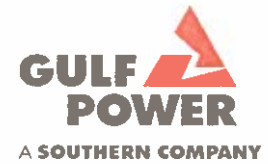


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August 4, 2016

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

RE: Docket No. 160001-EI
Docket No. 160096-EI

Dear Ms. Stauffer:

Attached for official filing in the above-referenced docket is Gulf Power Company's Risk Management Plan dated August 4, 2016.

Sincerely,

A handwritten signature in blue ink that reads "Robert L. McGee, Jr." The signature is written in a cursive, flowing style.

Robert L. McGee, Jr.
Regulatory and Pricing Manager

md

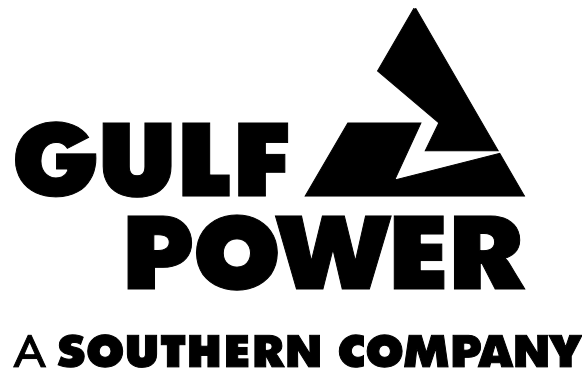
Attachments

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

GULF POWER COMPANY

**Risk Management Plan
For
Fuel Procurement
Docket No. 160001-EI**

Date of Filing: August 4, 2016



INDEX

<u>SECTION</u>		<u>PAGES</u>
1	GULF POWER COAL PROCUREMENT STRATEGY	3 - 7
2	GULF POWER COAL TRANSPORTATION STRATEGY	8 - 11
3	GULF POWER NATURAL GAS PROCUREMENT STRATEGY	12 - 16
4	GULF POWER OIL PROCUREMENT STRATEGY	17
5	GULF POWER RISK MANAGEMENT POLICY	18 – 20
6	SOUTHERN COMPANY GENERATION (SCGEN) RISK MANAGEMENT POLICY	21 – 64
7	SCS RISK OVERSIGHT ORGANIZATIONAL CHART	65

1 **GULF POWER**
2 **COAL PROCUREMENT STRATEGY FOR 2017**

3
4 **Coal Procurement Plan**

5 Based on the burn forecast from the July update to the Energy Budget, Gulf Power's
6 50% ownership in Plant Daniel has an estimated uncommitted coal supply need of
7 [REDACTED] tons in 2017 and Gulf Power's 25% ownership in Plant Scherer Unit 3 has
8 an estimated uncommitted coal supply need of [REDACTED] tons in 2017. Because Gulf
9 Power's Plant Crist has a requirements contract in place for 2017 there is no
10 uncommitted coal supply in that year. Coal burn continues to remain depressed as
11 a result of low natural gas pricing and decreased loads. Our procurement plan below
12 is based on the following assumptions:

13
14 **Plant Crist**

- 15 • Short Term: Its current marginal fuel selection consists of a requirement
16 contract of low-sulfur Illinois Basin (IB) sourced coal.
- 17 • Long term: Current plan is to continue to utilize the most economic source of
18 coal, which is anticipated to be either a blend of IB and other bituminous low-
19 sulfur sourced coal or low-sulfur IB coal.
- 20 • Plant Crist is forecasted to have a capacity factor of [REDACTED] through
21 2020. An evaluation of the timing of when Crist units will be generating
22 electricity provides insight into how coal deliveries should be procured. We
23 forecast Crist to have at least one unit on line a majority of the time.

1 **Plant Daniel**

- 2 • Short Term: Its current marginal fuel selection consists of an 80% Powder
3 River Basin (PRB) and 20% bituminous low sulfur blend (either Colombian or
4 Colorado depending on market price).
- 5 • Long term: Current plan is to continue to utilize the 80/20 blend of PRB and
6 other bituminous low-sulfur sourced coal
- 7 • Plant Daniel is forecasted to have a capacity factor of [REDACTED] through
8 2020. An evaluation of the timing of when Daniel units will be generating
9 electricity provides insight into how coal deliveries should be procured. We
10 forecast Daniel to have at least one unit on line a majority of the time

11
12 **Plant Scherer Unit 3**

- 13 • Short Term: Its current marginal fuel selection is 100% PRB.
- 14 • Long term: Current plan is to continue to utilize 100% PRB
- 15 • Plant Scherer Unit 3 is forecasted to have a capacity factor of [REDACTED]
16 [REDACTED] through 2020. An evaluation of the timing of when Scherer units
17 will be generating electricity provides insight into how coal deliveries should
18 be procured.

19
20 **State of the Program:**

21 The relationship between burn projections, current commitment levels, commitment
22 targets per the coal procurement strategy, and corresponding future needs are
23 detailed in the following charts:

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1 Gulf Program Plant Crist

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15 MPC Program Plant Daniel-Gulf Ownership (50%)

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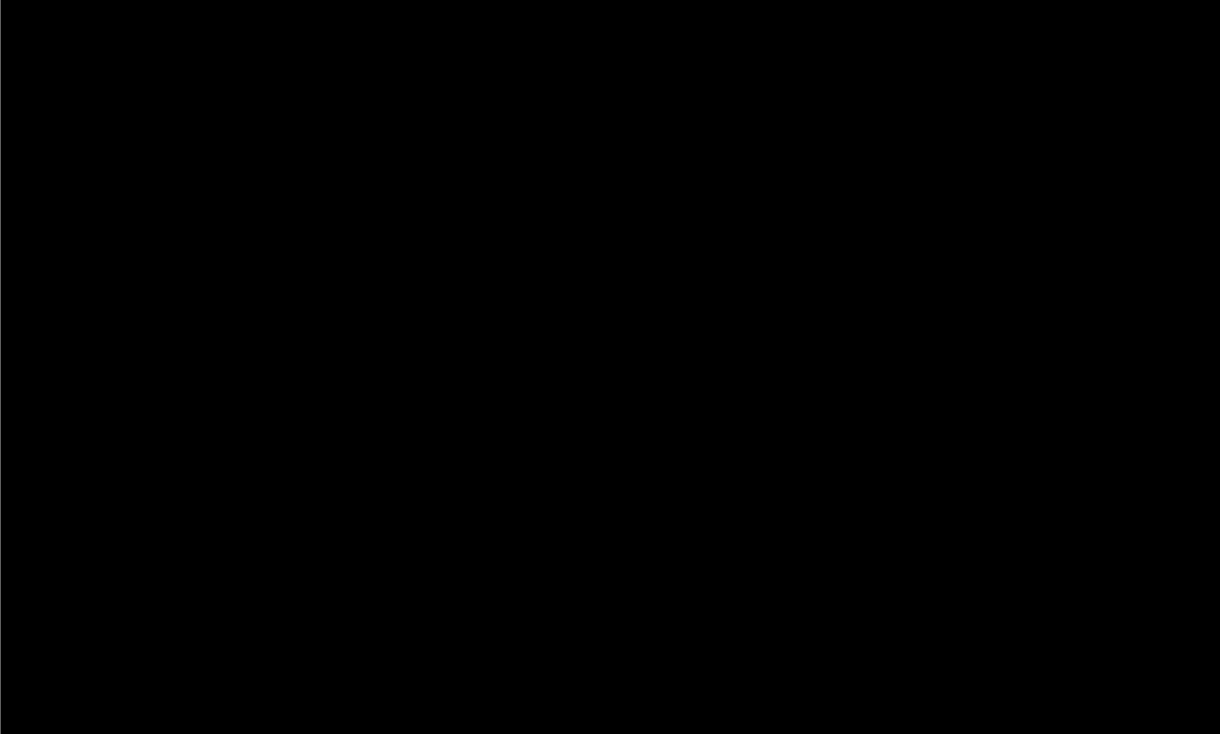
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1 GPC Program Plant Scherer-Gulf Ownership (25% of Unit 3)



13
14 **Spot Coal Plan:**

15 Quarterly system-wide bituminous and sub-bituminous solicitations will be issued as
16 needed to address short term coal supply needs that may develop. With the
17 uncertainty of burn that still exists today and with many coal units being displaced by
18 natural gas generation, this quarterly process provides flexibility to better manage
19 burn volatility. Gulf will purchase spot coal under these quarterly solicitations as the
20 need arises.

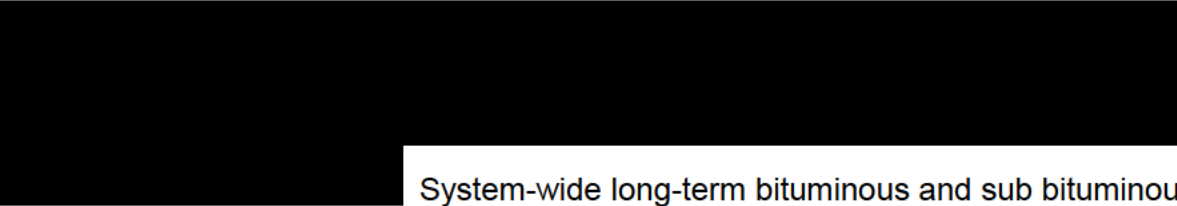
21
22 **Long-term Coal Plan:**

23 Due to a requirements coal contract in place for 2017 Gulf's Plant Crist is fully
24 committed that year. [Redacted]

25 Gulf's 50% ownership in MPC Plant Daniel has [Redacted]

26 [Redacted] Gulf's 25% ownership in Plant Scherer Unit 3 results in [Redacted]

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System-wide long-term bituminous and sub bituminous solicitations will be issued late 2016 and/or early 2017 and Gulf will evaluate the need for long-term purchases for delivery beginning in 2017. The purchases made will adhere to the percentage commitment guidelines set forth in the Coal Procurement Strategy.

1 **GULF POWER**
2 **COAL TRANSPORTATION STRATEGY FOR 2017**

3
4 **Transportation Program Overview**

5
6 **Plant Crist**

7 Crist can receive both import and domestic coal by barge.

8 Western coals can be transported by the Burlington Northern Santa Fe Railway
9 (BNSF) or Union Pacific Railroad (UP) to multiple terminals on the Ohio and
10 Mississippi rivers or via interchanges with the Canadian National Railway (CN),
11 Norfolk Southern (NS) or CSX Transportation Inc. (CSXT) to the Alabama State
12 Docks facility in Mobile, AL.

13 Illinois Basin or Central Appalachian coal can be transported directly by barge or by
14 a combination of rail and barge. These coals can be transported to the Alabama
15 State Docks facility via interchanges with the Canadian National Railway (CN), CSX
16 Transportation Inc. (CSXT), Alabama and Gulf Coast Railway (AGR), and Norfolk
17 Southern (NS) railroads. At this point the coal is transferred to barges and
18 transported to the plants.

19 Import coal is delivered by ocean vessel to the Alabama State Docks where it is
20 transferred to barges and transported to the plants.

21
22 **Plant Daniel**

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

1 Daniel can also take advantage of import coals, when economical, through the
2 Alabama State Docks. Import coal is transported by ocean vessel to the Alabama
3 State Docks facility where it is transferred to railcars for shipment to the plant by the
4 CN and MSE Railroads. Daniel can also receive Central Appalachian coal via the
5 CSXT and MSE. Another potential source of Central Appalachian coal is via the NS
6 railroad through an interchange agreement with the CN railroad.

7

8 **Plant Scherer**

9 Scherer is served by the Norfolk Southern Railroad (NS) that interchanges with the
10 BNSF Railway (BNSF). Scherer accesses Powder River Basin (PRB) coal, its long
11 term coal of choice, from Wyoming through an NS interchange with the BNSF at
12 Memphis, TN. Should Scherer decide to change its current coal selection, it could
13 receive coal directly from NS served Illinois Basin, Central or Northern Appalachian
14 coal fields, import coal terminals or through various NS interchanges with UP, CN or
15 CSX.

16

17 **Coal Transportation Procurement Strategy**

18 A transportation strategy must address reliability, competitive prices, flexibility in
19 volume commitments and the ability to adjust coal movements to changing coal
20 supply sources. The following information addresses these areas and identifies
21 tactical plans to manage them.

22

23 **Plant Crist**

24 Effective August 2016, CSX contract 15164 provides rail transportation of Illinois
25 Basin Coal to the Alabama State Docks. This contract will expire December 31,

1 2017. Gulf will pursue an extension if transportation needed beyond the current
2 term.

3 Marquette agreement (SC09005-T) provides primary barge transportation of coal
4 from the Alabama State Docks to Crist. Marquette agreement (SC09006-T) provides
5 a supply of barges to move coal to Crist. The Marquette agreements have been
6 extended through December 31, 2017.

7 Under these agreements, Gulf charters approximately 18 barges from Marquette.

8 The agreement with Marquette also includes towboat services to support transport of
9 coal to the plants. Two towboats are used to transport coal by barge to Crist. There
10 are no minimum annual volumes included in the agreements.

11 The tactical plan for the Marquette agreements is to maintain the agreements
12 through 2017 at reduced levels in order to match reduced levels of coal shipments in
13 2016 and 2017. The Marquette agreements provide a very stable and flexible supply
14 of towboats and barges that have logistical control by Southern Company
15 Generation Fuel Services for Gulf.

16

17 **Plant Daniel**

18 UP agreement UPCQ 100910 provides for rail transportation of Colorado coal to
19 Memphis in conjunction with the CN agreement for final delivery to Daniel through
20 December 31, 2016. The tactical plan is to let this agreement expire unless
21 additional Western coal is required for blending in 2017.

22 BNSF agreement BNSF-12777 provides for rail transportation of PRB coal to
23 Memphis, TN where BNSF interchanges with CN to deliver the PRB coal to Daniel.

24 The BNSF agreement expires December 31, 2017. The tactical plan is to submit the
25 movement for competitive bid during the third quarter of 2017 to cover shipments in
26 2018.

1 CN/MSE agreement CN-535188-AA provides for rail transportation of PRB and
2 Colorado coal interchanged in Memphis, TN to Daniel. Additionally, this agreement
3 provides transportation for Illinois Basin coal from CN served origins and the for
4 import coal from the Alabama State Docks. The CN/MSE agreement expires
5 December 31, 2018.

6

7 **Plant Scherer**

8 BNSF agreement BNSF-12339 provides for rail transportation of PRB coal to
9 Memphis, TN where BNSF interchanges with NS to deliver the PRB coal to Scherer.
10 The BNSF agreement expires December 31, 2028. The tactical plan is to maintain
11 this contract through its expiration.

12 NS agreement NS-9793 provides for rail transportation of PRB coal from its
13 interchange with the BNSF at Memphis to the plant. The NS agreement expires
14 December 31, 2019. The tactical plan is to maintain this contract through its
15 expiration and begin the negotiation of an extension of the contract in the first
16 quarter of 2019.

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1 Gulf Power 2017 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 lighter
5 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 relatively
7 small portion of Gulf's overall fuel budget. With the addition of the combined-cycle
8 Smith 3 unit in 2002 and the Central Alabama PPA in 2009, natural gas became a
9 more significant portion of Gulf's overall fuel supply.

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 procurement
14 strategy.

15 16 **Projected Natural Gas Purchases**

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

1 purchases when gas burn variations occur and gas supply reliability when normal
2 gas supply interruptions occur.

3

4 **Procurement Strategy**

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

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

1 would result if fuel prices actually settle at higher prices than when the hedges were
2 placed.

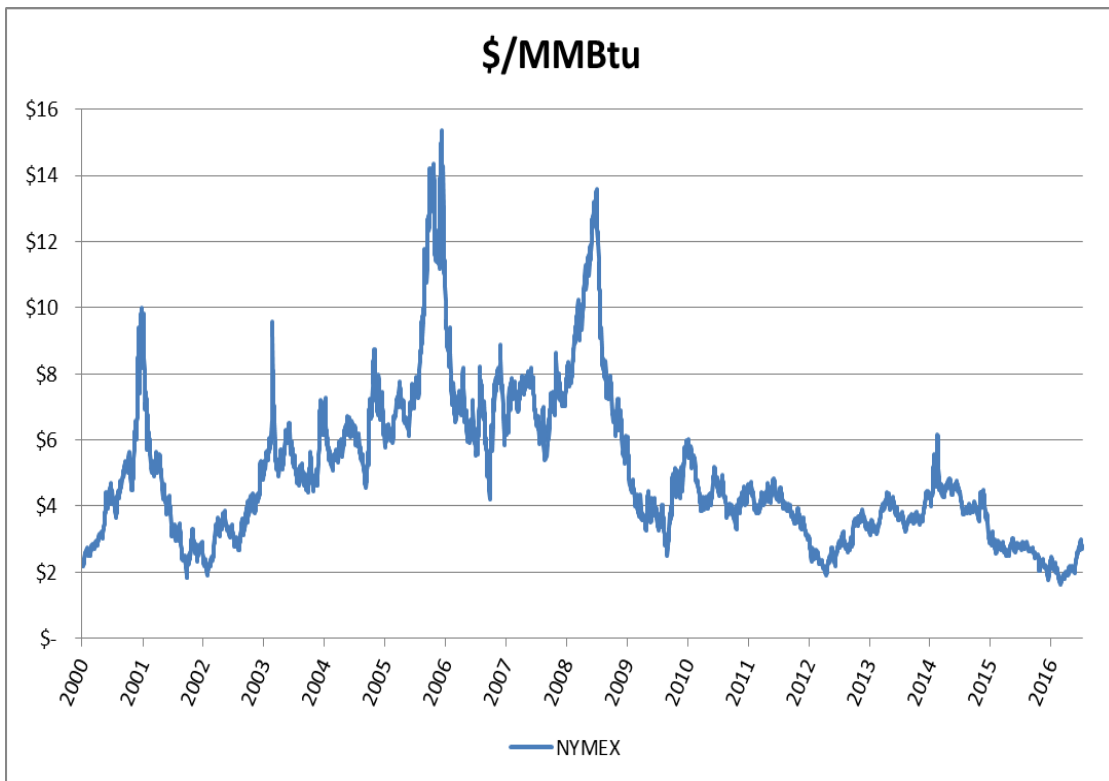
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4 The following graph of actual natural gas prices is an indication of price volatility in
5 the gas commodity market:

6

7 **Historical Natural Gas Prices – NYMEX**

8



20

21 **Pricing Strategy**

22 Gulf Power will continue to purchase gas, both under long-term and spot contracts at
23 market based prices. However, pursuant to Commission order, Gulf Power will
24 financially hedge gas prices for some portion, generally between [REDACTED] percent of
25 Gulf Power's projected annual gas burn for the current year, in order to protect
26 against short-term price swings and to provide some level of price certainty. This [REDACTED]

1 [REDACTED] percent hedge range allows Gulf Power to provide a degree of price certainty
 2 and protection against short-term price swings while still allowing the customers to
 3 participate in markets where natural gas prices are low. Gulf Power will secure
 4 natural gas hedges over a time period not to exceed [REDACTED] months, per the following
 5 schedule:

6

	(A)	(B)
Period	Lower Target Hedge %	Upper Target Hedge %
Prompt Year (2017)	[REDACTED]	[REDACTED]
Year 2 (2018)	[REDACTED]	[REDACTED]
Year 3 (2019)	[REDACTED]	[REDACTED]
Year 4 (2020)	[REDACTED]	[REDACTED]

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

9

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

16

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

19 [REDACTED]

20 [REDACTED]

21 [REDACTED] SCS will employ both technical and
 22 fundamental analysis to determine appropriate times to hedge. However, the

1 objective is not to speculate on market price or attempt to outguess or “beat the
2 market”. Gulf will utilize fixed priced swaps as its primary financial gas price hedging
3 instrument but may also utilize options when appropriate.

4
5 While the hedging program will protect the customer from short-term price spikes,
6 hedges can also lead to higher costs when natural gas prices fall subsequent to
7 entering hedges. Gulf Power will limit the amount of fixed-price hedges to a
8 maximum of [REDACTED] percent of the projected fuel burn for the upcoming year. In
9 addition, Gulf Power will limit option priced hedges to [REDACTED] percent of its projected
10 burn. Finally, in order to protect its customers from market exposure in subsequent
11 years, Gulf Power will take forward hedge positions for up to [REDACTED] months into the
12 future.

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Gulf Power's 2017 Oil Procurement Strategy

Oil Program Overview

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

Procurement Strategy

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

Pricing Strategy

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

1 Gulf Power Company Risk Management Policy

2 I. Introduction

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

8 II. Objectives

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

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

16 III. Guidelines

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

21 The Southern Company Derivatives Policy states:

22 "It is the policy of The Southern Company that derivatives are to be
23 used only in a controlled manner, which includes identification,
24 measurement, management, control and monitoring of risks. This
25 includes, but is not limited to, well-defined segregation of duties, limits
26 on capital at risk, and established credit policies. When the use of

1 derivatives is contemplated, this policy requires that a formal risk
2 management plan be developed that adheres to The Southern
3 Company Risk Oversight Committee Business Unit Guidelines. This
4 policy also requires that, prior to initiation of a risk management
5 program that makes use of derivatives, the risk management program
6 must be approved by both the Chief Financial Officer of the respective
7 Southern Company subsidiary and the Chief Financial Officer of The
8 Southern Company.”

9

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

15

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

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

22 **RESOLVED FURTHER,** That the Officers are hereby authorized to
23 effect derivative transactions that comply with the policy,
24 including swaps, caps, collars, floors, swap options, futures,
25 forward and options, relating to energy and associated

1 commodities, weather, interest rates, currencies, and contracts
2 and other arrangements for fuel supplies; and
3

4 **RESOLVED FURTHER**, That in connection with the foregoing, the
5 officers are hereby authorized to take any and all actions and to
6 execute, deliver and perform on behalf of the Company any and
7 all agreements and other instruments as they consider
8 necessary, appropriate or advisable, each such agreement or
9 other instrument to be in such form as the officers executing the
10 same shall approve, the execution thereof to constitute
11 conclusive evidence of such approval.”
12

13 **IV. Process**

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

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

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

Southern Company Energy Trading Risk Management Policy

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CONTENTS

Policy Section

- I. Introduction
- II. Purpose
- III. Business Objectives
- IV. Business Strategies
- V. Authorizations
- VI. Segregation of Duties
- VII. Market Risk Identification
- VIII. Market Risk Measurement and Valuation
- IX. Market Risk Limits
- X. Credit Risk
- XI. New Products
- XII. Funding Liquidity
- XIII. Operating Procedures and Systems
- XIV. Accounting and Tax
- XV. Legal
- XVI. Monitoring and Reporting
- XVII. Personnel Trading
- XVIII. Business Recovery
- XIX. Compliance
- XX. Independent Review
- XXI. Policy Amendments
- XXII. Terminology

APPENDIXES

- A. Approved Business Objectives
- B. Approved Commodities
- C. Approved Instruments
- D. Authorizations
- E. Segregation of Duties
- F. Market Risk Measurement
- G. Daily Income Notification Levels
- H. Market Risk Limits
- I. Incumbent Listing; Authorized Individuals
- J. Accounting and Tax
- K. Employee Acknowledgement
- L. Definitions

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.

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.

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1 III. Business Objectives

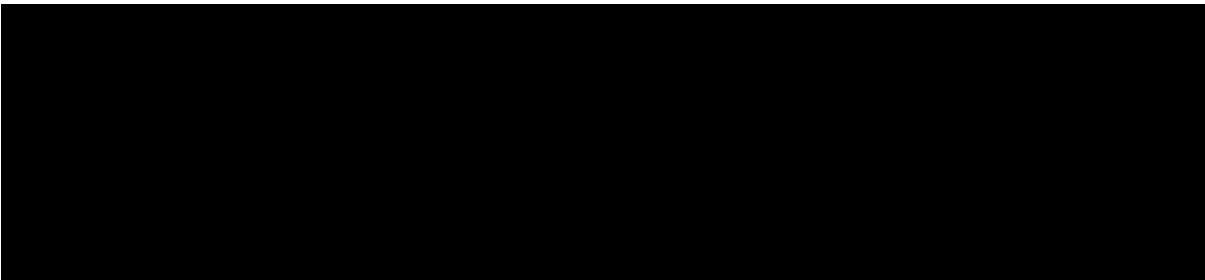
2 The Approved Business Objectives for the trading activities performed by Authorized
3 Individuals are defined in Appendix A.

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



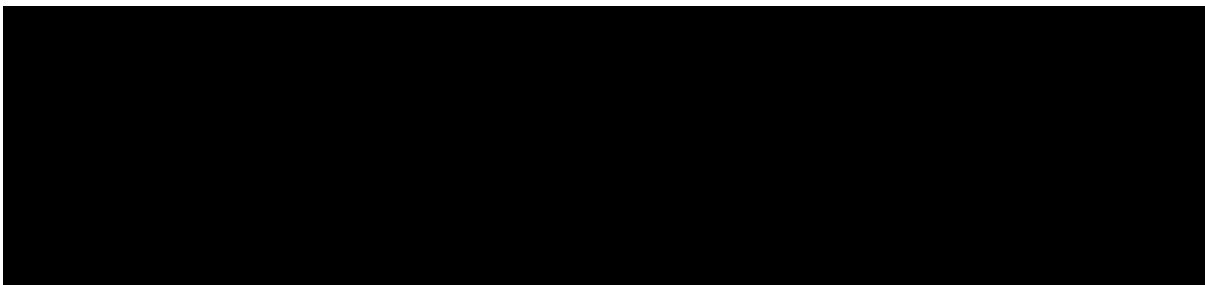
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19 Various contract types or financial instruments will be used to achieve the Approved
20 Business Objectives. The Approved Risk Management Instruments are listed in
21 Appendix C. SCS Risk Control must be consulted before the execution of any
22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

26

1 V. Authorizations

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

4

5 VI. Segregation of Duties

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

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17

18 Appendix E shows the organizational separation of function required by this RMP.

19 The following is a summary of the responsibilities of the different functions:

20

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

23

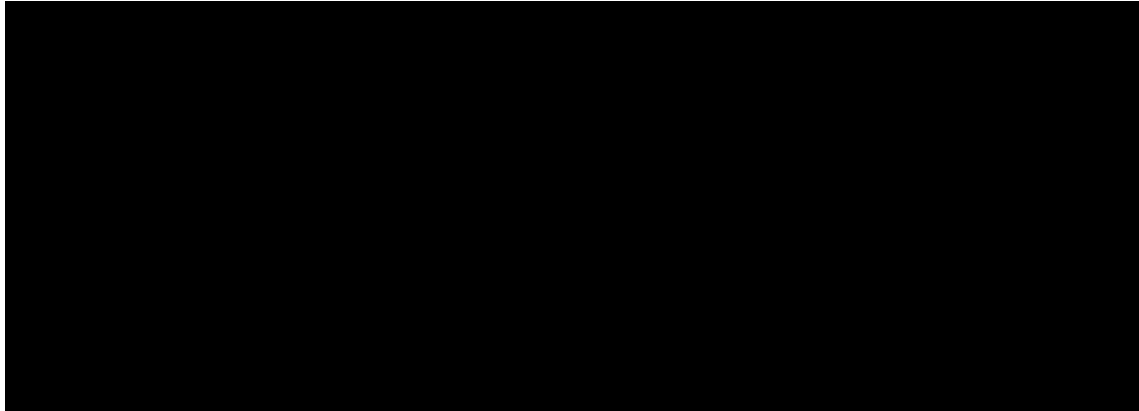
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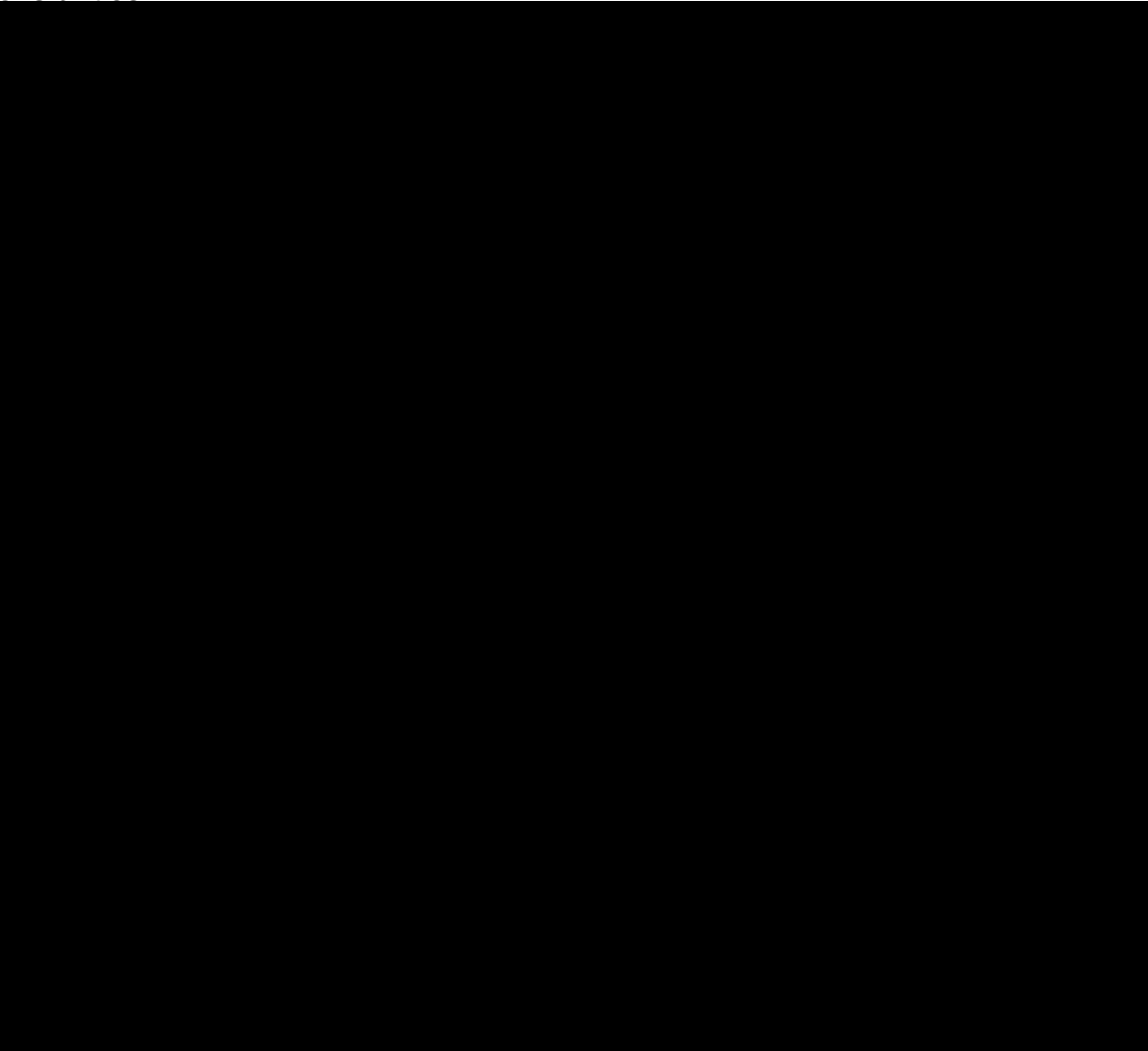


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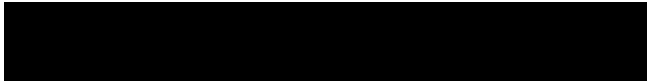
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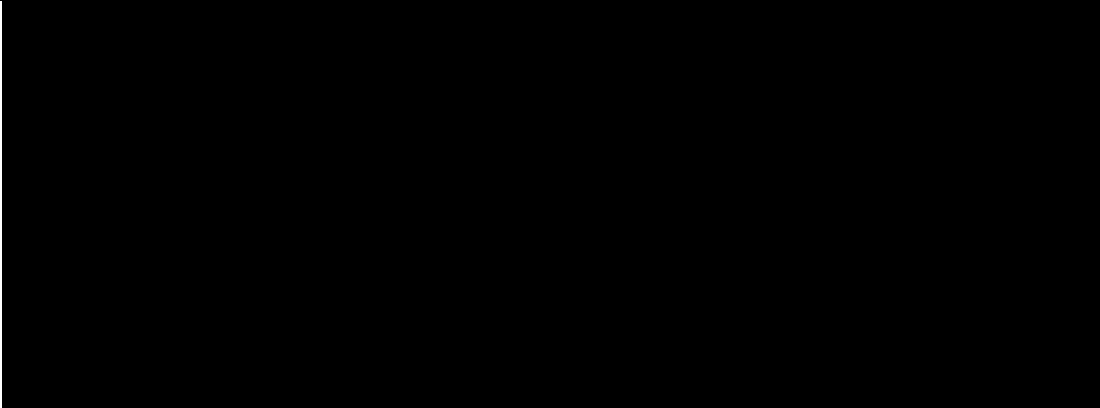
Confirmation, Monitoring, Reporting and Disclosure: The functions of trade confirmation, risk monitoring, risk reporting, and disclosure include the following responsibilities:



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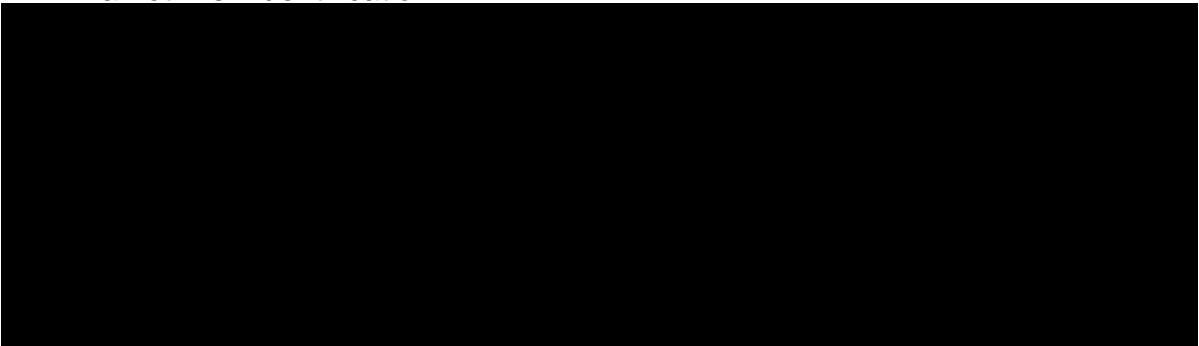
Settlement: The function of settlement includes the following responsibilities:



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.

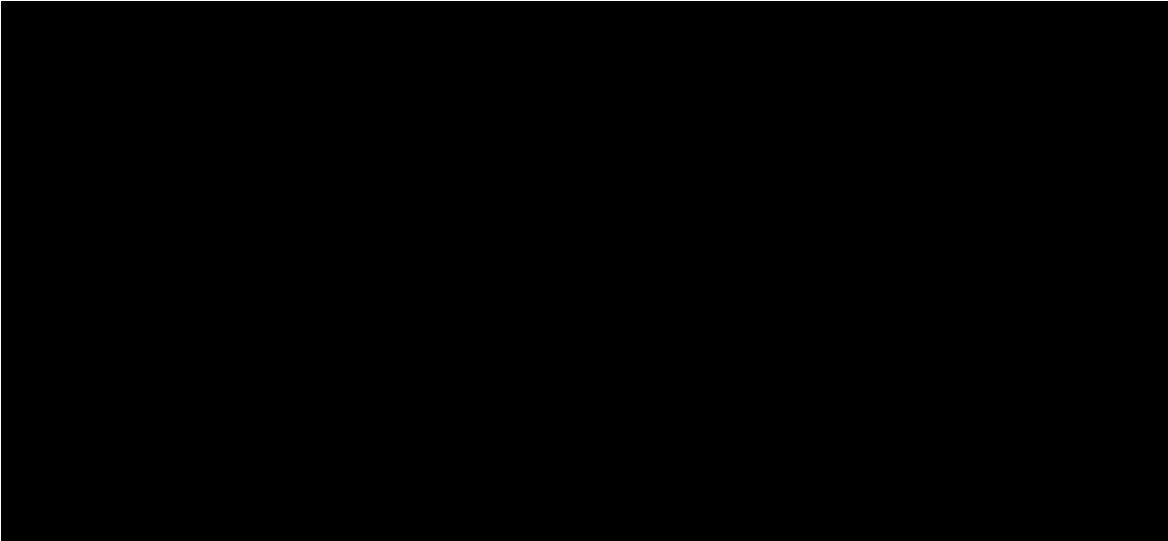
Accounting: SCS Accounting is responsible for posting transactions to the general ledger and reconciling the subledgers to the general ledger.

VII. Market Risk Identification

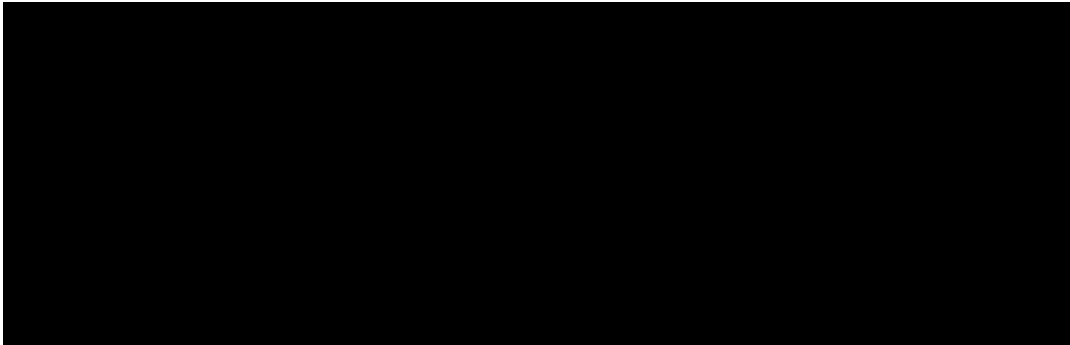


1 VIII. Market Risk Measurement and Valuation

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17 IX. Market Risk Limits

18 Exposure Limits

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

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22 Notifications

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

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1 Volumetric Position Limits

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

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5 X. Credit Risk

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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:

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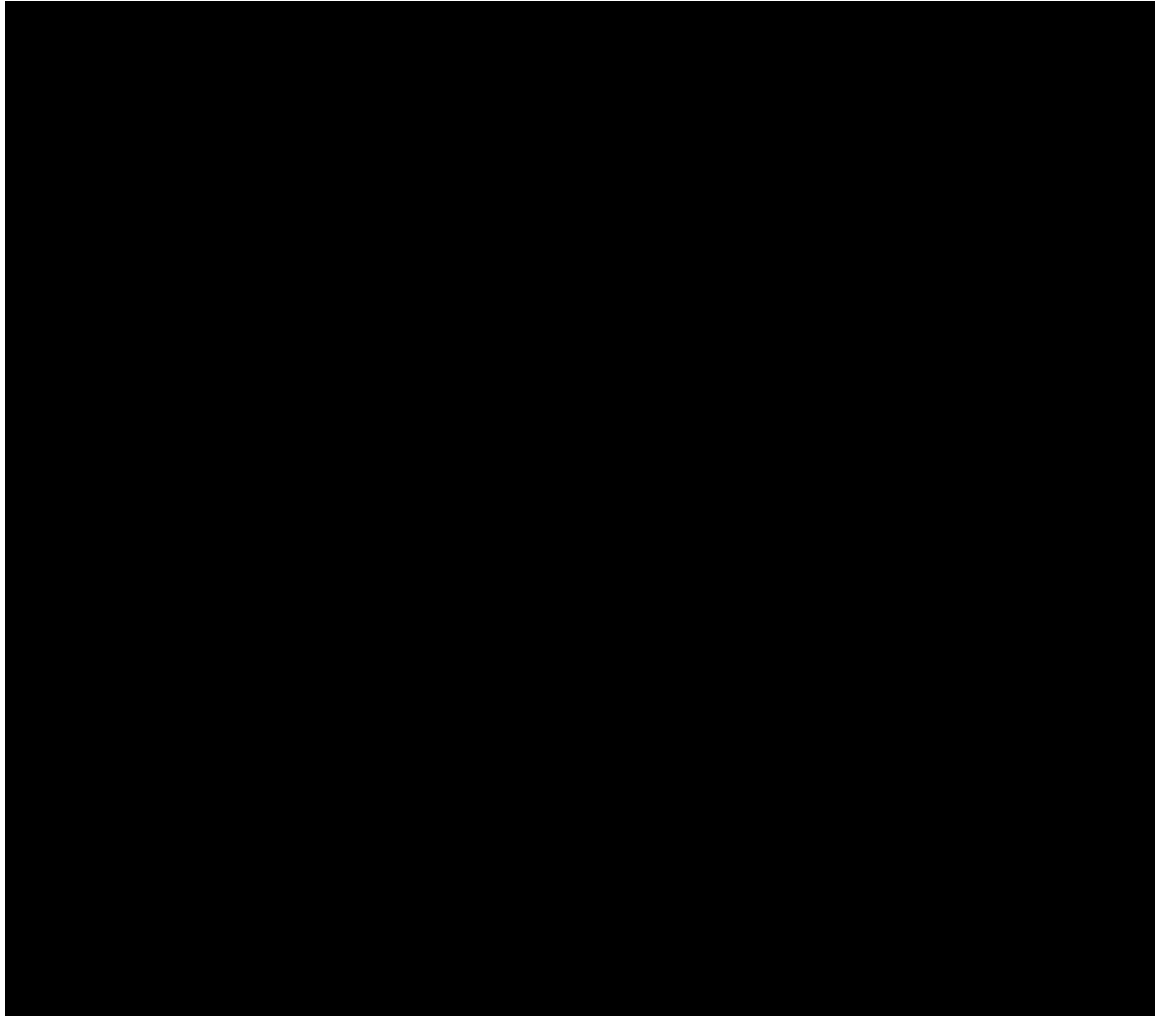
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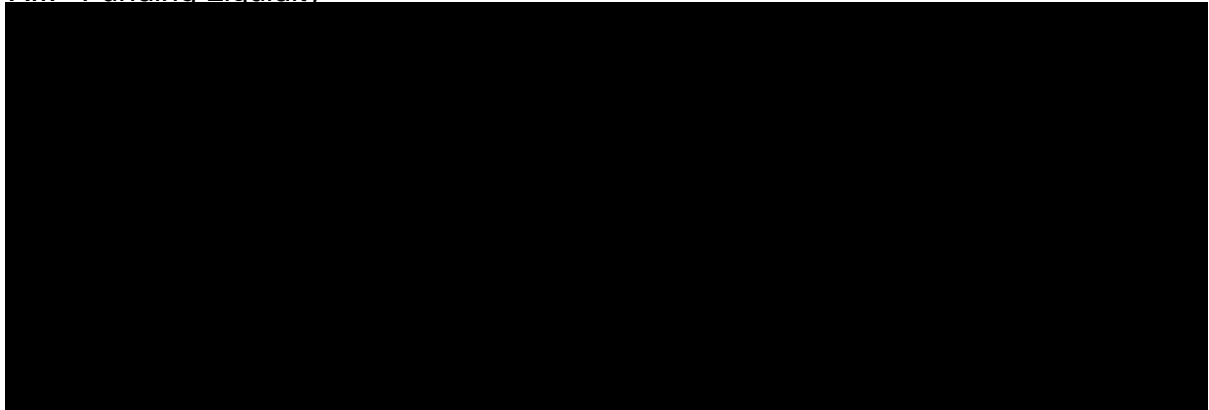
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XII. Funding Liquidity



1 XIII. Operating Procedures and Systems

2 Processes.

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7 Recording Transactions.

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14 Contract Administration.

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1 Operating Procedures.

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6 XIV. Accounting, Tax, and Regulatory Reporting

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22 XV. Legal

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XVI. Monitoring and Reporting

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

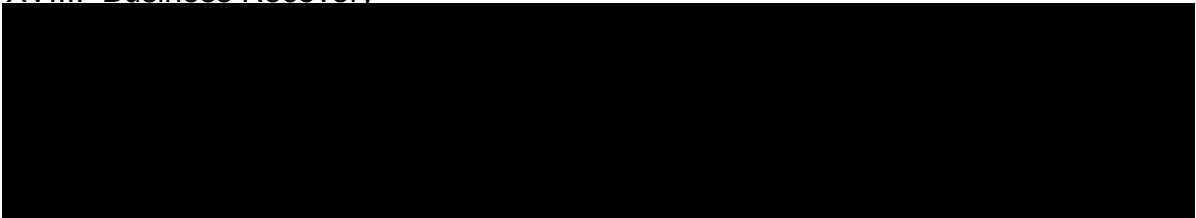


The Portfolio Management group will prepare regular position reports. The Energy Analysis group will report preliminary gross margins or P&L on a daily basis.

XVII. Personal Trading

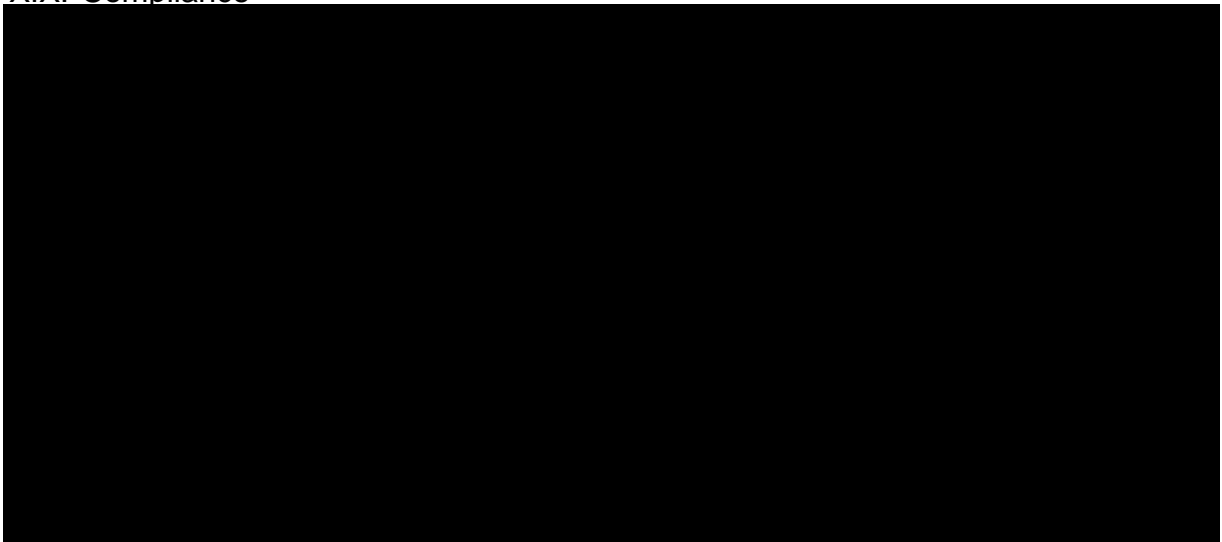
All employees whose activities are governed by this RMP as defined in Section XIX are prohibited from trading any approved commodity for their own account or for the benefit of any party except as specifically authorized as part of the individual's duties with the Company.

XVIII. Business Recovery

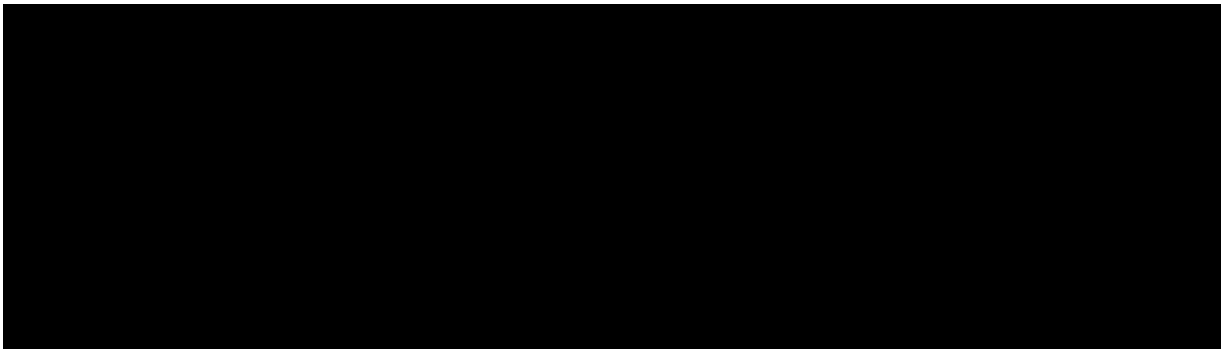


1 XIX. Compliance

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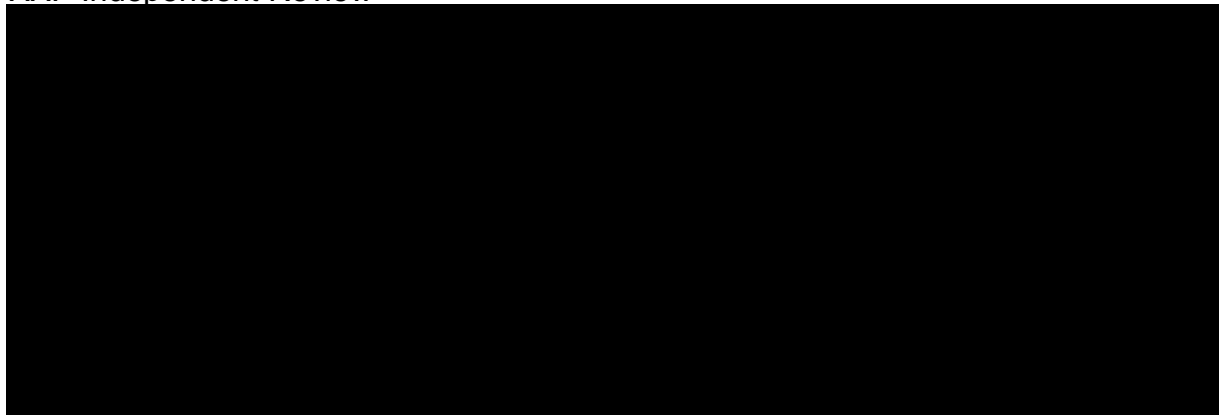
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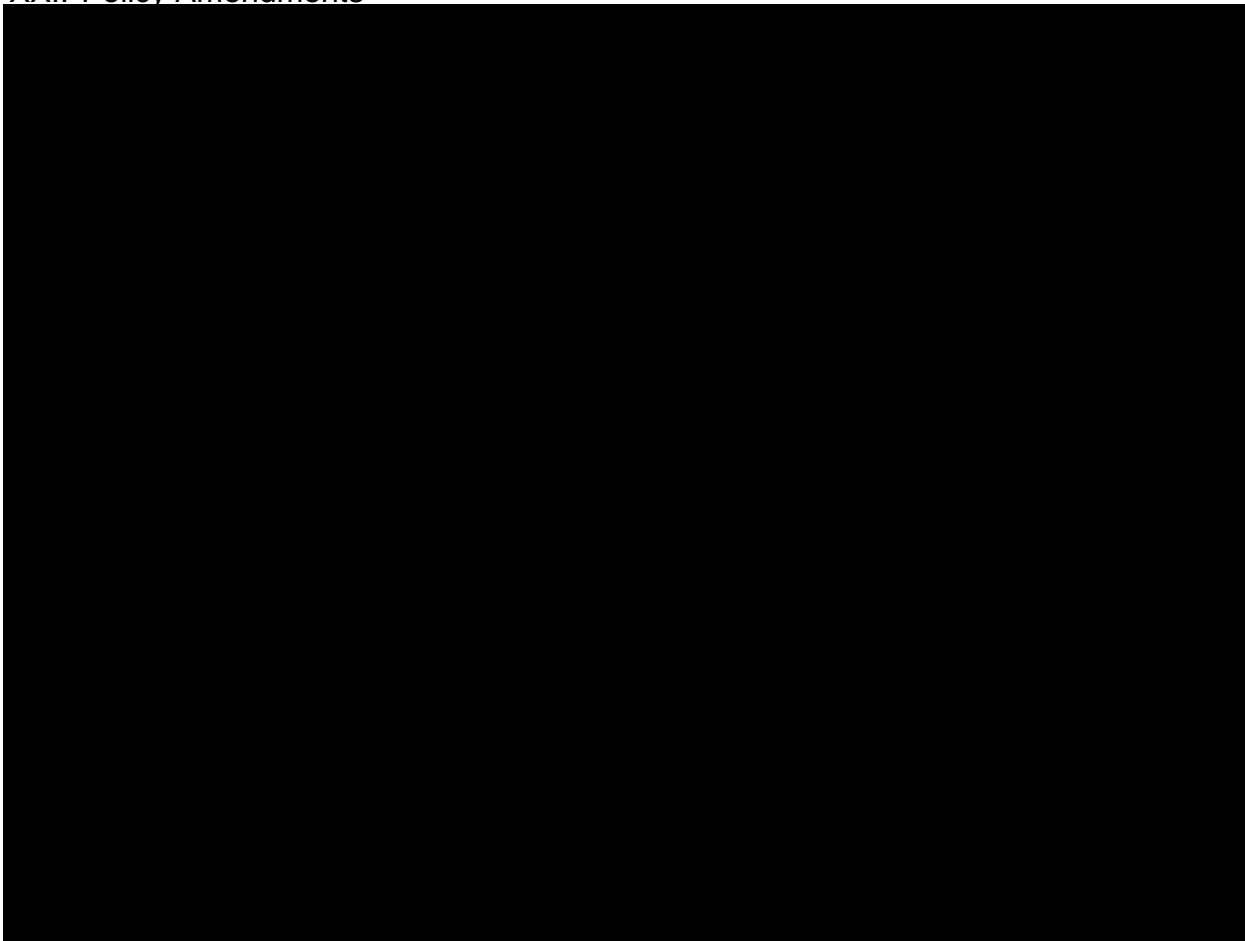
17 XX. Independent Review

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1 XXI. Policy Amendments

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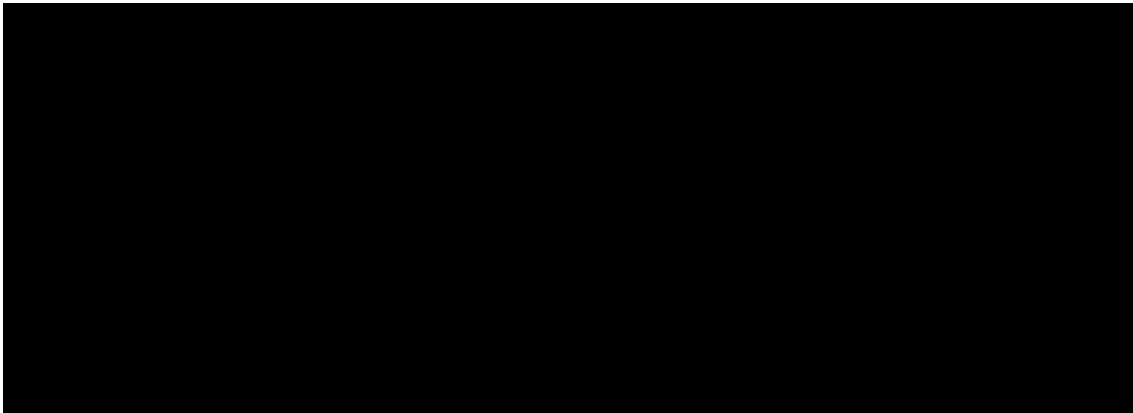


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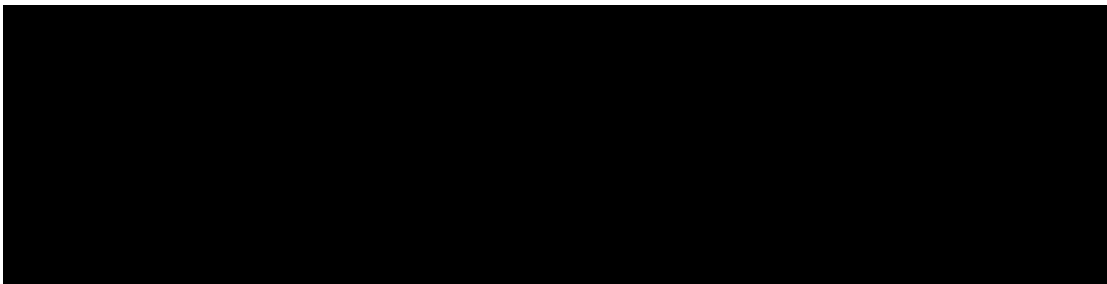
APPENDIX A
APPROVED BUSINESS OBJECTIVES

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:



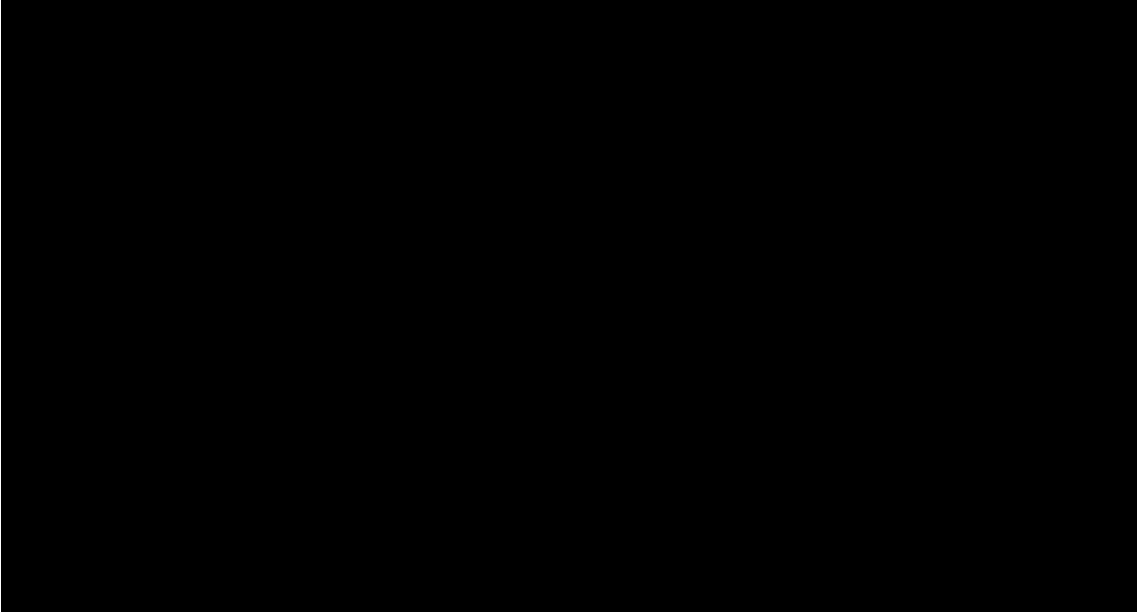
Any Primary or Secondary Strategies that would require clearing and / or posting of margin must be approved by the Risk Advisory and Controls Committee prior to execution.

1 Southern Power Company Trading & Asset Management

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

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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):

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

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.

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5 Natural Gas Fulfillment Function

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

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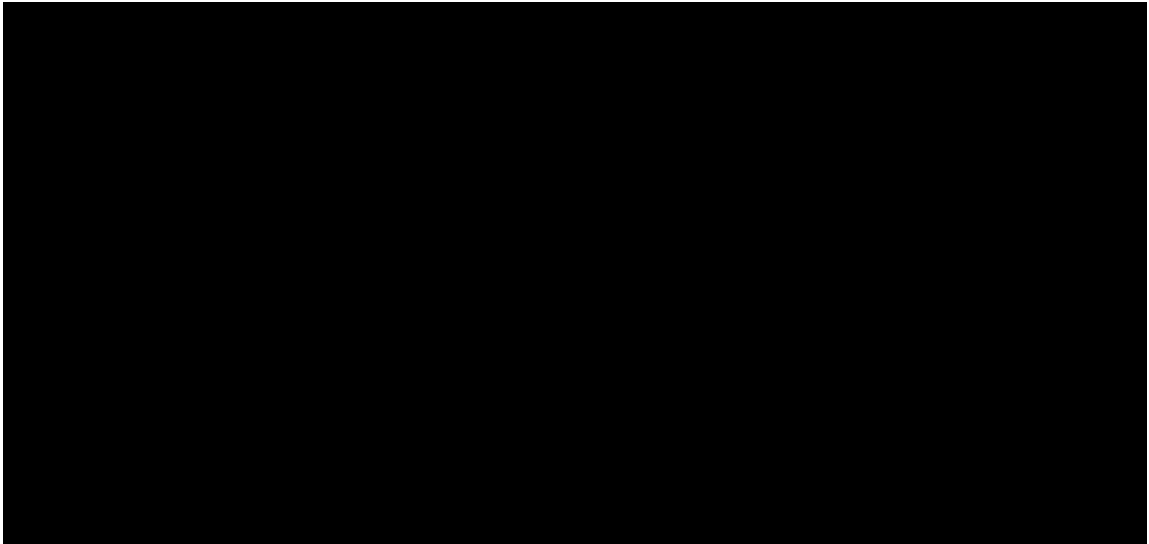
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17 Secondary activities of the natural gas fulfillment function are restricted to positions
18 intended to hedge secondary power positions, and which have been requested by
19 Fleet Operations and Trading or SPC Trading & Asset Management.

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21 Environmental Products Management Function

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

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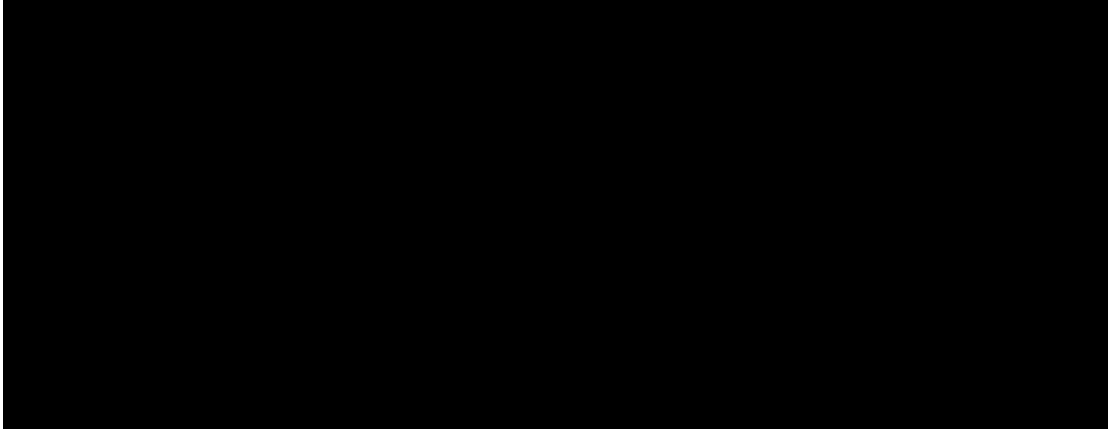
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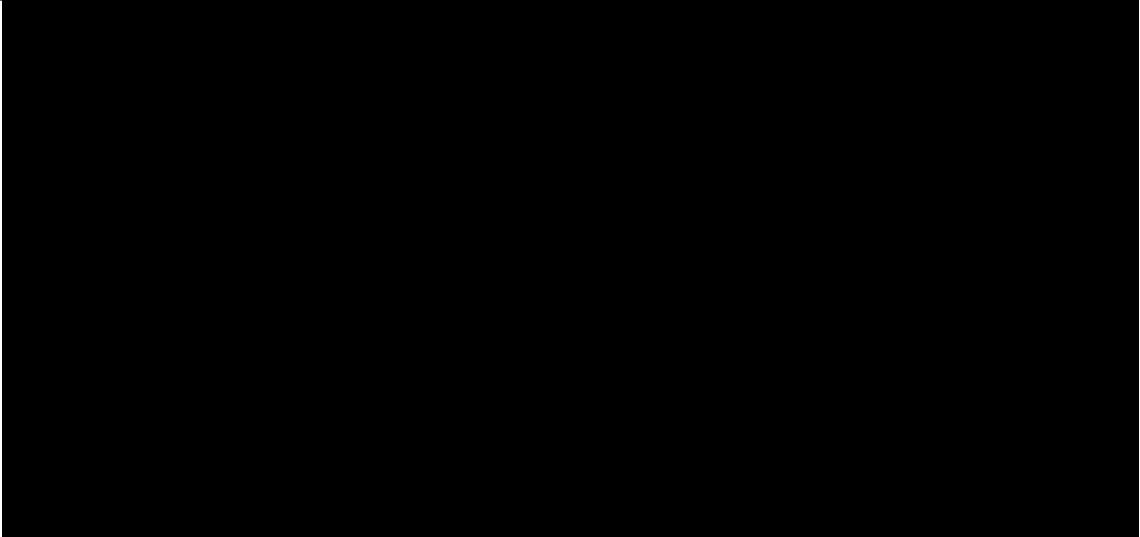
7 Secondary activities of the Environmental Products Management Function are
8 restricted to positions intended to hedge secondary power positions, and which have
9 been requested by Fleet Operations and Trading or SPC Trading & Asset
10 Management.

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12 Coal Fulfillment Function

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

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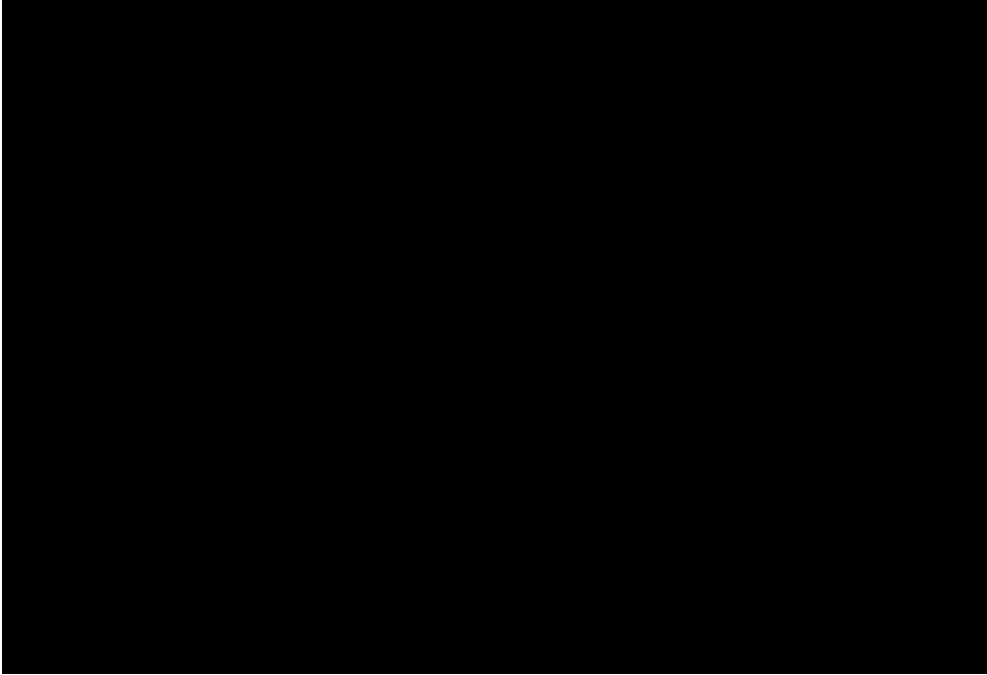
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24 Secondary activities of the Coal Fulfillment Function are restricted to positions
25 intended to hedge secondary power positions, and which have been requested by
26 Fleet Operations and Trading or SPC Trading & Asset Management.

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APPENDIX B
APPROVED COMMODITIES

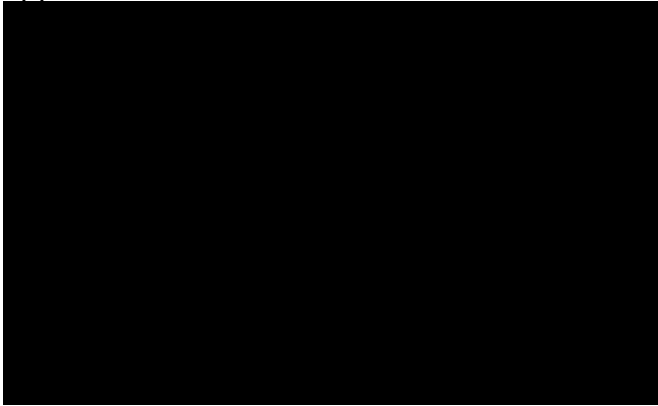
The approved commodities for this RMP are:



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APPENDIX C
APPROVED INSTRUMENTS

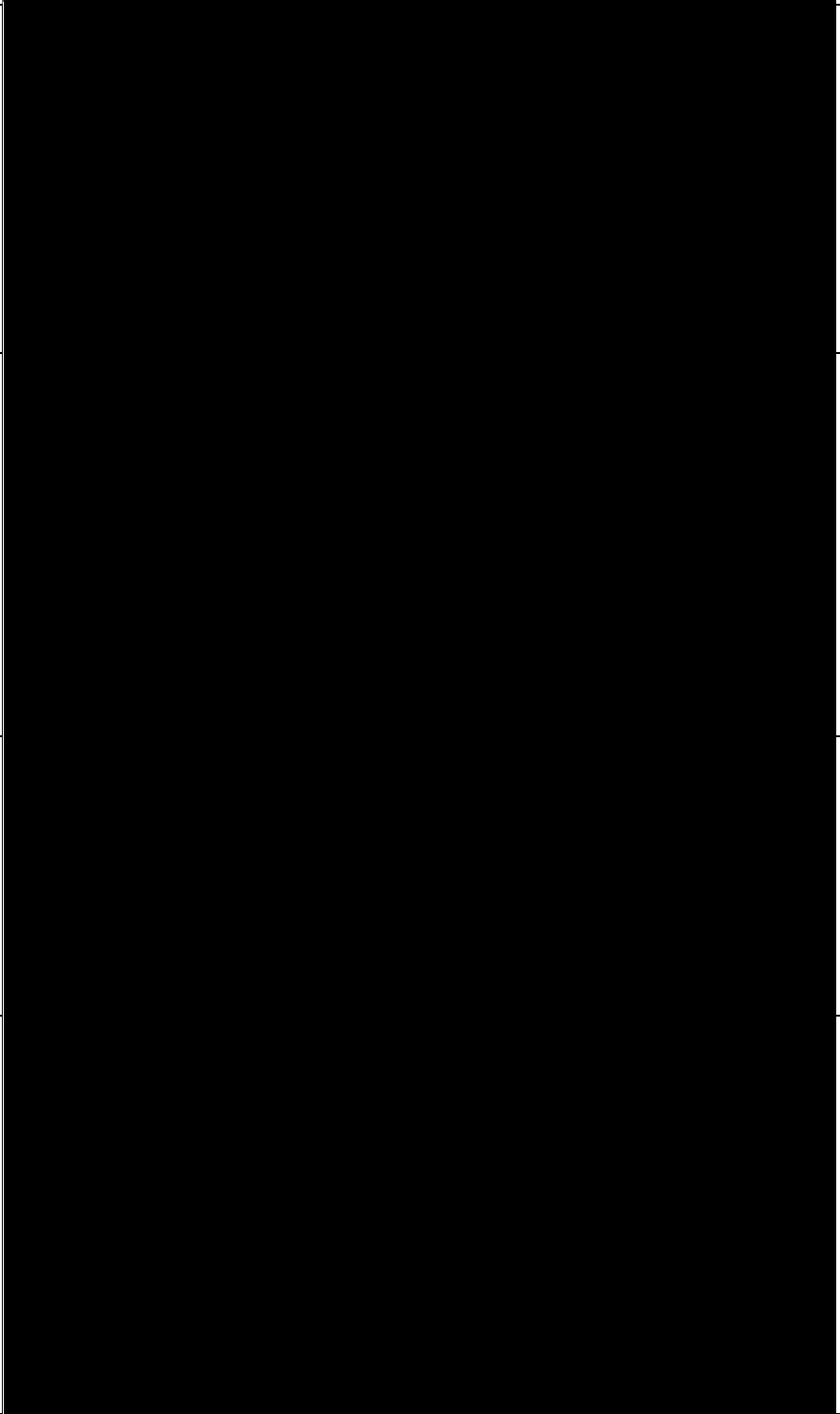
The approved instruments are:



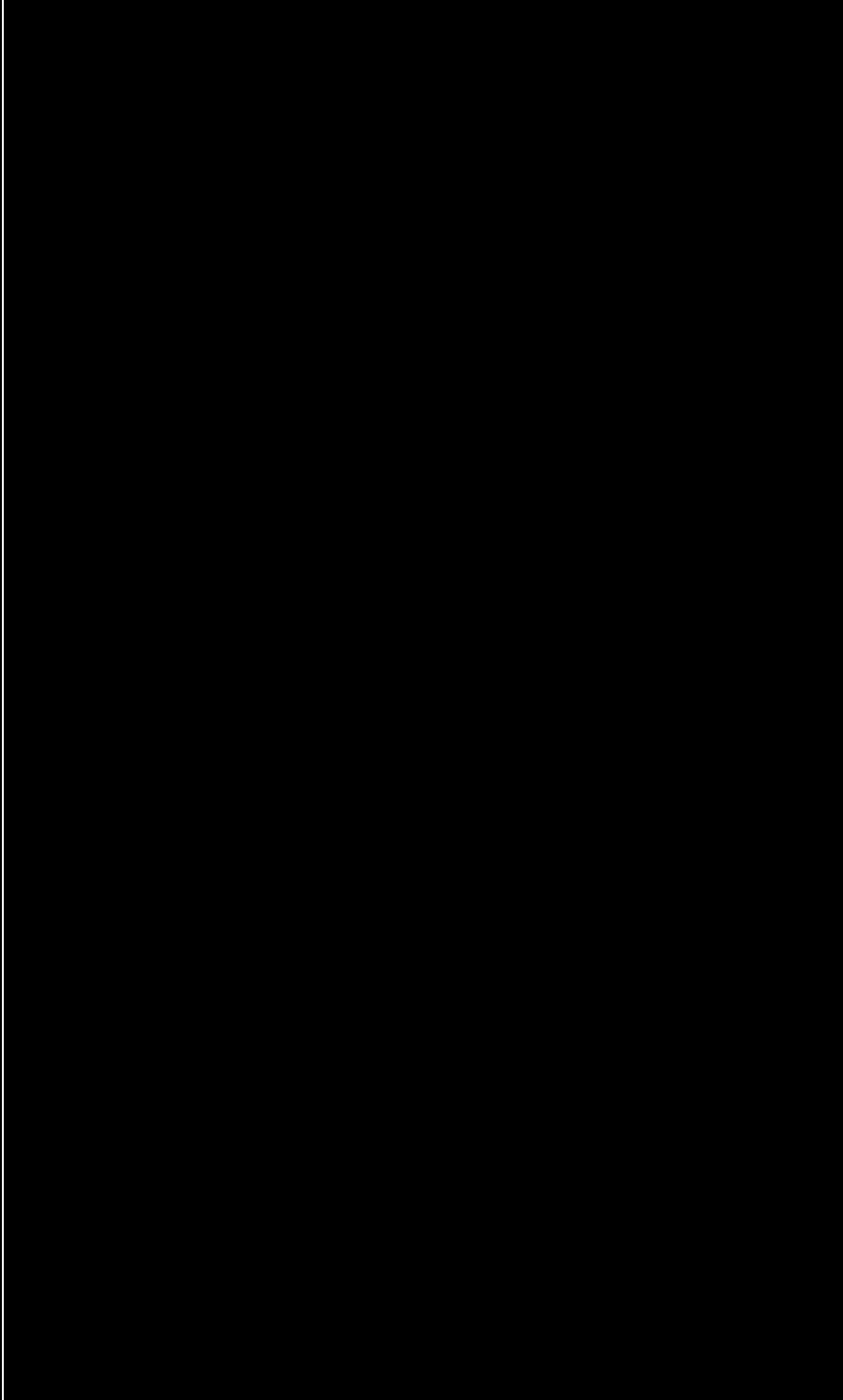
APPENDIX D
AUTHORIZATIONS

Name	Authority
Southern Company Risk Oversight Committee (SROC)	
Generation Risk Oversight Committee (GROC)	
Southern Power Risk Oversight Committee (SPROC)	
Risk Advisory and Controls Committee (RACC)	
Southern Company Generation Energy Credit Committee (ECC)	
Manager, Risk Control	

APPENDIX D
AUTHORIZATIONS (continued)
Energy Marketing

Name	Authority
Vice President, Commercial Operations & Services	
Vice President, Chief Commercial Officer, SPC	
Sr. Vice President, Chief Financial Officer, SPC	
Vice President, Fleet Operations and Trading	

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

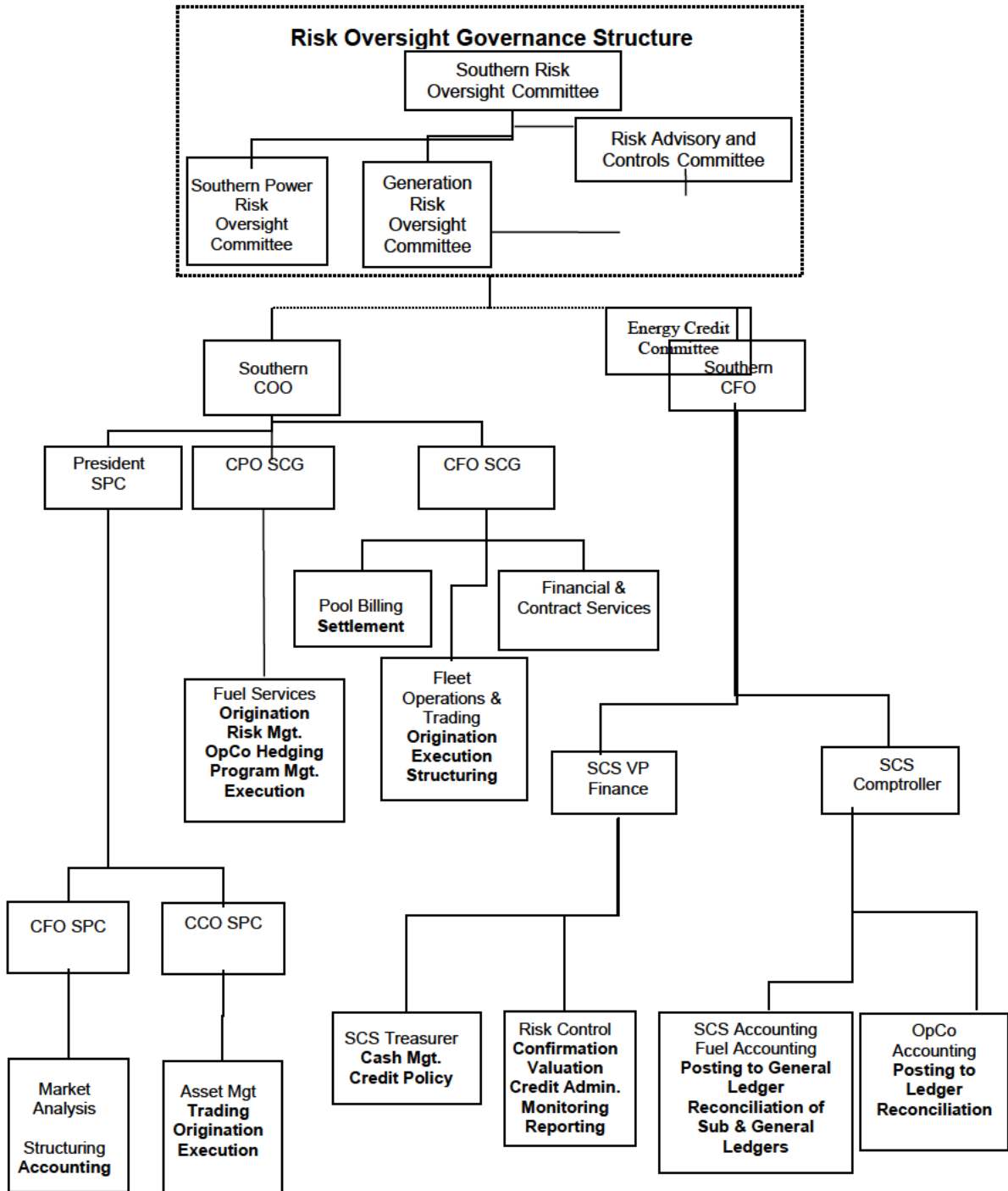


APPENDIX D
 AUTHORIZATIONS (continued)
 SCS Fuel Services

Name	Authority
Vice President, Fuel Services	
Gas Services Director	
Gas Operations Manager	
Gas Trading Manager	
Natural Gas Trader - Physical	
Natural Gas Trader - Financial	
Natural Gas Schedulers	
Coal Services Director	

APPENDIX E
SEGREGATION OF DUTIES

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



APPENDIX F
MARKET RISK MEASUREMENT

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

Parametric VaR Methodology

Formula Components

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

Equation

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

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

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

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:

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

and the expected upward stress is calculated as:

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

where Θ 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.

Price Return Distribution	
Holding Period	
Extreme Event Threshold	

Ad Hoc Stress Testing

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

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

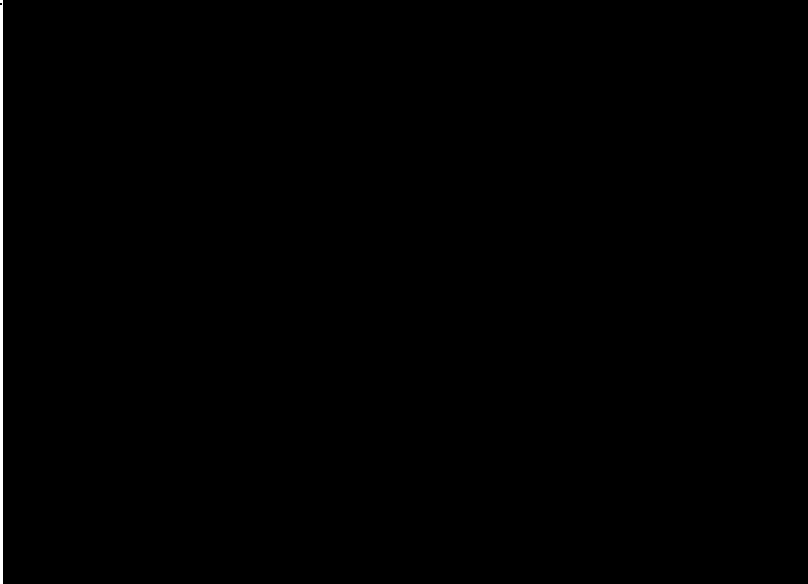
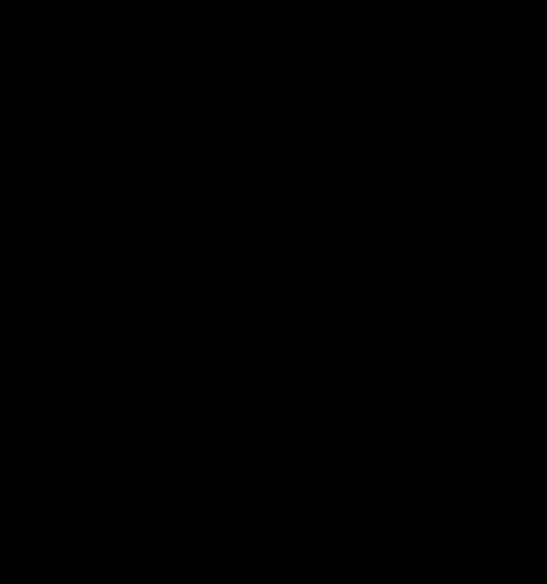
APPENDIX G
NOTIFICATION LEVELS

Position Classification	Income Change	Notify
Secondary Objectives		
Secondary Objectives		
Secondary Objectives		

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)		

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		

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.

APPENDIX G
NOTIFICATION LEVELS

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

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		

Position Classification	Value-at-Risk	Notify
All SPC positions		

APPENDIX H
MARKET RISK LIMITS

Net Open Position Limits

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

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.

APPENDIX I
INCUMBENT LISTING; AUTHORIZED INDIVIDUALS

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

Southern Company Risk Advisory & Controls Committee

Title
CFO & CRO, Southern Company
CFO, APC
CFO, GPC
CFO, Gulf Power Company
CFO, MPC
CFO, Operations
CFO, SPC
CFO, VP & Treasurer Southern Communications
VP Comptroller & Treasurer, SNC
Comptroller, CAO, & SVP, SCS
EVP Finance & Treasurer, SCS
VP & Associate General Counsel, SCS
Chief Audit Executive – invited guest

APPENDIX I
INCUMBENT LISTING; AUTHORIZED INDIVIDUALS

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

Southern Power Risk Oversight Committee

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

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

APPENDIX I
INCUMBENT LISTING; AUTHORIZED INDIVIDUALS (continued)

Authorized Individuals

Title	Application / Role (3)	Approved Commodities								
		Electricity		Natural Gas			Coal	Oil	Allowances	RECs
		Energy	Trans.	Gas	Trans-port	Storage				
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/Public	(1)	(1)							
Hourly Trading Mgr.	SCS GemTrader / NextHour	X	X							
Energy Coordinator	SCS GemTrader / NextHour	X	X							
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)							

Notes:

- (1) Authority to make changes to transactions including entering transactions related to loss adjustments and full/partial requirements customers.
- (2) Authority to direct a transaction.
- (3) A complete list of approved individuals is located in the following Cool Compliance entities: SCS GemTrader, Trader, Deal Entry; Attaché; Attaché Emissions; Attaché Financials & Trading. Choose the appropriate role to see a complete list of authorized individuals.

APPENDIX I
INCUMBENT LISTING; AUTHORIZED INDIVIDUALS (continued)

Authorized Individuals

Title	Application / Role (3)	Approved Commodities								
		Electricity		Natural Gas			Coal	Oil	Allow- ances	RECs
		Energy	Trans	Gas	Trans -port	Storage				
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 / Front Office				X	X				
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

Title	Application / Role (3)	Approved Commodities								
		Electricity		Natural Gas			Coal	Oil	Allow- ance	RECs
		Energy	Trans	Gas	Trans -port	Storag e				
Southern Power Company										
Manager - Trading & Asset Management	SPC GemTrader / Trader	X	(2)	(2)			(2)	(2)	(2)	(2)
Asset Management	SPC GemTrader / Public			(2)						(2)
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)				

Notes:

- (1) Authority to make changes to transactions including entering transactions related to loss adjustments and full/partial requirements customers.
- (2) Authority to direct a transaction.
- (3) A complete list of approved individuals is located in one of the following Cool Compliance entities: SCS GemTrader, Trader, Deal Entry; Attaché; Attaché Emissions; Attaché Financials & Trading. Choose the appropriate role to see a complete list of authorized individuals.

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.

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1 APPENDIX K
2 EMPLOYEE ACKNOWLEDGMENT
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4 I have been provided a copy of the Southern Company Energy Trading Risk
5 Management Policy (RMP) and have had an opportunity to read and familiarize
6 myself with its contents and understand the requirements that apply to my
7 position.

8
9 I understand that the officers and Board of Directors of SCS place a very high
10 priority on each employee adhering to the requirements, policies, and procedures
11 described in the RMP and on the accurate tracking and reporting of levels and
12 types of risks as described in the RMP.

13
14 I agree to comply with the policies, requirements, and procedures of the RMP as
15 all or portions of the RMP apply to my position. I do not have any questions
16 regarding or need to clarify any matters contained in the RMP. I understand that
17 failure to comply with the RMP or associated or related policies can result in
18 disciplinary actions up to and including termination of employment.
19

20 _____
21 Printed Name
22

23 _____
24 Signature
25

26 Date: _____, 20__
27

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

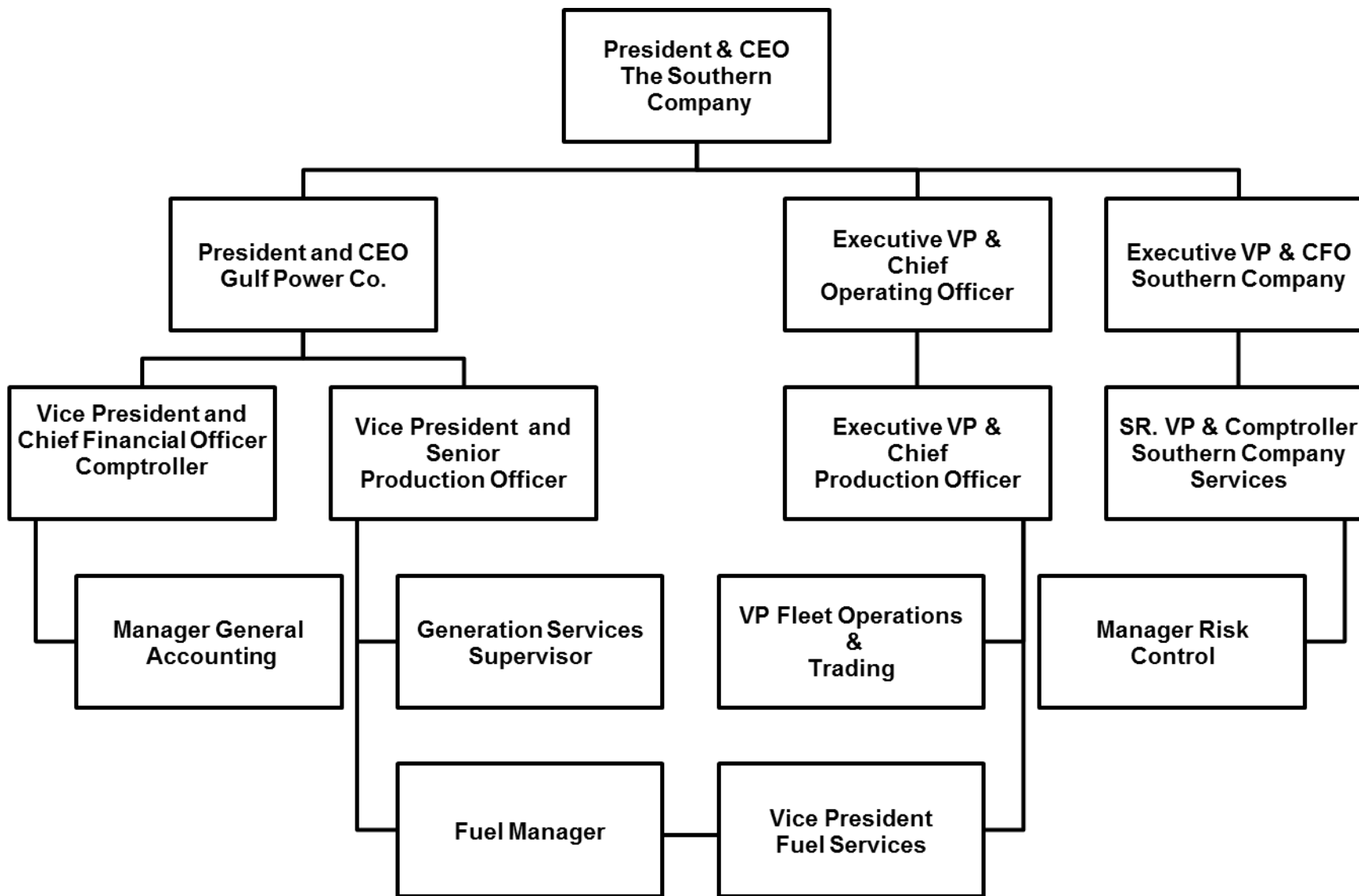
APPENDIX L DEFINITIONS

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.
Approved Risk Management Instruments	Those instruments listed in Appendix C which have been approved.
Authorized Trading Limit	The levels set out in Appendix H. Such levels are expressed in dollars that establish boundaries for maximum value at risk due to changes in market prices.
Credit Policy	Southern Company Energy Trading Credit Risk Management Policy
Daily Portfolio Value	The net present value on a mark-to-market basis of yet to be performed transactions from all approved portfolios.
Financial Instruments	Futures, forwards, options, swaps, and other derivative or financial risk management transactions entered into to hedge price risks.

Forwards	An agreement to buy or sell a quantity of a product, at an agreed price, on a given date, with a specific counterparty. Forwards are typically trading in the over-the-counter (OTC) markets.
Futures	An agreement to buy or sell a quantity of a product, at an agreed price, on a given date, traded on an exchange, and cleared by a clearinghouse.
Hedging Strategy	A trading strategy intended to reduce risk.
Illiquid Market	A market characterized by wide bid/offer spreads, lack of transparency, and large movements in price after any sizable deal.
Mark to Market (MTM)	The value of a financial instrument, or risk book of such instruments, at current market rates, or prices of the underlying commodity.
Market Positions	Positions taken that are readily liquidated at a readily observable and transparent price.
Net Open Position	The sum of all open positions for the approved commodities on an equivalent basis.
Open Position	The difference between long positions and short positions in any given risk book.
Option	An instrument which provides the holder the right, but not the obligation, to sell to (or buy from) the option seller the underlying commodity at a specified price and time.
Originator	The lead individual responsible for negotiating the transaction with the counterparty.
P&L	Profit and loss
Premises	Southern Company Generation business office located in Birmingham, Alabama.
Products	Financial instruments and related transactions for approved commodities as dictated by usage.
Risk Book	The official record in which details of all transactions are maintained for valuing, monitoring, managing, and reporting said risk.

RMP	Risk Management Policy
Separation Protocol	The separation of SPC functions from the Southern Operating Companies (Alabama Power Company, Georgia Power Company, Gulf Power Company, and Mississippi Power Company) including information sharing and a separation of personnel in order to comply with a Federal Energy Regulatory Commission (FERC) Order.
SCS	Southern Company Services, Inc.
SPC	Southern Power Company
Swaps	An agreement to exchange net future cash flows.
Structured Transaction	Any negotiated transaction not readily traded in the market and the price of which is not easily validated.
Transactions	Futures, forwards, options, swaps, or other instruments conducted over-the-counter or via organized exchanges including long- and short-term agreements involving approved commodities or financial instruments.
Value at Risk (VaR)	The expected loss that will be incurred on the portfolio with a given level of confidence over a specified holding period, based on the distribution of price changes over a given historical observation period. (This is not an estimate of worst possible loss.)

Risk Management for Fuel and Wholesale Energy



BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: **Fuel and Purchased Power Cost**)
Recovery Clause with Generating)
Performance Incentive Factor) Docket No.: **160001-EI**

Joint Petition for Approval of Modifications)
To Risk Management Plans by Duke Energy)
Florida, Florida Power & Light Company, Gulf)
Power Company and Tampa Electric Company) Docket No.: **160096-EI**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing was furnished by electronic mail this 4th day of August, 2016 to the following:

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