agreed Measurement Units	Conversion Factor (into MWh)	Value at Risk Method
Electrical Power	MWh	1.000	Parametric VaR
Natural Gas (1)	MBtu	0.100	Parameteric VaR
Coal (2)	Tons	2.000	To be Determined

Notes:

(1) 10,000 Btu/kWh average heat rate assumed for all fuel commodities.

(2) 10,000 Btu/lb quality coal (short ton).

Parameteric VaR Method

Formula Components

Component	Symbol	Comments
Value at Risk	VaR	See Equation Below
Position	PSN	Given in Agreed Measurement Units
Daily Standard Deviation of Price Change	ΔP	Given in \$/Agreed Measurement Units
Holding Period – Business Days	HP	Taken From Parameters Table Shown Below
Confidence Interval Multiplier	CI	For Example: CI = 1.67 for 95-% Confidence Interval

Equation Parameters

$$VaR = PSN * \Delta P * \sqrt{HP} * CI$$

Commodity	Holding Period (HP)	Multiplier (CI)
Electric Power		
Term <= 1 Year	5 Days	3.00
Term > 1 Year	10 Days	3.00

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Natural Gas		
Term <= 1 Year	5 Days	1.67
Term > 1 Year	10 Days	1.67

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APPENDIX G
DAILY INCOME NOTIFICATION LEVELS
UPDATED EFFECTIVE 10/9/00

Approved Commodities	Daily MTM Amount	Notify
Secondary Objectives	\$2,000,000	<ul style="list-style-type: none"> • Vice President, GEM • Vice President, Fuel Services • Chairman of Southern ROC • Chairman of GEM RCOC • President & COO Southern Company • Chairman of Southern Company
Secondary Objectives	Aggregate 2-Day Greater \$2,000,000	<ul style="list-style-type: none"> • Vice President, GEM • Vice President, Fuel Services • Chairman of Southern ROC • Chairman of GEM RCOC • President & COO Southern Company • Chairman of Southern Company
Secondary Objectives	Rolling 30-Day \$7,500,000	<ul style="list-style-type: none"> • Vice President, GEM • Vice President, Fuel Services • Chairman of Southern ROC • Chairman of GEM RCOC • President & COO Southern Company • Chairman of Southern Company

Daily MTM Amount is based on the daily change from market prices.

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APPENDIX H
MARKET RISK LIMITS

Overall Risk Limit

Approved Commodity	Overall Risk Limit	Approval Date
All Commodities Combined	\$75,000,000	March 5, 1996

Electricity
Net Open Position Limits

Business Objective	Risk Exposure Limit
Primary Objectives <ul style="list-style-type: none"> • Purchases for the Territorial Customers • Sales From Generating Resources 	\$45,000,000
Secondary Activities <ul style="list-style-type: none"> • Discover Price • Arbitrage Opportunities • Locational Spreads • Cross-Commodity Spreads • Market Positions 	\$20,000,000

Natural Gas
Net Open Position Limits

Business Objective	Risk Exposure Limit
Primary Objectives <ul style="list-style-type: none"> • Deliver Risk-Optimized Gas Supply for Territorial Customers • Deliver Risk-Optimized Gas Supply to Support Southern Generation & Energy Marketing • Optimize Natural Gas Assets Associated With Gas Supply, Gas Transportation, and Storage • Support Fleet Operations and Trading Cross-Commodity Spreads 	\$5,000,000
Secondary Activities <ul style="list-style-type: none"> • Arbitrage Opportunities • Time and Locational Spreads • Cross-Commodity Spreads 	\$5,000,000

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APPENDIX I
INCUMBENT LISTING; AUTHORIZED INDIVIDUALS

Incumbent Listing

Name	Title
Allen Frankin	Chairman, President, and Chief Executive Officer Southern Company
Gale Klappa	Chief Financial Officer, Southern Company Chairman, Southern Risk Oversight Committee
Doug Jones	Vice President, Southern Generation & Energy Marketing
Dean Hudson	Senior Vice President, Comptroller, and Chief Financial Officer of SCS Chairman, GEM Risk Control and Oversight Committee
Earl Parsons	Vice President, Fuel Services
Bill Marshal	Vice President, Fleet Operations and Trading
(Vacancy)	Vice President, Wholesale Market Planning and Services
Wayne Moore	Manager, Risk Control
Mike Bush	Manager, Energy Trading
Richard Dennis	GEM Risk Manager

**Southern Generation & Energy Marketing
Risk Control and Oversight Committee**

Name	Title
Dean Hudson (Chairman)	Sr. Vice President, Comptroller, and Chief Financial Officer SCS
Doug Jones	Vice President, Southern Generation & Energy Marketing
Earl Parsons	Vice President, Fuel Services
Allen Leverett	Vice President and Treasurer, SCS

**Southern Generation & Energy Marketing
Management Team**

Name	Title
Doug Jones	Vice President, Southern Generation & Energy Marketing
(Vacancy)	Vice President, Wholesale Market Planning and Services
Dean Hudson	Sr. Vice President, Comptroller, and Chief Financial Officer of SCS
Ed Day	Director, Wholesale Business Development
Bill Marshall	Vice President, Fleet Operations and Trading

**SCS Fuel Services
Management Team**

Name	Title
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Earl Parsons	Vice President, Fuel Services
Norrie McKenzie	Manager, Gas Procurement

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**APPENDIX I
INCUMBENT LISTING; AUTHORIZED INDIVIDUALS (continued)
Authorized Individuals**

Title	Name	Approved Commodities					
		Electricity		Natural Gas			Coal
		Energy	Transmission	Gas	Transport	Storage	
Southern Generation & Energy Marketing							
Energy Trading Manager	Mike Bush	X	X				
Merchant	David Hansen	X	X				
Merchant	Steve Lowe	X	X				
Merchant	Tim Sorrell	X	X				
Energy Coordinator	Bill Brown	X	X				
Energy Coordinator	Todd Curl	X	X				
Energy Coordinator	John Davis	X	X				
Energy Coordinator	Frank Harris	X	X				
Energy Coordinator	(Vacant)	X	X				
Energy Coordinator	John Spratley	X	X				
Energy Coordinator	Jimmy Walker	X	X				
Project Manager	Joe Styslinger	X	X				
Project Manager	Kenneth Wills	X	X				
Risk Manager	Rick Dennis	X	X				
Transmission Project Coordinator	Joel Dison		X				
Transmission Project Coordinator	Mike Greene		X				
Scheduler	Susan Olive	(1)	X				
Scheduler	Jackie Albercrombi	(1)	X				
Scheduler	Shannon Gunnells	(1)	X				
SCS Fuel Services							
Manager, NG	Norrie McKenzie			X	X	X	
NG Team Leader	Scott Teel			X	X	X	
NG Buyer	Ken Damsgard			X	X	X	
NG Buyer	Vicki Gaston			X	X	X	
NG Scheduler	Angela Dunn			X	X	X	
NG Scheduler	Tonya Gary			X	X	X	

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NG Project Manager	Brian George			X	X	X	
NG Project Manager	Alan Kilpatrick			X	X	X	

Notes:

(1) Authority to engage in energy transactions is the same as the energy coordinator position.

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APPENDIX J
ACCOUNTING AND TAX

FAS 133, Accounting for Derivative Instruments and Hedging Activities, provides guidance for exchange-traded contracts and is the authoritative pronouncement addressing hedge accounting. Under FAS 133 all contracts meeting the definition of a derivative must be marked to market at the end of each accounting period with a gain or loss recorded in earnings, unless a qualifying hedge exists. FAS 133 defines two types of hedges that may be utilized: fair value hedges and cash flow hedges. In a fair value hedge, a derivative instrument is designated as hedging exposure to changes in the fair value of an asset, liability, or firm commitment. Changes in the fair value of the derivative and changes in the fair value of the hedged item attributable to the risk being hedged are recorded in earnings. If the hedge is 100-percent effective these changes in fair value will completely offset and there will be no effect on earnings. Changes in the fair value of the derivative are deferred as a component of equity on the balance sheet and then recognized in earnings in the same period as the effects of the hedged item.

A major condition required to account for a derivative as a hedge is that both at inception and on an ongoing basis the hedging relationship must be expected to be highly effective. It is also necessary to maintain documentation as to the hedge transaction, including purpose, expected effectiveness, how effectiveness will be determined, and the actual effectiveness at the end of each reporting period. This documentation will be prepared by Merchant Floor personnel and forwarded to accounting as required.

A database that keeps track of each hedge transaction, including physical quantities, settlement date, hedge item, fair values, costs, etc., will be developed and maintained in order to report the results of the program for operational and accounting requirements. Middle office staff will work with the accounting organization to develop a comprehensive database that provides the necessary information in the required formats for accounting and tax purposes.

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APPENDIX K
EMPLOYEE ACKNOWLEDGMENT

I have been provided a copy of the GEM Merchant Floor Risk Management Policy (RMP) and have had an opportunity to read and familiarize myself with its contents and understand the requirements that apply to my position.

I understand that the officers and Board of Directors of SCS place a very high priority of each employee adhering to the requirements, policies, and procedures described in the RMP and on the accurate tracking and reporting of levels and types of risks as described in the RMP.

I agree to comply with the policies, requirements, and procedures of the RMP as all or portions of the RMP apply to my position. I do not have any questions regarding or need to clarify any matters contained in the RMP.

Printed Name

Signature

Date: _____, 200_

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APPENDIX L
DEFINITIONS

Agreed Measurement Units	The commonly accepted measurement units as dictated in recognized product markets for the determination of purchase and sale quantities.
Approved Commodity	Those commodities listed in appendix B which have been approved.
Authorities	All applicable limitations imposed on GEM RMP trading activities, and shall include, but not necessarily be limited to, authorized trading limits, daily loss exposure limits, maximum approved value at risk, income limits, and term limits.
Authorized Individuals	Employees whose position may involve: (1) the authority (or appearance of authority) to directly bind SCS (or any subsidiary) to agreements with third parties; and/or (2) the authority (or appearance of authority), acting through its various brokers and other representatives, to bind SCS (or any subsidiary) to exchange-traded futures and option contracts.
Authorized Trading Limit	The levels set out in appendix F and H. Such levels are expressed in dollars that establish boundaries for maximum value at risk due to changes in market prices.
Daily Income Limit	The change in value of the Merchant Floor portfolio on a daily basis as detailed in appendix G. The change in value will be calculated on a MTM net-present-value basis.
Daily Portfolio Value	The net present value on a MTM basis of yet to be performed transactions from all approved portfolios.
Daily Risk Report	See section 16.0 of this RMP for a full definition/meaning of this term.
Delta	The sensitivity on an option's price to changes in the price of the underlying commodity.
Financial Instruments	Futures, forwards, options, swaps, and other derivative or financial risk management transactions entered into to hedge price risks.
Forwards	An agreement to buy or sell a quantity of a product, at an agreed price, on a given date, with a specific counterparty. Forwards are typically trading in the over-the-counter (OTC) markets.
FS	SCS Fuel Services
Futures	An agreement to buy or sell a quantity of a product, at an agreed price, on a given date, traded on an exchange, and cleared by a clearinghouse.
Gamma	The sensitivity of an option delta to changes in the price of the

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underlying commodity.

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APPENDIX L
DEFINITIONS (continued)

Illiquid Market	A market characterized by wide bid/offer spreads, lack of transparency, and large movements in price after any sizable deal.
Income Limit	The dollar income amounts set out in appendix G which requires notification as described herein once triggered.
Mark to Market (MTM)	The value of a financial instrument, or risk book of such instruments, at current market rates, or prices of the underlying commodity.
Net Open Position	The sum of all open positions for the approved commodities on an equivalent basis.
Open Position	The difference between long positions and short positions in any given risk book.
Option	An instrument which provides the holder the right, but not the obligation, to sell to (or buy from) the option seller the underlying commodity at a specified price and time.
Originator	The lead individual responsible for negotiating the transaction with the counterparty.
Premises	GEM business office located in Birmingham, Alabama.
Products	Financial instruments and related transactions for approved commodities as dictated by usage.
Risk Book	The official record in which all transaction risks related to changes in market prices is maintained for valuing, monitoring, managing, and reporting said risk.
RMP	Risk Management Policy
SCS	Southern Company Services, Inc.
GEM	Southern Generation & Energy Marketing
Swaps	An agreement to exchange net future cash flows.
Speculative Positions	Transactions entered into with the intent to profit solely from the rise or fall in price where the transaction lacks any element of shifting or managing risk. Transactions entered with the purpose of price discovery or market positions are excluded from this definition.
Stair Step	The approved methodology for measuring risk in the electricity

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Structured Transaction portfolio in which the high and low prices for electricity are fixed.
Any negotiated transaction not readily traded in the market and the price of which is not easily validated.

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APPENDIX L
DEFINITIONS (continued)

Transactions	Futures, forwards, options, swaps, or other instruments conducted over-the-counter or via organized exchanges including long- and short-term agreements involving approved commodities or financial instruments.
Value at Risk (VAR)	The expected loss that will be incurred on the portfolio with a given level of confidence over a specified holding period, based on the distribution of price changes over a given historical observation period. (This is not an estimate of worst possible loss.)
Vega	The sensitivity of the option price to changes in the price volatility of the underlying commodity.

Risk Management for Fuel and Wholesale Energy

