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CONFIDENTIAL

060001-EI

# GULF POWER COMPANY

Risk Management Plan  
For  
Fuel Procurement  
Docket No. 040001-EI

Date of Filing: April 1, 2004



A SOUTHERN COMPANY

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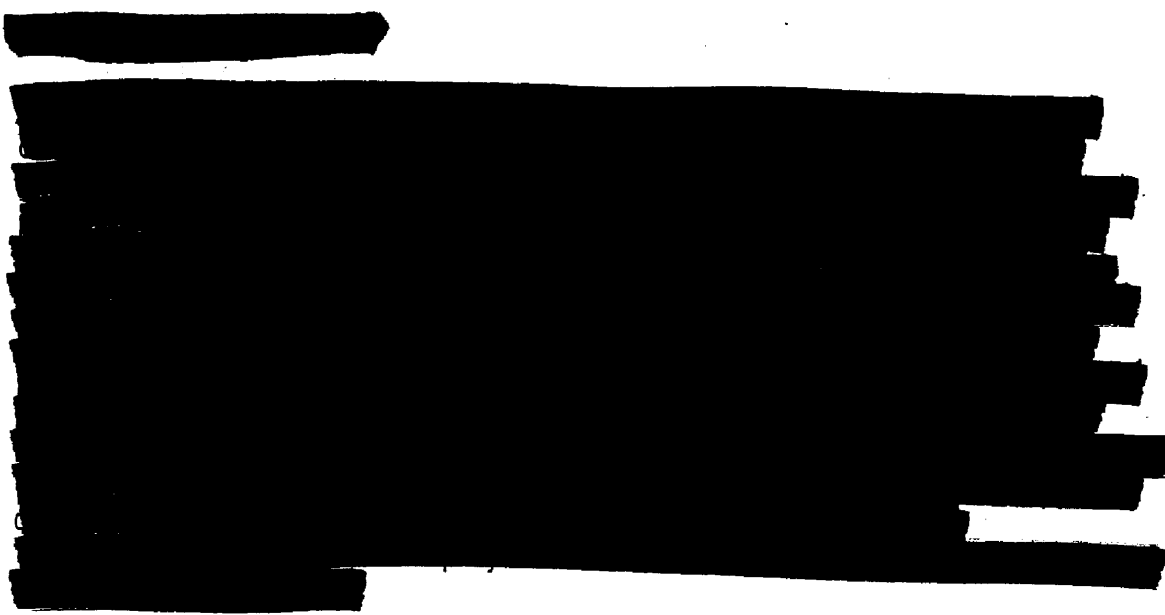
GULF POWER COMPANY  
LONG-TERM COAL PROCUREMENT STRATEGY  
AND TACTICAL PLAN

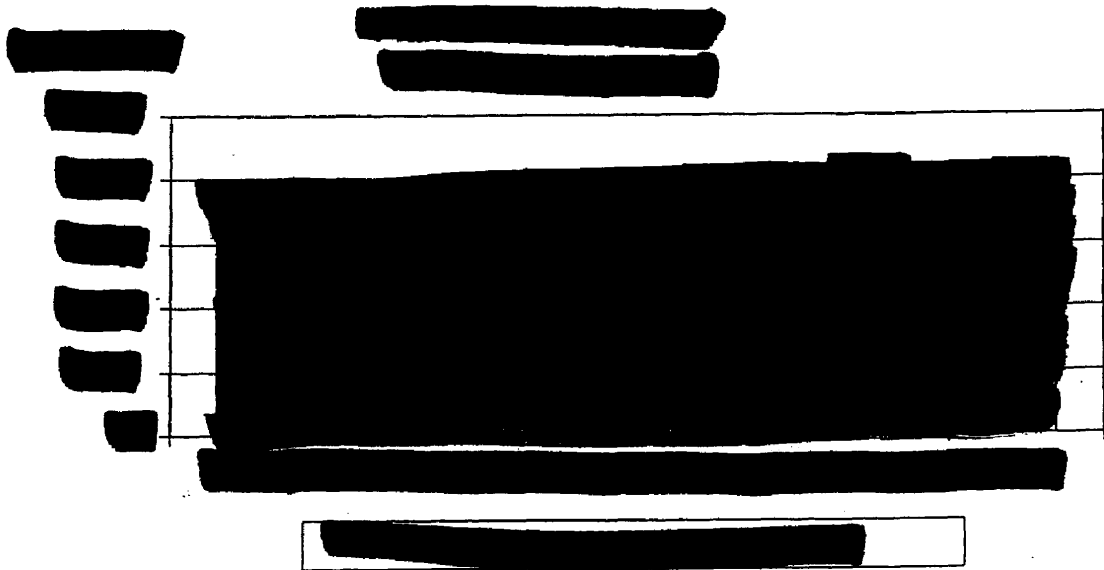
Introduction

Gulf Power Company operates three coal-fired plants with a combined nameplate capacity of 1,355 Mw and with annual coal consumption projected at over 3.8 million tons. Coal represents over 80% of Gulf Power's generation fuel sources. The procurement of this coal is critical to the success of Gulf Power Company.

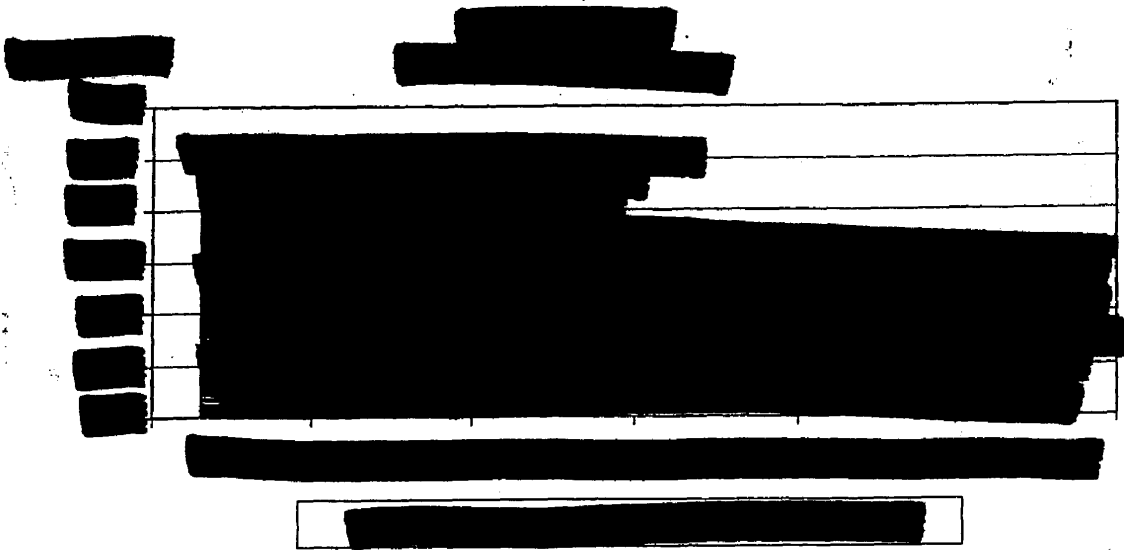
Competition in the electricity industry, consolidation in the coal industry, and environmental laws and regulations are just a few of the challenges facing power generators today. As the electric utility industry evolves, a procurement strategy must address several issues in order to provide a reliable,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

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





[Redacted text block]



Procurement Strategy

As previously stated, the long-term coal procurement goal for Gulf Power Company will be to provide a reliable, cost-competitive, and environmentally acceptable coal supply. The successful coal program must provide flexibility in

volume and pricing, become more diverse by pursuing other supply regions, create competition for supply, focus on reliability of supply, and adhere to changing environmental laws and guidelines.

The following 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.

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GULF POWER COMPANY  
COAL TRANSPORTATION STRATEGY

Introduction

Gulf Power Company (Gulf) operates three coal-fueled plants with a combined nameplate capacity of 1,355 MW and with annual coal consumption projected at over 3.8 million tons per year. Coal represents over 80% of Gulf Power's generation-fuel sources. The reliable transportation of this fuel to its generating plants is critical to the success of Gulf Power Company.

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, consolidation of companies in the coal transportation industry, and the changing location of coal supply sources 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, and 3) a tactical plan detailing specific actions required in order to achieve the strategy.

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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:

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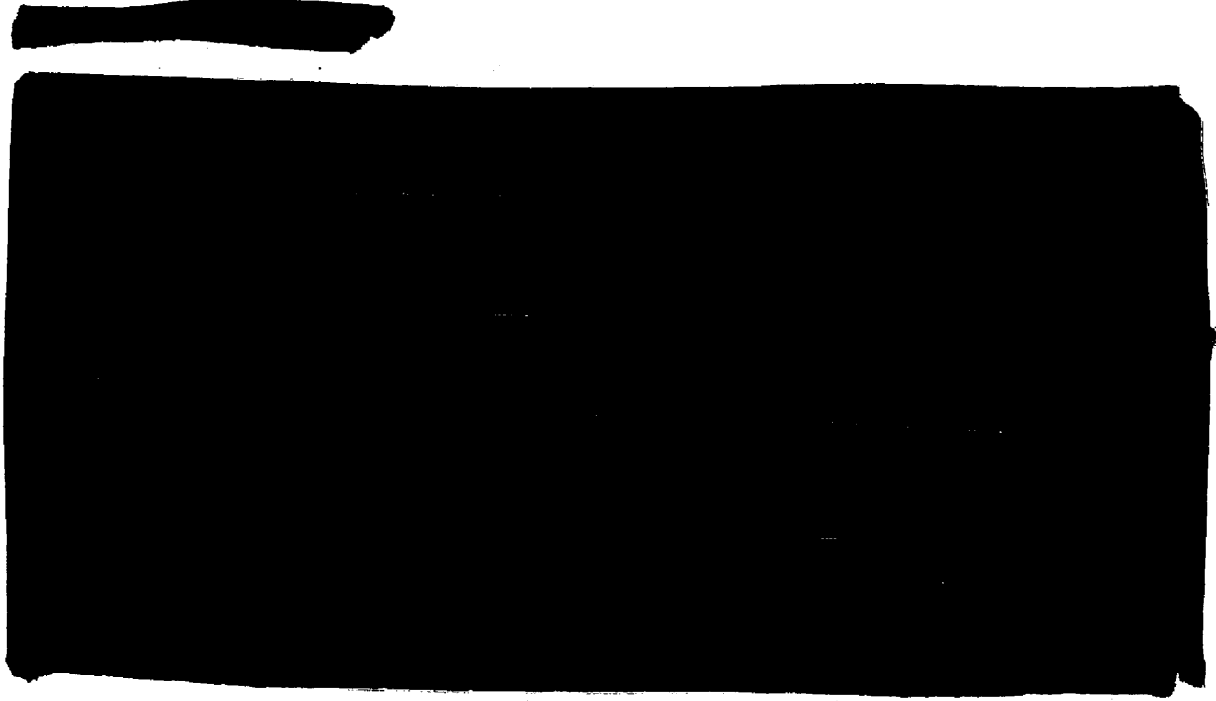
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GULF POWER'S NATURAL GAS PROCUREMENT STRATEGY

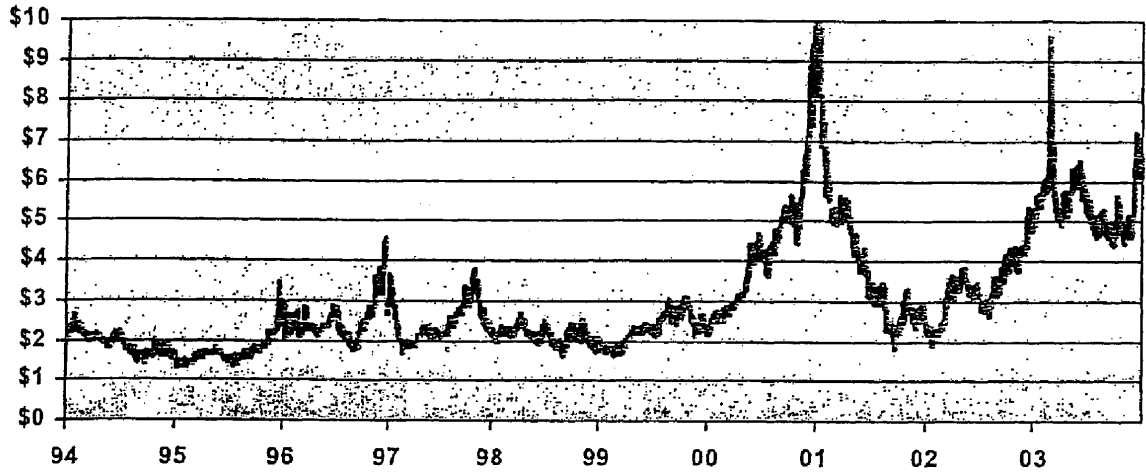
Gas Program Overview

Natural Gas is used as the primary fuel at Crist units 2 & 3, for boiler lighter fuel at Crist units 4-7, and as the primary fuel at the Smith 3 combined-cycle unit. In the past, natural gas represented a relatively small portion of Gulf's overall fuel budget. With the addition of the Smith 3 combined-cycle unit in 2002, natural gas makes up a 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.



Historical Natural Gas Prices - NYMEX



[REDACTED]

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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.

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## 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 hedge 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 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.

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."

## GULF POWER COMPANY RISK MANAGEMENT POLICY

The Southern Generation & Energy Marketing Merchant Floor Risk Management Policy (GEM RMP) attached in Appendix 1A will be the governing policy in the administration of the Company's fuel procurement program. The GEM RMP provides all criteria specified in the above extract from the Southern Company Derivatives Policy:

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

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

**RESOLVED FURTHER**, That the Officers are hereby authorized to effect derivative transactions that comply with the policy, including swaps, caps, collars, floors, swap options, futures, 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."

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

## GULF POWER COMPANY RISK MANAGEMENT POLICY

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 GEM RMP. See Appendix A or IA for the GEM RMP.

It is the responsibility of GEM Risk Control (the mid-office) to inform the Fuel Supervisor 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 Gulf's Chief Financial Officer and Comptroller.

Southern Company Generation  
& Energy Marketing (SCGEM)

Risk Management Policy

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July 24, 2002



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APPENDIX B  
APPROVED COMMODITIES

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APPENDIX C  
APPROVED INSTRUMENTS

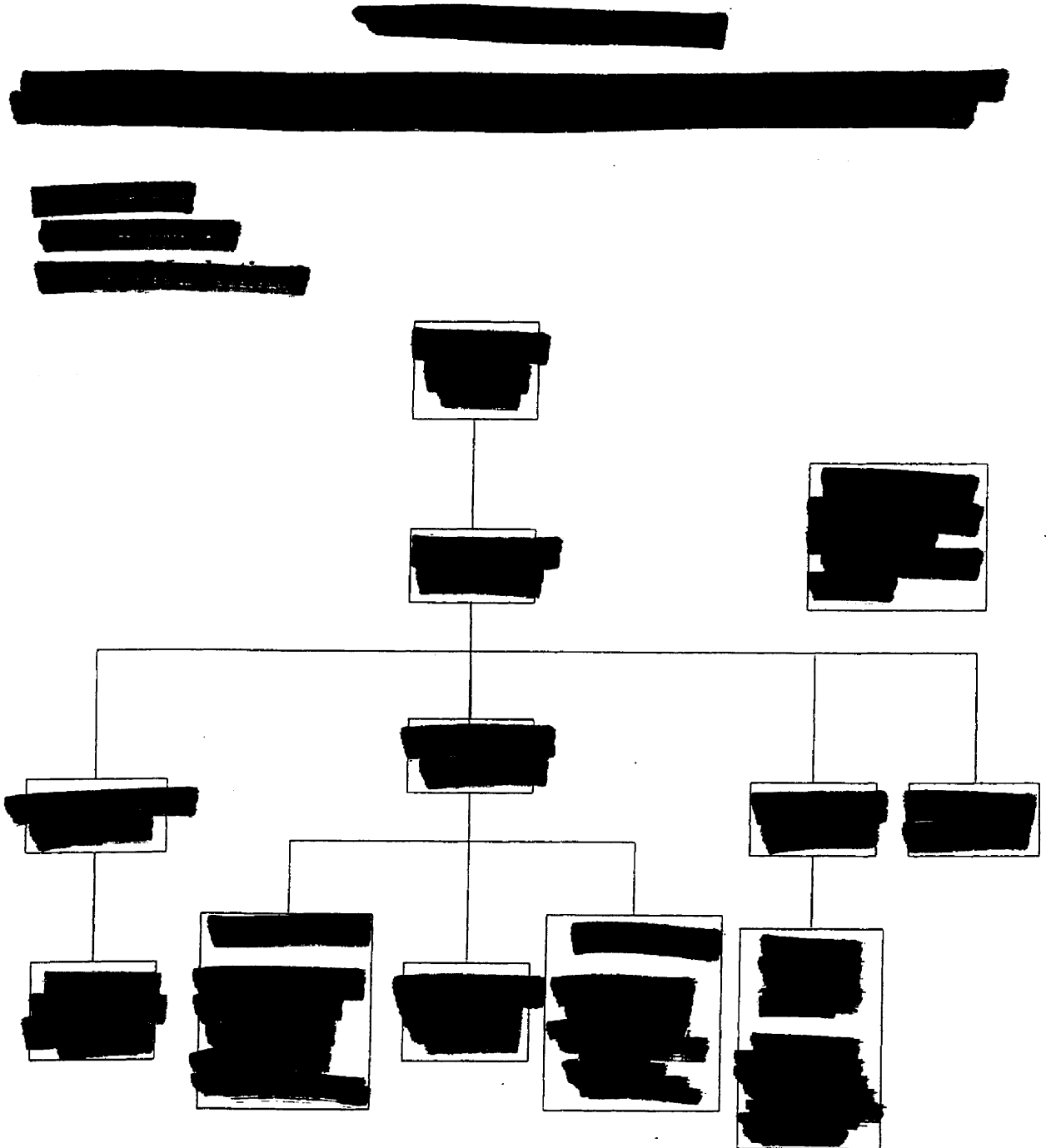
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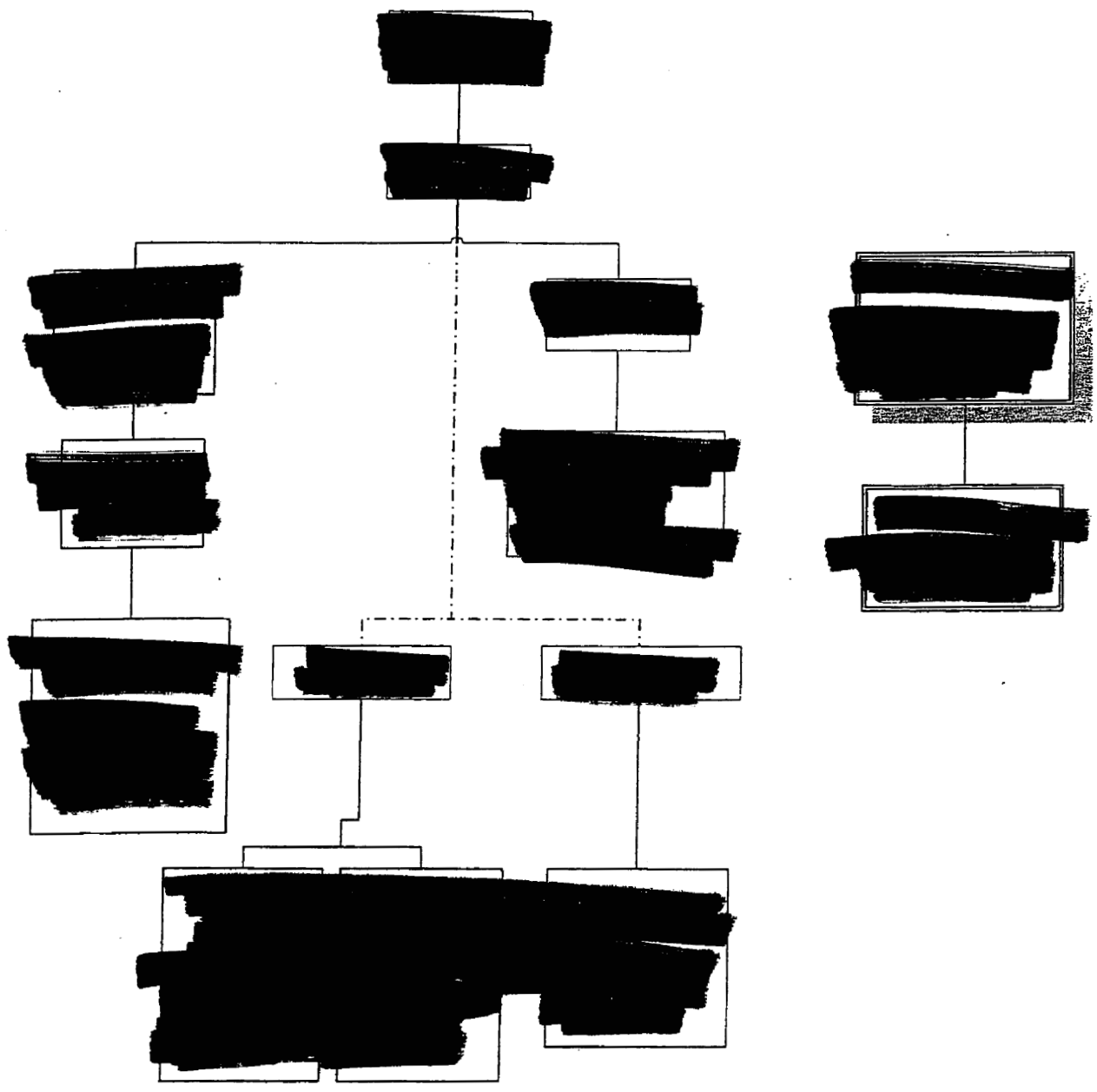
APPENDIX E





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APPENDIX I  
 INCUMBENT LISTING; AUTHORIZED INDIVIDUALS

Incumbent Listing

Name	Title
Allen Franklin	Chairman, President, and Chief Executive Officer Southern Company
Tom Fanning	Chief Financial Officer, Southern Company Chairman, Energy Risk Management Board
Paul Bowers	President, Southern Generation & Energy Marketing, Energy Risk Management Board
Phil Saunders	President & CEO, SOCO Gas, Energy Risk Management Board
Vacancy	Sr. Vice President, Energy Marketing
Dean Hudson	Senior Vice President, Comptroller, and Chief Financial Officer of SCS, Energy Risk Management Board Chairman, Risk Control and Oversight Committee
Earl Parsons	Vice President, Fuel Services
Bill Marshall	Vice President, Fleet Operations and Trading
Wayne Moore	Manager, Risk Control
Scott Teel	Manager, Energy Trading

Southern Company Generation & Energy Marketing  
 Risk Control and Oversight Committee

Name	Title
Dean Hudson (Chairman)	Sr. Vice President, Comptroller, and Chief Financial Officer of SCS
Vacancy	Sr. Vice President, Energy Marketing
Earl Parsons	Vice President, Fuel Services
Kim Greene	Vice President and Treasurer, SCS
Cliff Thrasher	V.P. SCS & CFO Southern Power
Doug Jones	Executive V.P.
Phil Saunders	President & CEO, SOCO Gas, Energy Risk Management Board

Energy Marketing  
 Management Team

Name	Title
Vacancy	Sr. Vice President, Energy Marketing
Norrie McKenzie	Vice President, Business Development
Mike Bush	Director, Portfolio Mgmt.

David Debardelaben	Director, Financial & Controls Svc
Bill Marshall	Vice President, Fleet Operations and Trading

SCS Fuel Services  
Management Team

Name	Title
Earl Parsons	Vice President, Fuel Services
Susan Comensky	Manager, Gas Procurement
Gary Hart	Manager, Emissions Trading & Environmental Issues







[REDACTED]

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APPENDIX K  
EMPLOYEE ACKNOWLEDGMENT

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

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

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

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Signature

Date: \_\_\_\_\_, 200\_\_

APPENDIX L  
DEFINITIONS

Agreed Measurement Units	The commonly accepted measurement units as dictated in recognized product markets for the determination of purchase and sale quantities.
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 (SO <sub>2</sub> ) see the 1990 Clean Air Act Amendments, Title IV Section 402(3) “an authorization allocated to an affected unit by the Administrator, to emit, during or after a specified calendar year one ton of sulfur dioxide. For NO <sub>x</sub> , the right to emit one ton of Nitrous Oxide during the 5 months ozone season May through September (beginning May 1 <sup>st</sup> 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 CO <sub>2</sub> ) one ton of carbon dioxide emitted on an annual basis.
Approved Commodity Authorities	Those commodities listed in appendix B which have been approved. All applicable limitations imposed on SCGEM 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.
Daily Risk Report	See section 16.0 of this RMP for a full definition/meaning of this term.
Delta	The sensitivity on an option’s price to changes in the price of the underlying commodity.
Financial Instruments	Futures, forwards, options, swaps, and other derivative or financial

risk management transactions entered into to hedge price risks.

Forwards	An agreement to buy or sell a quantity of a product, at an agreed price, on a given date, with a specific counterparty. Forwards are typically trading in the over-the-counter (OTC) markets.
FS	SCS Fuel Services
Futures	An agreement to buy or sell a quantity of a product, at an agreed price, on a given date, traded on an exchange, and cleared by a clearinghouse.
Gamma	The sensitivity of an option delta to changes in the price of the underlying commodity.
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	SCGEM 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.

EM	Energy Marketing
Swaps	An agreement to exchange net future cash flows.
Speculative Positions	Transactions entered into with the intent to profit solely from the rise or fall in price where the transaction lacks any element of shifting or managing risk. Transactions entered with the purpose of price discovery or market positions are excluded from this definition.
Stair Step	The approved methodology for measuring risk in the electricity portfolio in which the high and low prices for electricity are fixed.
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.)
Vega	The sensitivity of the option price to changes in the price volatility of the underlying commodity.



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APPENDIX B  
APPROVED COMMODITIES

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APPENDIX C  
APPROVED INSTRUMENTS

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APPENDIX D  
AUTHORIZATIONS

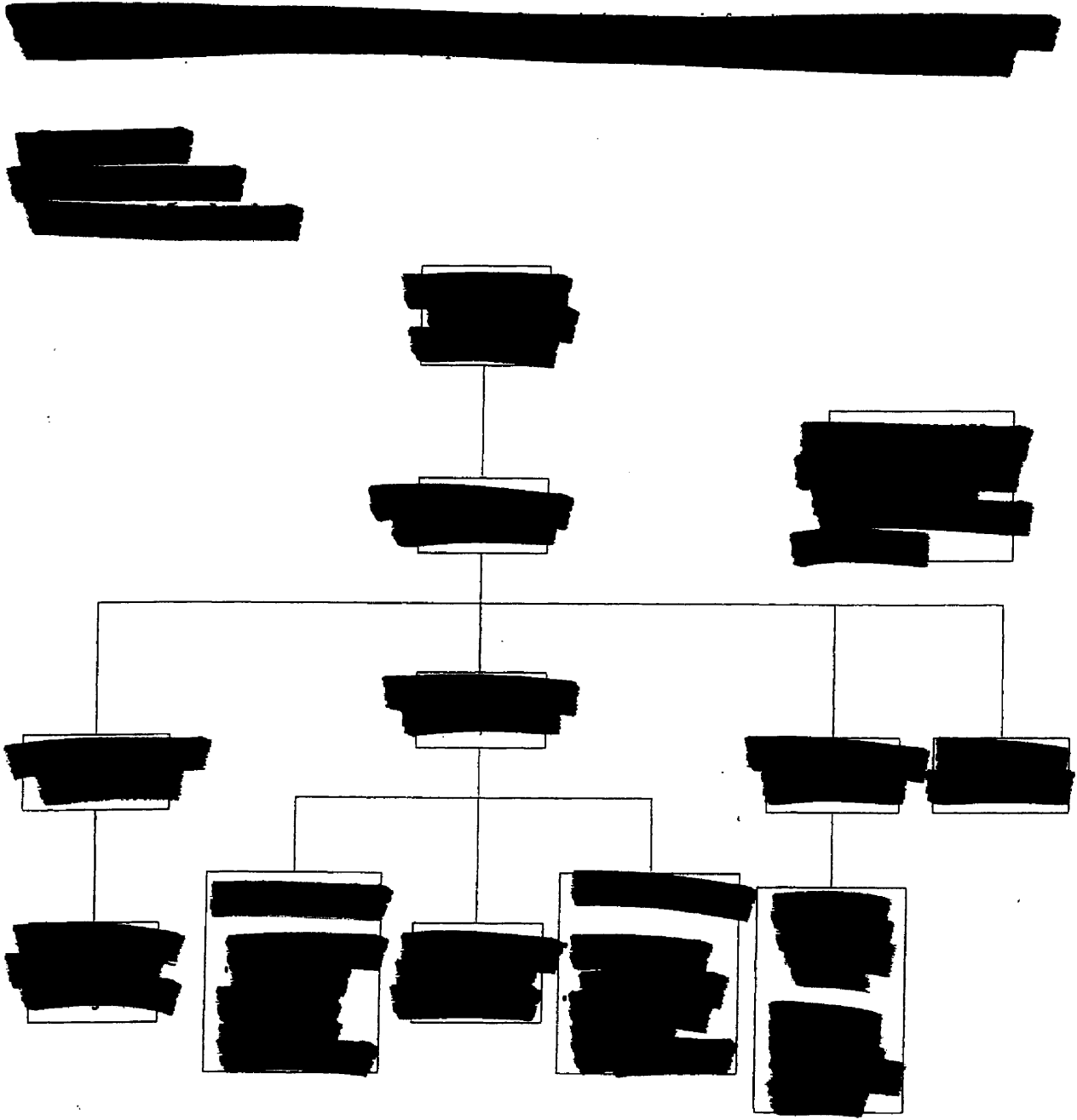
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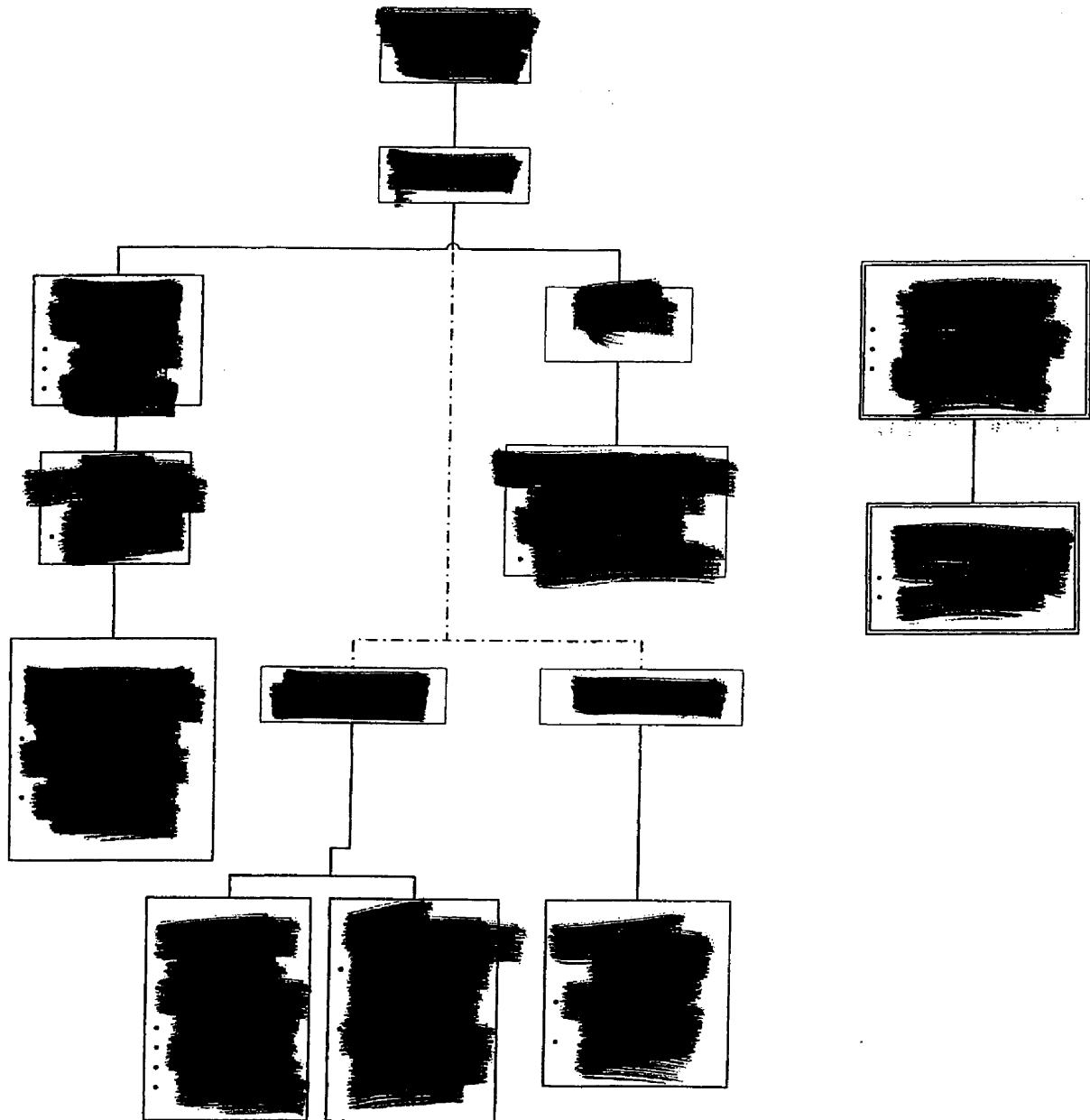


APPENDIX E

SEGREGATION OF DUTIES



APPENDIX E SEGREGATION OF DUTIES (continued)



APPENDIX F  
MARKET RISK MEASUREMENT





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APPENDIX G  
DAILY INCOME NOTIFICATION LEVELS  
UPDATED EFFECTIVE 10/09/00

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APPENDIX H  
MARKET RISK LIMITS

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APPENDIX J  
ACCOUNTING AND TAX

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### Risk Management for Fuel and Wholesale Energy

