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GULF POWER COMPANY

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

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

Introduction

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

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

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

Fuel Program Overview

Due to the fact that they share a common transportation mode as well as a common coal contract, Plants Crist and Smith will be grouped together in formulating a procurement strategy. Plants Crist and Smith are barge served plants and have two long-term coal contracts. A coal supply agreement with Peabody COALSALES Company totaling 1.9 million tons of base coal and 600,000 tons of Right-To-Supply (RTS) coal per year is in effect through 2007. Currently, the sourcing under the Peabody base contract is American Coal Company's Galatia Mine which is located in the Illinois Basin. The second coal supply agreement is with Interocean Coal Sales for 2 million tons delivered between July 1, 2004 and June 30, 2006. Plants Crist and Smith currently have 900,000 tons of short-term (spot) coal and 600,000 tons of Peabody RTS coal committed for 2004. This leaves no remaining coal needs in 2004. The chart below illustrates the projected burn and commitments of coal for Crist and Smith through 2009:

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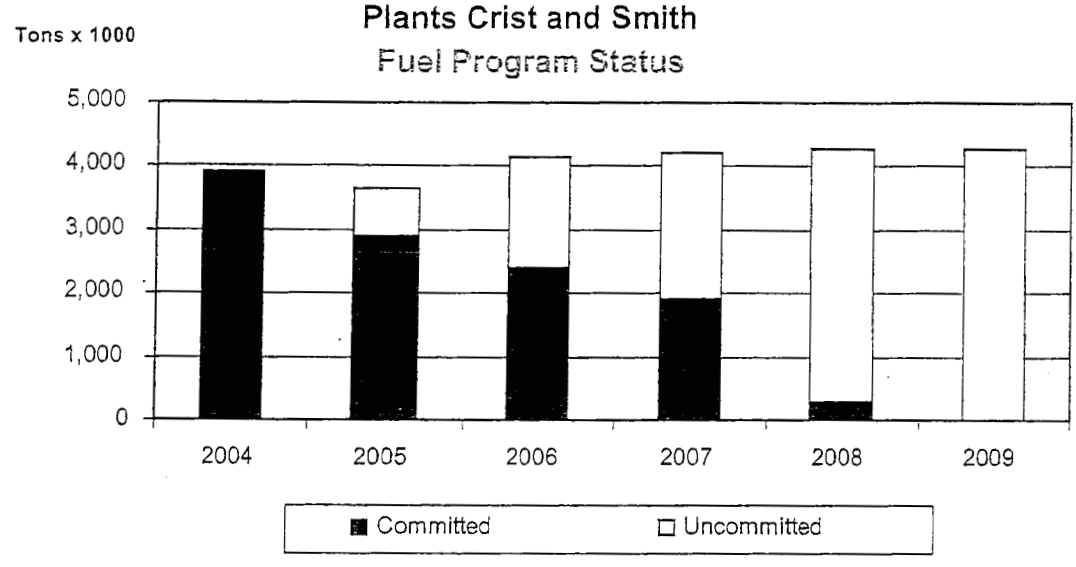
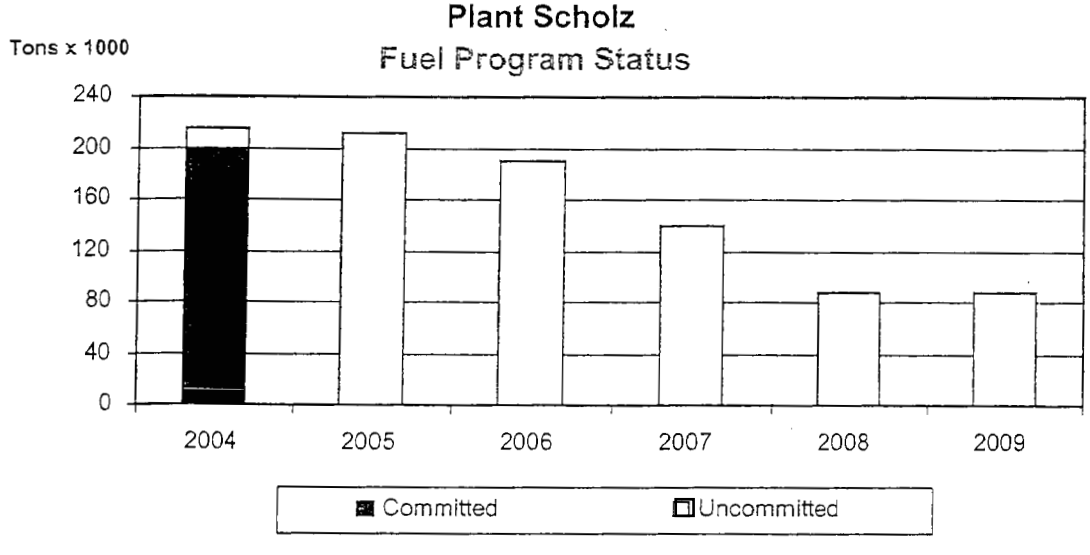


Plant Scholz is rail served and has a spot coal agreement with Black Mountain Resources, LLC in place for 2004. This agreement is a one year requirements contract with a maximum cap of 200,000 tons and expires at the end of 2004. The remaining need, if any, will be supplied with short-term (spot) coal. There are no committed tons at Scholz for 2005 and beyond. The following chart illustrates the projected burn and commitments of coal for Scholz through 2009:



Procurement Strategy

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

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

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

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 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.

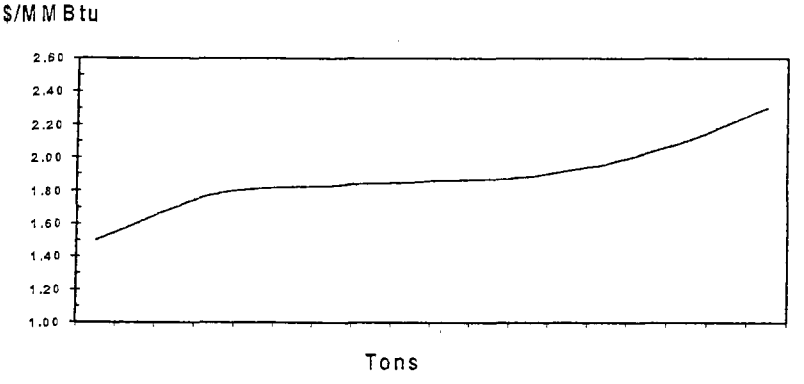
A portion of projected coal requirements should be firmly committed under long-term agreements providing a reliable and consistent supply of fuel. Coal suppliers also require a certain portion of long-term commitments in order to make financial investments in mining operations. Uncommitted requirements 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. Long-term commitments will not be made with producers at pricing that is below their production costs.

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, the 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 offers 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. 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. 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 SO_2 emission limit of 5.9 lbs/mmBtu. However, Gulf Power Company seeks to maintain an SO_2 emission limit of 1.7 lbs/mmBtu to meet the local ambient air quality. 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 also burns Colombian import coals, as well

burning low sulfur Illinois Basin coal from the Galatia mine that is supplied under the Peabody long-term contract. Crist also burns Colombian import coals, as well as coals from Colorado and the Central Appalachian regions when these fuels are cost effective. Plant Crist is considered a base-load coal plant with a projected capacity factor in the 75%-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 SO_2 emission limit of 2.1 lbs/mmBtu. Smith can burn a variety of coals including import coals such as Colombian, Australian and Venezuelan. Domestic sources such as Colorado and Central Appalachian coals have also been burned in the past. The Peabody contract contains a right-to-supply (RTS) provision whereby Peabody can match the price and quality of offered coal for up to 600,000 tons in each year of the contract. Plant Smith is also considered a base-load coal plant with a projected capacity factor in the 75%-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 SO_2 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 200,000 tons that expires at the end of 2004. Plant Scholz is considered a intermediate-load coal plant with a projected capacity factor in the 50%-70% range.

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 intermediate to base-load nature of Crist and Smith, the goal is to maintain firm commitments of 75%-85% of the projected requirements for the following 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. For Scholz, the fuel supply will be based on limited or no long-term firm commitments. Commitments will be short-term of one year or less. If commitments are made for over 50% of the projected requirements, they will be tied to the plant 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 ranges from 44%-51% firm through 2007 for Plants Crist and Smith collectively. The Peabody contract contains a price review that Peabody accepted in February 2003. The new pricing will continue 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-term spot coal purchases and the Peabody RTS agreement.

Gulf Power is currently undergoing a test program at Crist and Smith to diversify their supply of coals. These tests consist of import coals as well as other Illinois Basin supplies and have three purposes: 1) to develop and approve new sources of coal which will allow for diversity of supply, 2) to increase the sources available to Peabody under their right-to-supply provision of the contract, and 3) 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.

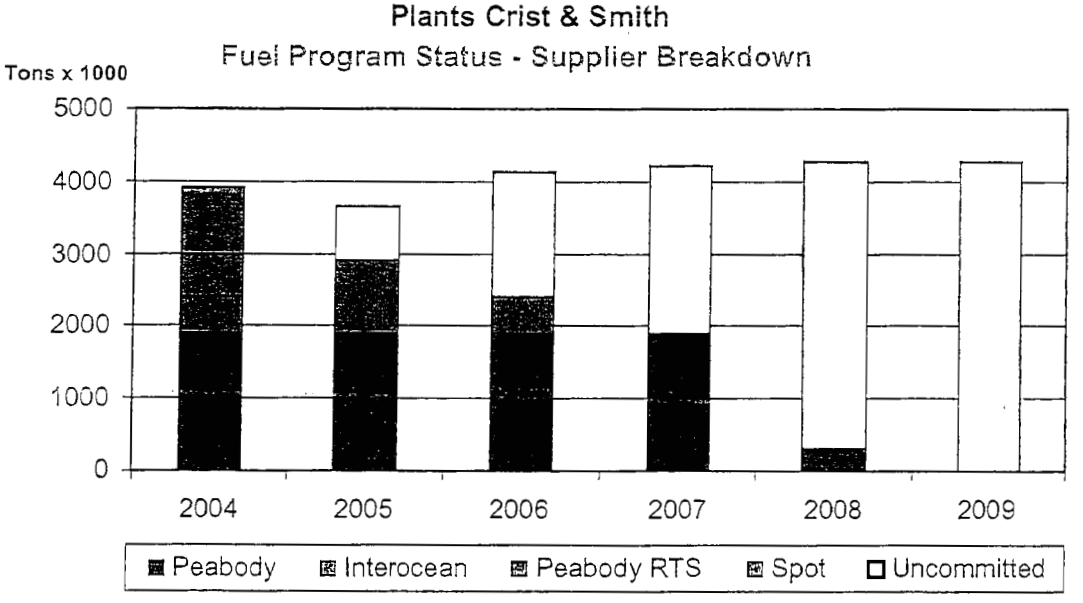
Traditionally, these plants have utilized domestic sources such as Illinois Basin medium-sulfur coals. Since 1999, market conditions, including production problems, lack of availability of supply in some domestic regions, and environmental awareness have emphasized the need to diversify with other sources, including Colombian and other import coals. With the reliability and availability issues that currently exist in the domestic market and existing Colombian sources, 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. 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 primary environmental issue in the near term for Gulf Power Company is the continued compliance with the "acid rain" SO_2 provisions imposed by Phase II of the Clean Air Act (which began in 2000). The SO_2 bank of allowances for Gulf will decline over the next couple of years. Continued utilization of low sulfur coal along with SO_2 allowance purchases will be used to meet the SO_2 restrictions going forward. Other environmental regulations that are very likely in the 2007-2010 timeframe include Mercury MACT regulations, Regional Transport Rules (PM 2.5), and potential new Federal multi-pollutant legislation. With all the uncertainties that lie ahead with environmental issues, coal commitments should and will be structured to minimize the risk if and when these laws and regulations change.

Tactical Plan

Crist and Smith

The chart below shows a breakdown of the current Crist and Smith suppliers and volume commitments, including options, through 2009:



The strategy that has been identified for Plants Crist and Smith is to have firm commitments of 75%-85% of the projected requirements for the following year, with a minimum of 50%-60% of the projected requirements for year 2, 30%-40% of the projected requirements for year 1 and 10%-20% for year 4. Any uncommitted needs will be met with short-term spot coal.

The focus for 2004 and forward will be to look for opportunities to reduce the amount of Peabody contract coal that is supplied to Crist and Smith from the Illinois Basin Galatia Mine. The reliability and the quality of coal from this mine have been uncertain throughout the last two years. The goal will be to diversify the coal supply for these plants through a test program of various import and domestic coals. With an expanded list of approved sources at Plant Crist and Smith, any production problems that should occur from the current sources (Galatia Mine) will be mitigated by obligating Peabody to supply coal from other approved sources. Diversification of supply will benefit Gulf Power not only for sourcing under the Peabody contract but also for short-term spot purchases.

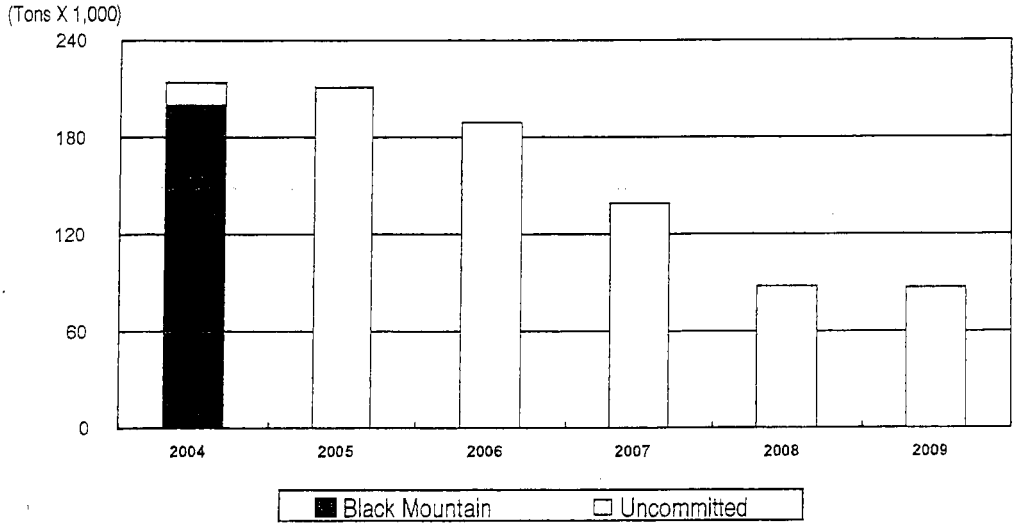
The risk of supply disruption is greatly reduced with increased diversity of supply. Diversity of supply will also enhance competition for coal to be supplied to these plants. Under the existing Peabody contract, Peabody is free to source all tons from one supplier. Another important element of this diversification philosophy is

that Crist and Smith could share coal supplies such that inventories at both plants could be optimized if operational, supply or transportation problems occur at either plant.

Scholz

The chart below shows a breakdown of the current Scholz suppliers and volume commitments, including options, through 2009:

Plant Scholz
Fuel Program Status - Supplier Breakdown



Plant Scholz will rely on short-term spot coal purchases as needed or long-term agreements with volume commitments tied to the requirements of the plant. In 2004, a solicitation will be issued to secure 2005 needs and beyond if economical.

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 Burlington Northern Santa Fe or the Union Pacific 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.

Currently, Gulf's transportation system is 95% barge served 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. The Agreement has a price re-opener in 2005 to establish prices to be effective July 1, 2005. During the price re-opener, Ingram must provide new base rates and Gulf is required to seek bids. Ingram has the right to match the lowest bid. If Ingram does not match the low bid, Gulf is free to accept alternative proposals.

Union Pacific Rail Agreement C-37827 provides for rail transportation of western coal to Cahokia River Terminal near St. Louis. The term of the contract is through December 31, 2004.

The Agreement with the Alabama State Docks expires August 31, 2004. Alabama State Docks has proposed an expansion to accommodate additional volumes. This proposal is currently under evaluation.

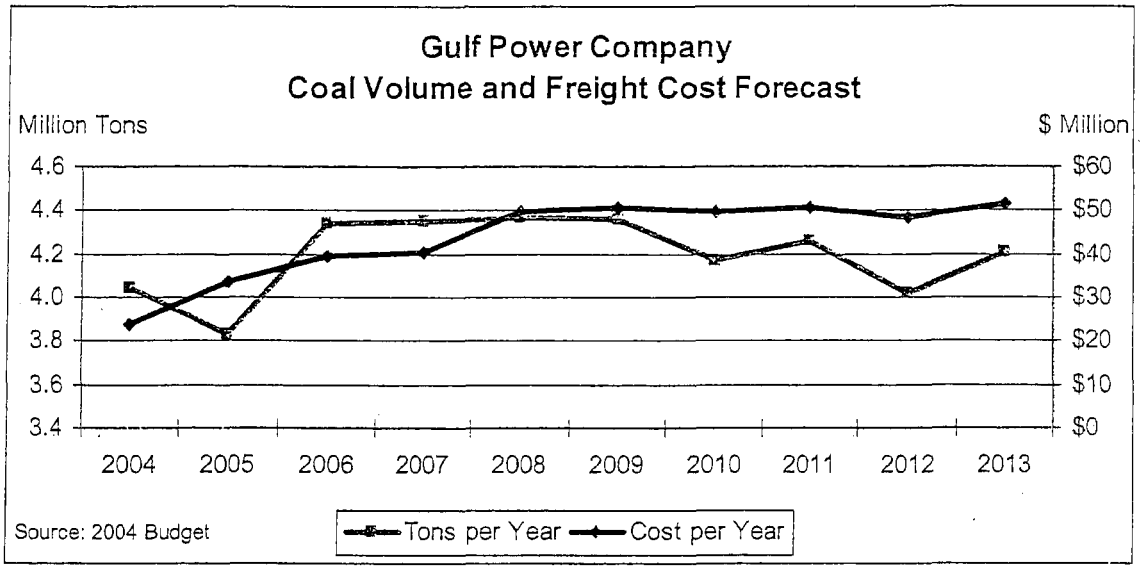
Plant Scholz

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 Plant Scholz .

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's 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.

The following will address the risks associated with each of these areas and identify strategies to mitigate them:

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 a 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 (a by-product of the scrubber technology) will have to be coordinated at plants that have scrubbers. A firm scrubber schedule has not been put in place at this time, but have 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 mitigating 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 likehood 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. Also, 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 coal supply 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, discussions are ongoing with the Alabama State Docks to expand this facility to handle additional coal in the coming years.

This is only one example of the need and action required to explore infrastructure capabilities and ensure they are adequate to handle coal supply in the future.

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. The existing barge agreement with Ingram has a price re-opener in 2005 which will afford the opportunity to market price existing rates. Due to changing coal sources, the 500,000 ton annual minimum requirement of coal to be moved from loading points on the upper Mississippi river is not desirable. Therefore, negotiations are ongoing and will continue in an effort to restructure this contract to eliminate this minimum requirement.

The rail agreement with the Union Pacific Railroad that allows for movement of western coal to Cahokia Marine Terminal expires at the end of 2004. Negotiations will occur during the year to extend this agreement incorporating the strategies discussed earlier.

As discussed earlier, negotiations are ongoing with the Alabama State Docks to expand that facility to allow for greater quantities of coal to be imported in the future. The existing transloading agreement with the Alabama State Docks expires in August 2004. Negotiations will seek to extend this agreement while incorporating the strategies discussed earlier.

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

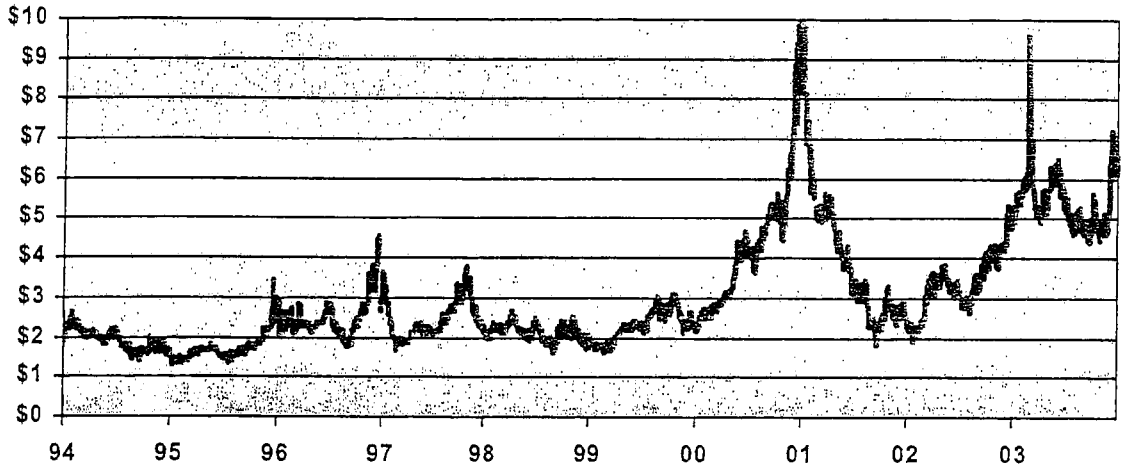
Natural Gas is used as the primary fuel at Crist units 2 & 3, for boiler lighter fuel at Crist units 4-7, and as the primary fuel at the Smith 3 combined-cycle unit. In the past, natural gas represented a relatively small portion of Gulf's overall fuel budget. With the addition of the Smith 3 combined-cycle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

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

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 one 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, attempts 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 Florida Public Service Commission order, Gulf Power financially hedges gas prices in order to protect against short-term price swings and to provide some level of price certainty. Gulf Power attempts to take advantage of opportunities in the future and derivatives markets that benefit the customer. Gulf Power employs both technical and fundamental analysis to determine appropriate times to hedge. While various analyses have been 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 continue to evolve over time.

While the hedging program protects the customer from short-term price spikes, hedges can also lead to higher costs when natural gas prices fall subsequent to entering hedges. This risk is virtually unlimited if a company chooses to speculate. Speculating is entering transactions with the intent to profit solely from the rise and fall in price where the transaction lacks any element of shifting or managing risk. As a result, Gulf Power internally protects against speculation by limiting the amount of fixed-price hedges to 100% of the projected fuel burn for the upcoming year. In addition, Gulf Power limits option priced hedges to 110% of its projected burn. Finally, in order to protect its customers from market exposure in subsequent years, Gulf Power takes forward hedge positions of up to 42 months.

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.

GULF POWER COMPANY RISK MANAGEMENT POLICY

I. Introduction

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

II. Objectives

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

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

III. Guidelines

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

The Southern Company Derivatives Policy states:

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

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

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

> "**RESOLVED,** That The Southern Company System Policy on Use of Derivatives (the "Policy") as presented to the meeting is hereby approved; and
>
> **RESOLVED FURTHER,** That the Officers are hereby authorized to effect derivative transactions that comply with the policy, including swaps, caps, collars, floors, swap options, futures, forward and options, relating to energy and associated commodities, weather, interest rates, currencies, and contracts and other arrangements for fuel supplies; and
>
> **RESOLVED FURTHER,** That in connection with the foregoing, the officers are hereby authorized to take any and all actions and to execute, deliver and perform on behalf of the Company any and all agreements and other instruments as they consider necessary, appropriate or advisable, each such agreement or other instrument to be in such form as the officers executing the same shall approve, the execution thereof to constitute conclusive evidence of such approval."

IV. Process

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

GULF POWER COMPANY RISK MANAGEMENT POLICY

Once authorization has been received, Southern Company Services Fuel Services, agent for Gulf Power Company, will conduct all hedging transactions in accordance with the Southern GEM RMP. See Appendix A or IA for the GEM RMP.

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

Southern Company Generation & Energy Marketing (SCGEM)

Risk Management Policy

CONFIDENTIAL
FOR COMPANY USE ONLY

July 24, 2002

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CONTENTS

I. Introduction

In August 1997 the Southern Company Risk Oversight Committee (Southern ROC) approved a set of risk management guidelines. These guidelines outline the Southern Company philosophy toward risk and the responsibilities of the Southern ROC and business units that engage in risk management activities.

The risk management guidelines require any business unit engaging in risk management activities to establish a risk oversight committee. The Southern Company Generation & Energy Marketing Risk Control and Oversight Committee (SCGEM RCOC) has been established in accordance with the guidelines, and its objectives and responsibilities are contained in a separate document, "SCGEM Risk Control and Oversight Committee Policy."

The Southern ROC risk management guidelines also 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 SCGEM Risk Management Policy (RMP) applies to the shorter-term trading activities performed on the Asset Optimization Floor of SCGEM 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 Operating Companies to transactions covered by this RMP.
- Establish sound guidelines to follow in managing and controlling risks.
- Define the responsibilities for managing and monitoring risks.

III. Business Objectives

The business objectives for the trading activities performed on the Asset Optimization Floor of SCGEMare 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, Asset Optimization 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, including the trading of speculative positions, and should not be undertaken.

Various contract types or financial instruments will be used to insure that business exposures to risks are eliminated, reduced, or transferred as appropriate. These instruments are used to:

- Manage the risk of energy price uncertainty associated with energy purchases and sales.
- Protect revenues produced by generation assets from adverse price moves.
- Protect territorial customers from adverse power (capacity and energy) price moves.
- Extract market information.

The Approved Risk Management Instruments are shown 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, besides other responsibilities, is responsible for assisting the middle office in reviewing all structured transactions and identifying all applicable risks.

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 of risks.
6. Generating daily portfolio positions.
7. Generating daily risk exposure reports.
8. Generating daily profit/loss reports.
9. Generating daily credit reports.
10. Maintaining a counterparty credit concerns list.
11. Resolving credit issues with counterparties.
12. Calculating collateral requirements and management of posted collateral.
13. Maintaining guarantees, letters of credit, and other security provided by counterparties.

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 counter party invoices with Southern Company invoices.
5. Recording transactions with counterparties in the receivable/payable subledgers.
6. Notifying SCS Treasury of margin requirements related to exchange-traded transactions.
7. Filing required reports with State and Federal regulatory agencies.

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. All approved commodities will be converted to standard units of risk and will be reported in agreed measurement units shown in appendix F.

2. Positions will be maintained in a notional- and present-value format.

3. The daily portfolio value (DPV) will be reported on a daily mark-to-market (MTM) basis and will be subject to daily income notification levels as set forth in appendix G.

4. Value at risk will be calculated daily utilizing the methodology(s) contained in appendix F.

5. Positions shall be aggregated by delivery point and period and reported separately for each commodity.

6. 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 Notification	If the end of the day aggregate 2 day change and rolling 30 day change in MTM value exceeds the daily income notification levels shown in appendix G then certain notification activities are required as specified 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 credit worthiness of trading counterparties and customers, assigns ratings, establishes maximum credit limits, and provides information for inclusion into the

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 Southern Company credit policy. The middle office may establish credit limits below maximum limits as set forth in Southern Company credit policy.

XI. New Products

Structured transactions 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 include the following:

- Origination is responsible for developing a description of the structured transaction including all terms and conditions.
- 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 insuring all risks have been identified and may rely on the structuring function for independent validation of the risks.
- Settlement is responsible for insuring the infrastructure support for the structured transaction is in place.
- Origination is responsible for offering the structured transaction to the market.

All approved structured transactions should be reviewed by SCS Treasury.

XII. Funding Liquidity

The SCSGEM 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) transactions, and the timing of realized losses versus realized gains. The Asset Optimization Floor will provide and update a funding liquidity forecast, including scenario analysis of potential increases in short- or long-term funding needs. Such forecasts will be reviewed periodically with 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.

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 applicable deal capture system and review the confirmation for accuracy. The middle office will insure that the transaction is properly recorded and confirmed. This will insure the transaction is accurately reflected, the appropriate documentation is completed, and the transaction is confirmed.

Contract Administration. Origination 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 execution. 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

One purpose of the RMP is to assist management in managing the risk inherent in this business. 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 Asset Optimization 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 prior to execution.

XVI. Monitoring and Reporting

Middle office personnel will prepare a daily risk report. The daily risk reports shall consist of the following:

- Daily credit report
- Daily exposure report
- Preliminary P&L
- Daily net income report

The daily risk report shall include the net open position from all risk books; the change in the daily portfolio value; the value at risk; and, a full description of any RMP violations.

XVII. Personnel

All Energy Marketing 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 other than the operating companies.

XVIII. Business Recovery

The business recovery plan that will allow Asset Optimization Floor activities to continue uninterrupted are contained in a separate document.

XIX. Compliance

Each Energy Marketing, Fuel Services employees, and any employee physically located on the Asset Optimization 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 (see 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 chairman of the SCGEM RCOC, 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 the SCGEM RCOC.

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 this RMP, to appendix B – Approved Commodities, as well as to the overall market risk limit prior to implementation. 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.

All revisions to this RMP will be distributed to the Southern Company Risk Management Board for their review.

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.
- 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 sales of Southern Wholesale Energy.
3. Optimize natural gas assets associated with gas supply, gas transportation, and storage.
4. Support Fleet Operations and Trading cross-commodity spreads.

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 Emission 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-optimization coal supply to generate resources for the territorial customer.
2. Deliver risk-optimized coal supply to support sales of Generation Energy Marketing.
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 for this RMP are:

- Futures.
- Forwards.
- Options.
- Swaps.

APPENDIX D
AUTHORIZATIONS

Name	Authority
Southern Company Energy Risk Management Board	1) Approve SCGEM Risk Management Policy. 2) Approve overall risk limits. 3) Approve commodities.
SCGEM RCOC	1) Approve risk management procedures. 2) Establish daily income notification levels. 3) Approve risk measurement methodologies.
Sr. Vice President, Comptroller and Chief Financial Officer of SCS	1) Open and close broker accounts for exchange-traded commodities. 2) Specify the appropriate accounting treatment of Transactions.
Manager, Risk Control	1) Maintain the list of authorized individuals with each counterparty. 2) Resolve credit issues with counterparties.

APPENDIX D
AUTHORIZATIONS (continued)
Energy Marketing

Name	Authority
Sr.Vice President, SCS	1) Approve fleet operations and trading business objectives. 2) Allocate the overall risk limit among the SCGEM business objectives. 3) Approve instruments for EM. 4) Approve any exceptions to transaction limits.
SCGEM Management Team	1) Approve structured transactions, new products, and unusual transactions.
Vice President, Fleet Operations and Trading	1) Set risk exposure sublimits for SCGEM 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.
Manager, Energy Trading	1) Manage portfolio risk on a daily basis within risk exposure limits.
Term Traders	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	1) Execute transactions for primary business objectives up to a term limit of 1 week. 2) Execute arbitrage transactions under secondary activities and opportunities.
• 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

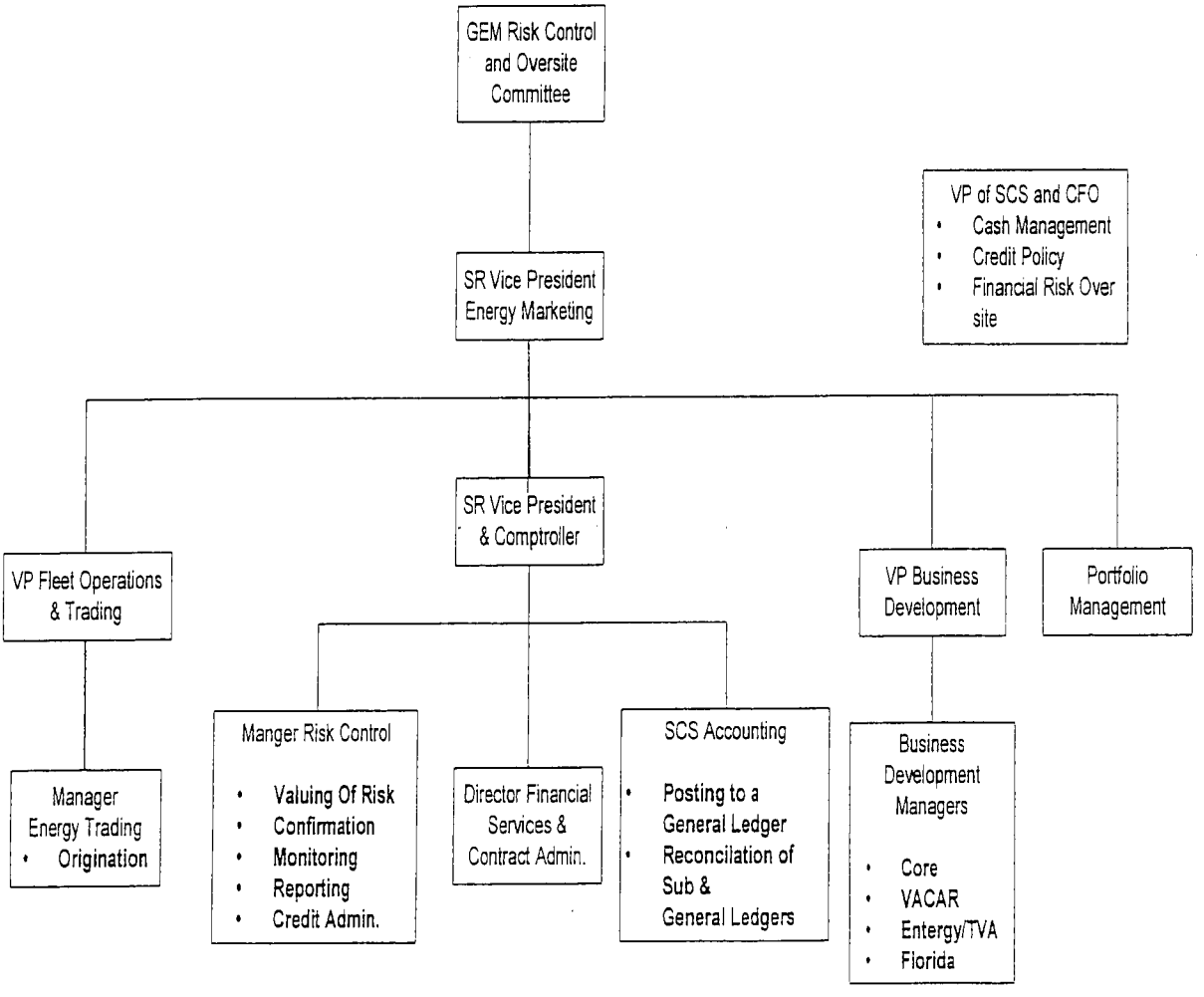
Name	Authority
Vice President, Fuel Services	1) Approve Fuel Services business objectives. 2) Allocate the overall risk limit among the Fuel Services business objectives. 3) Approve instruments for Fuel Services. 4) Approve any exceptions to transaction limits. 5) Establish guidelines for off-premises transactions.
General Manager, Procurement and Planning	1) Set risk exposure sublimits for Fuel Services secondary activities. 2) Identify authorized individuals that can execute Financial and physical gas transactions with terms greater than a year.
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. 3) 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. 2) Execute transactions for Fuel Services secondary activities.
Natural Gas Schedulers	1) Procure transportation for transactions executed by Natural Gas Buyers.
Natural Gas Project Personnel	1) 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.

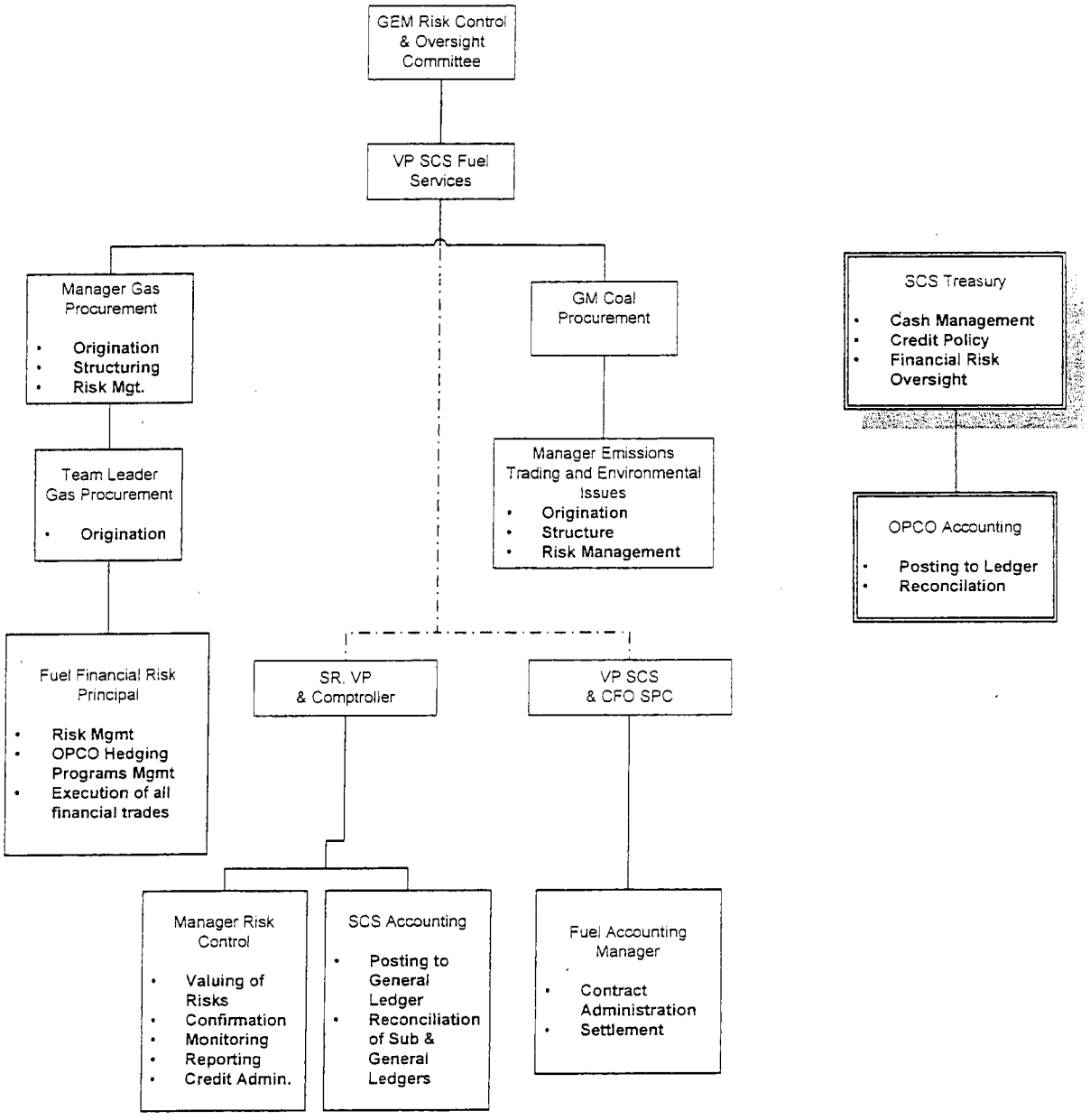
Southern Generation & Energy Marketing



APPENDIX E SEGREGATION OF DUTIES (continued)

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.

SCS
Fuel Services



APPENDIX F
MARKET RISK MEASUREMENT

Approved Commodities	Agreed Measurement Units	Conversion Factor (into MWh)	Value at Risk Method
Electrical Power	MWh	1.000	Parametric VaR / Delta Normal VAR
Natural Gas (1)	MBtu	0.100	Parametric VaR
Coal (2)	Tons	2.000	To be Determined

Notes:
(1) 10,000 Btu/kWh average heat rate assumed for all fuel commodities.
(2) 10,000 Btu/lb quality coal (short ton).
(3) SO2 Allowance – one ton of Sulfur dioxide per year; NOx Allowance = one tone of Nitrous Oxide per season; GHC/CO2 one ton of Carbon Dioxide per year.

Parametric VaR Method

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	2.33
Term > 1 Year	10 Days	2.33
Natural Gas		
Term <= 1 Year	5 Days	1.65
Term > 1 Year	10 Days	1.65

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

Approved Commodities	Daily MTM Amount	Notify
Secondary Objectives	Aggregate 2-Day Greater $2,000,000	• SR. Vice President, EM • Vice President, Fuel Services • Chairman of ERM Board • Chairman of SCGEM RCOC • Executive VP SCGEM • President SCGEM • Chairman of Southern Company
Secondary Objectives	Rolling 30-Day $7,500,000	• SR. Vice President, EM • Vice President, Fuel Services • Chairman of Southern ROC • Chairman of SCGEM RCOC • President & COO Southern Company • Chairman of Southern Company

Daily MTM Amount is based on the daily change from market prices.

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

Southern Company Generation & Energy Marketing
Risk Control and Oversight Committee

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

Energy Marketing
Management Team

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

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

SCS Fuel Services
Management Team

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

APPENDIX I
INCUMBENT LISTING; AUTHORIZED INDIVIDUALS (continued)

Authorized Individuals

Title	Name	Approved Commodities						
		Electricity		Natural Gas			Coal	Allowances
		Energy	Transmission	Gas	Transport	Storage		
Southern Company Generation Energy Marketing								
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					
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					
Asset Mgmt, Mgr.	Joe Styslinger	X	X					
Project Manager	Kenneth Wills	X	X					
Transmission Project Coordinator	Joel Dison		X					
Transmission Project Coordinator	Mike Greene		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								
Manager, NG	Susan Comensky			X	X	X		
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 Scheduler	Bryan Mitchell			X	X	X		
NG Scheduler	Russell Hall			X	X	X		
NG Scheduler	Tisha Dale			X	X	X		
NG Scheduler	Tonya Gary			X	X	X		
NG Project Manager	Charlie Nuckolls			X	X	X		
NG Project Manager	Alan Kilpatrick			X	X	X		X
Storage	Carol Thomasson			X	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.

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. 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 that keeps track of each hedge transaction, including physical quantities, settlement date, hedge item, faire values, costs, etc., will be developed and 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 develop a comprehensive database that provides the necessary information in the required formats for accounting and tax purposes.

APPENDIX K
EMPLOYEE ACKNOWLEDGMENT

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

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

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

_____
Printed Name

_____
Signature

Date: _____ ____, 200_

APPENDIX L
DEFINITIONS

Agreed Measurement Units	The commonly accepted measurement units as dictated in recognized product markets for the determination of purchase and sale quantities.
Allowances	The emissions of various criteria pollutants such as sulfur dioxide usually traded in the over-the-counter markets via brokers with one allowance being equal to one tone of the pollutant (expressed in US short tons.) For Sulfur Dioxide (SO2) see the 1990 Clean Air Act Amendments, Title IV Section 402(3) "an authorization allocated to an affected unit by the Administator, to emit, during or after a specified calendar year one ton of sulfur dioxide. For NOx, the right to emit one ton of Nitrous Oxide during the 5 months ozone season May through September (beginning May 1st, 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 CO2) 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 SCGEM RMP trading activities, and shall include, but not necessarily be limited to, authorized trading limits, daily loss exposure limits, maximum approved value at risk, income limits, and term limits.
Authorized Individuals	Employees whose position may involve: (1) the authority (or appearance of authority) to directly bind SCS (or any subsidiary) to agreements with third parties; and/or (2) the authority (or appearance of authority), acting through its various brokers and other representatives, to bind SCS (or any subsidiary) to exchange-traded futures and option contracts.
Authorized Trading Limit	The levels set out in appendix F and H. Such levels are expressed in dollars that establish boundaries for maximum value at risk due to changes in market prices.
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Daily Portfolio Value	The net present value on a MTM basis of yet to be performed transactions from all approved portfolios.
Daily Risk Report	See section 16.0 of this RMP for a full definition/meaning of this term.
Delta	The sensitivity on an option's price to changes in the price of the underlying commodity.
Financial Instruments	Futures, forwards, options, swaps, and other derivative or financial

	risk management transactions entered into to hedge price risks.
Forwards	An agreement to buy or sell a quantity of a product, at an agreed price, on a given date, with a specific counterparty. Forwards are typically trading in the over-the-counter (OTC) markets.
FS	SCS Fuel Services
Futures	An agreement to buy or sell a quantity of a product, at an agreed price, on a given date, traded on an exchange, and cleared by a clearinghouse.
Gamma	The sensitivity of an option delta to changes in the price of the underlying commodity.
Illiquid Market	A market characterized by wide bid/offer spreads, lack of transparency, and large movements in price after any sizable deal.
Income Limit	The dollar income amounts set out in appendix G which require notification as described herein once triggered.
Mark to Market (MTM)	The value of a financial instrument, or risk book of such instruments, at current market rates, or prices of the underlying commodity.
Market Positions	Positions taken that are readily liquidated at a readily observable and transparent price.
Net Open Position	The sum of all open positions for the approved commodities on an equivalent basis.
Open Position	The difference between long positions and short positions in any given risk book.
Option	An instrument which provides the holder the right, but not the obligation, to sell to (or buy from) the option seller the underlying commodity at a specified price and time.
Originator	The lead individual responsible for negotiating the transaction with the counterparty.
Premises	SCGEM business office located in Birmingham, Alabama.
Products	Financial instruments and related transactions for approved commodities as dictated by usage.
Risk Book	The official record in which all transaction risks related to changes in market prices is maintained for valuing, monitoring, managing, and reporting said risk.
RMP	Risk Management Policy
SCS	Southern Company Services, Inc.

EM	Energy Marketing
Swaps	An agreement to exchange net future cash flows.
Speculative Positions	Transactions entered into with the intent to profit solely from the rise or fall in price where the transaction lacks any element of shifting or managing risk. Transactions entered with the purpose of price discovery or market positions are excluded from this definition.
Stair Step	The approved methodology for measuring risk in the electricity portfolio in which the high and low prices for electricity are fixed.
Structured Transaction	Any negotiated transaction not readily traded in the market and the price of which is not easily validated.
Transactions	Futures, forwards, options, swaps, or other instruments conducted over-the-counter or via organized exchanges including long- and short-term agreements involving approved commodities or financial instruments.
Value at Risk (VAR)	The expected loss that will be incurred on the portfolio with a given level of confidence over a specified holding period, based on the distribution of price changes over a given historical observation period. (This is not an estimate of worst possible loss.)
Vega	The sensitivity of the option price to changes in the price volatility of the underlying commodity.

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.
- 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 sales of Southern Wholesale Energy.
3. Optimize natural gas assets associated with gas supply, gas transportation, and storage.
4. Support Fleet Operations and Trading cross-commodity spreads.

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 objectives 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 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 Emission 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 functions of the Coal Fulfillment Function are to:

1. Deliver risk-optimization coal supply to generate resources for the territorial customer.
2. Deliver risk-optimized coal supply to support sales of Generation Energy Marketing.
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 for this RMP are:

- Futures.
- Forwards.
- Options.
- Swaps.

APPENDIX D AUTHORIZATIONS

Name	Authority
Southern Company Energy Risk Management Board	1) Approve SCGEM Risk Management Policy. 2) Approve overall risk limits. 3) Approve commodities.
SCGEM RCOC	1) Approve risk management procedures. 2) Establish daily income notification levels. 3) Approve risk measurement methodologies.
Sr. Vice President, Comptroller and Chief Financial Officer of SCS	1) Open and close broker accounts for exchange-traded commodities. 2) Specify the appropriate accounting treatment of Transactions.
Manager, Risk Control	1) Maintain the list of authorized individuals with each counterparty. 2) Resolve credit issues with counterparties.

APPENDIX D
AUTHORIZATIONS (continued)
Energy Marketing

Name	Authority
Sr.Vice President, SCS	1) Approve fleet operations and trading business objectives. 2) Allocate the overall risk limit among the SCGEM business objectives. 3) Approve instruments for EM. 4) Approve any exceptions to transaction limits.
SCGEM Management Team	1) Approve structured transactions, new products, and unusual transactions.
Vice President, Fleet Operations and Trading	1) Set risk exposure sublimits for SCGEM 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.
Manager, Energy Trading	1) Manage portfolio risk on a daily basis within risk exposure limits.
Term Traders	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	1) Execute transactions for primary business objectives up to a term limit of 1 week. 2) Execute arbitrage transactions under secondary activities and opportunities.
• 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

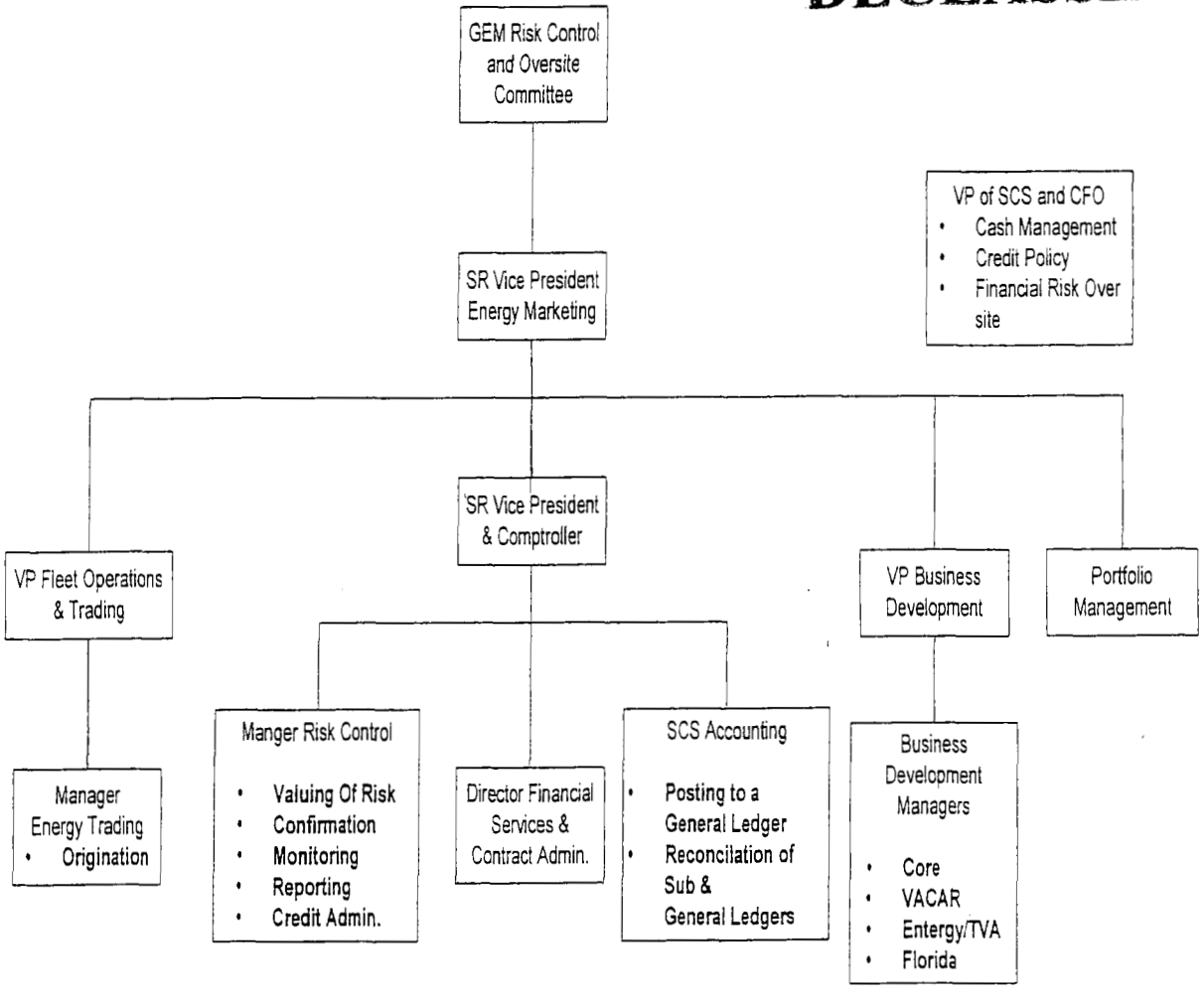
Name	Authority
Vice President, Fuel Services	1) Approve Fuel Services business objectives. 2) Allocate the overall risk limit among the Fuel Services business objectives. 3) Approve instruments for Fuel Services. 4) Approve any exceptions to transaction limits. 5) Establish guidelines for off-premises transactions.
General Manager, Procurement and Planning	1) Set risk exposure sublimits for Fuel Services secondary activities. 2) Identify authorized individuals that can execute Financial and physical gas transactions with terms greater than a year.
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. 3) 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. 2) Execute transactions for Fuel Services secondary activities.
Natural Gas Schedulers	1) Procure transportation for transactions executed by Natural Gas Buyers.
Natural Gas Project Personnel	1) 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.

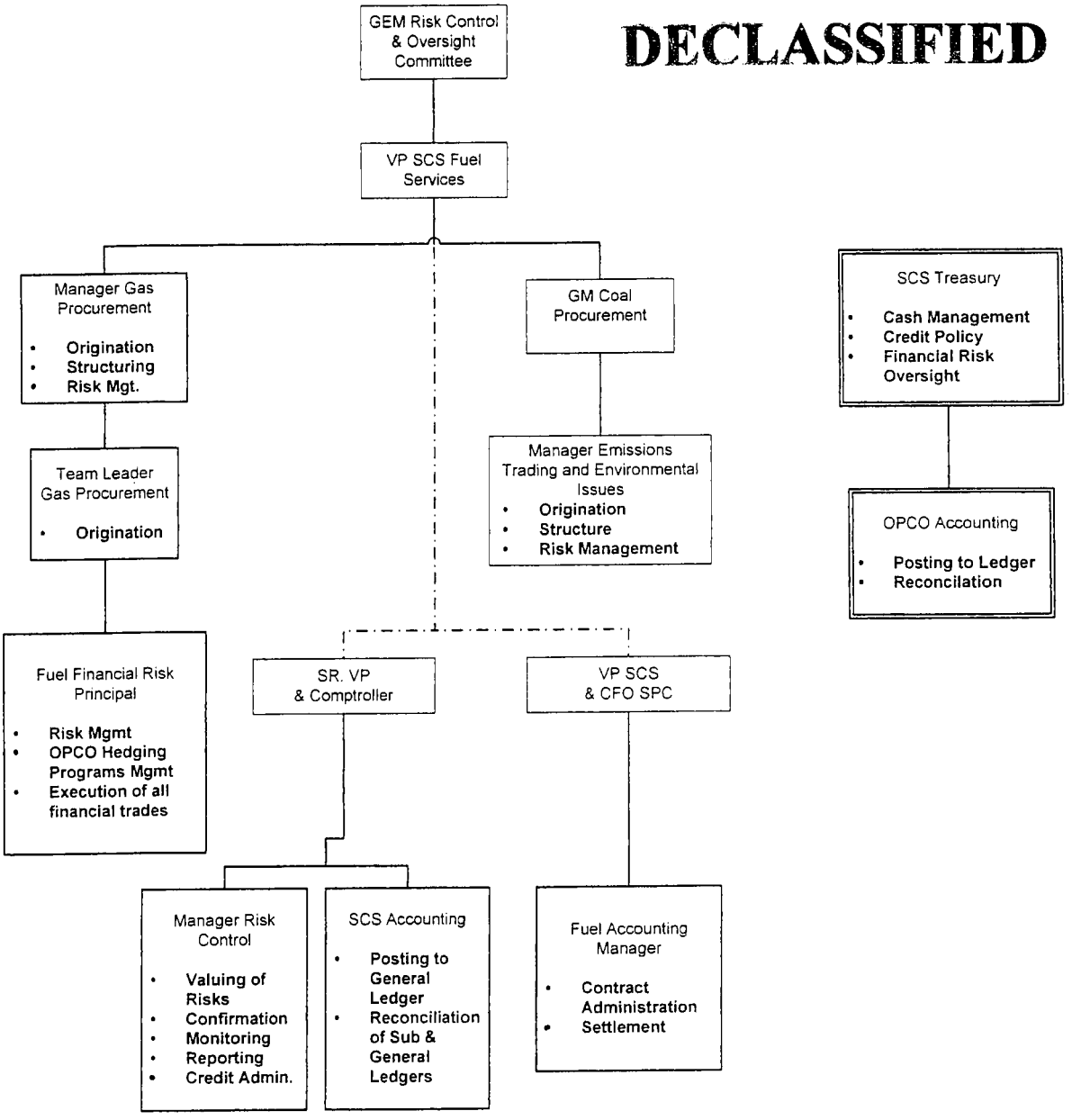
Southern Generation & Energy Marketing



APPENDIX E SEGREGATION OF DUTIES (continued)

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.

SCS
Fuel Services



APPENDIX F
MARKET RISK MEASUREMENT

Approved Commodities	Agreed Measurement Units	Conversion Factor (into MWh)	Value at Risk Method
Electrical Power	MWh	1.000	Parametric VaR / Delta Normal VAR
Natural Gas (1)	MBtu	0.100	Parametric VaR
Coal (2)	Tons	2.000	To be Determined

Notes:

(1) 10,000 Btu/kWh average heat rate assumed for all fuel commodities.

(2) 10,000 Btu/lb quality coal (short ton).

(3) SO2 Allowance – one ton of Sulfur dioxide per year; NOx Allowance = one tone of Nitrous Oxide per season; GHC/CO2 one ton of Carbon Dioxide per year.

Parametric VaR Method

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	2.33
Term > 1 Year	10 Days	2.33
Natural Gas		
Term <= 1 Year	5 Days	1.65

Term > 1 Year	10 Days	1.65

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

Approved Commodities	Daily MTM Amount	Notify
Secondary Objectives	Aggregate 2-Day Greater $2,000,000	• SR. Vice President, EM • Vice President, Fuel Services • Chairman of ERM Board • Chairman of SCGEM RCOC • Executive VP SCGEM • President SCGEM • Chairman of Southern Company
Secondary Objectives	Rolling 30-Day $7,500,000	• SR. Vice President, EM • Vice President, Fuel Services • Chairman of Southern ROC • Chairman of SCGEM RCOC • President & COO Southern Company • Chairman of Southern Company

Daily MTM Amount is based on the daily change from market prices.

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

Southern Company Generation & Energy Marketing
Risk Control and Oversight Committee

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

Energy Marketing
Management Team

Name	Title
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Norrie McKenzie	Vice President, Business Development
Mike Bush	Director, Portfolio Mgmt.
David Debardelaben	Director, Financial & Controls Svc

Bill Marshall	Vice President, Fleet Operations and Trading

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Management Team

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Risk Book	The official record in which all transaction risks related to changes in market prices is maintained for valuing, monitoring, managing, and reporting said risk.
RMP	Risk Management Policy
SCS	Southern Company Services, Inc.
EM	Energy Marketing
Swaps	An agreement to exchange net future cash flows.

Speculative Positions	Transactions entered into with the intent to profit solely from the rise or fall in price where the transaction lacks any element of shifting or managing risk. Transactions entered with the purpose of price discovery or market positions are excluded from this definition.
Stair Step	The approved methodology for measuring risk in the electricity portfolio in which the high and low prices for electricity are fixed.
Structured Transaction	Any negotiated transaction not readily traded in the market and the price of which is not easily validated.
Transactions	Futures, forwards, options, swaps, or other instruments conducted over-the-counter or via organized exchanges including long- and short-term agreements involving approved commodities or financial instruments.
Value at Risk (VAR)	The expected loss that will be incurred on the portfolio with a given level of confidence over a specified holding period, based on the distribution of price changes over a given historical observation period. (This is not an estimate of worst possible loss.)
Vega	The sensitivity of the option price to changes in the price volatility of the underlying commodity.

Risk Management for Fuel and Wholesale Energy