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COMMISSION
CLERK



July 29, 2011

claim of confidentiality
 notice of intent
 request for confidentiality
 filed by OPC

For DN 05354-11, which
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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. 110001-EI

Enclosed is an original and seven copies of Gulf Power Company's Request for Confidential Classification regarding Gulf's Risk Management Plan dated August 1, 2011.

Regards,

Susan Ritenour (RWO)

COM _____nm

APA 1

ECK 3+ Enclosures
1 CD containing request and exhibit C.

GCL 1

RAD 1 cc: Beggs & Lane

SSC _____

ADM _____

OPC _____

CLK 1

Jeffrey A. Stone, Esq.

DOCUMENT NUMBER-DATE

05353 AUG-1 =

FPSC-COMMISSION CLERK

BEFORE THE PUBLIC SERVICE COMMISSION

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

Docket No.: 110001-EI
Date filed: August 1, 2011

REQUEST FOR CONFIDENTIAL CLASSIFICATION

GULF POWER COMPANY ["Gulf Power", "Gulf", or the "Company"], by and through its undersigned attorneys and pursuant to Rule 25-22.006, Florida Administrative Code, hereby files its request that the Florida Public Service Commission enter an order protecting from public disclosure certain portions of Gulf Power's Risk Management Plan for Fuel Procurement. As grounds for this request, the Company states:

1. Portions of Gulf Power's Risk Management Plan for Fuel Procurement are entitled to confidential classification pursuant to section 366.093(3)(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, including technology selection criteria, 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 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

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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.

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

3. The Commission granted confidential classification for previous versions of Gulf Power Company's Risk Management Plan for Fuel Procurement in Florida Public Service Commission Order Nos. PSC-03-0032-CFO-EI, PSC-04-1056-CFO-EI, PSC 05-0700-CFO-EI, PSC-06-0636-CFO-EI, PSC-09-0284-CFO-EI and PSC-10-0189-CFO-EI.

4. 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 29th day of July, 2011.

A handwritten signature in black ink, appearing to read 'Jeffrey A. Stone', is written over a horizontal line.

JEFFREY A. STONE

Florida Bar No. 325953

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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.: 110001-EI
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_____)

REQUEST FOR CONFIDENTIAL CLASSIFICATION

Exhibit "A"

Provided to the Commission Clerk
under separate cover as confidential information.

Exhibit "B"

REDACTED

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REDACTED

1 a strategy for long-term coal procurement. Weather, economic conditions and natural
2 gas price volatility will continue to impact future coal burn requirements.

3
4 Southern Company currently owns or manages [REDACTED] of natural
5 gas generating capacity and is projected to install an additional [REDACTED] between
6 2010 and 2013. This increase in natural gas capacity within the Southern Company
7 system, in conjunction with the recent increased competitiveness of natural gas
8 generation, has resulted in additional uncertainty for future coal generation. [REDACTED]

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

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14 [REDACTED]
15 [REDACTED]
16 [REDACTED]

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18 [REDACTED]
19 [REDACTED]
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21 [REDACTED]
22 [REDACTED]
23 [REDACTED]
24 [REDACTED]
25 [REDACTED]

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27 [REDACTED]
28 [REDACTED]
29 [REDACTED]
30 [REDACTED]
31 [REDACTED]

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1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]

7

8 **Pricing Risk and Strategy**

9

10 Competing for energy market share with other utilities and power marketers requires
11 competitive energy pricing. Because more than 50 percent of the cost for coal-fired
12 generation is fuel, competitively priced coal supplies should be maintained.

13

14 The objective is to have a portfolio of long-term agreements and spot coal purchases
15 that provide pricing at or below market at any given point in time.

16

17 Where negotiations allow, mechanisms to achieve this objective include:

18
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]
24 [REDACTED]
25 [REDACTED]
26 [REDACTED]

27

28 Due to the size of our system, the volume of purchases made at a particular time can
29 impact the market. Ranking bid proposals in order of least cost and cumulative volume
30 produces a price curve similar to the following:

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[REDACTED]

Reliability Risk and Strategy

While reliability is always a risk, when a supply and demand imbalance occurs in the coal industry, this reliability risk is increased. Continuing business with suppliers that have performed well during times of unreliable supply can help mitigate this risk. In addition to an economic evaluation, technical and financial evaluations of suppliers are also performed as a required part of the coal procurement process.

[REDACTED]

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[REDACTED]

Environmental Risk and Strategy

When procuring coal for a term greater than 12 months, the potential impact from future changes in environmental laws and regulations, which may render the burning of coal as non-economic to our system, is a significant risk that must be mitigated. When executing new long-term coal supply agreements, environmental language will be included that mitigates the risks associated with current as well as future environmental issues. This environmental language will continue to allow the company the maximum flexibility and discretion to modify and/or terminate such agreements based on its sole judgment. Environmental language must be absolutely clear that neither coal nor transportation suppliers have the right to review or question our selected environmental compliance strategy.

One new regulation, the Cross-State Air Pollution Rule, was finalized on July 6, 2011. The U.S. Environmental Protection Agency (EPA) finalized (CSAPR), replacing the 2005 Clean Air Interstate Rule (CAIR). The CSAPR was previously referred to as the Clean Air Transport Rule, or CATR, in EPA's initial draft. A December 2008 court decision found flaws in CAIR, but kept CAIR requirements in place temporarily while directing EPA to issue a replacement rule. According to the EPA, the CSAPR meets the Clean Air Act requirements and responds to the court's concerns. Similar to CAIR and the Title IV Acid Rain program, CSAPR is a regional market-based compliance regime requiring reductions of power plant SO₂ and NO_x emissions that cross state lines and contribute to ground-level ozone and fine particle pollution in other states. The state of Florida is included in the 27 states that are covered by CSAPR and are only subject to Seasonal NO_x compliance during May through September beginning in 2012.

[REDACTED]

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED]

9

10 **Strategic Plan**

11

12 As mentioned above, when procuring coal for Gulf, the Crist and Smith plants will be
13 grouped together because of their common supply source and transportation mode.
14 Diversity of supply and flexibility will be important aspects of their fuel supply strategy.

15

16 On the other hand, Scholz can burn similar quality coals, but its transportation mode
17 differs because it is rail served. The co-owned plant, Daniel, will be treated individually.

18

19 Crist – In 2012, Crist will be served by Marquette Transportation Company LLC. Crist
20 burns between 1.9 and 3 million tons of coal a year and must comply with a state SO2
21 emission limit of 2.4 pounds SO2/MMBTU. For the past several years, Crist has burned
22 low sulfur Illinois Basin coal from the Galatia mine. [REDACTED]

23 [REDACTED] Crist

24 can also burn Colombian import coals, as well as coals from Colorado, Utah and the
25 Central Appalachian regions. Crist is considered an intermediate coal plant with a
26 projected capacity factor of more than 60 percent.

27

28 Smith – In 2012, Smith will also be served by Marquette Transportation Company LLC.
29 It burns between 675,000 and 1.2 million tons of coal a year and must comply with the
30 state SO2 emission limit of 2.1 pounds SO2/MMBTU. Smith can burn a variety of coals,
31 including Illinois Basin and import coals such as Colombian, Australian and Venezuelan.

1 Domestic sources such as Colorado, Utah and Central Appalachian coals also have
2 been burned in the past. Smith is considered an intermediate coal plant with a projected
3 capacity factor of more than 60 percent.

4
5 Scholz-Scholz is served by the CSX Railroad. Scholz is projected to burn [REDACTED] tons of
6 coal in 2012 and must comply with a state SO2 emission limit of 6.17 pounds
7 SO2/MMBTU. Scholz has burned Central Appalachian coals in the past [REDACTED]
8 [REDACTED]. Scholz currently has no commitments
9 for [REDACTED]. It is considered a peaking coal plant with a projected capacity factor
10 of less than 50 percent.

11
12 Because Scholz is a peaking plant, its fuel supply will be based on limited-term, firm
13 commitments and/or spot purchases depending on burn projections. Contract
14 commitment terms will be two years or less. If commitments are made for more than 50
15 percent of projected burn requirements, the contract will match the maximum annual
16 tonnage purchased to the plant burn requirements.

17
18 Daniel – Daniel is served by the Mississippi Export Railroad (MSE) which is
19 approximately 40 miles in length and runs between Moss Point and Evanston, Miss.
20 The MSE is served by two large Class 1 railroads: the Canadian National Railroad
21 connecting at Evanston and the CSX Railroad connecting at Moss Point. Classified as
22 an NSPS plant, Daniel must use “compliance” coal with a maximum of 1.2 pounds
23 SO2/MMBtu (0.6 pounds Sulfur/MMBtu). Daniel can burn import coal in addition to coal
24 from Colorado and the Central Appalachian regions. PRB coal is also burned in Daniel’s
25 units and blended with bituminous coal at an average of 60 percent bituminous/40
26 percent PRB ratio. Daniel is considered an intermediate coal plant with a projected
27 capacity factor of more than 60 percent.

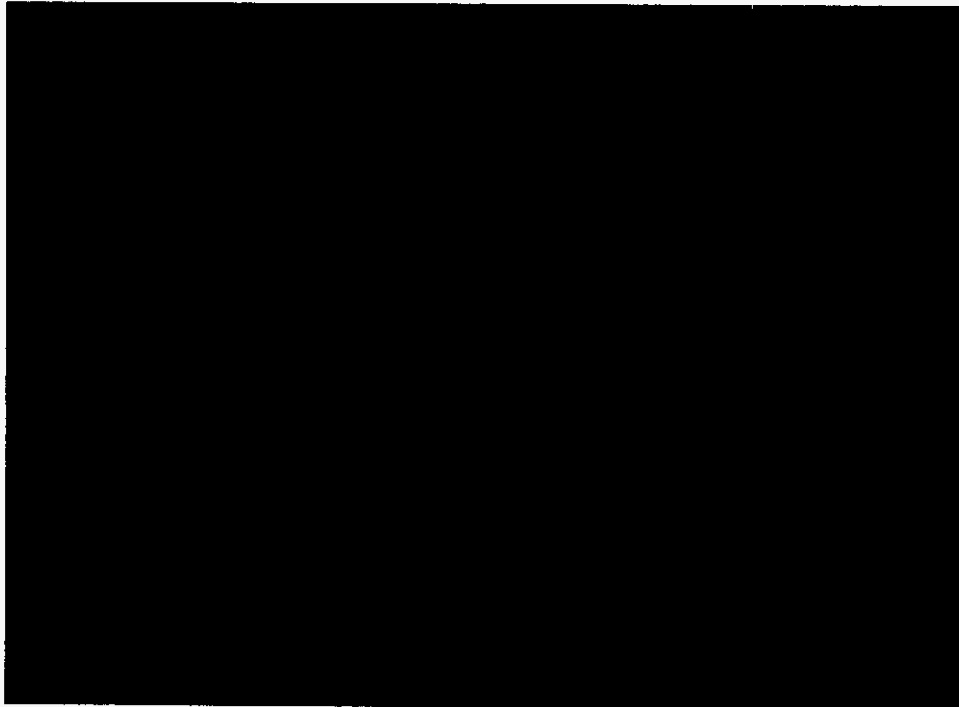
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29 [REDACTED]
30 [REDACTED]
31 [REDACTED]

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

12
13 **Tactical Plan**

14
15 **Crist and Smith**

16 The chart below shows a breakdown of the current Crist and Smith suppliers and
17 volume commitments, including options, through 2017.



18

1 The strategy for the intermediate plants is to have a certain percentage of firm
2 commitments established for the next several years. [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 In recent years, Crist and Smith have undertaken a plan to blend Illinois Basin coal with
15 other low sulfur bituminous coals such as Colombian, Central Appalachian and
16 Colorado coals in order to take advantage of an increased BTU content and decreased
17 sulfur content of the blended product. This practice of blending Illinois Basin coal with
18 lower sulfur coals is scheduled to continue.

19 Both Crist and Smith's portfolio currently includes coals from other supply regions such
20 as the Central Appalachian region and the western bituminous regions of Colorado and
21 Utah. These coals are being delivered by rail to the Alabama State Docks (ASD) in
22 Mobile, Ala.

23 [REDACTED]

24 In 2009, the ASD upgraded the rail unloading facility at the Bulk Terminal to allow for an
25 increase in volume of rail coal at this facility. Shipments can also be delivered to various
26 ports along the Mississippi River and transloaded into barges for ultimate delivery to
27 Crist and Smith.

28 [REDACTED]

29 Crist and Smith have an uncommitted need of [REDACTED]. The
30 plan is to [REDACTED] to fulfill a portion or,
31 depending on pricing, all of this uncommitted need. Beginning in 2013, Crist and Smith

1 have a combined uncommitted need of [REDACTED] tons. This uncommitted
2 need increases to [REDACTED]. The plan
3 will be to [REDACTED] to fulfill
4 percentages of firm commitments that conform to Gulf's long-term procurement strategy
5 through [REDACTED].

6
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
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11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]

16
17 As mentioned above, Illinois Basin coal and lower sulfur coals such as Central
18 Appalachian and/or Colorado coals must be blended on a 50/50 basis before delivery to
19 Crist and Smith. This is currently accomplished by railing both coals to the ASD and
20 blending them for transloading into barges. This blending process could be performed at
21 other off-site locations as economics permit.

22
23 Western bituminous coals can either be railed direct to ASD and transloaded into
24 barges or railed to the Mississippi River and transloaded into barges for ultimate
25 delivery to Crist and Smith. Currently, no transportation infrastructure improvements will
26 be necessary for the movement of these coals to Gulf's plants. At this time, it is
27 unknown whether the plant will need some time to acquire additional equipment for
28 burning large volumes of the Illinois Basin coals.

1 **Scholz**

2 The chart below shows a breakdown of the current Scholz suppliers and volume
3 commitment, including options, through 2017.

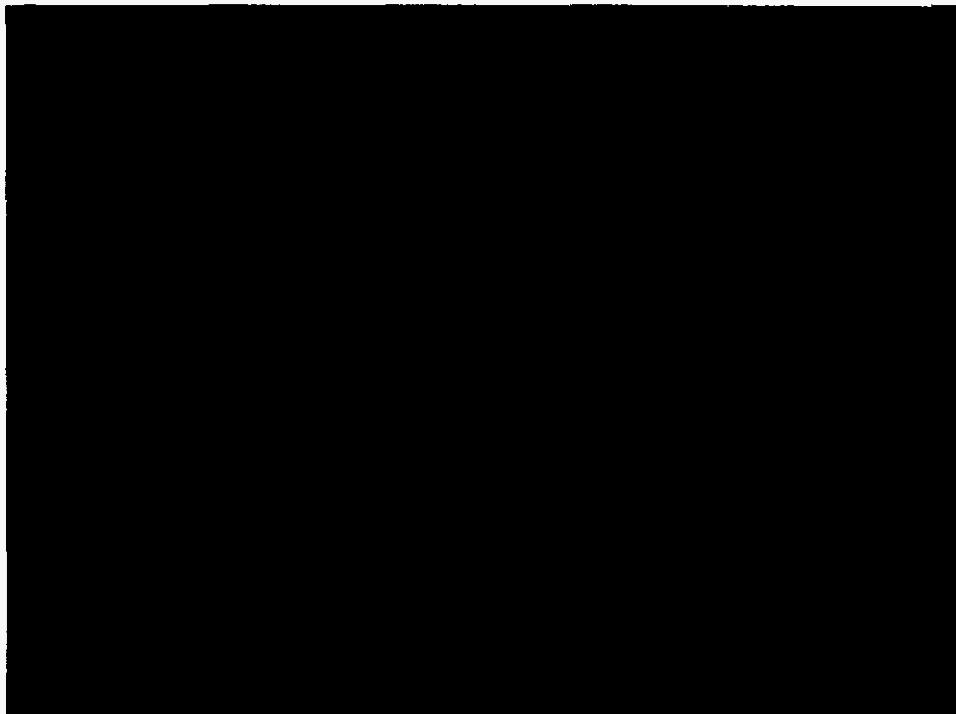


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As mentioned previously, Scholz is served by the CSX Railroad [REDACTED]
[REDACTED]. Scholz's burn is projected to be [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] the requirements at Scholz will
continue to be satisfied [REDACTED]
[REDACTED] Because Scholz is a peaking plant, its
fuel supply will be based on limited-term, firm commitments and/or spot purchases
depending on burn projections. Contract commitment terms will be two years or less. If
commitments are made for more than 50 percent of projected burn requirements, the
contract will match the maximum annual tonnage purchased to the plant burn
requirements.

1 **Daniel**

2 The chart below shows a breakdown of the current Daniel suppliers and volume
3 commitments, including options, through 2017.



4
5
6 As mentioned earlier, the strategy for intermediate plants is to have a certain
7 percentage of firm commitments established for the next several years. [REDACTED]

8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
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12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]

5 [REDACTED] The goal for future years, if economics warrant, would be to maintain this
6 diversity. Should supply problems occur, this diverse portfolio of suppliers would help
7 ensure that other suppliers could continue seamless deliveries to the plant. Another
8 important element of this diversification philosophy is that Daniel can share most coal
9 supplies with MPC's Watson plant should operational, supply or transportation problems
10 occur at either plant. Gulf will also continue its policy of testing various import as well as
11 domestic coals.

12
13 Traditionally, Daniel has used sources such as PRB and Colorado low-sulfur coals.
14 Since 2000-2001, market conditions – including production problems, lack of availability
15 of supply in some domestic regions and environmental awareness – have emphasized
16 the need to diversify with import coals. These other coal sources, transportation
17 arrangements and plant quality limitations will be actively evaluated because of
18 reliability and availability issues in the domestic market and in the existing Colombian
19 market.

20
21 The strategic objective is to include import, Colorado, and PRB sources in future coal
22 commitments for Daniel. Colorado and/or PRB coal will continue to make up a
23 significant portion of Daniel's committed volumes provided that economics warrant and
24 that Union Pacific and BN Railroad transportation capacity is available. As part of this
25 objective, Gulf will explore expanding its plant quality parameters through the
26 continuation of an active test burn program.

27
28 In addition to receiving import coal through the ASD, Daniel also has the ability to take
29 imported rail coal through the Illinois Central Rail Marine Terminal (ICRMT) in Convent,
30 La. This is a proven facility that Daniel has used in the past. Because it is an inland-river

1 facility capable of unloading Panamax-sized vessels, it provides additional security
2 during hurricane season.

3

4 Both Illinois Basin and Central Appalachian coals can be railed directly to Daniel,
5 although some infrastructure improvements would be necessary. At this time, it is
6 uncertain if the plant will need some time to acquire additional plant equipment
7 necessary for burning Illinois Basin coals. The procurement group will need to be
8 cognizant of the environmental controls placed on the units and ensure that the coals
9 purchased will meet the environmental requirements.

10

11

[REDACTED]

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[REDACTED]

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[REDACTED]

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12 [REDACTED]
13 [REDACTED]

1 **Risks and Risk Mitigation Strategies**

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3 **Reliability Risk and Strategy**

4
5 Reliable delivery of coal ensures that fuel will be available to generate electricity. Term
6 agreements will be negotiated and signed with the transportation carriers that ensure
7 the barge and rail companies will have available infrastructure and resources in place to
8 transport the required coal supply. The terms of the transportation agreements will
9 coincide with the terms of single-source coal supply agreements as closely as possible.

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

20
21 Communication between Gulf's coal operating personnel, each plant, Generation Fuel
22 Services, and the various carriers is vital in maintaining reliable and efficient operations.
23 Effective and timely communication of transportation plans, orders, problems, and
24 maintenance is critical.

25
26 **Pricing Risk and Strategy**

27
28 Competition is created with diversity of coal supply sources and alternative
29 transportation modes at each of the plants. Competition is achieved by periodically
30 bidding transportation alternatives and educating carriers on the effects of marginal
31 dispatch changes on unit load requirements.

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[REDACTED]

Volume Risk and Strategy

The uncertainty in the amount of coal generation and transportation that will be needed in the future is still one of the most critical risks that must be addressed in developing a strategy for long-term transportation procurement. Weather, natural gas pricing, and economic growth will continue to impact future coal burn requirements, as will the addition of gas-fueled capacity to the Southern Company system. During recent years, the coal industry has become more susceptible to influences of the global commodities market. Given the global market dynamics that occurred during this time frame, the coal market has reacted by becoming more volatile from both a pricing and volume availability standpoint. This has, in turn, impacted the dynamics between natural gas and coal, leading to increased uncertainty in coal burn.

[REDACTED]

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]

8

9 **Supply Risk and Strategy**

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11 It is desirable to have multiple transportation modes and carriers in case there is a rail
12 and/or barge accident that might disrupt the supply chain. Diversity of transportation
13 modes and carriers is also vital because the location of coal supply sources changes as
14 environmental laws and regulations evolve and as coal is depleted in established
15 regions.

16

17 It is vital to the success of a coal and transportation program to ensure infrastructure is
18 in place to move the coal from changing locations as this occurs. This may include
19 enhancements to existing facilities or the development of new facilities.

20

21 The Alabama State Docks' McDuffie Coal Terminal has the capacity to receive
22 approximately 16 million tons of import coal per year. In addition, the Alabama State
23 Docks recently completed the Bulk Unloader Railcar Project at the Alabama State
24 Docks' Bulk Materials Handling Plant (Bulk Plant). Upgrade of railcar handling facilities
25 provides the Bulk Plant with the ability to receive an additional 3 million tons of coal per
26 year by rail.

1 **Tactical Plan**

2

3 **Plants Crist and Smith**

4

5 UP Agreement UP-53281 provides for rail transportation of Colorado and Utah coal to
6 the Cora Dock terminal on the Mississippi River through Dec. 31, 2011. There are no
7 annual minimum or maximum volume requirements in this agreement.

8

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12

13 UP Agreement UP-53286 with UP/CN provides for rail transportation of Colorado and
14 Utah coal to the Alabama State Docks through [REDACTED]. The agreement has [REDACTED]

15 [REDACTED]

16 [REDACTED]

17

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21

22 CSXT Agreement CSXT-84986 provides for rail transportation of Central Appalachian
23 coal from Patriot Coal Sales to the Alabama State Docks through [REDACTED]. The

24 agreement has [REDACTED]

25 [REDACTED]

26

27 [REDACTED]

28 [REDACTED]

29 [REDACTED]

1 CN Agreement CN- 517554-AA provides for rail transportation of Illinois Basin coal to
2 the Alabama State Docks through [REDACTED]. The coal will be transported by rail to
3 the Alabama State Docks and transloaded to barges for shipment to Crist. There are [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9

10 Marquette agreement (SC09005-T) provides primary barge transportation of coal from
11 the Alabama State Docks to Crist and Smith. Marquette agreement (SC09006-T) and
12 Heartland Barge Management agreement (SC09004-T) provide a supply of barges to
13 move coal to Crist and Smith. These agreements expire Dec. 31, 2014.

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED]

22 [REDACTED]

23 [REDACTED]

24 [REDACTED]

25 [REDACTED]

26

27 **Plant Scholz**

28

29 CSXT Agreement CSXT-C-83791 provides for rail transportation of domestic and import
30 coal to Scholz through Dec. 31, 2011. This agreement specifies that [REDACTED]

31 [REDACTED]

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]

4
5 **Plant Daniel**

6
7 UP Agreement UP-52624 with UP/CN/MSE provides for rail transportation of Colorado
8 coal to Daniel through Dec. 31, 2011. The agreement has an annual minimum volume
9 requirement of 1 million tons and a maximum of 2.2 million tons of coal that can be
10 shipped.

11
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]

15
16 BNSF Agreement BNSF-12523 with BNSF/CN/MSE provides for rail transportation of
17 PRB coal to Daniel through Dec. 31, 2011. The agreement has an annual minimum
18 volume requirement of 1 million tons and a maximum of 1.3 million tons of coal that can
19 be shipped.

20
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]

24
25 CN/MSE Agreement CN-694308-AA provides for rail transportation of import coal from
26 the Alabama State Docks facility to Daniel. The agreement expires [REDACTED]

27 [REDACTED]
28 [REDACTED]
29 [REDACTED]

1 **PROJECTED NATURAL GAS BURN (MMBTU)**

Month	2011	2012	2013	2014
January	2552836	[REDACTED]	[REDACTED]	[REDACTED]
February	1485814	[REDACTED]	[REDACTED]	[REDACTED]
March	2325480	[REDACTED]	[REDACTED]	[REDACTED]
April	2149033	[REDACTED]	[REDACTED]	[REDACTED]
May	3208511	[REDACTED]	[REDACTED]	[REDACTED]
June	5975155	[REDACTED]	[REDACTED]	[REDACTED]
July	1520126	[REDACTED]	[REDACTED]	[REDACTED]
August	1290826	[REDACTED]	[REDACTED]	[REDACTED]
September	1118224	[REDACTED]	[REDACTED]	[REDACTED]
October	1169487	[REDACTED]	[REDACTED]	[REDACTED]
November	672369	[REDACTED]	[REDACTED]	[REDACTED]
December	330826	[REDACTED]	[REDACTED]	[REDACTED]
TOTAL	12419365	[REDACTED]	[REDACTED]	[REDACTED]

2

3 **Procurement Strategy**

4

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

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

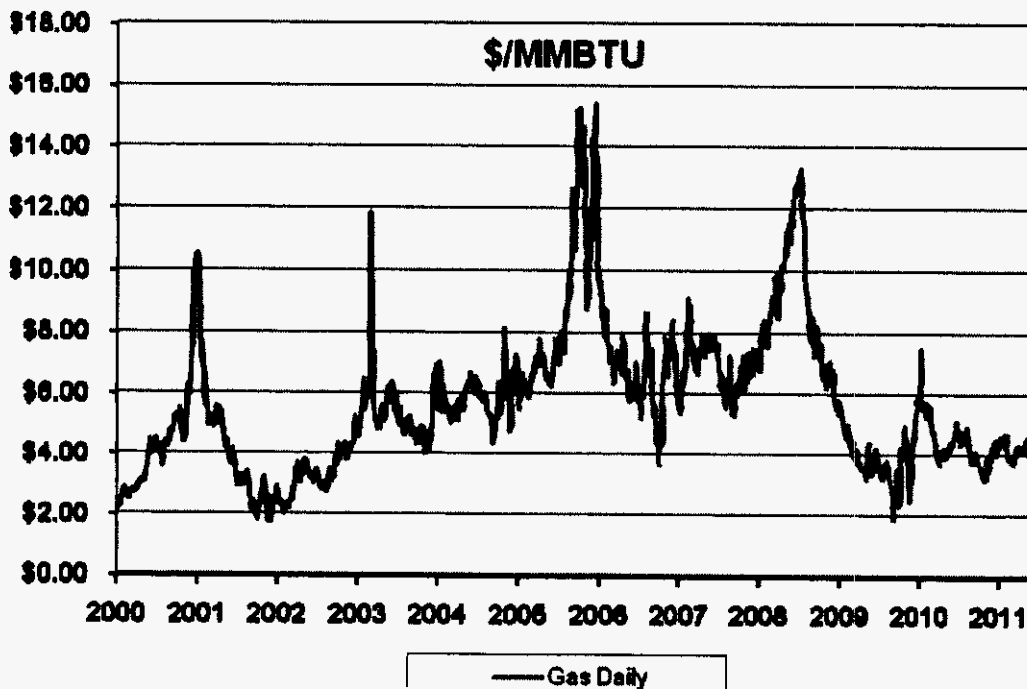
13 [REDACTED]

14 [REDACTED]

1 [REDACTED] For Gulf, spot-market contracts have a term of less than one year
2 and long-term contracts have a term of 1 year or longer. All natural gas, regardless of
3 whether it is bought under long-term contracts or spot-market contracts, is purchased at
4 market based prices. While fuel purchased at market over long periods is a low cost
5 option for customers, it does expose the customers to short-term price volatility. Since
6 these price fluctuations can be severe, Gulf Power, at the direction of the Florida Public
7 Service Commission, will attempt to protect its customers against short-term price
8 volatility by utilizing hedging tools. It is understood that the cost of hedging will
9 sometimes lead to fuel costs that are higher than market prices but that this is a
10 reasonable trade-off for reducing the customers' exposure to fuel cost increases that
11 would result if fuel prices actually settle at higher prices than when the hedges were
12 placed.

13
14 The following graph of actual natural gas prices is an indication of price volatility in the
15 gas commodity market:

16
17 **Historical Natural Gas Prices - NYMEX**



Pricing Strategy

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

Period	Lower Target Hedge %	Upper Target Hedge %
Prompt Year (2012)	[REDACTED]	[REDACTED]
Year 2 (2013)	[REDACTED]	[REDACTED]
Year 3 (2014)	[REDACTED]	[REDACTED]
Year 4 (2015)	[REDACTED]	[REDACTED]
Year 5 (2016)	[REDACTED]	[REDACTED]

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

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

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

1 [REDACTED]
2 [REDACTED] SCS will employ both technical and fundamental analysis to
3 determine appropriate times to hedge. However, the objective is not to speculate on
4 market price or attempt to outguess or "beat the market". Gulf will utilize fixed priced
5 swaps as its primary financial gas price hedging instrument but may also utilize options
6 when appropriate. [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10
11 While the hedging program will protect the customer from short-term price spikes,
12 hedges can also lead to higher costs when natural gas prices fall subsequent to
13 entering hedges. Gulf Power will limit the amount of fixed-price
14 hedges to a maximum of 100 percent of the projected fuel burn for the upcoming year.
15 In addition, Gulf Power will limit option priced hedges to [REDACTED] percent of its projected
16 burn. Finally, in order to protect its customers from market exposure in subsequent
17 years, Gulf Power will take forward hedge positions for up to [REDACTED] months into the future.

1 **Introduction**

2
3 In August 1997, the Southern Company Risk Oversight Committee ("SROC") approved a set of risk
4 management guidelines. Also, at various times during 2000 through 2002, the boards of directors
5 for Southern Company, the Operating Companies (Alabama Power Company, Georgia Power
6 Company, Gulf Power Company, and Mississippi Power Company), and Southern Power Company
7 ("SPC") adopted the Southern Company Policy on the Use of Derivatives ("Derivatives Policy").
8 During 2006, the risk oversight and governance framework for Southern Company continued to
9 evolve to further refine the oversight structure and to reflect organizational changes since the
10 original SROC approved risk management guidelines in August 1997. As part of this evolution, the
11 SROC was reconstituted, and a Generation Risk Oversight Committee was formed. These groups,
12 along with the Risk Advisory and Controls Committee, replaced the Energy Risk Management
13 Board and assumed its responsibilities.

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

21
22 The Southern Company Derivatives Policy requires any business unit engaging in energy trading and
23 marketing activities to develop a risk management policy. This policy must be consistent with the
24 Southern Company Enterprise Risk Management Framework document and must include, but not
25 be limited to, well-defined segregation of duties, limits on capital at risk and established credit
26 policies.

27
28 **I. Purpose**

29
30 [REDACTED]
31
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35 [REDACTED]
36
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41 [REDACTED]
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1 **II. Business Objectives**

2
3 The Approved Business Objectives for the trading activities performed by Authorized Individuals
4 are defined in Appendix A.
5

6 **III. Business Strategies**

7
8 The business objectives are achieved by entering into transactions involving the approved
9 commodities shown in Appendix B.
10

11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]

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

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

26 **IV. Authorizations**

27
28 Appendix D contains the individuals, boards, and committees authorized to carry out various
29 activities, reviews, and approvals.
30

31 **V. Segregation of Duties**

32 [REDACTED]
33 [REDACTED]
34 [REDACTED]

35 [REDACTED]
36 [REDACTED]
37 [REDACTED]
38 [REDACTED]
39 [REDACTED]
40 [REDACTED]

41 [REDACTED]
42 [REDACTED]
43 [REDACTED]
44 [REDACTED]

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

3
4 Origination and Structuring: The functions of origination and structuring include the following
5 responsibilities:

6
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]

17
18 Confirmation, Monitoring, and Reporting: The functions of trade confirmation, risk monitoring, and
19 risk reporting include the following responsibilities:

20
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]
24 [REDACTED]
25 [REDACTED]
26 [REDACTED]
27 [REDACTED]
28 [REDACTED]
29 [REDACTED]
30 [REDACTED]
31 [REDACTED]
32 [REDACTED]
33 [REDACTED]

34
35 Settlement: The function of settlement includes the following responsibilities:

36
37 [REDACTED]
38 [REDACTED]
39 [REDACTED]
40 [REDACTED]
41 [REDACTED]

42
43 Cash Management: SCS Treasury is responsible for receiving and disbursing all funds from or to
44 counterparties and for the delivery of margin / collateral requirements. SCS Treasury will also be
45 responsible for investment of collateral provided by counterparties.

1 Accounting: SCS Accounting is responsible for posting transactions to the general ledger and
2 reconciling the subledgers to the general ledger.
3

4 **VI. Market Risk Identification**
5

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

12 **VII. Market Risk Measurement and Valuation**
13

14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]
24 [REDACTED]
25 [REDACTED]
26 [REDACTED]
27 [REDACTED]
28 [REDACTED]

29 **VIII. Market Risk Limits**
30

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.
Notifications	Certain notifications to management are required as defined in Appendix G.
Limit Excess Reporting	Irrespective of other provisions contained in this RMP, limit overages may occur. Each occurrence shall be promptly reported by SCS Risk Control to individuals identified in Appendix G.

31
32 **IX. Credit Risk**
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34 [REDACTED]
35 [REDACTED]
36 [REDACTED]

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[Redacted]

X. New Products

[Redacted]

[Redacted]

XI. Funding Liquidity

[Redacted]

XII. Operating Procedures and Systems

[Redacted]

[Redacted]

[Redacted]

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[Redacted]

[Redacted]

XIII. Accounting and Tax

[Redacted]

XIV. Legal

[Redacted]

XV. Monitoring and Reporting

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

[Redacted]

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

1 **XVI. Personal Trading**

2
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]

7 **XVII. Business Recovery**

8
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]

12 **XVIII. Compliance**

13
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]

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

27
28 **XIX. Independent Review**

29 [REDACTED]
30 [REDACTED]
31 [REDACTED]
32 [REDACTED]
33 [REDACTED]
34 [REDACTED]
35 [REDACTED]

36 **XX. Policy Amendments**

37 [REDACTED]
38 [REDACTED]
39 [REDACTED]
40 [REDACTED]
41 [REDACTED]
42 [REDACTED]
43 [REDACTED]
44 [REDACTED]
45 [REDACTED]

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XXII. Terminology

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

1
2 APPENDIX A
3 APPROVED BUSINESS OBJECTIVES

4 Fleet Operations and Trading

5
6 The primary objectives of Fleet Operations and Trading are to:

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

12
13 In addition to the primary objectives, Fleet Operations and Trading may execute secondary activities
14 as limited by Appendix H to achieve the following secondary objectives to the extent permitted by
15 all applicable policies and regulations:

16
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]

21 Southern Power Company Trading & Asset Management

22
23 The primary objectives of the SPC Trading and Asset Management activities are the following:

24
25 [REDACTED]
26 [REDACTED]
27 [REDACTED]

28
29 In addition to the primary objectives, SPC Trading & Asset Management may execute secondary
30 activities as limited by Appendix H to achieve the following secondary objectives to the extent
31 permitted by all applicable policies and regulations (including, but not limited to the IIC and
32 Separation Protocol):

33
34 [REDACTED]
35 [REDACTED]
36 [REDACTED]
37 [REDACTED]
38 [REDACTED]
39 [REDACTED]
40 [REDACTED]

41 All SPC Secondary Strategies must be approved by the SPC Chief Financial Officer and the SPC
42 Chief Commercial Officer.

43
44 Natural Gas Fulfillment Function

45
46 The primary objectives of the Natural Gas Fulfillment Function are to:
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[REDACTED]

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

Environmental Products Management Function

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

[REDACTED]

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

Coal Fulfillment Function

The primary objectives of the Coal Fulfillment Function are to:

[REDACTED]

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

APPENDIX B
APPROVED COMMODITIES

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The approved commodities for this RMP are:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

APPENDIX C
APPROVED INSTRUMENTS

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15

The approved instruments are:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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APPENDIX D
AUTHORIZATIONS

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

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APPENDIX D
AUTHORIZATIONS (continued)
Energy Marketing

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

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

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APPENDIX D
AUTHORIZATIONS (continued)
SCS Fuel Services

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

APPENDIX F
 MARKET RISK MEASUREMENT

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

Parametric VaR Methodology

Formula Components

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

Equation

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

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

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APPENDIX F
STRESS TESTING METHODOLOGY

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

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

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

Specifically, the expected downward stress is calculated as

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

and the expected upward stress is calculated as

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

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

22
23
24

Ad Hoc Stress Testing

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

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

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APPENDIX G
NOTIFICATION LEVELS

Position Classification	Income Change	Notify
[REDACTED]	[REDACTED] [REDACTED] [REDACTED]	[REDACTED] [REDACTED] [REDACTED] [REDACTED]
[REDACTED]	[REDACTED] [REDACTED]	[REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED]
[REDACTED]	[REDACTED] [REDACTED] [REDACTED] [REDACTED]	[REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED]

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APPENDIX G
NOTIFICATION LEVELS

Position Classification	Income Change	Notify
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

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APPENDIX G
NOTIFICATION LEVELS

Position Classification	Value-at-Risk	Notify
[REDACTED]	[REDACTED]	[REDACTED]

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

APPENDIX G
 NOTIFICATION LEVELS

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Position Classification	Income Change	Notify
[REDACTED]	[REDACTED] [REDACTED] [REDACTED]	[REDACTED] [REDACTED] [REDACTED]
[REDACTED]	[REDACTED] [REDACTED] [REDACTED]	[REDACTED] [REDACTED] [REDACTED]
[REDACTED]	[REDACTED] [REDACTED] [REDACTED] [REDACTED]	[REDACTED] [REDACTED] [REDACTED] [REDACTED]

5

Position Classification	Income Change	Notify
[REDACTED]	[REDACTED] [REDACTED] [REDACTED]	[REDACTED] [REDACTED] [REDACTED]
[REDACTED]	[REDACTED] [REDACTED] [REDACTED]	[REDACTED] [REDACTED] [REDACTED]

6

Position Classification	Value-at-Risk	Notify
[REDACTED]	[REDACTED]	[REDACTED] [REDACTED] [REDACTED]

APPENDIX H
MARKET RISK LIMITS

Net Open Position Limits

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

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

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

APPENDIX J
ACCOUNTING AND TAX

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[Redacted]

[Redacted]

[Redacted]

Exhibit "C": Line-by-Line/Field-by-Field Justification

Line(s)/Field(s)¹

Justification

Page 4 of 68
Lines 4-5, 8-12, 14-16, 18-25 & 27-31

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

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Chart
Lines 6-12

¹ Page number references correspond with the page numbers printed in the bottom center of each page.

Line(s)/Field(s)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No.: 110001-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing was furnished by U.S. mail this 29th day of July, 2011, on the following:

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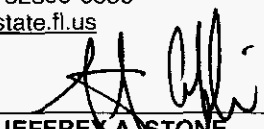
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