BEFORE THE PUBLIC SERVICE COMMISSION

IN RE: Fuel and purchased power cost recovery clause and generating performance incentive factor

Docket No.: 090001-EI
Date filed: August 3, 2009

REQUEST FOR CONFIDENTIAL CLASSIFICATION

GULF POWER COMPANY ["Gulf Power", "Gulf", or the "Company"], by and through its undersigned attorneys and pursuant to Rule 25-22.006, Florida Administrative Code, hereby files its request that the Florida Public Service Commission enter an order protecting from public disclosure certain portions of Gulf Power's Risk Management Plan for Fuel Procurement. As grounds for this request, the Company states:

1. Portions of Gulf Power's Risk Management Plan for Fuel Procurement are entitled to confidential classification pursuant to section 366.093(3)(a), (d) and (e), Florida Statutes, as information, the public disclosure of which could cause irreparable harm to the competitive interests of Gulf Power and the ability of Gulf to enter into contracts on terms favorable to it and its ratepayers. The Risk Management Plan for Fuel Procurement contains, in a single resource, detailed information about Gulf's fuel procurement strategy, including technology selection criteria, for the near term and into the future. Gulf Power and the other market participants for fuel, fuel transportation and fuel storage consider this detailed information to be competitively sensitive. The document discusses how Gulf manages its fuel procurement with specific details regarding Gulf's fuel needs, market position, and trends it sees in those markets in which it addresses its fuel needs. In addition, the fuel procurement strategy utilized by Gulf is discussed in detail. Pricing information is also included in this document. Similar information is not made public by other fuel market participants. Making this

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information public would give these other market participants a competitive advantage over Gulf which would prevent Gulf from procuring its fuel needs in a manner that secures the best price and terms for its customers.

2. The information filed pursuant to this Request is intended to be, and is treated as, confidential by Gulf Power and, to this attorney's knowledge, has not been otherwise publicly disclosed.

3. The Commission granted confidential classification for previous versions of Gulf Power Company's Risk Management Plan for Fuel Procurement in Florida Public Service Commission Order Nos. PSC-03-0032-CFO-EI, PSC-04-1056-CFO-EI, PSC 05-0700-CFO-EI, PSC-06-0636-CFO-EI, and PSC-09-0284-CFO-EI.

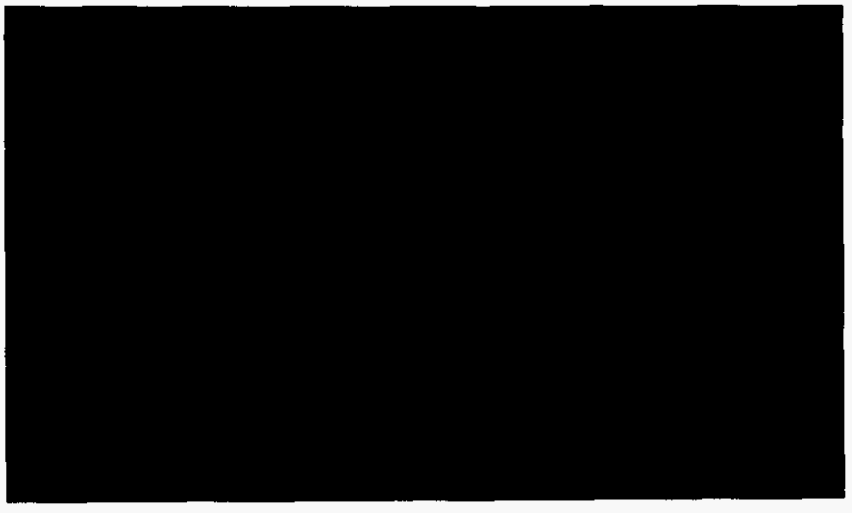
4. Submitted as Exhibit "A" is a highlighted copy of Gulf Power's Risk Management Plan for Fuel Procurement. Exhibit "A" should be treated as confidential pending a ruling on this request. Attached as Exhibit "B" are two (2) edited copies of Gulf Power's Risk Management Plan for Fuel Procurement, which may be made available for public review and inspection. Attached as Exhibit "C" to this request is a line-by-line/field-by-field justification for the request for confidential classification.

WHEREFORE, Gulf Power Company respectfully requests that the Commission enter an order protecting the information highlighted on Exhibit "A" from public disclosure as proprietary confidential business information.

Exhibit "B"

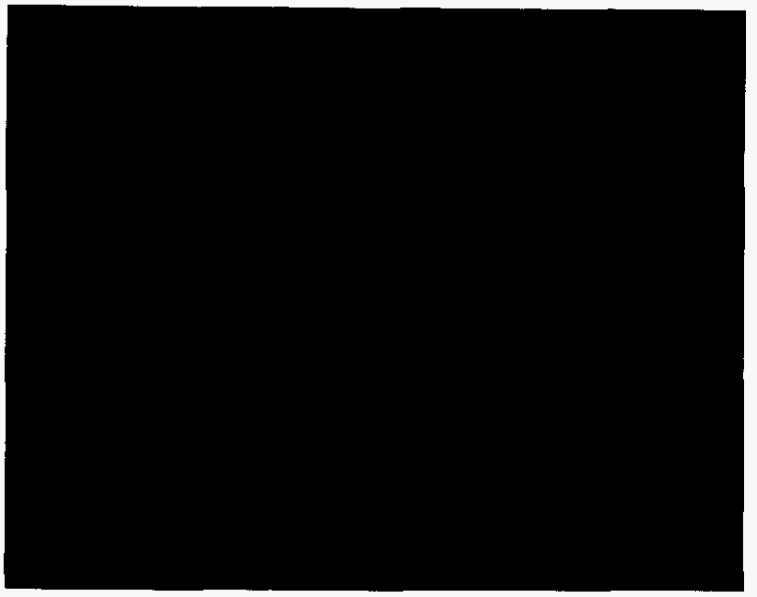
Crist and Smith have no uncommitted need in 2010 and a need of almost 3 million tons in 2011. Because Crist and Smith share a common transportation mode as well as common coal contracts, these plants will be grouped together in formulating a procurement strategy.

In the following charts, the projected requirements for year 2010 through 2015 are from the August Gulf true-up file. The chart below illustrates the projected burn and commitments of coal for Crist and Smith through 2015.



Plant Scholz is scheduled to be retired in December 2011. Scholz is rail served and has no coal commitments in place for 2010 or 2011. Any uncommitted need will be satisfied with existing coal inventory on the ground at the plant.

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



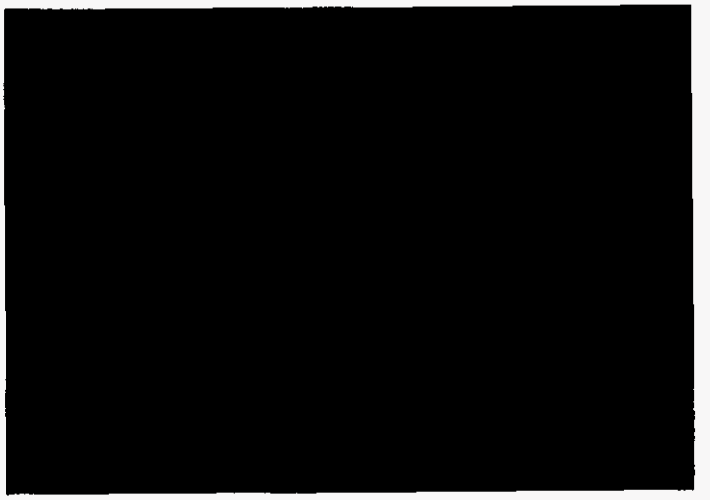
Gulf owns 50 percent of Units 1 and 2 at Daniel which is rail served and will have three long-term coal contracts in place by January 1, 2010. In addition to the three long-term contracts that will supply coal to Daniel only, Daniel will receive a portion of the import tons under another MPC contract with Interocean that expires December 31, 2011. The tonnage that is anticipated to ship to Daniel under this contract is 675,000 tons in 2010 and 375,000 tons in 2011. Daniel is classified as a New Source Performance Standard (NSPS) plant requiring the use of 1.2 lbs SO2/MMBTU or less.

- The first contract is with Peabody's Twenty Mile mine in Colorado for 1 million tons per year for 2010 through 2012. This contract expires on December 31, 2012.

- The second contract is with Oxbow's Elk Creek mine in Colorado. The Oxbow contract is for 550,000 tons in 2011. This contract expires December 31, 2011.
- The third contract is for Powder River Basin (PRB) coal with Rio Tinto's Antelope mine in Wyoming. This contract is for 1 million tons per year in 2010 and 2011. This contract expires December 31, 2011.

Based on current burn projections and projected inventory carryover, Daniel is fully committed for 2010. There are no committed tons at Daniel for 2013 and beyond.

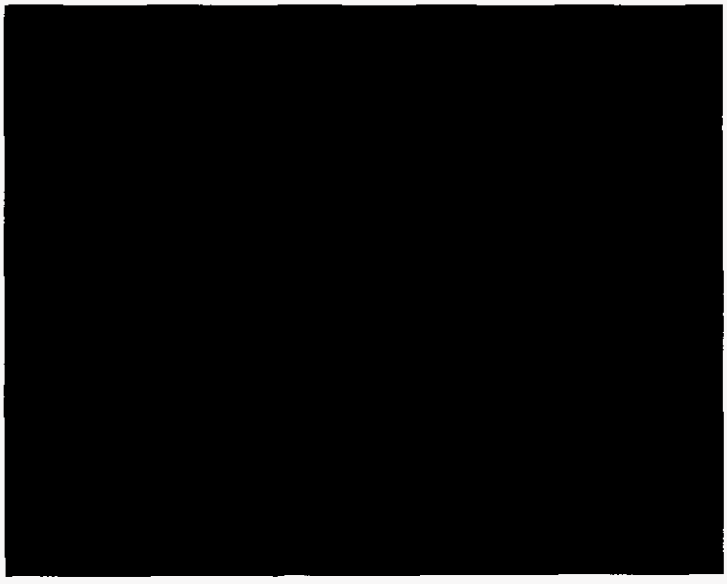
The following chart illustrates Gulf's 50 percent ownership in projected burn and commitments of coal for Daniel through 2015.



Gulf owns 25 percent of Unit 3 at Scherer. Scherer is classified as a New Source Performance Standard (NSPS) plant requiring the use of 1.2 lbs

SO2/MMBTU or less. Scherer is 81 percent committed in 2010, with 10 long-term contracts in place supplying approximately 14.5 million tons for the total plant. Gulf's share of the burn years 2011 through 2013 are committed for 638,000 tons, 375,000 tons and 125,000 tons respectively.

The following chart illustrates Gulf's 25 percent ownership in Scherer Unit 3's projected burn and commitments of coal through 2015.



Procurement Strategy

The long-term coal procurement goal for Gulf is to provide a reliable, cost-competitive, environmentally acceptable coal supply. The successful coal program provides flexibility in volume and pricing, becomes more diverse by pursuing other supply regions, creates competition for supply, focuses

on reliability of supply, and adheres to changing environmental laws and guidelines.

Over the past two years, the coal industry has become more susceptible to the influences of the global commodities market. Given the global market dynamics that occurred during this time frame, the coal market has reacted by becoming more volatile from both a pricing and volume availability standpoint. This has, in turn, impacted the dynamics between natural gas and coal, leading to increased uncertainty in coal burn.

The following section addresses the risks associated with each of these areas and identifies 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 need to be addressed in developing a strategy for long-term coal procurement. [redacted]

[redacted] This increase in natural gas capacity within the Southern Company system in conjunction with the volatility of natural gas pricing will cause the amount of future coal generation to continue to become more uncertain. In addition, weather and economic growth will continue to impact future coal burn requirements.

[redacted]

[redacted]

[redacted]

[redacted]

Pricing Risk and Strategy

Competing for energy market share with other utilities and power marketers requires competitive energy pricing. Because more than 50 percent of the cost for coal-fired generation is fuel, competitively priced coal supplies should 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. Where negotiations allow, mechanisms to achieve this objective include:

[redacted]

Due to the size of our system, the volume of purchases made at a particular time can impact the market. Ranking bid proposals in order of

least cost and cumulative volume produces a price curve similar to the following:

Diversity of Supply Risk and Strategy

There is a risk in relying on one or two large producers from a single region to meet supply needs. Also, having the ability to burn coal from various regions will decrease the availability risk associated with lack of supply in a particular region. Diversifying will also keep the competition strong among the suppliers.

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

Reliability Risk and Strategy

When a supply and demand imbalance occurs in the coal industry, reliability of supply poses a risk. Securing business with producers that have performed well during times of unreliable supply can mitigate that risk. Also, in addition to an economic evaluation, technical and financial evaluations of suppliers are now a required part of the coal procurement process.

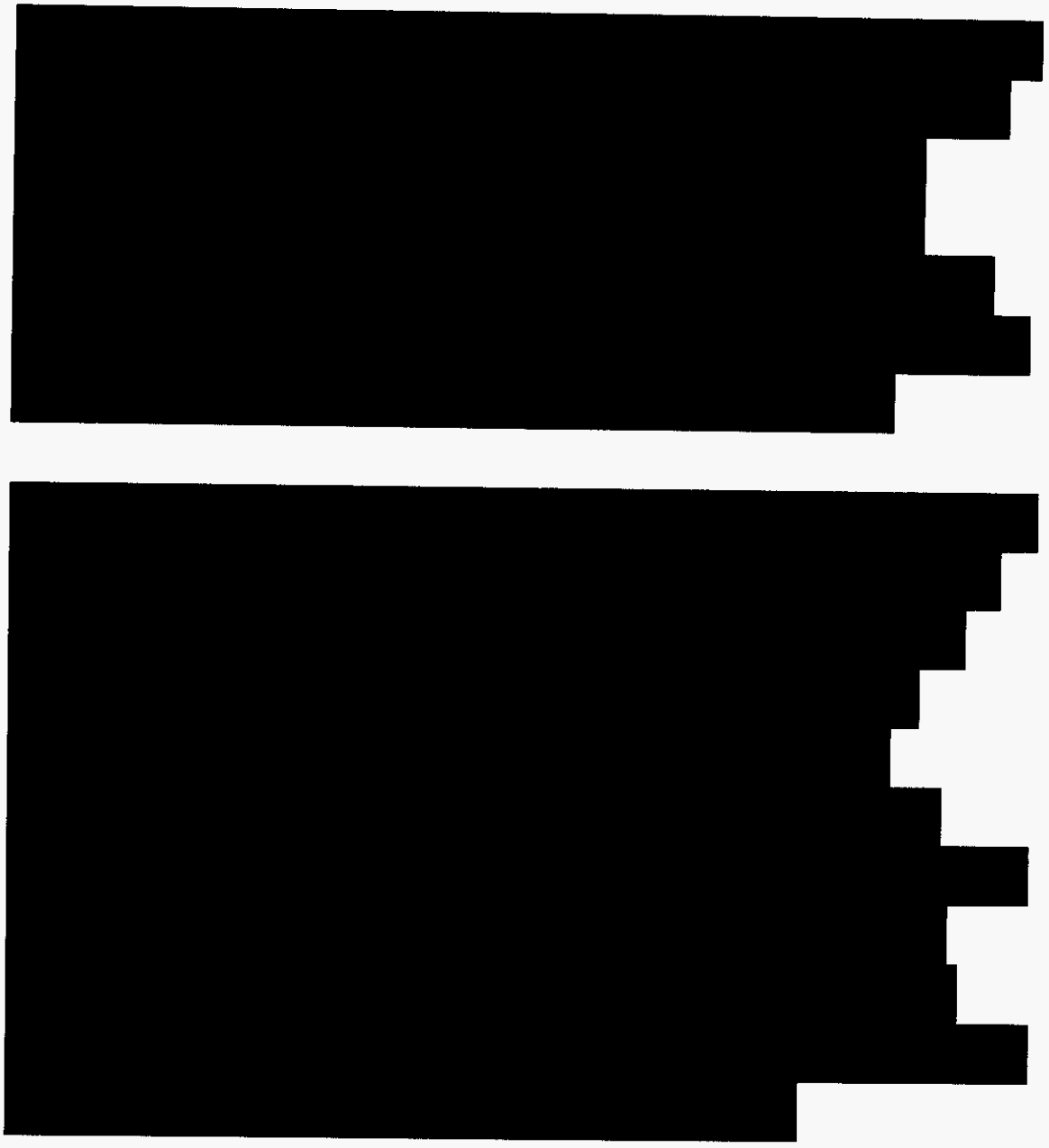
[redacted]

[redacted]

Environmental Risk and Strategy

When procuring coal for a term greater than 12 months, a major risk factor is the potential impact of future changes in environmental laws and regulations that may render the burning of coal as non-economic to our system.

[redacted]



Scherer –Scherer coal transportation needs will be served by a dual line haul involving the Burlington Northern Sante Fe (BNSF) and Norfolk Southern (NS) railroads. Scherer uses sub-bituminous PRB coal from Wyoming and is considered a baseload plant burning approximately 15 million tons of PRB coal per year. Classified as an NSPS plant, Scherer must burn "compliance" coal with a maximum of 1.2 lbs SO2/MMBtu (0.6 lbs sulfur/MMBtu). [redacted] Scherer Unit 3 is considered a base-load coal unit with a projected capacity factor greater than 88 percent.

[redacted]

The coal supply portfolio at Crist and Smith consists of the Interocean (old) contract with a volume commitment of 300,000 tons in 2010; the Interocean (new) contract with a volume commitment of 1.3 million tons in

2010; the American Galatia contract for 1 million tons in 2010 and 300,000 tons in 2011: the Oxbow contract with a volume commitment of 565,000 tons in 2010 and 485,000 tons in 2011; the Patriot contract with a volume commitment of 466,000 in 2010: the Consolidation contract with a volume commitment of 480,000 tons in 2010; and The American Coal Company's Utah coal with a volume commitment of 200,000 tons in 2010 and 188,000 tons in 2011.

Gulf has continued its testing program at Crist and Smith in order to diversify their supply of coals. The strategic objective will be to find alternative coal sources that will enhance Gulf's supply portfolio and meet Gulf's environmental restrictions.

Because Scholz is a peaking plant, its fuel supply 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 more than 50 percent of projected burn requirements, the contract will match the maximum annual tonnage purchased to the plant burn requirements.

[redacted]

Traditionally, Daniel has used sources such as PRB and Colorado low-sulfur coals. Since 2000, market conditions -- including production problems, lack of availability of supply in some domestic regions and environmental awareness -- have emphasized the need to diversify with import coals. These other coal sources, transportation arrangements and plant quality limitations will be actively evaluated because of reliability and availability issues in the domestic market and in the existing Colombian market.

[redacted]

Scherer uses sub-bituminous PRB coal from Wyoming. Scherer is considered a baseload plant and burns approximately 14.5 million tons of PRB coal per year. [redacted]

[redacted]

Scherer can burn a wide range of PRB coals from the 8800 btu/lb mines located on the "joint line" south of Gillette, Wyoming, to the 8300 btu/lb mines located north of Gillette. This fact provides for a more diverse supply as well as more flexibility in transportation alternatives. With successful test burns of imported Indonesian coals in 2006, Scherer now has a proven substitute for PRB quality coals.

Environmental regulatory issues currently facing Gulf include compliance in accordance with the Acid Rain SO_2 provisions imposed by Title IV of the Clean Air Act Amendments. In the past, Title IV compliance was achieved by implementing an allowance strategy to bank, use and then buy allowances. Gulf's SO_2 allowance bank is currently healthy. Purchasing strategies for future needs are being developed that are sensitive to current year compliance as well as the risk of a significant change in the compliance regime in a few years.

In March 2005, the CAIR was signed. Phase I of this ruling subjected Gulf to an annual NOx cap and a state-wide seasonal NOx cap which began in 2009. CAIR also causes more stringent SO_2 compliance beginning in 2010, with two allowances required per ton of SO_2 emitted. In 2015, Phase II introduces even more stringent SO_2 and NOx compliance.

Regional Transport Rules for both ozone and particulates will continue to be updated every five years, as required by NAAQS.

Southern Company and its subsidiaries are required to comply with the Clean Air Act Amendments of 1990 and with CAIR. This can be accomplished by purchasing emission allowances, the installation of various emission controls and by fuel switching. [redacted]

The near-term scrubber construction activities for Gulf are primarily focused on Crist. Crist's scrubber will come on line in December 2009 (4-7). [redacted] It is a single scrubber vessel serving all four units. The limestone grind size will be 90 percent passing a 325 mesh which will be supplied under contract from a third party regional grind facility which is being constructed in Mobile, AL by Mississippi Lime, Inc.

In the long-term, other Gulf scrubbers – perhaps on Smith 1-2 -- are in various stages of discussion and are subject to change.

Daniel's scrubber is now likely to come on line no sooner than late fall 2013 (1-2); although this is still under review. The scrubber has completed conceptual design but may be subject to change. [redacted] The design calls for a single scrubber vessel for both units.

Scherer Unit 3's scrubber is under construction and expected to be on-line in early January 2011. [redacted] The plant will have a scrubber vessel for each of the four units. The Scherer facility will be rail served and receive limestone in rock form for wet grinding on site. The limestone grind size will be 90 percent passing a 325 mesh (Advatech). [redacted]

[redacted]

Concurrent with ever tightening air regulations is concern over land disposal of byproducts from the burning of coal. Ash is the primary byproduct, but during the next few years, as scrubbers become operational, gypsum will be produced and is expected to be more than half the volume of ash. These byproducts, or coal combustion products (CCPs), present an O&M burden as well as extensive capital costs for construction of new landfills. As a measure to mitigate these costs and potentially produce some revenue, a CCP utilization program is in place. The objective of this program is to beneficially use CCPs in an environmentally safe method capturing cost savings for the rate.

Gulf produces about 250,000 tons of fly ash and 40,000 tons of bottom ash annually. Depending on the coal's ash content and economic dispatch of coal units, the future production level could vary. An RFP for ash marketing services at Crist was conducted in early 2008. As a result of that RFP an ash marketing agreement was negotiated but the execution was postponed due to the economic downturn that started in the second half of 2008. It is expected that this contract will move forward once the economy recovers. Once executed, the ash marketer will process the fly ash to improve its quality such that it can be used in ready mix concrete. This ash contract will result in the majority of ash produced at Crist being utilized

being utilized and will provide a revenue source back to Gulf.

Crist's scrubber is projected to produce about 125,000 tons of gypsum annually. The gypsum will be processed to a marketable form and facilities put in place to transport by truck and barge to current markets. Currently, three markets are being pursued as outlets for Crist's gypsum: wallboard manufacturing, cement, and agricultural.

The long-term limestone procurement goal for Gulf is to provide an economic and reliable source of limestone in an immature market while contractually and physically mitigating risk. Below are potential risks associated with limestone procurement and the strategies that Gulf uses to mitigate those risks.

Gulf takes several steps to develop and maintain a reliable supply of limestone:

[redacted]

Gulf will also institute measures to address the unknown and immature limestone market. [redacted]

Another aspect of the purchasing strategy is to determine the form of limestone to procure. In order to maximize the removal of SO2, the limestone must be pulverized to a fine particulate form. Pulverizing limestone provides more surface area in which the flue gas can react. Limestone can be procured in a crushed form (i.e., 3/4 inches diameter) or in a pulverized form (i.e., 90 percent passing 325 mesh or 80 percent passing 200 mesh) from the market.

Additional factors such as fuel switching, increased load and low quality limestone can affect limestone demand. [redacted]

[redacted]

Each form offers a different risk and return profile. [redacted]

By outsourcing the pulverizing operation to the market, Gulf can avoid large capital costs associated with unloading equipment and grinders. [redacted]

Gulf's limestone procurement efforts have been primarily focused on the Crist and Daniel plants due to the near term in-service dates of the Flue Gas Desulfurization (FGD) or scrubber systems.

Crist and Daniel

Gulf has contracted with Mississippi Lime Company (MLC) to provide high calcium, pulverized limestone. Due to the close proximity to Alabama Power's (APC) Plant Barry, the system operating companies elected to take advantage of the economies of scale associated with combining volumes from all three plants. MLC will deliver crushed limestone to a central grinding location on Blakely Island (located near Mobile, AL) and pulverized limestone will be delivered to the plants via pneumatic discharge trucks from MLC's grinding facility.

As of December 2009, all four units will have FGD capability at Crist; which is expected to consume approximately 50,000 to 80,000 tons per year based on current load projections and current sulfur assumptions. [redacted]

Daniel is tentatively planned to begin FGD operations in the April 2013 timeframe and expected to require 30,000 to 60,000 tons of limestone per year.

In the future, assuming the plant is scrubbed, limestone procurement activities will be focused on Smith. [redacted] Gulf will also look at possible

- Scrubber installation at Daniel Units 1 and 2 in 2013.
- Scrubber installation at Scherer Unit 3 in 2011.
- Limestone procurement.

Crist and Smith

The chart below shows a breakdown of the current Crist and Smith suppliers and volume commitments, including options, through 2015.

[redacted]

[redacted]

[redacted]. This has

been accomplished by testing other import coals such as Russian, La Jagua Colombian, Calenturitas Colombian, and other domestic coals such as lower sulfur Illinois Basin coals. Gulf has undertaken testing coals from other supply regions such as the Central Appalachian region and the Western bituminous regions of Colorado and Utah. These coals will be delivered by rail to the Alabama State Docks (ASD) in Mobile, Alabama.

As an example, during the market run-up in the first half of 2008, Gulf further diversified its supply by purchasing a portion of its need from the Western bituminous coal supply region, including Colorado and Utah, as well as coal from the Central Appalachian region.

The ASD has completed the project to upgrade the rail unloading facility at the Bulk Terminal. This will allow the unloading of rail coal at this facility. Shipments can also be delivered to various ports along the Mississippi River and transloaded into barges for ultimate delivery to Crist and Smith.

There is no uncommitted need at Crist and Smith in 2010. [redacted]

This, of course, will depend on the future state of the coal market. [redacted]

The installation of a scrubber at Crist 4 - 7 will be complete by December 31, 2009. Crist has burned coal from multiple regions, including various imports, Central Appalachian, Western bituminous and Illinois Basin coals. If required, a test burn program will be initiated in 2011 from the long-term RFP to determine the impact of these coals on the scrubbed units at Crist.

[redacted]

Both Illinois Basin and Central Appalachian coals can either be barged directly to Crist and Smith or railed to the ASD and transloaded into barges. With the exception of the improvements to ASD's Bulk Terminal, no transportation infrastructure improvements will be necessary for the

Daniel

The chart below shows a breakdown of the current Daniel suppliers and volume commitments, including options, through 2015.

The remaining needs will be secured through the RFP process. The goal for future years, if economics warrant, would be to maintain this diversity. Should supply problems occur, this diverse portfolio of suppliers would help ensure that the other suppliers could continue seamless deliveries to the plant. Another important element of this diversification philosophy is that Daniel can share most coal supplies with MPC's Watson plant should operational, supply, or transportation problems occur at either plant. Gulf will also continue its policy of testing various import as well as domestic coals.

In addition to receiving import coal through the ASD, Daniel also has the ability to take imported rail coal through the Illinois Central Rail Marine Terminal (ICRMT) in Convent, La. This is a proven facility that Daniel has used in the past. Because it is an inland-river facility capable of unloading Panamax-sized vessels, it provides additional security during hurricane season.

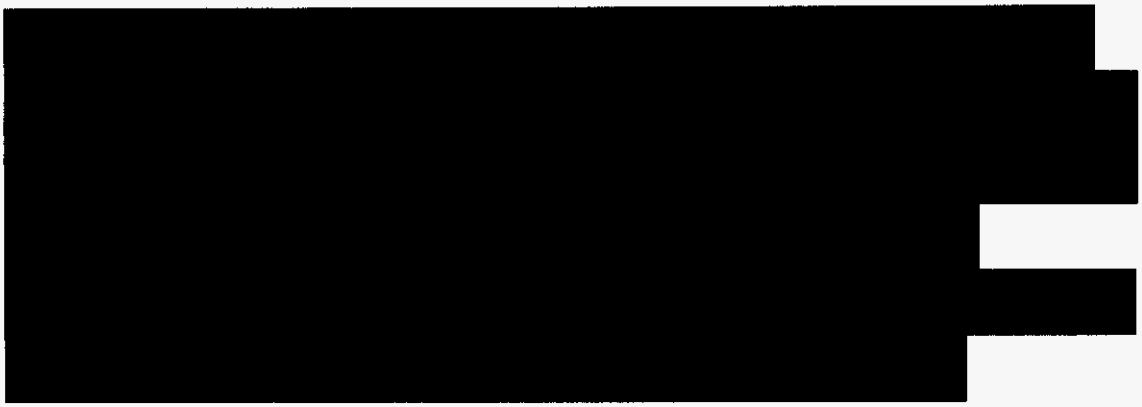
The installation of a scrubber at Daniel 1 - 2 is tentatively scheduled for late 2013. Daniel is an NSPS plant and has historically burned compliance coal (1.2 lbs SO2/MMBtu maximum). As mentioned above, Daniel has burned coal from multiple regions including various imports, Central Appalachian and Colorado coals. A test burn program will be initiated in 2013, depending on the actual installation date, to determine the impact that these coals will have on the scrubbed units at Daniel. [redacted]

Both Illinois Basin and Central Appalachian coals can be railed directly to Daniel, although some infrastructure improvements would be necessary. At this time, it is uncertain if the plant will need some time to acquire additional plant equipment necessary for burning 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 percent ownership of Scherer's Unit 3 suppliers and volume commitments, including volume options, through 2015.



The installation of scrubbers is planned for Scherer beginning with Unit 3 in 2011. Procurement strategies in the future will need to be cognizant of the environmental controls placed on the units to ensure that the coals purchased will meet the environmental requirements.

It is clear that PRB coal currently represents the lowest delivered cost and a vast supply resource for Scherer. However, it is also recognized:

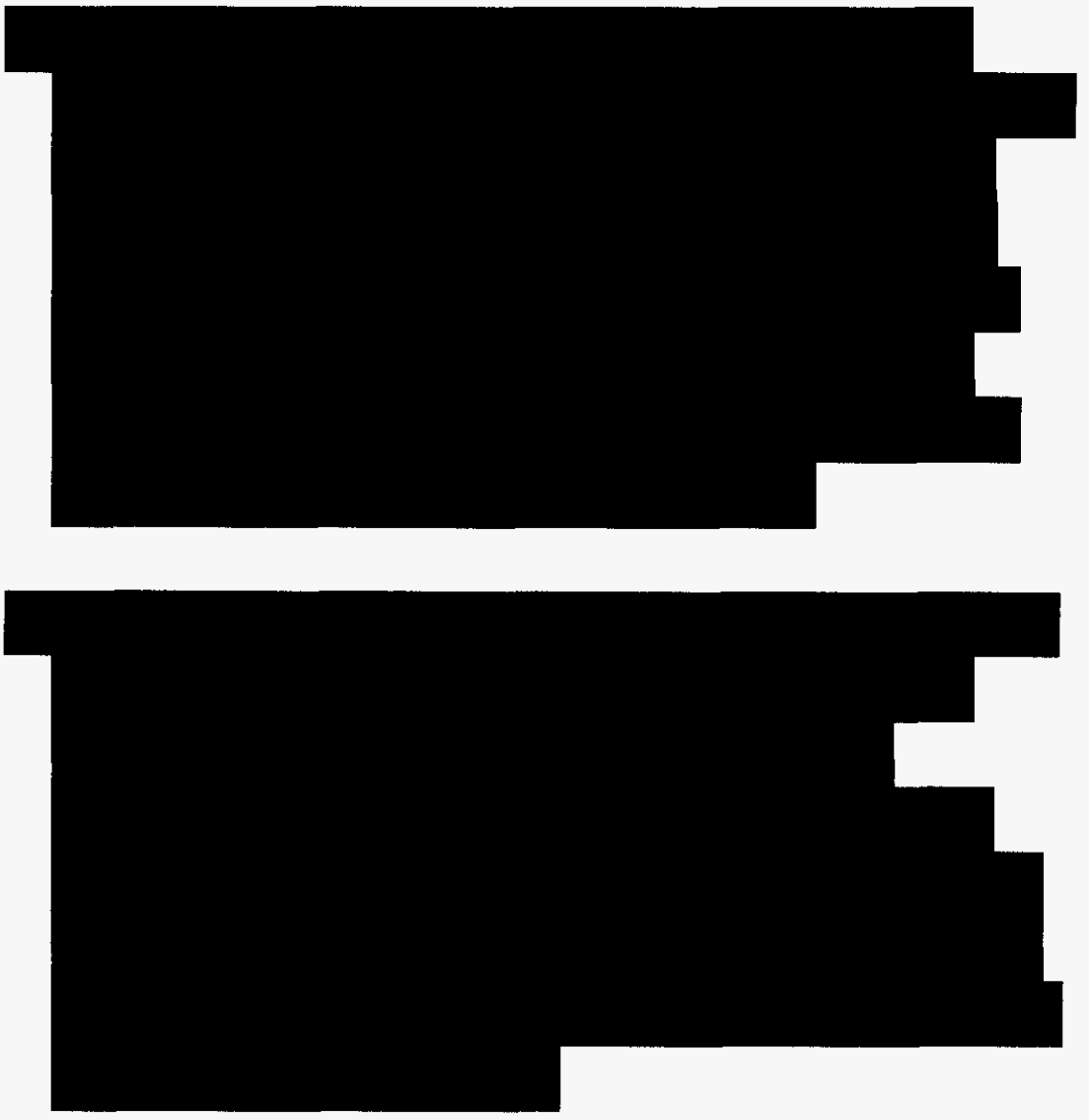
- Coal market economics are dynamic and may change dramatically from time to time
- The availability of particular coal sources may become constrained and in those instances, alternate coal source options must be considered.

To maintain the competitiveness and reliability of Scherer's generating assets, it is strongly recommended that fuel supply flexibility be maintained as much as is economically feasible.

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

[redacted]

[redacted]



The procurement group will need to be cognizant of the environmental controls placed on all of its units to ensure that the coals purchased will meet the environmental requirements.

Plant Daniel

Daniel is served by the Mississippi Export Railroad (MSE) that interchanges with the CSXT and the CN. Daniel accesses Powder River Basin (PRB) and Colorado coal sources via multiple line hauls to the MSE from the BNSF, UP, and CN railroads.

Daniel can also take advantage of import coals, when economical, through the Alabama State Docks facility located at the Port of Mobile. Import coal is transloaded from an ocean vessel at the Alabama State Docks facility to railcars for shipment to the plant by the CN and interchange with the MSE. Daniel can also receive Central Appalachian coal via the CSXT and interchange with the MSE. Another potential source of Central Appalachian coal is via the NS railroad through an interchange agreement with the CN railroad. Currently, Daniel receives Colorado, PRB, and import coal.

[redacted]

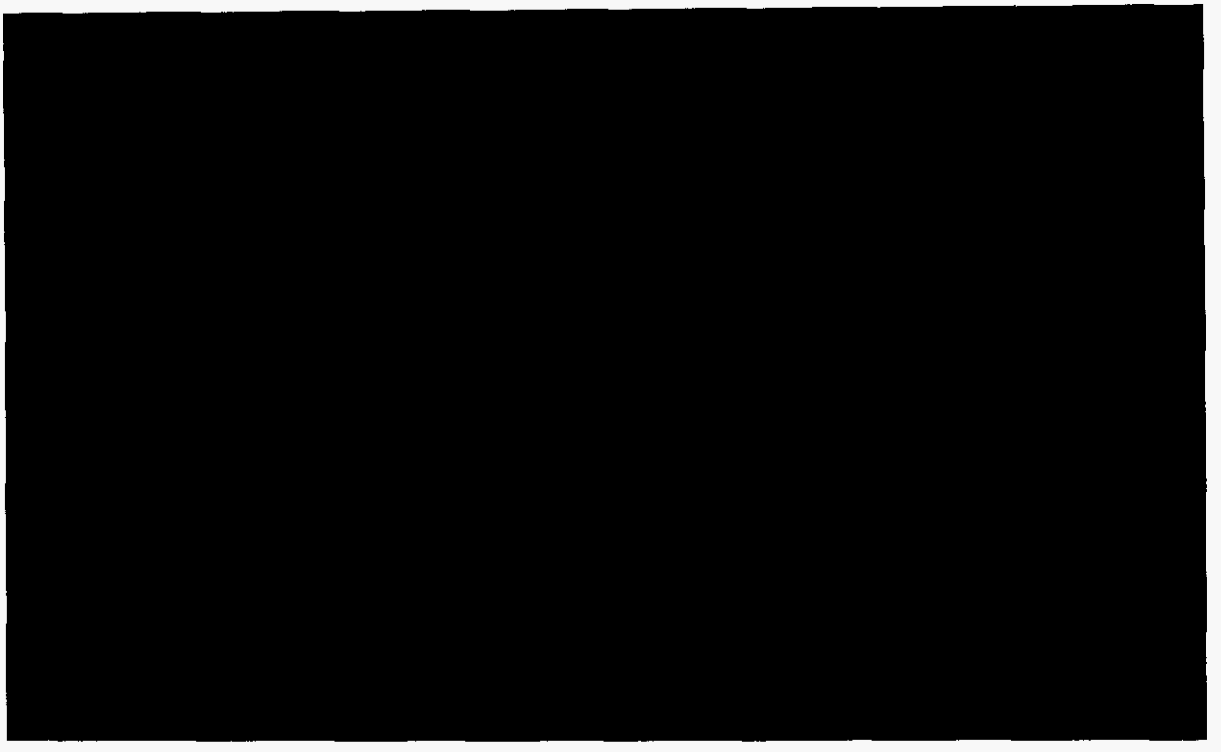
CN/MSE Tariff Agreement CN-665098AB provides for rail transportation of import coal from the Alabama State Docks facility to Daniel. The tariff rate expires Dec. 31, 2009. The tariff has no minimum volume requirements.

Budget

[redacted]

[redacted]

The chart below shows the forecasted coal volume and transportation costs for Gulf's coal-fueled plants.



Coal Transportation Procurement Strategy

A transportation strategy must address reliability, competitive prices, flexibility in volume commitments, and the ability to adjust coal movements to changing coal supply sources. The following information will address the risks associated with each of these areas and identifies strategies to mitigate them.

RISKS AND RISK MITIGATION STRATEGIES

Reliability Risk and Strategy

Reliable delivery of coal ensures 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 and resources in place to transport 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.

Communication between Gulf's coal operating personnel, each plant, Southern Company Generation Fuel Services, and the various carriers is vital in maintaining reliable and efficient operations. Effective and timely communication of transportation plans, orders, problems, and maintenance is critical.

Pricing Risk and Strategy

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.

Volume Risk and Strategy

The uncertainty in the amount of coal generation and 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. Weather, natural gas pricing, and economic growth will continue to impact future coal burn requirements, as will the addition of gas-fired capacity to the Southern Company system. Over the past two years, the coal industry has become more susceptible to the influences of the global commodities market. Given the global market dynamics that occurred during this time frame, the coal market has reacted by becoming more volatile from both a pricing and volume availability standpoint. This has, in turn, impacted the dynamics between natural gas and coal, leading to increased uncertainty in coal burn.

[redacted]

[redacted]

Supply Risk and Strategy

It is desirable to have multiple transportation modes and carriers in case there is a rail and/or barge accident that might disrupt the supply chain. Diversity of transportation modes and carriers is also vital because the location of coal supply

transportation service to Crist and Smith and to MPC's Plant Watson. Based on evaluation of the bids, two vendors were selected to provide barge transportation service to Crist, Smith and Watson. Marquette Transportation was selected to provide towboat services and provide a share of the barges. Heartland Barge was selected to provide the balance of barges that will be used to transport coal to Crist, Smith and Watson.

[redacted] The contracts will be finalized prior to the expiration of the contract with Ingram Corporation.

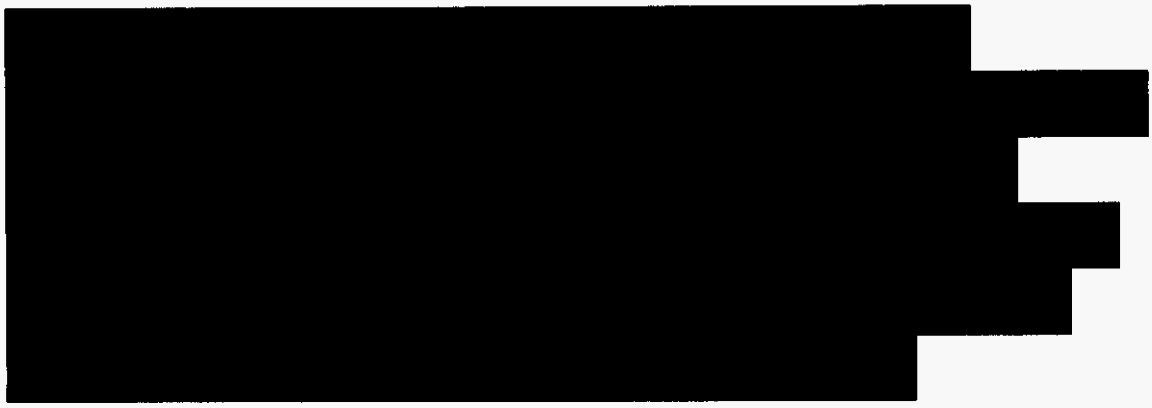
Plant Scholz

Scholz has an agreement with the CSXT Railroad (CSXT-C-83791) that expires Dec. 31, 2011, which is the plant's expected retirement date.

The tactical plan for this agreement will be to closely monitor the retirement date for this plant and work with CSXT to improve operational efficiencies in order to minimize transportation-related costs to Scholz.

Plant Daniel

The tactical plan for this UP agreement is to continue to support coal movements and to identify opportunities to improve operational efficiencies with the rail carriers and the plant.



The tactical plan for this BNSF agreement is to continue to support coal movements and to identify opportunities to improve operational efficiencies with the rail carriers and the plant.

The long-term transportation goal will be to provide a reliable, cost-competitive transportation system for the movement of minerals and scrubber by-products, as needed. The limestone procurement strategy at this time is focused on Crist.

A scrubber is currently under construction at Crist and is scheduled to be placed in-service in December 2009. The source of Crist's limestone will be a regional grinding facility near Mobile, Ala., that is currently under construction. The grinding facility will be owned and operated by Mississippi Lime Co. Mississippi Lime will deliver pulverized limestone by truck FOB to Crist.

A B C

following chart shows the total projected gas burn for 2010 through 2013 in MMBTU that these purchases will support:

PROJECTED NATURAL GAS BURN (MMBTU)

Month	2010	2011	2012	2013
January	25678	[redacted]	[redacted]	[redacted]
February	511248	[redacted]	[redacted]	[redacted]
March	1151522	[redacted]	[redacted]	[redacted]
April	1634771	[redacted]	[redacted]	[redacted]
May	1627560	[redacted]	[redacted]	[redacted]
June	1366728	[redacted]	[redacted]	[redacted]
July	1520126	[redacted]	[redacted]	[redacted]
August	1290826	[redacted]	[redacted]	[redacted]
September	1118224	[redacted]	[redacted]	[redacted]
October	1169487	[redacted]	[redacted]	[redacted]
November	672369	[redacted]	[redacted]	[redacted]
December	330826	[redacted]	[redacted]	[redacted]
TOTAL	**12419365**	[redacted]	[redacted]	[redacted]

Procurement Strategy

Gulf's strategy for gas procurement is to purchase the commodity using long term and spot agreements at market prices. Fuel purchased at market over a long period is a low cost option for customers [redacted]

For Gulf, spot-market contracts have a term of less than one year and long-term contracts have a term of 1 year or longer. All natural gas, regardless of whether it is bought under long-term contracts or spot-market contracts, is purchased at market based prices. While fuel purchased at market over long periods is a low cost option for customers, it does expose the customers to short-term price volatility. Since these price fluctuations can be severe, Gulf Power, at the direction of the Florida Public Service Commission, will attempt to protect its customers against short-term price volatility by utilizing hedging tools. It is understood that the cost of hedging will sometimes lead to fuel costs that are higher than market prices but that this is a reasonable trade-off for reducing the customers' exposure to fuel cost increases that would result if fuel prices actually settle at higher prices than when the hedges were placed.

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The following graph of actual natural gas prices is an indication of price volatility in the gas commodity market:

Historical Natural Gas Prices - NYMEX

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, generally [redacted] of Gulf Power's projected annual gas burn for the current year, in order to protect against short-term price swings and to provide some level of price certainty. This [redacted] hedge range allows Gulf Power to provide a degree of price certainty and protection against short-term price swings while still allowing the customers to participate in markets where natural gas prices are

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low. Gulf Power will secure natural gas hedges over a time period not to exceed [redacted], per the following schedule:

Period	Min. Hedge %	Upper Target Hedge %
Prompt Year (2010)	[redacted]	[redacted]
Year 2 (2011)	[redacted]	[redacted]
Year 3 (2012)	[redacted]	[redacted]
Year 4 (2013)	[redacted]	[redacted]
Year 5 (2014)	[redacted]	[redacted]

Note: The annual hedge percentage is based on the budgeted annual gas burn

Although SCS will target the levels shown in the table above, if extreme market conditions exist, SCS may accelerate or decelerate the plan accordingly. Gulf's hedging targets are expressed on an annual basis due to the potential for large variances in month to month gas consumption. The monthly variance in gas burn is due to Gulf's ownership of only one gas fired generating unit that is dispatched on an economic basis with the other generating units in the Southern electric system and the impact of unit outages on Gulf's total gas burn.

SCS, working in partnership with Gulf Power, develops short-term hedge strategies based on current and projected market conditions. [redacted] SCS will employ both technical and fundamental analysis to determine appropriate times to hedge;

however, the objective is not to speculate on market price or attempt to outguess or "beat the market". Gulf will utilize fixed priced swaps as its primary financial gas price hedging instrument but may also utilize options to a lesser degree when appropriate.

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 a maximum of 100 percent of the projected fuel burn for the upcoming year. In addition, Gulf Power will limit option priced hedges to 110 percent of its projected burn. [redacted]

System Hedges

Because Gulf Power is a part of the Southern Electric System (SES), it indirectly participates in gas hedging for fuel price indexed power related transactions done on behalf of the SES. These hedges are referred to as "system hedges." In these instances, Southern Company Services utilizes financial hedging instruments to mitigate fuel price risk related to individual power transactions. Gulf is allocated its portion of these gas hedges when they occur based on its peak period load ratio. All system hedges are matched to individual power transactions and are considered separate from Gulf's directed hedging program for gas burn at generating units where it directly purchases natural gas supply.

on capital at risk and established credit policies.

II. Purpose

[redacted]

III. Business Objectives

The Approved Business Objectives for the trading activities performed on the Trading Floors are defined in Appendix A.

III. Business Strategies

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

[redacted]

[redacted]

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.

IV. Authorizations

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

V. Segregation of Duties

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

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

[redacted]

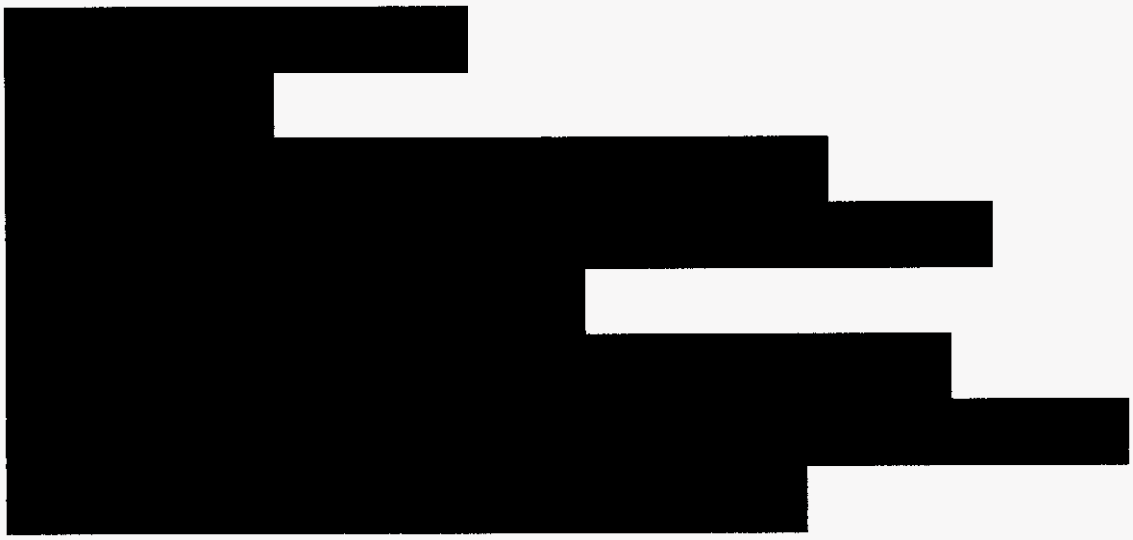
Appendix E represents the functional separation organizationally as specified in this RMP. The following is a summary of the responsibilities of the different functions:

Origination and Structuring: The functions of origination and structuring include the following responsibilities:

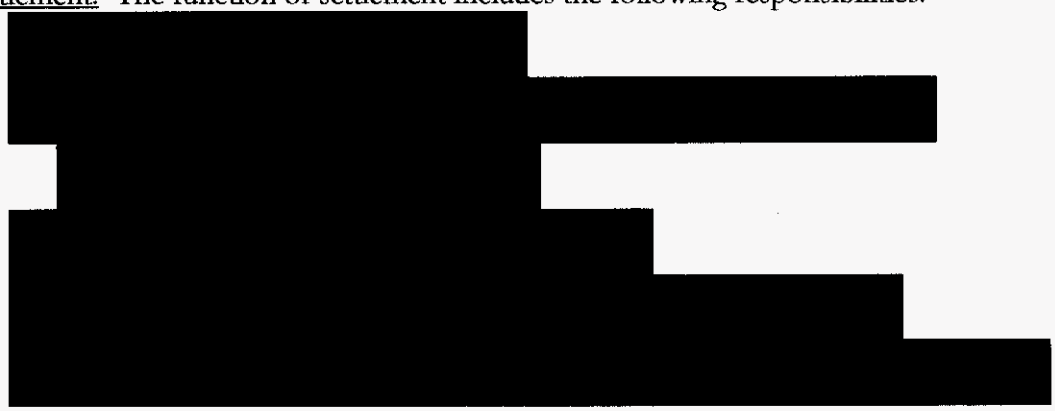
[redacted]

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

[redacted]



Settlement: The function of settlement includes the following responsibilities:



Cash Management: SCS Treasury is responsible for receiving and disbursing all funds from or to counterparties and for the delivery of margin / collateral 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

[redacted]

VIII. Market Risk Measurement and Valuation

[redacted]

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.

Notification	Certain notifications to management 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

[redacted]

XI. New Products

[redacted]

[redacted]

XII. Funding Liquidity

[redacted]

XIII. Operating Procedures and Systems

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

XIV. Accounting and Tax

[redacted]

[redacted] Appendix J contains the accounting and tax approach that will be utilized for the Trading Floors' 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:

[redacted]

[redacted]

XVII. Personal Trading

[redacted]

XVIII. Business Recovery

[redacted]

XIX. Compliance

[redacted]

[redacted]

XX. Independent Review

[redacted]

[redacted]

XXI. Policy Amendments

[redacted]

XXII. Terminology

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

APPENDIX A

APPROVED BUSINESS OBJECTIVES

ENERGY TRADING AND MARKETING

Fleet Operations and Trading

The primary objectives of Fleet Operations and Trading are to:

[redacted]

Southern Power Company Trading & Asset Management

The primary objectives of the Southern Power Company Trading and Asset Management activities are the following:

[redacted]

FUEL SERVICES

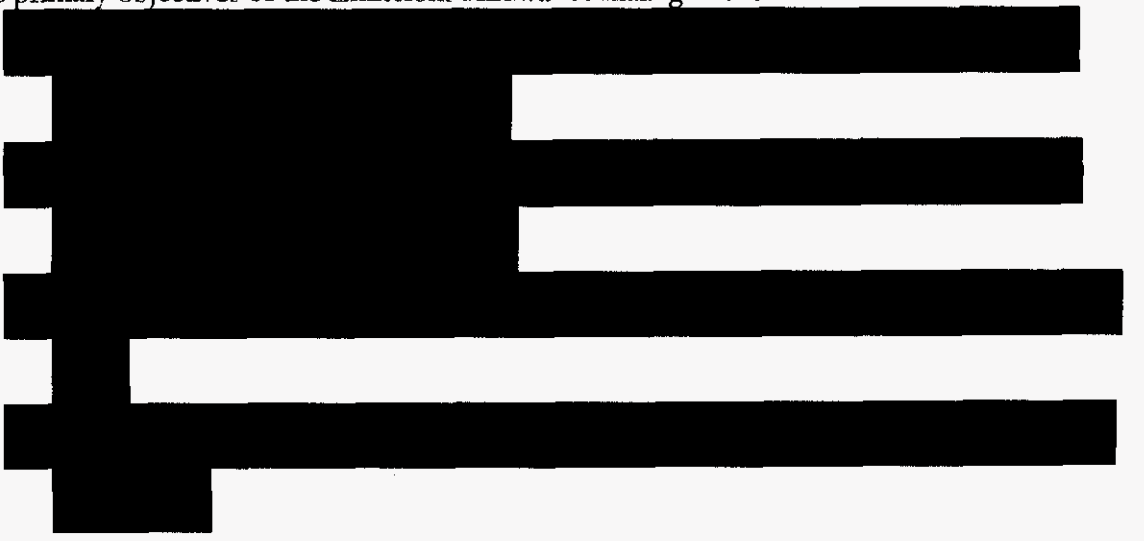
Natural Gas Fulfillment Function

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

Secondary activities of the natural gas fulfillment function are restricted to positions intended to hedge secondary power positions, and which have been requested by Fleet Operations and Trading.

Emission Allowance Management Function

The primary objectives of the Emissions Allowance management function are to:



Secondary activities of the emission allowance management function are restricted to positions intended to hedge secondary power positions, and which have been requested by

Fleet Operations and Trading.

Coal Fulfillment Function

The primary objectives of the Coal fulfillment function are to:

[redacted]

Secondary activities of the coal fulfillment function are restricted to positions intended to hedge secondary power positions, and which have been requested by Fleet Operations and Trading.

Renewable Energy Credits (REC) Fulfillment Function

The primary objectives of the REC fulfillment function are to:

[redacted]

Secondary activities of the REC fulfillment function are restricted to positions intended to hedge secondary power positions, and which have been requested by Fleet Operations and Trading.

APPENDIX C

APPROVED INSTRUMENTS

The approved instruments are:

APPENDIX D

AUTHORIZATIONS

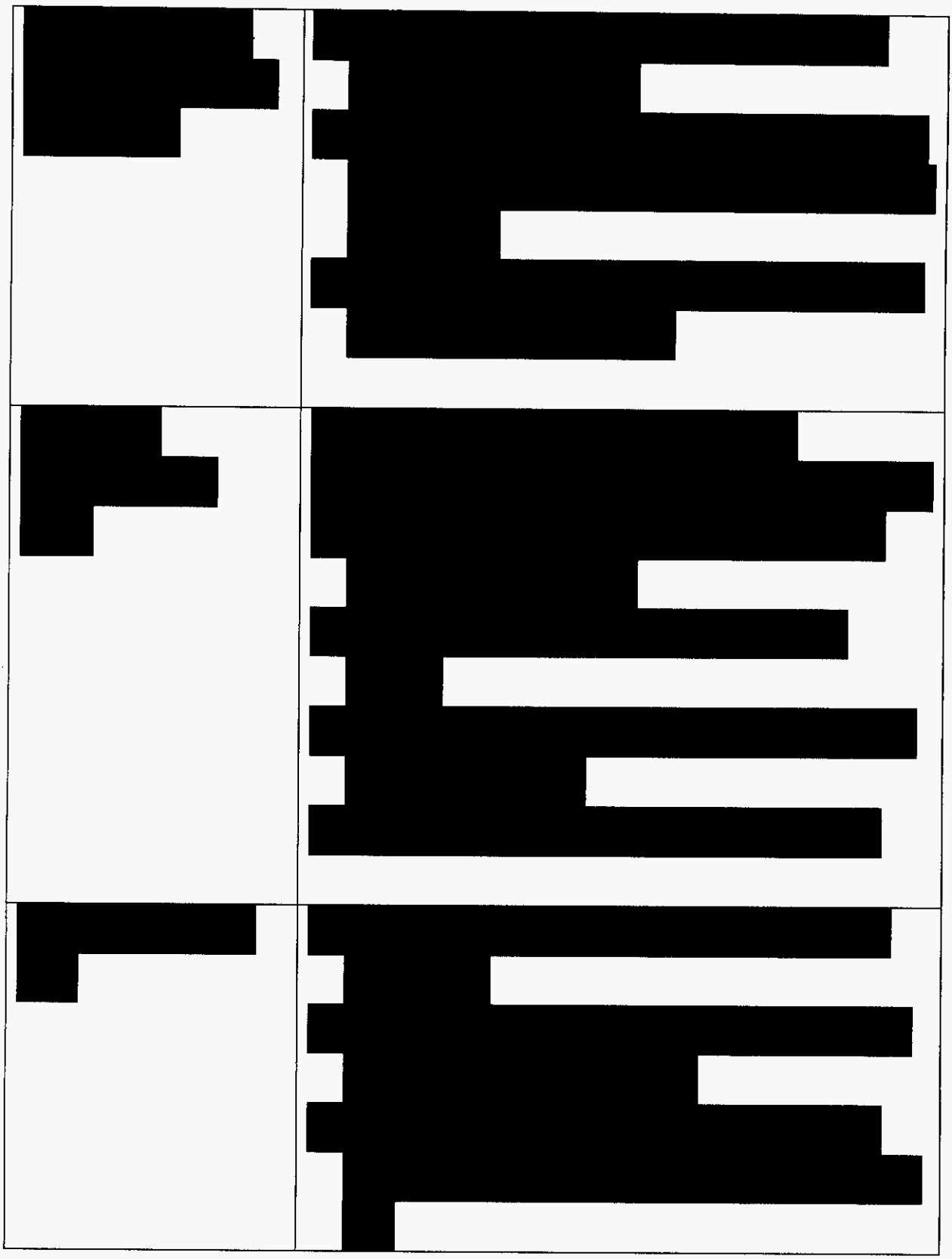
Name	Authority
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]

APPENDIX D

AUTHORIZATIONS (continued)

Energy Marketing

Name	Authority
[redacted]	[redacted]
[redacted]	[redacted]

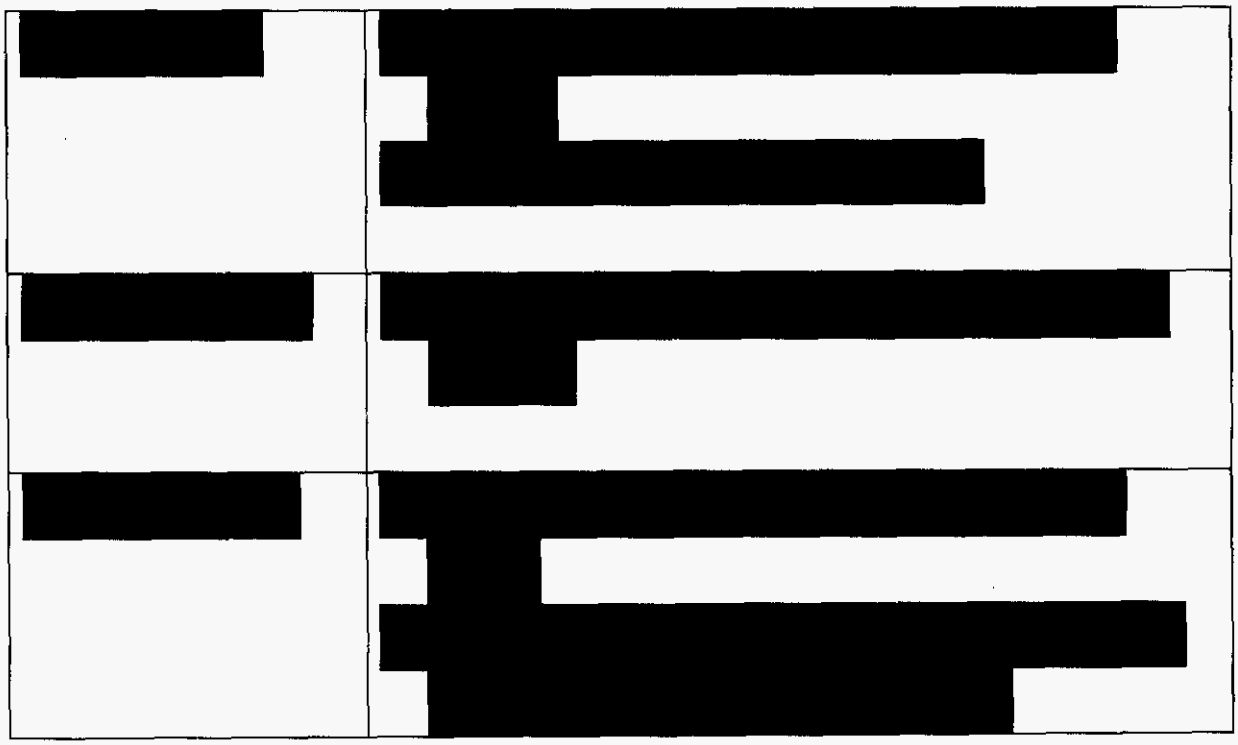


APPENDIX D

AUTHORIZATIONS (continued)

SCS Fuel Services

Name	Authority
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]



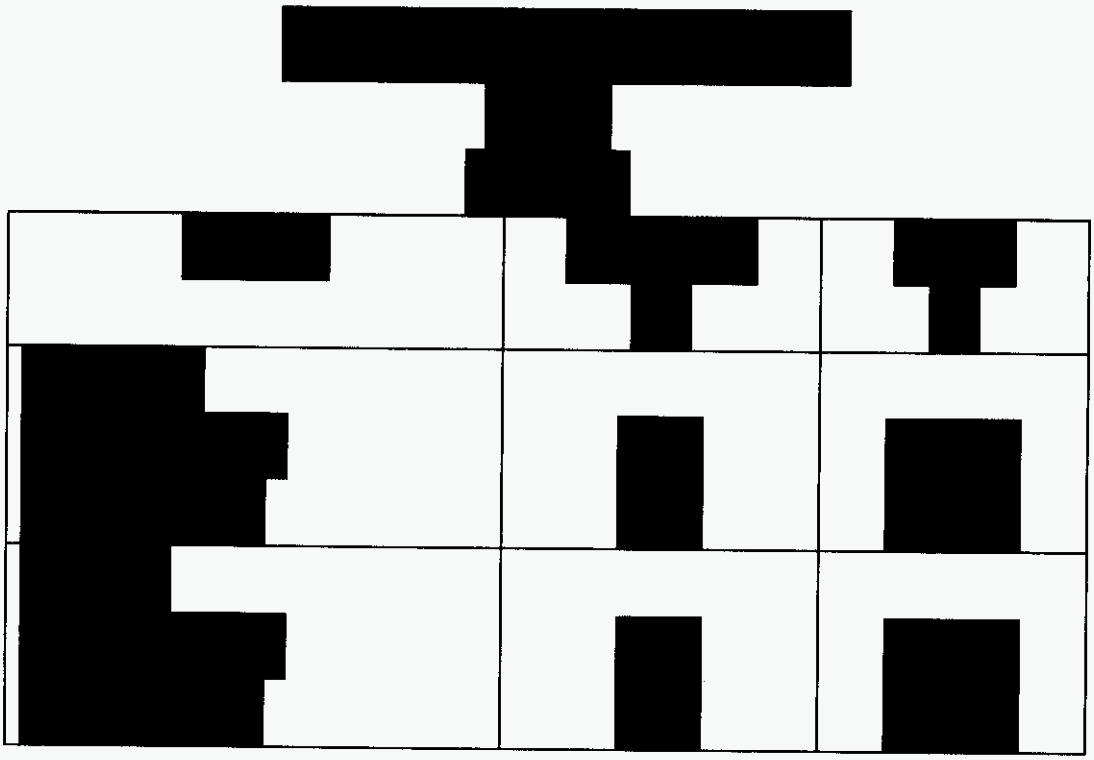
APPENDIX F

MARKET RISK MEASUREMENT

Approved Commodities	Value at Risk Method
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	
[redacted]	
[redacted]	

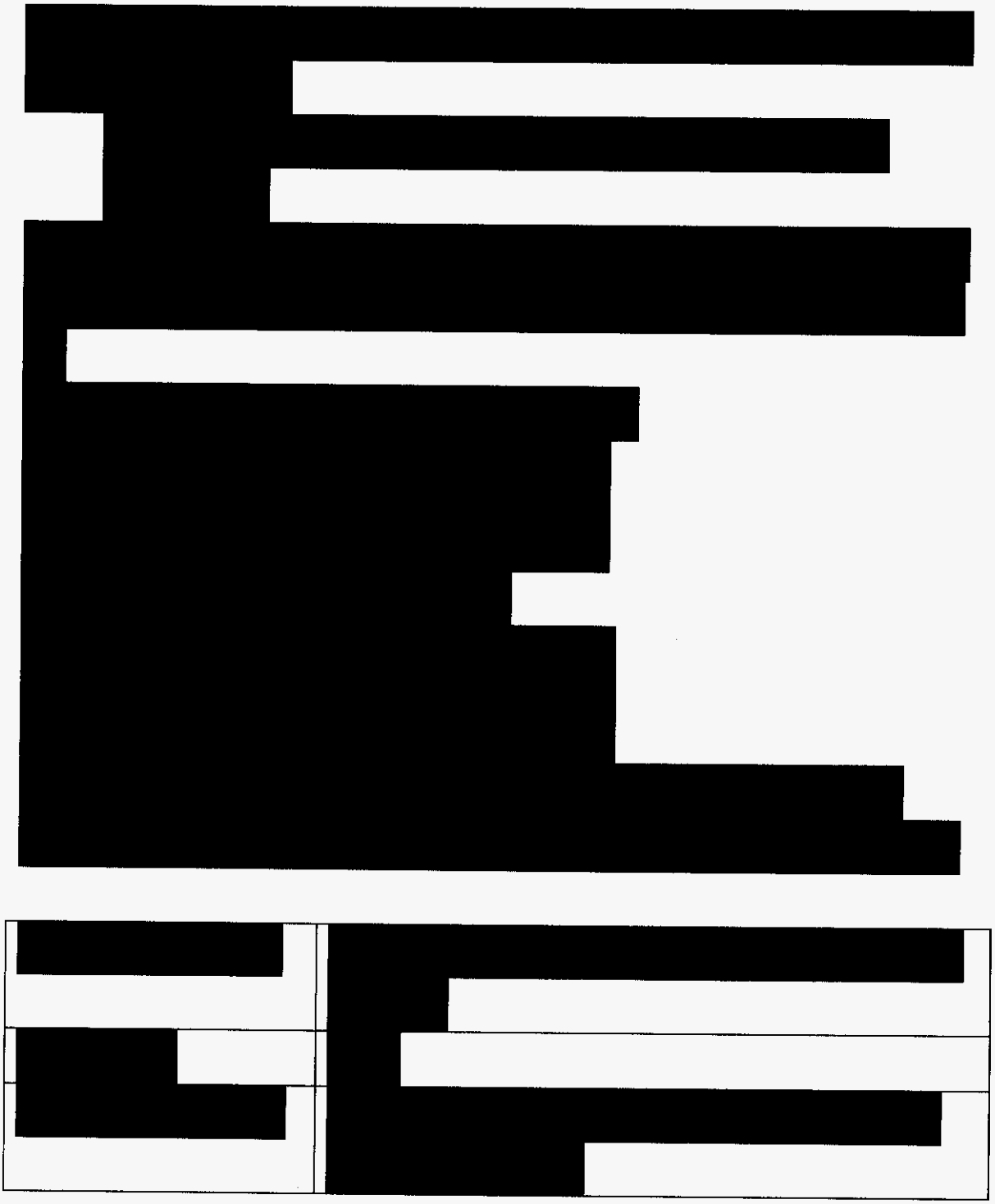
[redacted]

[redacted]



APPENDIX F

STRESS TESTING METHODOLOGY



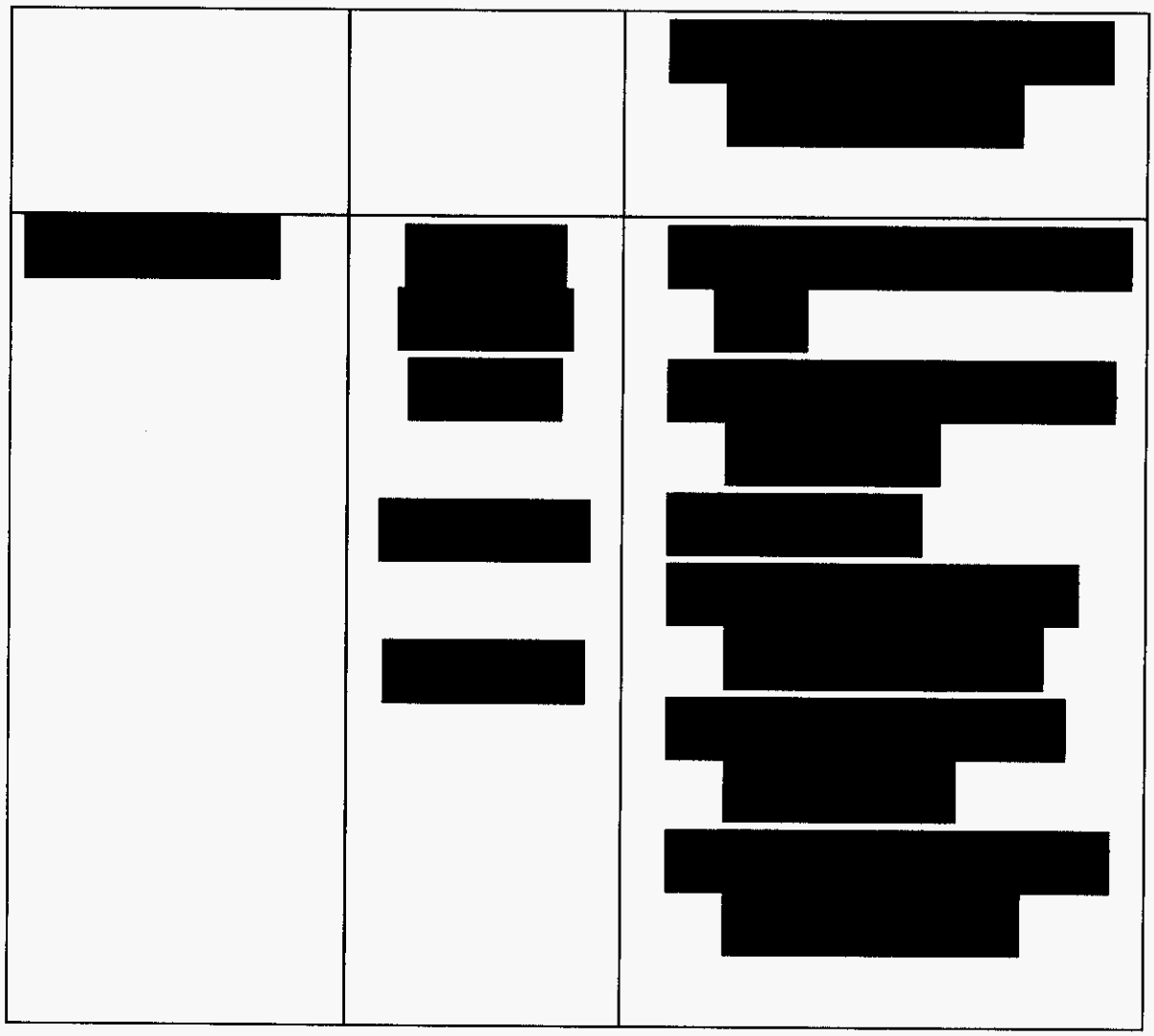
Ad Hoc Stress Testing

[redacted]

APPENDIX G

NOTIFICATION LEVELS

Position Classification	Income Change	Notify
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]



APPENDIX G

NOTIFICATION LEVELS

Position Classification	Income Change	Notify
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

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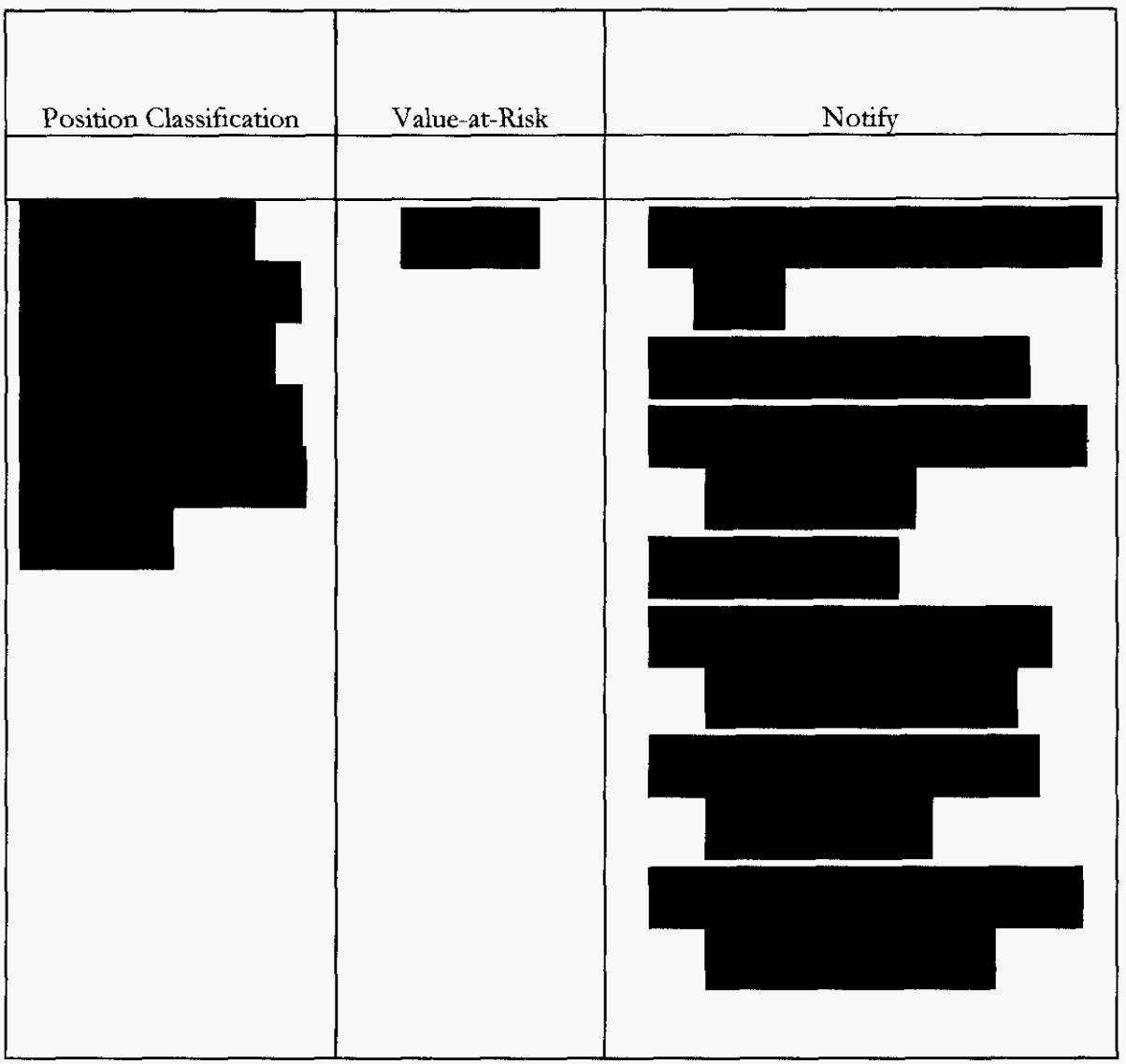
APPENDIX G

NOTIFICATION LEVELS



NOTE: Recipients of notification events will only receive detailed information pertinent to their business needs, and any correspondence will be in compliance with the Separation Protocol.

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APPENDIX G

NOTIFICATION LEVELS

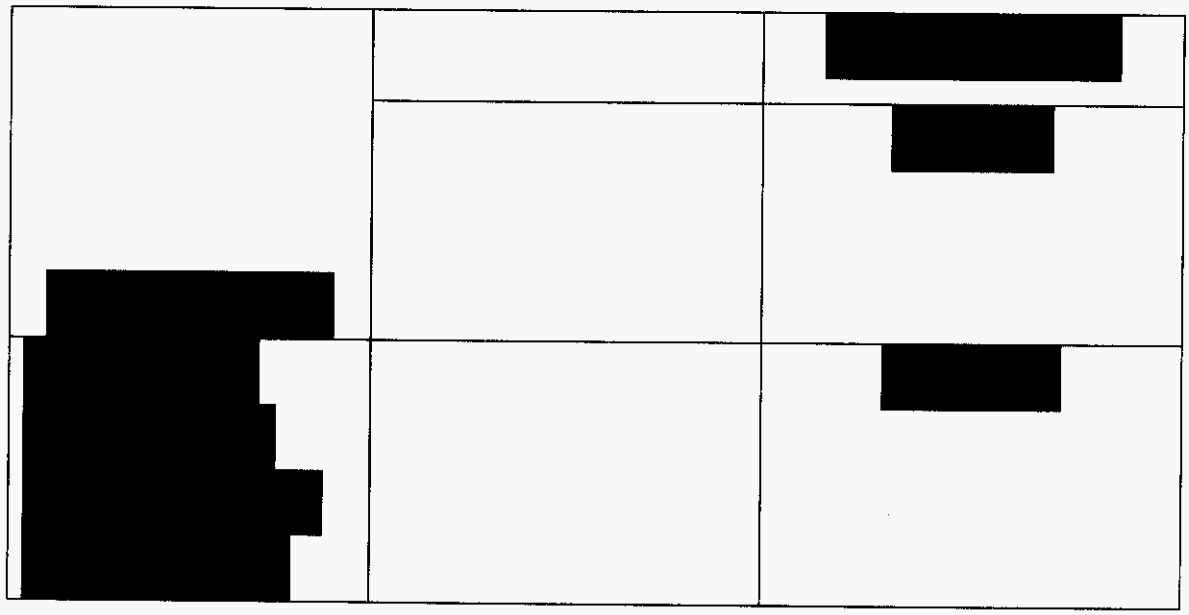
Position Classification	Income Change	Notify
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

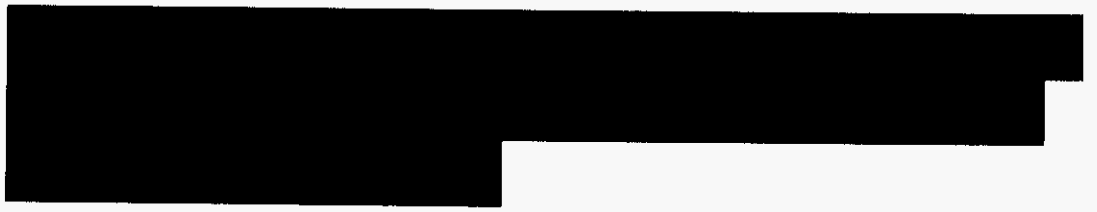
Position Classification	Value-at-Risk	Notify
[redacted]	[redacted]	[redacted]

APPENDIX H

MARKET RISK LIMITS

Net Open Position Limits





APPENDIX J

ACCOUNTING AND TAX

FAS 133, Accounting for Derivative Instruments and Hedging Activities, and related guidance provides guidance for exchange-traded contracts and is the primary 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.

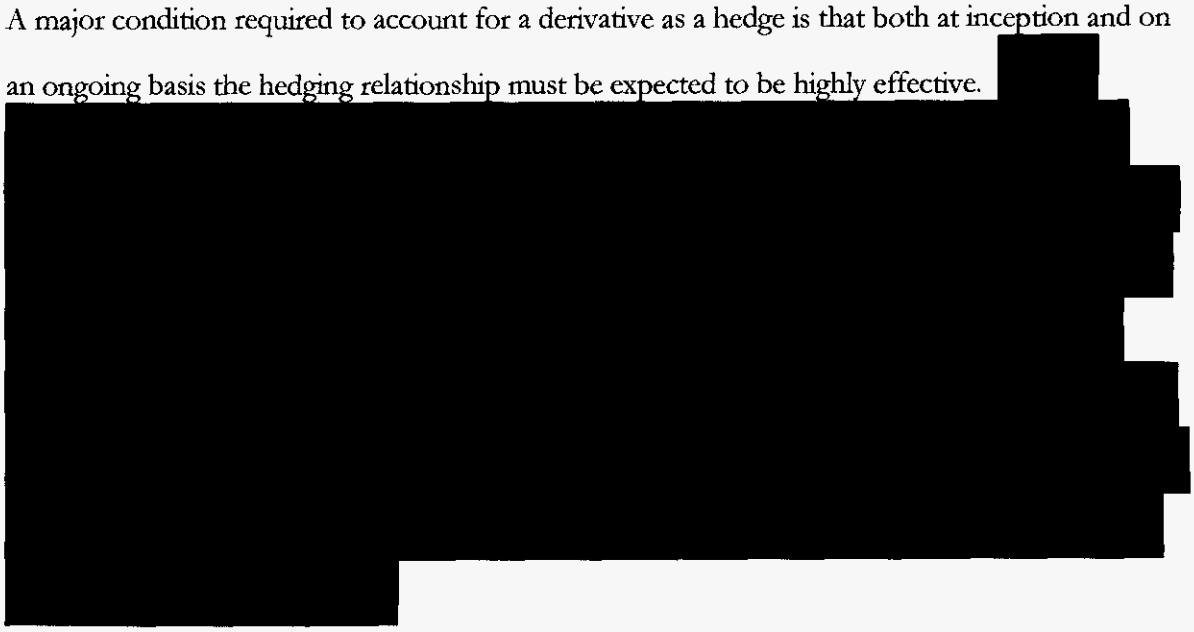


EXHIBIT C

Line-by-Line/Field-by-Field Justification

Line(s)/Field(s)	**Justification**
Page 4 of 122 Line 8	The information delineated in Exhibit "C" is entitled to confidential classification pursuant to §366.093(3)(a), (d) and (e), Florida Statutes. The basis for this information being designated as confidential is more fully set forth in paragraph 1.
Page 5 of 122 Line 1	
Page 6 of 122 Line 15	
Page 7 of 122 Line 8	
Page 8 of 122 Lines 23-25	
Page 9 of 122 Lines 1, 7-25	
Page 10 of 122 Lines 1-5 and 17-22	
Page 11 of 122 Lines 12-22	
Page 12 of 122 Lines 11-15	
Page 13 of 122 Lines 1-15 and 23-25	
Page 14 of 122 Lines 1-19	
Page 17 of 122 Line 7-10 Lines 13-21	
Page 18 of 122 Lines 21-25	

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Page 20 of 122 Lines 1-3	
Page 22 of 122 Lines 7-13 and 17-18	
Page 23 of 122 Lines 3-11, 15-17 and 21-25	
Page 24 of 122 Lines 1-3	
Page 25 of 122 Lines 18-25	
Page 26 of 122 Lines 1-2, 5-11, and 22-25	
Page 27 of 122 Lines 1-3, 5-10, and 14-20	
Page 28 of 122 Lines 13-16 and 23-25	
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Page 58 of 122 Lines 4-9	
Page 59 of 122 Line 19, Column C Line 20, Column A Line 22, Column B	

Page 60 of 122 Line 2, Column A Line 3, Columns B-C Line 15, Column C Lines 16-17, Columns A-C Line 18, Columns A-B	
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Page 99 of 122 Lines 3-7	
Page 100 of 122 In its entirety	
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Page 104 of 122 Columns A-C	

Page 105 of 122 In its entirety	
Page 115 of 122 Lines 17-25	

COMMISSIONERS:
MATTHEW M. CARTER II, CHAIRMAN
LISA POLAK EDGAR
KATRINA J. MCMURRIAN
NANCY ARGENZIANO
NATHAN A. SKOP

STATE OF FLORIDA

OFFICE OF COMMISSION CLERK
ANN COLE
COMMISSION CLERK
(850) 413-6770

Public Service Commission

ACKNOWLEDGEMENT

DATE: August 4, 2009

TO: **Susan D. Ritenour, Gulf Power Company**

FROM: **Ruth Nettles, Office of Commission Clerk**

RE: **Acknowledgement of Receipt of Confidential Filing**

This will acknowledge receipt of a CONFIDENTIAL DOCUMENT filed in Docket Number 090001 **or, if filed in an undocketed matter, concerning** Risk Management Plan for Fuel Procurement, **and filed on behalf of** Gulf Power Company. **The document will be maintained in locked storage.**

If you have any questions regarding this document, please contact Marguerite Lockard, Deputy Clerk, at (850) 413-6770.