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January 14, 2008

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

Dear Ms. Cole:

RE: Docket No. 080001-EI

Enclosed are an original and seven copies of Gulf Power Company's Request for Extended Confidential Classification (2006 Fuel Procurement Risk Management Plan).

Sincerely,

Susan D. Ritenour
bah

CMP _____

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Enclosures

GCL 2 _____

OPC _____

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

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FPSC-COMMISSION CLERK

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BEFORE THE PUBLIC SERVICE COMMISSION

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

Docket No.: 080001-EI
Date filed: January 14, 2008

_____)

REQUEST FOR EXTENDED CONFIDENTIAL CLASSIFICATION

GULF POWER COMPANY [“Gulf Power”, “Gulf”, or the “Company”], by and through its undersigned attorney and pursuant to Rule 25-22.006, Florida Administrative Code, hereby files its request that the Florida Public Service Commission (the “Commission”) enter an order granting extended confidential classification for certain portions of Gulf Power’s Risk Management Plan for Fuel Procurement dated April 3, 2006 (the “confidential documents”). As grounds for this request, the Company states:

1. On March 31, 2006, Gulf filed its initial Request for Confidential Classification of certain portions of Gulf Power’s Risk Management Plan for Fuel Procurement.
2. On July 28, 2006, the Commission entered an order granting Gulf Power’s request. PSC-06-0636-CFO-EI.
3. As provided in section 366.093(4), Florida Statutes, and by the Commission’s Order, the confidential documents will be made public after a period of 18 months unless Gulf or another affected party shows, and the Commission finds, that the confidential documents continue to contain proprietary confidential business information.
4. Gulf hereby requests that the Commission enter an order extending the confidential classification of the confidential documents for an additional 18-month period.

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5. The confidential documents are entitled to continued confidential classification for the same reasons they were initially classified. As stated in Gulf's initial Request, the confidential documents are entitled to confidential classification pursuant to section 366.093(3)(a), (d) and (e), Florida Statutes, as information, the public disclosure of which could cause irreparable harm to the competitive interests of Gulf Power and the ability of Gulf to enter into contracts on terms favorable to it and its ratepayers. The Risk Management Plan for Fuel Procurement contains, in a single resource, detailed information about Gulf's fuel procurement strategy for the near term and into the future. Gulf Power and the other market participants for fuel, fuel transportation and fuel storage consider this detailed information to be trade secrets and competitively sensitive. The document discusses how Gulf manages its fuel procurement with specific details regarding Gulf's fuel needs, market position, and trends it sees in those markets in which it addresses its fuel needs. In addition, the fuel procurement strategy utilized by Gulf is discussed in detail. Pricing information is also included in this document. Similar information is not made public by other fuel market participants. Making this information public would give these other market participants a competitive advantage over Gulf which would prevent Gulf from procuring its fuel needs in a manner that secures the best price and terms for its customers.

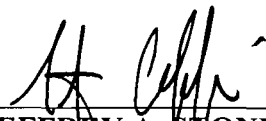
6. The information filed pursuant to this Request is intended to be, and is treated as, confidential by Gulf Power and has not been otherwise publicly disclosed.

7. Submitted as Exhibit "A" is a highlighted copy of Gulf Power's Risk Management Plan for Fuel Procurement. Exhibit "A" should be treated as confidential pending a ruling on this request. Attached as Exhibit "B" are two (2) edited copies of Gulf Power's Risk Management Plan for Fuel Procurement, which may be made available for public review and

inspection. Attached as Exhibit "C" to this request is a line-by-line/field-by-field justification for the request for confidential classification.

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

Respectfully submitted this 14th day of January, 2008.



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Attorneys for Gulf Power

BEFORE THE PUBLIC SERVICE COMMISSION

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

Docket No.: 080001-EI
Date filed: January 14, 2008

REQUEST FOR CONFIDENTIAL CLASSIFICATION

Exhibit "A"

Provided to the Commission Clerk

Under separate cover as confidential information

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Exhibit "B"

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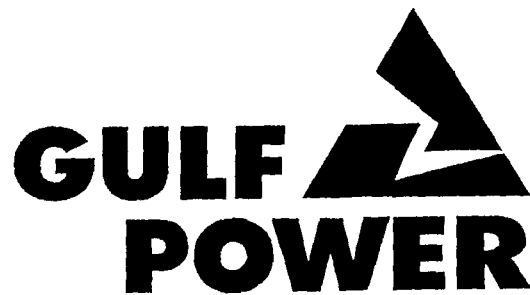
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FPSC - COMMISSION CLERK

CONFIDENTIAL

GULF POWER COMPANY

Risk Management Plan
For
Fuel Procurement
Docket No. 060001-EI

Date of Filing: April 3, 2006



A SOUTHERN COMPANY

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GULF POWER COMPANY LONG-TERM COAL PROCUREMENT STRATEGY AND TACTICAL PLAN MARCH 2006

Introduction

Gulf Power Company (Gulf) reliably serves over 400,000 customers. In year 2004, Gulf generated over 16 billion KWH's with over \$367 million in fuel expense. Coal represented over 84% of Gulf's generation sources. Gulf Power Company operates three coal-fired plants (Crist, Smith, and Scholz) with a combined normal full load capacity of 1,455 Mw and projected annual coal consumption of 4.5 million tons. Gulf co-owns two coal fired plants; Daniel which is operated by Mississippi Power Company and Scherer which is operated by Georgia Power Company. The combined normal full load capacity of Gulf's ownership of Daniel and Scherer is 756 Mw with a projected annual coal consumption of over 2 million tons. The procurement of this coal is critical to the success of Gulf Power Company.

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

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

Fuel Program Overview

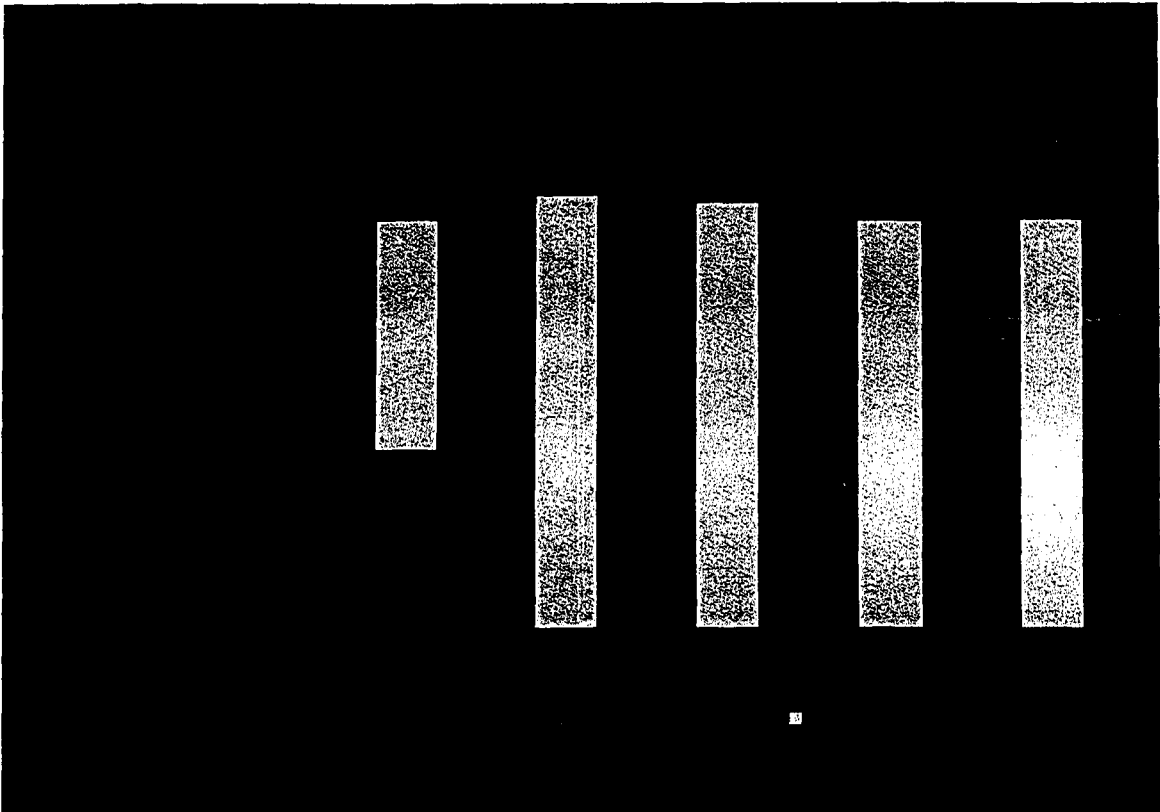
Plants Crist and Smith are barge served plants and currently have one long-term coal contract with Peabody COALSALES Company totaling 1.9 million tons of base coal and 600,000 tons of Right-To-Supply (RTS) coal. Due to the fact that they share a common transportation mode as well as common coal sourcing, these plants will be grouped together in formulating a procurement strategy. [REDACTED]

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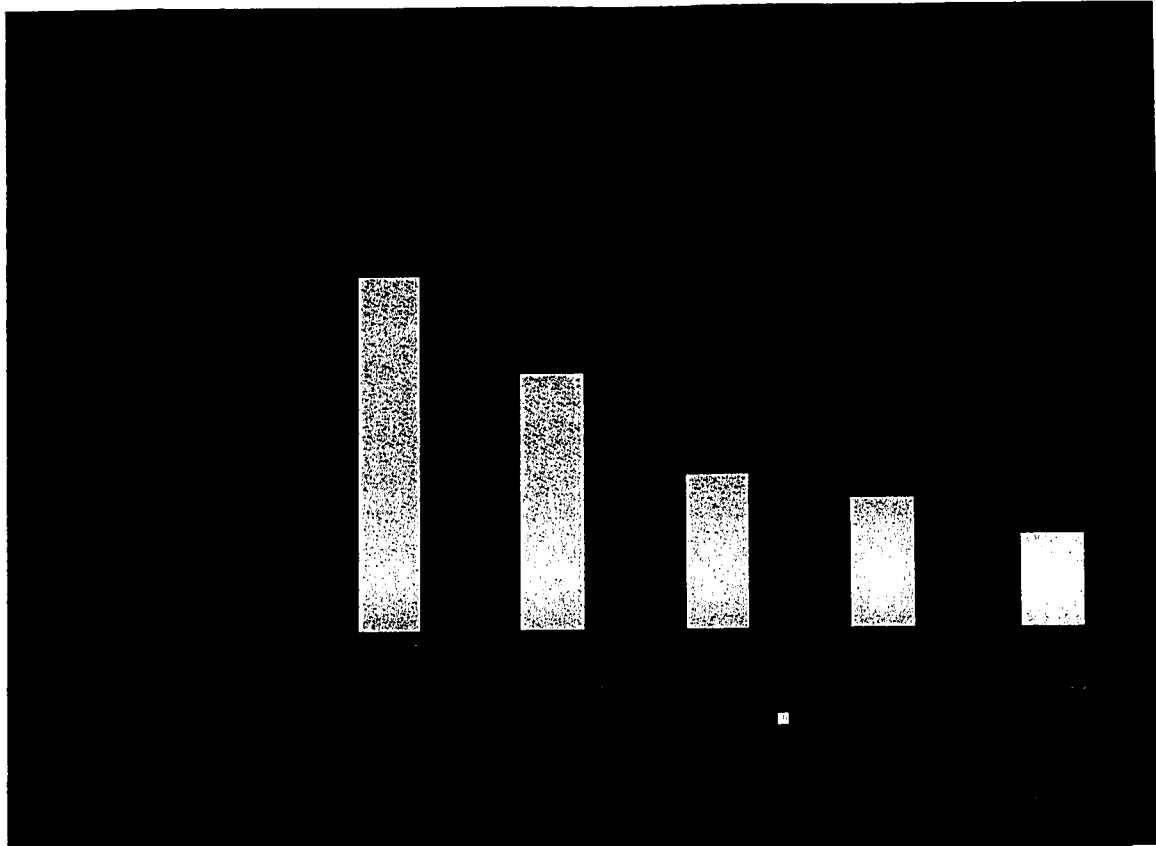
In the following charts, the projected requirements are from the April 2006 DEPS update. The chart below illustrates the projected burn and commitments of coal for Crist and Smith through 2011:



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Plant Scholz is rail served and has a spot coal agreement with International Coal Group (ICG). This agreement has a maximum cap of 250,000 tons and expires at the end of 2006. There is no remaining need in 2006. There are no committed tons at Scholz for 2007 and beyond.

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

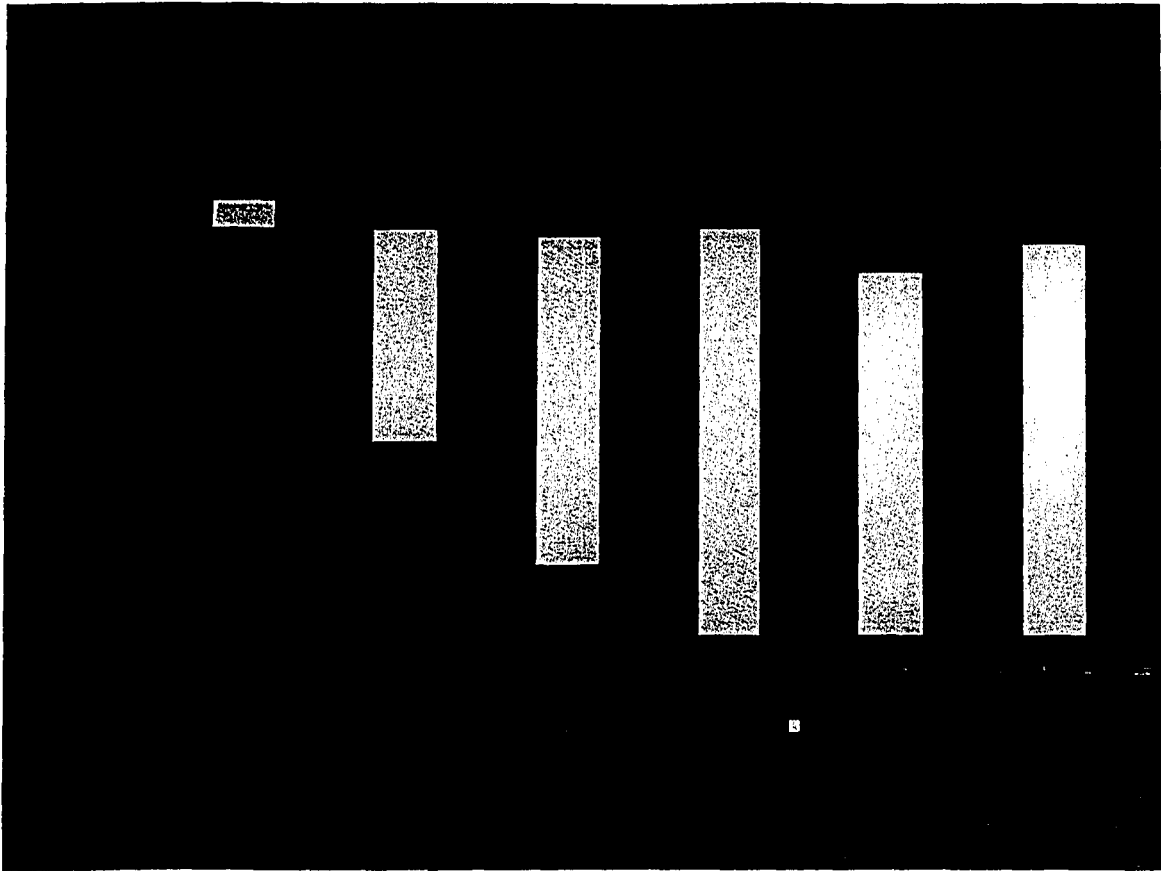


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Gulf Power owns 50% of units 1 and 2 at Plant Daniel.



The following chart illustrates the projected burn and commitments of coal for Daniel through 2011:

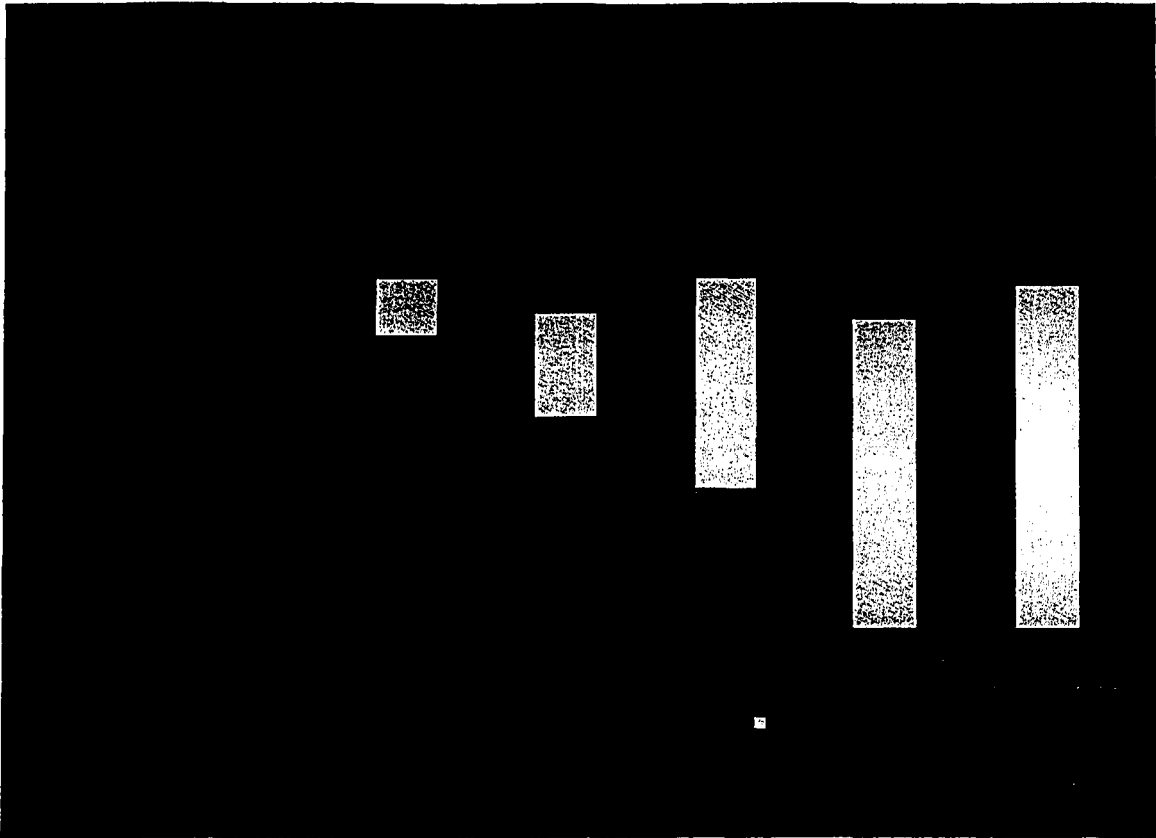


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Gulf owns 25% of Unit 3 at Plant Scherer. Plant Scherer procurement is somewhat isolated from the other NS plants in Georgia because 1) the plant is classified as an NSPS plant requiring the use of 1.2 lbs SO₂ or less, and 2) effective January 2004, all 4 units began utilizing Powder River Basin (PRB) sub-bituminous coal from Wyoming.



The following chart illustrates the projected burn and commitments of coal for Scherer through 2011 and includes Gulf's ownership in Unit 3 only:



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Procurement Strategy

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

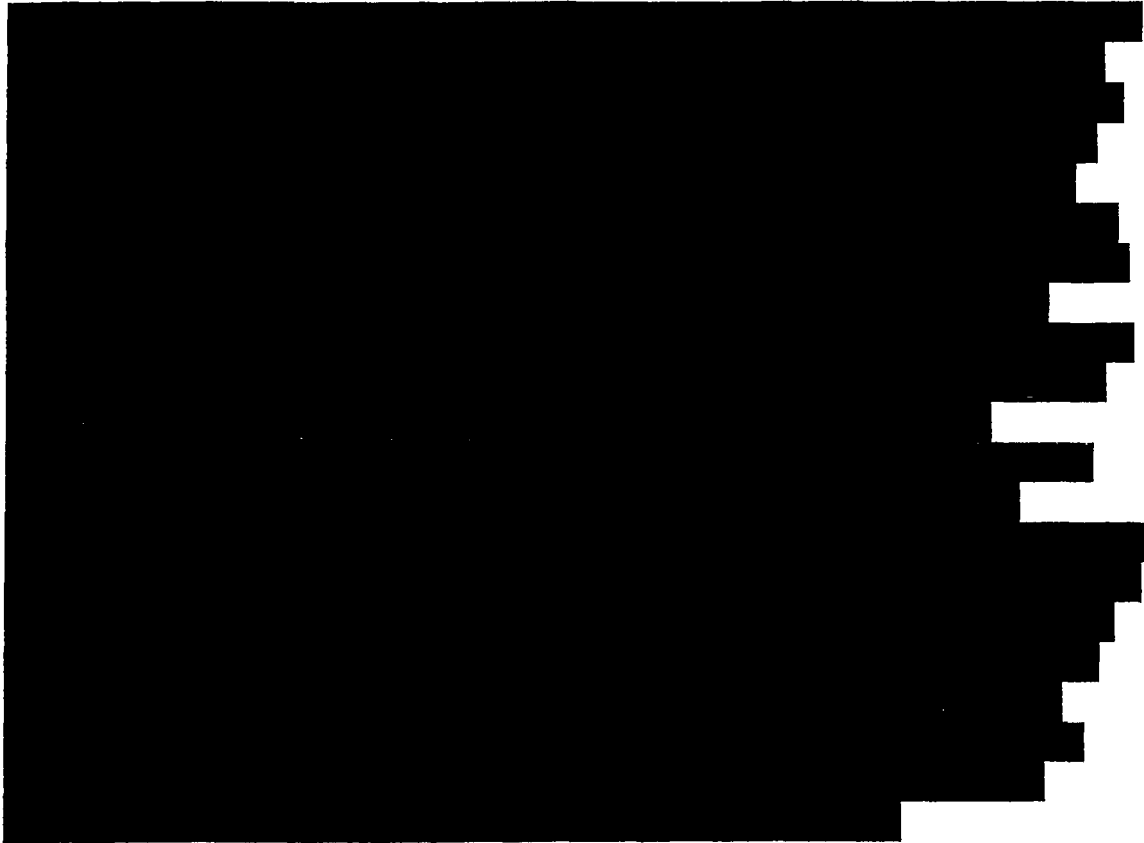
The following will address the risks associated with each of these areas and identify strategies to mitigate them. Also included in this section is a discussion of a strategic plan that incorporates several of these mitigation techniques.

Risks and Risk Mitigation Strategies

Volume Risk and Strategy

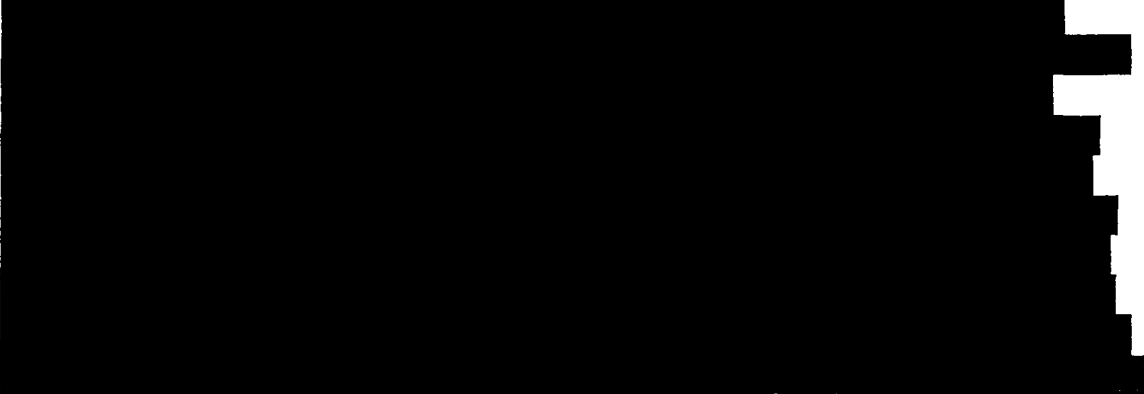
Uncertainty in the amount of coal generation and therefore coal supply that will be needed in the future is one of the most critical risks that must be addressed in developing a strategy for long-term coal procurement. Uncertainty in coal burn requirements due to weather has always been a challenge; however, the increasing uncertainty of the predictable load base

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



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29 **Pricing Risk and Strategy**

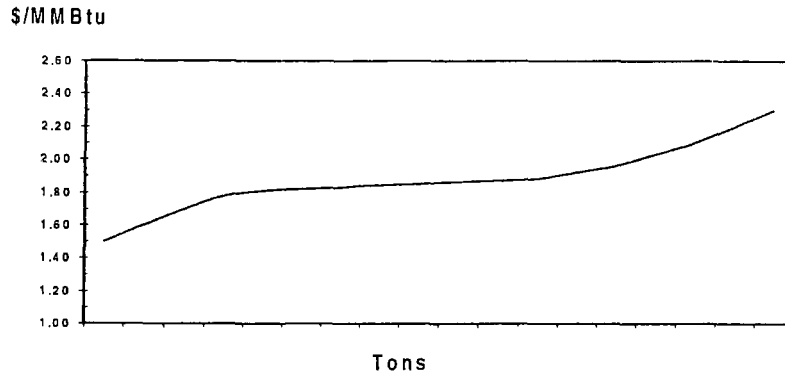
30 Competing for energy market share with other utilities and power
31 marketers requires competitive energy pricing. With over 50% of the
32 electricity cost for coal-fired generation being fuel, competitively priced coal
33 supplies must be maintained.



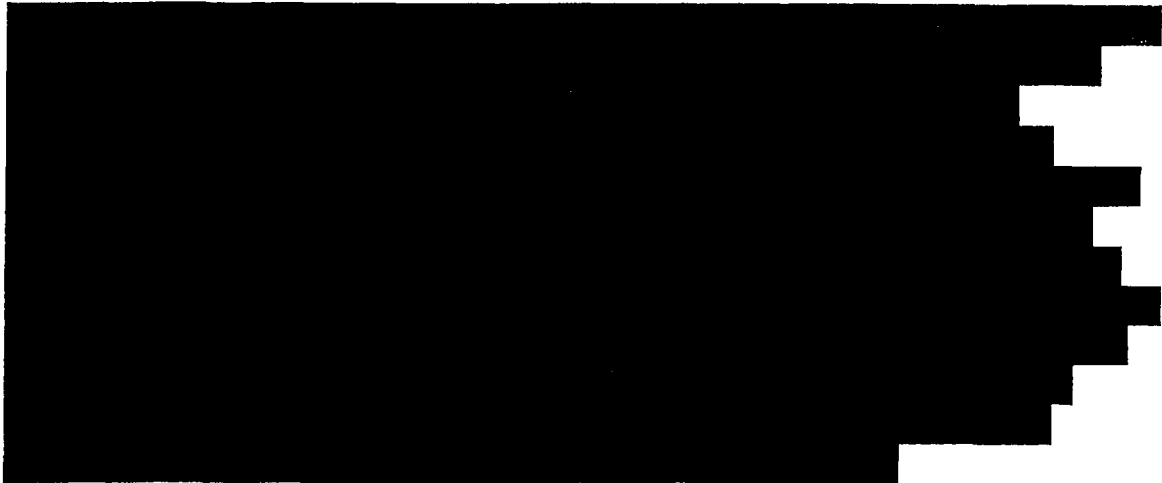
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Fuel Price Curve

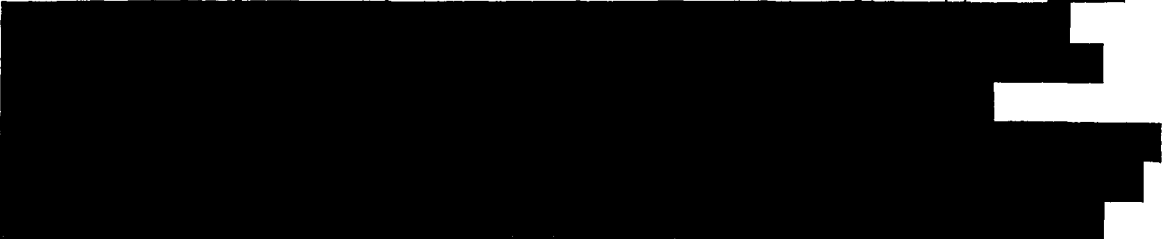


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Diversity of Supply Risk and Strategy

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.



1 [REDACTED]
2 [REDACTED]

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5 [REDACTED]
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7 [REDACTED]
8 [REDACTED]

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10 **Reliability Risk and Strategy**

11 Reliability of coal supply has been a major issue since late 2000 and early
12 2001. Prior to that time, coal supply had not been an issue for almost
13 twenty years. The events occurring today pertaining to reliability of supply
14 was last seen surrounding the events of the oil embargo of the 1970's. At
15 that point, contracts were not being honored in much the same respect as
16 today. During the past 10 years, the financial health of the coal industry
17 has deteriorated such that many companies have either entered
18 bankruptcy proceedings or has been sold, resulting in consolidation of the
19 industry. In the current world of supply and demand imbalance, reliability of
20 supply has once again surfaced and poses a risk that needs to be
21 mitigated now and into the future. [REDACTED]

22 [REDACTED]
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1 **Environmental Risk and Strategy**

2 When procuring coal for a term greater than 12 months, a major risk factor
3 is the potential impact from future changes in environmental laws and
4 regulations that may preclude or severely restrict the burning of coal to
5 render its use non-economic to our system. With the current ongoing
6 discussions of new multi-pollutant legislation, as well as new
7 Environmental Protection Agency Clean Air Interstate Rule and Clean Air
8 Mercury Rule rules, it should lead us to be guarded in any future coal
9 supply commitments which do not allow the company to clearly terminate
10 or otherwise escape from these agreements.

11 [REDACTED]
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31 **Strategic Plan**

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33 When procuring coal for Gulf Power Company, Plants Crist and Smith will
34 be grouped together because of their common supply source and
35 transportation mode. Diversity of supply and flexibility will be important
36 aspects of their fuel supply strategy. On the other hand, Plant Scholz can
37 burn similar quality coals but their transportation mode differs as they are
38 rail served. The co-owned plants, Daniel and Scherer, will be treated
39 individually. We will consider the similarities and differences in these plants
40 as we establish a long-term coal procurement strategy. Also, as discussed
41 earlier, the strategic plan should be determined based on the type of plant
42 being considered, i.e. base-load, intermediate, or peaking. The plants for
43 Gulf Power Company are as follows:

1 Plant Crist - Plant Crist is barge served by Ingram Barge Company.
2 Historically and on average, Crist has burned approximately 2.5 million
3 tons of coal a year and must comply with a state SO₂ emission limit of 2.4
4 lbs/mmBtu. However, Gulf Power Company seeks to maintain an SO₂
5 emission limit of 1.7 lbs/mmBtu to meet the local ambient air quality.

6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]

12
13 Plant Smith – Plant Smith is also barge served by Ingram Barge Company.
14 Historically and on average, Smith has burned approximately 1,000,000
15 tons of coal a year. Smith must comply with the state SO₂ emission limit of
16 2.1 lbs/mmBtu.

17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]

21
22 Plant Scholz – Plant Scholz is rail served by the CSX Railroad. Historically
23 and on average, Scholz has burned approximately 150,000 tons of coal a
24 year and must comply with a state SO₂ emission limit of 6.17 lbs/mmBtu.

25 [REDACTED]
26 [REDACTED]
27 [REDACTED]
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30 Plant Daniel - Plant Daniel is served by the Mississippi Export Railroad
31 (MSE). The MSE is a shortline railroad that is approximately 40 miles in
32 length and runs between Moss Point and Evanston, Mississippi. The MSE
33 is served by two large Class 1 railroads: the Canadian National Railroad
34 connecting at Evanston and the CSX Railroad connecting at Moss Point.
35 Daniel burns approximately 2.8 million tons of coal a year. Classified as an
36 NSPS plant, Daniel must utilize “compliance” coal with a maximum of 1.2
37 lbs SO₂/MMBtu (0.6 lbs Sulfur/MMBtu).

38 [REDACTED]
39 [REDACTED]
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[Redacted]

Plant Scherer – Classified as a NSPS plant, Scherer must utilize “compliance” coal with a maximum of 1.2 lbs SO₂/MMBtu (0.6 lbs Sulfur/MMBtu). Utilizing Powder River Basin coal, this plant is considered on a stand-alone basis. Although served by the NS railroad, it is not typically considered in conjunction with purchases for the other NS served plants in Georgia because of this quality restriction. The originating rail carrier at Scherer is the BNSF Railroad.

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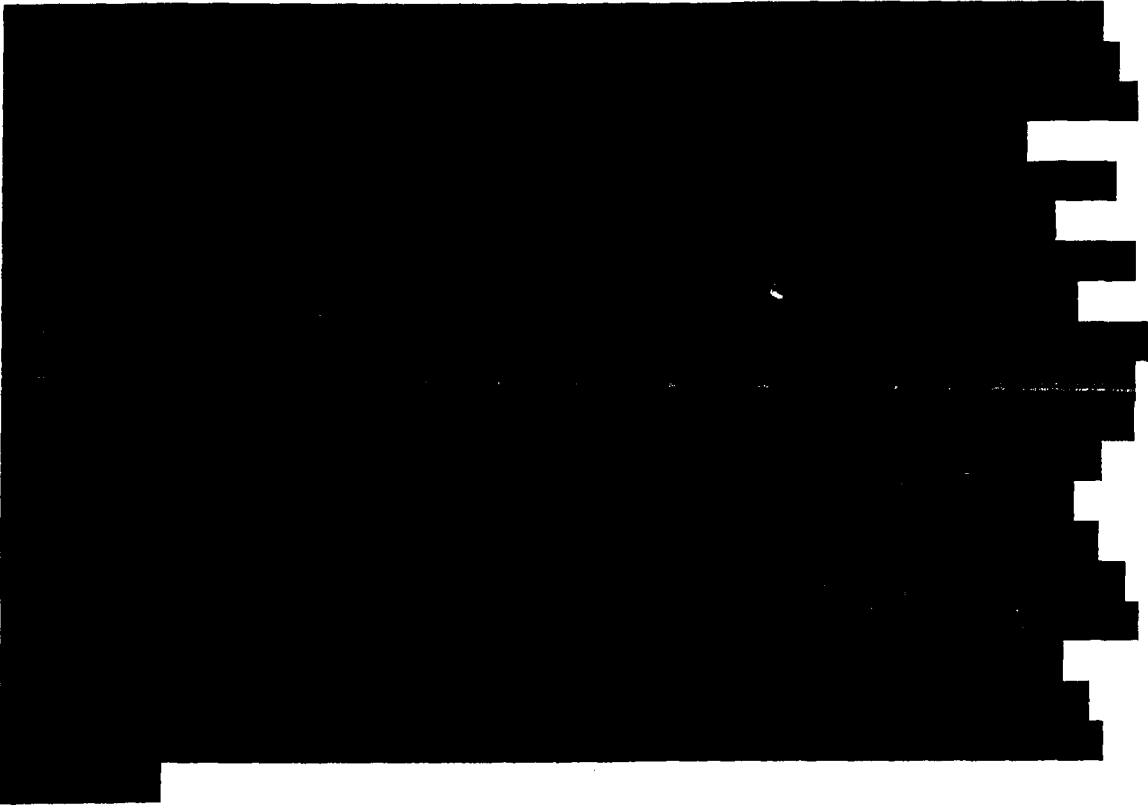
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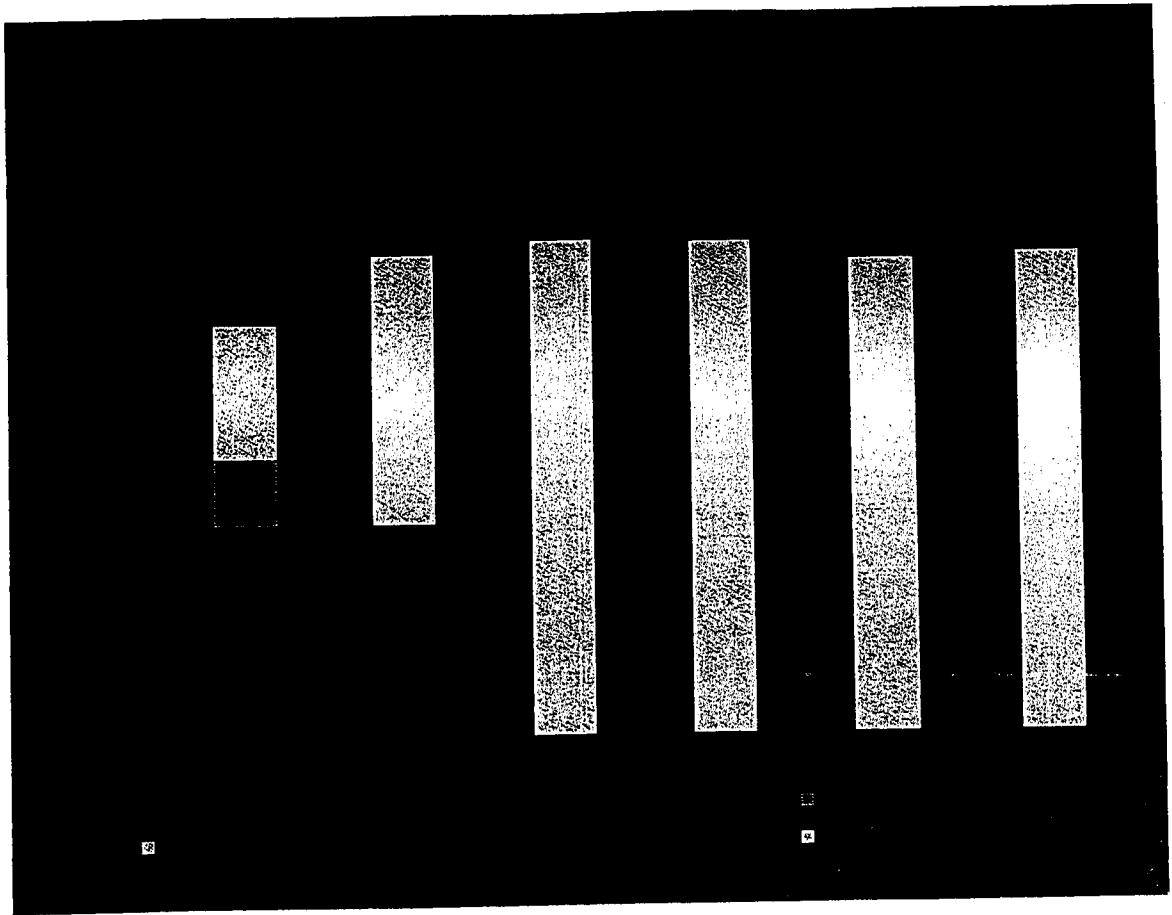


30 **Tactical Plan**

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32 Currently, Units 6 & 7 at Crist are projected to be scrubbed in 2009,
33 therefore, a scrubber strategy for these plants will be discussed in the
34 scope of this section.

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36 **Plants Crist and Smith**

37 The chart below shows a breakdown of the current Crist and Smith
38 suppliers and volume commitments, including options, through 2011:



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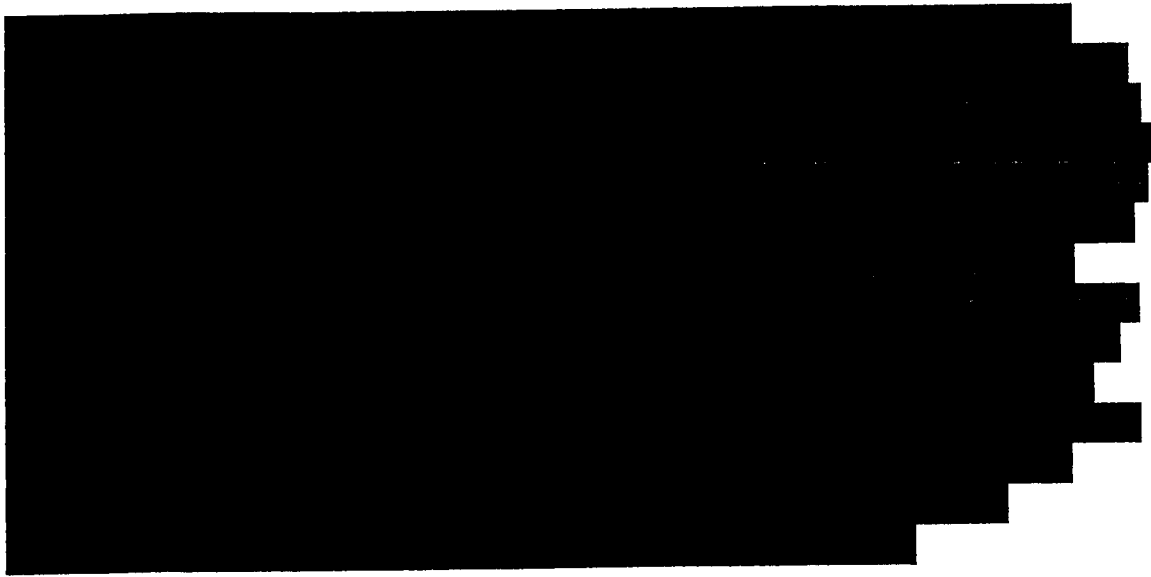
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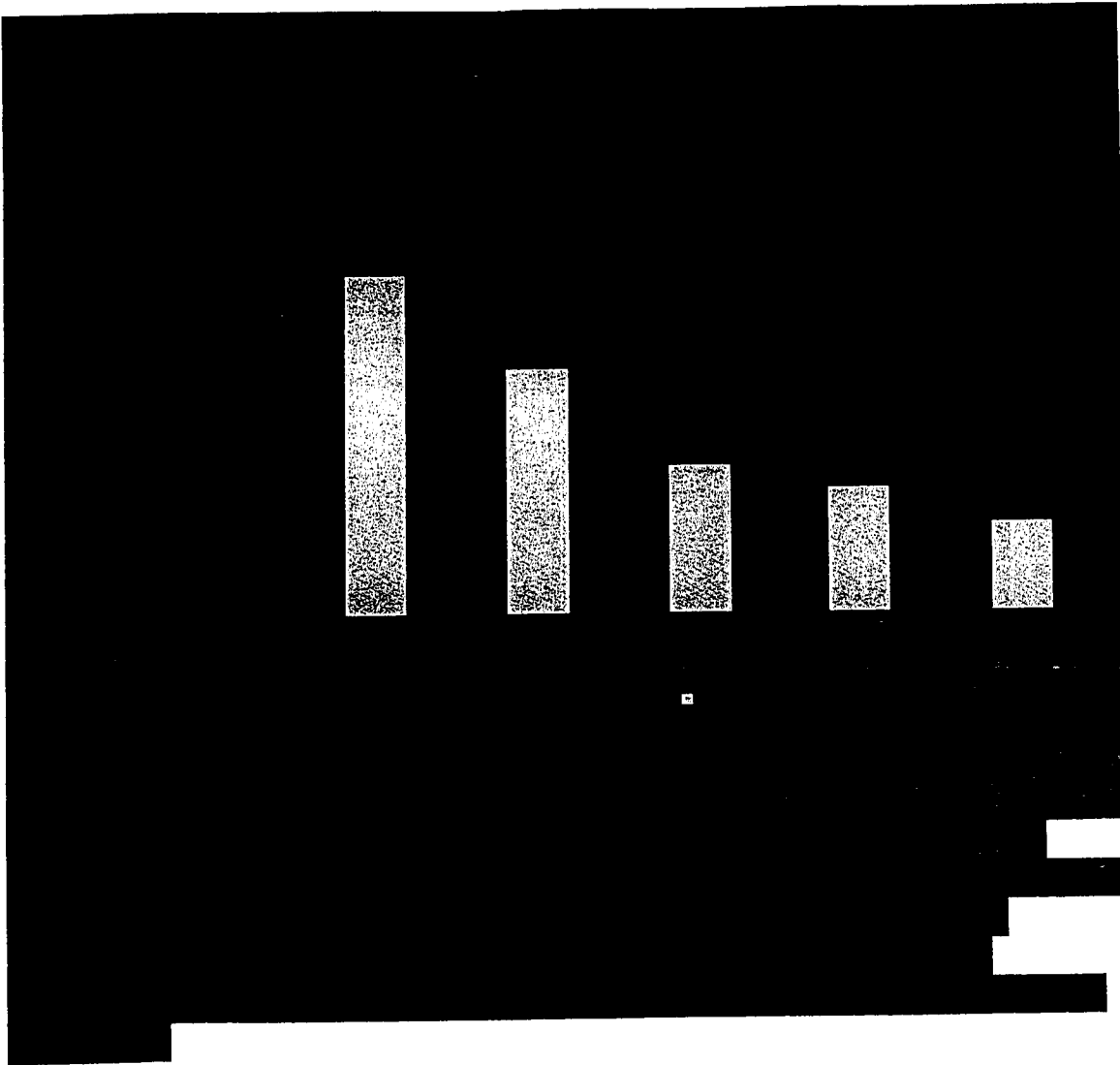
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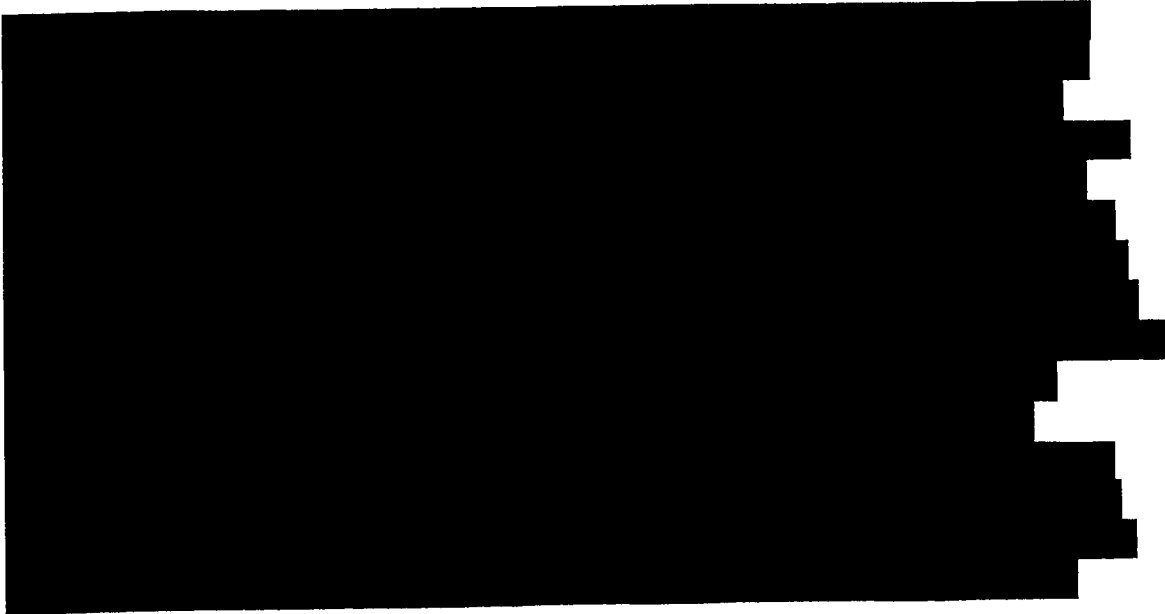


Plant Scholz

The chart below shows a breakdown of the current Scholz supplier and volume commitment, including options, through 2011:



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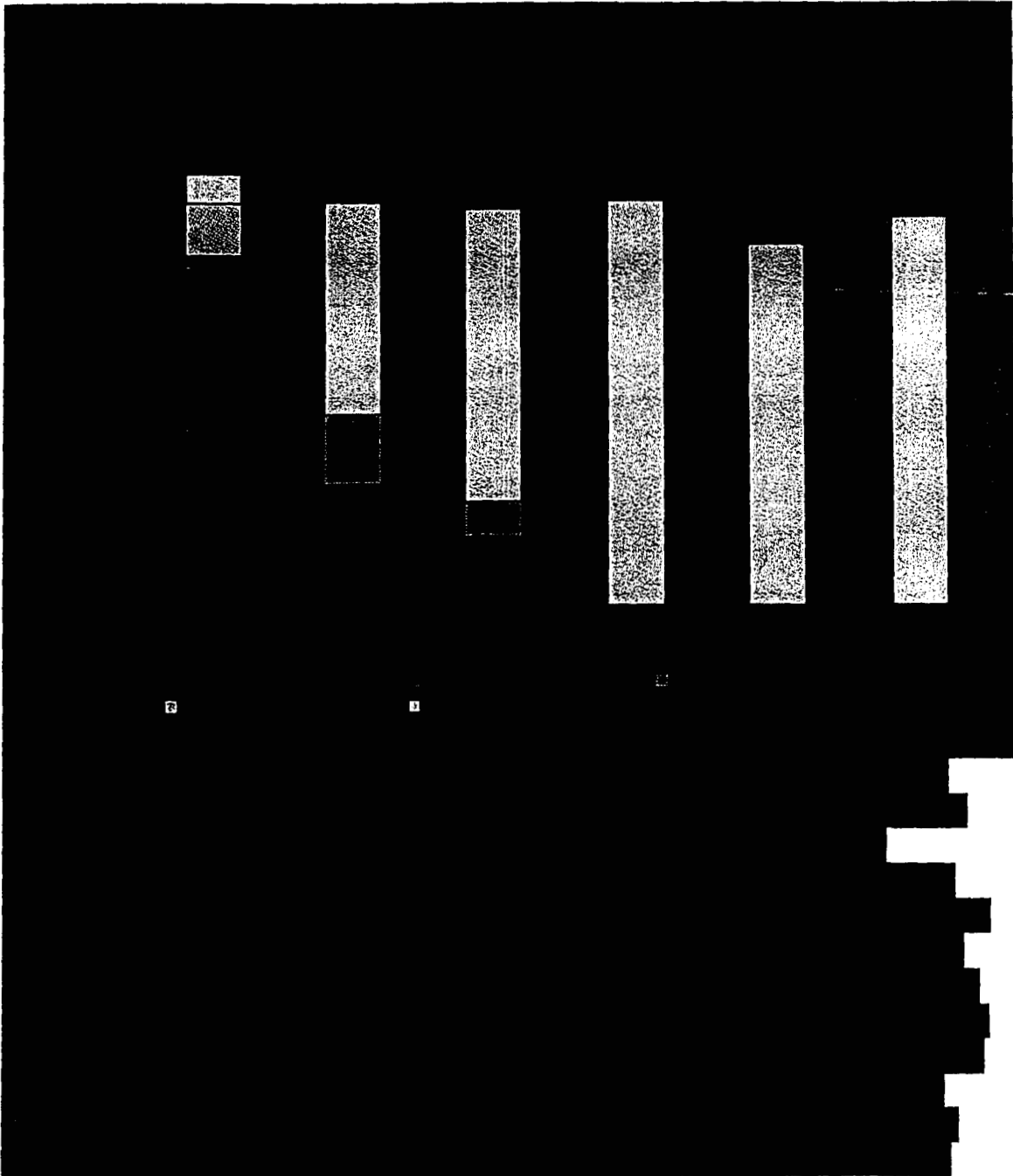


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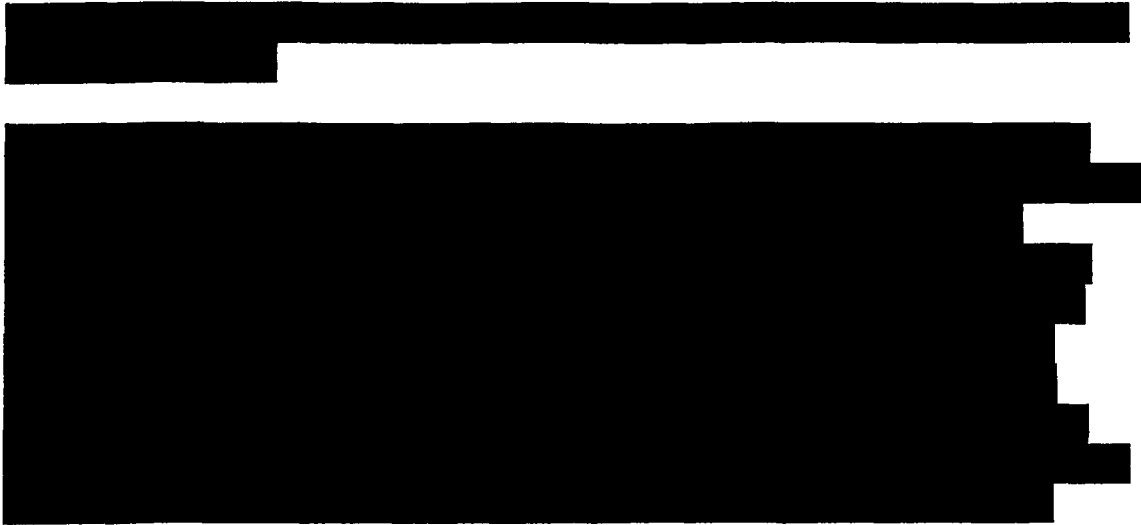
Plant Daniel

The chart below shows a breakdown of the current Daniel suppliers and volume commitments, including options, through 2011:



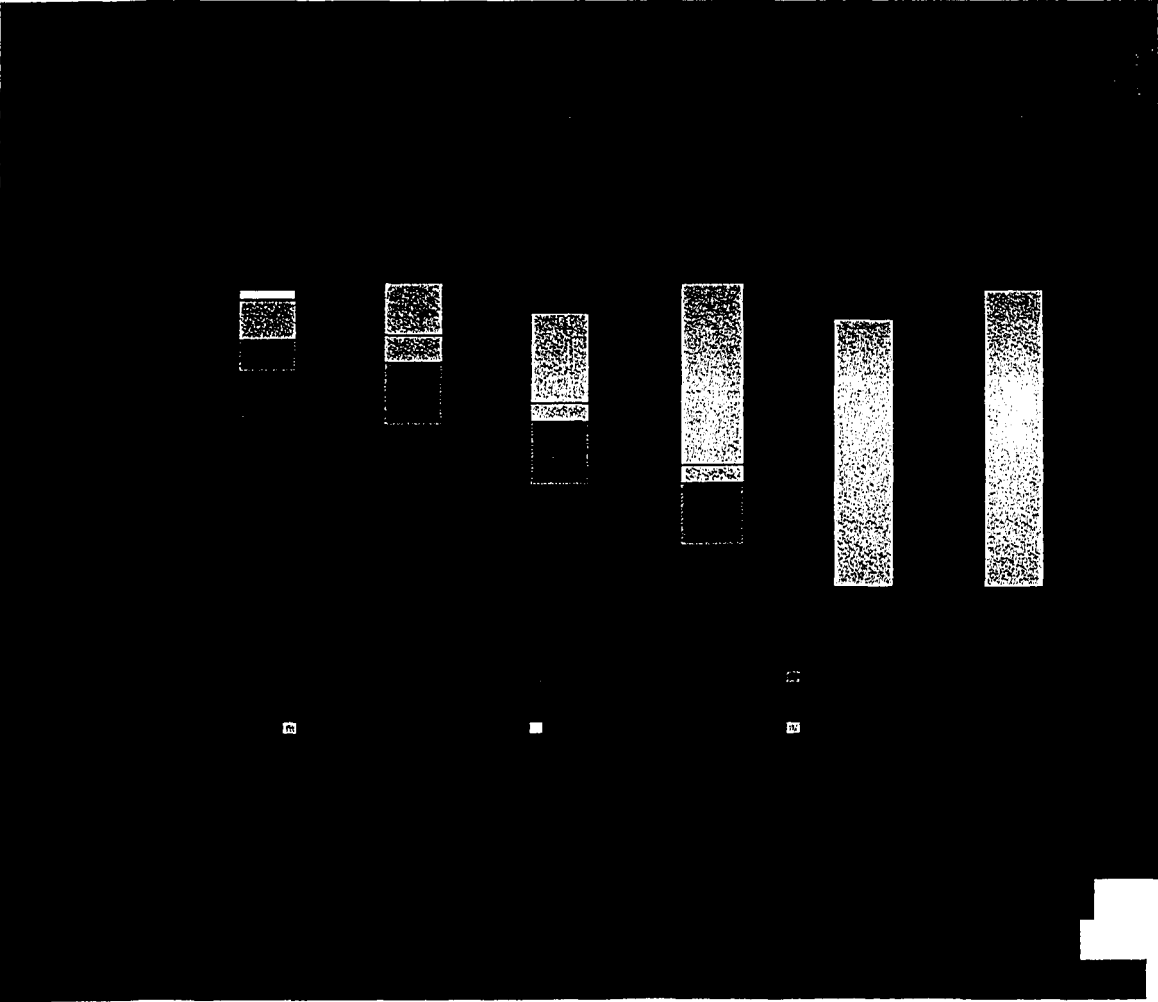
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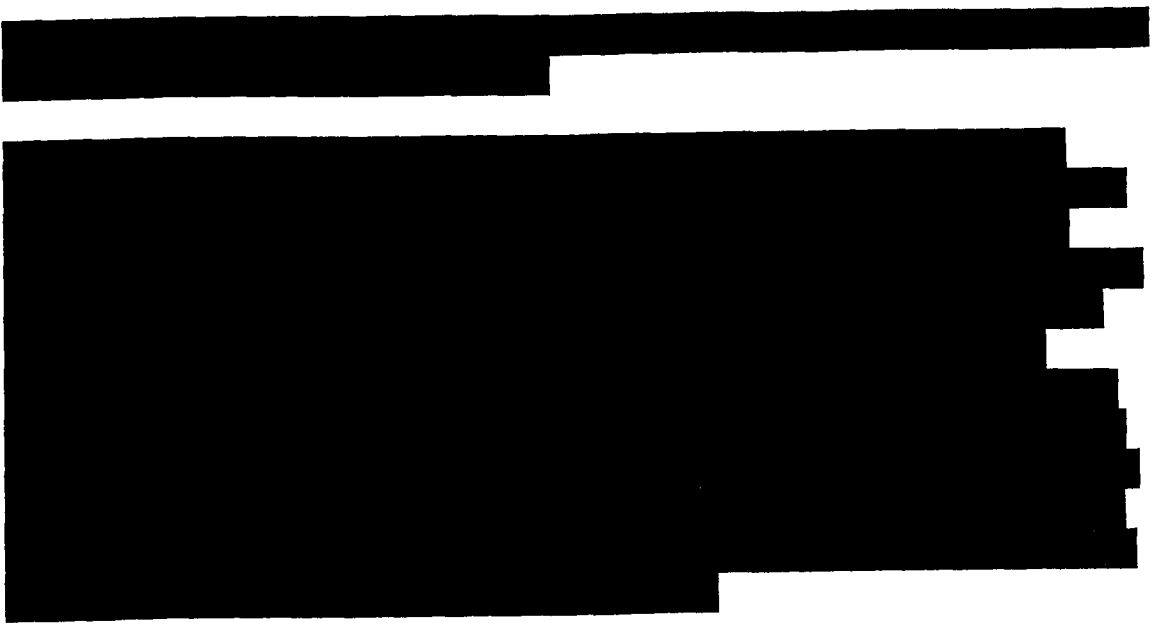
Plant Scherer

The chart below shows a breakdown of the current Scherer suppliers and volume commitments, including options, through 2011:



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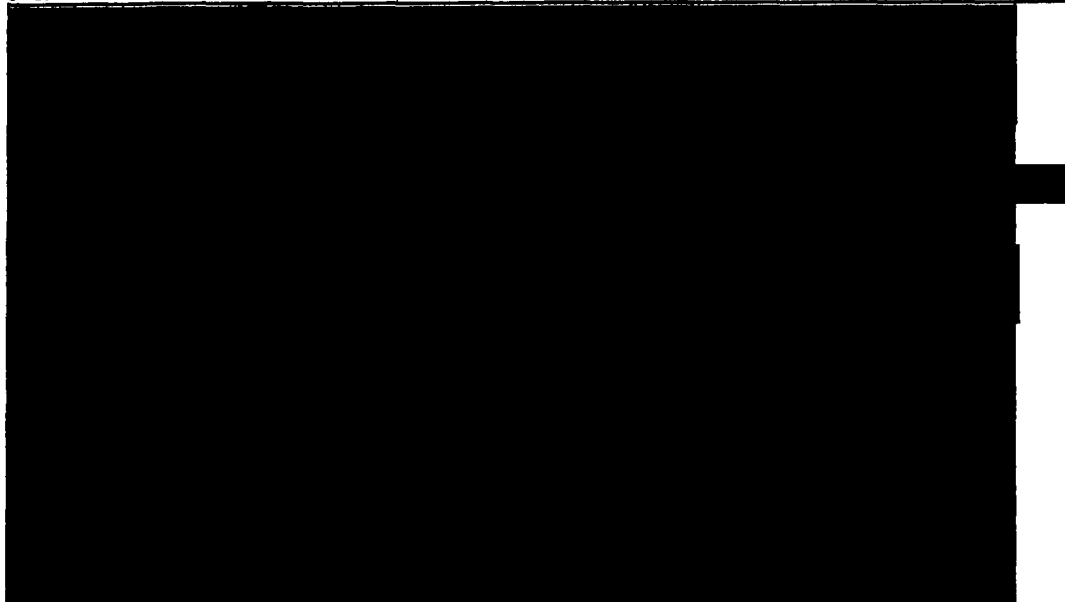
Coal Procurement
Performance from Prior Year

17 For coal purchased under long term or spot contracts during the
18 immediately preceding year (2005), Gulf will provide in the "risk
19 management and GPIF" segment of the second true-up testimony (due
20 April 3, 2006 and the first business day of each April thereafter) a
21 numerical comparison of the price paid for each subcategory of coal to the
22 best market indicator(s) for that coal at the time the utility entered the
23 contract for the coal. Such market indicator(s) may include market indexes,
24 averages, and/or bid prices. Gulf will describe the methodology behind
25 each comparison. Gulf will explain the reason(s) for any significant
26 difference between the price it paid and the market price for such coal. For
27 year 2005, the comparison is listed below:

28 The market indicator used in this analysis is the marginal market pricing for
29 the time period in which these purchases were made as determined by
30 both unsolicited offers of coal supply and coal market published prices.
31 The values below refer to the cost differential, in both \$/mmBtu's and \$/ton,
32 between what Gulf actually paid for these purchases versus the next least
33 cost offer.

34 **Purchase Order \$/mmBtu Differ \$/Ton Differ**

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Note: Parenthesis () denotes above market pricing.

1 FP05005 - was issued to cover the test burn and ultimate delivery of a
2 50/50 Galatia – Twentymile blend under the Peabody long-term
3 contract.
4
5 FP05001 - was issued to cover 2005 spot coal needs. This is a
6 Colombian coal.
7
8 FP05002 – was issued to cover the 2005 right-to-supply agreement
9 under the Peabody long-term contract.
10
11 FP05003 – was issued to cover the requirements of Plant Scholz for
12 2005 and 2006.
13
14 FP05006 - this was a test shipment of one vessel of Russian coal. The
15 test shipment was successful.
16
17 FP05007 – this Colombian spot coal coal was purchased to help cover
18 Crist and Smith’s 2005 uncommitted needs.
19
20 MP200514 – this Colorado spot coal purchase was made to help cover
21 Daniel’s 2005 uncommitted need.
22
23 MP200501 – this purchase was made to cover the 2005 right-to-supply
24 agreement under the Twentymile long-term contract at Daniel.
25
26 MP200502 – was a spot coal purchase made to help cover Daniel’s
27 2005 uncommitted need.
28
29 F05001 – was a spot coal purchase made to help cover Scherer’s 2005
30 uncommitted need.
31
32 F05002 – was a multi-year purchase made to cover Scherer’s
33 uncommitted needs under the long-term agreement with Kennecott
34 Energy.
35
36 F05012 - was a multi-year purchase made to cover Scherer’s
37 uncommitted needs under the long-term agreement with Foundation
38 Coal Company.
39
40 F05013 – was issued to help cover Scherer’s 2005 uncommitted need
41 under the long-term agreement with Powder River Coal Company.

1 F05014 and F05072 – were issued to help cover Scherer’s
2 uncommitted needs for the period 2005 through 2009 and were a part
3 of the long-term agreement with Buckskin Mining Company.

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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.

1 **Transportation Program Overview**

2
3 **Plants Crist and Smith**

4
5 Plants Crist and Smith have the ability to receive both imported and
6 domestic coal by barge. Western coals are transported by the BNSF or the
7 UP railroads to loadouts on the Mississippi River and then barged to the
8 plant. Illinois or Central Appalachian river loadouts can be used to move
9 coal by barge to these plants as well. Coal can also be moved, via
10 interchange with the Alabama State Docks Railroad, by the CN, CSX and
11 NS Railroads to the Port of Mobile for barge movement to the plants.

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13 [REDACTED]
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22 [REDACTED]
23 [REDACTED]

24 [REDACTED]
25 [REDACTED]
26 [REDACTED]
27 [REDACTED]
28 [REDACTED]
29 [REDACTED]
30 [REDACTED]

31
32 **Plant Scholz**

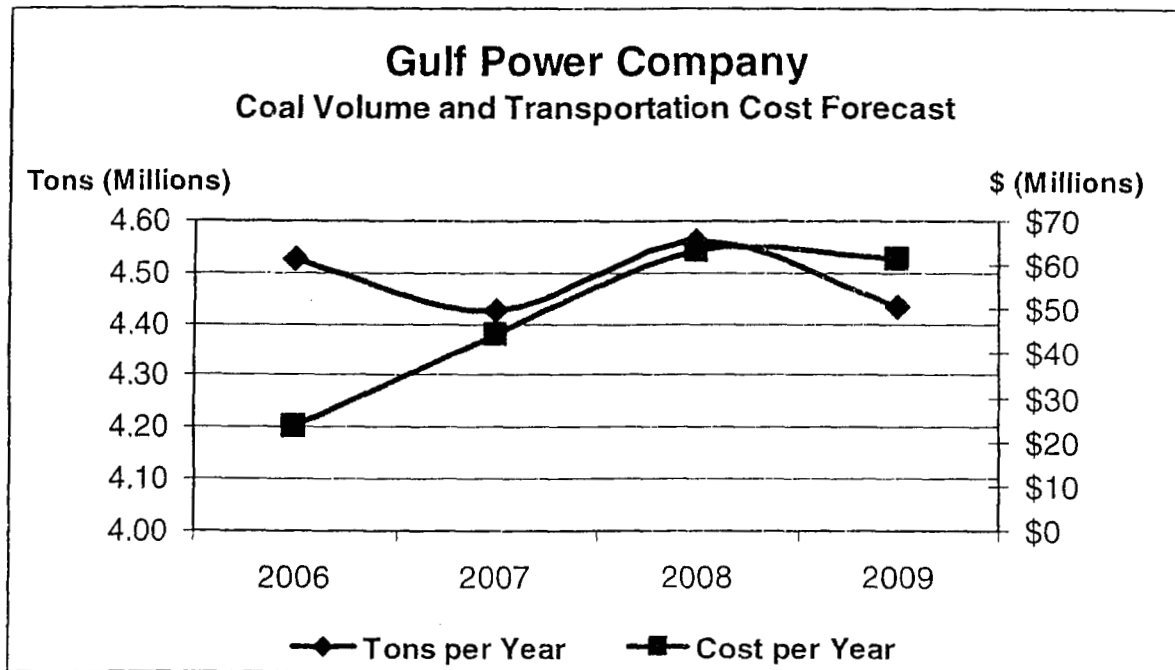
33
34 Plant Scholz is rail served by the CSX railroad. Plant Scholz has the ability
35 to receive both domestic and import coal. Import coal could be brought into
36 the Alabama State Docks and then transloaded into railcars for movement
37 to the Plant.

38 [REDACTED]
39 [REDACTED]
40 [REDACTED]



Budget

Over the next four years, Gulf is budgeted to transport 4.4 to 4.6 million tons of coal per year. The cost to transport Gulf's coal is estimated to increase from \$24 to \$61 million from 2006 to 2009. 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.

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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.



1 **Pricing Risk and Strategy**

2
3 The creation of competition is vital to any transportation strategy with the
4 result being to lower Gulf's transportation costs. Competition is created
5 with diversity of coal supply sources and alternative transportation modes
6 at each of the plants. Competition is achieved by periodically bidding
7 transportation alternatives and educating carriers on the effects of marginal
8 dispatch changes on unit load requirements.

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10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]

18
19 **Volume Risk and Strategy**

20
21 Burn uncertainty is a greater risk in today's world due to changing
22 environmental laws and regulations than it has been in the past. With
23 changes in environmental requirements for cleaner air from coal fired
24 plants, pressure is on the electric utilities to reduce coal burn by switching
25 to alternative fuels, such as natural gas, and by burning lower sulfur coals.
26 The recent construction of a substantial number of gas-fired merchant
27 plants is increasing the possibility of electricity purchases from other
28 generators. The volatility of natural gas prices can cause rapid swings in
29 burn between coal fired units and gas units and weather has always been a
30 factor in burn uncertainty.

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[REDACTED]

Supply Risk and Strategy

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

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

[REDACTED]

1 **Tactical Plan**

2

3 **Plants Crist and Smith**

4

5 The coal transportation tactic for Plants Crist and Smith will be to maintain
6 competitive agreements with barge companies to ensure the reliable and
7 competitive delivery of both import and domestic coals.

8

9 **Plant Scholz**

10

11 The current CSX Agreement at Scholz is in place through December 31,
12 2006. Discussions will be held with the CSX railroad during the year to
13 seek competitive rates for the movement of import coal into Scholz in future
14 years. This will provide diversity of supply regions for coal needs at Scholz
15 and help generate competition.

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Gulf Power's Natural Gas Procurement Strategy

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Gas Program Overview

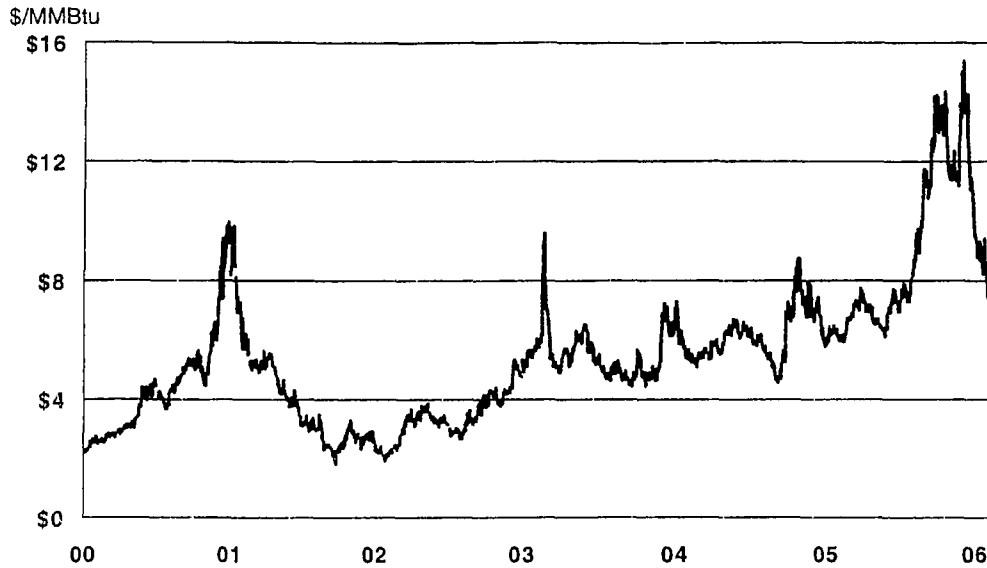
Natural Gas is used as the primary fuel at Crist units 2 &3, for boiler lighter fuel at Crist units 4-7, and as the primary fuel at the Smith 3 combined-cycle unit. In the past, natural gas represented a relatively small portion of Gulf's overall fuel budget. With the addition of the Smith 3 combined-cycle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

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

Procurement Strategy



Historical Natural Gas Prices - NYMEX



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Pricing Strategy

Gulf Power will continue to purchase gas, both under long-term and spot contracts at market based prices. However, pursuant to Commission order, Gulf Power will financially hedge gas prices for some portion of Gulf Power's budgeted annual gas burn in order to protect against short-term price swings and to provide some level of price certainty.

[REDACTED]

Gulf Power's Oil Procurement Strategy

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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.

[REDACTED]

Pricing Strategy

[REDACTED]

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

3
4 **OBJECTIVE:** Provide a numerical comparison of the price paid for each fuel type
5 (natural gas and oil) in 2005 as reflected in the December 2005, Schedule A-3 to the
6 market price for natural gas during this period.

7
8 As described in Gulf's Risk Management Plan for Fuel Procurement filed in Docket No.
9 050001 -EI on April 1, 2005, SCS Fuel Services as agent for Gulf will purchase natural
10 gas and oil at prices that are indexed to the published market price for each commodity
11 at the time of shipment. In 2005 firm quantities of natural gas were purchased either on
12 long term or spot gas supply contracts or on the daily spot market as needed to meet
13 burn requirements. Oil is purchased under spot contracts for each generating plant that
14 are full quantity requirement agreements.

15
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]

23 [REDACTED]
24 [REDACTED]
25 [REDACTED]
26 [REDACTED]

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

Gulf Power Company Risk Management Policy

1 **I. Introduction**

2

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

8

9 **II. Objectives**

10

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

14

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

19

20 **III. Guidelines**

21

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

26

27 The Southern Company Derivatives Policy states:

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

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Gulf Power Company Risk Management Policy

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

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

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

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

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

IV. Process

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

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

Gulf Power Company Risk Management Policy

1 transactions in accordance with the Southern Company Generation Risk
2 Management Policy.
3 It is the responsibility of SCGen Risk Control (the mid-office) to inform the
4 Fuel Manager for Gulf Power Company or the Regulatory Accounting
5 Manager for Gulf Power Company about the use of hedging transactions
6 associated with Gulf generation resources and to provide open position
7 values (mark to market) to the above noted individuals and the Gulf Chief
8 Financial Officer and Comptroller.

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Southern Company Generation (SCGen)
Risk Management Policy

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Approved February 1, 2005

Southern Company Generation Risk Management Policy
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1 I. Introduction

2

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

10

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

14

15

16 II. Purpose

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18 [REDACTED]

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20 [REDACTED]

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III. Business Objectives

[REDACTED]

IV. Business Strategies

[REDACTED]

[REDACTED]

[REDACTED]

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V. Authorizations

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

VI. Segregation of Duties

[Redacted content]

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VII. Market Risk Identification

[Redacted text block]

VIII. Market Risk Measurement and Valuation

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IX. Market Risk Limits

[Redacted]

X. Credit Risk

[Redacted]

XI. New Products

[Redacted]

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1 XII. Funding Liquidity

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3 [Redacted]
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10 XIII. Operating Procedures and Systems

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39 XIV. Accounting and Tax

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XV. Legal

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XVI. Monitoring and Reporting

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XVII. Personnel Trading

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XVIII. Business Recovery

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XIX. Compliance

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XX. Independent Review

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XXI. Policy Amendments

[Redacted]

[Redacted]

[Redacted]

XXII. Terminology

[Redacted]

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APPENDIX A
APPROVED BUSINESS OBJECTIVES

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ENERGY MARKETING
Fleet Operations and Trading

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FUEL SERVICES
Natural Gas Fulfillment Function

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Emission Allowance Management Function

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Coal Fulfillment Function

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APPENDIX B
APPROVED COMMODITIES

The approved commodities for this RMP are:

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

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APPENDIX C
APPROVED INSTRUMENTS

The approved instruments are:

- Futures
- Forwards
- Options
- Swaps

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APPENDIX D
AUTHORIZATIONS

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Name	Authority
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

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APPENDIX D
AUTHORIZATIONS (continued)
Energy Marketing

Name	Authority
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[REDACTED]	[REDACTED]
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[REDACTED]	[REDACTED]
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APPENDIX D
AUTHORIZATIONS (continued)
SCS Fuel Services

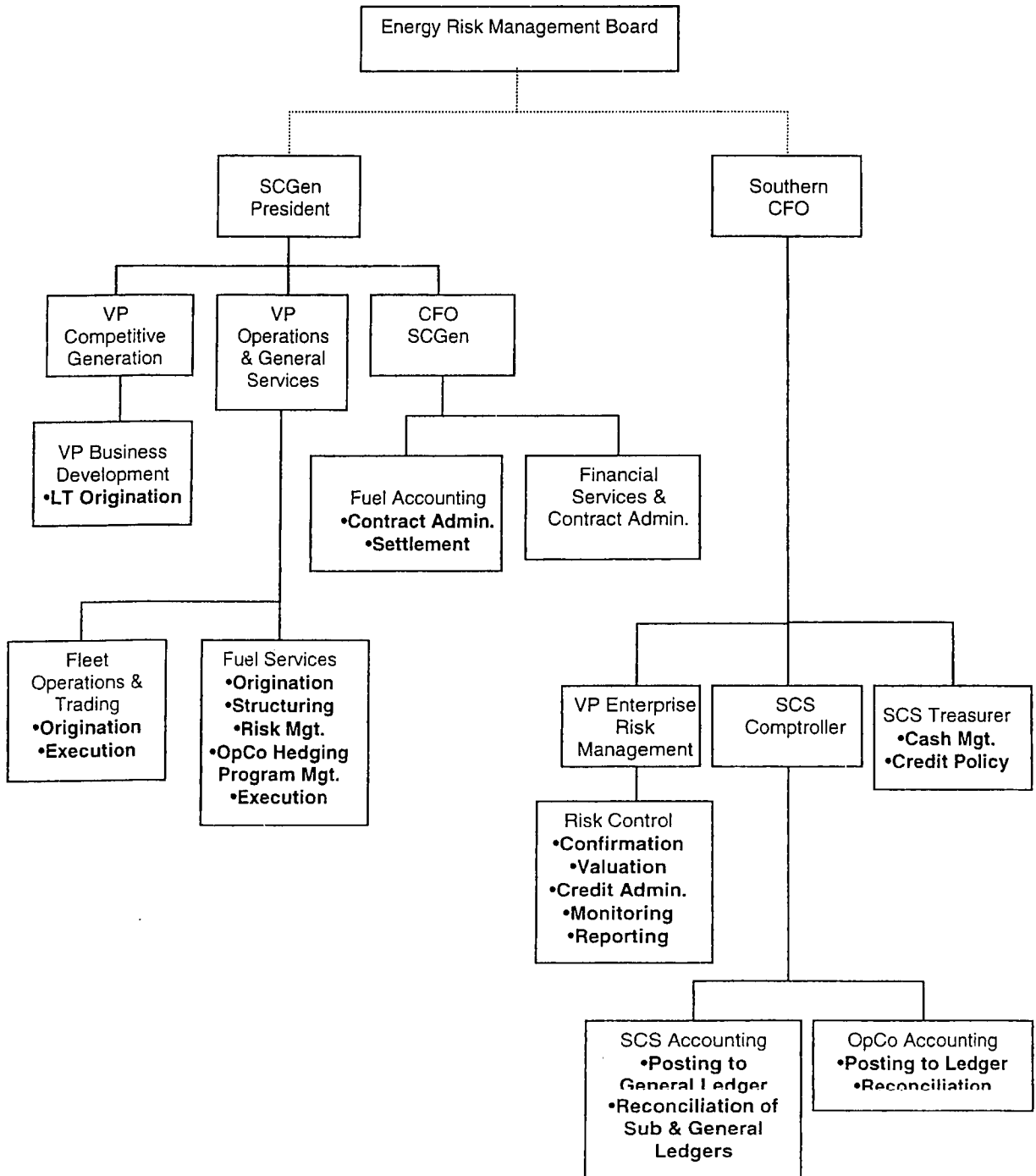
Name	Authority
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[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

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1 APPENDIX E

2 SEGREGATION OF DUTIES

3
 4 To ensure that risk management activities are properly carried out, certain functions will be separated. The
 5 following chart identifies these functions (depicted as **BOLD** bullet items) and their reporting process.
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 7



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 9

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APPENDIX F
 MARKET RISK MEASUREMENT

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

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Parametric VaR Methodology

Formula Components

Component	Symbol	Comments
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

8
9

Equation

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

10

Parameters

Commodity	Holding Period (HP)	Multiplier (CI)
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

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APPENDIX G

DAILY INCOME NOTIFICATION LEVELS
UPDATED EFFECTIVE 10/09/00

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Approved Commodities	Daily MTM Change	Notify
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

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APPENDIX H
MARKET RISK LIMITS

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Overall Risk Limit

Approved Commodity	Overall Risk Limit	Approval Date
[REDACTED]	[REDACTED]	[REDACTED]

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Electricity
Net Open Position Limits

[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

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APPENDIX I
 INCUMBENT LISTING; AUTHORIZED INDIVIDUALS

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Incumbent Listing

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

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6
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Southern Company Generation
 Energy Credit Committee

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

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Fleet Operations & Trading
 Management Team

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

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SCS Fuel Services
Management Team

Name	Title
Phil Saunders	Sr. VP, Operations & General Services, SCGen
Jeffrey Wallace	Vice President, Fuel Services
Robert Schaffeld	Gas Services Director
Xia, Liu	Fuels Environmental & Compliance Manager

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APPENDIX I
 INCUMBENT LISTING; AUTHORIZED INDIVIDUALS (continued)

Authorized Individuals

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

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

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8 Notes:

9 (1) Authority to engage in energy transactions is the same as the energy coordinator position.

10
11 (2) Authority to make changes to transactions.

12
13 (3) Authority to procure Transmission for Business Development Project, not trading

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1 APPENDIX J

2 ACCOUNTING AND TAX

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[Redacted content]

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APPENDIX K
EMPLOYEE ACKNOWLEDGMENT

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

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

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

Printed Name

Signature

Date: _____, 200_

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APPENDIX L
DEFINITIONS

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

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

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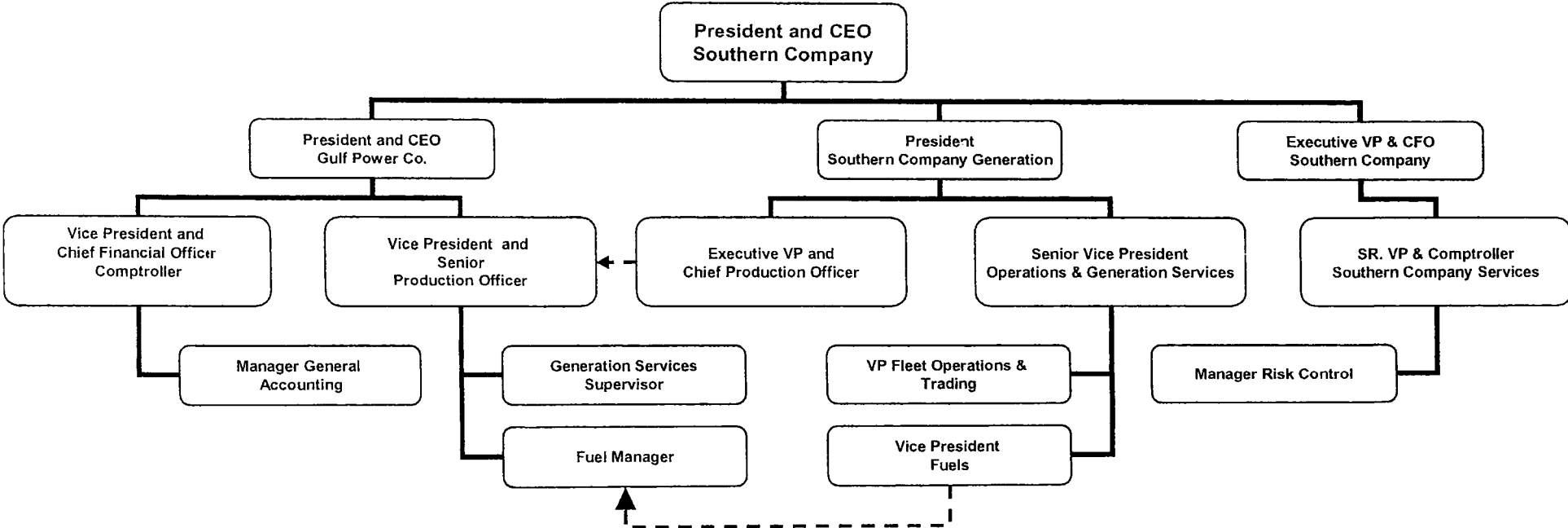
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Value at Risk (VAR) The expected loss that will be incurred on the portfolio with a given level of confidence over a specified holding period, based on the distribution of price changes over a given historical observation period. (This is not an estimate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

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Risk Management for Fuel and Wholesale Energy



STATE OF FLORIDA

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



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CONFIDENTIAL

Public Service Commission

ACKNOWLEDGEMENT

DATE: January 15, 2008

TO: Susan Ritenour/Gulf Power Company

FROM: Ruth Nettles, Office of Commission Clerk

RE: Acknowledgement of Receipt of Confidential Filing

This will acknowledge receipt of a CONFIDENTIAL DOCUMENT filed in Docket Number 080001-EI or, if filed in an undocketed matter, concerning Extended confidential classification for portions of Gulf's Risk Management Plan for Fuel Procurement dated 4/3/06, and filed on behalf of Gulf Power Company. The document will be maintained in locked storage.

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

DOCUMENT NUMBER-DATE
00359 JAN 15 88
FPSC-COMMISSION CLERK

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