

Robert L. McGee, Jr.
Regulatory & Pricing Manager
One Energy Place
Pensacola, Florida 32520-0780
Tel 850.444.6530
Fax 850.444.6026
RLMCGEE@southernco.com



July 25, 2014

Ms. Carlotta Stauffer, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Dear Ms. Stauffer:

RE: Docket No. 140001-EI

Attached for official filing in the above-referenced docket is Gulf Power Company's Risk Management Plan dated July 25, 2014.

Sincerely,

A handwritten signature in cursive script that reads "Robert L. McGee, Jr.".

Robert L. McGee, Jr.
Regulatory and Pricing Manager

md

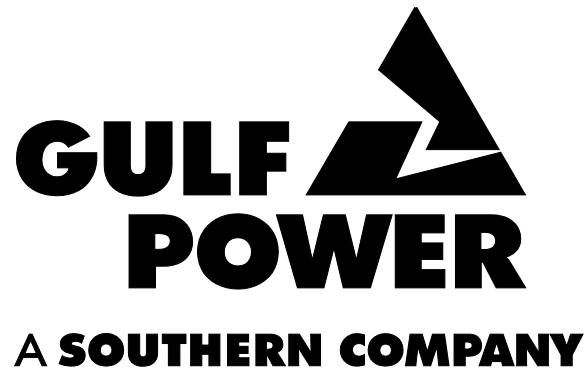
Attachments

cc: Beggs & Lane
Jeffrey A. Stone, Esq.

GULF POWER COMPANY

**Risk Management Plan
For
Fuel Procurement
Docket No. 140001-EI**

Date of Filing: July 25, 2014



INDEX

<u>SECTION</u>		<u>PAGES</u>
1	GULF POWER COAL PROCUREMENT STRATEGY	3 – 5
2	GULF POWER COAL TRANSPORTATION STRATEGY	6 – 11
3	GULF POWER NATURAL GAS PROCUREMENT STRATEGY	12 – 16
4	GULF POWER OIL PROCUREMENT STRATEGY	17
5	GULF POWER RISK MANAGEMENT POLICY	18 – 21
6	SOUTHERN COMPANY GENERATION (SCGEN) RISK MANAGEMENT POLICY	22 – 85
7	SCS RISK OVERSIGHT ORGANIZATIONAL CHART	86

1 **GULF POWER**
2 **COAL PROCUREMENT STRATEGY FOR 2015**

3
4 **Coal Procurement Plan**

5 Based on burn forecast from the June update to the 2014 Energy Budget, the
6 Gulf Power Company program has an uncommitted need in 2015 of 500,000
7 tons. Coal burn remains depressed as a result of low natural gas pricing and
8 decreased loads. Our procurement plan below is based on the following
9 assumptions:

10
11 **Plant Crist**

- 12 • Short Term: Its current marginal fuel selection consists of a [REDACTED]
13 [REDACTED]
- 14 • Long term: Current plan is to continue to utilize [REDACTED] however,
15 in 2014 Crist will test [REDACTED]
16 for potential long-term use.

17 **Plant Smith**

- 18 • Short Term: Current marginal fuel selection is based on 100% CAPP
19 coal.
- 20 • Long Term: Smith is currently testing [REDACTED] and if successful,
21 there is potential for a transition to this fuel to occur in 2015.

22 **Plant Scholz**

- 23 • Short Term: Current marginal fuel selection is based on 100% IB coal.
24 • Long Term: The decision to retire Scholz in 2015 has been made.

25 This document lays out a tactical plan that will be implemented to secure coal for
26 2015 forward. The goal for 2015-2017 is to continue to commit to percentages

1 that conform to the Coal Procurement Strategy guidelines; however, the process
2 will continue to require a level of subjectivity in addressing volatility associated
3 with coal burn projections.

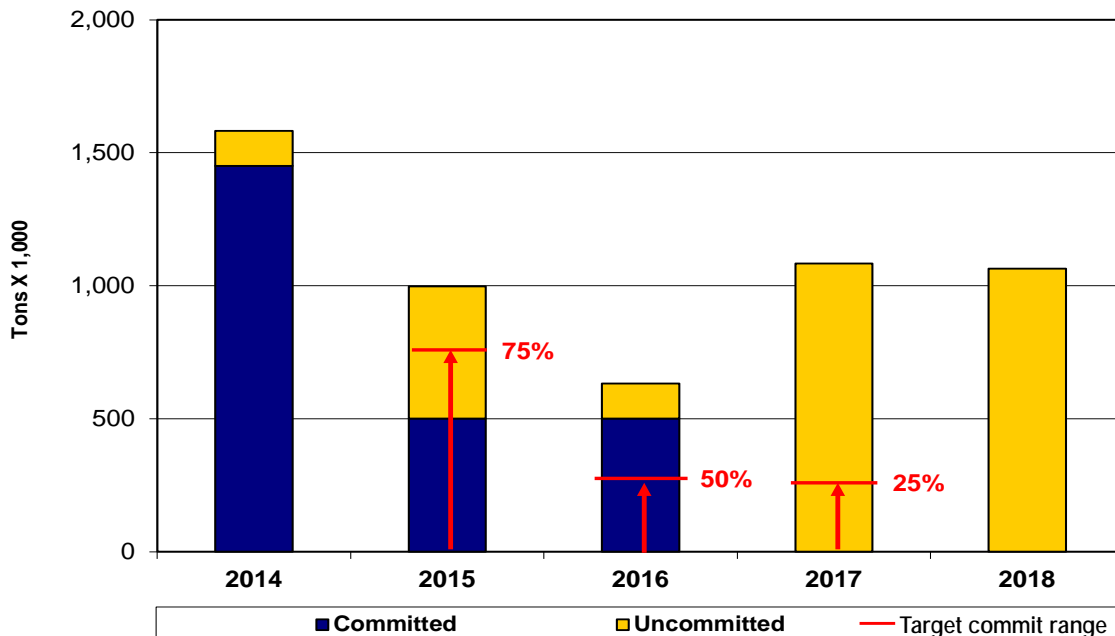
4

5 **Plant Classification:**

6 The Gulf plants are forecasted to have capacity factors of [REDACTED] through
7 2017. To better understand the expected operations of Gulf’s coal fleet, the
8 group’s collective forecasted run hours were considered. An evaluation of when
9 this group of units is generating electricity provides insight into how coal
10 deliveries should be procured. We forecast Crist to have at least one unit on line
11 a majority of the time, whereas forecasts show very little runtime at Smith.

12

13 **State of the Program:**



Source: 2014 Energy Budget 2014-2017

1 **Spot Coal Plan:**

2 Gulf's plants have potential small need of late in 2014 depending on summer
3 loads. Beginning in 2014, quarterly system-wide bituminous and sub-bituminous
4 solicitations are being issued to address any quarterly spot coal supply needs.
5 With the uncertainty of burn that still exists today and with many coal units being
6 displaced by natural gas generation, this quarterly process provides flexibility to
7 better manage burn volatility. Gulf will purchase spot coal under these quarterly
8 solicitations as the need arises.

9

10 **Long-term Coal Plan:**

11 The Gulf program has 50% of its coal supply needs committed in 2015, 79%
12 committed in 2016 and no commitments in 2017. A system-wide long-term
13 bituminous solicitation will be issued in 2014 and Gulf will evaluate the need for
14 long-term purchase of up to 0.5M tons annually with delivery beginning in 2015. If
15 PRB becomes a coal supply option, Gulf will participate in the system-wide sub-
16 bituminous solicitation in September-October 2014. The purchases made will
17 adhere to the percentage commitment guidelines set forth in the Coal
18 Procurement Strategy.

19

20 **Market Reviews:**

21 Gulf will need to perform a market review with Foresight Energy between
22 January 1 and July 31, 2014 for coal to be delivered in CY 2015 and CY 2016.

23

24

25

1 **GULF POWER**
2 **COAL TRANSPORTATION STRATEGY FOR 2015**

3
4 **Transportation Program Overview**

5
6 **Plants Crist and Smith**

7 Crist and Smith have the ability to receive both import and domestic coal by
8 barge. Western coals can be transported by the Burlington Northern Santa Fe
9 Railway (BNSF) or Union Pacific Railroad (UP) to multiple terminals on the Ohio
10 and Mississippi rivers or via interchanges with the Canadian National Railway
11 (CN), Norfolk Southern (NS) or CSX Transportation Inc. (CSXT) to the Alabama
12 State Docks facility in Mobile, Ala., and then barged to the plants. Illinois Basin or
13 Central Appalachian coal can be transported by barge or by a combination of rail
14 and barge to these plants as well.

15
16 Eastern coal can be transloaded at the Alabama State Docks facility via
17 interchanges with the Canadian National Railway (CN), CSX Transportation Inc.
18 (CSXT), Alabama and Gulf Coast Railway (AGR), and Norfolk Southern (NS)
19 railroads. Import coal can be delivered by ocean vessel to the Alabama State
20 Docks for barge movement to the plants. Currently, Crist and Smith receive
21 Central Appalachian coal and Illinois Basin coal. Smith also has received some
22 western test coal.

23 NS agreement NS-9679 provides for rail transportation of the Alpha Coal Sales
24 Company, LLC coal to the Alabama State Docks through December 31, 2014.

25 The agreement has an annual minimum volume requirement of [REDACTED]
26

1 CN Agreement CN-517554-AB provides for rail transportation of Illinois Basin
2 coal from Foresight Energy and American Coal Company to the Alabama State
3 Docks through December 31, 2014. There are no annual minimum or maximum
4 volume requirements in this rail agreement.

5 Fuel movement to Crist and Smith from Mobile, Alabama is primarily by a single
6 barge carrier, Marquette Transportation Company, LLC (Marquette). The
7 Marquette agreement (SC09005-T) provides for transportation of coal to both
8 plants from the Alabama State Docks and Mobile Bay and River area. The
9 Marquette agreement expires December 31, 2016.

10

11 **Plant Scholz**

12 Scholz has an agreement with the CSXT railroad (CSXT-C-83791) that expires
13 December 31, 2014.

14 No coal deliveries are expected to Scholz in 2014 and the plant will consume
15 inventory prior to the plant's retirement in April 2015.

16

17 **Plant Daniel**

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

22 Daniel can also take advantage of import coals, when economical, through the
23 Alabama State Docks. Import coal is transloaded from an ocean vessel at the
24 Alabama State Docks facility to railcars for shipment to the plant by the CN and
25 interchanged with the MSE. Daniel can also receive Central Appalachian coal via
26 the CSXT and interchange with the MSE. Another potential source of Central

1 Appalachian coal is via the NS railroad through an interchange agreement with
2 the CN railroad.

3 UP agreement UP-55105 provides for rail transportation of Colorado coal to
4 Memphis in conjunction with CN-523746-AA for final delivery to Daniel through
5 December 31, 2014. The agreement has no annual minimum or maximum
6 volume requirement.

7 BNSF agreement BNSF-12677 provides for rail transportation of PRB coal to
8 Memphis, TN where BNSF interchanges with CN to deliver the PRB coal to
9 Daniel. The BNSF agreement expires December 31, 2014. The agreement has
10 no minimum volume requirements.

11 CN/MSE agreement CN-526887-AA provides for rail transportation of PRB and
12 Colorado coal from Memphis, TN to Daniel. The CN/MSE agreement expires
13 December 31, 2014. The agreement has no annual minimum volume
14 requirement.

15 It is anticipated that existing rail transportation agreements will be extended to
16 cover 2015 needs.

17

18 **Budget**

19 During the next 10 years, Gulf is budgeted to transport approximately 2-3 million
20 tons of coal per year. There is a decrease in transportation costs from 2014 to
21 2016 that is directly tied to the loss of burn during this period.

22 From 2015 to 2022, the majority of the uncommitted coal requirements are

23 projected to be met by purchasing a [REDACTED]

24 [REDACTED] The increase in transportation costs are directly related to the

25 increase of the volume of coal to be transported and changes related to the

1 forecast for rail rates. Actual coal purchases may be different than current
2 projections based on economic evaluations.

3

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

6

7

8

9

10

11

12

13

14

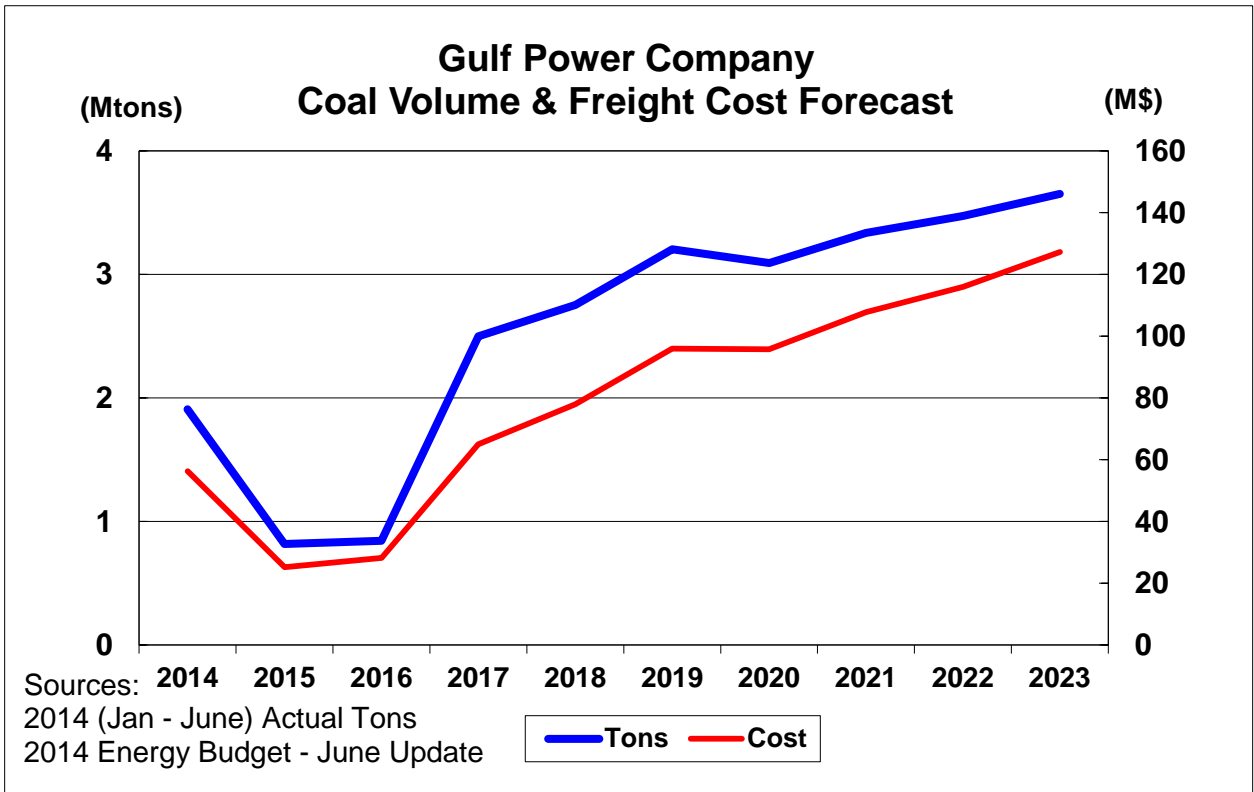
15

16

17

18

19



20

21

Coal Transportation Procurement Strategy

22

23

24

25

26

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 addresses these areas and identifies tactical plans to manage them.

1 **Tactical Plan**

2

3 **Plants Crist and Smith**

4 NS agreement NS-9679 provides for rail transportation of Central Appalachian
5 coal to the Alabama State Docks through December 31, 2014. The tactical plan
6 is to maintain this agreement until its expiration date.

7 CN Agreement CN-517554-AB provides for rail transportation of Illinois Basin
8 coal to the Alabama State Docks through December 31, 2014. The tactical plan
9 is to extend this agreement prior to its expiration date. Discussions with the
10 railroad regarding this agreement have begun with the goal to maintain a no
11 minimum volume requirement.

12 Marquette agreement (SC09005-T) provides primary barge transportation of coal
13 from the Alabama State Docks to Crist and Smith. Marquette agreement
14 (SC09006-T) and Heartland Barge Management agreement (SC09004-T)
15 provide a supply of barges to move coal to Crist and Smith. The Heartland
16 agreement expires December 31, 2014. The Marquette agreements have been
17 extended through December 31, 2016.

18 Under these agreements, Gulf charters approximately 50 barges from Marquette
19 and Heartland. The agreement with Marquette also includes towboat services to
20 support transport of coal to the plants. Three towboats are used to transport coal
21 by barge to Crist and Smith. There are no minimum annual volumes included in
22 the agreements.

23 The tactical plan for the Marquette agreements is to maintain the agreements
24 through 2016 at reduced levels in order to match reduced levels of coal
25 shipments in 2015 and 2016, as they provide a very stable and flexible supply of
26 towboats and barges that are controlled totally by Southern Company Generation

1 Fuel Services for Gulf. The Heartland agreement will be allowed to expire
2 because of reduced levels of coal shipments in 2015 and 2016.

3

4 **Plant Scholz**

5 With the retirement of Plant Scholz in early 2015 the CSXT railroad (CSXT-C-
6 83791) agreement will be allowed to expire December 31, 2014.

7

8 **Plant Daniel**

9 UP agreement UP-55105 provides for rail transportation of Colorado coal to
10 Memphis in conjunction with CN-526887-AA for final delivery to Daniel through
11 December 31, 2014. The tactical plan is to let this agreement expire unless
12 additional Western coal is required for blending in 2015.

13 BNSF agreement BNSF-12677 provides for rail transportation of PRB coal to
14 Memphis, TN where BNSF interchanges with CN to deliver the PRB coal to
15 Daniel. The BNSF agreement expires December 31, 2014. The tactical plan is to
16 submit the movement for competitive bid during the third quarter of 2014 to cover
17 shipments in 2015.

18 CN/MSE agreement CN-526887-AA provides for rail transportation of PRB and
19 Colorado coal from Memphis, TN to Daniel. The CN/MSE agreement expires
20 December 31, 2014. The tactical plan is to extend this agreement only for PRB
21 coal unless additional Western coal is needed for blending in 2015. Discussions
22 with the railroad regarding this agreement are underway with the goal to maintain
23 a no minimum volume requirement.

24

25

1 **Gulf Power 2015 Natural Gas Procurement Strategy**

2 3 **Gas Program Overview**

4 Natural Gas is used for primary fuel at the Smith 3 combined cycle unit, boiler
5 lighter fuel at Crist Units 4-7, and for generation secured under purchased power
6 agreements beginning in 2009. Prior to 2002, natural gas represented a
7 relatively small portion of Gulf's overall fuel budget. With the addition of the
8 Smith 3 combined-cycle unit in 2002, natural gas became a more significant
9 portion of Gulf's overall fuel budget.

10 Gulf Power's natural gas procurement strategy is to purchase a cost effective yet
11 highly reliable fuel supply to support the operation of its generating facilities.

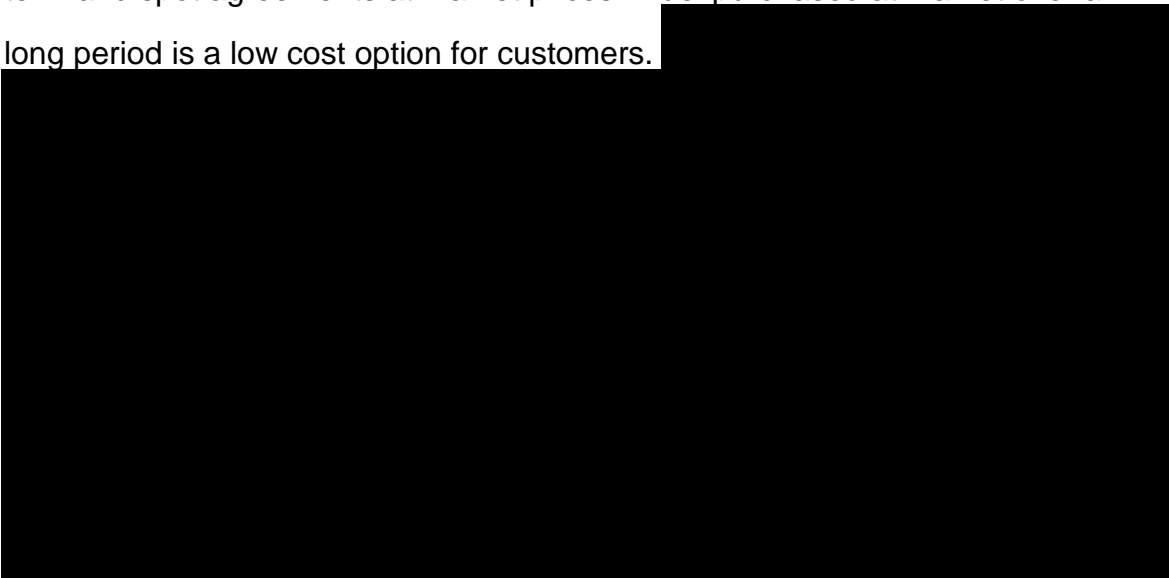
12 Securing competitive fuel prices for its customers and minimizing both price and
13 supply risk are the governing considerations in developing Gulf's fuel
14 procurement strategy.

15 16 **Projected Natural Gas Purchases**

17 Southern Company Services (SCS) as agent for Gulf purchases natural gas to
18 be delivered to Plant Crist for lighter purposes on the coal fired units and to Plant
19 Smith as primary fuel for Unit 3 which is a combined cycle generating unit. SCS
20 will also purchase natural gas to serve as primary fuel for the Shell (Central
21 Alabama) purchased power agreement. Gulf has contracted for storage capacity
22 at Bay Gas Storage near Mobile, AL, Leaf River Energy Center near Richton,
23 MS, and at Southern Pines Energy Center near Hattiesburg, MS and will
24 purchase natural gas to maintain targeted quantities of gas in storage during the
25 year.

1 **Procurement Strategy**

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



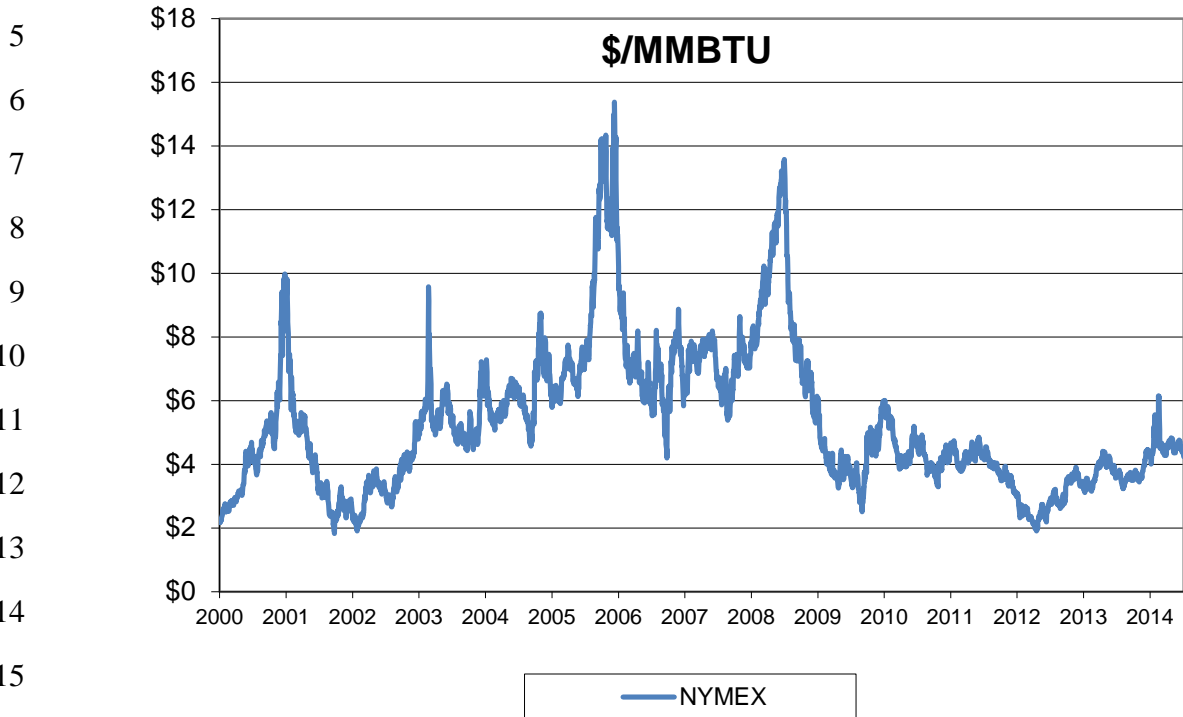
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

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

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

3

4 **Historical Natural Gas Prices - NYMEX**



16 **Pricing Strategy**

17 Gulf Power will continue to purchase gas, both under long-term and spot
18 contracts at market based prices. However, pursuant to Commission order, Gulf
19 Power will financially hedge gas prices for some portion, generally between [REDACTED]
20 [REDACTED] percent of Gulf Power's projected annual gas burn for the current year, in
21 order to protect against short-term price swings and to provide some level of
22 price certainty. This [REDACTED] percent hedge range allows Gulf Power to provide
23 a degree of price certainty and protection against short-term price swings while
24 still allowing the customers to participate in markets where natural gas prices are
25 low. Gulf Power will secure natural gas hedges over a time period not to exceed
26 60 months, per the following schedule:

1	Period	Lower Target Hedge %	Upper Target Hedge %
2	Prompt Year (2015)		
3	Year 2 (2016)		
4	Year 3 (2017)		
5	Year 4 (2018)		
6	Year 5 (2019)		

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

8

9 Although SCS will target the levels shown in the table above, SCS may
10 accelerate or decelerate the plan accordingly based on market conditions. Gulf's
11 hedging targets are expressed on an annual basis due to the potential for large
12 variances in month to month gas consumption. The monthly variance in gas
13 burn is due to Gulf's units being dispatched on an economic basis with the other
14 generating units in the Southern electric system and the impact of unit outages
15 on Gulf's total gas burn.

16

17 SCS, working in partnership with Gulf Power, develops short-term hedge
18 strategies based on current and projected market conditions.

19 [REDACTED]

20 [REDACTED]

21 [REDACTED] SCS will employ both
22 technical and fundamental analysis to determine appropriate times to hedge.
23 However, the objective is not to speculate on market price or attempt to outguess
24 or "beat the market". Gulf will utilize fixed priced swaps as its primary financial
25 gas price hedging instrument but may also utilize options when appropriate. As a
26 result of market conditions, Gulf recently has been utilizing Collars as a hedging

1 tool. A Collar is an option-based hedging tool that allows Gulf to protect its
2 customers from upward price swings while at the same time increasing the
3 benefit to the customer should the current low-price market conditions persist.

4
5 While the hedging program will protect the customer from short-term price
6 spikes, hedges can also lead to higher costs when natural gas prices fall
7 subsequent to entering hedges. Gulf Power will limit the amount of fixed-price
8 hedges to a maximum of [REDACTED] percent of the projected fuel burn for the upcoming
9 year. In addition, Gulf Power will limit option priced hedges to [REDACTED] percent of its
10 projected burn.

11
12
13
14
15
16
17
18
19
20
21

1 Gulf Power's 2015 Oil Procurement Strategy

2

3 Oil Program Overview

4 Oil is used at Gulf predominantly for boiler lighting. Oil is used as a boiler lighter
5 fuel at Crist units 4-7, Daniel 1&2, Scherer 3, Scholz 1&2 and Smith 1&2. Oil is
6 also the primary fuel at the Smith A CT unit and as back-up fuel at the Shell
7 (Central Alabama) CC Plant currently under a purchase power agreement with
8 Gulf. Overall, oil use is projected to be a small portion of Gulf's overall fuel
9 budget.

10

11 Procurement Strategy

12 Gulf's strategy for oil procurement is to purchase the commodity at market prices.
13 Fuel purchased at-market over a long period is a low cost option for customers.
14 Gulf purchases fuel oil on an annual basis through a formal bidding process. As
15 part of this bidding process, Gulf negotiates predetermined contracts to set the
16 index based market price for the commodity and delivery adders for fuel oil
17 delivery to each plant. As inventories are depleted during the year, Gulf will
18 purchase additional fuel oil quantities based on the negotiated contract for the
19 plant.

20

21 Pricing Strategy

22 Oil pricing will be indexed to current market prices at the time purchases are
23 made. Since fuel oil is such a small portion of the overall fuel budget, Gulf does
24 not currently plan to financially hedge oil prices.

25

26

1 **Gulf Power Company Risk Management Policy**

2

3 **I. Introduction**

4

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

9

10 **II. Objectives**

11

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

15

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

19

20 **III. Guidelines**

21

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

26

1 The Southern Company Derivatives Policy states:

2 “It is the policy of The Southern Company that derivatives are to be
3 used only in a controlled manner, which includes identification,
4 measurement, management, control and monitoring of risks. This
5 includes, but is not limited to, well-defined segregation of duties,
6 limits on capital at risk, and established credit policies. When the
7 use of derivatives is contemplated, this policy requires that a formal
8 risk management plan be developed that adheres to The Southern
9 Company Risk Oversight Committee Business Unit Guidelines.
10 This policy also requires that, prior to initiation of a risk
11 management program that makes use of derivatives, the risk
12 management program must be approved by both the Chief
13 Financial Officer of the respective Southern Company subsidiary
14 and the Chief Financial Officer of The Southern Company.”

15

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

21

22

23

24

25

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

4

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

8

9 **RESOLVED FURTHER,** That the Officers are hereby authorized
10 to effect derivative transactions that comply with the policy,
11 including swaps, caps, collars, floors, swap options, futures,
12 forward and options, relating to energy and associated
13 commodities, weather, interest rates, currencies, and
14 contracts and other arrangements for fuel supplies; and

15

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

24

1 **IV. Process**

2

3 Certain officers of the Company were given authority to enter into hedging
4 transactions that they consider necessary in order to reduce risk associated with
5 procuring fuel and energy. The authorized officers are Vice President, Chief
6 Financial Officer and Comptroller for Gulf Power Company or his designee.

7 Once authorization has been received, Southern Company Services Fuel
8 Services, agent for Gulf Power Company, will conduct all hedging transactions in
9 accordance with the Southern Company Generation Risk Management Policy.

10 It is the responsibility of SCGen Risk Control (the mid-office) to inform the Fuel
11 Manager for Gulf Power Company or the Regulatory Accounting Manager for
12 Gulf Power Company about the use of hedging transactions associated with Gulf
13 generation resources and to provide open position values (mark to market) to the
14 above noted individuals and the Gulf Chief Financial Officer and Comptroller.

15

16

17

18

19

20

21

22

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

Southern Company Energy Trading Risk Management Policy

**CONFIDENTIAL
FOR COMPANY USE ONLY**

CONTENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

<u>Policy Section</u>	<u>Page</u>
I. Introduction.....	25
II. Purpose	25
III. Business Objectives	27
IV. Business Strategies.....	27
V. Authorizations.....	28
VI. Segregation of Duties	28
VII. Market Risk Identification	30
VIII. Market Risk Measurement and Valuation.....	31
IX. Market Risk Limits	31
X. Credit Risk.....	32
XI. New Products	32
XII. Funding Liquidity	33
XIII. Operating Procedures and Systems.....	34
XIV. Accounting and Tax.....	35
XV. Legal.....	35
XVI. Monitoring and Reporting	36
XVII. Personnel Trading	36
XVIII. Business Recovery.....	36
XIX. Compliance	37
XX. Independent Review.....	37
XXI. Policy Amendments.....	38
XXII. Terminology.....	38

1	APPENDIXES	
2	A. Approved Business Objectives.....	39
3	B. Approved Commodities	43
4	C. Approved Instruments	44
5	D. Authorizations	45
6	E. Segregation of Duties.....	53
7	F. Market Risk Measurement	55
8	G. Daily Income Notification Levels	59
9	H. Market Risk Limits.....	67
10	I. Incumbent Listing; Authorized Individuals	68
11	J. Accounting and Tax	77
12	K. Employee Acknowledgement.....	79
13	L. Definitions	81
14		
15		
16		
17		

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1 I. Purpose

2 This Southern Company Energy Trading Risk Management Policy (“RMP”) applies
3 to energy related trading, hedging, and procurement activities, performed by
4 Authorized Individuals, as defined in Appendix D of this RMP, and the associated
5 risk management activities as defined within this RMP. The purpose of this RMP is
6 to:

- 7 • Provide collective limits and preset guidelines for each employee authorized
8 to legally bind Southern Company Services and the related Operating
9 Companies (collectively, the “Company”) to transactions covered by this
10 RMP;
- 11 • Establish sound guidelines to follow in managing and controlling risks; and
- 12 • Define the responsibilities for managing, monitoring, and reporting risks.

13
14 Notwithstanding anything to the contrary contained in this RMP, compliance with all
15 legal and regulatory requirements, pronouncements, orders, etc. is required.

16
17 II. Background

18 In August 1997, the Southern Company Risk Oversight Committee (“SROC”)
19 approved a set of risk management guidelines. Also, at various times during 2000
20 through 2002, the boards of directors for Southern Company, the Operating
21 Companies (Alabama Power Company, Georgia Power Company, Gulf Power
22 Company, and Mississippi Power Company), and Southern Power Company
23 (“SPC”) adopted the Southern Company Policy on the Use of Derivatives
24 (“Derivatives Policy”). The Derivatives Policy was updated and approved by the
25 various boards in 2012.

26

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1 During 2006, the risk oversight and governance framework for Southern Company
2 continued to evolve to further refine the oversight structure and to reflect
3 organizational changes since the original SROC approved risk management
4 guidelines in August 1997. As part of this evolution, the SROC was reconstituted,
5 and a Generation Risk Oversight Committee was formed. These groups, along with
6 the Risk Advisory and Controls Committee, replaced the Energy Risk Management
7 Board and assumed its responsibilities.

8
9 Effective November 19, 2007, as a result of the Separation Protocol, certain
10 functions for SPC were separated from the Operating Companies and certain
11 communications between them was restricted. It was decided that SPC would no
12 longer attend or have representation on the Generation Risk Oversight Committee.
13 This decision prompted the need separate SPC risk monitoring. The Generation
14 Risk Oversight Committee continues to monitor the consolidated energy trading
15 risks, including SPC positions.

16
17 The Southern Company Derivatives Policy requires any business unit engaging in
18 energy trading and marketing activities to develop a risk management policy. This
19 policy must be consistent with the Southern Company Enterprise Risk Management
20 Framework document and must include, but not be limited to, well-defined
21 segregation of duties, limits on capital at risk, credit policies, notification
22 requirements, and proper documentation and reporting.

23
24

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1 III. Business Objectives

2 The Approved Business Objectives for the trading activities performed by
3 Authorized Individuals are defined in Appendix A.

4

5 IV. Business Strategies

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

8

9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]

14

15 [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]

19

20 Various contract types or financial instruments will be used to achieve the
21 Approved Business Objectives. The Approved Risk Management Instruments
22 are listed in Appendix C. SCS Risk Control must be consulted before the
23 execution of any Approved Risk Management Instruments that have not been
24 previously used, including combinations of instruments not previously used.
25 SCS Risk Control must ensure that the requirements set forth in this RMP can
26 be followed with respect to those instruments.

1 V. Authorizations

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

4

5 VI. Segregation of Duties

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

8



9

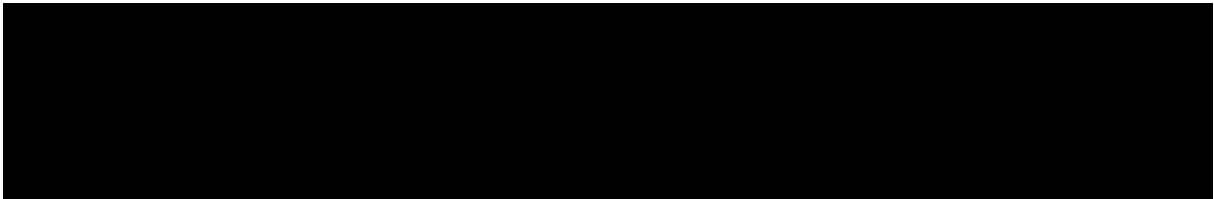
10

11

12

13

14



15

16

17

18

19 Appendix E shows the organizational separation of function required by this
20 RMP. The following is a summary of the responsibilities of the different
21 functions:

22

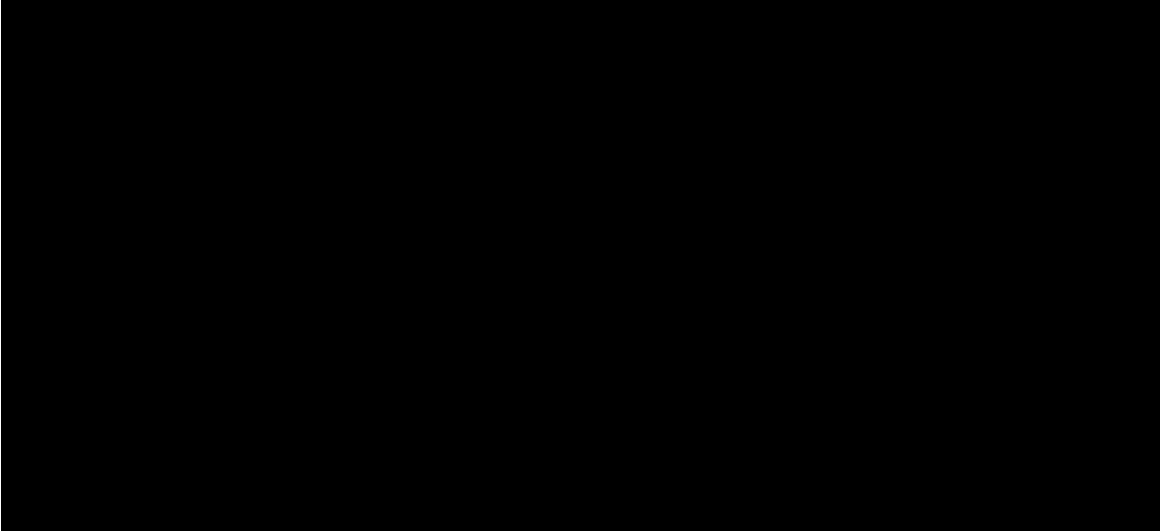
23 Origination, Structuring, and Execution: The functions of origination, structuring, and
24 execution include the following responsibilities:

25

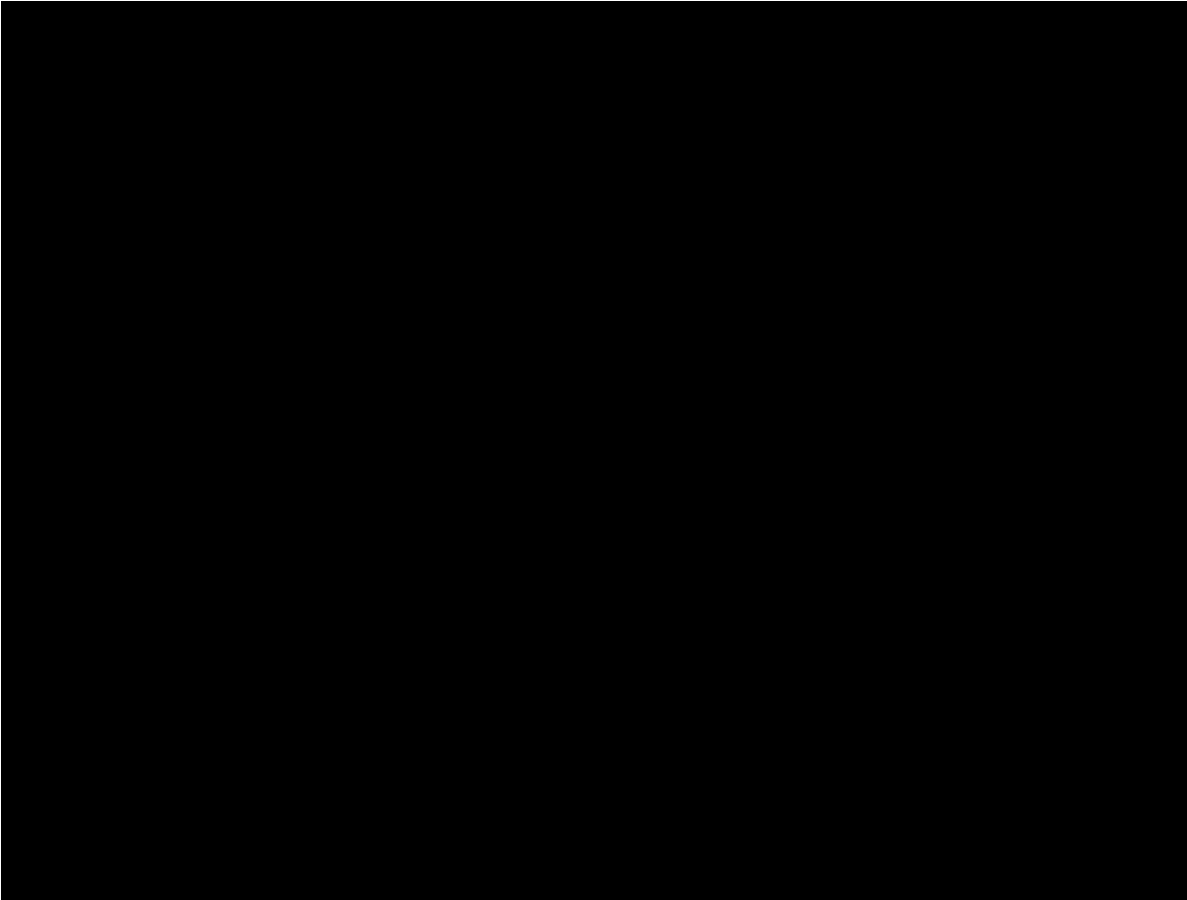


Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

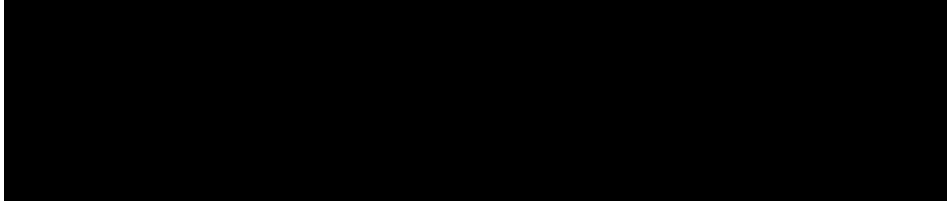


Confirmation, Monitoring, Reporting and Disclosure: The functions of trade confirmation, risk monitoring, risk reporting, and disclosure include the following responsibilities:

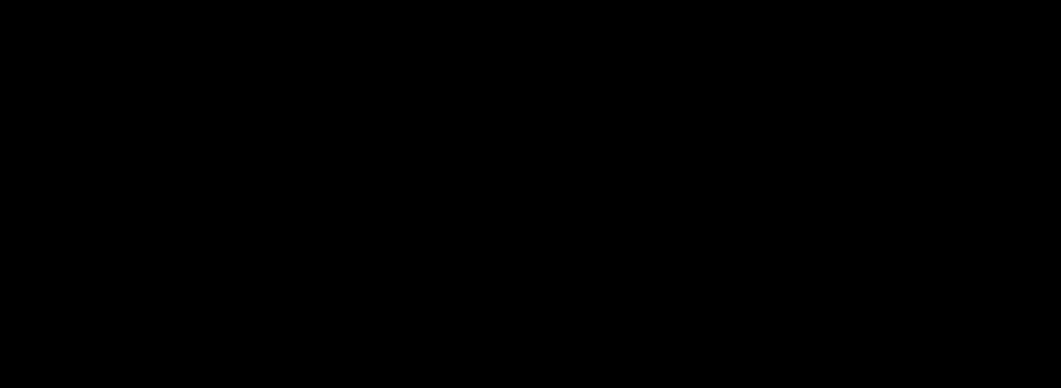


Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26



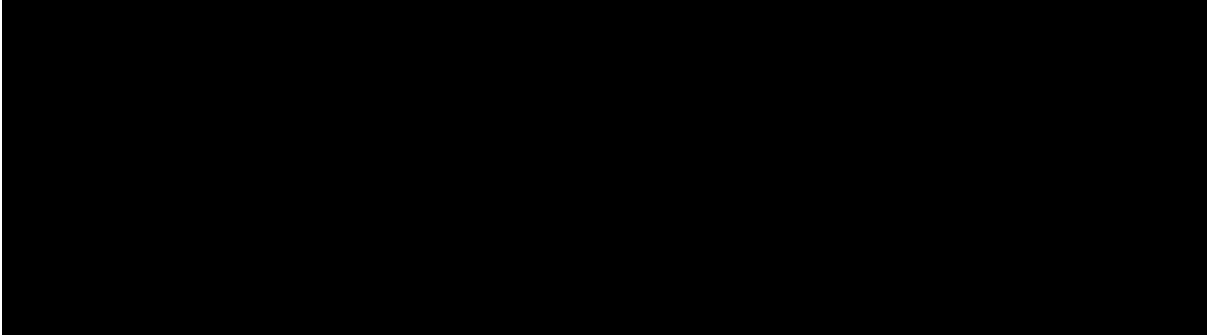
Settlement: The function of settlement includes the following responsibilities:



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



1 VIII. Market Risk Measurement and Valuation

2 [Redacted]
3 [Redacted]
4 [Redacted]

5 [Redacted]
6 [Redacted]
7 [Redacted]

8 [Redacted]
9 [Redacted]
10 [Redacted]
11 [Redacted]

12 [Redacted]
13 [Redacted]
14 [Redacted]
15 [Redacted]
16 [Redacted]
17 [Redacted]

18
19 IX. Market Risk Limits

20 Exposure Limits

21 The maximum exposure limit for each business objective should not exceed the
22 limits specified in Appendix H.

23
24 Notifications

25 Certain notifications to management are required as defined in Appendix G.

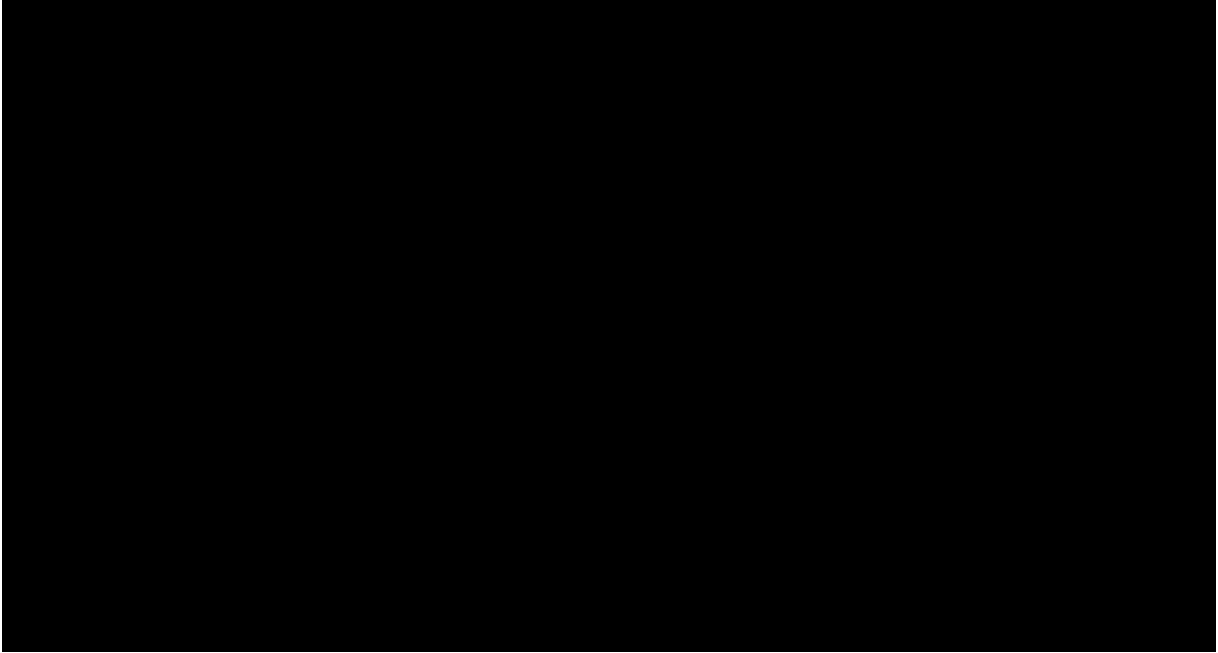
26

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1 Volumetric Position Limits Volumetric Position limits as defined by the Commodity
2 Futures Trading Commission (CFTC), will be monitored and reported as necessary,
3 according to CFTC rules.

4

5 X. Credit Risk



6

7

8

9

10

11

12

13

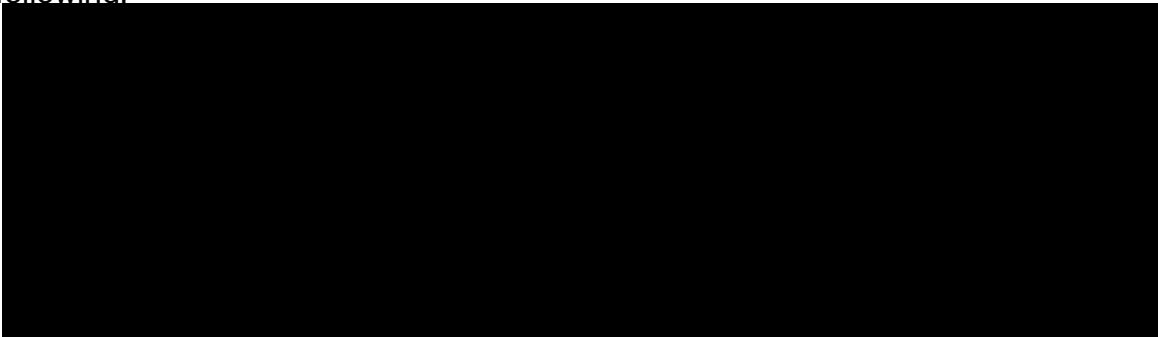
14

15

16

17 XI. New Products

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



22

23

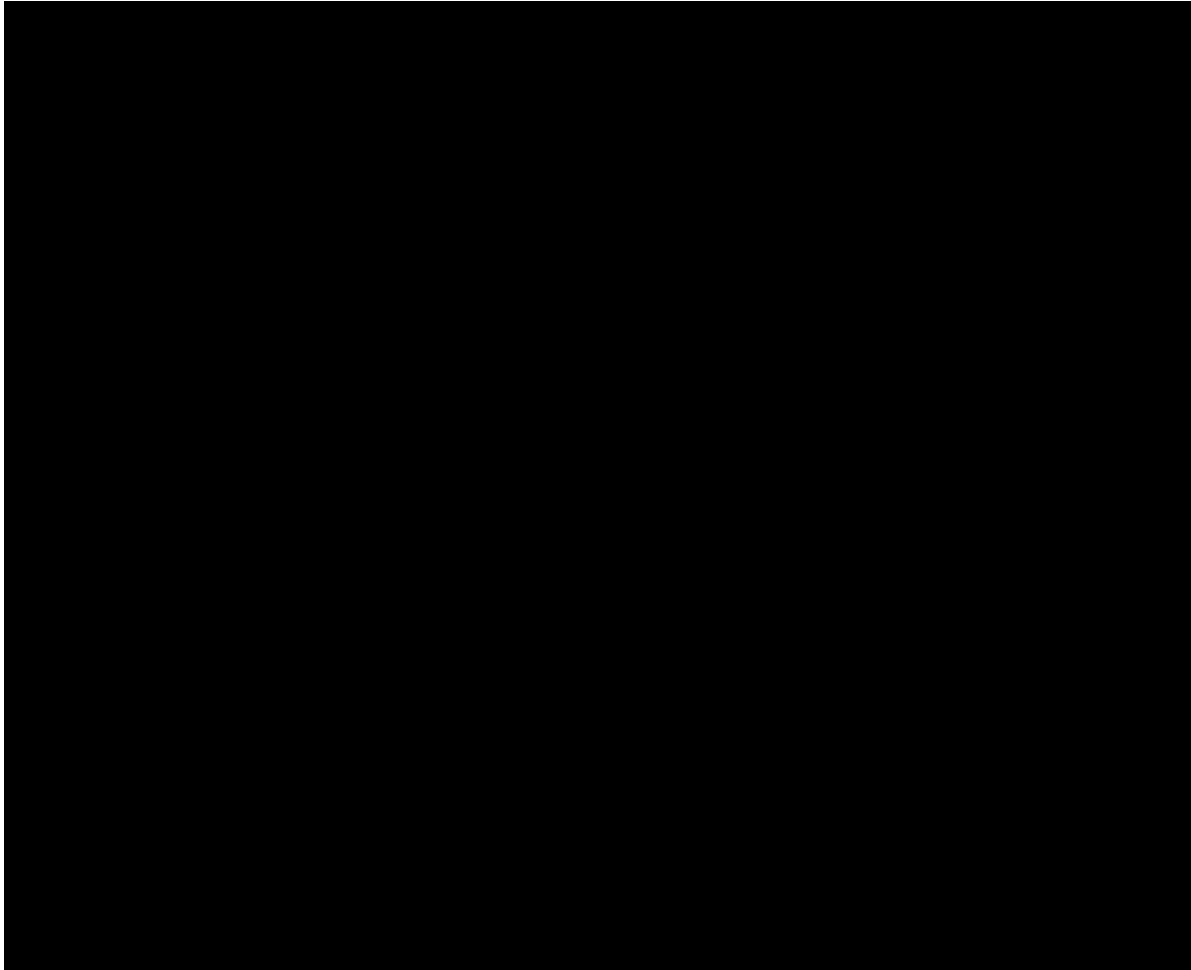
24

25

26

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26



XII. Funding Liquidity



Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1 XIII. Operating Procedures and Systems

2 Processes.

3

4

5

6

7 Recording Transactions.

8

9

10

11

12

13

14 Contract Administration.

15

16

17

18

19

20

21

22

23

24

25

26

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1 Operating Procedures.

2
3
4

5

6 XIV. Accounting, Tax, and Regulatory Reporting

7
8
9
10
11
12
13
14
15

16

17
18
19
20

21

22 XV. Legal

23
24
25
26

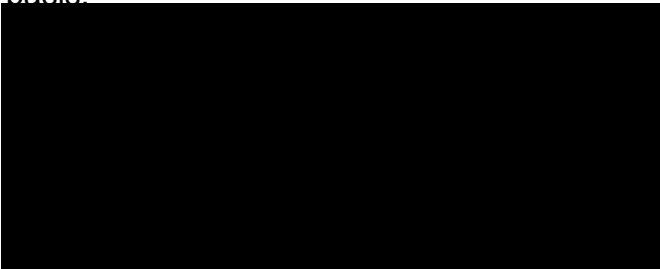
Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26



XVI. Monitoring and Reporting

SCS Risk Control personnel will calculate and report the following items on a daily basis:

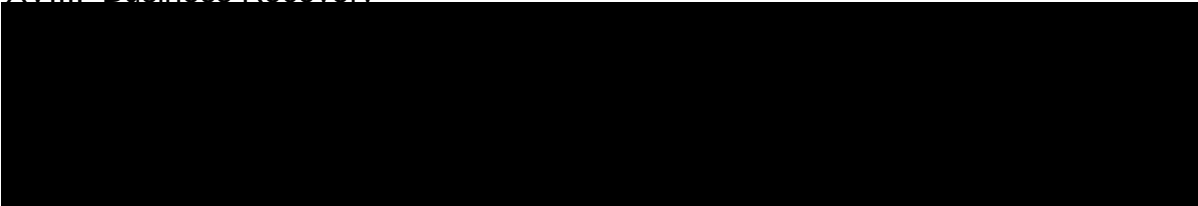


The Portfolio Management group will prepare regular position reports. The Energy Analysis group will report preliminary gross margins or P&L on a daily basis.

XVII. Personal Trading

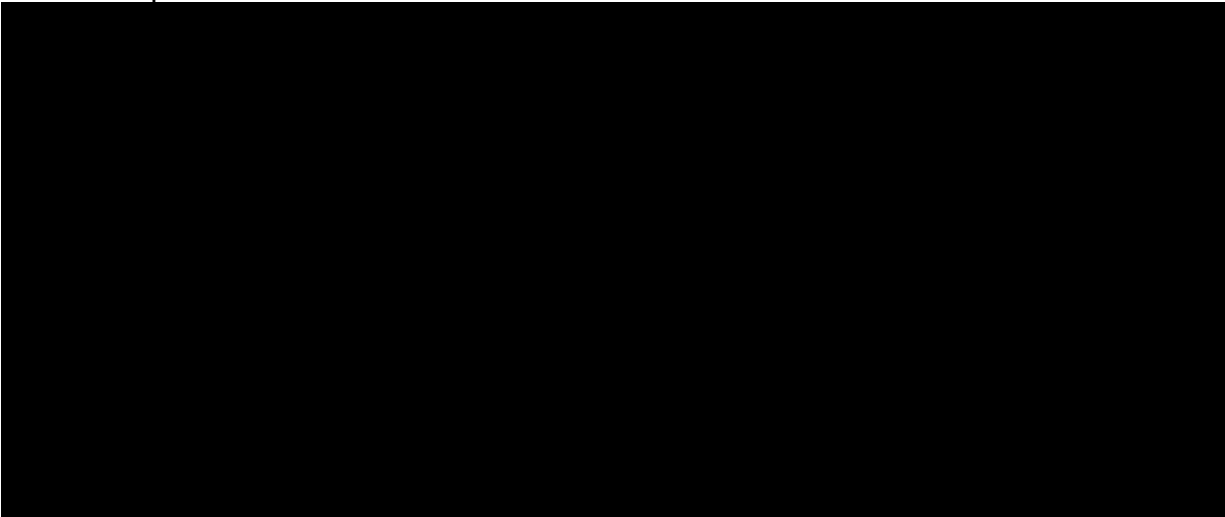
All employees whose activities are governed by this RMP as defined in Section XIX are prohibited from trading any approved commodity for their own account or for the benefit of any party except as specifically authorized as part of the individual's duties with the Company.

XVIII. Business Recovery

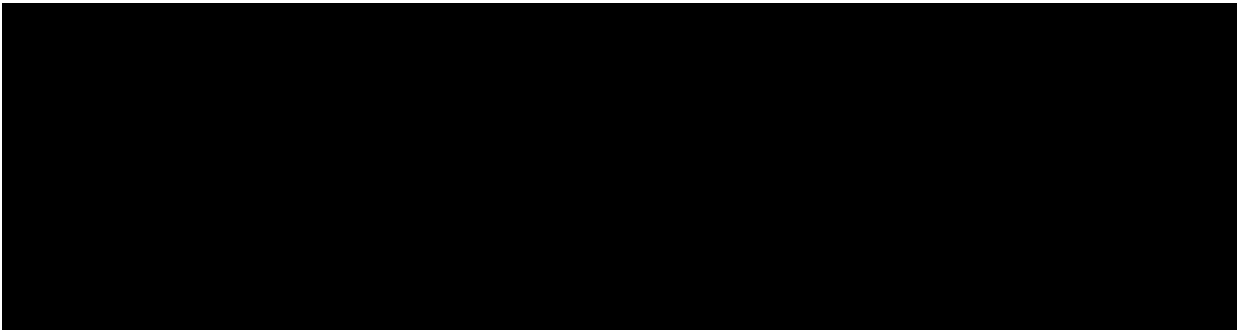


1 XIX. Compliance

2
3
4
5
6
7
8
9



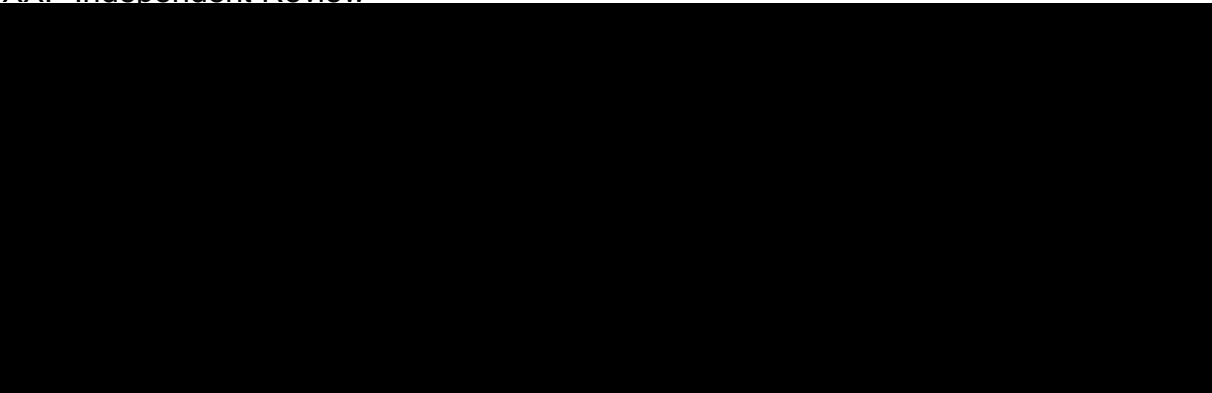
10
11
12
13
14
15



16

17 XX. Independent Review

18
19
20
21
22
23
24
25
26



1 XXI. Policy Amendments

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18 XXII. Terminology

19 Definitions of terminology used in this RMP are contained in Appendix L.

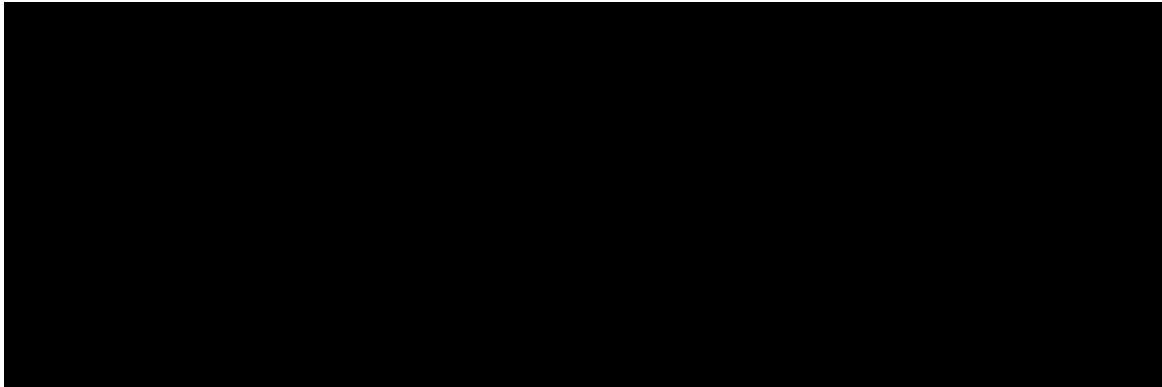
20

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

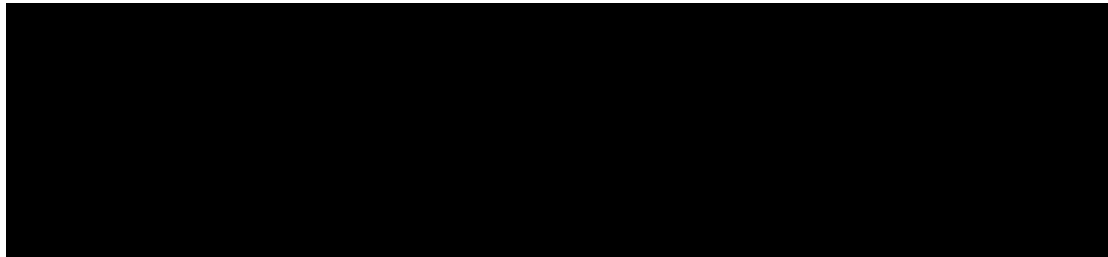
APPENDIX A
APPROVED BUSINESS OBJECTIVES

Fleet Operations and Trading

The primary objectives of Fleet Operations and Trading are to:



In addition to the primary objectives, Fleet Operations and Trading may execute secondary activities as limited by Appendix H to achieve the following secondary objectives to the extent permitted by all applicable policies and regulations:



Any Primary or Secondary Strategies that would require clearing and / or posting of margin must be approved by the Risk Advisory and Controls Committee prior to execution.

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1 Southern Power Company Trading & Asset Management

2 The primary objectives of the SPC Trading and Asset Management activities are the
3 following:

4 

9
10 In addition to the primary objectives, SPC Trading & Asset Management may
11 execute secondary activities as limited by Appendix H to achieve the following
12 secondary objectives to the extent permitted by all applicable policies and
13 regulations (including, but not limited to the IIC and Separation Protocol):

14 

24
25 All SPC Secondary Strategies must be approved by the SPC Chief Financial Officer
26 and the SPC Chief Commercial Officer.

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1 Any SPC Primary or Secondary Strategies that would require clearing and / or
2 posting of margin must be approved by the SPC Chief Financial Officer and the SPC
3 Chief Commercial Officer.

4

5 Natural Gas Fulfillment Function

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

7

8

9

10

11

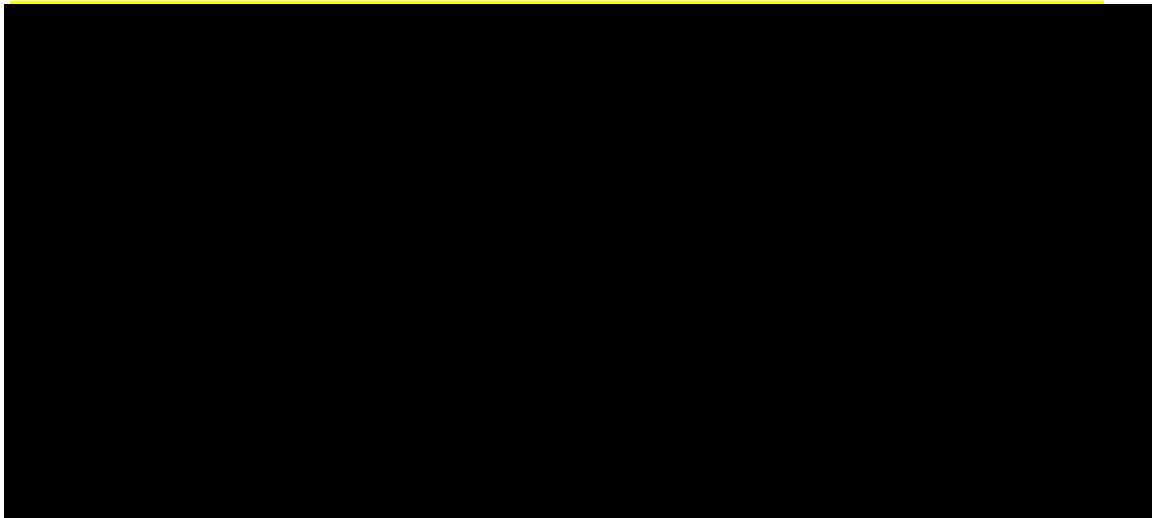
12

13

14

15

16



17 Secondary activities of the natural gas fulfillment function are restricted to positions
18 intended to hedge secondary power positions, and which have been requested by
19 Fleet Operations and Trading or SPC Trading & Asset Management.

20

21 Environmental Products Management Function

22 The primary objectives of the Environmental Products Management Function are to:

23

24

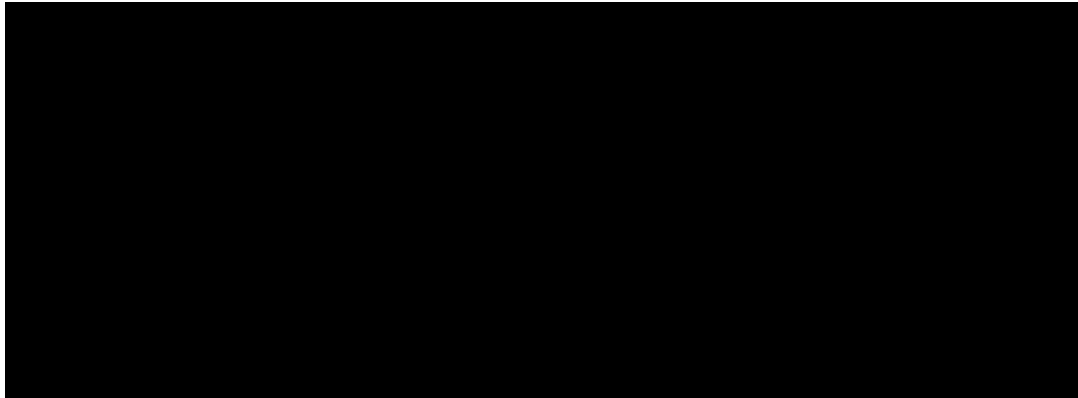
25

26



Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1
2
3
4
5
6



7 Secondary activities of the Environmental Products Management Function are
8 restricted to positions intended to hedge secondary power positions, and which have
9 been requested by Fleet Operations and Trading or SPC Trading & Asset
10 Management.

11

12 Coal Fulfillment Function

13 The primary objectives of the Coal Fulfillment Function are to:

14
15
16
17
18
19
20
21
22



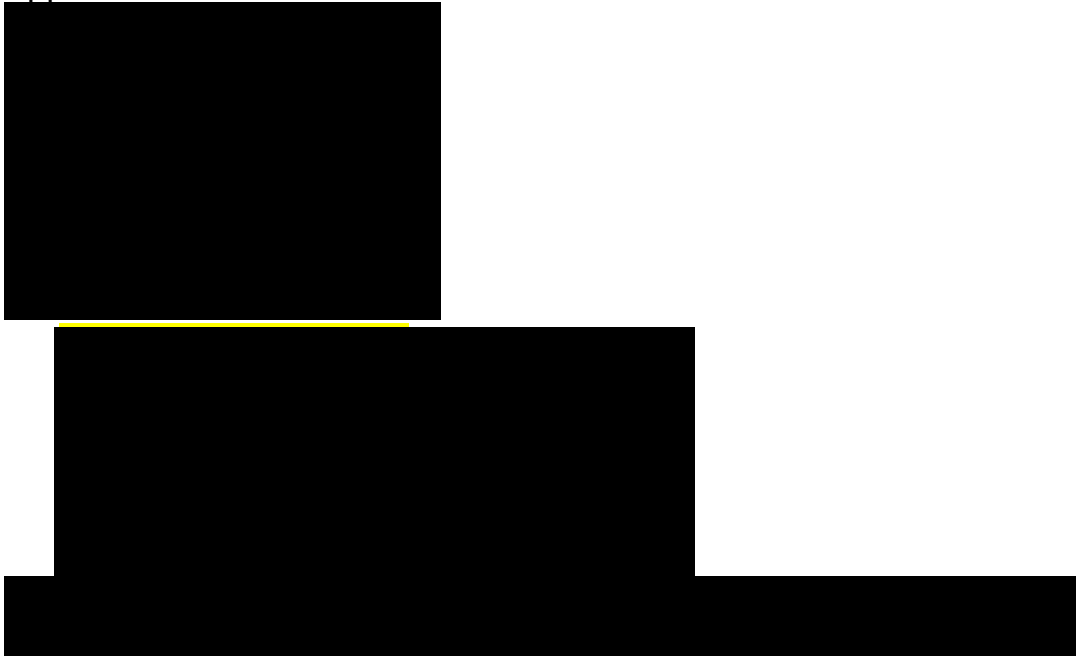
23

24 Secondary activities of the Coal Fulfillment Function are restricted to positions
25 intended to hedge secondary power positions, and which have been requested by
26 Fleet Operations and Trading or SPC Trading & Asset Management.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

APPENDIX B
APPROVED COMMODITIES

The approved commodities for this RMP are:



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19

APPENDIX C

APPROVED INSTRUMENTS

The approved instruments are:



Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1

2

APPENDIX D

3

AUTHORIZATIONS

Name	Authority
Southern Company Risk Oversight Committee (SROC)	
Generation Risk Oversight Committee (GROC)	
Southern Power Risk Oversight Committee (SPROC)	

4


Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

Risk Advisory and Controls Committee (RACC)	
Southern Company Generation Energy Credit Committee (ECC)	
Manager, Risk Control	

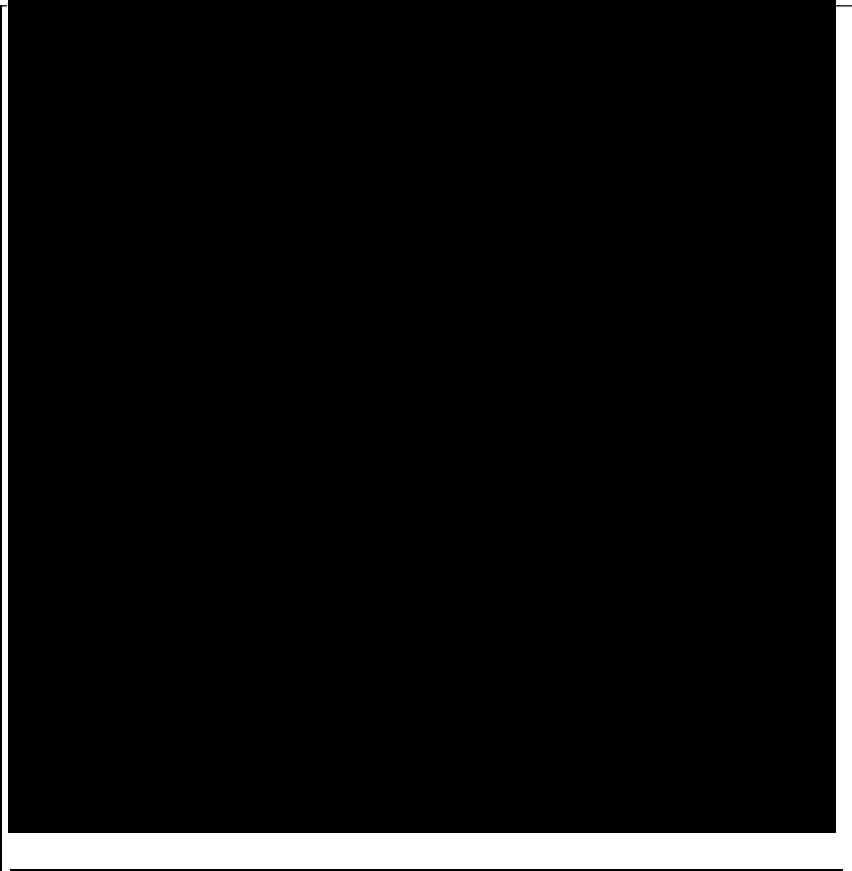
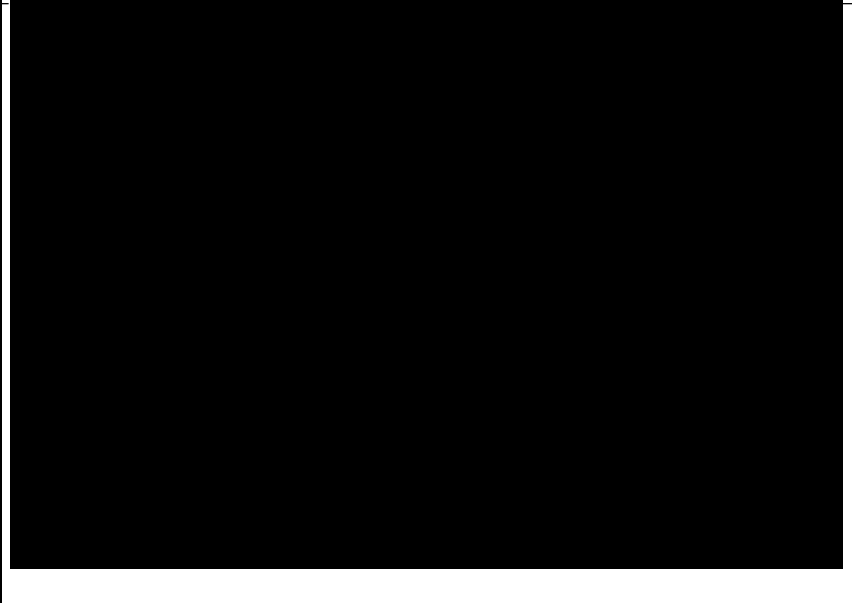

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1
2
3
4

APPENDIX D
AUTHORIZATIONS (continued)
Energy Marketing

Name	Authority
Vice President, Commercial Operations & Services	

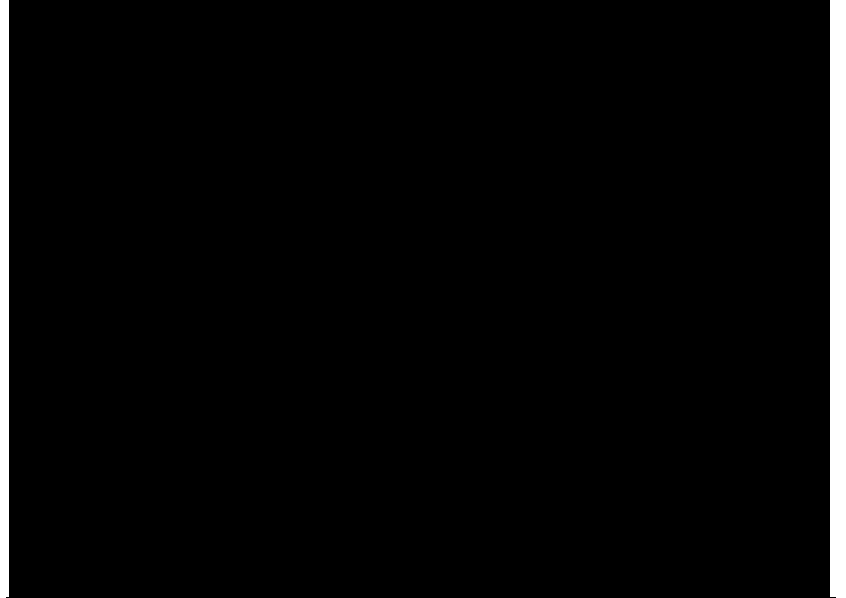
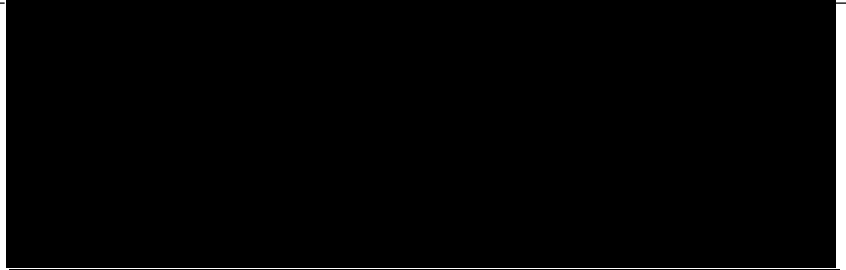

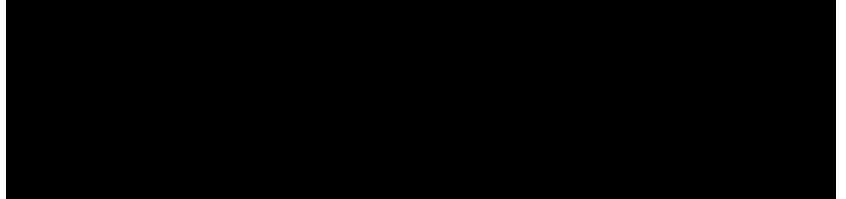
Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

<p>Vice President, Chief Commercial Officer, SPC</p>	
<p>Sr. Vice President, Chief Financial Officer, SPC</p>	
	

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

Energy Trading Manager	
------------------------	---

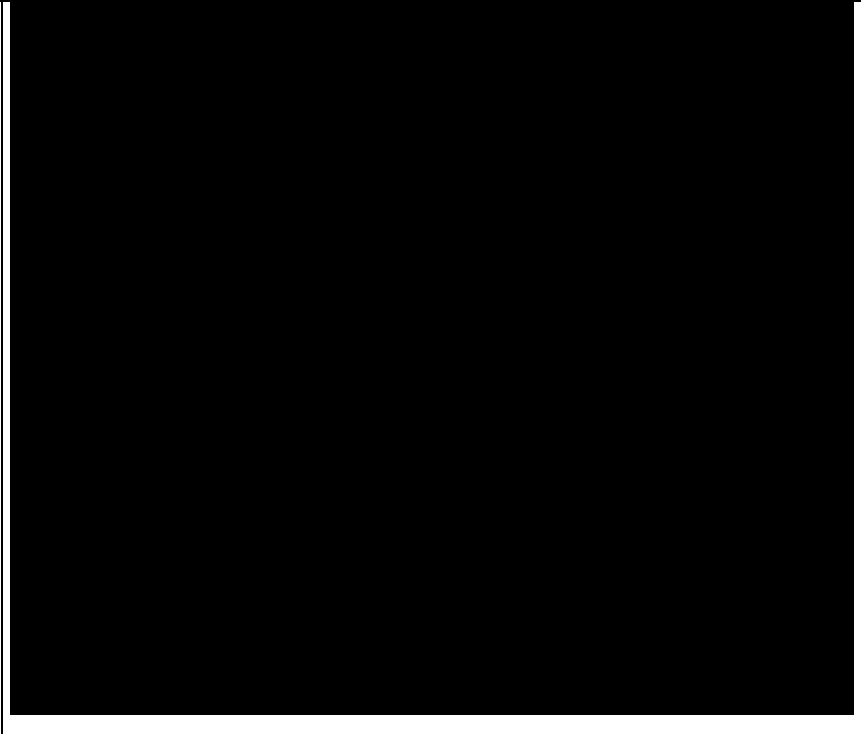
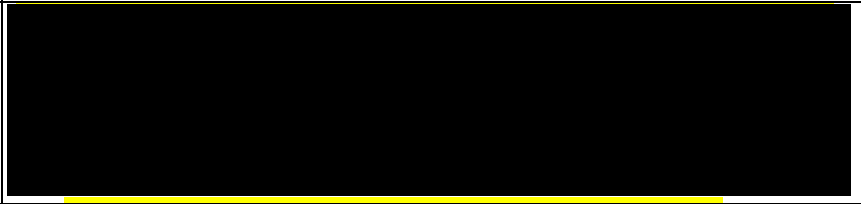

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

Manager, SPC Trading and Asset Management	
Term Traders	
Energy Coordinators	
Transmission Project Coordinators and Energy Schedulers	

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1
2
3
4

APPENDIX D
AUTHORIZATIONS (continued)
SCS Fuel Services

Name	Authority
Vice President, Fuel Services	
Gas Services Director	
Gas Operations Manager	

5

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

Gas Trading Manager	[Redacted]
Natural Gas Trader - Physical	[Redacted]
Natural Gas Trader - Financial	[Redacted]
Natural Gas Schedulers	[Redacted]
Coal Services Director	[Redacted]

1
2

1

APPENDIX E

2

SEGREGATION OF DUTIES

3

To ensure that risk management activities are properly carried out, certain functions

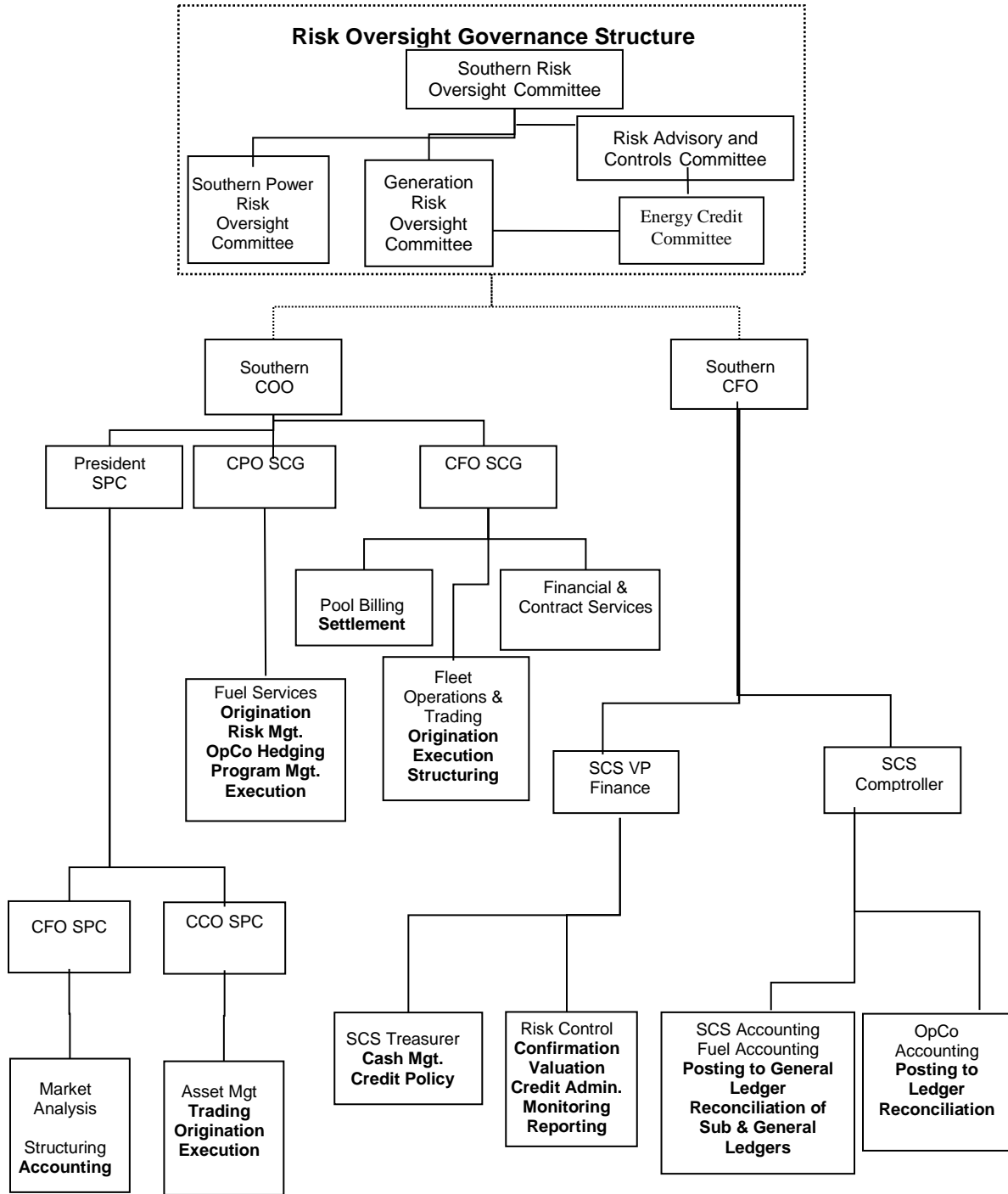
4

will be separated. The following chart identifies these functions (depicted as **BOLD**

5

bullet items) and their reporting process.

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only






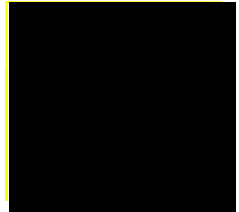
1
2
3

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1
2
3
4

APPENDIX F

MARKET RISK MEASUREMENT

Approved Commodities	
Electrical Power	
Natural Gas	
Coal Environmental Products Oil Products RECs	

5
6
7
8

Parametric VaR Methodology

Formula Components

Component	Symbol	Comments
Value at Risk	VaR	See Equation Below
Position	PSN	Given in Applicable Measurement Units

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

Daily Standard Deviation of Price Change	ΔP	Given in \$/Applicable 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

1
2
3
4

Equation

$$\text{VaR} = \text{PSN} * \Delta P * \text{Square Root of HP} * \text{CI}$$

ParametersCommodity	Holding Period (HP)	Multiplier (CI)
Electric Power Term <= 1 Year Term > 1 Year	[REDACTED]	[REDACTED]
Natural Gas Term <= 1 Year Term > 1 Year	[REDACTED]	[REDACTED]

5
6

APPENDIX F

STRESS TESTING METHODOLOGY

The purpose of stress testing is to generate percentage price changes for the forward curve that answer this question:

If an extreme event occurs, what can we expect to happen to prices and the portfolio value?

The stress test is designed to capture the expected value of an extreme event as defined by an extreme value distribution. To differentiate, there is a downward and an upward stress test.

Specifically, the expected downward stress is calculated as:

$$E[\Delta p / p \mid \Delta p / p < \Delta] = \text{the Integral of } f(x)dx \text{ from negative infinity to } \Delta$$

and the expected upward stress is calculated as:

$$E[\Delta p / p \mid \Delta p / p > \Delta] = \text{the Integral of } f(x)dx \text{ from } \Delta \text{ to infinity}$$

where Δ is the threshold that defines classification as an extreme event, $f(x)$ is an extreme value distribution fitted to a specific contract, and x is a percentage price change.

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1

Price Return Distribution	[REDACTED]
Holding Period	[REDACTED]
Extreme Event Threshold	[REDACTED]

2

3

4 **Ad Hoc Stress Testing**

5

6 Ad hoc stress testing will be performed as appropriate based on price scenarios
7 determined using alternative methods including, but not limited to, the following:

- 8 • specific historical scenarios;
- 9 • rating agency defined price changes;
- 10 • analysis of out-of-the money option trading; and
- 11 • subjectively determined price changes.

12

13

14

15

16



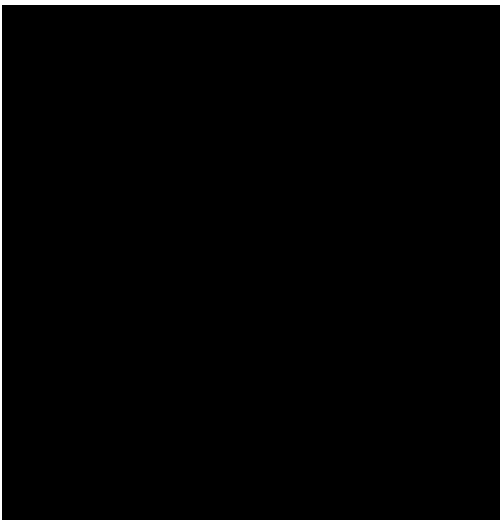

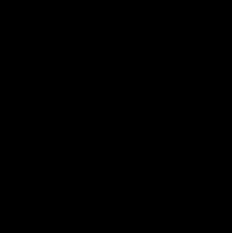

17

18

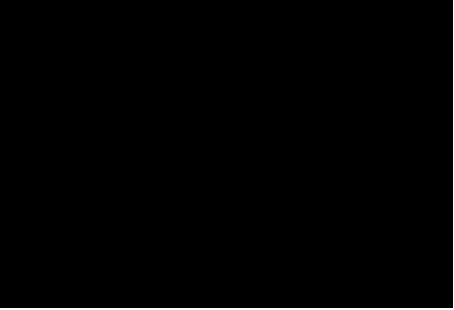
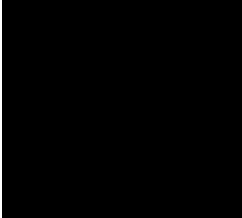


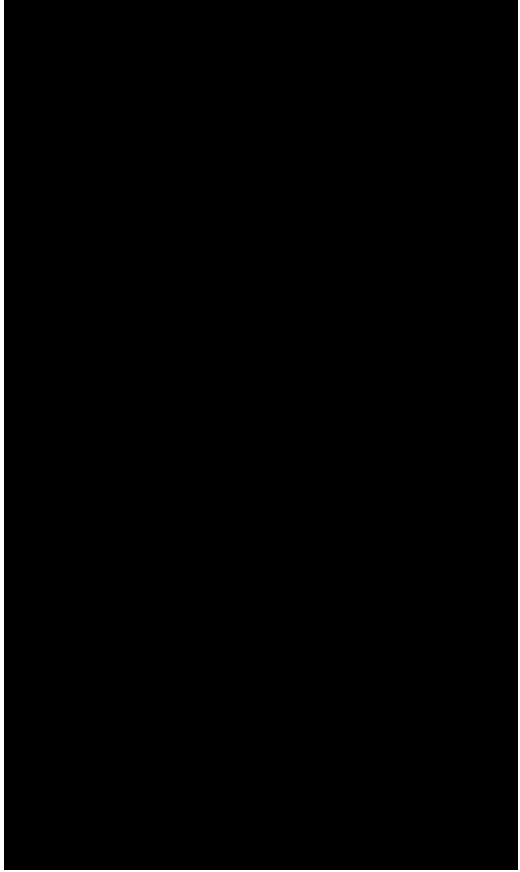
Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1
2
3
4
5

APPENDIX G
NOTIFICATION LEVELS

Position Classification	Income Change	Notify
Secondary Objectives	 	
Secondary Objectives	 	

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

		
Secondary Objectives	  	


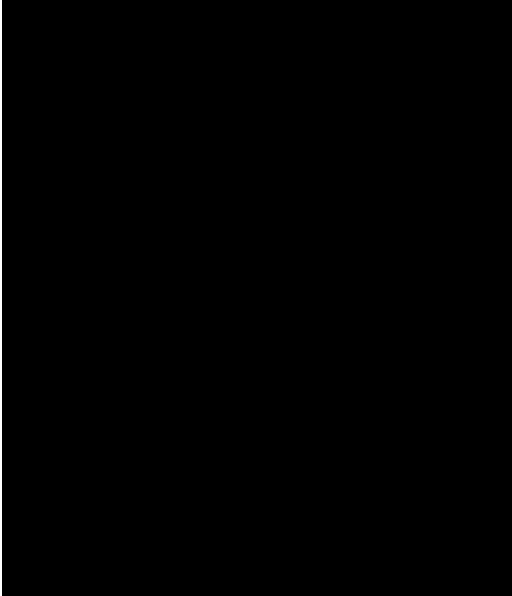

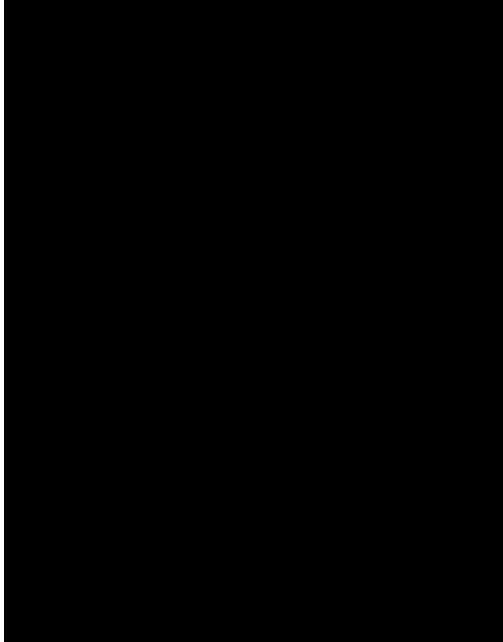
1

2

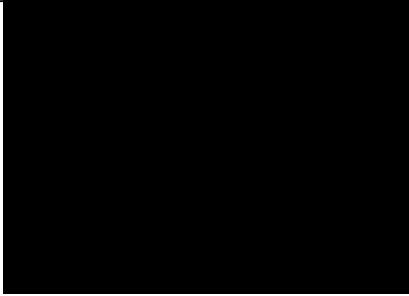
Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1
2
3

APPENDIX G
 NOTIFICATION LEVELS

Position Classification	Income Change	Notify
All positions with mark-to-market changes immediately reflected in income (both primary and secondary activities)		
All positions with mark-to-market changes immediately reflected in income (both primary and secondary activities)		

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only


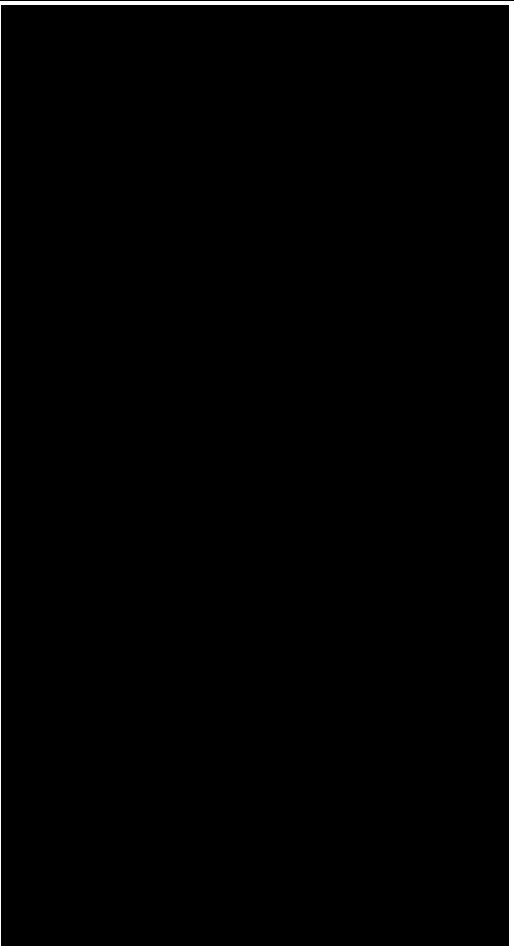
		
--	--	--

- 1
- 2

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1
2
3
4

APPENDIX G
NOTIFICATION LEVELS

Position Classification	Value-at-Risk	Notify
All positions, except hedges associated with a commission approved program which provides for its own limits and/or cost recovery		

5
6
7

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

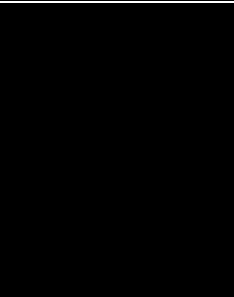

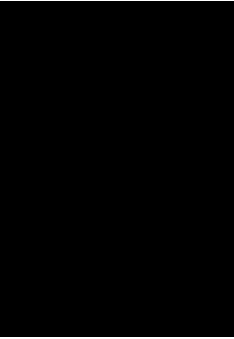

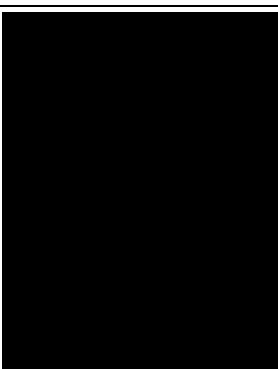

1 **NOTE: Recipients of notification events will only receive detailed information**
2 **pertinent to their business needs, and any correspondence will be in**
3 **compliance with the Separation Protocol.**

4

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1
2
3
4

APPENDIX G
NOTIFICATION LEVELS

Position Classification	Income Change	Notify
SPC Secondary Objectives		
SPC Secondary Objectives		
SPC Secondary Objectives		

5
6

Southern Company Energy Trading Risk Management Policy
Confidential — For Company Use Only

1

Position Classification	Income Change	Notify
All SPC positions with mark-to-market changes immediately reflected in income		
All SPC positions with mark-to-market changes immediately reflected in income		

2

3

Position Classification	Value-at-Risk	Notify
All SPC positions		

4

5

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1
2
3
4
5

APPENDIX H
MARKET RISK LIMITS

Net Open Position Limits

		Value –at- Risk Limit
Secondary Activities		[REDACTED]
All positions with marked-to-market changes immediately reflected in income		[REDACTED]

6
7
8
9
10
11
12
13
14
15
16

NOTE: Although the value-at-risk limit applies to positions marked to market through income, VaR is calculated and monitored for all positions, and there are notification requirements as defined in Appendix G.

If such open position limits are exceeded, SCS Risk Control will calculate and equitably allocate the responsibilities to bring the positions back into compliance.

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1

APPENDIX I

2

3

Southern Company Risk Oversight Committee

Title
CFO & CRO, Southern Company
Chairman, President, and CEO, Southern Company
EVP, President & CEO, SCS
EVP & COO, SCS
EVP, Southern Company & President & CEO, APC
EVP, Southern Company & President & CEO, GPC
EVP, Southern Company & President & CEO, MPC
EVP, Southern Company & President & CEO, Gulf
EVP, Southern Company & President & CEO, Southern Nuclear
EVP, Southern Company & President External Affairs
EVP, General Counsel, and Corporate Secretary, Southern Company
EVP, Finance & Treasurer – invited guest

4

5

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1

2

Southern Company Generation Risk Oversight Committee

Title
Compliance Officer & VP, SCS
EVP of E&CS, SCG
Chief Production Officer, SCG
Legal Counsel, Balch & Bingham – invited guest
CFO, Operations
Enterprise Risk Management Director
Internal Audit Representative – invited guest

3

4

5

Southern Power Risk Oversight Committee

Title
CFO, SPC
President, SPC
Chief Commercial Officer, SPC
Senior Production Officer, SPC
External & Regulatory Affairs VP, SPC

6

7

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1
2
3
4
5
6

APPENDIX I

INCUMBENT LISTING; AUTHORIZED INDIVIDUALS

Southern Company Generation Energy Credit Committee

Title
Assistant Treasurer, SCS
VP, Fuel Services
VP, Commercial Operations & Services
Enterprise Risk Management Director
Energy Trading Manager – invited guest

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1
2
3
4

APPENDIX I

INCUMBENT LISTING; AUTHORIZED INDIVIDUALS (continued)

Authorized Individuals

Title	Application / Role (3)	Approved Commodities								
		Electricity		Natural Gas			Coal	Oil	Allo w- ance s	RE Cs
		Ener gy	Tran s.	Gas	Tran s- port	Stor age				
Southern Company Generation										
Energy Term Trading Mgr.	SCS GemTrader / Trader	X	X	(2)			(2)	(2)	(2)	(2)
Term Trader	SCS GemTrader / Trader	X	X	(2)			(2)	(2)	(2)	(2)
Trading Operations & Technical Svcs. Mgr.	SCS GemTrader/Pub lic	(1)	(1)							
Hourly Trading Mgr.	SCS GemTrader / NextHour	X	X							
Energy Coordinator	SCS GemTrader /	X	X							

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

	NextHour									
Scheduling Supervisor – Day Ahead	SCS GemTrader / Trader	X	X	(2)			(2)	(2)	(2)	(2)
Scheduling Supervisor – Hourly	SCS GemTrader / Trader	X	X	(2)			(2)	(2)	(2)	(2)
Scheduler	SCS GemTrader / Scheduler	(1)	X							
Trading Analyst	SCS GemTrader / TraderAnalyst	(1)	(1)							

1 Notes:

2 (1) Authority to make changes to transactions including entering transactions related
3 to loss adjustments and full/partial requirements customers.

4 (2) Authority to direct a transaction.

5 (3) A complete list of approved individuals is located in the following Cool

6 Compliance entities: SCS GemTrader, Trader, Deal Entry; Attaché;

7 Attaché Emissions; Attaché Financials & Trading. Choose the appropriate

8 role to see a complete list of authorized individuals.

9

10

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1
2
3
4

APPENDIX I

INCUMBENT LISTING; AUTHORIZED INDIVIDUALS (continued)

Authorized Individuals

Title	Application / Role (3)	Approved Commodities								
		Electricity		Natural Gas			Coal	Oil	Allo w- anc es	RE Cs
		Ener gy	Tran s.	Gas	Tran s- port	Stora ge				
SCS Fuel Services										
Gas Services, Director	Attache / Guest			X	X	X		X		
Gas Operations Mgr.	Attache / Front Office			X	X	X				
NG Buyer - Physical	Attache / Marketer			X	X	X				
Financial Trading Mgr.	Attache Financials & Trading / Fuel Trader			X				X		
NG Buyer - Financial	Attache Financials & Trading / Fuel Trader			X				X		
NG Scheduler	Attache /				X	X				

Southern Company Energy Trading Risk Management Policy
Confidential — For Company Use Only

	Front Office									
Coal & Transport Procure Manager	ComTrac / Fuel Procurement						X			
Emissions Trading Mgr	Attache Emissions / Emissions Trader								X	X
Emissions Trader	Attache Emissions / Emissions Trader								X	X

1

Title	Application / Role (3)	Approved Commodities								
		Electricity		Natural Gas			Coal	Oil	Allo w- anc e	RE Cs
		Ener gy	Tran s.	Gas	Tran s- port	Stora ge				
Southern Power Company										
Manager - Trading & Asset Management	SPC GemTrader / Trader	X	(2)	(2)			(2)	(2)	(2)	(2)
Asset Management	SPC GemTrader /			(2)						(2)

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

	Public									
Term Trading Manager	SPC GemTrader / Trader	X	X	(2)			(2)	(2)	(2)	(2)
Term Trader	SPC GemTrader / Trader	X	X	(2)			(2)	(2)	(2)	(2)
Asset Manager	SPC GemTrader / Public			(2)	(2)	(2)				

1 Notes:

2 (1) Authority to make changes to transactions including entering transactions related
3 to loss adjustments and full/partial requirements customers.

4 (2) Authority to direct a transaction.

5 (3) A complete list of approved individuals is located in one of the following
6 Cool Compliance entities: SCS GemTrader, Trader, Deal Entry; Attaché;
7 Attaché Emissions; Attaché Financials & Trading. Choose the appropriate
8 role to see a complete list of authorized individuals.

9
10

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

APPENDIX J

ACCOUNTING AND TAX

FASB Accounting Standards Codification (“ASC”) 815 Derivatives and Hedging, ASC 820 Fair Value Measurements and related GAAP standards are the primary pronouncements addressing hedge accounting and provides guidance for exchange-traded contracts .



Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25

[Redacted]

[Redacted]

[Redacted]

[Redacted]

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

APPENDIX K

EMPLOYEE ACKNOWLEDGMENT

I have been provided a copy of the Southern Company Energy Trading 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 on 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. I understand that failure to comply with the RMP or associated or related policies can result in disciplinary actions up to and including termination of employment.

Printed Name

Signature

Date: _____, 20__

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1 Note, as an alternative to acquiring and maintaining a physical signature, employees
2 will acknowledge the policy through Cool Compliance effective August 2012.

3

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

APPENDIX L
DEFINITIONS

Allowances - An authorization to emit chemical pollutants, including but not limited to sulfur dioxide, nitrous oxide, or greenhouse gases. These are usually traded in over-the-counter markets via brokers with one allowance permitting the emission of one ton of the pollutant.

Approved Business Objectives - Those business objectives defined in Appendix A which have been approved.

Approved Commodity - Those commodities listed in Appendix B which have been approved.

Authorities - All applicable limitations imposed on SCG 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 the Company to agreements with third parties; and/or (2) the authority (or appearance of authority), acting through its various brokers and other representatives, to the Company to exchange-traded futures and option contracts.

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1 Approved Risk Management Instruments - Those instruments listed in Appendix
2 C which have been approved.

3

4 Authorized Trading Limit - The levels set out in Appendix H. Such levels are
5 expressed in dollars that establish boundaries for maximum value at risk due to
6 changes in market prices.

7

8 Credit Policy - Southern Company Energy Trading Credit Risk Management
9 Policy

10

11 Daily Portfolio Value - The net present value on a mark-to-market basis of yet to
12 be performed transactions from all approved portfolios.

13

14 Financial Instruments - Futures, forwards, options, swaps, and other derivative or
15 financial risk management transactions entered into to hedge price risks.

16

17 Forwards - An agreement to buy or sell a quantity of a product, at an
18 agreed price, on a given date, with a specific counterparty. Forwards are
19 typically trading in the over-the-counter (OTC) markets.

20

21 Futures - An agreement to buy or sell a quantity of a product, at an agreed
22 price, on a given date, traded on an exchange, and cleared by a
23 clearinghouse.

24

25 Hedging Strategy - A trading strategy intended to reduce risk.

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1 Illiquid Market - A market characterized by wide bid/offer spreads, lack of
2 transparency, and large movements in price after any sizable deal.

3

4 Mark to Market (MTM) - The value of a financial instrument, or risk book of
5 such instruments, at current market rates, or prices of the underlying
6 commodity.

7

8 Market Positions - Positions taken that are readily liquidated at a readily
9 observable and transparent price.

10

11 Net Open Position - The sum of all open positions for the approved commodities
12 on an equivalent basis.

13

14 Open Position - The difference between long positions and short positions in any
15 given risk book.

16

17 Option - An instrument which provides the holder the right, but not the obligation,
18 to sell to (or buy from) the option seller the underlying commodity at a specified
19 price and time.

20

21 Originator - The lead individual responsible for negotiating the transaction with
22 the counterparty.

23

24 P&L - Profit and loss

25

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1 Premises - Southern Company Generation business office located in
2 Birmingham, Alabama.

3

4 Products - Financial instruments and related transactions for approved
5 commodities as dictated by usage.

6

7 Risk Book - The official record in which details of all transactions are maintained
8 for valuing, monitoring, managing, and reporting said risk.

9

10 RMP - Risk Management Policy

11

12 Separation Protocol - The separation of SPC functions from the Southern
13 Operating Companies (Alabama Power Company, Georgia Power Company,
14 Gulf Power Company, and Mississippi Power Company) including information
15 sharing and a separation of personnel in order to comply with a Federal Energy
16 Regulatory Commission (FERC) Order.

17

18 SCS - Southern Company Services, Inc.

19

20 SPC - Southern Power Company

21

22 Swaps - An agreement to exchange net future cash flows.

23

24 Structured Transaction - Any negotiated transaction not readily traded in the
25 market and the price of which is not easily validated.

Southern Company Energy Trading Risk Management Policy
Confidential— For Company Use Only

1 Transactions - Futures, forwards, options, swaps, or other instruments conducted
2 over-the-counter or via organized exchanges including long- and short-term
3 agreements involving approved commodities or financial instruments.

4

5 Value at Risk (VaR) - The expected loss that will be incurred on the portfolio with
6 a given level of confidence over a specified holding period, based on the
7 distribution of price changes over a given historical observation period. (This is
8 not an estimate of worst possible loss.)

9

10

11

12

13

14

15

16

17

18

19

20

21

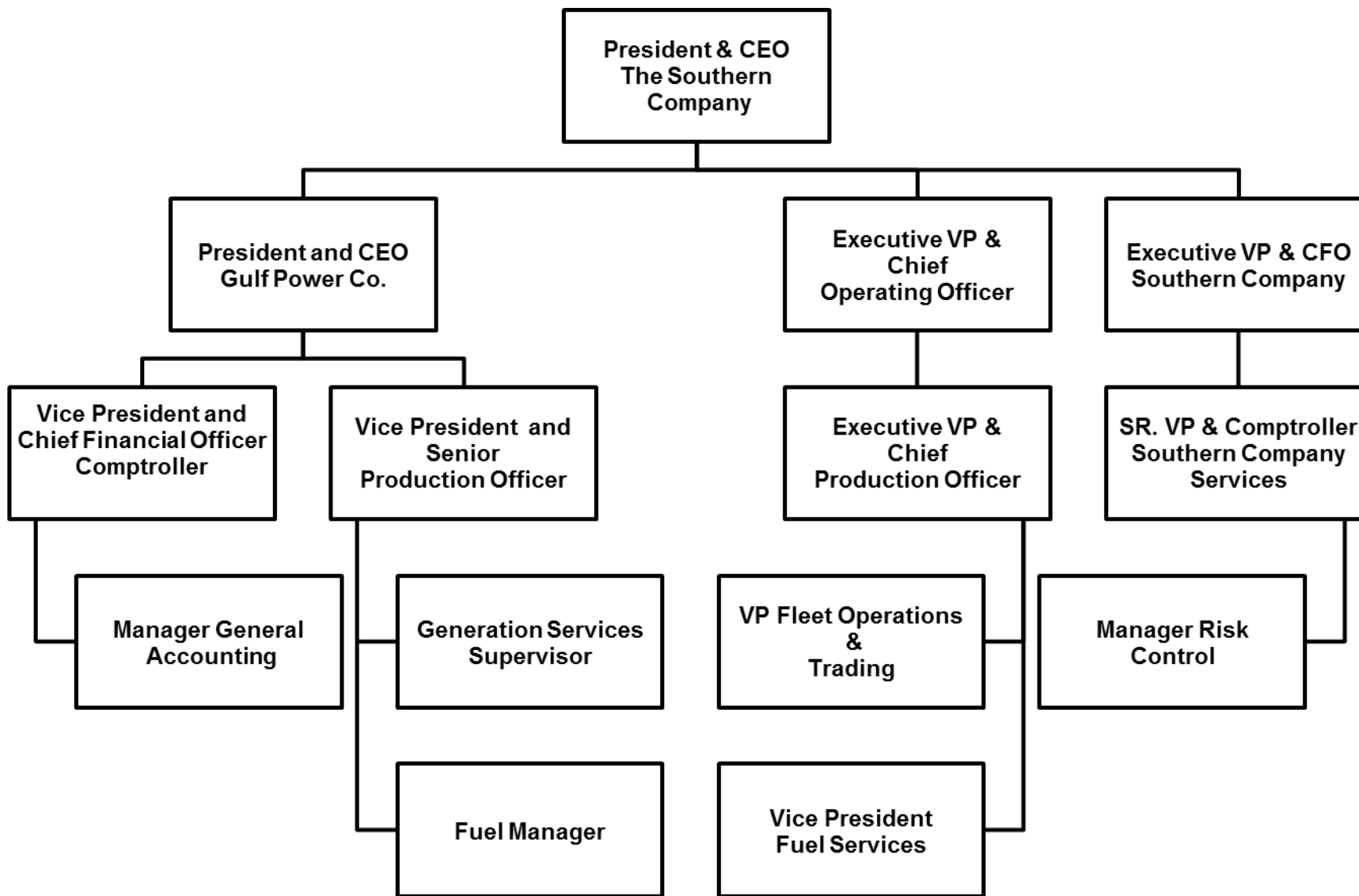
22

23

24

25

Risk Management for Fuel and Wholesale Energy



BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: **Fuel and Purchased Power Cost**)
Recovery Clause with Generating)
Performance Incentive Factor)

Docket No.: **140001-EI**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing was furnished by electronic mail this 25th day of July, 2014 to the following:

Florida Public Utilities Company
Cheryl M. Martin
1641 Worthington Road
Suite 220
West Palm Beach, FL 33409-6703
Cheryl.Martin@fpuc.com

PCS Phosphate – White Springs
c/o Brickfield Law Firm
James W. Brew/F. Alvin Taylor
Eighth Floor, West Tower
1025 Thomas Jefferson St, NW
Washington, DC 20007
jbrew@bbrslaw.com

Duke Energy Florida
John T. Burnett
Dianne M. Triplett
Post Office Box 14042
St. Petersburg, FL 33733
Dianne.triplett@duke-energy.com
John.burnett@duke-energy.com

Florida Power & Light Company
John T. Butler
700 Universe Boulevard (LAW/JB)
Juno Beach, FL 33408-0420
John.Butler@fpl.com

Florida Power & Light Company
Kenneth Hoffman
215 South Monroe Street,
Suite 810
Tallahassee, FL 32301-1858
Ken.Hoffman@fpl.com

Ausley Law Firm
James D. Beasley
J. Jeffry Wahlen
Ashley M. Daniels
Post Office Box 391
Tallahassee, FL 32302
jbeasley@ausley.com
adaniels@ausley.com

Gunster Law Firm
Beth Keating
215 South Monroe Street, Suite 601
Tallahassee, FL 32301-1839
bkeating@gunster.com

Office of Public Counsel
J. Kelly
P. Christensen
C. Rehwinkel
c/o The Florida Legislature
111 W. Madison Street, Room 812
Tallahassee, FL 32399-1400
Christensen.patty@leg.state.fl.us

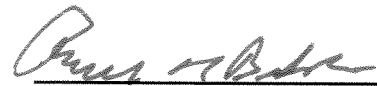
Duke Energy Florida, Inc.
Matthew R. Bernier
Paul Lewis, Jr.
106 East College Avenue,
Suite 800
Tallahassee, FL 32301-7740
Paul.Lewisjr@duke-energy.com
Matthew.bernier@duke-energy.com

Florida Industrial Power Users Group
c/o Moyle Law Firm
Jon C. Moyle, Jr.
118 North Gadsden Street
Tallahassee, FL 32301
jmoyle@moylelaw.com

Tampa Electric Company
Ms. Paula K. Brown
Regulatory Affairs
P. O. Box 111
Tampa, FL 33601-0111
Regdept@tecoenergy.com

Office of the General Counsel
Martha Barrera
2540 Shumard Oak Blvd
Tallahassee, FL 32399-0850
mbarrera@psc.state.fl.us
jgilcher@psc.state.fl.us
tefarley@psc.state.fl.us

Florida Retail Federation
Robert Scheffel Wright
John T. LaVia
c/o Gardner Law Firm
1300 Thomaswood Drive
Tallahassee, FL 32308
schef@gbwlegal.com
jlavia@gbwlegal.com



JEFFREY A. STONE

Florida Bar No. 325953

jas@beggslane.com

RUSSELL A. BADDERS

Florida Bar No. 007455

rab@beggslane.com

STEVEN R. GRIFFIN

Florida Bar No. 0627569

srg@beggslane.com

BEGGS & LANE

P. O. Box 12950

Pensacola FL 32591-2950

(850) 432-2451

Attorneys for Gulf Power