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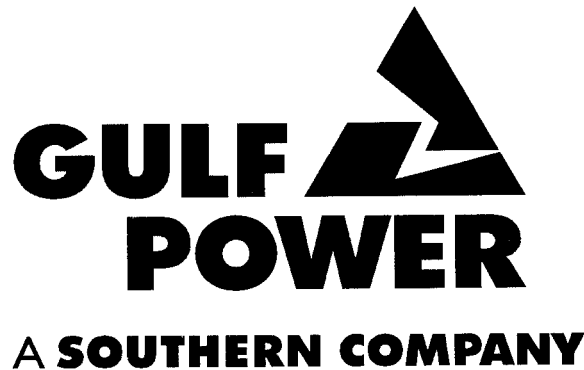
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GULF POWER COMPANY

Risk Management Plan
For
Fuel Procurement
Docket No. 050001-EI

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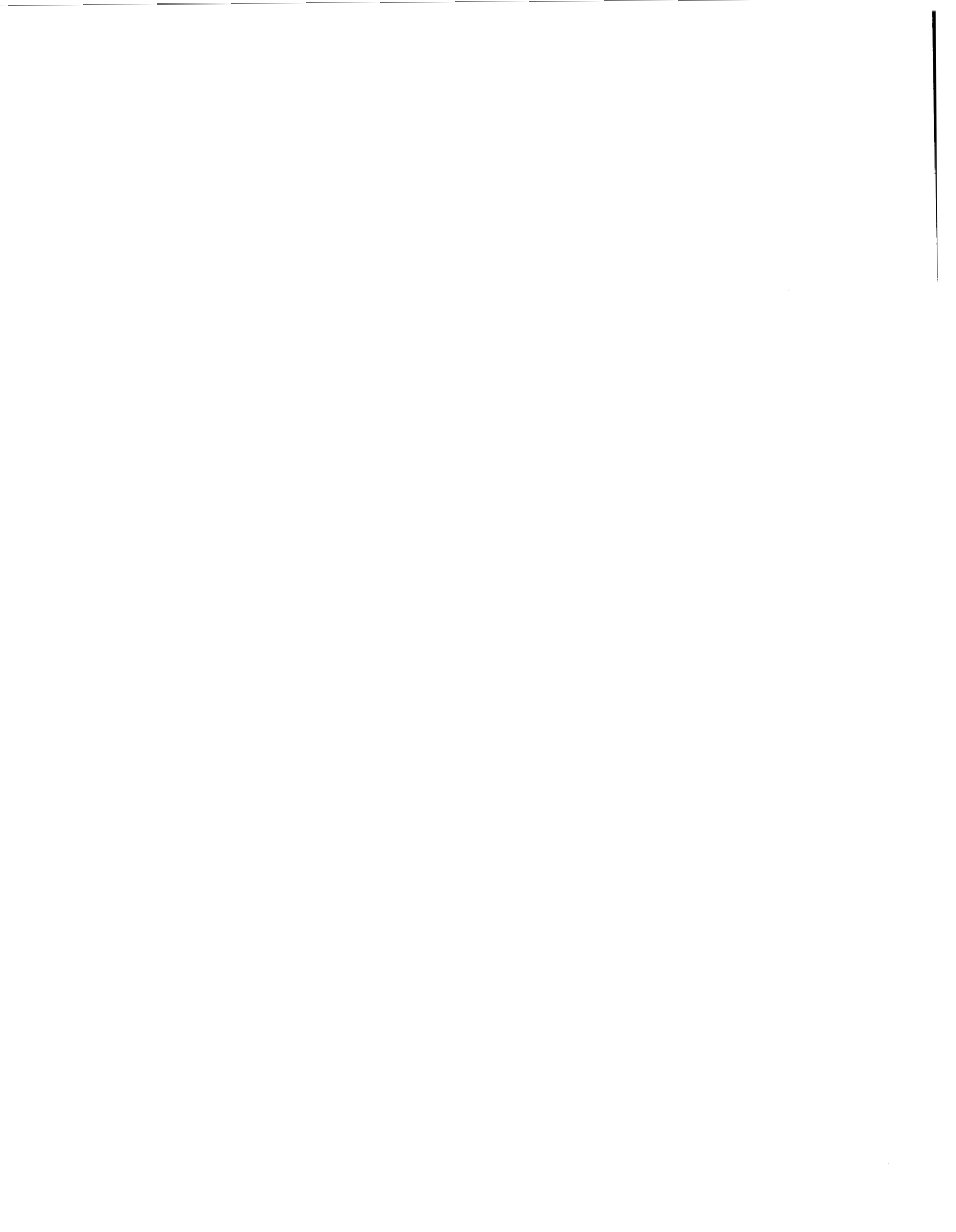
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GULF POWER COMPANY LONG-TERM COAL PROCUREMENT STRATEGY AND TACTICAL PLAN MARCH 2005

Introduction

Gulf Power Company reliably serves over 400,000 customers. In year 2004, Gulf Power generated over 15 billion KWH's with over \$367 million in fuel expense. Coal represented over 84% of Gulf Power's generation sources. Gulf Power Company operates three coal-fired plants (Crist, Smith, and Scholz) with a combined nameplate capacity of 1,355 Mw and projected annual coal consumption of 4 million tons. Gulf co-owns two coal fired plants; Daniel which is operated by Mississippi Power and Scherer which is operated by Georgia Power. The combined nameplate capacity of Gulf's ownership of Daniel and Scherer is 705 MW with a projected annual coal consumption of 2 million tons. The procurement of this coal is critical to the success of Gulf Power Company.

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

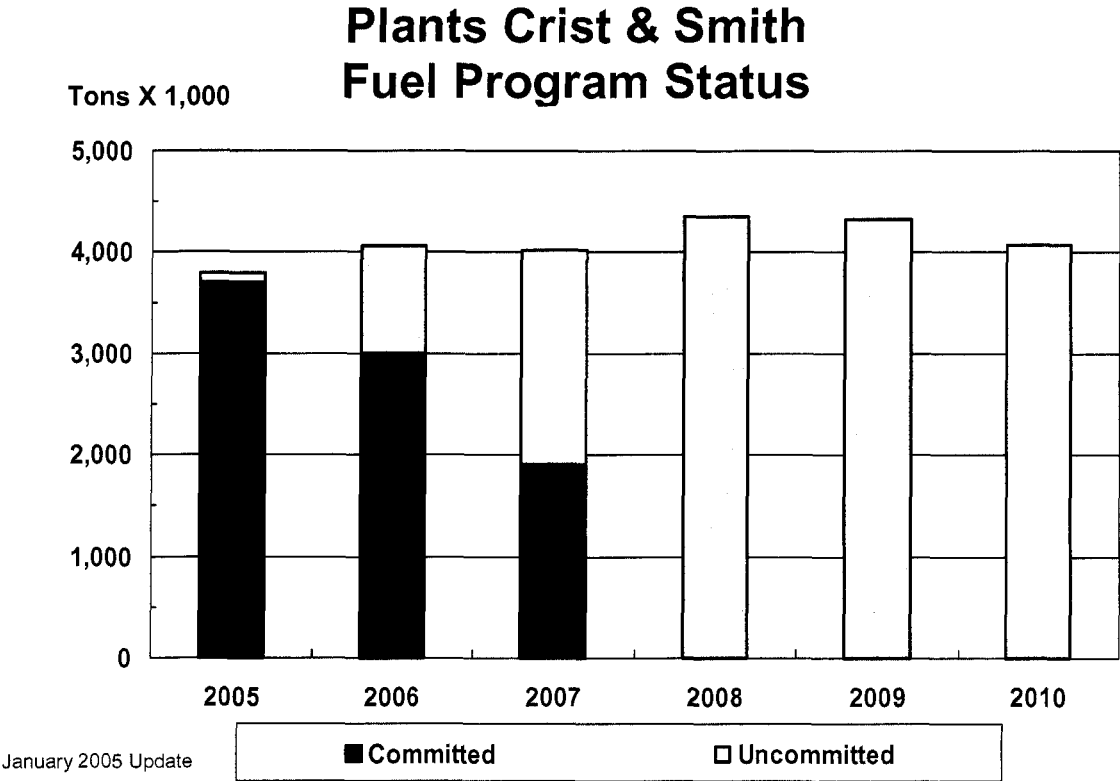
The following is provided in order to achieve this goal: 1) a review of the current coal program including current commitments and uncommitted requirements, 2) a procurement strategy that identifies and addresses specific risks and risk mitigation strategies and discusses a strategic plan, and 3) a tactical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

Fuel Program Overview

Plants Crist and Smith are barge served plants and have one long-term coal contract with Peabody COALSALES Company totaling 1.9 million tons of base coal and 600,000 tons of Right-To-Supply (RTS) coal. Due to the fact that they share a common transportation mode as well as a common coal contract, these plants will be grouped together in formulating a procurement strategy. Currently, the sourcing under this contract is American Coal Company's Galatia Mine which is located in the Illinois

Basin. Plants Crist and Smith currently have 1,850,000 tons of short-term (spot) coal committed for 2005. This leaves a remaining need of approximately 96,000 tons in 2005. The remaining need will be supplied with additional short-term (spot) coal purchases if required. The Peabody contract is due to expire in 2007.

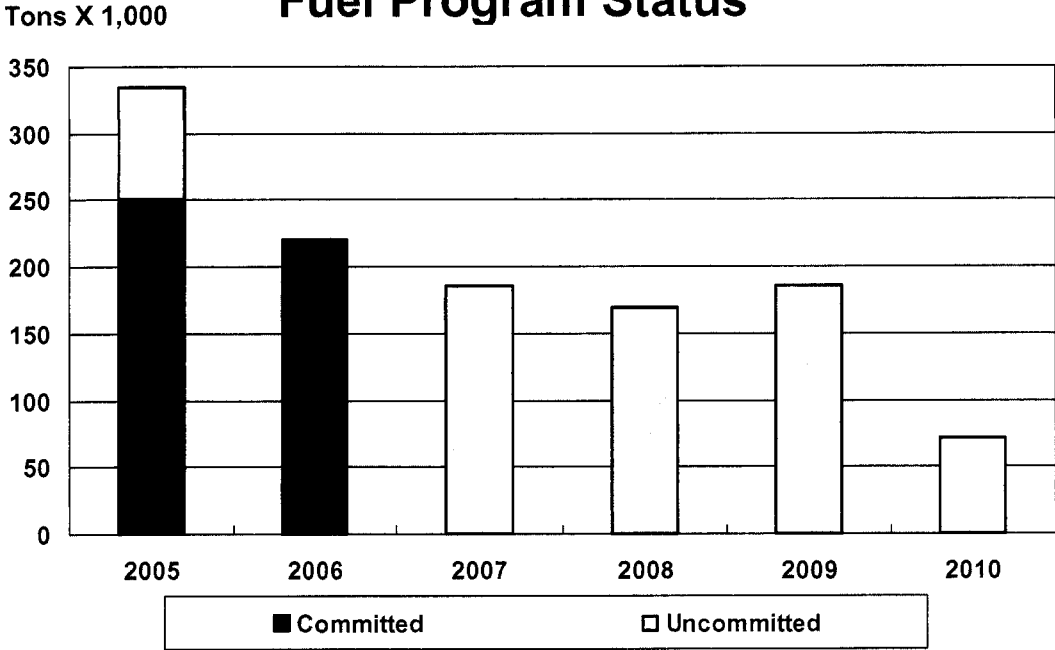
In the following charts, the projected requirements for year 2005 are from the December 2004 DEPS update and from the 2005 fuel budget for future years. The chart below illustrates the projected burn and commitments of coal for Plants Crist and Smith through 2010:



Plant Scholz is rail served and has a spot coal agreement with International Coal Group (ICG) in place for 2005 and 2006. This agreement is a two year requirements contract with a maximum cap of 250,000 tons and expires at the end of 2006. The 86,000 tons of remaining need in 2005 will be supplied with short-term (spot) coal. There are no committed tons at Scholz for 2007 and beyond.

The following chart illustrates the projected burn and commitments of coal for Scholz through 2010:

Plant Scholz Fuel Program Status



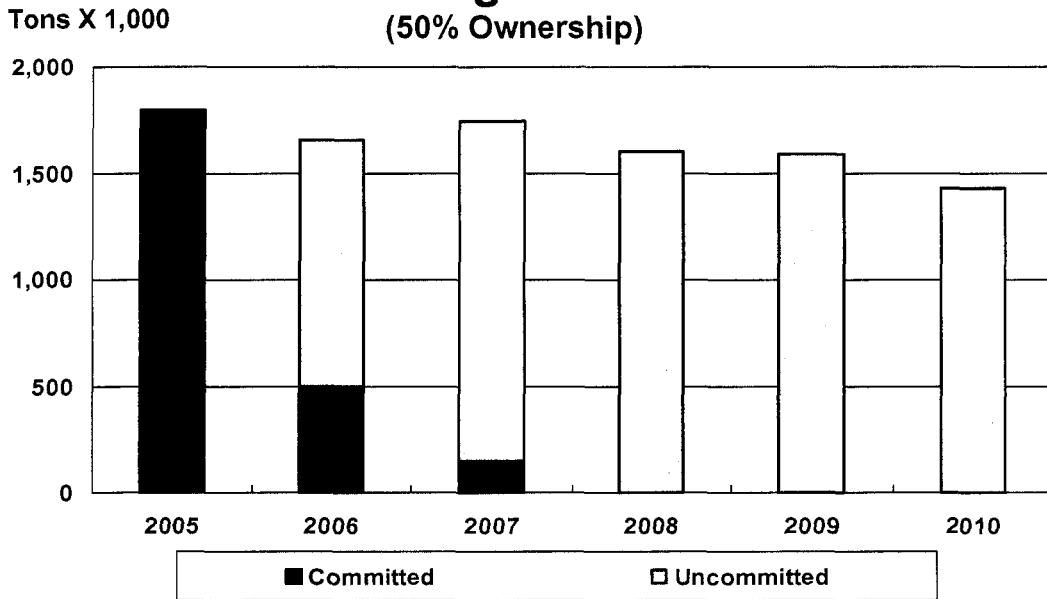
January 2005 Update

Gulf Power owns 50% of units 1 and 2 at Plant Daniel. Daniel is rail served and currently has one long-term coal contract with Peabody's Twenty-Mile mine in Colorado. This contract totals 2.3 million tons of coal. Plant Daniel has approximately 500,000 tons of make-up coal due from Arch's West Elk mine in Colorado from a previous contract that expired at the end of 2003 and 200,000 tons due from Peabody's Twenty-Mile commitment from 2004. Daniel also has two committed short-term (spot) coal contracts. The first with Peabody's Twenty-Mile mine, totaling 500,000 tons of right-of-first-refusal (ROFR) coal that is a part of the long-term contract mentioned above and the second is a spot coal contract with Oxbow Carbon.

In addition, Daniel burns a 60% bituminous coal - 40% PRB coal blend. The PRB portion of this blend is approximately 1.4 million tons for 2005. There is no remaining need for coal at Daniel in 2005. There are no committed tons at Daniel for 2008 and beyond.

The following chart illustrates the projected burn and commitments of coal for Daniel through 2010:

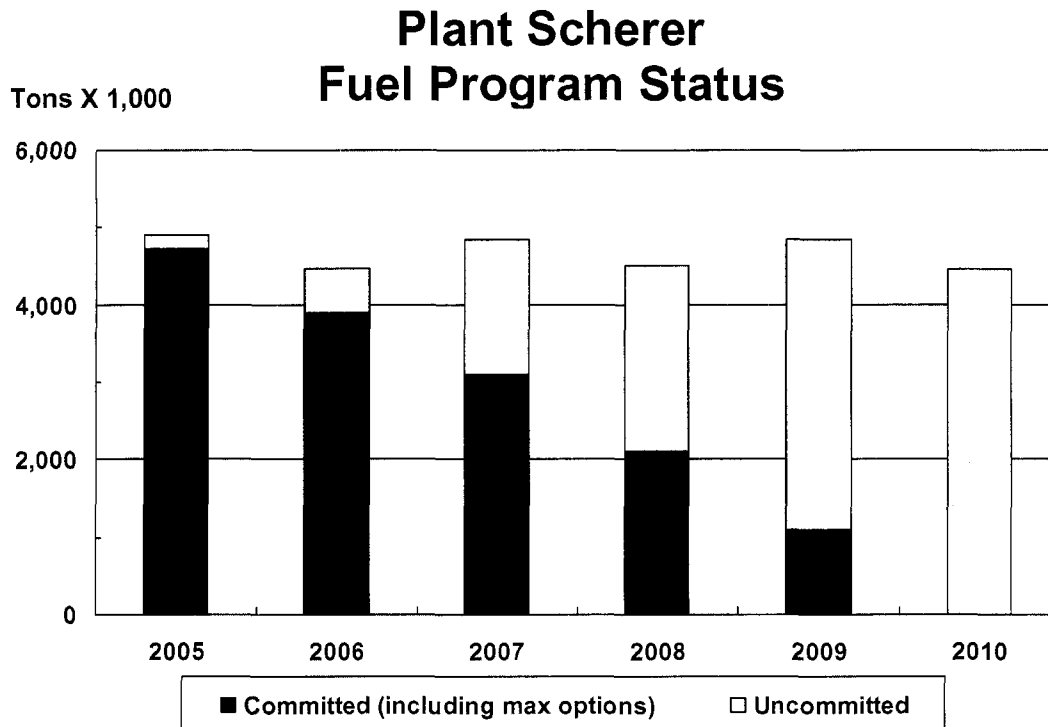
Plant Daniel Fuel Program Status (50% Ownership)



January 2005 Update

Gulf Power owns 25% of Unit 3 at Plant Scherer. The originating carrier from the Powder River Basin to Scherer is the Burlington Northern Santa Fe (BNSF) railroad. The destination carrier is the Norfolk Southern (NS) Railroad. Classified as a NSPS plant, Scherer must utilize "compliance" coal with a maximum of 1.2 lbs SO₂/MMBtu (0.6 lbs Sulfur/MMBtu). Utilizing Powder River Basin coal, this plant is considered on a stand-alone basis. This plant will burn approximately 14 million tons of PRB coal annually. Although served by the NS railroad, it is not typically considered in conjunction with purchases for the other NS served plants in the Southern system due to the sulfur restriction. Scherer is 97% committed for 2005.

The following chart illustrates the projected burn and commitments of coal for Scherer through 2010:



January 2005 Update (common ownership)

Procurement Strategy

As previously stated, the long-term coal procurement goal for Gulf Power Company will be to provide a reliable, cost-competitive, environmentally acceptable coal supply. The successful coal program must provide flexibility in volume and pricing, become more diverse by pursuing other supply regions, create competition for supply, focus on reliability of supply, and adhere to changing environmental laws and guidelines.

The following will address the risks associated with each of these areas and identify strategies to mitigate them. Also included in this section is a discussion of a strategic plan that incorporates several of these mitigation techniques.

Risks and Risk Mitigation Strategies

Volume Risk and Strategy

Uncertainty in the amount of coal generation and therefore coal supply that will be needed in the future is one of the most critical risks that must be addressed in developing a strategy for long-term coal procurement.

Uncertainty in coal burn requirements due to weather has always been a challenge; however, the increasing uncertainty of the predictable load base

of the past, due to competition in the electricity industry, provides new challenges. Also, the opportunity for more frequent and larger purchases and sales of electricity and competition with new gas-fired generation will result in the potential for more frequent and larger swings in coal requirements.

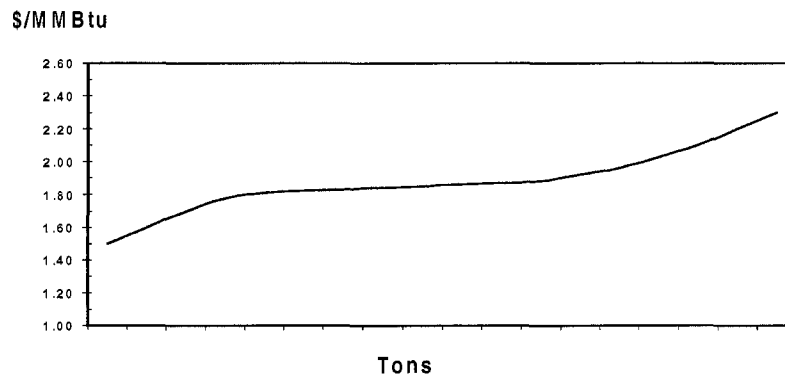
A portion of projected coal requirements should be firmly committed under long-term agreements providing a reliable and consistent supply of fuel. Coal suppliers also require a certain portion of long-term commitments in order to make financial investments in mining operations. Uncommitted requirements can be obtained through short-term (spot) purchases as needed. Also, volume options can be incorporated into the long-term contracts. The combination of these firm commitments, spot purchases and contract options should be optimized in order to provide sufficient flexibility to adjust to changing requirements and market conditions. Generating plants that are considered "base-load" have less uncertainty and therefore should be firmly committed to a higher percentage of future coal requirements. Base-load plants should utilize contract volume options primarily for pricing advantages as will be discussed later. Plants that are considered "intermediate" or "swing" plants possess more uncertainty relating to future requirements and should have firm commitments but at a lesser percentage than base-load plants. The intermediate plants should incorporate more short-term spot purchases and/or contract option flexibility. Plants that are considered "peaking" should have little or no firm commitments. These plants should rely on short-term spot purchases as needed or long-term agreements with volume commitments tied to the requirements of the plant.

Pricing Risk and Strategy

Competing for energy market share with other utilities and power marketers requires competitive energy pricing. With over 50% of the electricity cost for coal-fired generation being fuel, competitively priced coal supplies must be maintained. The objective is to have a portfolio of long-term contracts and spot coal supplies that provide pricing at or below market at any given point in time. Mechanisms to achieve this objective include: (1) starting the contract at or below market prices, (2) keeping the price fixed, or allowing only small annual price increases, below the expected rate of price inflation, (3) including contract volume options, purchased at a premium, if necessary, that can be optimized based on current market conditions, and (4) reopening the contract (market reviews) every three years or less in order to adjust the contract price to the market price of coal. Also, because of the size of our system, the volume of purchases made at a particular time can impact the market. Typically

pricing varies from the low cost producers to the higher cost operations. Ranking bid proposals in order of least cost and cumulative volume produces the following price curve.

Fuel Price Curve



Purchasing large volumes of coal requires purchasing higher on the pricing curve. This risk can be mitigated by staggering the term of all long term agreements such that no more than 20-30% of the total volume of commitments expires or is subject to market review in any one year. Where market power permits, additional mechanisms which can keep coal prices competitive include (1) the use of unilateral price reviews, which provide the ability to maintain contract pricing at or below market pricing, and (2) multi-year contracts which have fixed prices throughout their terms. Other desirable pricing terms include (1) buy-out clauses, to enable us to reduce future liability for unneeded or uneconomical coal, (2) caps on suppliers' governmental imposition claims, and (3) the use of quality penalties to discourage the shipment of lower quality coal.

Diversity of Supply Risk and Strategy

Procuring coal from various regions and suppliers is increasingly important. There is a risk in relying on one or two large producers from a single supply region to meet supply needs. It is increasingly important to avoid having significant quantities committed with a single supplier. Also, having the ability to utilize coal from various regions will decrease the availability risk associated with lack of supply in a particular region. The economic impact associated with a diverse portfolio of long-term commitments from various regions and suppliers must be evaluated versus the advantages. Diversifying will also keep the competition strong not only among the suppliers, but among the regions as well.

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

The objective will be to continue to create competition among the regions and avoid being captive to one or two markets. As mergers and acquisitions continue in the coal industry, there is value in keeping some of the smaller producers healthy to ensure adequate competition among coal suppliers for the future.

Reliability Risk and Strategy

Reliability of coal supply has not been a major issue for the past twenty years. The events occurring today pertaining to reliability of supply were last seen surrounding the events of the oil embargo of the 1970's. At that point, contracts were not being honored in much the same respect as today. Since that time, the coal industry has lived in an oversupply situation. During the past 10 years, the financial health of the coal industry has deteriorated such that many companies have either entered bankruptcy proceedings or have been sold, resulting in consolidation of the industry. In the current world of supply and demand imbalance, reliability of supply has once again surfaced and poses a risk that needs to be mitigated now and into the future. Securing business with producers that have performed well during times of unreliable supply can mitigate risk. Also, in addition to an economic evaluation, technical and financial evaluations of suppliers should be conducted and taken into consideration during the purchase process.

To capture the inefficiencies associated with supplier non-delivery issues, etc., stronger replacement cost language will be incorporated into future coal contracts. The producer will be obligated under this language to supply the amount of coal required under the Agreement, or pay to the Purchaser, the difference in the Seller's delivered cost and the delivered cost of replacement tons, including the differential cost of freight and sulfur emission allowances. Also, Purchaser shall have the right to offset any and all sums owed to Purchaser as a result of tonnage shortfall against any sums owed to Seller by Purchaser. Realizing that bankruptcy may render replacement cost language ineffective, other mechanisms, such as performance bonds, will be evaluated for inclusion in future contract negotiations.

With an emphasis on ensuring reliability of supply, it may be desirable to include language in coal contracts that offer incentives or premiums to producers who continue to perform and deliver on schedule, or even offer up front premiums to producers who agree to incorporate replacement cost

language in contracts. Reliability has value, and it will have a key role in future coal procurement strategies.

Environmental Risk and Strategy

When procuring coal for a term greater than 12 months, a major risk is the potential impact from future changes in environmental laws and regulations that may preclude the burning of coal or render its use non-economic to our system. With the current ongoing discussions of new multi-pollutant legislation, it should lead us to be most guarded in any future coal supply commitments which do not allow the company to clearly terminate or otherwise escape from these agreements. We cannot assume future environmental risk in coal agreements. When signing new long-term coal supply agreements we will include the most current environmental language that allows the company the maximum flexibility and discretion to modify and or terminate such agreements based on our sole judgment. Based on "lessons learned" from the SO₂ program where we also attempted to invoke "environmental force majeure", new environmental language must be absolutely clear that neither coal nor transportation vendors have the right to review and or question our selected compliance strategy.

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

Strategic Plan

When procuring coal for Gulf Power Company, Plants Crist and Smith will be grouped together because of their common supply source and transportation mode. Diversity of supply and flexibility will be important aspects of their fuel supply strategy. On the other hand, Plant Scholz can burn similar quality coals but their transportation mode differs as they are rail served. The co-owned plants, Daniel and Scherer, will be treated individually. We will consider the similarities and differences in these plants as we establish a long-term coal procurement strategy. Also, as discussed earlier, the strategic plan should be determined based on the type of plant

being considered, i.e. base-load, intermediate, or peaking. The plants for Gulf Power Company are as follows:

Plant Crist - Plant Crist is barge served by Ingram Barge Company. Historically and on average, Crist has burned approximately 2.5 million tons of coal a year and must comply with a state SO₂ emission limit of 2.4 lbs/mmBtu. However, Gulf Power Company seeks to maintain an SO₂ emission limit of 1.7 lbs/mmBtu to meet the local ambient air quality standards. For the last several years, Crist has been burning low sulfur Illinois Basin coal from the Galatia mine that is supplied under the Peabody long-term contract. Crist can also burn some Colombian import coals, as well as coals from Colorado and the Central Appalachian regions. Plant Crist is considered a base-load coal plant with a projected capacity factor in the 80%-90% range.

Plant Smith – Plant Smith is also barge served by Ingram Barge Company. Historically and on average, Smith has burned approximately 1,000,000 tons of coal a year. Smith must comply with the state SO₂ emission limit of 2.1 lbs/mmBtu. Smith can burn a variety of coals including Illinois Basin and import coals such as Colombian, Australian and Venezuelan. Domestic sources such as Colorado and Central Appalachian coals have also been burned in the past. Plant Smith is also considered a base-load coal plant with a projected capacity factor in the 80%-90% range.

Plant Scholz – Plant Scholz is rail served by the CSX Railroad. Historically and on average, Scholz has burned approximately 150,000 tons of coal a year and must comply with a state SO₂ emission limit of 6.17 lbs/mmBtu. Scholz has burned Central Appalachian coals in the past. Scholz currently has a requirements contract for up to 250,000 tons that expires at the end of 2006. Plant Scholz is considered an intermediate load coal plant with a projected capacity factor in the 50%-70% range.

Plant Daniel - Plant Daniel is served by the Mississippi Export Railroad (MSE). The MSE is a shortline railroad that is approximately 40 miles in length and runs between Moss Point and Evanston, Mississippi. The MSE is served by two large Class 1 railroads: the Canadian National Railroad connecting at Evanston and the CSX Railroad connecting at Moss Point. Classified as an NSPS plant, Daniel must utilize “compliance” coal with a maximum of 1.2 lbs SO₂/MMBtu (0.6 lbs Sulfur/MMBtu). Daniel can utilize import coals as well as coals from Colorado and the Central Appalachian regions. PRB coal has also been burned in Daniel’s units during off-peak periods. Plant Daniel is considered a base-load coal plant with a projected capacity factor in the 80%-90% range.

Plant Scherer –Plant Scherer is considered a base-load plant with a projected capacity factor in the 80%-90% range and burning approximately 14 million tons per year. As with the other base-load plants, the goal is to maintain firm commitments of 85-95% of the projected requirements on an annual basis and up to 20% contract options. Since there are a limited number of coal producers in the PRB and such large volumes will be utilized, commitments will be diversified with several, if not all producers. In addition, historically, the higher quality sources (8800 btu/lb) have been utilized due to operational and economic advantages. The use of the lower quality (8400 btu/lb) PRB coals serves to provide more diversity.

The risk mitigation strategies discussed earlier will be incorporated into the procurement strategies for these plants. Uncertainty in burn for the coal-fired plants is a major challenge. Due to the base-load nature of Crist and Smith, the goal is to maintain firm commitments of 85-95% of the projected requirements for the following year (year 1), a minimum of 50-60% of the projected requirements for year 2, 30-40% of the projected requirements for year 3, and 10-20% for year 4. If higher percentages of firm commitments are made for the future years, market price review provisions will be incorporated. Maximizing the amount of contract options will be a primary goal, even if it requires a small premium.

At Plant Scholz the fuel supply will be based on limited term firm commitments and/or spot purchases depending on burn projections. Contract commitment terms will be two years or less. If commitments are made for over 50% of the projected burn requirements, the contract will contain flexibility to limit the maximum annual tonnage purchased to the plant burn requirements. In order to increase the diversity of supply, the goal will be to have no more than 30% of a plant's, or group of plant's total supply committed with one supplier.

The Peabody base contract volume commitment of 1.9 million tons annually equates to approximately 50% of Plants Crist and Smith collective needs through 2007. The Galatia mine in the Illinois Basin is supplying coal for Peabody under this contract. Due to ever increasing environmental constraints, this coal is viewed as a less favorable long-term supply source than other coals for future years. Historically, the remaining need at these plants has been managed with short and intermediate term spot coal purchases.

Gulf Power is currently undergoing test programs at Crist and Smith to diversify their supply of coals. These test coals consist of import as well as other Illinois Basin supplies and have two purposes: (1) to develop and

approve new sources of coal which will allow for diversity of supply, (2) to diversify the supply of import coal purchases as the availability of domestic sources continues to be negatively impacted by adverse production costs and financial issues. The strategic objective will be to find alternative coal sources that will enhance Gulf's supply portfolio and will meet Gulf's environmental restrictions.

Traditionally, these plants have utilized domestic sources such as Illinois Basin medium-sulfur coals. Since 1999, market conditions, including production problems and lack of availability of supply in some domestic regions, and environmental restrictions have emphasized the need to diversify with other sources, including Colombian and other import coals. With the reliability and availability issues that currently exist in the domestic market, these other coal sources, transportation arrangements and plant limitations will be actively evaluated. Ports, terminals and other transportation issues associated with these alternative sources will be addressed in the transportation strategy. Another strategic objective will be to include these import sources as a large portion of future coal commitments, both long-term and short-term. As part of this objective, plant limitations due to the quality specifications of various coal sources and ways to expand the acceptable ranges of these parameters will continue to be explored through an active test burn program.

The strategic objective in the Daniel program is to diversify its supply, mainly because of recent performance issues with the Union Pacific Railroad (UP). In addition, Plant Daniel's current sourcing from Colorado is limited by availability of supply due to the fact that there are only four mines in this production region. This diversity of supply can be accomplished by purchasing a portion of Daniel's needs from import sources through the Alabama State Docks, thus mitigating the supply risk from Colorado sources moving on the UP. Daniel will also continue to evaluate the potential for extending the 60% bituminous – 40% PRB blend.

Scherer's objective is to keep diversity of supply since there are only three suppliers of the higher Btu PRB coal. Scherer currently has commitments through 2009 and the plan is to enhance those commitment percentages with a combination of long-term and spot coal purchases of PRB coal.

The environmental issue of concern to Gulf in the near term (2005 to 2009) is continued compliance with the "acid rain" SO₂ provisions imposed by Phase II of the Clean Air Act Amendments of 1990 (which began in 2000). Gulf's SO₂ bank of allowances will decline over the next few years. Continued utilization of low sulfur coal coupled with SO₂ allowance

purchases in 2008 and 2009 will be used to meet the SO₂ restrictions going forward. In the longer term, recently proposed CAIR (Clean Air Interstate Rules) will add additional SO₂ restrictions upon Gulf and cut the SO₂ emission cap in half in 2010 and beyond. CAIR will place additional restrictions upon Fine Particulate emissions, NO_x emissions associated with ozone formation, and new EPA regulations will address emissions of Mercury in 2010. With all these uncertainties that lie ahead regarding environmental issues, coal commitments should be structured to minimize risks if we must change coal sourcing to achieve compliance with these new environmental proposals previously discussed.

Tactical Plan

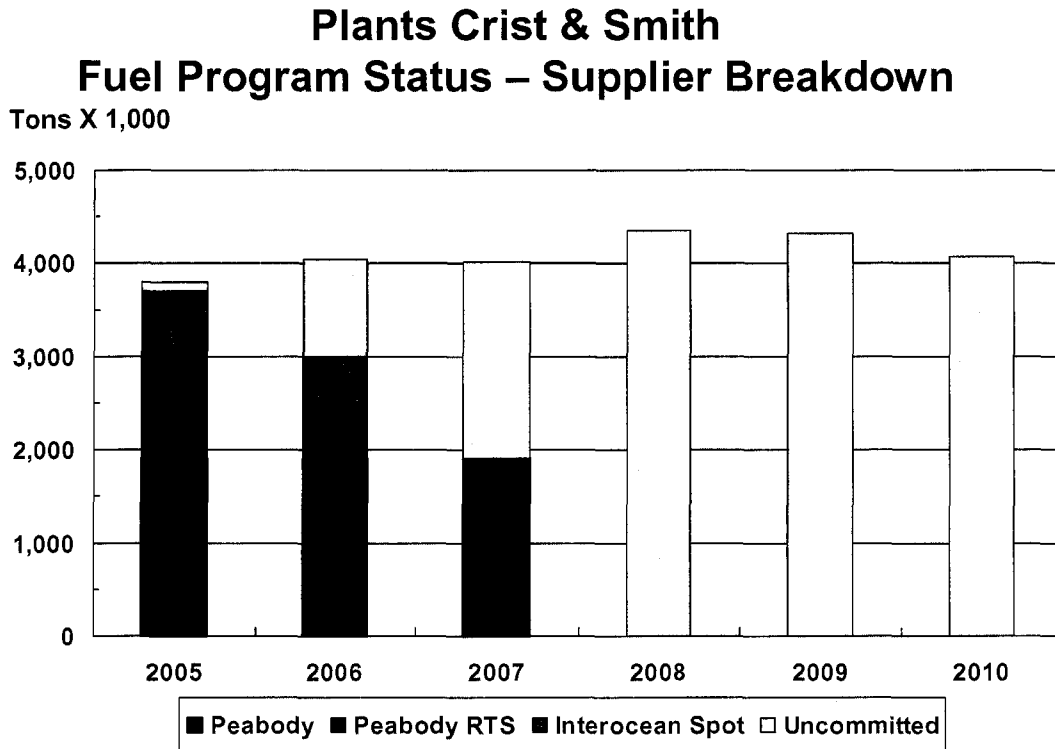
There are several issues and concerns facing the long-term Gulf coal procurement program. They are:

- (1) Coal prices are currently at record highs and, according to industry periodicals, are expected to remain high through 2006.
- (2) Gulf has no committed coal for 2008 and beyond.
- (3) Scrubber installation at Gulf's units.
- (4) Throughput congestion at the Alabama State Docks.
- (5) Plant Crist is currently limited to two approved sources: the Galatia coal and the Drummond Colombian coal.
- (6) State SO₂ limitations are: Crist = 2.4 lbs/mmBtu; Smith = 2.1 lbs/mmBtu and Scholz = 6.17 lbs/mmBtu.
- (7) Transportation concerns, particularly with the CSX Railroad at Scholz.
- (8) Reliability of supply, especially from the Galatia Mine and the Central Appalachian region.
- (9) Other environmental concerns.

Currently, there are no units at Gulf that are projected to be scrubbed until 2011, therefore, a scrubber strategy for these plants falls outside the scope of this document.

Crist and Smith

The chart below shows a breakdown of the current Crist and Smith suppliers and volume commitments, including options, through 2010:



January 2005 Update

Plants Crist and Smith are projected to burn between 4.0 and 4.3 million tons of coal a year between 2006 and 2010. In addition to the 1.9 million tons of Peabody contract coal, supplied under a subcontracting agreement with The American Coal Company’s Galatia Mine, and the 600,000 tons of Drummond Colombian RTS coal, Gulf has also committed to 500,000 tons of Drummond Colombian spot coal for 2006. Gulf’s program conforms to the long-term coal procurement strategy for Years 1 and 2 but does not conform in Years 3 and 4. Currently, Gulf is 76% committed for 2006 (Year 1), 45% committed in 2007 (Year 2) but has no commitments in 2008 and 2009 (Years 3 and 4). This procurement plan will commit a percentage of Gulf’s needs for 2008 and beyond, as well as address current market and availability concerns for 2006 and 2007.

Historically, the Galatia mine has incurred substantial volume shortfalls due to adverse geological conditions and other production related problems and is not considered a reliable source. It is in Gulf’s best interest to avoid purchasing large quantities of this coal. On the other

hand, the Drummond Colombian coal has been a very reliable supply and should constitute a significant portion of Gulf's future purchases. This will, of course, depend on pricing differentials and a risk assessment of each source's reliability and transportation modes. Another major concern for Gulf is throughput congestion at the Alabama State Docks (ASD) which handled a record 10 million tons of coal in 2004. Throughput congestion remains a concern for 2005 and projections indicate that throughput capacity could exceed 12 million tons in 2006. However, these throughput constraints should ease in 2006, allowing for the purchase of Gulf's 1.0 million tons of uncommitted need. The problem should be eliminated with the completion of Southern Company's priority berthing project at the ASD scheduled for the mid to late 2006.

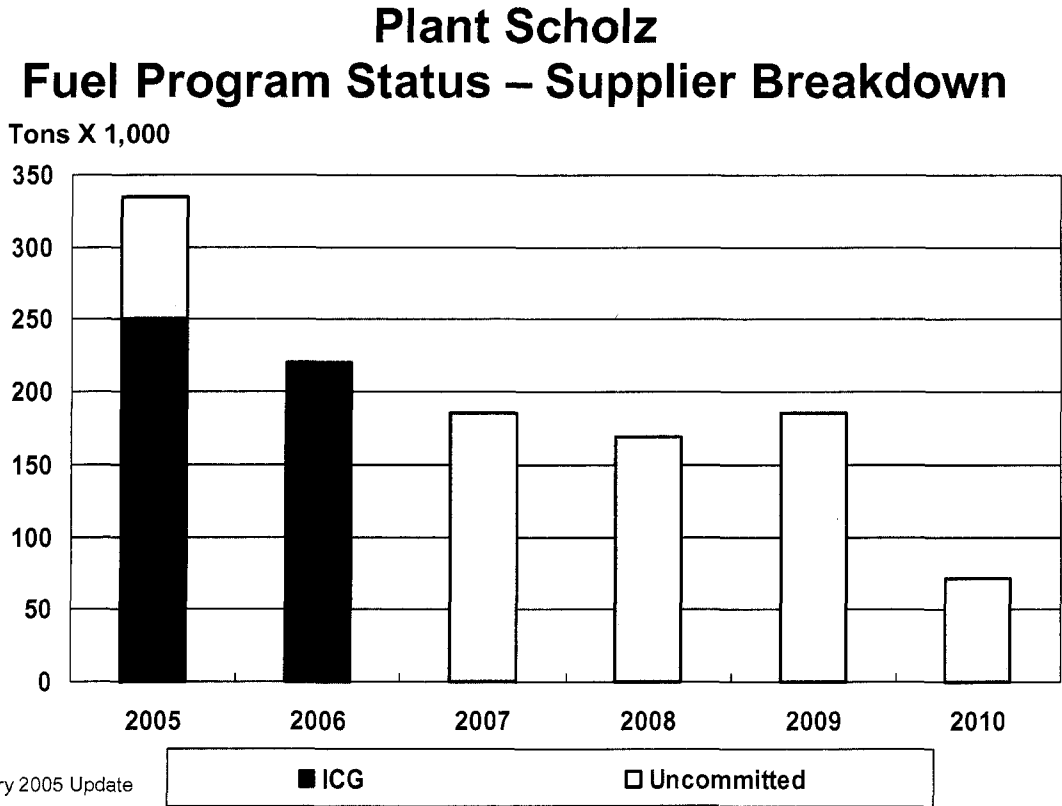
Because of supply concerns with the Galatia coal, the plan is to diversify the coal supply at Crist and Smith so that, in the future, they will not be dependent on one or even two sources. Smith has historically been able to burn different coals from many coal supply regions. As mentioned above, Crist has only a few coals that been approved and needs to diversify its supply. This will be accomplished by expanding their purchase portfolio through an extensive testing program. These tests will begin in the fall of 2005 and will include imported coals such as Russian, South African, La Jagua Colombian and domestic coals such as the lower sulfur Illinois Basin coals. SCS Fuel Services will schedule meetings with Gulf Power's Senior Production Officer and plant management personnel at Crist and Smith to educate them on the various coal sourcing options that are available to them.

Due to the current trend of high pricing in the domestic and international coal markets, the 2006 plan is to fulfill the uncommitted need of 1.0 million tons with spot coal purchases. These purchases will be secured through a spot coal RFP issued in the third quarter of 2005. The plan is to issue the RFP after the typical summer market pricing upswing for purchasing coal has ended. For 2007 through 2010, the plan is to issue a long-term RFP in early 2006 for purchases that fulfill Gulf's long-term procurement strategy. This, of course, will be dependant on the future state of the market. If pricing is still high, Gulf could delay any long term purchases until the market has softened.

If unfavorable offers are received under this long-term RFP, then Gulf would have the option of (1) rejecting all of the offers and buying spot coal to shore up inventories, (2) reject a portion of the offers and buy only that coal which is most desirable for the plant, or (3) re-issue a second long-term RFP at a later date when the market price for coal has softened.

Plant Scholz

The chart below shows a breakdown of the current Scholz supplier and volume commitment, including options, through 2010:



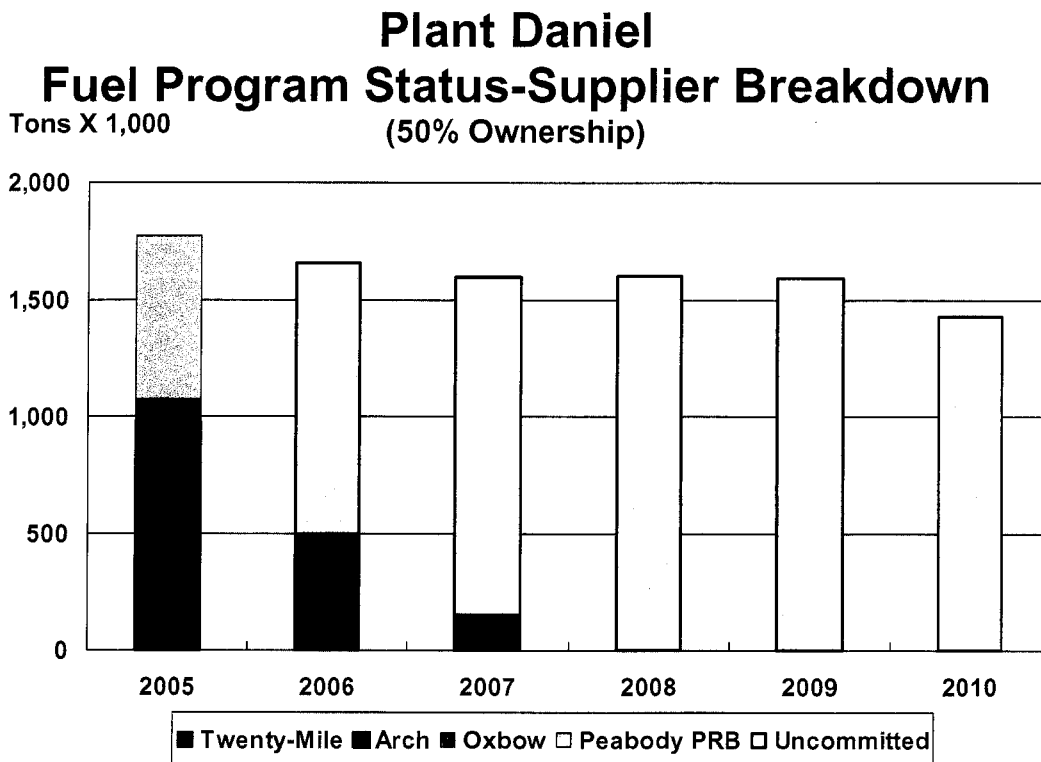
As mentioned above, Plant Scholz is rail served by the CSX Railroad. Scholz’s burn fluctuates between a high of 220,000 tons in 2006 to a low of 71,000 tons in 2010. This plant is scheduled for retirement in 2011. Historically, Scholz has entered into one to two year requirements contracts for its supply. They have also purchased spot coal on a year-to-year basis.

Scholz typically relies on purchases from the Central Appalachian coal region. Coal availability in this region has diminished over the past few years as (1) reserves have become depleted and (2) performance by the CSX Railroad has deteriorated. Due to Scholz’s peaking nature and the relatively small burn associated with this plant, the strategy remains to have little or no firm commitments at this plant. By summer of 2005, Gulf will identify certain imported coals and Illinois Basin coals that would be desirable for testing at Scholz. Gulf will solicit offers and perform test burns on these two coals in the fourth quarter of 2005 or first quarter of 2006. In the third quarter of 2005, a solicitation will be issued to secure 2006 needs

and beyond if the offers received are economical. Even though problems exist in the Central Appalachian region, sufficient quantities of coal are available to supply Scholz because of its relatively small annual burn. Gulf may request both one and two year offers under this RFP and include offers of imported coal as well as Illinois Basin coal. If unfavorable offers are received under this RFP, Gulf would have the right to reject all, or accept a portion of the offers received and buy spot coal on an as needed basis.

Daniel

The chart below shows a breakdown of the current Daniel suppliers and volume commitments, including options, through 2010:



January 2005 Update

As mentioned earlier, the strategy for the base-load plants is to have a certain percentage of firm commitments established for the next several years. For the next year's requirements, the goal is to be 85-95% committed. The goal is to be at least 50-60% committed for the second year's requirements, at least 30-40% committed for the third year and 10-20% committed for the fourth year. The chart above shows that for year 2005, 100% of the requirements are met with firm commitments, including make-up coal. The chart also indicates that in 2006 only 31% of the

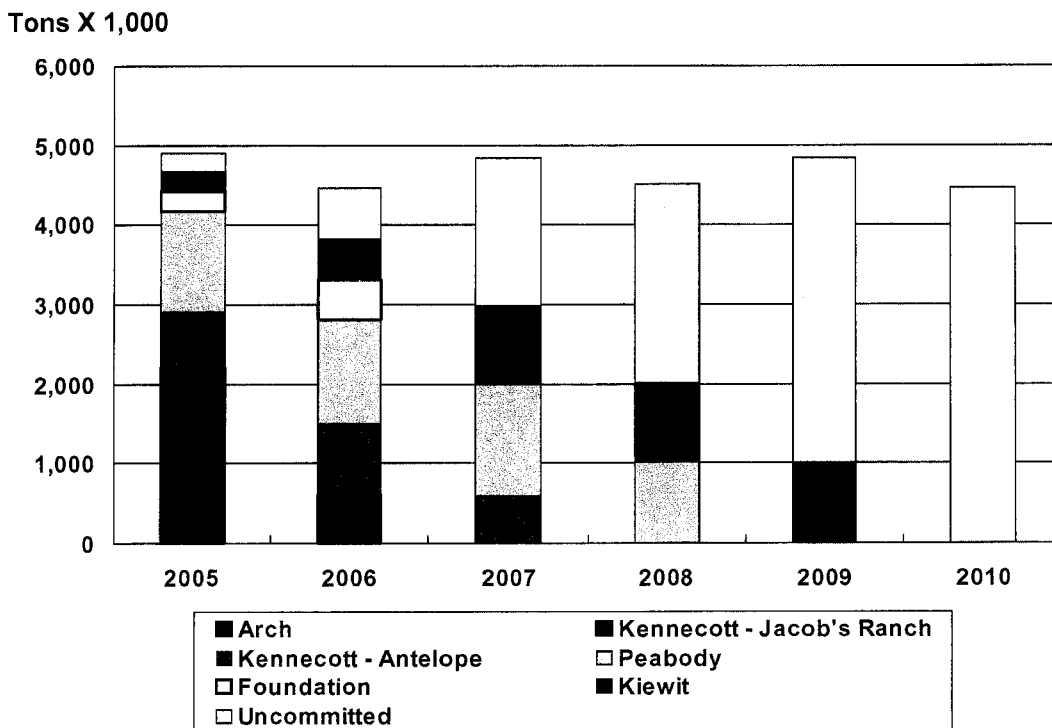
projected requirements are committed. A long-term solicitation has been issued for a four year term (2006-2009) in order to achieve the commitment goals listed above. These contracts will be negotiated using the contracting strategies mentioned above.

For 2006 and forward, the tactical plan consists of diversifying Daniel's coal supply into at least two regions with one supplier having no more that 30% of the plants commitment. We will accomplish this by testing various import coals as approved sources for Daniel. An example would be 2/3 import coal and 1/3 Colorado coal. The import portion could be sub-divided into different regions such as Colombia, Australia or Venezuela. In the case of Colorado, two different suppliers could be selected. This would ensure that, should supply problems occur, the other suppliers could continue seamless deliveries into the plant.

Scherer

The chart below shows a breakdown of the current Scherer suppliers and volume commitments, including options, through 2010:

**Plant Scherer
Fuel Program Status-Supplier Breakdown**



Scherer will continue to burn 100% PRB coal. For 2006 and forward, Scherer will issue a long-term RFP in 2005 for a 10 year period, or 2006 through 2015. The plan is to secure 50% of the burn requirements under this RFP. For the remaining 50% of burn requirements, the strategy is to maintain the following minimum commitments of the projected requirements:

- 90% for the following year (year 1)
- 80% for year 2
- 70% for year 3
- 60% for year 4
- 50% for year 5

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

(1) Fulfill the remainder of 2006 uncommitted needs at Crist and Smith by issuing an RFP for spot coal in the third quarter of 2005. Probable sourcing purchased under this RFP will be 70% Colombian and 30% imported coal. The Colombian coal and other imported coals are available for 2006. This plan would also include testing other coals.

(2) In early 2006, issue a long-term RFP for the period 2007 through 2010 for Crist and Smith. Purchases made from this RFP will conform to Gulf's long-term coal procurement strategy but will be modified with additional committed volumes to ensure supply. If pricing is unfavorable, inventories will be enhanced with spot coal purchases. Gulf may then re-issue a long-term RFP when the market softens. This methodology will continue into 2007 with long-term RFP's issued every subsequent year in order to shore up additional tons.

Gulf's long-term procurement strategy will be modified so that total committed purchases will equate to 75% of the projected requirement for 2007 (Year 1) and 50% committed purchases of the projected requirement for 2008 through 2010 (Years 2, 3 and 4). This plan will provide additional surety of supply and allow for flexibility in securing even more committed coal if the market softens and as other purchase opportunities arise.

(3) Identify and test burn certain imported coals and Illinois Basin coals in the fourth quarter of 2005 and early 2006. Issue a spot coal or requirements RFP for Scholz in the third quarter of 2005. If

pricing under this RFP is unfavorable, inventories will be stabilized with smaller volumes of spot coal purchases. Gulf will then re-issue an RFP at a later date when the market has softened. The most likely source for this purchase would be Central Appalachian coal. If Central Appalachian coal is unavailable to fulfill all or part of Scholz's uncommitted needs, then I will purchase imported coal to be delivered through the ASD or Illinois Basin coal rail direct.

- (4) In 2005, negotiate a long-term contract for the period 2006-2009 for Daniel. Purchases made will conform to Gulf's long-term coal procurement strategy but will be modified with additional committed volumes to ensure supply. If pricing is unfavorable, inventories will be enhanced with spot coal purchases. Gulf may then re-issue a long-term RFP when the market softens. As with Crist and Smith above, this methodology will continue into 2007 with long-term RFP's issued every subsequent year in order to shore up additional tons.
- (5) In 2005, an RFP will be issued for Scherer to secure 50% of the burn requirements for a term of of 10 years (2006-2015). For the remaining 50% of burn requirements, the strategy is to maintain the above mentioned minimum commitments of the projected requirements.

Risk Management Plan for Coal Procurement Performance from Prior Year

OBJECTIVE: For coal purchased under long term or spot contracts during the immediately preceding year (2004), Gulf will provide in the “risk management and GPIF” segment of the second true-up testimony (due April 1, 2005 and the first business day of each April thereafter) a numerical comparison of the price paid for each subcategory of coal to the best market indicator(s) for that coal at the time the utility entered the contract for the coal. Such market indicator(s) may include market indexes, averages, and/or bid prices. Gulf will describe the methodology behind each comparison. Gulf will explain the reason(s) for any significant difference between the price it paid and the market price for such coal.

As described in Gulf’s Risk Management Plan for Fuel Procurement filed in Docket No. 040001-EI on April 1, 2004, SCS Fuel Services as agent for Gulf will purchase contract coal at or below market price through a competitive bid process that considers various factors such as delivered coal price, reliability of supply, burn requirements uncertainty, and operational and environmental quality requirements and associated costs. Spot coal purchases are made at market prices following the same process as contract coal when competitive bidders are available or using a market test comparison to current or recent coal bid solicitations within the Southern System.

The market price for coal is not found in a published commodity index as is natural gas and oil. Since coal is not a homogeneous commodity the market price is determined by specific coal characteristics that include transportation rates from the mine to the customer, coal quality (heating value, ash content, etc.), and environmental costs associated with the coal being purchased. In addition, a specific coal may be unavailable for purchase during certain time periods or there may be limited quantities available which also impacts market price for that specific coal supply. The Southern System dispatch of generating units to meet system loads is based on running the

lowest marginal cost units in the system. This marginal cost determination uses the current market price of the least cost available fuel for each unit as an input to the marginal dispatch cost equation. Since the actual cost of fuel includes fuel cost, fuel transportation, and environmental costs (SO₂ and NO_X emission allowances) in \$ per MMBTU to account for coal quality differences, this is what we consider to be the true market price of coal. Southern Company Fuel Services evaluates the market price of coal on a routine basis for each unit in the Southern System and updates the marginal dispatch cost for each unit as coal prices and availability change. Since each unit in the Southern System uses a unique fuel and fuel transportation combination, the market price of coal for each unit or generating plant is different.

The market indicator used in this analysis is the actual unsolicited offered prices that were received by Gulf in March 2004. The differentials above refer to the increased cost, in both \$/mmBtu's and \$/ton, that Gulf actually paid for these purchases versus the next least cost offer.

**Gulf Prior Year Coal Commitments 2004
Crist & Smith**

Purchase		Purchased		Trans			Total	Del'd Cost	SO2 Allow	Del'd Cost w/ Sulfur
Order	Supplier	Tonnage	\$/Ton	\$/Ton	%S	Btu/lb	\$/Ton	\$/mmBtu	w	\$/mmBtu
C98000701	Peabody	1,900,000	\$34.62	\$2.40	1.02	12,000	\$37.02	\$1.54	\$415	\$1.90
FP04001	Peabody	600,000	\$40.65	\$2.40	0.70	11,700	\$43.05	\$1.84	\$415	\$2.09
FP04002	Interocean	200,000	\$40.65	\$2.40	0.70	11,700	\$43.05	\$1.84	\$415	\$2.09

Gulf Prior Year Spot Coal Purchases 2004

Purchase		Purchased		Trans			Total	Del'd Cost	SO2 Allow	w/ Sulfur
Order	Supplier	Tonnage	\$/Ton	\$/Ton	%S	Btu/lb	\$/Ton	\$/mmBtu	w	\$/mmBtu
FP04003	Interocean	500,000	\$48.50	\$2.40	0.70	11,700	\$50.90	\$2.18	\$415	\$2.42
FP04004	CMC	465,000	\$56.36	\$2.40	0.70	11,800	\$58.76	\$2.49	\$415	\$2.74
FP04005	Peabody	25,000	\$27.83	\$10.41	0.99	11,675	\$38.24	\$1.64	\$415	\$1.99
MARKET PRICING Bid Data	CMC		\$53.78	\$5.24	0.70	11,800	\$59.02	\$2.50	\$415	\$2.75

NOTES:

- (1) Coal purchased in year 2004.
- (2) McDuffie freight rates are based on T. Howell's rate matrix and includes L&M.
- (3) Allowance values are 2004 annual average.
- (4) Bid Data is next least cost bid from Gulf Power 2004 Unsolicited Spot Coal Offers.

Gulf Prior Year Coal Commitments 2004
Daniel

Purchase Order	Supplier	Purchased Tonnage	\$/Ton	Trans \$/Ton	%S	Btu/lb	Total \$/Ton	Del'd Cost \$/mmBtu	SO2 Allow	Del'd Cost w/ Sulfur \$/mmBtu
MP200007	Arch	1,369,000	\$13.25	\$24.37	0.54	12,000	\$37.62	\$1.57	\$415	\$1.75
MP200401	Twenty Mile	735,000	\$14.50	\$23.19	0.54	11,350	\$37.69	\$1.66	\$415	\$1.86
MP200414	Interocean	110,000	\$33.27	\$2.05	0.50	11,300	\$35.32	\$1.56	\$415	\$1.75

Gulf Prior Year Spot Coal Purchases 2004

Purchase Order	Supplier	Purchased Tonnage	\$/Ton	Trans \$/Ton	%S	Btu/lb	Total \$/Ton	Del'd Cost \$/mmBtu	SO2 Allow	w/ Sulfur \$/mmBtu
MP200408	APC	13,000	\$6.91	\$21.44	0.35	8,800	\$28.35	\$1.61	\$415	\$1.78
MP200409	APC	13,000	\$7.15	\$21.44	0.22	8,800	\$28.59	\$1.62	\$415	\$1.73
MP200410	Gulf	30,000	\$56.36	\$5.72	0.70	11,800	\$62.08	\$2.63	\$415	\$2.88
MP200412	APC	26,000	\$5.38	\$21.44	0.35	8,800	\$26.82	\$1.52	\$415	\$1.69
MP200413	Arch	400,000	\$5.98	\$21.44	0.35	8,800	\$27.42	\$1.56	\$415	\$1.72
MP200418	APC	26,000	\$5.38	\$21.44	0.35	8,800	\$26.82	\$1.52	\$415	\$1.69

MARKET PRICING

Colombian	Argus		\$67.00	\$5.72	0.70	11,700	\$72.72	\$3.11	\$415	\$3.36
PRB	Marginal		\$6.65	\$21.44	0.35	8,800	\$28.09	\$1.60	\$415	\$1.76

NOTES:

- (1) Coal purchased in year 2004.
- (2) Freight rates are based on T. Howell's rate matrix and includes L&M.
- (3) Allowance values are 2004 annual average.
- (4) PRB pricing is based on Jan - Aug 2004 average from marginal pricing.
- (5) Colombian pricing is July 2, 2004 OTC pricing evaluated to McDuffie Terminal.

Gulf Prior Year Coal Commitments 2004
Scherer (Common ownership)

Purchase Order	Supplier	Purchased Tonnage	\$/Ton	Tax	Trans	%S	Btu/lb	Total \$/Ton	Del'd Cost \$/mmBtu	SO2 Allow	Del'd Cost
											w/ Sulfur \$/mmBtu
F-04001	Arch	897,000	\$6.35	\$0.44	\$22.65	0.35	8,800	\$29.44	\$1.67	\$415	\$1.84
F-04002	Kennecott	807,300	\$6.11	\$0.43	\$22.65	0.44	8,700	\$29.19	\$1.68	\$415	\$1.89
F-04003	Kennecott	89,700	\$7.05	\$0.49	\$22.65	0.24	8,800	\$30.19	\$1.72	\$415	\$1.83
F-04004	Kennecott	149,500	\$6.28	\$0.44	\$22.65	0.44	8,700	\$29.37	\$1.69	\$415	\$1.90
F-04005	Kennecott	149,500	\$7.20	\$0.50	\$22.65	0.24	8,800	\$30.35	\$1.72	\$415	\$1.84
F-04016	Peabody	1,241,600	\$7.25	\$0.51	\$22.65	0.22	8,800	\$30.41	\$1.73	\$415	\$1.83
F-04031	Kennecott	480,000	\$5.75	\$0.40	\$22.65	0.46	8,700	\$28.80	\$1.66	\$415	\$1.87

Gulf Prior Year Spot Coal Purchases 2004

Purchase Order	Supplier	Purchased Tonnage	\$/Ton	Tax	Trans	%S	Btu/lb	Total \$/Ton	Del'd Cost \$/mmBtu	SO2 Allow	Del'd Cost
											w/ Sulfur \$/mmBtu
F-04041	Constellation	84,000	\$6.35	\$0.44	\$22.65	0.35	8,800	\$29.44	\$1.67	\$415	\$1.84
F-04046	Triton	85,680	\$6.30	\$0.44	\$22.65	0.35	8,800	\$29.39	\$1.67	\$415	\$1.84
F-04069	RAG	100,200	\$5.50	\$0.39	\$22.65	0.36	8,400	\$28.54	\$1.70	\$415	\$1.88
F-04078	AEP	28,000	\$5.25	\$0.37	\$22.65	0.35	8,800	\$28.27	\$1.61	\$415	\$1.77
F-04082	Constellation	28,000	\$5.50	\$0.39	\$22.65	0.35	8,800	\$28.54	\$1.62	\$415	\$1.79

MARKET PRICING

Generic
PRB

\$6.65 \$0.47 \$22.65 0.35 8,800 \$29.30 \$1.66 \$415 \$1.83

NOTES:

- (1) Coal purchased in year 2004.
- (2) Freight rates are based on T. Howell's rate matrix and includes L&M.
- (3) Allowance values are 2004 annual average.
- (4) PRB pricing is based on Jan - Aug 2004 average from marginal pricing.

The reasons for the actual versus market cost differential are as follows:

FP04003 - was a multi-year unsolicited offer which served as an incentive for the coal supplier to lower his price in exchange for more term.

FP04004 - was based on the test shipment of Colombian coal from an unsolicited offer and was subject to approval contingent upon a successful test shipment.

FP04005 - were two trains of a blended product that was shipped under the Peabody long term contract at the equivalent delivered contract price.

MP200408 – this train was purchased from Alabama Power under an existing contract to test Black Thunder PRB coal at Daniel.

MP200409 - this train was purchased from Alabama Power under an existing contract to test North Antelope PRB coal at Daniel.

MP200410 – this coal was purchased from Gulf Power under an existing contract to test CMC Colombian coal at Daniel.

MP200413 – this PRB purchase was made to affect the 60% bituminous / 40% PRB blend at Daniel.

MP200418 – this purchase was also made to support the bituminous/PRB blend at Daniel.

Purchase Orders F04041, F04046 and F04069 were all purchased in the first quarter of 2004 when the market pricing for this coal was approximately \$7.00/ton. The reason for the negative pricing differentials on these three purchase orders is because eventhough the purchases were made below the market price, the sales tax is based on 7% of the \$/ton price.

Purchase Orders F04078 and F04082 were purchased below market when the market price for PRB coal was \$5.75/ton.

GULF POWER COMPANY COAL TRANSPORTATION STRATEGY

Introduction

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

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

The following is provided in order to develop Gulf's coal transportation strategy: 1) a review of the current coal transportation program including current agreements, available mode of transportation, and budget, 2) a transportation strategy that identifies and addresses specific risks and risk mitigation strategies, and 3) a tactical plan detailing specific actions required in order to achieve the strategy.

Transportation Program Overview

Plants Crist and Smith

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

Gulf's transportation system is 95% barge served, currently by a single carrier. Ingram Barge Contract No. GU72001-B provides barge transportation from various Central Appalachian and Illinois Basin River loadouts on the Mississippi and Ohio Rivers and from Gulf Coast terminals to Plants Crist and Smith. The term of the agreement is through December 31, 2007. The Agreement is evergreen year-to-year thereafter, unless cancelled by either party by September 1, 2007. The Agreement is for 100% of Gulf's waterborne coal transportation requirements with a minimum volume commitment of 1.9 million tons per year. Of the 1.9 million tons per year, a minimum of 500,000 tons must move from loading points on the upper river above Paducah, Kentucky.

Gulf has entered into a master agreement with the Alabama State Docks that expands the coal through-put capacity at the McDuffie coal handling facility and gives Southern Company capacity rights for the 30 year term of the agreement. Gulf also entered into a new coal handling agreement with the Alabama State Docks effective February, 2005 for a five year term with annual renewals there after.

Plant Scholz

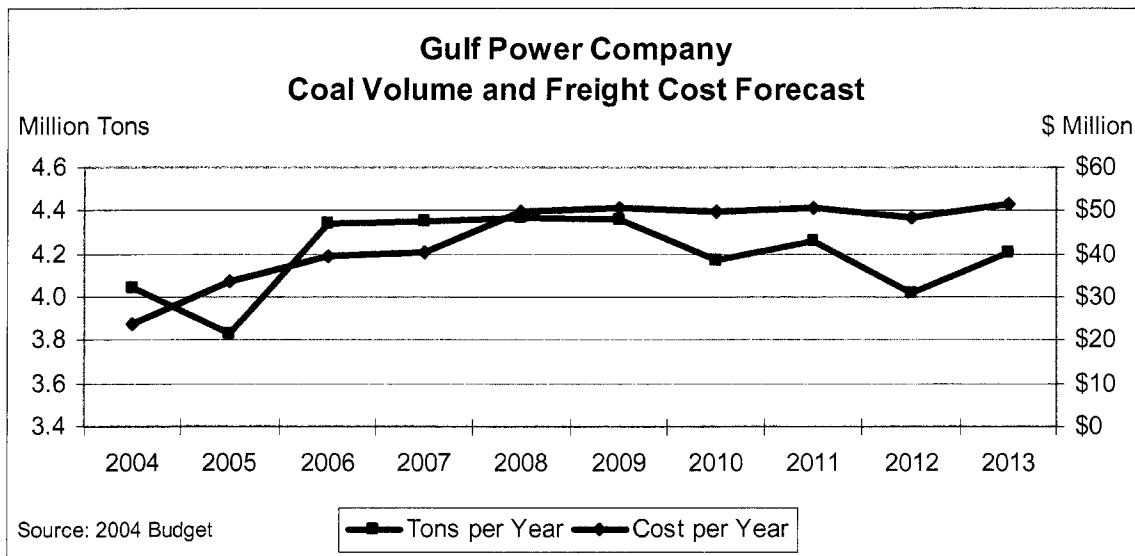
Plant Scholz is rail served by the CSX railroad. Plant Scholz has the ability to receive both domestic and import coal. Import coal could be brought into the Alabama State Docks and then transloaded into railcars for movement to the Plant.

Plant Scholz has a rail agreement with the CSX Railroad (CSX-C-64881) which provides for transportation of Central Appalachian coal through

December 31, 2006. The Agreement requires Gulf to ship 100% of the plant requirement through CSX rail. The Agreement contains a \$1.00/ton rate reduction for actual volumes which exceed 75,000 tons a year. The Agreement contains no minimum volume commitment.

Budget

Over the next ten years, Gulf is budgeted to transport 3.8 to 4.4 million tons of coal per year. The cost to transport Gulf’s coal is estimated to increase from \$23.6 to \$51.4 million from 2004 to 2013. The chart below shows the forecasted coal volume and transportation costs for Gulf’s coal-fueled plants.



Coal Transportation Procurement Strategy

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

RISKS AND RISK MITIGATION STRATEGIES

Reliability Risk and Strategy

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

The goal will be to avoid disconnect between agreements. It is not desirable to have transportation agreements in place that extend beyond coal agreements in most cases. With the competitive electricity markets and changing environmental laws and regulations, such disconnects could expose you to liquidated damages should coal sources change dramatically or plant retirements occur earlier than projected.

Reliability of service can be greatly enhanced through communication between all parties in the coal supply chain. Communication between Gulf's coal operating personnel and each plant, SCS Fuel Service Department, and the various carriers is vital in maintaining reliable and efficient operations. Effective and timely communication of transportation plans, orders, problems, and maintenance are critical to ensure reliable service. As we begin to add scrubbers to the Southern system and the movement of limestone into the plants is necessary, this need for emphasis on communication will only grow. The logistical picture will be complicated as the deliveries of coal and limestone, and the removal of gypsum (by-product of scrubber technology) will have to be coordinated at plants that have scrubbers. A firm scrubber schedule has not been put in place to this point, but evaluations and discussions concerning the coordination of these logistical movements have begun and will continue. It is important to develop and maintain relationships with the carriers for timely response and cooperation.

Pricing Risk and Strategy

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

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

Volume Risk and Strategy

Burn uncertainty is a greater risk in today's world due to changing environmental laws and regulations than it has been in past years. With the changes in environmental requirements for cleaner air from coal fired plants, pressure is on the electric utilities to reduce coal burn by switching to alternative fuels, such as natural gas, and by burning lower sulfur coals. The recent construction of a substantial number of gas-fired merchant plants is increasing the possibility of electricity purchases from other generators. The volatility of natural gas prices can cause rapid swings in burn between coal fired units and gas units and weather has always been a factor in burn uncertainty. The predictable load base of years past has diminished.

To mitigate this risk of burn uncertainty, the goal will be to seek to minimize volume commitments as new agreements are put in place. This is counter to the desire of the rail and barge carriers. In order to ensure that the carriers have the infrastructure in place to move the coal requirements, they need some assurance of volume commitment. The goal will be to seek to minimize volume commitments while ensuring carriers have the needed volume for capital investments necessary to maintain infrastructure. An alternative method to mitigating this risk of volume

commitment would be to sign requirement contracts that assure the carrier that they will move all volumes of coal at a particular plant or group of plants. Even in these instances, most carriers will require some minimum amount of volume.

Supply Risk and Strategy

Diversity of supply coal sources is important to any coal program. This is equally true for the transportation program. It is desirable to have multiple transportation modes and carriers to mitigate the risk of a supply disruption due to a rail and/or barge accident that might disrupt the supply chain. Diversity of transportation modes and carriers is also vital as the location of historical coal supply sources changes over time.

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

Currently, import coal is an economically desirable fuel source for the Gulf Coast plants in the Southern system. The most economical place to receive this coal has been and continues to be the Alabama State Docks facility in Mobile. The capabilities of this system are close to being maximized. Due to this fact and due to projections which indicate import coal will remain a fuel source of choice in the future, an agreement has been finalized with the Alabama State Docks to expand this facility to handle additional import coal in the coming years.

Tactical Plan

Plants Crist and Smith

The coal transportation tactic for Plants Crist and Smith will be to maintain competitive agreements with barge companies to ensure the reliable and competitive delivery of both import and domestic coals. Due to changing coal sources, the 500,000 ton annual minimum requirement of coal to be moved from loading points on the upper river is not desirable. Therefore, negotiations are ongoing and will continue in an effort to restructure this contract to eliminate this minimum requirement.

Plant Scholz

The current CSX Agreement at Scholz is in place through December 31, 2006. Discussions will be held with the CSX railroad during the year to seek competitive rates for the movement of import coal into Scholz in future years. This will provide diversity of supply regions for coal needs at Scholz and help generate competition.

Gulf Power’s Natural Gas Procurement Strategy

Gas Program Overview

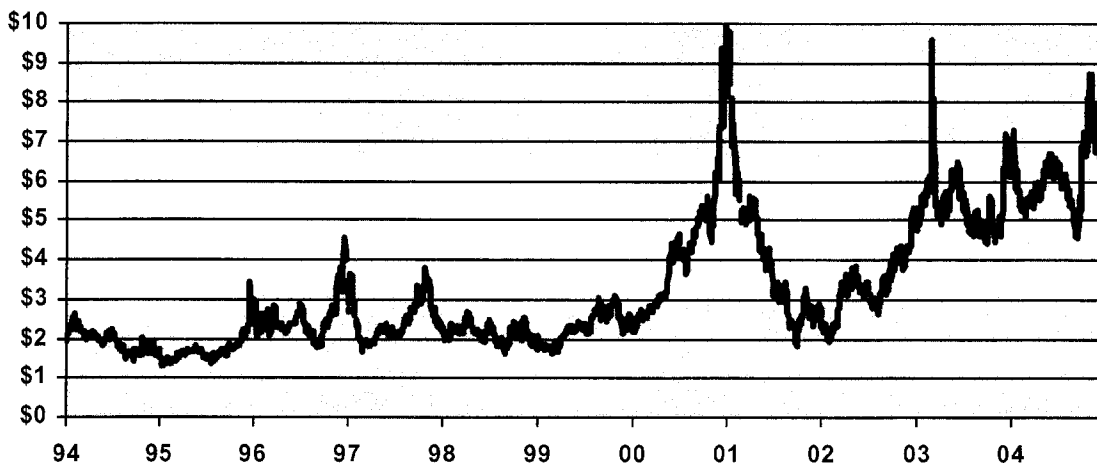
Natural Gas is used as the primary fuel at Crist units 2 &3, for boiler lighter fuel at Crist units 4-7, and as the primary fuel at the Smith 3 combined-cycle unit. In the past, natural gas represented a relatively small portion of Gulf’s overall fuel budget. With the addition of the Smith 3 combined-cycle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

Gulf Power’s natural gas procurement strategy is to produce a cost effective yet highly reliable fuel supply. Securing competitive fuel prices for its customers is the governing consideration in all of Gulf’s fuel decisions.

Procurement Strategy

Gulf’s strategy for gas procurement is to purchase the commodity at market prices. Fuel purchased at-market over a long period is a low cost option for customers. For non-peaking plants, Gulf arranges long-term firm transportation with adequate firm storage capacity. For peaking plants, Gulf purchases natural gas on the spot-market, and transports the gas using interruptible transportation, released seasonal firm transportation capacity, or delivered natural gas (priced to the plant). For Gulf, spot-market contracts have a term of less than one year and long-term contracts have a term of 1 year or longer. All natural gas, regardless of whether it is bought under long-term contracts or spot-market contracts, is purchased at market based prices. While fuel purchased at market over long periods is a low cost option for customers, it does expose the customers to short-term price fluctuations. Since these price fluctuations can be severe, Gulf Power, at the direction of the Florida PSC, will attempt to protect its customers against short-term price fluctuations by utilizing hedging tools. It is understood that the cost of hedging will sometimes lead to fuel costs that are higher than market prices.

Historical Natural Gas Prices - NYMEX



Pricing Strategy

Gulf Power will continue to purchase gas, both under long-term and spot contracts at market based prices. However, pursuant to Commission order, Gulf Power will financially hedge gas prices for some portion of Gulf Power's budgeted annual gas burn in order to protect against short-term price swings and to provide some level of price certainty. Gulf Power will attempt to take advantage of opportunities in the futures and derivatives markets that benefit the customer. Gulf Power will employ both technical and fundamental analysis to determine appropriate times to hedge. While various analyses will be used, Gulf Power is not proposing any set schedule, formula or triggering scheme to dictate when it takes financial positions. Instead, the hedging strategy will evolve over time.

While the hedging program will protect the customer from short-term price spikes, hedges can also lead to higher costs when natural gas prices fall subsequent to entering hedges. Gulf Power will limit the amount of fixed-price hedges to 100% of the projected fuel burn for the upcoming year. In addition, Gulf Power will limit option priced hedges to 110% of its projected burn. Finally, in order to protect its customers from market exposure in subsequent years, Gulf Power will take forward hedge positions for up to 42 months into the future.

Gulf Power's Oil Procurement Strategy

Oil Program Overview

Oil is used at Gulf predominantly for boiler lighting. Oil is used as a boiler lighter fuel at Crist units 4-7, Daniel 1&2, Scherer 3, Scholz 1&2 and Smith 1&2. Oil is also the primary fuel at the Smith A CT unit. Overall, oil use at Gulf is a small portion of Gulf's overall fuel budget.

Procurement Strategy

Gulf's strategy for oil procurement is to purchase the commodity at market prices. Fuel purchased at-market over a long period is a low cost option for customers.

Gulf purchases fuel oil on an annual basis through a formal bidding process. Gulf purchases fuel oil at index based prices. Gulf negotiates predetermined contracts for each plant and purchases fuel oil quantities throughout the year (as needed).

Pricing Strategy

Since fuel oil is such a small portion of the overall fuel budget, Gulf does not currently plan to hedge oil prices unless Gulf's oil use significantly increases or some other need warrants doing so.

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

OBJECTIVE: Provide a numerical comparison of the price paid for each fuel type (natural gas and oil) in 2004 as reflected in the December 2004, Schedule A-3 to the market price for natural gas during this period.

As described in Gulf's Risk Management Plan for Fuel Procurement filed in Docket No. 040001-EI on April 1, 2004, SCS Fuel Services as agent for Gulf will purchase natural gas and oil at prices that are indexed to the published market price for each commodity at the time of shipment. In 2004 firm quantities of natural gas were purchased either on long term or spot gas supply contracts or on the daily spot market as needed to meet burn requirements. Oil is purchased under spot contracts for each generating plant that are full quantity requirement agreements.

In 2004, SCS purchased 16.5 million MMBtu of natural gas that was delivered directly to Plants Smith and Crist.¹ The weighted average price of these purchases was \$5.93/MMBtu. The Gas Daily Florida Gas Zone 3 Midpoint market price index, weighted by the same daily purchase volumes, was \$5.92/MMBtu. The slight difference between actual costs and the market index is likely due to the premium required to secure gas supplies under long term contracts, which is not reflected in the Gas Daily index.

In 2004 SCS purchased 1.8 million gallons of distillate oil for Gulf's account, including volumes allocated to Gulf's joint ownership interest in Plants Scherer and Daniel. The weighted average price of these purchases was \$1.17/gallon. The Platt's Oilgram No. 2

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

Gulf Coast Waterborne market price index for 2004 averaged \$1.09/gallon, within a range of \$0.82/gallon to \$1.57/gallon. The published market price does not include transportation to the plant, supplier mark-up, or for deliveries to Plants Smith, Scholz and Crist, a Florida tax of \$0.02/gallon. Additionally, since oil purchases are not made continuously but only as needed, the average actual cost could be higher or lower than the average published cost due to the variability of daily prices.

Gulf Power Company
Comparison of 2004 Actual Gas Purchases to Market Cost
(Volumes in MMBtu)

	Purchases - Smith ¹	Purchases - Crist ¹	Total Purchases	Purchase Amt - Smith	Purchase Amt - Crist	Total Amount	Cost per MMBtu
Jan-04	1,183,369	5,000	1,188,369	\$7,355,733.94	\$ 28,575.00	\$ 7,384,308.94	\$ 6.21
Feb-04	1,329,511	10,000	1,339,511	\$7,183,274.57	\$ 58,000.00	\$ 7,241,274.57	\$ 5.41
Mar-04	896,637	4,000	900,637	\$4,835,541.62	\$ 21,080.00	\$ 4,856,621.62	\$ 5.39
Apr-04	1,783,715	6,199	1,789,914	\$10,146,125.76	\$ 34,304.50	\$10,180,430.26	\$ 5.69
May-04	1,292,462	7,300	1,299,762	\$8,254,049.75	\$ 42,627.50	\$ 8,296,677.25	\$ 6.38
Jun-04	1,427,746	9,700	1,437,446	\$9,033,743.80	\$ 60,940.50	\$ 9,094,684.30	\$ 6.33
Jul-04	1,710,305	1,000	1,711,305	\$10,194,939.54	\$ 6,035.00	\$10,200,974.54	\$ 5.96
Aug-04	1,654,946	11,000	1,665,946	\$9,132,779.59	\$ 64,100.00	\$ 9,196,879.59	\$ 5.52
Sep-04	1,328,360	6,000	1,334,360	\$6,698,132.24	\$ 29,990.00	\$ 6,728,122.24	\$ 5.04
Oct-04	1,293,564	44,299	1,337,863	\$8,401,922.91	\$248,526.22	\$ 8,650,449.13	\$ 6.47
Nov-04	1,311,490	5,100	1,316,590	\$7,735,457.83	\$ 30,943.00	\$ 7,766,400.83	\$ 5.90
Dec-04	1,159,744	5,000	1,164,744	\$8,137,489.21	\$ 33,725.00	\$ 8,171,214.21	\$ 7.02
Total	16,371,849	114,598	16,486,447	\$97,109,190.76	\$658,846.72	\$97,768,037.48	\$ 5.93
Market ²			16,486,447			\$97,589,314.79	\$ 5.92

¹ Quantities represent volumes purchased and delivered to Plant Smith or Plant Crist, including gas to be retained by pipelines as fuel reimbursement, and excluding storage injections and withdrawals.

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

Gulf Power Company
Comparison of 2004 Actual Fuel Oil Purchases to Market Cost
(Volumes in Gallons)

Platt's Oilgram US Gulf Coast
Waterborne No. 2 Fuel Oil (\$/gal)

	Purchases	Total Cost	Cost per Gallon	Low	High	Average
Jan-04	18,081	\$18,160.21	\$1.00	\$0.87	\$1.01	\$0.94
Feb-04	68,461	\$68,988.51	\$1.01	\$0.82	\$0.92	\$0.88
Mar-04	75,827	\$74,360.88	\$0.98	\$0.86	\$0.97	\$0.89
Apr-04	42,365	\$40,936.34	\$0.97	\$0.82	\$0.96	\$0.90
May-04	50,728	\$53,497.77	\$1.05	\$0.92	\$1.03	\$0.99
Jun-04	74,418	\$81,021.08	\$1.09	\$0.94	\$1.04	\$0.98
Jul-04	37,113	\$42,179.13	\$1.14	\$1.03	\$1.13	\$1.07
Aug-04	29,689	\$35,885.13	\$1.21	\$1.08	\$1.23	\$1.15
Sep-04	40,590	\$51,104.54	\$1.26	\$1.13	\$1.39	\$1.24
Oct-04	51,034	\$69,054.31	\$1.35	\$1.37	\$1.57	\$1.46
Nov-04	98,637	\$134,843.75	\$1.37	\$1.26	\$1.41	\$1.33
Dec-04	84,392	\$114,633.53	\$1.36	\$1.08	\$1.32	\$1.19
Total	671,334	\$784,665.17	\$1.17	\$0.82	\$1.57	\$1.09

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



Gulf Power Company Risk Management Policy

I. Introduction

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

II. Objectives

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

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

III. Guidelines

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

The Southern Company Derivatives Policy states:

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

Gulf Power Company Risk Management Policy

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

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

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

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

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

IV. Process

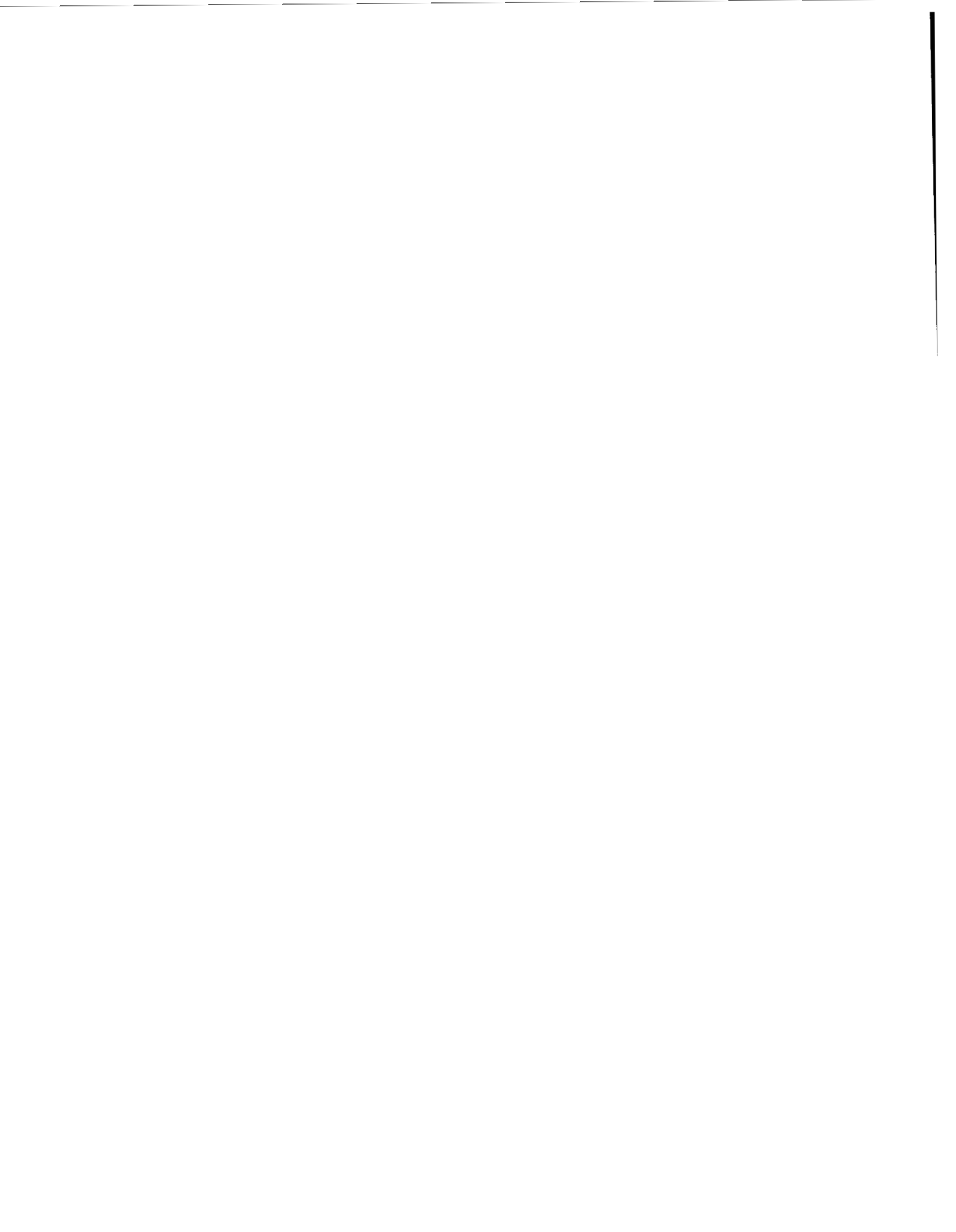
Certain officers of the Company were given authority to enter into hedging transactions that they consider necessary in order to reduce risk associated with procuring fuel and energy. The authorized officers are Vice President, Chief Financial Officer and Comptroller for Gulf Power Company or his designee.

Once authorization has been received, Southern Company Services Fuel Services, agent for Gulf Power Company, will conduct all hedging

Gulf Power Company Risk Management Policy

transactions in accordance with the Southern Company Generation Risk Management Policy.

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



Southern Company Generation (SCGen)
Risk Management Policy

CONFIDENTIAL
FOR COMPANY USE ONLY

Approved February 1, 2005

I. Introduction

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

The risk management guidelines and Derivatives Policy require any business unit engaging in risk management activities to develop a risk management policy to ensure that risk management activities are conducted in accordance with Southern Company risk management guidelines.

II. Purpose

This Risk Management Policy (“RMP”) applies to the shorter-term power and gas trading activities performed on the Fleet Operations and Trading Floor of SCGen (“Trading Floor”) and the associated risk management activities as defined within this RMP. The purpose of this RMP is to:

- Provide preset limits and guidelines for each employee authorized to legally bind the Company to transactions covered by this RMP;
- Establish sound guidelines to follow in managing and controlling risks; and
- Define the responsibilities for managing and monitoring risks.

III. Business Objectives

The Approved Business Objectives for the trading activities performed on the Trading Floor of SCGen are shown in appendix A.

IV. Business Strategies

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

Since risk is a part of fulfilling the business objectives, Trading Floor personnel have the responsibility to evaluate the opportunities available and to ensure that the returns achieved are commensurate with the risks undertaken. Taking risks unrelated to the business objectives is inappropriate and should not be undertaken.

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

V. Authorizations

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

VI. Segregation of Duties

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

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

This separation increases the likelihood that the activities will be carried out in accordance with management's expectations and that deviations from the objectives will be properly brought to management's attention.

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

Origination: The function of origination includes the following responsibilities:

1. Entering into transactions with approved counterparties.
2. Entering transactions into applicable deal capture system.
3. Coordinating the physical delivery of energy.
4. Determining the appropriate level of risk, within the approved limits, to be accepted on behalf of the portfolio.
5. Developing and implementing risk management strategies.
6. Ensuring that the portfolio complies with limits of risk exposure.

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

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

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

1. Confirming transactions with counterparties.
2. Monitoring and determining that transactions are in compliance with established procedures and limits, with approved counterparties, and within counterparty credit

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

Settlement: The function of settlement includes the following responsibilities:

1. Generating invoices to counterparties.
2. Notifying Southern Company Services, Inc., (SCS) Treasury of account payable/receivable with counterparties.
3. Producing monthly financial accounting reports.
4. Reconciling counterparty invoices with Southern Company invoices.
5. Recording transactions with counterparties in the receivable/payable subledgers.

Cash Management: SCS Treasury is responsible for receiving and disbursing all funds from or to counterparties and for the delivery of margin requirements. SCS Treasury will also be responsible for investment of collateral provided by counterparties.

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

VII. Market Risk Identification

Risks for the approved commodities and approved instruments will be identified and captured in the appropriate risk book(s). It is the responsibility of the middle office to ensure all risk components associated with the risk management activities covered by this RMP are identified and captured in the appropriate risk book(s) in a timely manner.

VIII. Market Risk Measurement and Valuation

1. Transaction details and valuations will be maintained for individual deals such that positions can be aggregated by commodity, delivery point, counterparty and/or period.
2. Mark-to-market for the portfolio will be calculated daily, and will be subject to daily income notification levels as set forth in appendix G.
3. Value at risk will be calculated daily utilizing the methodologies contained in Appendix F.
4. Stress testing should be performed on the portfolio periodically.

IX. Market Risk Limits

Exposure Limits	The maximum exposure limits are shown in Appendix H. The maximum exposure limit for each business objective should not exceed the limits specified in appendix H.
Daily Income Notifications	Certain notifications to Management for changes in mark-to-market for secondary activities are required as defined in Appendix G.
Limit Excess Reporting	Irrespective of other provisions contained in this RMP, limit overages may occur. Each occurrence shall be promptly reported by the middle office to individuals identified in appendix G,

X. Credit Risk

SCS Treasury evaluates and monitors the creditworthiness of trading counterparties and customers, assigns ratings and establishes maximum credit limits in accordance with the SCGen Credit Policy. The middle office will monitor the status of counterparties and customers' accounts against their approved credit limits, as well as monitor the portfolio versus other requirements of the Credit Policy. The middle office may establish credit limits below maximum limits as set forth in the Credit Policy.

XI. New Products

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

- Origination is responsible for developing a business case for structured transaction or new product.
- Structuring is responsible for identifying the risk components of each structured transaction.
- The appropriate management team (see appendix I) is responsible for final approval of each structured transaction.
- The middle office is responsible for ensuring all risks have been identified and valued for reporting purposes.
- Settlement is responsible for ensuring the infrastructure support for the structured transaction is in place.
- Origination is responsible for executing the structured transaction.

XII. Funding Liquidity

The Company may face funding liquidity needs associated with its energy risk management activities as a result of exchange-imposed margin deposits, collateral for over-the-counter (OTC)

SCGen Risk Management Policy

transactions, and the timing of realized losses versus realized gains. The Trading Floor will provide funding and liquidity updates as needed to SCS Treasury to ensure adequate funding, particularly in the event of adverse conditions.

XIII. Operating Procedures and Systems

Processes. Manual and/or automated processes that monitor value at risk, daily income reports, VAR reports, position reports, credit reports, and management reports as described in this RMP, will be maintained by the middle office or other groups as appropriate.

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

Contract Administration. The middle office will be responsible for the execution of new master agreements with counterparties. The middle office will be responsible for preparing, reviewing, distributing, and managing confirmations. Middle office personnel will work with SCS Treasury to obtain necessary information to establish credit limits for the counterparties. The executing trader or originator shall be responsible for reviewing and approving all confirmations for accuracy prior to finalizing. It is the responsibility of the middle office to obtain legal approval for any nonstandard terms documented on a confirmation prior to the approval of the confirmation. Settlement will be responsible for the ongoing contract administration activities associated with each agreement, including implementation of each such agreement.

Operating Procedures. Operating procedures, including accompanying flowcharts, will be maintained under separate cover. The procedures cover the flow of a transaction from deal inception through settlement. These procedures will be periodically revised to properly reflect changing processes.

XIV. Accounting and Tax

Hedge treatment will be used for accounting and income tax purposes for all derivative transactions when applicable. Hedge accounting contemplates the ability to account for a derivative instrument as either a fair-value hedge or a cash-flow hedge under FAS 133, "Accounting for Derivative Instruments and Hedging Activities." It also contemplates deferral of the income tax consequences of any gain or loss on the hedge instrument until the period in which the gains or losses on the hedged transaction are recognized. Appendix J contains the accounting and tax approach that will be utilized for the Trading Floor risk management activities.

XV. Legal

Legal counsel will be retained to assist in managing the legal and regulatory aspects of the energy

risk management activities covered by this RMP. Legal counsel will be retained for advice on contracts and will submit regulatory filings to ensure that energy risk management activities comply with the regulatory requirements of various agencies. In addition, legal counsel assists in the development of initial master purchase and sales agreements including credit terms and confirmation format. Legal counsel also reviews contracts and nonstandard confirmation documents.

XVI. Monitoring and Reporting

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

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

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

XVII. Personnel Trading

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

XVIII. Business Recovery

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

XIX. Compliance

Each Business Development employee, Fuel Services employee, and any employee physically located on the Trading Floor shall be provided a copy of this RMP and will be required to review it and clarify any questions regarding it with management. Each such employee shall acknowledge in writing (Appendix K) receipt of this RMP, confirm his or her understanding of the requirements contained herein, and agree to fully comply with it prior to receiving any authorizations described herein.

Each employee shall have an affirmative duty to alert management, including the Manager, Risk Control, immediately upon learning of any apparent RMP violations or other risks not captured or adequately reflected by RMP methodologies and systems.

XX. Independent Review

SCS Internal Auditing is responsible for performing independent reviews of the RMP activities. These reviews will determine adequacy of controls to ensure that the Asset Optimization Floor activities are being carried out in accordance with this policy. These reviews include periodic testing to ensure compliance with control procedures and risk exposure limits. Results of these reviews will be provided to management .

XXI. Policy Amendments

Amendments to this RMP will be required from time to time. The Southern Company Risk Management Board must approve all proposed amendments to the body of this RMP, to Appendix B – Approved Commodities, and Appendix G – Daily Income Notification Levels, and Appendix H – Market Risk Limits. All approved changes to this RMP will fall under the compliance section of this RMP (see section XIX), requiring:

- Communication of changes to affected employees.
- Review of those changes by the affected employees and the opportunity for them to clarify any questions regarding those changes with management.
- Acknowledgement in writing by each affected employee that he or she has:
 - Received communication of the changes.
 - Confirmed his or her understanding of the requirements associated with the changes.
 - Agreed to fully comply with the updated RMP prior to continuing to receive the authorizations described herein.

XXII. Terminology

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

APPENDIX A
APPROVED BUSINESS OBJECTIVES

ENERGY MARKETING

Fleet Operations and Trading

The primary objectives of Fleet Operations and Trading are to:

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

To perform these objectives, the secondary activities and opportunities of Fleet Operations and Trading are to:

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

FUEL SERVICES

Natural Gas Fulfillment Function

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

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

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

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

Emission Allowance Management Function

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

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

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

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

Coal Fulfillment Function

The primary function of the Coal Fulfillment Function are to:

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

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

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

APPENDIX B
APPROVED COMMODITIES

The approved commodities for this RMP are:

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

APPENDIX C
APPROVED INSTRUMENTS

The approved instruments are:

- Futures
- Forwards
- Options
- Swaps

APPENDIX D
 AUTHORIZATIONS

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

APPENDIX D
 AUTHORIZATIONS (continued)
 Energy Marketing

Name	Authority
Sr. Vice President, Operations & General Services, SCGen	<ol style="list-style-type: none"> 1) Approve fleet operations and trading business objectives. 2) Allocate the overall risk limit among the SCGen business objectives. 3) 4) Approve exceptions to transaction limits for which authorizations are not specifically addressed in the RMP or Credit Policy.
SCGen Management Team	<ol style="list-style-type: none"> 1) Approve structured transactions, new products, and unusual transactions.
Vice President, Fleet Operations and Trading	<ol style="list-style-type: none"> 1) Set risk exposure sublimits for SCGen secondary activities. 2) Resolve over-limit conditions. 3) Identify authorized individuals that can execute electricity transactions (including transmission and ancillary services). 4) Set individual limits for fleet operations and trading personnel. 5) Approve trading in illiquid markets. 6) Establish guidelines and identify individuals that can conduct off-premises transactions. 7) Open broker accounts for exchange-traded commodities.
Manager, Energy Trading	Manage portfolio risk on a daily basis within risk exposure limits.
Term Traders	<ol style="list-style-type: none"> 1) Execute transactions for primary business objectives. 2) Execute transactions for secondary activities. 3) Manage portfolio risk on a daily basis within risk exposure limits.
Energy Coordinators	<ol style="list-style-type: none"> 1) Execute transactions for primary business objectives up to a term limit of 1 week. 2) Execute arbitrage transactions under secondary activities and opportunities.
<ul style="list-style-type: none"> • Transmission Project Coordinators • Energy Schedulers 	Procure transmission and ancillary services for transactions executed by the Term Traders and Energy Coordinators

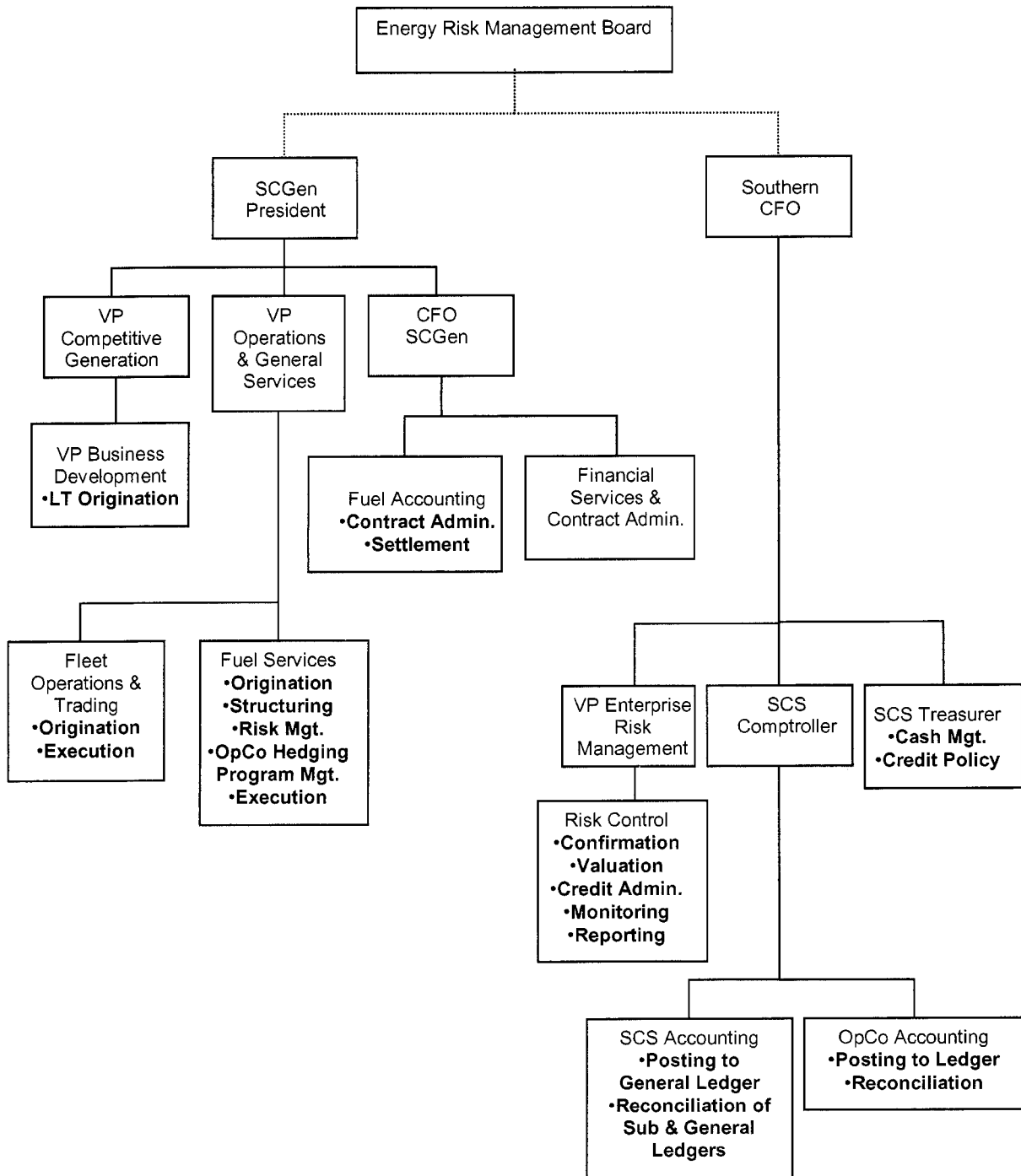
APPENDIX D
 AUTHORIZATIONS (continued)
 SCS Fuel Services

Name	Authority
Vice President, Fuel Services	1) Approve Fuel Services business objectives. 2) Allocate the overall risk limit among the Fuel Services business objectives. 3) Approve instruments for Fuel Services. 4) Approve exceptions to transaction limits for which authorizations are specifically addressed in the RMP or Credit Policy. Establish guidelines for off-premises transactions.
Gas Services Director	1) Set risk exposure sublimits for Fuel Services secondary activities. Identify authorized individuals that can execute financial and physical gas transactions.
Manager, Gas Procurement	1) Manage portfolio risk on a daily basis within risk exposure limits. 2) Set individual limits for Fuel Services natural gas personnel. Resolve over-limit conditions.
Team Leader, Gas Procurement	1) Manage portfolio risk on a daily basis within risk exposure limits. 2) Identify authorized individuals that can create physical gas transactions with terms up to one year.
Natural Gas Buyers	1) Execute transactions for Fuel Services primary business objectives. Execute transactions for Fuel Services secondary activities.
Natural Gas Schedulers	Procure transportation for transactions executed by Natural Gas Buyers.
Natural Gas Project Personnel	Negotiate long-term natural gas contracts associated with natural gas supply, gas transportation, and natural gas storage.

APPENDIX E

SEGREGATION OF DUTIES

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



APPENDIX F
 MARKET RISK MEASUREMENT

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

Parametric VaR Methodology

Formula Components

Component	Symbol	Comments
Value at Risk	VaR	See Equation Below
Position	PSN	Given in Agreed Measurement Units
Daily Standard Deviation of Price Change	ΔP	Given in \$/Agreed Measurement Units
Holding Period – Business Days	HP	Taken From Parameters Table Shown Below
Confidence Interval Multiplier	CI	For Example: CI = 1.65 for 95-% Confidence Interval

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

Equation
Parameters

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

APPENDIX G

DAILY INCOME NOTIFICATION LEVELS
 UPDATED EFFECTIVE 10/09/00

Approved Commodities	Daily MTM Change	Notify
Secondary Objectives	Aggregate 2-Day Greater \$2,000,000	<ul style="list-style-type: none"> • SR. Vice President, Operations & General Services • Vice President, Fuel Services • Chairman of ERM Board • Executive VP Competitive Generation • President SCGen • CEO of Southern Company
Secondary Objectives	Rolling 30-Day \$7,500,000	<ul style="list-style-type: none"> • SR. Vice President, Operations & General Services • Vice President, Fuel Services • Chairman of ERM Board • CEO of Southern Company • Executive VP, Competitive Generation • President, SCGen

APPENDIX H
 MARKET RISK LIMITS

Overall Risk Limit

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

Electricity
 Net Open Position Limits

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

APPENDIX I
 INCUMBENT LISTING; AUTHORIZED INDIVIDUALS

Incumbent Listing

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

Southern Company Generation
 Energy Credit Committee

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

Fleet Operations & Trading
 Management Team

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

SCS Fuel Services
 Management Team

Name	Title
------	-------

Phil Saunders	Sr. VP, Operations & General Services, SCGen
Earl Parsons	Vice President, Fuel Services
Vacant	Gas Services Director
Gary Hart	Manager, Emissions Trading & Environmental Issues

APPENDIX I
 INCUMBENT LISTING; AUTHORIZED INDIVIDUALS (continued)

Authorized Individuals

Title	Name	Approved Commodities						Coal	Allowances
		Electricity		Natural Gas					
		Energy	Transmission	Gas	Transport	Storage			
Southern Company Generation									
Energy Trading Manager	Scott Teel	X	X						
Term Trader	David Hansen	X	X						
Term Trader	Steve Lowe	X	X						
Term Trader	Tim Sorrell	X	X						
Term Trader	Scott Morales	X	X						
Core Commercial Operatings Mgr.	Mike Smith	(2)	(2)						
Energy Coordinator	Bill Brown	X	X						
Energy Coordinator	Todd Curl	X	X						
Energy Coordinator	Frank Harris	X	X						
Energy Coordinator	David Deerman	X	X						
Energy Coordinator	John Spratley	X	X						
Energy Coordinator	Jimmy Walker	X	X						
Transmission Project Coordinator	Mike Greene (3)		X						
Transmission Coordinator	Ron Carlson	X	X						
Transmission Coordinator	Martha Russell		X						
Scheduler	Jackie Abercrombie	(1)	X						
Scheduler	Shannon Gunnells	(1)	X						
Scheduler	Kristie Taylor	(1)	X						
Trading Analyst	John Ciza	(2)	(2)						
Trading Analyst	Susan Olive	(2)	(2)						

Title	Name	Approved Commodities						
		Electricity		Natural Gas			Coal	Allowances
		Energy	Transmission	Gas	Transport	Storage		
SCS Fuel Services								
Gas Services, Director	Susan Comensky							
NG Team Leader	Carl Haga			X	X	X		
NG Buyer	Ken Damsgard			X	X	X		
NG Buyer	Vicki Gaston			X	X	X		
NG Buyer	Debora Honeycutt			X	X	X		
NG Buyer - Financial	Brian George			X				
NG Scheduler	Bryan Mitchell				X	X		
NG Scheduler	Russell Hall				X	X		
NG Scheduler	Tisha Dale				X	X		
NG Scheduler	Tonya Gary				X	X		
NG Project Manager	Alan Kilpatrick							
Storage	Carol Thomasson				X	X		
Coal & Transport Procure Manager	Debra Rouse						X	
Manager – Emissions	Gary Hart							X

Notes:

- (1) Authority to engage in energy transactions is the same as the energy coordinator position.
- (2) Authority to make changes to transactions.
- (3) Authority to procure Transmission for Business Development Project, not trading

APPENDIX J

ACCOUNTING AND TAX

FAS 133, Accounting for Derivative Instruments and Hedging Activities, provides guidance for exchange-traded contracts and is the authoritative pronouncement addressing hedge accounting. Under FAS 133 all contracts meeting the definition of a derivative must be marked to market at the end of each accounting period with a gain or loss recorded in earnings, unless a qualifying hedge exists. FAS 133 defines two types of hedges that may be utilized: fair value hedges and cash flow hedges. In a fair value hedge, a derivative instrument is designated as hedging exposure to changes in the fair value of an asset, liability, or firm commitment. Changes in the fair value of the derivative and changes in the fair value of the hedged item attributable to the risk being hedged are recorded in earnings. If the hedge is 100-percent effective these changes in fair value will completely offset and there will be no effect on earnings. For cash flow hedges, changes in the fair value of the derivative are deferred as a component of equity on the balance sheet and then recognized in earnings in the same period as the effects of the hedged item.

A major condition required to account for a derivative as a hedge is that both at inception and on an ongoing basis the hedging relationship must be expected to be highly effective. It is also necessary to maintain documentation as to the hedge transaction, including purpose, expected effectiveness, how effectiveness will be determined, and the actual effectiveness at the end of each reporting period. This documentation will be prepared by Asset Optimization Floor personnel and forwarded to accounting as required.

A database of each hedge transaction, including physical quantities, settlement date, hedge item, fair values, costs, etc., will be maintained in order to report the results of the program for operational and accounting requirements. Middle office staff will work with the accounting organization to ensure that necessary information in the required formats is provided for accounting and tax purposes.

APPENDIX K
EMPLOYEE ACKNOWLEDGMENT

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

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

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

Printed Name

Signature

Date: _____, 200_

APPENDIX L
DEFINITIONS

Allowances	The emissions of various criteria pollutants such as sulfur dioxide usually traded in the over-the-counter markets via brokers with one allowance being equal to one tone of the pollutant (expressed in US short tons.) For Sulfur Dioxide (SO ₂) see the 1990 Clean Air Act Amendments, Title IV Section 402(3) “an authorization allocated to an affected unit by the Administrator, to emit, during or after a specified calendar year one ton of sulfur dioxide. For NO _x , the right to emit one ton of Nitrous Oxide during the 5 months ozone season May through September (beginning May 1 st , 2003) as per the Final EPA Regional SIP Call Rules 40 CFR Parts 51, 72, 75 and 96. For trading in Green House Gases (predominately CO ₂) one ton of carbon dioxide emitted on an annual basis.
Approved Commodity Authorities	Those commodities listed in appendix B which have been approved. All applicable limitations imposed on SCGen RMP trading activities, and shall include, but not necessarily be limited to, authorized trading limits, daily loss exposure limits, maximum approved value at risk, income limits, and term limits.
Authorized Individuals	Employees whose position may involve: (1) the authority (or appearance of authority) to directly bind SCS (or any subsidiary) to agreements with third parties; and/or (2) the authority (or appearance of authority), acting through its various brokers and other representatives, to bind SCS (or any subsidiary) to exchange-traded futures and option contracts.
Authorized Trading Limit	The levels set out in appendix F and H. Such levels are expressed in dollars that establish boundaries for maximum value at risk due to changes in market prices.
Daily Income Limit	The change in value of the Asset Optimization Floor portfolio on a daily basis as detailed in appendix G. The change in value will be calculated on a MTM net-present-value basis.
Daily Portfolio Value	The net present value on a MTM basis of yet to be performed transactions from all approved portfolios.
Delta	The sensitivity on an option’s price to changes in the price of the underlying commodity.
Financial Instruments	Futures, forwards, options, swaps, and other derivative or financial risk management transactions entered into to hedge price risks.
Forwards	An agreement to buy or sell a quantity of a product, at an agreed price, on a given date, with a specific counterparty. Forwards are typically trading in the over-the-counter (OTC) markets.
FS	SCS Fuel Services

Futures	An agreement to buy or sell a quantity of a product, at an agreed price, on a given date, traded on an exchange, and cleared by a clearinghouse.
Illiquid Market	A market characterized by wide bid/offer spreads, lack of transparency, and large movements in price after any sizable deal.
Income Limit	The dollar income amounts set out in appendix G which require notification as described herein once triggered.
Mark to Market (MTM)	The value of a financial instrument, or risk book of such instruments, at current market rates, or prices of the underlying commodity.
Market Positions	Positions taken that are readily liquidated at a readily observable and transparent price.
Net Open Position	The sum of all open positions for the approved commodities on an equivalent basis.
Open Position	The difference between long positions and short positions in any given risk book.
Option	An instrument which provides the holder the right, but not the obligation, to sell to (or buy from) the option seller the underlying commodity at a specified price and time.
Originator	The lead individual responsible for negotiating the transaction with the counterparty.
Premises	SCGen business office located in Birmingham, Alabama.
Products	Financial instruments and related transactions for approved commodities as dictated by usage.
Risk Book	The official record in which all transaction risks related to changes in market prices is maintained for valuing, monitoring, managing, and reporting said risk.
RMP	Risk Management Policy
SCS	Southern Company Services, Inc.
Swaps	An agreement to exchange net future cash flows.
Structured Transaction	Any negotiated transaction not readily traded in the market and the price of which is not easily validated.
Transactions	Futures, forwards, options, swaps, or other instruments conducted over-the-counter or via organized exchanges including long- and short-term agreements involving approved commodities or financial instruments.

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

Risk Management for Fuel and Wholesale Energy

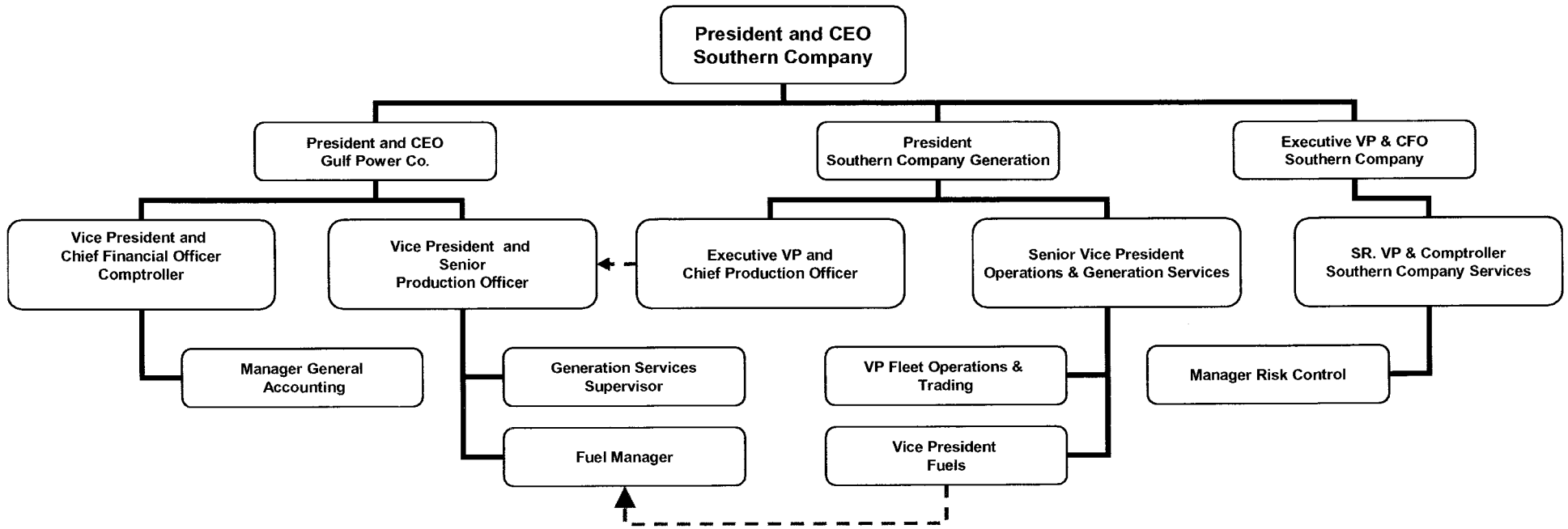
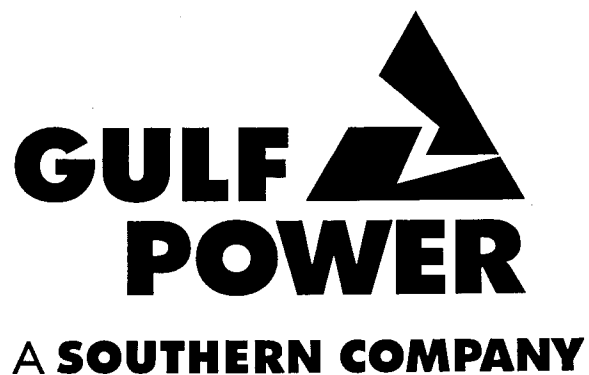


EXHIBIT "B"

GULF POWER COMPANY

**Risk Management Plan
For
Fuel Procurement
Docket No. 050001-EI**

Date of Filing: April 1, 2005



INDEX

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**GULF POWER COMPANY
LONG-TERM COAL PROCUREMENT STRATEGY
AND TACTICAL PLAN
MARCH 2005**

Introduction

Gulf Power Company reliably serves over 400,000 customers. In year 2004, Gulf Power generated over 15 billion KWH's with over \$367 million in fuel expense. Coal represented over 84% of Gulf Power's generation sources. Gulf Power Company operates three coal-fired plants (Crist, Smith, and Scholz) with a combined nameplate capacity of 1,355 Mw and projected annual coal consumption of 4 million tons. Gulf co-owns two coal fired plants; Daniel which is operated by Mississippi Power and Scherer which is operated by Georgia Power. The combined nameplate capacity of Gulf's ownership of Daniel and Scherer is 705 MW with a projected annual coal consumption of 2 million tons. The procurement of this coal is critical to the success of Gulf Power Company.

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

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

Fuel Program Overview



Procurement Strategy

As previously stated, the long-term coal procurement goal for Gulf Power Company will be to provide a reliable, cost-competitive, environmentally acceptable coal supply. The successful coal program must provide flexibility in volume and pricing, become more diverse by pursuing other supply regions, create competition for supply, focus on reliability of supply, and adhere to changing environmental laws and guidelines.

The following will address the risks associated with each of these areas and identify strategies to mitigate them. Also included in this section is a discussion of a strategic plan that incorporates several of these mitigation techniques.

Risk Management Plan for Coal Procurement
Performance from Prior Year

OBJECTIVE: For coal purchased under long term or spot contracts during the immediately preceding year (2004), Gulf will provide in the "risk management and GPIF" segment of the second true-up testimony (due April 1, 2005 and the first business day of each April thereafter) a numerical comparison of the price paid for each subcategory of coal to the best market indicator(s) for that coal at the time the utility entered the contract for the coal. Such market indicator(s) may include market indexes, averages, and/or bid prices. Gulf will describe the methodology behind each comparison. Gulf will explain the reason(s) for any significant difference between the price it paid and the market price for such coal.

[REDACTED]

[REDACTED]

GULF POWER COMPANY COAL TRANSPORTATION STRATEGY

Introduction

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

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

The following is provided in order to develop Gulf's coal transportation strategy: 1) a review of the current coal transportation program including current agreements, available mode of transportation, and budget, 2) a transportation strategy that identifies and addresses specific risks and risk mitigation strategies, and 3) a tactical plan detailing specific actions required in order to achieve the strategy.

Coal Transportation Procurement Strategy

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

RISKS AND RISK MITIGATION STRATEGIES

Reliability Risk and Strategy

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

The goal will be to avoid disconnect between agreements. It is not desirable to have transportation agreements in place that extend beyond coal agreements in most cases. With the competitive electricity markets and changing environmental laws and regulations, such disconnects could expose you to liquidated damages should coal sources change dramatically or plant retirements occur earlier than projected.

Reliability of service can be greatly enhanced through communication between all parties in the coal supply chain. Communication between Gulf's coal operating personnel and each plant, SCS Fuel Service Department, and the various carriers is vital in maintaining reliable and efficient operations. Effective and timely communication of transportation plans, orders, problems, and maintenance are critical to ensure reliable service. As we begin to add scrubbers to the Southern system and the movement of limestone into the plants is necessary, this need for emphasis on communication will only grow. The logistical picture will be complicated as the deliveries of coal and limestone, and the removal of gypsum (by-product of scrubber technology) will have to be coordinated at plants that have scrubbers. A firm scrubber schedule has not been put in place to this point, but evaluations and discussions concerning the coordination of these logistical movements have begun and will continue. It is important to develop and maintain relationships with the carriers for timely response and cooperation.

Gulf Power's Natural Gas Procurement Strategy

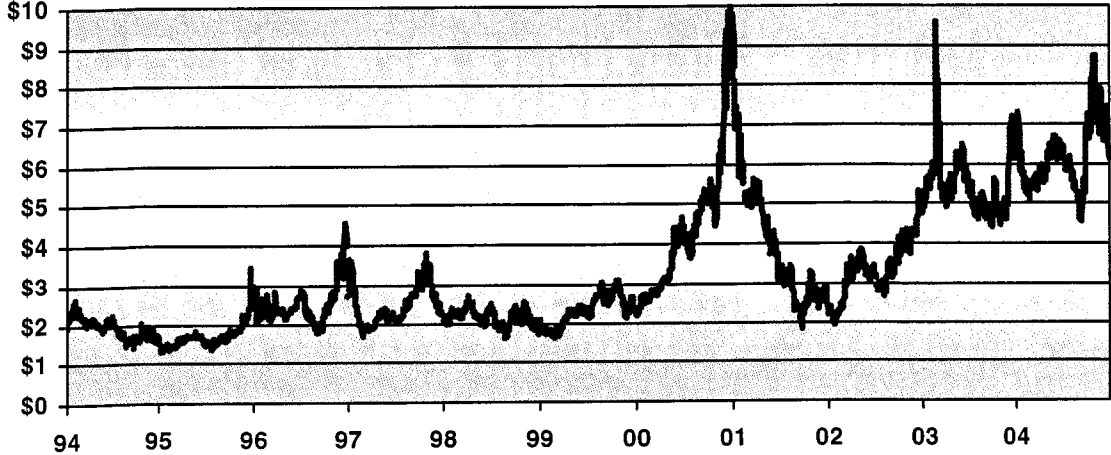
Gas Program Overview

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

Gulf Power's natural gas procurement strategy is to produce a cost effective yet highly reliable fuel supply. Securing competitive fuel prices for its customers is the governing consideration in all of Gulf's fuel decisions.



Historical Natural Gas Prices - NYMEX



Gulf Power's Oil Procurement Strategy

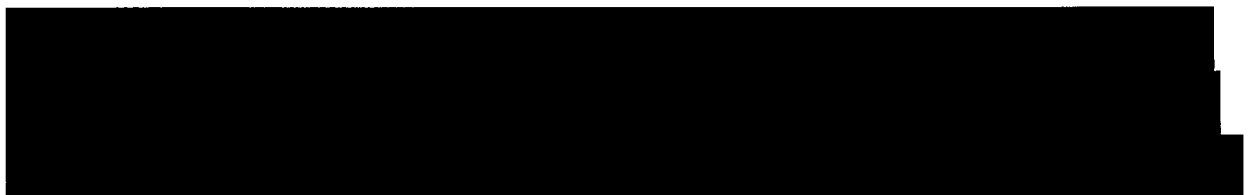
Oil Program Overview

Oil is used at Gulf predominantly for boiler lighting. Oil is used as a boiler lighter fuel at Crist units 4-7, Daniel 1&2, Scherer 3, Scholz 1&2 and Smith 1&2. Oil is also the primary fuel at the Smith A CT unit. Overall, oil use at Gulf is a small portion of Gulf's overall fuel budget.

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

OBJECTIVE: Provide a numerical comparison of the price paid for each fuel type (natural gas and oil) in 2004 as reflected in the December 2004, Schedule A-3 to the market price for natural gas during this period.

As described in Gulf's Risk Management Plan for Fuel Procurement filed in Docket No. 040001-EI on April 1, 2004, SCS Fuel Services as agent for Gulf will purchase natural gas and oil at prices that are indexed to the published market price for each commodity at the time of shipment. In 2004 firm quantities of natural gas were purchased either on long term or spot gas supply contracts or on the daily spot market as needed to meet burn requirements. Oil is purchased under spot contracts for each generating plant that are full quantity requirement agreements.



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

Gulf Power Company Risk Management Policy

I. Introduction

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

II. Objectives

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

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

III. Guidelines

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

The Southern Company Derivatives Policy states:

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

Gulf Power Company Risk Management Policy

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

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

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

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

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

IV. Process

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

Once authorization has been received, Southern Company Services Fuel Services, agent for Gulf Power Company, will conduct all hedging

Gulf Power Company Risk Management Policy

transactions in accordance with the Southern Company Generation Risk Management Policy.

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

Southern Company Generation (SCGen)
Risk Management Policy

CONFIDENTIAL
FOR COMPANY USE ONLY

Approved February 1, 2005

APPENDIX I
 INCUMBENT LISTING; AUTHORIZED INDIVIDUALS

Incumbent Listing

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

Southern Company Generation
 Energy Credit Committee

Name	Title
Earl Long (Chairman)	Assistant Treasurer, SCS
Phil Saunders	Sr. Vice President, Operations & General Services, SCGen
Earl Parsons	Vice President, Fuel Services
Charley Long	Vice President, Fleet Operations & Trading, SCGen
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Fleet Operations & Trading
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Name	Title
Phil Saunders	Sr. VP, Operations & General Services, SCGen
Mike Bush	Director, Portfolio Mgmt.
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Scott Teel	Manager, Energy Trading

SCS Fuel Services
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Name	Title
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Phil Saunders	Sr. VP, Operations & General Services, SCGen
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Storage	Carol Thomasson				X	X		
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- (1) Authority to engage in energy transactions is the same as the energy coordinator position.
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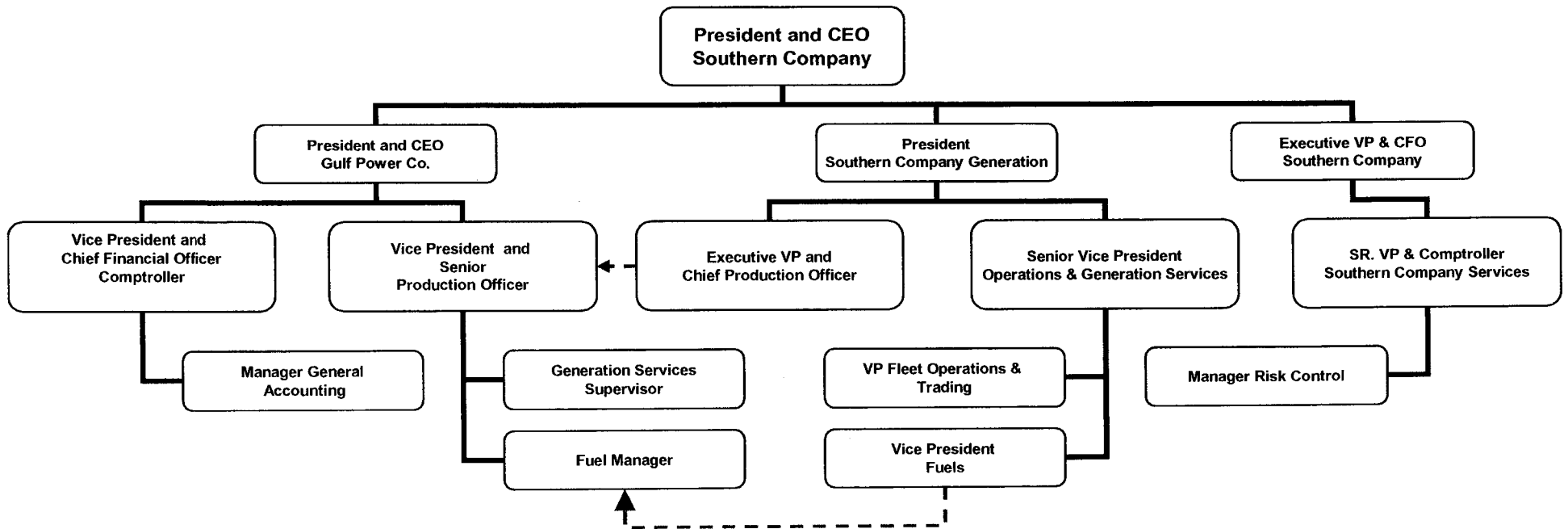
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DEFINITIONS

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Net Open Position	The sum of all open positions for the approved commodities on an equivalent basis.
Open Position	The difference between long positions and short positions in any given risk book.
Option	An instrument which provides the holder the right, but not the obligation, to sell to (or buy from) the option seller the underlying commodity at a specified price and time.
Originator	The lead individual responsible for negotiating the transaction with the counterparty.
Premises	SCGen business office located in Birmingham, Alabama.
Products	Financial instruments and related transactions for approved commodities as dictated by usage.
Risk Book	The official record in which all transaction risks related to changes in market prices is maintained for valuing, monitoring, managing, and reporting said risk.
RMP	Risk Management Policy
SCS	Southern Company Services, Inc.
Swaps	An agreement to exchange net future cash flows.
Structured Transaction	Any negotiated transaction not readily traded in the market and the price of which is not easily validated.
Transactions	Futures, forwards, options, swaps, or other instruments conducted over-the-counter or via organized exchanges including long- and short-term agreements involving approved commodities or financial instruments.

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

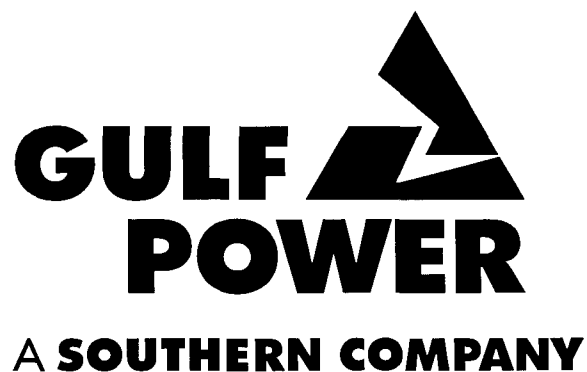
Risk Management for Fuel and Wholesale Energy



GULF POWER COMPANY

**Risk Management Plan
For
Fuel Procurement
Docket No. 050001-EI**

Date of Filing: April 1, 2005



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**GULF POWER COMPANY
LONG-TERM COAL PROCUREMENT STRATEGY
AND TACTICAL PLAN
MARCH 2005**

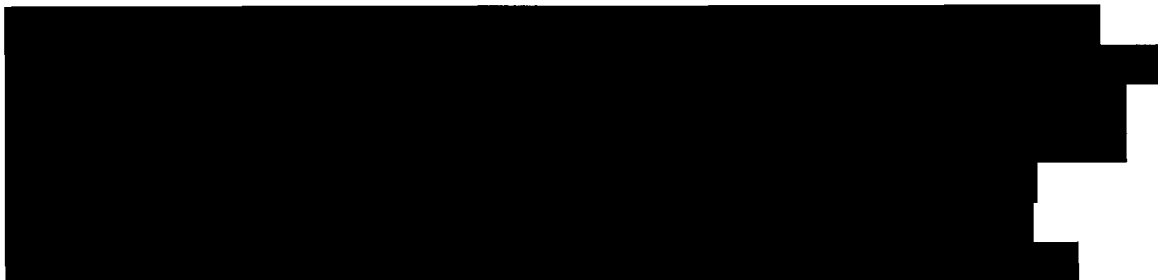
Introduction

Gulf Power Company reliably serves over 400,000 customers. In year 2004, Gulf Power generated over 15 billion KWH's with over \$367 million in fuel expense. Coal represented over 84% of Gulf Power's generation sources. Gulf Power Company operates three coal-fired plants (Crist, Smith, and Scholz) with a combined nameplate capacity of 1,355 Mw and projected annual coal consumption of 4 million tons. Gulf co-owns two coal fired plants; Daniel which is operated by Mississippi Power and Scherer which is operated by Georgia Power. The combined nameplate capacity of Gulf's ownership of Daniel and Scherer is 705 MW with a projected annual coal consumption of 2 million tons. The procurement of this coal is critical to the success of Gulf Power Company.

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

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

Fuel Program Overview



Procurement Strategy

As previously stated, the long-term coal procurement goal for Gulf Power Company will be to provide a reliable, cost-competitive, environmentally acceptable coal supply. The successful coal program must provide flexibility in volume and pricing, become more diverse by pursuing other supply regions, create competition for supply, focus on reliability of supply, and adhere to changing environmental laws and guidelines.

The following will address the risks associated with each of these areas and identify strategies to mitigate them. Also included in this section is a discussion of a strategic plan that incorporates several of these mitigation techniques.

Risk Management Plan for Coal Procurement
Performance from Prior Year

OBJECTIVE: For coal purchased under long term or spot contracts during the immediately preceding year (2004), Gulf will provide in the “risk management and GPIF” segment of the second true-up testimony (due April 1, 2005 and the first business day of each April thereafter) a numerical comparison of the price paid for each subcategory of coal to the best market indicator(s) for that coal at the time the utility entered the contract for the coal. Such market indicator(s) may include market indexes, averages, and/or bid prices. Gulf will describe the methodology behind each comparison. Gulf will explain the reason(s) for any significant difference between the price it paid and the market price for such coal.

[Redacted text block]

[Redacted text block]

GULF POWER COMPANY COAL TRANSPORTATION STRATEGY

Introduction

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

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

The following is provided in order to develop Gulf's coal transportation strategy: 1) a review of the current coal transportation program including current agreements, available mode of transportation, and budget, 2) a transportation strategy that identifies and addresses specific risks and risk mitigation strategies, and 3) a tactical plan detailing specific actions required in order to achieve the strategy.

Coal Transportation Procurement Strategy

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

RISKS AND RISK MITIGATION STRATEGIES

Reliability Risk and Strategy

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

The goal will be to avoid disconnect between agreements. It is not desirable to have transportation agreements in place that extend beyond coal agreements in most cases. With the competitive electricity markets and changing environmental laws and regulations, such disconnects could expose you to liquidated damages should coal sources change dramatically or plant retirements occur earlier than projected.

Reliability of service can be greatly enhanced through communication between all parties in the coal supply chain. Communication between Gulf's coal operating personnel and each plant, SCS Fuel Service Department, and the various carriers is vital in maintaining reliable and efficient operations. Effective and timely communication of transportation plans, orders, problems, and maintenance are critical to ensure reliable service. As we begin to add scrubbers to the Southern system and the movement of limestone into the plants is necessary, this need for emphasis on communication will only grow. The logistical picture will be complicated as the deliveries of coal and limestone, and the removal of gypsum (by-product of scrubber technology) will have to be coordinated at plants that have scrubbers. A firm scrubber schedule has not been put in place to this point, but evaluations and discussions concerning the coordination of these logistical movements have begun and will continue. It is important to develop and maintain relationships with the carriers for timely response and cooperation.

Gulf Power's Natural Gas Procurement Strategy

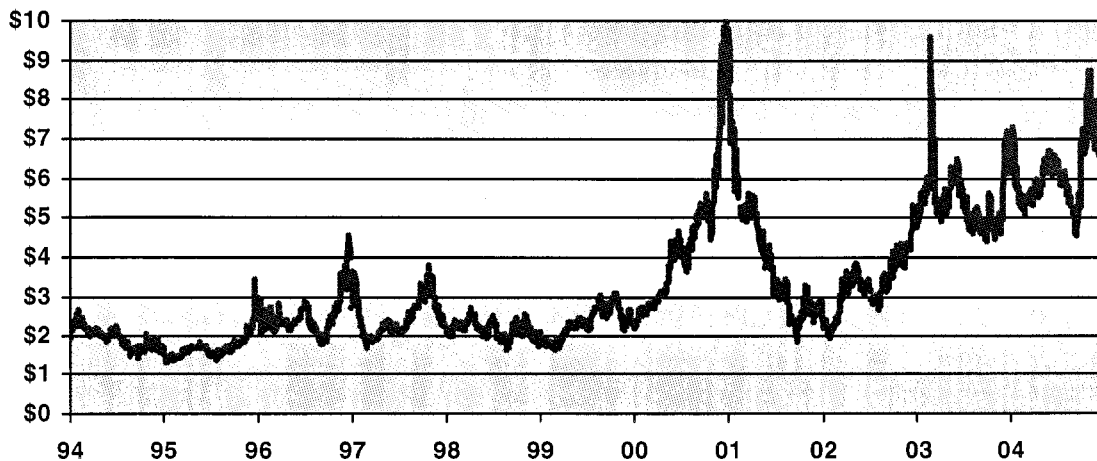
Gas Program Overview

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

Gulf Power's natural gas procurement strategy is to produce a cost effective yet highly reliable fuel supply. Securing competitive fuel prices for its customers is the governing consideration in all of Gulf's fuel decisions.



Historical Natural Gas Prices - NYMEX



Gulf Power's Oil Procurement Strategy

Oil Program Overview

Oil is used at Gulf predominantly for boiler lighting. Oil is used as a boiler lighter fuel at Crist units 4-7, Daniel 1&2, Scherer 3, Scholz 1&2 and Smith 1&2. Oil is also the primary fuel at the Smith A CT unit. Overall, oil use at Gulf is a small portion of Gulf's overall fuel budget.

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

OBJECTIVE: Provide a numerical comparison of the price paid for each fuel type (natural gas and oil) in 2004 as reflected in the December 2004, Schedule A-3 to the market price for natural gas during this period.

As described in Gulf's Risk Management Plan for Fuel Procurement filed in Docket No. 040001-EI on April 1, 2004, SCS Fuel Services as agent for Gulf will purchase natural gas and oil at prices that are indexed to the published market price for each commodity at the time of shipment. In 2004 firm quantities of natural gas were purchased either on long term or spot gas supply contracts or on the daily spot market as needed to meet burn requirements. Oil is purchased under spot contracts for each generating plant that are full quantity requirement agreements.



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

Gulf Power Company Risk Management Policy

I. Introduction

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

II. Objectives

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

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

III. Guidelines

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

The Southern Company Derivatives Policy states:

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

Gulf Power Company Risk Management Policy

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

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

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

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

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

IV. Process

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

Once authorization has been received, Southern Company Services Fuel Services, agent for Gulf Power Company, will conduct all hedging

Gulf Power Company Risk Management Policy

transactions in accordance with the Southern Company Generation Risk Management Policy.

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

Southern Company Generation (SCGen)
Risk Management Policy

CONFIDENTIAL
FOR COMPANY USE ONLY

Approved February 1, 2005

APPENDIX I
 INCUMBENT LISTING; AUTHORIZED INDIVIDUALS

Incumbent Listing

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

Southern Company Generation
 Energy Credit Committee

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

Fleet Operations & Trading
 Management Team

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

SCS Fuel Services
 Management Team

Name	Title
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Phil Saunders	Sr. VP, Operations & General Services, SCGen
Earl Parsons	Vice President, Fuel Services
Vacant	Gas Services Director
Gary Hart	Manager, Emissions Trading & Environmental Issues

APPENDIX I
 INCUMBENT LISTING; AUTHORIZED INDIVIDUALS (continued)

Authorized Individuals

Title	Name	Approved Commodities						Coal	Allowances
		Electricity		Natural Gas					
		Energy	Transmission	Gas	Transport	Storage			
Southern Company Generation									
Energy Trading Manager	Scott Teel	X	X						
Term Trader	David Hansen	X	X						
Term Trader	Steve Lowe	X	X						
Term Trader	Tim Sorrell	X	X						
Term Trader	Scott Morales	X	X						
Core Commercial Operatings Mgr.	Mike Smith	(2)	(2)						
Energy Coordinator	Bill Brown	X	X						
Energy Coordinator	Todd Curl	X	X						
Energy Coordinator	Frank Harris	X	X						
Energy Coordinator	David Deerman	X	X						
Energy Coordinator	John Spratley	X	X						
Energy Coordinator	Jimmy Walker	X	X						
Transmission Project Coordinator	Mike Greene (3)		X						
Transmission Coordinator	Ron Carlson	X	X						
Transmission Coordinator	Martha Russell		X						
Scheduler	Jackie Abercrombie	(1)	X						
Scheduler	Shannon Gunnells	(1)	X						
Scheduler	Kristie Taylor	(1)	X						
Trading Analyst	John Ciza	(2)	(2)						
Trading Analyst	Susan Olive	(2)	(2)						

Title	Name	Approved Commodities						
		Electricity		Natural Gas			Coal	Allowances
		Energy	Transmission	Gas	Transport	Storage		
SCS Fuel Services								
Gas Services, Director	Susan Comensky							
NG Team Leader	Carl Haga			X	X	X		
NG Buyer	Ken Damsgard			X	X	X		
NG Buyer	Vicki Gaston			X	X	X		
NG Buyer	Debora Honeycutt			X	X	X		
NG Buyer - Financial	Brian George			X				
NG Scheduler	Bryan Mitchell				X	X		
NG Scheduler	Russell Hall				X	X		
NG Scheduler	Tisha Dale				X	X		
NG Scheduler	Tonya Gary				X	X		
NG Project Manager	Alan Kilpatrick							
Storage	Carol Thomasson				X	X		
Coal & Transport Procure Manager	Debra Rouse						X	
Manager – Emissions	Gary Hart							X

Notes:

- (1) Authority to engage in energy transactions is the same as the energy coordinator position.
- (2) Authority to make changes to transactions.
- (3) Authority to procure Transmission for Business Development Project, not trading

APPENDIX K
EMPLOYEE ACKNOWLEDGMENT

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

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

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

Printed Name

Signature

Date: _____, 200_

APPENDIX L
DEFINITIONS

Allowances	The emissions of various criteria pollutants such as sulfur dioxide usually traded in the over-the-counter markets via brokers with one allowance being equal to one ton of the pollutant (expressed in US short tons.) For Sulfur Dioxide (SO ₂) see the 1990 Clean Air Act Amendments, Title IV Section 402(3) “an authorization allocated to an affected unit by the Administrator, to emit, during or after a specified calendar year one ton of sulfur dioxide. For NO _x , the right to emit one ton of Nitrous Oxide during the 5 months ozone season May through September (beginning May 1 st 2003) as per the Final EPA Regional SIP Call Rules 40 CFR Parts 51, 72, 75 and 96. For trading in Green House Gases (predominately CO ₂) one ton of carbon dioxide emitted on an annual basis.
Approved Commodity	Those commodities listed in appendix B which have been approved.
Authorities	All applicable limitations imposed on SCGen RMP trading activities, and shall include, but not necessarily be limited to, authorized trading limits, daily loss exposure limits, maximum approved value at risk, income limits, and term limits.
Authorized Individuals	Employees whose position may involve: (1) the authority (or appearance of authority) to directly bind SCS (or any subsidiary) to agreements with third parties; and/or (2) the authority (or appearance of authority), acting through its various brokers and other representatives, to bind SCS (or any subsidiary) to exchange-traded futures and option contracts.
Authorized Trading Limit	The levels set out in appendix F and H. Such levels are expressed in dollars that establish boundaries for maximum value at risk due to changes in market prices.
Daily Income Limit	The change in value of the Asset Optimization Floor portfolio on a daily basis as detailed in appendix G. The change in value will be calculated on a MTM net-present-value basis.
Daily Portfolio Value	The net present value on a MTM basis of yet to be performed transactions from all approved portfolios.
Delta	The sensitivity on an option’s price to changes in the price of the underlying commodity.
Financial Instruments	Futures, forwards, options, swaps, and other derivative or financial risk management transactions entered into to hedge price risks.
Forwards	An agreement to buy or sell a quantity of a product, at an agreed price, on a given date, with a specific counterparty. Forwards are typically trading in the over-the-counter (OTC) markets.
FS	SCS Fuel Services

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

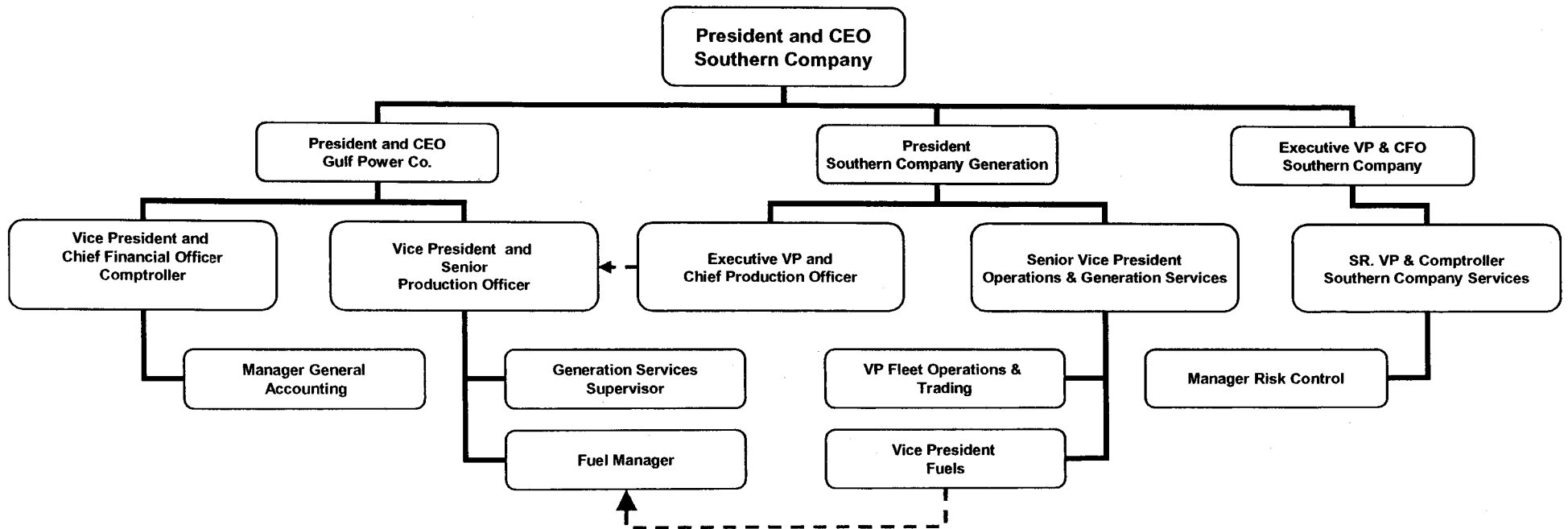


EXHIBIT C

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

Line(s)/Field(s)

Pages 1 through 71 are considered confidential in their entirety except for those portions of pages 1, 5, 21, 27, 29, 30, 34, 36, 37, 40- 43, 62- 65, 67-71 which are not redacted and are provided in Exhibit B.

Justification

This information is entitled to confidential classification pursuant to §366.093(3)(a), (d) and (e), Florida Statutes. The basis for this information being designated as confidential is more fully set forth in paragraph 1.