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GULF POWER COMPANY

Risk Management Plan
For
Fuel Procurement
Docket No. 070001-EI

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GULF POWER
A SOUTHERN COMPANY

INDEX

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

Introduction

Gulf operates three coal-fired plants (Crist, Smith, and Scholz) with a combined normal full load gross rating of 1,455 Mw's. Gulf co-owns two coal fired plants; Gulf owns 50% of Plant Daniel which is operated by Mississippi Power with a projected annual coal consumption of 1.5 million tons and 25% of Plant Scherer's Unit 3 which is operated by Georgia Power and has a projected annual consumption of 1.0 million tons. The combined normal full load capacity of Gulf's ownership of Daniel and Scherer is 756 MW In total, Gulf operates coal fired plants with an annual coal consumption over 4.4 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 develop Gulf's coal procurement strategy: 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 to achieve the strategy.

Fuel Program Overview

Plants Crist and Smith are barge served plants and have three long-term coal contracts. The first is with Glencore LTD's Calenturitas and La Jagua mines for 500,000 tons a year for 2007 and 2008; the second is with Interocean Coal Sales, LDC's Mina Pribbenow Mine for 1.5 million tons a year for 2007 and 2008; and the third is with The American Coal Company's Galatia Mine for 1.2 million tons a year for 2007 through 2010. Interocean will also ship 800,000 tons of 2006 make-up coal in 2007. In addition, Gulf has 300,000 tons of spot coal committed from Glencore in 2007. This leaves a remaining need of approximately 148,000 tons in 2007. Due to the fact that Crist and Smith share a common transportation mode as well as common coal contracts, these plants will be grouped together in formulating a procurement strategy.

In the following charts, the projected requirements for year 2007 are from In the October 2006 DEPS update and from the official System budget October 2006 for future years. The chart below illustrates the projected

burn and commitments of coal for Crist and Smith through 2012:

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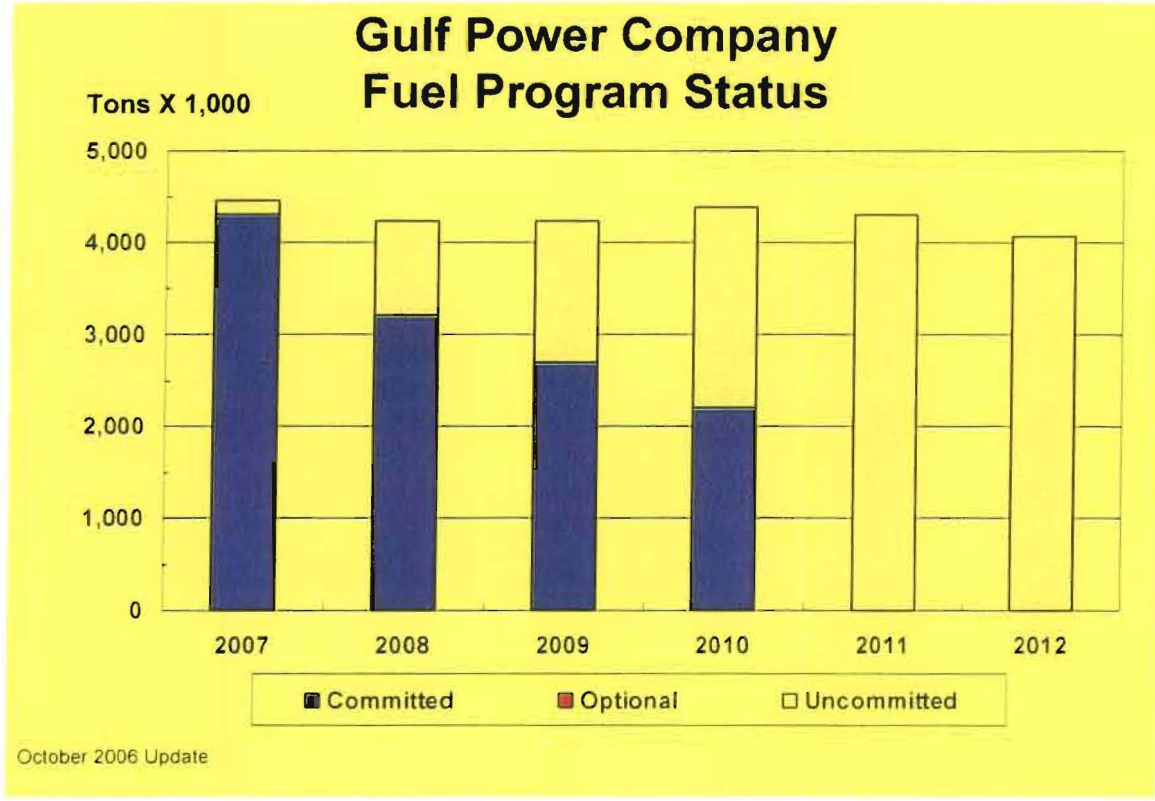
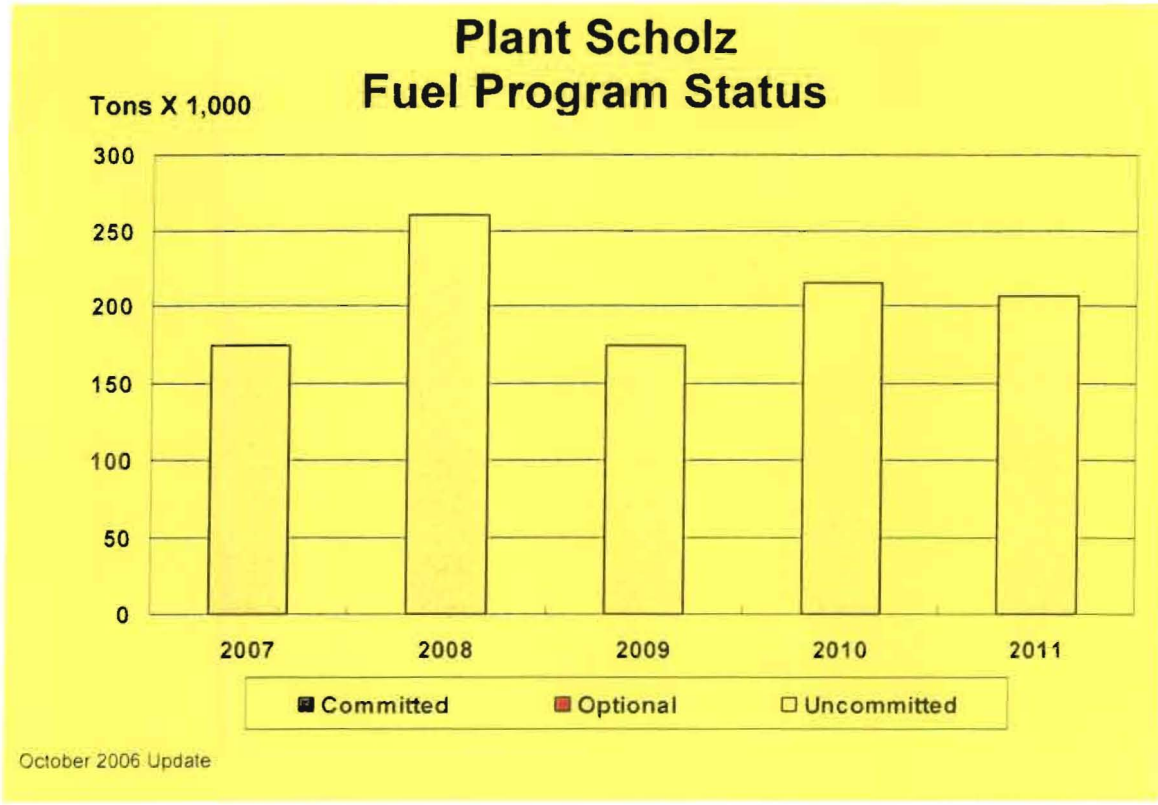


Plant Scholz is rail served and has no coal commitment in place for 2007. The 174,000 tons of need in 2007 will be supplied with short-term (spot) coal. There are no committed tons at Scholz for 2008 and beyond.

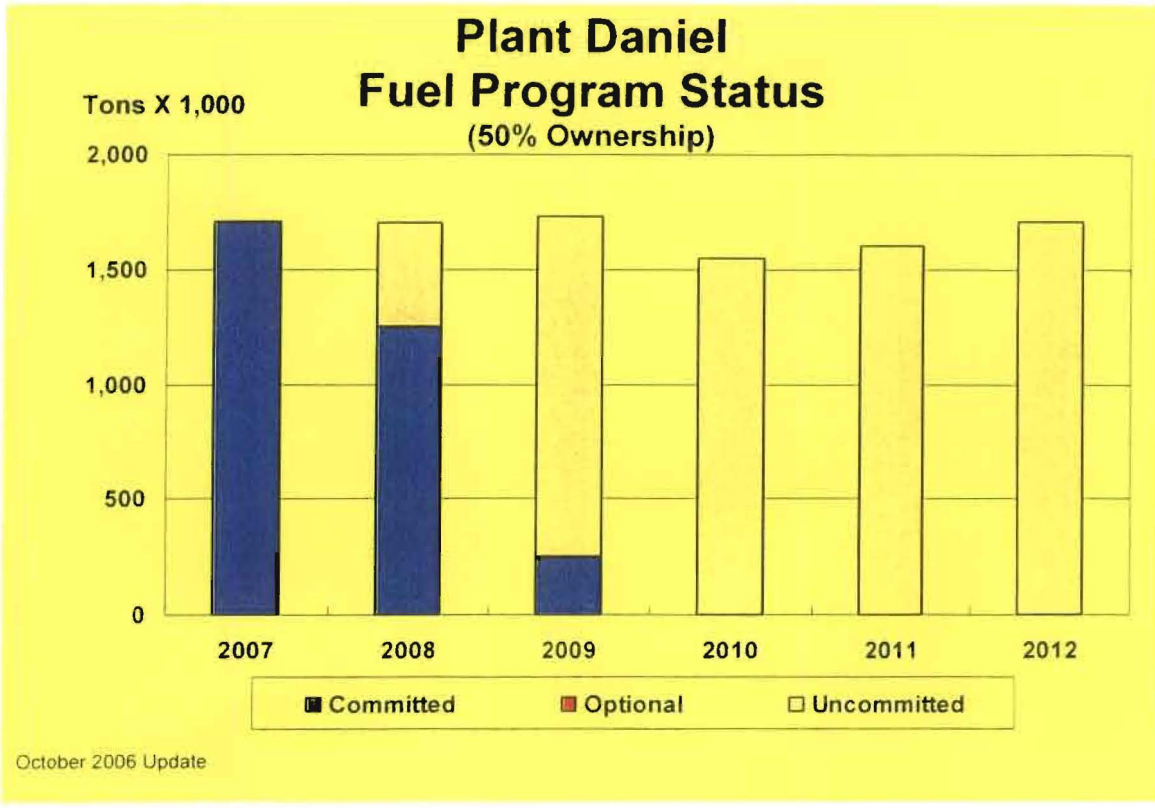
The following chart illustrates the projected burn and commitments of coal for Scholz through 2011:



Gulf Power owns 50% of Units 1 and 2 at Plant Daniel. Daniel is rail served and currently has five long-term coal contracts. Two are with Peabody's Twenty-Mile mine in Colorado. The first contract totals 300,000 tons for 2007. The second Twentymile agreement is for 916,000 tons in 2007 (including 166,000 tons of 2006 make-up coal) and 300,000 tons in 2008. The third contract is with Oxbow's Elk Creek Mine in Colorado and is for 600,000 tons in 2007 and 300,000 in 2008. The fourth contract is with Interocean Coal Sales, LDC's La Loma Mine in Colombia for 500,000 tons in 2007 and 800,000 tons in 2008. The fifth contract is with Glencore's La Jagua and Calenturitas Mines and is for 1.1 million tons a year for 2007 and 2008 and 500,000 tons in 2009.

Based on current burn projections, Gulf's ownership of Daniel is fully committed for 2007. There are no committed tons at Daniel for 2010 and beyond.

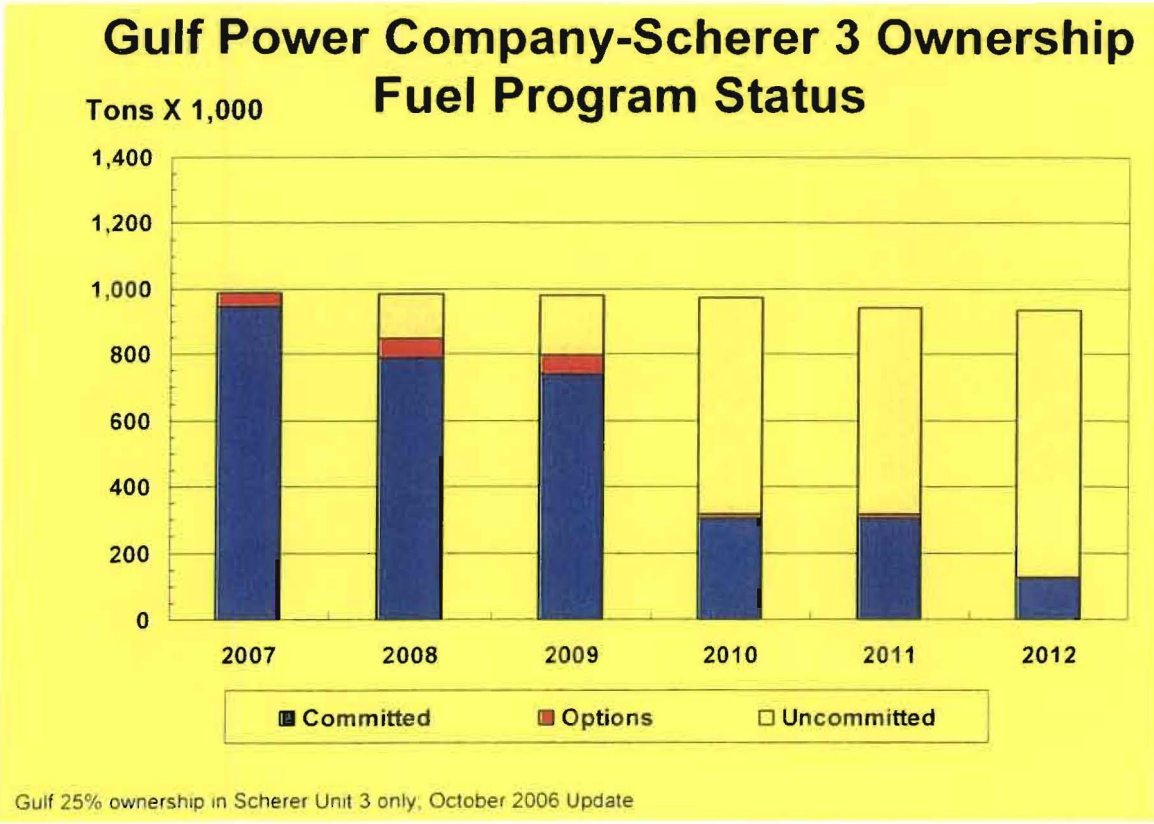
The following chart illustrates Gulf's 50% ownership in projected burn and commitments of coal for Daniel through 2012:



Gulf Power owns 25% of Unit 3 at Plant Scherer. Plant Scherer is classified as an NSPS plant requiring the use of 1.2 lbs SO_2 or less. All 4 units at Scherer

began utilizing Powder River Basin (PRB) sub-bituminous coal from Wyoming in January 2004. The following chart shows the commitments for Gulf's 25% ownership in Scherer Unit 3. Plant Scherer is 100% committed in 2007 with ten (10) long-term contracts in place supplying approximately 15.2 million tons for the total plant. Of this volume approximately 845,000 contract tons are in place for 2008 leaving an uncommitted need of 141,000. Years 2009, 2010, 2011, and 2012 are committed for 800,000 tons, 320,000 tons, 320,000 tons and 250,000 tons respectively.

The following chart illustrates Gulf's 25% ownership in Scherer Unit 3's projected burn and commitments of coal through 2012:



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 details of the strategy required to accomplish this goal are explained further in the paragraphs that follow. 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 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

The uncertainty in the amount of coal generation and therefore coal supply that will be needed in the future is still one of the most critical risks that must be addressed in developing a strategy for long-term coal procurement. However, with the increase in overall system load over the past few years, this risk is being reduced as some intermediate coal units are becoming base loaded generation. The fluctuation of weather, natural

gas pricing, and economic growth will continue to impact future coal burn requirements. The addition of gas–fired capacity to the Southern Company system over the past few years will mean that coal burn has the potential to be displaced by the gas-fired generation if natural gas pricing decreases relative to coal pricing.

A portion of projected coal requirements should be firmly committed under long-term agreements providing 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.

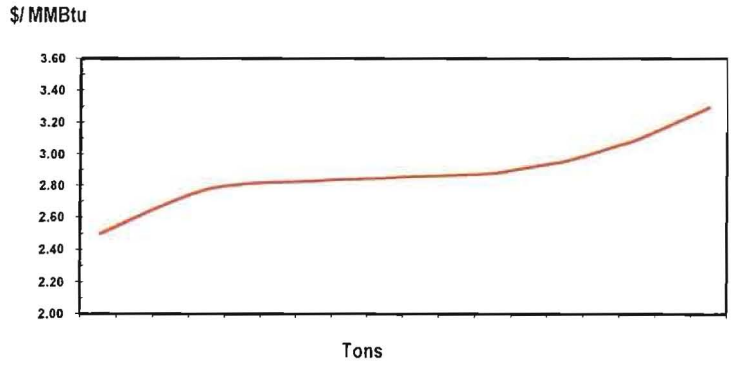
Generating plants that are considered "base-load" have less uncertainty and therefore should be firmly committed to a higher percentage of future coal requirements. Base-load plants should utilize contract volume options primarily for pricing advantages as will be discussed later. Plants that are considered "intermediate" or "swing" plants have 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

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, purchased at a premium, if necessary, 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 our 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 cumulative volume produces the price curve similar to the following.

Fuel 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 total volume of commitments expires or is subject to market review in any one year. Where market power permits, additional mechanisms which can keep coal prices competitive includes (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. It is increasingly important to avoid having significant quantities committed with a single supplier. Also, having the ability to utilize coal from various regions will decrease the availability risk associated with lack of supply in a particular region. The economic impact associated with a diverse portfolio of long-term commitments from various regions and suppliers must be evaluated versus the advantages. 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 until late 2000 and early 2001. Prior to that time, coal supply had not been an issue for almost twenty years. The events seen in recent years pertaining to reliability of supply were last seen surrounding the events of the oil embargo of the 1970's. 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 resulting in consolidation of the industry. In the current world of supply and demand imbalance in the coal industry, 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. Also, in addition to an economic evaluation, technical and financial evaluations of suppliers should be conducted and taken into consideration during the purchase process.

To mitigate the risk associated with supplier performance issues, 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, which includes the difference in the 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, will be evaluated for inclusion in future contract negotiations.

With an emphasis on ensuring reliability of supply, the concept of including language in coal contracts that offer incentives or premiums to producers that continue to perform and deliver on schedule will be explored. This will be determined based on market conditions at the time an RFP is issued. 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 implementation of the Clean Air Interstate Rule and Clean Air Mercury Rule and ongoing discussions of more environmental legislation, we should 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.

Also, when considering long-term commitments, emission control equipment must be considered. Close interaction between Environmental Strategy, Research and Development, Emissions Management, Plant and Fuel personnel must be maintained. Schedules for installing scrubbers, SCRs, and other emission control technology will have a significant impact on the desired coal supply. Operational issues, such as the effect chlorine has on boilers and emission control equipment, acidic aerosol emissions related to high sulfur coals in conjunction with SCRs, sulfur rates and limestone supply for limestone to scrubbed units, and coal stockpile transitions will also be considered.

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 as they are rail served. The co-owned plants, Daniel and Scherer, will be treated individually. We will consider the similarities and differences in these plants as we 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 Ingram Barge Company. Historically and on average, Crist has burned approximately 3.0 million tons of coal a year and must comply with a state SO_2 emission limit of 2.4 lbs/mmBtu. However, Gulf Power Company seeks to maintain an SO_2 emission limit of 1.7 lbs/mmBtu to meet the local ambient air quality. 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 a base load coal plant with a projected capacity factor greater than 80%.

Plant Smith – Plant Smith is also barge served by Ingram Barge Company. Historically and on average, Smith has burned approximately 1.1 million tons of coal a year. Smith must comply with the state SO_2 emission limit of 2.1 lbs/mmBtu. Smith can burn a variety of coals including Illinois Basin and import coals such as Colombian, Australian and Venezuelan. Domestic sources such as Colorado and Central Appalachian coals have also been burned in the past. Plant Smith is also considered a base load coal plant with a projected capacity greater than 80%.

Plant Scholz – Plant Scholz is rail served by the CSX Railroad. Historically and on average, Scholz has burned approximately 193,000 tons of coal a year and must comply with a state SO_2 emission limit of 6.17 lbs/mmBtu. Scholz has burned Central Appalachian coals in the past. Scholz currently

has no commitments for 2007 and beyond. Plant Scholz is considered a peaking coal plant with a projected capacity factor of less than 65%.

Plant Daniel - Plant Daniel is served by the Mississippi Export Railroad (MSE). Historically and on average, Daniel has burned approximately 3.3 million tons of coal a year. The MSE is a short line railroad that is approximately 40 miles in length and runs between Moss Point and Evanston, Mississippi. The MSE is served by two large Class 1 railroads: the Canadian National Railroad connecting at Evanston and the CSX Railroad connecting at Moss Point. Classified as a New Source Performance Standard (NSPS) plant, Daniel must utilize "compliance" coal with a maximum of 1.2 lbs SO_2/MMBtu (0.6 lbs Sulfur/MMBtu). Daniel can utilize import coals as well as coals from Colorado and the Central Appalachian regions. PRB coal has been burned in Daniel's units during off-peak periods and has also been blended with bituminous coal at a 60% bituminous / 40% PRB ratio. Plant Daniel is considered a base load coal plant with a projected capacity factor greater than 80%.

Plant Scherer – Plant Scherer utilizes sub-bituminous Powder River Basin (PRB) coal from Wyoming. Plant Scherer is considered a base load plant and burns approximately 15-16 million tons of PRB coal per year. Classified as an NSPS plant, Scherer must utilize "compliance" coal with a maximum of 1.2 lbs SO2/MMBtu (0.6 lbs Sulfur/MMBtu). As with the other base-load plants, the goal is to maintain firm commitments of 85-95% of the projected requirements for the following year and up to 10% contract

options. Scherer Unit 3 is considered a base load coal unit with a projected capacity factor greater than 80%.

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 base-load nature of Crist and Smith, the goal is to maintain firm commitments of 85-95% of the projected requirements for the following year (Year 1), a minimum of 50-60% of the projected requirements for Year 2, 30-40% of the projected requirements for Year 3, and 10-20% for Year 4. If higher percentages of firm commitments are made for the future years, market price review provisions will be incorporated. Maximizing the amount of contract options will be a primary goal, even if it requires a small premium.

Plants Crist and Smith have historically been supplied by Galatia coal from the Illinois Basin region under a long-term contract with Peabody Coal Company. In January 2006, Peabody notified Gulf of a permanent force majeure at this mine due to adverse geological conditions. Gulf has elected to pursue legal recourse with Peabody under this agreement. For current coal supply at these plants, the Glencore contract volume commitment is 500,000 tons a year for 2007 and 2008. The Interocean contract volume commitment is 1.5 million tons a year for 2007 and 2008. The American Coal Company's contract volume commitment is 1.2 million tons a year for 2007 through 2010.

Gulf Power has continued its testing programs at Crist and Smith in order to diversify their supply of coals. These test coals consist mainly of import coals and have two purposes: (1) to develop and approve new sources of coal which will allow for diversity of supply, (2) to diversify the supply of import coal purchases as the availability of domestic sources continue to be negatively impacted by adverse production costs and financial issues. The strategic objective will be to find alternative coal sources that will enhance Gulf's supply portfolio and will meet Gulf's environmental restrictions.

Traditionally, these plants have utilized domestic sources such as Illinois Basin medium-sulfur coals. Since 2000-2001, market conditions, including production problems and lack of availability of supply in some domestic regions, and environmental restrictions have emphasized the need to diversify with other sources, including Colombian and Russian coals. 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, Gulf will explore expanding its plant quality parameters through the continuation of an active test burn program.

Due to its peaking nature, the fuel supply at Plant Scholz will be based on limited term firm commitments and/or spot purchases depending on burn projections. Contract commitment terms will be two years or less. If commitments are made for over 50% of the projected burn requirements, the contract will contain flexibility to limit the maximum annual tonnage

purchased to the plant burn requirements. In order to increase the diversity of supply, the goal will be to have no more than 30% of a plant's, or group of plant's total supply committed with one supplier.

One of the strategic objectives in the Daniel program is to continue to diversify its supply, mainly because of recent performance issues with the Union Pacific Railroad (UP). In addition, Daniel's current sourcing from Colorado is limited by availability of supply due to the fact that there are only four mines in this production region. This diversity of supply can be accomplished by purchasing a portion of Daniel's needs from import sources through the Alabama State Docks in Mobile, Alabama or the Illinois Central Rail Marine Terminal near Convent, Louisiana, thus mitigating the supply risk from Colorado sources moving on the UP. Daniel is 100% committed in Year 1, 74% committed in Year 2, 14% committed in Year 3 and has no commitments for Year 4.

Plant Scherer utilizes sub-bituminous Powder River Basin (PRB) coal from Wyoming. Since there are a limited number of producers in the PRB and such large volumes will be utilized, commitments will be diversified with several, if not all producers. Historically, higher quality coal sources (8800 btu/lb) have been utilized at Plant Scherer due to operational and economic advantages. However, because of recent rail constraints in an area near the 8800 btu/lb mines, commonly referred to as the "joint line", the use of lower quality coals (8400 btu/lb) are now being utilized. The 8400 btu/lb mines are located in an area away from the joint line and will

provide more diversity in supply as well as provide more flexibility in transportation alternatives. With successful test burns of imported Indonesian coals in 2006, Plant Scherer now has in its supply portfolio a proven substitute for PRB quality coals.

Environmental issues of concern to Gulf Power in the near term (2007-2012) are broadly categorized into the following: Regulatory and Allowance, Environmental Construction Program, and Combustion Product Utilization.

Environmental regulatory issues currently facing Gulf Power Company include compliance in accordance with the Acid Rain SO_2 provisions imposed by the Clean Air Act - Title IV. In the past, Title IV compliance was achieved by implementing an allowance strategy to bank, use and then buy allowances. Gulf Power's SO_2 allowance bank is currently being depleted and purchasing strategies for future needs have been developed.

In March of 2005, the Clean Air Interstate Rule (CAIR) was signed. Phase I of this ruling will subject Gulf Power to an annual NOx cap as well as a state-wide seasonal NOx cap starting in 2009. CAIR also causes more stringent SO_2 compliance beginning in 2010. In 2015, Phase II introduces even more stringent SO_2 and NOX compliance. In addition to CAIR, Gulf Power Company will also be subject to the Clean Air Mercury Rule (CAMR) beginning in 2010. This rule implements a cap on the Mercury emissions, with an even more stringent cap in 2018.

Finally, the EPA released an update to Regional Transport Rules (PM2.5) in September of 2006. The ruling has been passed down to the states to develop an implementation plan. The effects to Gulf Power are not known at this time. Regional Transport Rules, for both Ozone and Particulates, will continue to be updated every 5 years, as required by National Ambient Air Quality Standards (NAAQS).

Southern Company and its subsidiaries are required to purchase emission allowances in order to comply with the Clean Air Act of 1990, Clean Air Interstate Rule, and Clean Air Mercury Rule.
Southern Company's Operating Companies choose to develop allowance procurement strategies at the operating company level. The strategies are developed using forward projections of coal burn, sulfur content of coal, and other factors. Southern Company's allowance procurement strategy requires that all operating companies have allowances needed for compliance at least one year prior to the need. The allowances are procured using a diverse combination of products, with a mixture of several creditworthy counterparties, and using a disciplined approach. This approach applies to Gulf Power.

The near-term scrubber construction activities for Gulf Power are primarily focused on Crist. Crist's scrubber will come on-line in 2009 (Units 4-7). The scrubber is a Chiyoda design for an 11,800 BTU/lb fuel at 1.6%S and 98% removal efficiency. It will be a single scrubber vessel servicing all

four units. In the long-term, other Gulf scrubbers are in various stages of discussion and are subject to change. These include Smith 1-2. At this time, however, these longer term units are not definite.

Daniel's scrubber will come on-line in 2011 (Unit 1-2). The scrubber is just now entering conceptual design and is subject to change. As of now, the scrubber is most likely an Advatech design. The exact fuel design basis is still in discussion. The decision of whether this will be a single vessel for both units are also in discussion. Exact delivery methods for the limestone have not been determined. The limestone grind size will be 90% passing a 325 mesh (Advatech) should the Advatech design be the ultimate choice.

The scrubber design for Scherer Unit 3 is not yet definitive. The tentative timeline for scrubbing all Scherer Units 1 – 4 is 2011 through 2014 with Unit 3 the first to be retrofitted. The Scherer units will most likely employ the Advatech design for PRB fuel with the ability to upgrade to a 12,000 btu/lb 1.5% fuel and still maintain 95% + removal efficiency.

Coal combustion products (CCP) include ash and gypsum. The current CCP strategic goal for Southern Company is: maximize utilization of CCP to provide greatest downward pressure on rates for our customers while effectively managing short term and long term risks. Specific actions used to achieve these strategic goals are: 1) directly interface with marketers, end-users and others to fully understand the market. Work with consultants to validate market intelligence and study what others are doing. Provide

financial and technical support to EPRI, ESDA etc. to research new CCP uses. 2) Minimize environmental liability through understanding federal and state regulations, and actively participate in shaping regulatory and legislative actions. 3) Manage Southern Company system as a portfolio. Understand plant economics over the life of the facility accounting for disposal O&M, CCP revenues, and deferred capital. Develop short, intermediate, and long-term CCP business plans. 4) Maintain maximum flexibility. Seek flexible contractual terms and conditions and maintain a mix of marketers and end-users.

Specific plans for the Gulf Power plants are developed under the above guidelines.

Gulf Power currently produces about 200K tons of fly ash annually, and 30K tons of bottom ash. Depending on the coal the plants will burn, the future production level could vary. Currently there is no market for the ash. Initiatives are undergoing to pursue utilization markets such as structural fill and raw feed areas.

In the near term, Crist's scrubber is projected to produce about 100K tons of gypsum annually. Currently three markets are being assessed and developed for the future gypsum production for all of Gulf Power's plants: wallboard, cement manufacturing and agricultural uses.

The limestone procurement strategy for Gulf is in its infancy stages. The key matters in procuring limestone are volume uncertainty, reliability of

supply, availability of supply, and quality assurance. The procurement of limestone will correlate directly to the type and quality of coal being procured. Thus the volume of limestone to be procured will vary according to the type of coal procured. Volume flexibility will be incorporated in the limestone contracts as a hedge against volume uncertainty. The strategy will be to procure limestone quantities based on the quality of the coal contracts that are currently in place at the plant. The entire anticipated limestone need will be procured over a five to ten year term to ensure reliability of supply.

It is anticipated that the limestone market will mature once more utilities begin to scrub, therefore Gulf will take the risk averse standpoint and contract for a term that ensures reliability of supply but also a term that will give Gulf some flexibility in regards to pricing. Market reviews will be incorporated when possible to protect Gulf from a pricing standpoint. Another key facet in ensuring a reliable supply is the strategy of keeping healthy limestone inventory levels at the quarry, grinding facility where applicable, and at the plant. This inventory buffer would allow the scrubber to continue operation even if there was a supply disruption. Availability of limestone supply has been deemed as "abundant" and it is anticipated that many limestone producers will begin dedicating more of their production each year to the scrubber market. Quality specifications may vary due to the gypsum marketing position the plant takes which may in turn reduce the number of regions and therefore number of suppliers that have the quality needed.

The limestone procurement strategies at this time are focused on Plants Crist and Daniel. As mentioned above, Plant Crist will begin scrubbing in 2010 and based on the current quality of the coal contracts in place, it is anticipated that Plant Crist will need between 50,000-100,000 tons of limestone per year. Limestone deliveries will begin in May 2009 at Plant Crist to establish inventory as well as initial commissioning of the scrubber. The limestone procurement strategy for Plant Crist will consist of contracting a barge delivered limestone meeting 90-95% $CaCO_3$. The source of Plant Crist's limestone is anticipated to come from the regions of Alabama, Tennessee, Kentucky, or offshore regions such as Mexico or the Bahamas.

Tactical Plan

There are several issues facing the long-term Gulf coal procurement program. They are:

(1) Gulf has no committed coal for 2011 and beyond.

(2) Scrubber installation at Crist's Units 4, 5, 6 & 7 in 2009.

(3) Scrubber installation at Daniel's Units 1 & 2 in 2011.

(4) Scrubber installation at Scherer's Unit 3 in 2011.

(5) Limestone procurement.

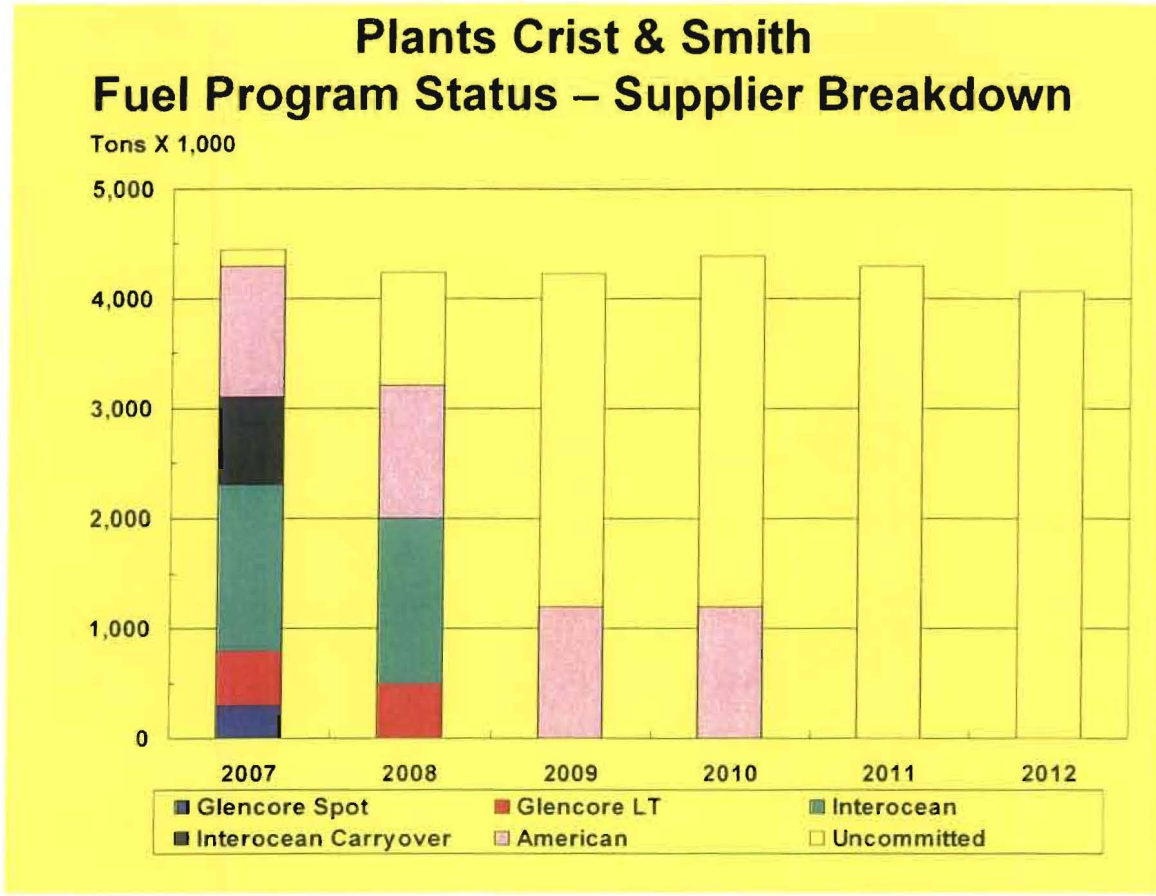
(6) Throughput congestion at the Alabama State Docks.

(7) State SO_2 limitations are: Crist = 2.4 lbs/mmBtu; Smith = 2.1 lbs/mmBtu and Scholz = 6.17 lbs/mmBtu.

(8) Transportation concerns, particularly with the CSX Railroad at Scholz.

Crist and Smith

The chart below shows a breakdown of the current Crist and Smith suppliers and volume commitments, including options, through 2012:



Plants Crist and Smith are projected to burn collectively between 4.0 and 4.5 million tons of coal annually between 2007 and 2012. The committed volume for these plants equate to 97% of Plants Crist and Smith collective needs in 2007; 76% in 2008; 28% in 2009; and 27% in 2010. Due to ever increasing environmental constraints, the Galatia coal is viewed as a less favorable long-term supply source than other coals for future years and therefore must be blended with other sources. This plan will secure the remainder of the uncommitted need for 2007 as well as commit a percentage of Gulf's needs for 2008 and beyond.

Historically the Drummond Colombian coal has been a very reliable supply of coal for Gulf. This source will still constitute a significant portion of Gulf's future purchases. This will, of course, depend on pricing differentials and a risk assessment of each source's reliability and transportation modes. Another major concern for Gulf is throughput congestion at the Alabama State Docks (ASD) which is projected to handle a record 13 million tons of coal in 2006. Throughput congestion remains a concern for 2007 and projections indicate that throughput capacity could exceed 13 million tons in 2007. However, these throughput constraints should ease in 2007 with the completion of Southern Company's priority berthing project at the ASD scheduled for early 2007 which will increase throughput capacity to 16 million tons.

Because of supply concerns with Drummond's Colombian coal, the plan is to diversify the coal supply at Crist and Smith so that, in the future, they will not be dependent on one or even two sources. Smith has historically been able to burn different coals from many coal supply regions. As mentioned above, Crist has only a few coals that have been approved and needs to continue to diversify its supply. This will be accomplished by continuing Gulf's policy of testing different coals and will include imported coals such as Russian, South African, La Jagua Colombian, Calenturitas Colombian and domestic coals such as the lower sulfur Illinois Basin coals. SCS Fuel Services will schedule meetings with Gulf Power's Senior Production Officer and plant management personnel at Crist and Smith to educate them on the various coal sourcing options that are available to them.

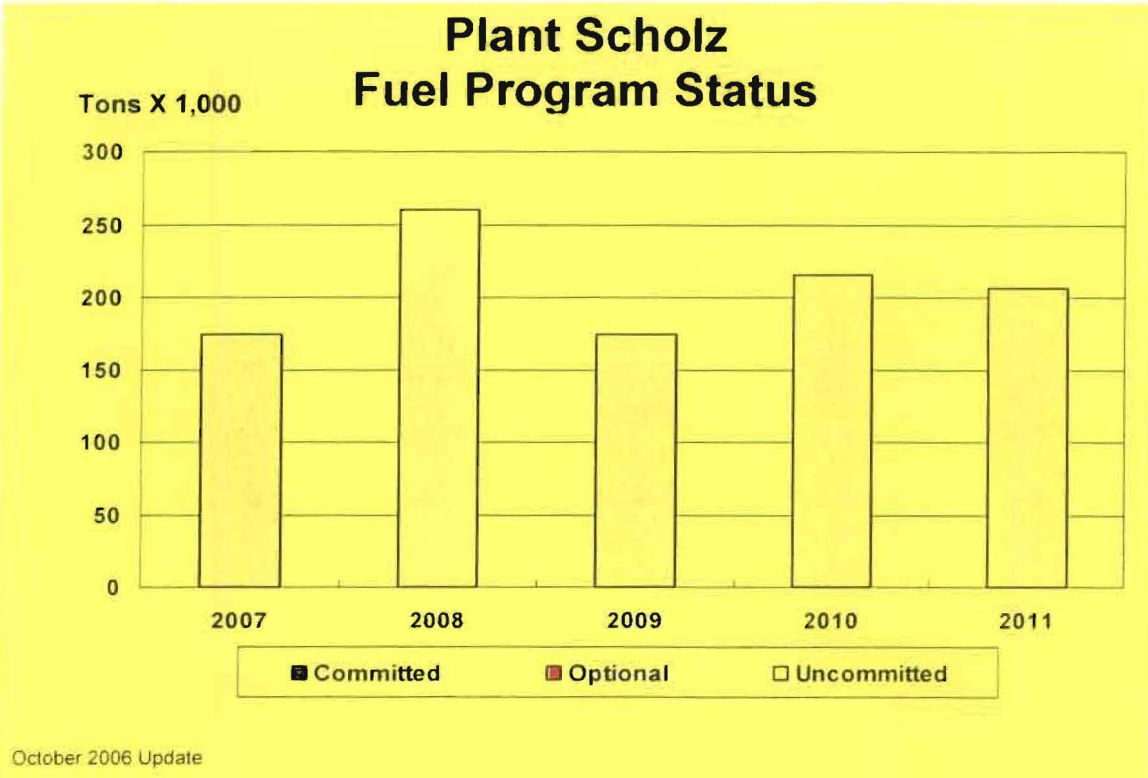
The 2007 plan is to fulfill the uncommitted need of 148,000 tons with spot coal purchases. These purchases will be secured through a spot coal RFP issued in the fourth quarter of 2006. For 2008 through 2012, the plan is to issue a long-term RFP in early 2007 for purchases that fulfill Gulf's long-term procurement strategy. This, of course, will be dependant on the future state of the market. If pricing is still high, Gulf could delay any long-term purchases until the market has softened. If unfavorable offers are received under this long-term RFP, then Gulf would have the option of (1) rejecting all of the offers and buying spot coal to shore up inventories, (2) rejecting a portion of the offers and buy only that coal which is most desirable for the plant, or (3) re-issuing a second long-term RFP at a later date when the market price for coal has softened.

As mentioned above, the installation of a scrubber at Crist Units 4 through 7 is planned for 2009. Crist has burned coal from multiple regions including various imports, Central Appalachian and Illinois Basin coals. Since some of these coals have not been utilized at Crist in a while, a test burn program will be initiated in 2009 to determine the impact of these coals on the scrubbed units at Crist. If the results of these tests are favorable and the delivered costs of the higher sulfur Illinois Basin or Central Appalachian coals continue to be competitive, then a procurement strategy will be put in place to secure larger volumes beginning in 2010 . Both Illinois Basin and Central Appalachian coals can be barged directly to Crist so no infrastructure improvements will be necessary. However,

barge availability remains a concern for the procurement of these coals. At this time, it is unknown whether the plant will need some time to acquire additional plant equipment necessary for burning large volumes of the Illinois Basin coals. The procurement group will need to be cognizant of the environmental controls placed on the units and ensure that the coals purchased will meet the environmental requirements.

Plant Scholz

The chart below shows a breakdown of the current Scholz supplier and volume commitment, including options, through 2011:



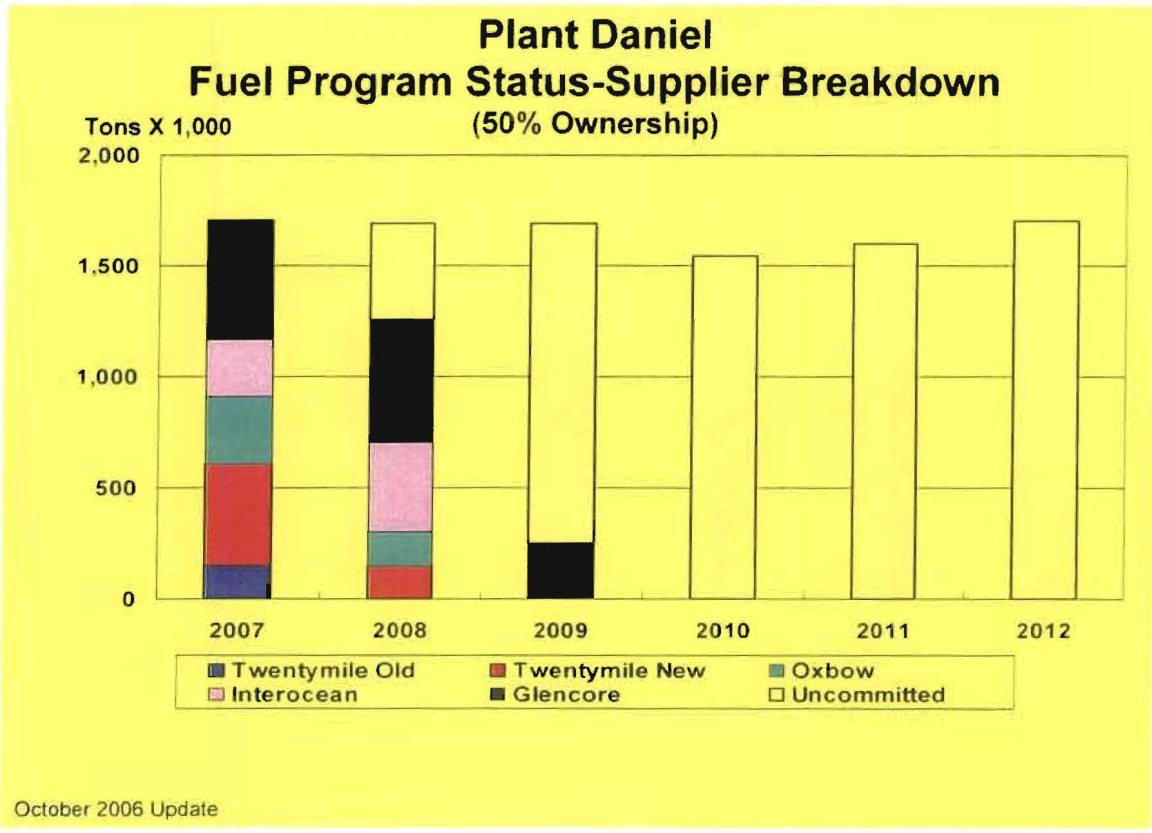
As mentioned above, Plant Scholz is rail served by the CSX Railroad. Scholz's burn fluctuates between a low of 174,000 tons in 2007 to a high of 260,000 tons in 2008. This plant is scheduled for retirement in 2011.

Historically, Scholz has entered into one to two year requirements contracts for its supply. They have also purchased spot coal on a year-to-year basis.

Scholz typically relies on purchases from the Central Appalachian coal region. Coal availability in this region has diminished over the past few years as (1) reserves have become depleted and (2) performance by the CSX Railroad has deteriorated. Even though problems exist in the Central Appalachian region, sufficient quantities of coal are available to supply Scholz because of its relatively small annual burn. Due to Scholz's peaking nature and the relatively small burn associated with this plant, the strategy remains to have little or no firm commitments at this plant. In order to diversify the coal supply at Scholz, a test burn of Colombian coal will be scheduled in the first quarter of 2007. In addition, a solicitation will be issued in the first quarter of 2007 to secure the remaining 2007 needs. This may include coal commitments for 2008 and beyond if the offers received are economical. Gulf may request both one and two year offers under this RFP. If unfavorable offers are received under this RFP, Gulf would have the right to reject all, or accept a portion of the offers received and buy spot coal on as needed basis.

Daniel

The chart below shows a breakdown of the current Daniel suppliers and volume commitments, including options, through 2012:



As mentioned earlier, the strategy for the base load plants is to have a certain percentage of firm commitments established for the next several years. For the next year's requirements, the goal is to be 85-95% committed. The goal is to be at least 50-60% committed for the second year's requirements, at least 30-40% committed for the third year and 10-20% committed for the fourth year. The chart above indicates that Daniel's program conforms to this strategy as it is 100% committed in Year 1, 74% committed in Year 2, 14% committed in Year 3 and no commitments in Year 4. A long-term solicitation will be issued in the second quarter 2007 for a four year term (2008-2011) in order to achieve the commitment goals listed above. These contracts will be negotiated using the contracting strategies mentioned above.

For 2007 and forward, the tactical plan consists of diversifying Daniel's coal supply into at least two regions with one supplier having no more than 30% of the plants commitment. We will accomplish this by testing various import coals as approved sources for Daniel. An example would be 2/3 import coal and 1/3 Colorado coal. The import portion could be sub-divided into different regions such as Colombia, Russia or Venezuela. In the case of Colorado, two different suppliers could be selected. This would ensure that, should supply problems occur, the other suppliers could continue seamless deliveries into the plant.

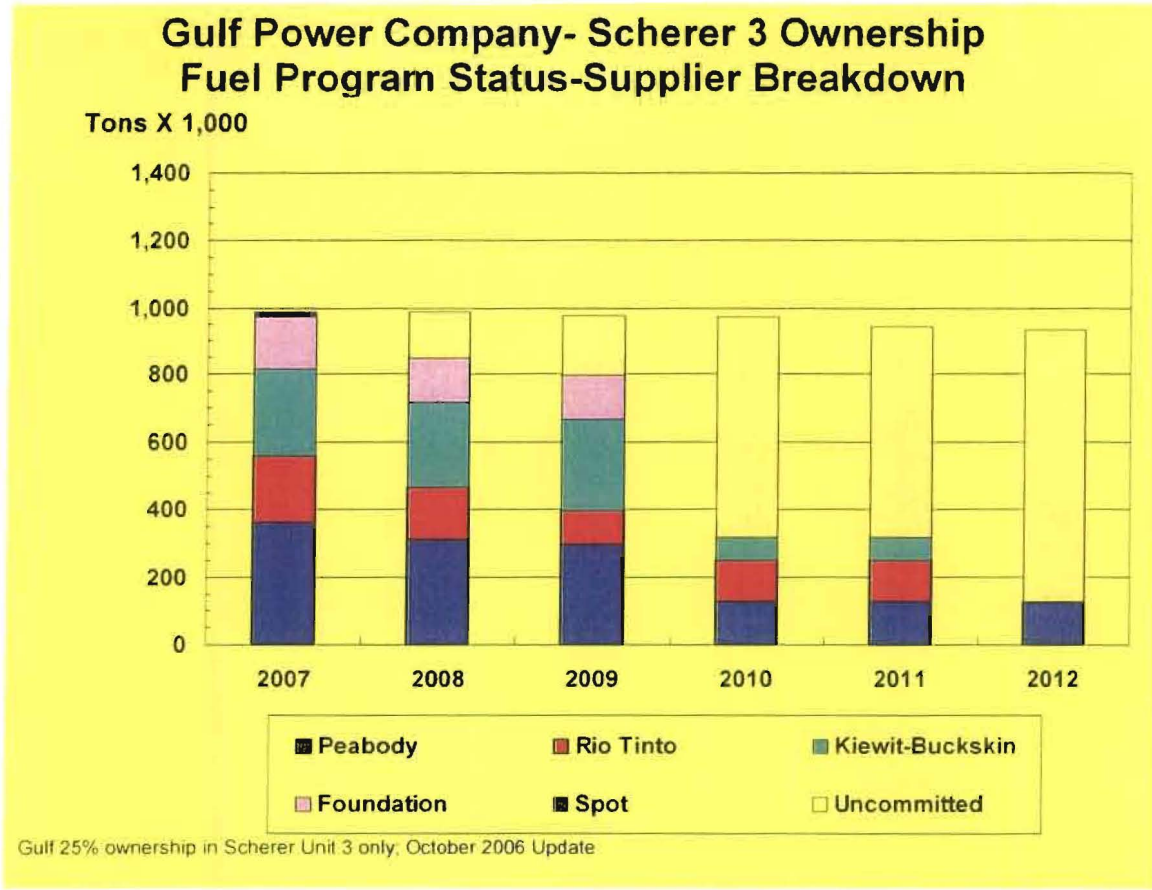
In the past year, the Alabama State Docks (ASD) has been a concern due to throughput congestion. In order to mitigate this risk, beginning in early 2007, Southern Company has a priority berth right at this facility which will provide equal unloading rights with Drummond Coal Company. Another risk mitigating factor is the ability to take imported rail coal through the Illinois Central Rail Marine Terminal in Convent (ICRMT), Louisiana. This is a proven facility which Daniel has used in the past. As it is an inland river unloading facility capable of unloading Panamax-sized vessels, it provides additional security during hurricane season.

The installation of a scrubber at Daniel Units 1 and 2 is planned for 2011. Daniel is an NSPS plant and has historically burned compliance coal (1.2 lbs SO2/MMBtu maximum). Daniel has burned coal from multiple regions including various imports, Central Appalachian and Colorado coals. Since

some of these coals have not been utilized at Daniel in a while, a test burn program will be initiated in late 2011 to determine the impact that these coals will have on the scrubbed units at Daniel. These tests could also include higher sulfur Illinois Basin coals. If the results of these tests are favorable and the delivered costs of the higher sulfur Illinois Basin or Central Appalachian coals continue to be competitive, then a procurement strategy will be put in place to secure larger volumes beginning 2011 and 2012. Both Illinois Basin and Central Appalachian coals can be railed directly to Daniel. The railroads have stated that some infrastructure improvements will be necessary. At this time, it is unknown whether the plant will need some time to acquire additional plant equipment necessary for burning large volumes of the Illinois Basin coals. The procurement group will need to be cognizant of the environmental controls placed on the units and ensure that the coals purchased will meet the environmental requirements.

Scherer

The chart below shows a breakdown of Gulf's 25% ownership of Scherer's Unit 3 suppliers and volume commitments, including options, through 2012:



As the chart above shows, Plant Scherer is 100% committed for 2007 at Unit 3. For 2008, 86% of the projected requirements for Unit 3 are committed, leaving an uncommitted need of approximately 141,000 tons. For 2009, approximately 82% of the burn requirements for Unit 3 are met and 33% of the burn requirements for Unit 3 are met in 2010.

As the charts would indicate, a large portion of the PRB contract tons are due to expire at the end of 2009. Efforts will continue to be made in the future to stagger supply contracts to avoid being in the market for larger volumes of coal in any one year.

If the burn requirements change in 2007, the procurement plan will be to procure spot coal to meet the burn and inventory requirements. The plan for 2007 will also be to issue a long term RFP to secure tons beginning 2008. The goal will be to (1) lock up contracts for 5-10 years if possible, (2) purchase PRB coal at a starting price of around $12/ton or less, beginning 2009, (3) purchase up to 70% of the burn requirements in 2010, and up to 50% of the burn requirements 2011 and 2012. For the remaining burn requirements, the strategy will be to maintain a minimum commitment of 90% for the following year (Year 1), 80% for Year 2, 70% for Year 3, 60% for Year 4 and 50% for Year 5. If pricing under the long term RFP for coal beginning 2009 is well above the $12/ton target then purchases may be delayed.

The installation of scrubbers is planned for Plant Scherer beginning in 2011. Unit 3 will be the first unit to have the upgrade followed by Unit 4 in 2012, Unit 2 in 2013 and Unit 1 in 2014. Procurement strategies in the future will need to be cognizant of the environmental controls placed on the units and ensure that the coals purchased will meet the environmental requirements.

It is clear that PRB coal, at present, represents the lowest delivered cost and is a vast coal supply resource for Scherer. However, it is also recognized that coal market economics are dynamic and may change from time to time, sometimes dramatically. It is also recognized that from time to time and for various reasons, availability of particular coal sources becomes constrained and in those

instances, alternate coal source options must be considered if a reliable fuel supply is expected to be maintained at Scherer. In order to maintain the competitiveness of Scherer generating costs as well as the reliability of those generating assets, and as market conditions and supply availability change throughout the future, it is strongly recommended that as decisions regarding future operations at Plant Scherer are made, that fuel supply flexibility is maintained as much as is economically feasible.

In summary, the following procurement plan will be put into place:

(1) Fulfill the remainder of 2007 uncommitted needs at Crist and Smith by issuing an RFP for spot coal in the fourth quarter of 2006. This plan would also include testing other coals.

(2) In early 2007, issue a long-term RFP for the period 2008 through 2011 for Crist and Smith. Purchases made from this RFP will conform to Gulf's long-term coal procurement strategy. If pricing is unfavorable, inventories will be enhanced with spot coal purchases. Gulf may then re-issue a long-term RFP when the market softens. This methodology will continue into 2008 with long-term RFP's issued every subsequent year in order to shore up additional tons.

(3) When purchasing coal for Crist and Smith's uncommitted need in the fourth quarter of 2006, the goal is to purchase additional

quantities to supply Scholz for test purposes. If pricing under this RFP is unfavorable, inventories will be stabilized with smaller volumes of spot coal purchases from other coal supply regions. Gulf will then re-issue an RFP at a later date when the market has softened. If import coal is unavailable or uneconomical, the goal is to fulfill all or part of Scholz's uncommitted needs by purchasing Central Appalachian or imported coal to be delivered rail direct.

In support of the scrubber program at Crist, the plan is to initiate a test burn program after the installation of the scrubber in late 2009 to determine the impact that various coals will have on these scrubbed units. These tests may include higher sulfur Illinois Basin coals, Central Appalachian coals, Colorado coals, as well as import coals. Depending on the outcome of the tests and the economics, a procurement strategy will be put into place, utilizing the contracting strategies mentioned above, in order to secure larger volumes of these coals beginning 2010. The procurement group will need to be cognizant of the environmental controls placed on the units and ensure that the coals purchased will meet the environmental requirements.

(4) For 2007, the strategy is to solicit spot coal bids in the fourth quarter of 2006 to secure Daniel's remaining uncommitted need. A long-term solicitation will be issued in the second quarter 2007 for a four year term (2008-2011) in order to achieve the commitment

goals listed above. This RFP will be used to measure the cost impact that is attributable to buying coal for a scrubbed unit. These contracts will be negotiated using the contracting strategies mentioned above.

In support of the scrubber program at Daniel, the plan is to initiate a test burn program after the installation of the scrubber in late 2011 to determine the impact that various coals will have on these scrubbed units. These tests may include higher sulfur Illinois Basin coals, Central Appalachian coals, Colorado coals, as well as import coals. Depending on the outcome of the tests and the economics, a procurement strategy will be put into place, utilizing the contracting strategies mentioned above, in order to secure larger volumes of these coals beginning in 2011 and 2012. The procurement group will need to be cognizant of the environmental controls placed on the units and ensure that the coals purchased will meet the environmental requirements.

(5) If the burn requirements change in 2007, the procurement plan for Plant Scherer will be to procure spot coal to meet burn and inventory requirements. The plan for 2007 will also be to issue a long term RFP to secure tons beginning in 2008. The goal will be to (1) lock up contracts for 5-10 years if possible, (2) purchase PRB coal at a starting price of around $12/ton or less, beginning 2009, (3) purchase up to 70% of the burn requirements in 2010,

and up to 50% of the burn requirements 2011 and 2012. For the remaining burn requirements, the strategy will be to maintain a minimum commitment of 90% for the following year (year 1), 80% for year 2, 70% for year 3, 60% for year 4 and 50% for year 5. If pricing under the long term RFP for coal beginning in 2009 is well above the $12/ton target then purchases may be delayed.

In support of the scrubber program at Scherer, the procurement strategy in the future will need to be cognizant of the environmental controls placed on the units and ensure that the coals purchased will meet the environmental requirements.

1

Coal Procurement
Performance from Prior Year

For coal purchased under long term or spot contracts during the immediately preceding year (2006), Gulf will provide a numerical comparison of the price paid for each subcategory of coal to the best market indicator(s) for that coal at the time the utility entered the contract for the coal. Such market indicator(s) may include market indexes, averages, and/or bid prices. Gulf will describe the methodology behind each comparison. Gulf will explain the reason(s) for any significant difference between the price it paid and the market price for such coal. For year 2006, the comparison is listed below:

The market indicators used in this analysis are either (1) the marginal market pricing for the time period in which these purchases were made or (2) as compared with offers made under bid solicitations. The values below refer to the cost differential, in both $/mmBtu's and $/ton, between what Gulf actually paid for these purchases versus these market indicators.

Purchase Order	$/mmBtu	$/Ton
FP06004	$0.00	$0.00
FP06005	$0.00	$0.00
FP06014	$0.00	$0.00
MP2006-06	$0.00	$0.00
MP2006-10	($0.04)	($0.94)
MP2006-10M	$0.00	$0.00
MP2006-19	$1.12	$25.31
MP2006-20	$0.00	$0.00
MP2006-21	$0.00	$0.00
MP2006-22	$0.00	$0.00

FP06004 – this is a Russian import coal purchased from offers made under a bid solicitation to cover Crist & Smith's 2006 uncommitted coal need and was purchased at market.

FP06005 – this is a Colombian import coal purchased from offers made under a bid solicitation to cover Crist & Smith's 2006 uncommitted coal need and was purchased at market.

FP06014 – this is an Illinois coal purchased from offers made under a bid solicitation to cover a Crist & Smith 2006 spot coal need and was purchased at market.

MP2006-06- this purchase was from offers made under a bid solicitation to cover Daniel's 2006 uncommitted coal need and was purchased at market.

MP2006-10- this Colombian import spot coal was purchased and delivered to the ICRMT in Convent, LA to help cover Plant Daniel's 2006 uncommitted needs. This coal was purchased through ICRMT at a premium in order to diversify Daniel's throughput capacity with the Alabama State Docks.

MP2006-10M- this Colombian import spot coal was purchased in conjunction with MP2006-10 through the Alabama State Docks in order to help cover Plant Daniel 2006 uncommitted needs. This coal was purchased at market.

MP2006-19- was purchase was made to cover 2006 spot coal needs and was issued concurrent with an existing contract purchase order. It was below market.

MP2006-20- this is western bituminous coal purchased from offers made under a bid solicitation to cover 2006 spot coal needs and was purchased at market.

MP2006-21- this is western bituminous coal purchased from offers made under a bid solicitation to cover 2006-2008 coal needs and was purchased at market.

MP2006-22- this is Colombian import coal purchased from offers made under a bid solicitation to cover 2006 spot coal needs and was purchased at market.

GULF POWER COMPANY
TRANSPORTATION STRATEGY

Introduction

Gulf Power Company (Gulf) operates three coal-fueled plants with a combined normal full load gross rating of 1,455 megawatts and with annual coal consumption projected at over 4.4 million tons per year. Gulf utilizes railcars and barges to transport the 4.4 million tons of coal to its plants.

Because coal is such an important factor in Gulf's ability to provide reliable power to its customers, the highest priority for a coal transportation strategy is to maintain a reliable, cost-competitive transportation system. A reliable, cost-competitive transportation system helps assure Gulf's electricity customers that fuel will be available to generate electricity. Increasing competition in the electricity industry, demand/supply imbalance in the coal transportation industry, the changing location of coal supply sources, and the performance capabilities of transportation providers are just a few of the challenges that must be addressed when developing a transportation strategy.

The following is provided in order to develop Gulf's coal transportation strategy: 1) a review of the current coal transportation program including current agreements, available mode of transportation, and budget, 2) a transportation strategy that identifies and addresses specific risks and risk mitigation strategies,

3) a tactical plan detailing specific actions required in order to achieve the strategy, and 4) an overview of the transportation strategy for the movement of limestone and gypsum.

Transportation Program Overview

Plants Crist and Smith

Plants Crist and Smith have the ability to receive both imported and domestic coal by barge. Western coals can be transported by the BNSF or the UP railroads to loadouts on the Mississippi River and then barged to the plant. Illinois or Central Appalachian river loadouts can be used to move coal by barge to these plants as well. Coal can also be moved, via interchange with the Alabama State Docks Railroad, by the CN, CSX and NS Railroads or by ocean vessel to the Port of Mobile for barge movement to the plants. Currently, Plants Crist and Smith use Colombian coal and Illinois Basin coal.

Gulf's transportation system is 95% barge served, currently by a single carrier. Ingram Barge Contract No. GU72001-B 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, 2009. The Agreement is for 100% of Gulf's waterborne coal transportation requirements with a total minimum volume commitment from upper river origins of 2 million tons for the time frame between July 1, 2004 and December 31, 2007. There is not a minimum volume

commitment in years 2008 and 2009. During the life of this contract, 100% of waterborne tonnage moved to Smith and Crist must be offered to Ingram.

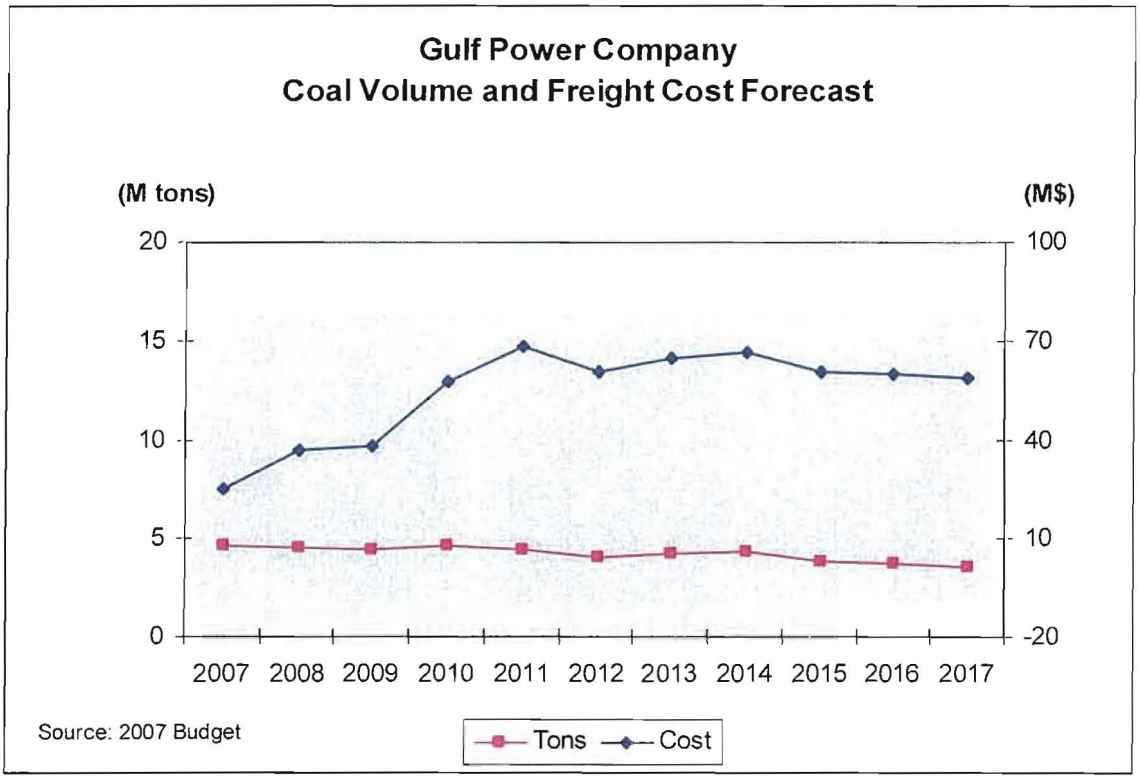
Plant Scholz

Plant Scholz is rail served by the CSX railroad. Plant Scholz has the ability to receive both domestic and import coal. Import coal could be brought into the Alabama State Docks and then transloaded into railcars for movement to the Plant. Currently, Plant Scholz has no coal commitment in place for 2007. There is a plan to test Colombian coal at Plant Scholz in the first quarter of 2007. The results of that test will dictate the source of coal for the remainder of 2007.

Plant Scholz has a rail agreement with the CSX Railroad (CSX-C-64881) which provides for transportation of Central Appalachian coal through December 31, 2006. The Agreement requires Gulf to ship 100% of the plant requirement through CSX rail. The Agreement contains a $1.00/ton rate reduction for actual volumes which exceed 75,000 tons a year. The Agreement contains no minimum volume commitment. A new agreement is currently being negotiated with the CSX railroad with a proposed term of January 1, 2007 through December 31, 2011, which is the expected retirement date of Plant Scholz. The new agreement will state that 95% of all deliveries per year must be moved on the CSX railroad and includes both the movement of Central Appalachia coal and import coal through the Alabama State Docks. In the event that Plant Scholz is retired earlier than expected, there will not be any penalties due to the minimum volume language.

Budget

Over the next ten years, Gulf is budgeted to transport 3.6 to 4.7 million tons of coal per year. The cost to transport Gulf's coal is estimated to increase from $25 to $68 million between 2007 and 2017. This increase in cost is due to the combination of normal escalation and the projected rate increase which will be realized when the existing contract with Ingram expires in 2009. The chart below shows the forecasted coal volume and transportation costs for Gulf's coal-fueled plants.



Coal Transportation Procurement Strategy

As previously stated, the long-term transportation goal for Gulf Power Company will be to provide a reliable, cost-competitive transportation system for the movement of the coal necessary to provide reliable power to Gulf's customers. In meeting this goal, a transportation strategy must address reliability, competitive prices, flexibility in volume commitments, and the ability to adjust coal movements to changing coal sources.

The following will address the risks associated with each of these areas and identify strategies to mitigate them.

RISKS AND RISK MITIGATION STRATEGIES

Reliability Risk and Strategy

Reliable delivery of coal is vital to the success of any coal program. This helps ensure that fuel will be available to generate electricity. Term agreements will be negotiated and signed with the transportation carriers that ensure the barge and rail companies will have available infrastructure in place to service the required coal supply. The terms of the transportation agreements will coincide with the terms of single source coal supply agreements as closely as possible.

The goal will be to avoid disconnects between agreements. When single source origins are specified, it is not desirable to have transportation agreements in

place that extend beyond the coal agreement in most cases. With the competitive electricity markets and changing environmental laws and regulations, such disconnects could expose the operating company to liquidated damages should coal sources change dramatically or plant retirements occur earlier than projected. An exception to this rule occurs if it is projected that significant volumes will be taken from a coal region, and the carrier will quote rates from the entire region versus being specific to only one origin. This enhances reliability and allows longer term rate incentives.

Reliability of service can be greatly enhanced through communication between all parties in the coal supply chain. Communication between Gulf's coal operating personnel and each plant, SCS Fuel Services Department, and the various carriers is vital in maintaining reliable and efficient operations. Effective and timely communication of transportation plans, orders, problems, and maintenance are critical to ensure reliable service.

Pricing Risk and Strategy

The creation of competition is vital to any transportation strategy with the result being to lower Gulf's transportation costs. Competition is created with diversity of coal supply sources and alternative transportation modes at each of the plants. Competition is achieved by periodically bidding transportation alternatives and educating carriers on the effects of marginal dispatch changes on unit load requirements.

The goal will be to create competition as stated above to obtain the most competitive pricing possible when entering the market. In addition, when entering term agreements, the goal will be to seek to limit the escalation of prices to a percentage increase that is below the expected rate of inflation. Other cost optimization practices will be sought, such as mitigation of demurrage charges which occur when there are delays in the loading and/or unloading process, minimizing liquidated damages, and seeking guaranteed cycle time provisions.

Volume Risk and Strategy

The uncertainty in the amount of coal generation and therefore the need for coal transportation that will be needed in the future is still one of the most critical risks that must be addressed in developing a strategy for long-term transportation procurement. However, with the increase in overall system load over the past few years, this risk is being reduced as some intermediate coal units are becoming base loaded generation. The fluctuation of weather, natural gas pricing, and economic growth will continue to impact future coal burn requirements. The addition of gas–fired capacity to the Southern Company system over the past few years will mean that coal burn has the potential to be displaced by the gas-fired generation if natural gas pricing decreases relative to coal pricing.

To mitigate this risk of burn uncertainty, the goal will be to seek to minimize volume commitments as new agreements are put in place. This is counter to the

desire of the rail and barge carriers. In order to ensure that the carriers have the infrastructure in place to move the coal requirements, they need some assurance of volume commitment. The goal will be to seek to minimize volume commitments while ensuring carriers have the needed volume for capital investments necessary to maintain infrastructure. An alternative method to mitigating this risk of volume commitment would be to sign requirement contracts that assure the carrier that they will move all volumes of coal at a particular plant or group of plants. Even in these instances, most carriers will require some minimum amount of volume.

Where it is possible and prudent to negotiate longer term transportation agreements, this shall be the goal. For example, PRB coal sourcing represents a large and stable coal supply with a large reserve base and relatively low cost. It would therefore be prudent to establish long term agreements for transportation from this source if the intended plant projects that that coal will be the future coal of choice. Central Appalachian coal transportation contracts are also logical choices, since the carriers tend to quote rates from regions, rather than particular mines. Where coal sourcing is quoted from a particular source, then the term of the transportation agreement should closely mirror the coal supply agreement.

Supply Risk and Strategy

Diversity of supply coal sources is important to any coal program. This is equally true for the transportation program. It is desirable to have multiple transportation modes and carriers to mitigate the risk of a supply disruption due to a rail and/or

barge accident that might disrupt the supply chain. Diversity of transportation modes and carriers is also vital as the location of historical coal supply sources changes over time.

A successful transportation program must ensure that the infrastructure is in place to handle deliveries of coal from changing coal sources. Historical coal sources are shifting as changes in the environmental laws and regulations evolve and as reserve depletions continue in historical coal regions. It is vital to the success of a coal and transportation program to make sure infrastructure is in place to move the coal from changing locations as this occurs. This may include enhancements to existing facilities or the developrnent of new facilities.

Currently, import coal is an economically desirable fuel source for the Gulf Coast plants in the Southern system. The most economical place to receive this coal has been and continues to be the Alabama State Docks facility in Mobile. The capabilities of this system are close to being maximized. Due to this fact and due to projections which indicate import coal will remain a fuel source of choice in the future, the Alabama State Docks is in the process of expanding to handle additional coal in the coming years. Currently, the Alabama State Docks can import approximately 12 million tons per year. By 2007, they are projected to be able to import approximately 16 million tons per year. This expansion is expected to be completed in the first quarter of 2007.

A study has also commenced to explore alternative import facilities to the Alabama State Docks. The purpose of this study is to evaluate the risk that

exists if the Alabama State Docks were to shut down and no coal could be delivered through this facility. The results of this study will be presented to the Fuels VP in January 2007.

Tactical Plan

Plants Crist and Smith

The coal transportation tactic for Plants Crist and Smith will be to maintain competitive agreements with barge companies to ensure the reliable and competitive delivery of both import and domestic coals. The current contract through Ingram was extended in 2005 through December 31, 2009. Therefore, there is no necessary action for this contract at this time.

As discussed earlier, expansion at the Alabama State Docks is under way which should allow for greater quantities of coal to be imported in the future through this facility. The existing transloading agreement with the Alabama State Docks expires on December 31, 2036

A major concern for Gulf is current throughput congestion at the Alabama State Docks (ASD) which handled a record 11.2 million tons of coal in 2005. Projections indicate that throughput capacity could exceed 13 million tons in 2006. As a result of the throughput congestion concerns at ASD, Gulf has secured additional capacity through the Mobile River Terminal for 2006. The

concern regarding throughput congestion at the ASD should improve with the completion of the expansion project which will increase capacity throughput capabilities to 16-17 million tons.

Plant Scholz

The current CSX Agreement at Scholz is in place through December 31, 2006.

A couple of options are being explored for the renewal of a transportation agreement for Scholz. The first option will be to continue to receive coal via the CSX from CAPP. The second option will be to bring in import coal via a Gulf Coast import facility, for example the Alabama State Docks in Mobile, AL, and then rail the coal via CSX to Plant Scholz.

Regardless of which option is chosen, the strategy will be to make the transportation agreement closely align with the coal contract in terms of both tonnage and term. As previously mentioned, a new agreement is currently being negotiated with the CSX railroad. The term on this contract will be January 1, 2007 – December 31, 2011.

Mineral (Limestone & Gypsum)

Scrubber installations within the system will necessitate procurement of transportation services for the mineral constituents, with limestone used as the reactive agent and also disposal of the gypsum by-product of the reaction. Scrubber installation is staggered within the system, and the construction timetables have been shifted from time to time as to when the scrubber units shall become operational.

As sulfur content in coal varies, so too will the required volume of limestone. Silicon content, and other mineral content, will impact gypsum salability, which dictates that transportation services for each plant be flexible, and cannot be pursued until firm decisions on construction timetable, limestone volume, and gypsum delivery/disposal are made.

The long-term transportation goal will be to provide a reliable, cost-competitive transportation system for the movement of the minerals, with the flexibility necessary to satisfy power plant constraints. In meeting this goal, a transportation strategy must address reliability, competitive prices, flexibility in volume commitments, and the ability to adjust rnineral movements to changing coal sources.

The spectrum of risk mitigation techniques embodied in the coal transportation strategies in the preceding pages with regard to reliability, pricing, volume, and supply are also appropriate for mineral transportation. Application of these

strategies shall be tempered by other's decisions as to: timing of mineral purchases; sourcing of limestone; sales or otherwise disposal of gypsum; and applicable transportation mode(s).

Preliminary estimates of transportation modes and costs for various scenarios are provided upon request to combustion by-products specialists. This information is provided as early as 5 years before actual commencement of scrubber operations, for planning and design purposes. Procurement of transportation does not occur prior to procurement of minerals contract, since sourcing and mode are required for bidding. The term of the transportation agreement shall be no longer than the term of the minerals contract.

The limestone procurement strategy at this time is focused on Plant Crist. Plant Crist's limestone will come from the regions of Alabama, Tennessee, Kentucky or offshore regions such as Mexico or the Bahamas. Barge delivery will be the preferred method for Plant Crist.

Currently, three markets are being assessed and developed for Gulf's future gypsum production. As sales of gypsum production occur, transportation contracts will be negotiated accordingly.

Gulf Power's Natural Gas Procurement Strategy

Gas Program Overview

Natural Gas is used 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 became 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.

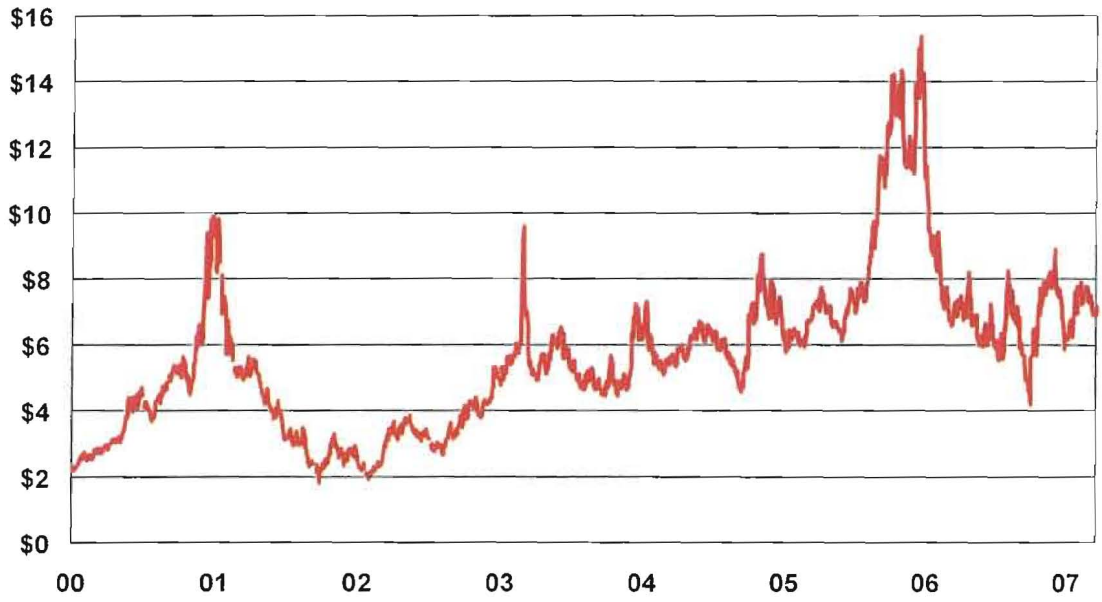
Procurement Strategy

Gulf's strategy for gas procurement is to purchase the commodity at market prices. Fuel purchased at-market over a long period is a low cost option for customers. 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-rnarket 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, at the direction of the Florida PSC, will attempt to protect its customers against short-term price fluctuations by utilizing hedging tools. It is understood that the cost of hedging will sometimes lead to fuel costs that are higher than market prices.

Historical Natural Gas Prices - NYMEX

NYMEX Daily Settlement, $/MMBtu



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

financially hedge gas prices for some portion of Gulf Power's budgeted annual gas burn 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. 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 scheme to dictate when it takes financial positions. Instead, the hedging strategy will evolve over time.

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. Gulf Power will limit 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 for up to 42 months into the future.

Gulf Power's Oil Procurement Strategy

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.

Risk Management Plan for Gas & Oil Procurement
Performance from Prior Year

OBJECTIVE: Provide a numerical comparison of the price paid for each fuel type (natural gas and oil) in 2006 as reflected in the December 2006, Schedule A-3 to the market price for natural gas during this period.

As described in Gulf's Risk Management Plan for Fuel Procurement filed in Docket No. 060001–EI on April 3, 2006, SCS Fuel Services as agent for Gulf will purchase natural gas and oil at prices that are indexed to the published market price for each commodity at the time of shipment. In 2006 firm quantities of natural gas were purchased either on long term or spot gas supply contracts or on the daily spot market as needed to meet burn requirements. Oil is purchased under spot contracts for each generating plant that are full quantity requirement agreements.

In 2006, SCS purchased 14.8 million MMBtu of natural gas that was delivered directly to Plants Smith and Crist.[1] The weighted average price of these purchases was $6.95/MMBtu. The Gas Daily Florida Gas Zone 3 Midpoint market price index, weighted by the same daily purchase volumes, was $6.93/MMBtu. The slight difference between actual costs and the market index is likely due to the premium required to secure gas supplies under long term contracts, which is not reflected in the Gas Daily index.

[1] This quantity includes gas retained by pipelines as fuel reimbursement, and excludes storage injections and withdrawals.

In 2006 SCS purchased 717,465 gallons of distillate oil for Gulf's account, including volumes allocated to Gulf's joint ownership interest in Plants Scherer and Daniel. The weighted average price of these purchases was $1.97/gallon. The Platt's Oilgram No. 2 Gulf Coast Pipeline market price index for 2006 averaged $1.81/gallon, within a range of $1.55/gallon to $2.12/gallon. The published market price does not include transportation to the plant, supplier mark-up, or for deliveries to Plants Smith, Scholz and Crist, a Florida pollution tax of $0.0207/gallon. Additionally, since oil purchases are not made continuously but only as needed, the average actual cost could be higher or lower than the average published cost due to the variability of daily prices.

Gulf Power Company

Comparison of 2006 Actual Gas Purchases to Market Cost

(Volumes in MMBtu)

	Purchases - Smith [1]	Purchases - Crist [1]	Total Purchases	Purchase Amt- Smith	Pu
a Jan-06	543,852	1,500	545,352	$ 4,862,426.92	
b Feb-06	837,493	4,922	842,415	$ 6,591,383.86	
c Mar-06	760,036	8,000	768,036	$ 5,383,527.00	
d Apr-06	931,191	5,000	936,191	$ 6,836,282.47	
e May-06	1,248,996	31,000	1,279,996	$ 8,010,188.36	
f Jun-06	1,330,077	1,000	1,331,077	$ 9,055,274.87	
g Jul-06	1,569,479	5,000	1,574,479	$ 10,474,771.88	
h Aug-06	2,021,675	6,000	2,027,675	$ 16,621,099.22	
i Sep-06	1,550,085	11,000	1,561,085	$ 8,010,527.21	
j Oct-06	1,580,803	5,000	1,585,803	$ 8,916,624.63	
K Nov-06	1,201,661	12,000	1,213,661	$ 8,970,580.61	
L Dec-06	1,074,374	19,000	1,093,374	$ 8,171,499.81	
M Total	14,649,722	109,422	14,759,144	$101,904,186.84	
Market [2]			14,759,144		

[1] Quantities represent volumes purchased and delivered to Plant Smith or Plant Crist, including gas to be retained by pipelines as fuel

[2] Market cost assumes the same daily purchases had been priced at the Gas Daily FGT Zone 3 Midpoint index price.

Gulf Power Company

Comparison of 2006 Actual Fuel Oil Purchases to Market Cost

(Volumes in Gallons)

		Gallons Purchased	Total Cost	Cost per Gallon[1]	Platt's Oilgram US Gulf Coast Pipeline No. 2 Fuel Oil ($/gal) Low	High	Average
a	Jan-06	33,116	$57,445	$1.73	$1.64	$1.82	$1.74
b	Feb-06	63,725	$115,903	$1.82	$1.55	$1.76	$1.65
c	Mar-06	76,048	$137,209	$1.80	$1.67	$1.87	$1.77
d	Apr-06	74,545	$151,643	$2.03	$1.84	$2.07	$1.97
e	May-06	60,120	$129,560	$2.16	$1.89	$2.10	$1.97
f	Jun-06	79,897	$172,093	$2.15	$1.82	$1.99	$1.92
g	Jul-06	118,250	$244,215	$2.07	$1.88	$2.02	$1.95
h	Aug-06	54,236	$113,610	$2.09	$1.94	$2.12	$2.01
i	Sep-06	34,859	$69,126	$1.98	$1.60	$1.92	$1.73
j	Oct-06	46,005	$83,748	$1.82	$1.59	$1.72	$1.65
k	Nov-06	48,756	$86,842	$1.78	$1.57	$1.78	$1.64
l	Dec-06	27,908	$53,554	$1.92	$1.58	$1.89	$1.67
m	Total	717,465	$1,414,948	$1.97	$1.55	$2.12	$1.81

[1]For comparison to market price, oil was assumed to have been delivered in the month that the invoice was paid.

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 and purchased energy, 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 serve as the Company's ROC for this program.

Gulf Power Company Risk Management Policy

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

The Southern Company Generation Risk Management Policy (SCGen RMP), attached in Section 6 of this document, will be the governing policy in the administration of the Company's fuel procurement program. The SCGen RMP provides all criteria specified in the above extract from the Southern Company Derivatives Policy.

Gulf Power Company Risk Management 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, forward 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 officers executing the same shall approve, the execution thereof to constitute conclusive evidence of such approval."

Gulf Power Company Risk Management Policy

IV. Process

Certain officers of the Company were given authority to enter into hedging transactions that they consider necessary in order to reduce risk associated with procuring fuel and energy. The authorized officers are 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 Company Generation Risk Management Policy.

It is the responsibility of SCGen Risk Control (the mid-office) to inform the Fuel Manager for Gulf Power Company or the Regulatory Accounting Manager 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 Chief Financial Officer and Comptroller.

Southern Company Generation (SCGen)

Risk Management Policy

CONFIDENTIAL
FOR COMPANY USE ONLY

Approved February 1, 2005

I. Introduction

In August 1997 the Southern Company Risk Oversight Committee (subsequently replaced by the Energy Risk Management Board ("ERMB")) approved a set of risk management guidelines. Also, at various times during 2000 through 2002, the boards of directors for Southern Company, the Operating Companies, Southern Power Company and Southern Company Gas adopted the Southern Company Policy on the Use of Derivatives ("Derivatives Policy"). These guidelines outline the Southern Company philosophy toward risk and the responsibilities of the ERMB and business units that engage in risk management activities.

The risk management guidelines and Derivatives Policy 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 Risk Management Policy ("RMP") applies to the shorter-term power and gas trading activities performed on the Fleet Operations and Trading Floor of SCGen ("Trading Floor") 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 theCompany to transactions covered by this RMP;
- Establish sound guidelines to follow in managing and controlling risks; and

- Define the responsibilities for managing and monitoring risks.

III. Business Objectives

The Approved Business Objectives for the trading activities performed on the Trading Floor of SCGEM 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, Trading Floor personnel have the responsibility to evaluate the opportunities available and to ensure that the returns achieved are commensurate with the risks undertaken. Taking risks unrelated to the business objectives is inappropriate and should not be undertaken.

Various contract types or financial instruments will be used to achieve the Approved Business Objectives. The Approved Risk Management Instruments are listed 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.

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. Entering transactions into applicable deal capture system.
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.
5. Developing and implementing risk management strategies.
6. Ensuring that the portfolio complies with limits of risk exposure.

Structuring: The function of structuring is responsible for the following:

1. Assisting the front office in developing risk management strategies and identifying strategies to optimize the portfolio.
2. Working with the middle office to ensure applicable risks are identified and valued appropriately.

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

1. Confirming transactions with counterparties.
2. Monitoring and determining that transactions are in compliance with established procedures and limits, with approved counterparties, and within counterparty credit limits.
3. Reporting unauthorized transactions.
4. Reporting over-limit occurrences.
5. Valuing portfolio.

6. Calculating value-at-risk and/or other appropriate risk metrics.
7. Generating daily credit reports and notifying front office of credit concerns.
8. Resolving credit issues with counterparties.
9. Calculating collateral requirements and management of posted collateral.
10. Maintaining guarantees, letters of credit, and other security provided by counterparties.
11. Notifying SCS Treasury of margin requirements related to exchange-traded transactions.

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 counterparty invoices with Southern Company invoices.
5. Recording transactions with counterparties in the receivable/payable subledgers.

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.

Accounting: SCS Accounting is responsible for posting transactions to the general ledger and reconciling the subledgers 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. Transaction details and valuations will be maintained for individual deals such that positions can be aggregated by commodity, delivery point, counterparty and/or period.

2. Mark-to-market for the portfolio will be calculated daily, and will be subject to daily income notification levels as set forth in appendix G.

3. Value at risk will be calculated daily utilizing the methodologies contained in Appendix F.

4. 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.
Daily Income Notifications	Certain notifications to Management for changes in mark-to-market for secondary activities are required as defined 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 middle office to individuals identified in appendix G.

X. Credit Risk

SCS Treasury evaluates and monitors the creditworthiness of trading counterparties and customers, assigns ratings and establishes maximum credit limits in accordance with the SCGen 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 the Credit Policy. The middle office may establish credit limits below maximum limits as set forth in the Credit Policy.

XI. New Products

Structured transactions and new products 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 and new product include the following:

- Origination is responsible for developing a business case for structured transaction or new product.
- Structuring 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 ensuring all risks have been identified and valued for reporting purposes.
- Settlement is responsible for ensuring the infrastructure support for the structured transaction is in place.
- Origination is responsible for executing the structured transaction.

XII. Funding Liquidity

The Company 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) transactions, and the timing of realized losses versus realized gains. The Trading Floor will provide funding and liquidity updates as needed to 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, VAR reports, position reports, credit reports, and management reports as described in this RMP, will be maintained by the middle office or other groups as appropriate.

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

Contract Administration. The middle office 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 the approval of the confirmation. Settlement 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

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 Trading Floor risk management activities.

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 confirmation format. Legal counsel also reviews contracts and nonstandard confirmation

documents.

XVI. Monitoring and Reporting

Middle Office personnel will calculate and report the following items on a daily basis:

- Counterparty credit exposures and limits
- Value-at-risk
- Portfolio mark-to-market

The Portfolio Management group will prepare daily position reports. The IIC and Pool Transactions group will report preliminary P&L on a daily basis.

XVII. Personnel Trading

All Business Development employees, all Fuel Services employees and any employee physically located on the Trading Floor are prohibited from trading any approved commodity for their own account or for the benefit of any party except as specifically authorized as part of the individual's duties with SCGen.

XVIII. Business Recovery

The business recovery plan that will allow Trading Floor activities to continue with minimal disruption are contained in a separate document.

XIX. Compliance

Each Business Development employee, Fuel Services employee, and any employee physically located on the Trading 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 (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 Manager, Risk Control, immediately upon learning of any apparent RMP violations or other risks not captured or adequately reflected by RMP methodologies and systems.

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 Asset Optimization 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 management .

XXI. Policy Amendments

Amendments to this RMP will be required from time to time. The Southern Company Risk Management Board must approve all proposed amendments to the body of this RMP, to Appendix B – Approved Commodities, and Appendix G – Daily Income Notification Levels, and Appendix H – Market Risk Limits. 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.

XXII. Terminology

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

APPENDIX A

APPROVED BUSINESS OBJECTIVES

ENERGY MARKETING

Fleet Operations and Trading

The primary objectives of Fleet Operations and Trading are to:

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

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 locational spreads;
- Take advantage of cross-commodity spreads;
- Take advantage of market positions; and
- Provide risk management services.

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 wholesale activities of SCGen.
3. Optimize natural gas assets associated with gas supply, gas transportation, and storage.
4. Support Fleet Operations and Trading cross-commodity spreads.
5. Deliver risk-optimized gas supply and provide risk management services to Southern Company Gas

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

- Take advantage of arbitrage opportunities.
- Take advantage of time and locational spreads.
- Take advantage of cross-commodity spreads.
- Provide risk management services.

Emission Allowance Management Function

The primary objective of the Emissions Allowance Management Function are to:

1. Manage the system's holding of emission allowances to insure compliance with all applicable environmental regulations.
2. Manage the system's holdings of emissions allowances to insure maximum value to the system and least-cost compliance.
3. Optimize the long-term value of the these assets.
4. Provide regulatory support and assurance regarding the effective management of these assets.

To perform these objectives the secondary activities and opportunities of the Emissions Allowance Management Function are to:

- Take advantage of arbitrage opportunities.
- Take advantage of cross-commodity spreads.
- Take advantage of market positions.
- Provide risk management services associated with these commodities.

Coal Fulfillment Function

The primary function of the Coal Fulfillment Function are to:

1. Deliver risk-optimized coal supply to generation resources for the territorial customer.
2. Deliver risk-optimized coal supply to support sales of SCGen.
3. Optimize coal assets associated with coal supply, coal transportation, and storage.
4. Support Fleet Operations and Trading cross-commodity spreads.

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

- Take advantage of arbitrage opportunities.
- Take advantage of time and locational spreads.
- Take advantage of cross-commodity spreads.
- Provide risk management services.

APPENDIX B

APPROVED COMMODITIES

The approved commodities for this RMP are:

- Electric power
- Natural gas
- Coal
- Emissions Allowances
- Fuel oil

APPENDIX C

APPROVED INSTRUMENTS

The approved instruments are:

- Futures
- Forwards
- Options
- Swaps

APPENDIX D

AUTHORIZATIONS

Name	Authority
Southern Company Energy Risk Management Board	1) Approve SCGen Risk Management Policy. 2) Approve overall risk limits. 3) Approve commodities.
SCGen Energy Credit Committee (ECC)	1) Approve SCGen Credit Policy 2) Limit activities with counterparties due to credit concerns 3) Approve exceptions to the Credit Policy
Sr. Vice President, Comptroller of SCS	1) Specify the appropriate accounting treatment of Transactions.
Manager, Risk Control	1) Maintain the list of authorized individuals. 2) Resolve credit issues with counterparties. 3) Restrict credit limits in specific situations until reviewed by the ECC.

APPENDIX D

AUTHORIZATIONS (continued)

Energy Marketing

Name	Authority
Sr. Vice President, Operations & General Services, SCGen	1) Approve fleet operations and trading business objectives. 2) Allocate the overall risk limit among the SCGen business objectives. 3) 4) Approve exceptions to transaction limits for which authorizations are not specifically addressed in the RMP or Credit Policy.
SCGen Management Team	1) Approve structured transactions, new products, and unusual transactions.
Vice President, Fleet Operations and Trading	1) Set risk exposure sublimits for SCGen 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. 7) Open broker accounts for exchange-traded commodities.
Manager, Energy Trading	Manage portfolio risk on a daily basis within risk exposure limits.
Term Traders	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	1) Execute transactions for primary business objectives up to a term limit of 1 week. 2) Execute arbitrage transactions under secondary activities and opportunities.
• Transmission Project Coordinators • Energy Schedulers	Procure transmission and ancillary services for transactions executed by the Term Traders and Energy Coordinators

APPENDIX D

AUTHORIZATIONS (continued)

SCS Fuel Services

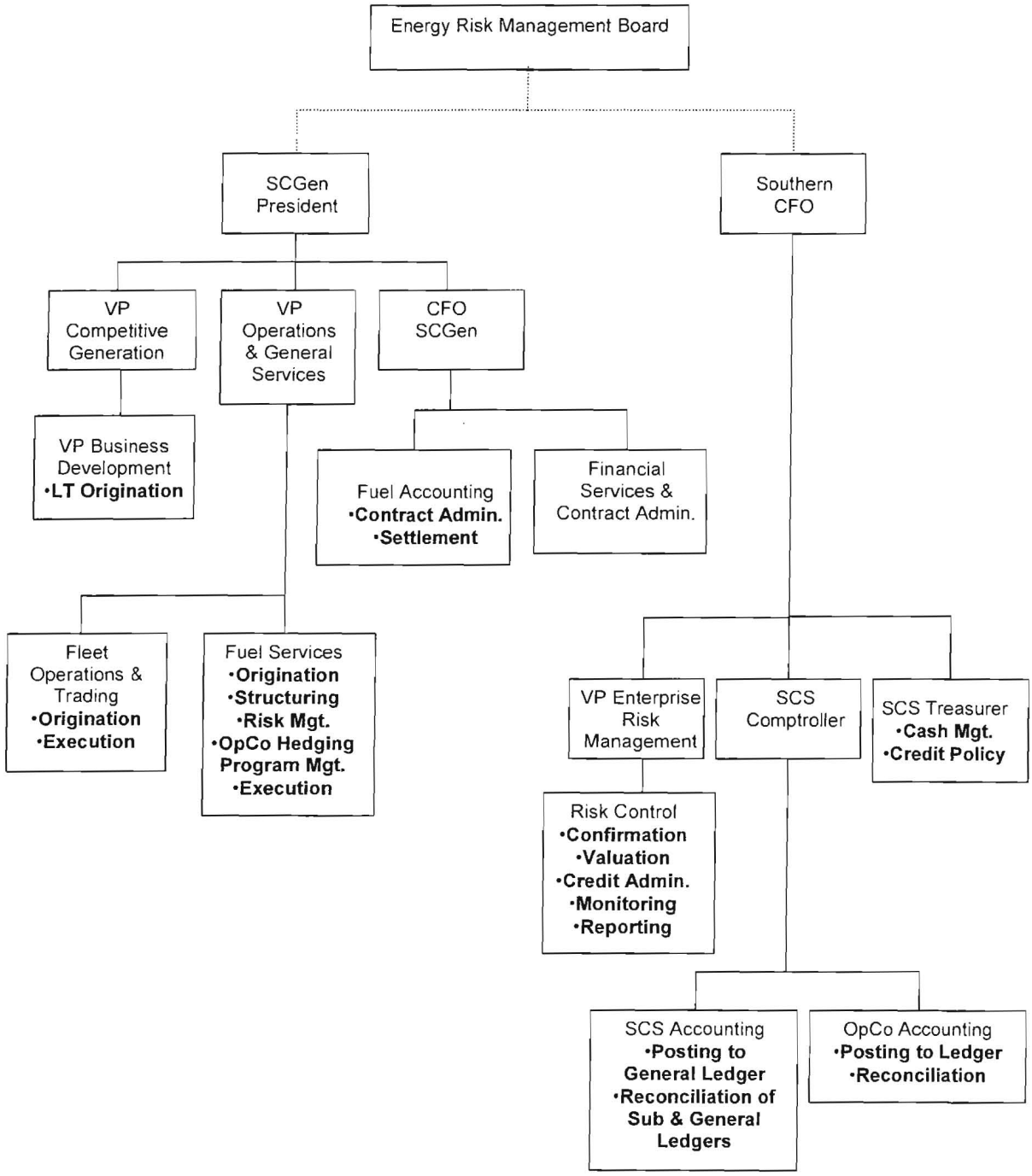
Name	Authority
Vice President, Fuel Services	1) Approve Fuel Services business objectives. 2) Allocate the overall risk limit among the Fuel Services business objectives. 3) Approve instruments for Fuel Services. 4) Approve exceptions to transaction limits for which authorizations are specifically addressed in the RMP or Credit Policy. Establish guidelines for off-premises transactions.
Gas Services Director	1) Set risk exposure sublimits for Fuel Services secondary activities. Identify authorized individuals that can execute financial and physical gas transactions.
Manager, Gas Procurement	1) Manage portfolio risk on a daily basis within risk exposure limits 2) Set individual limits for Fuel Services natural gas personnel. Resolve over-limit conditions.
Team Leader, Gas Procurement	1) Manage portfolio risk on a daily basis within risk exposure limits.

	2) Identify authorized individuals that can create physical gas transactions with terms up to one year.
Natural Gas Buyers	1) Execute transactions for Fuel Services primary business objectives. Execute transactions for Fuel Services secondary activities.
Natural Gas Schedulers	Procure transportation for transactions executed by Natural Gas Buyers.
Natural Gas Project Personnel	Negotiate long-term natural gas contracts associated with natural gas supply, gas transportation, and natural gas storage.

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.


Energy Risk Management Board
SCGen President
Southern CFO
VP Competitive Generation
VP Operations & General Services
CFO SCGen
VP Business Development
•LT Origination
Fuel Accounting
•Contract Admin.
•Settlement
Financial Services & Contract Admin.
Fleet Operations & Trading
•Origination
•Execution
Fuel Services
•Origination
•Structuring
•Risk Mgt.
•OpCo Hedging Program Mgt.
•Execution
VP Enterprise Risk Management
SCS Comptroller
SCS Treasurer
•Cash Mgt.
•Credit Policy
Risk Control
•Confirmation
•Valuation
•Credit Admin.
•Monitoring
•Reporting
SCS Accounting
•Posting to General Ledger
•Reconciliation of Sub & General Ledgers
OpCo Accounting
•Posting to Ledger
•Reconciliation

1

2

APPENDIX F

MARKET RISK MEASUREMENT

Approved Commodities			Value at Risk Method
Electrical Power			Parametric VaR
Natural Gas			Parametric VaR
Coal Emissions Allowances Fuel Oil			To be Determined

Parametric VaR Methodology

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 = 1.65 for 95-% Confidence Interval

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

Equation

Parameters

Commodity	Holding Period (HP)	Multiplier (CI)
Electric Power		
Term <= 1 Year	5 Days	1.65 (95%)
Term > 1 Year	5 Days	1.65 (95%)
Natural Gas		
Term <= 1 Year	5 Days	1.65 (95%)
Term > 1 Year	5 Days	1.65 (95%)

APPENDIX G

DAILY INCOME NOTIFICATION LEVELS

UPDATED EFFECTIVE 10/09/00

Approved Commodities	Daily MTM Change	Notify

Secondary Objectives	Aggregate 2-Day Greater $2,000,000	• SR. Vice President, Operations & General Services • Vice President, Fuel Services • Chairman of ERM Board • Executive VP Competitive Generation • President SCGen • CEO of Southern Company
Secondary Objectives	Rolling 30-Day $7,500,000	• SR. Vice President, Operations & General Services • Vice President, Fuel Services • Chairman of ERM Board • CEO of Southern Company • Executive VP, Competitive Generation • President, SCGen

APPENDIX H

MARKET RISK LIMITS

Overall Risk Limit

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

1

Electricity

Net Open Position Limits

Secondary Activities	Stop Loss Limit	Value –at- Risk Limit
	$15,000,000 (Gross Margin)	$7,500,000 (Gross Margin)
DailyNet Income Report	Monthly Notification Limit (Month – to – Date)	Monthly Stop Loss Limit (Month – to – Date)
	$5,400,000. (Net Income)	$7,500,000. (Net Income)

2

3

APPENDIX I

INCUMBENT LISTING; AUTHORIZED INDIVIDUALS

Incumbent Listing

Name	Title
David Ratcliffe	Chairman, President, and Chief Executive Officer Southern Company
Tom Fanning	Chief Financial Officer, Southern Company Chairman, Energy Risk Management Board
Paul Bowers	President, Southern Company Generation, Energy Risk Management Board
Phil Saunders	Sr. VP, Operations & General Services, SCGen
Ronnie Bates	Executive VP, Competitive Generation, SCGen
Dean Hudson	Senior Vice President, Comptroller, and Chief Financial Officer of SCS, Energy Risk Management Board
Jeffrey Wallace	Vice President, Fuel Services
Charley Long	Vice President, Fleet Operations and Trading
Todd Perkins	Manager, Risk Control
Scott Teel	Manager, Energy Trading
Roy Hiller	Gas Procurement Team Leader

Southern Company Generation

Energy Credit Committee

Name	Title

Earl Long (Chairman)	Assistant Treasurer, SCS
Phil Saunders	Sr. Vice President, Operations & General Services, SCGen
Jeffrey Wallace	Vice President, Fuel Services
Charley Long	Vice President, Fleet Operations & Trading, SCGen
Todd Perkins	Manager, Risk Control

Fleet Operations & Trading

Management Team

Name	Title
Phil Saunders	Sr. VP, Operations & General Services, SCGen
Mike Bush	Director, Portfolio Mgmt.
Greg Darnell	Fleet Operations Manager
Scott Teel	Manager, Energy Trading

SCS Fuel Services

Management Team

Name	Title
Phil Saunders	Sr. VP, Operations & General Services, SCGen
Jeffrey Wallace	Vice President, Fuel Services
Robert Schaffeld	Gas Services Director
Xia, Liu	Fuels Environmental & Compliance Manager

APPENDIX I

INCUMBENT LISTING; AUTHORIZED INDIVIDUALS (continued)

Authorized Individuals

Title	Name	Approved Commodities						
		Electricity		Natural Gas			Coal	Allowances
		Energy	Transmission	Gas	Transport	Storage		
Southern Company Generation								
Energy Trading Manager	Scott Teel	X	X					
Term Trader	David Hansen	X	X					
erm Trader	Steve Lowe	X	X					
Term Trader	Tim Sorrell	X	X					
Term Trader	Scott Morales	X	X					
Core Commercial Operatings Mgr.	Mike Smith	(2)	(2)					
Energy Coordinator	Bill Brown	X	X					
Energy Coordinator	Todd Curl	X	X					
Energy Coordinator	Frank Harris	X	X					
nergy Coordinator	David	X	X					

	Deerman							
Energy Coordinator	John Spratley	X	X					
Energy Coordinator	Jimmy Walker	X	X					
Transmission Project Coordinator	Mike Greene (3)		X					
Transmission Coordinator	Ron Carlson	X	X					
Transmission Coordinator	Martha Russell		X					
,cheduler	Jackie Abercrombie	(1)	X					
Scheduler	Shannon Gunnells	(1)	X					
Scheduler	Kristie Taylor	(1)	X					
Trading Analyst	John Ciza	(2)	(2)					
Trading Analyst	Susan Olive	(2)	(2)					

Title	Name	Approved Commodities						
		Electricity		Natural Gas			Coal	Allowances
		Energy	Transmission	Gas	Transport	Storage		
SCS Fuel Services								
Gas Services, Director	Bob Schaffeld							
NG Team Leader	Roy Hiller			X	X	X		
NG Buyer	Ken Damsgard			X	X	X		
NG Buyer	Vicki Gaston			X	X	X		
‹G Buyer	Debora Honeycutt			X	X	X		
NG Buyer - Financial	Brian George			X				
NG Scheduler	Bryan Mitchell				X	X		
NG Scheduler	Russell Hall				X	X		
NG Scheduler	Tisha Dale				X	X		
NG Scheduler	Tonya Gary				X	X		
NG Project ›nager	Alan Kilpatrick							

Storage	Carol Thomasson				X	X		
Coal & Transport Procure Manager	Debra Rouse						X	
Manager – Emissions	Gary Hart							X

Notes:

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

(2) Authority to make changes to transactions.

(3) Authority to procure Transmission for Business Development Project, not trading

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. For cash flow hedges, 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 Asset Optimization Floor personnel and forwarded to accounting as required.

A database of each hedge transaction, including physical quantities, settlement date, hedge item, fair values, costs, etc., will be 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 ensure that necessary information in the required formats is provided for accounting and tax purposes.

APPENDIX K

EMPLOYEE ACKNOWLEDGMENT

I have been provided a copy of the SCGen 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_

APPENDIX L

DEFINITIONS

Allowances	The emissions of various criteria pollutants such as sulfur dioxide usually traded in the over-the-counter markets via brokers with one allowance being equal to one tone of the pollutant (expressed in US short tons.) For Sulfur Dioxide (SO2) see the 1990 Clean Air Act Amendments, Title IV Section 402(3) "an authorization allocated to an affected unit by the Administator, to emit, during or after a specified calendar year one ton of sulfur dioxide. For NOx, the right to emit one ton of Nitrous Oxide during the 5 months ozone season May through September (beginning May 1st, 2003) as per the Final EPA Regional SIP Call Rules 40 CFR Parts 51, 72, 75 and 96. For trading in Green House Gases (predominately CO2) one ton of carbon dioxide emitted on an annual basis.
Approved Commodity	Those commodities listed in appendix B which have been approved.
Authorities	All applicable limitations imposed on SCGen 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 Asset Optimization 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.
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.
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 require 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.
Market Positions	Positions taken that are readily liquidated at a readily observable and transparent price.
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	SCGen 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.
Swaps	An agreement to exchange net future cash flows.
Structured Transaction	Any negotiated transaction not readily traded in the market and the price of which is not easily validated.
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.)

Risk Management for Fuel and Wholesale Energy