



ENERGY AUCTION

Energy Auction Phase II

Summary of Proposed Changes

October 9, 2009

Key Elements

- Expand the Auction to include 3rd Party Sellers
 - New Participant Agreement
 - Enhanced Mechanism for Matching Bids and Offers
 - Restructured Tariff language
- Respond to Feedback from Auction Participants
 - Revised Timing of Hour-Ahead and Day-Ahead Auctions
 - Eliminated Use of Implied Heat Rate in Day-Ahead Auction
- Utilize an Independent Auction Administrator
- Incorporate an Administrative Fee

Participation of 3rd Party Sellers

- The Participant Agreement will be changed to provide for multiple sellers (in addition to Southern Companies)
- The Auction matching logic will be changed to take into consideration:
 - Seller-specific credit limits with buyers
 - Seller-specific constraints regarding entities to whom they can sell:
 - Lack of enabling agreements
 - Legal or regulatory restrictions

Summary of Matching Logic

- Initialization
 - Initial screen to eliminate any bidder who cannot purchase from any of the sellers submitting offers
 - Initial screen to eliminate any seller who cannot sell to any of the bidders submitting bids
- Pass 1
 - Obtain Auction Clearing Price using same method in place today
 - Identify list of potentially winning bids and offers
- Pass 2
 - Honor bid/offer priority
 - Take into consideration credit limits, statutory or regulatory restrictions, enabling contracts, etc.
 - Match potentially winning bids and offers
- Pass 3
 - Attempt to resolve counterparty matching infeasibilities that may result from Pass 2

Participation of 3rd Party Sellers

Restructure Tariff Language

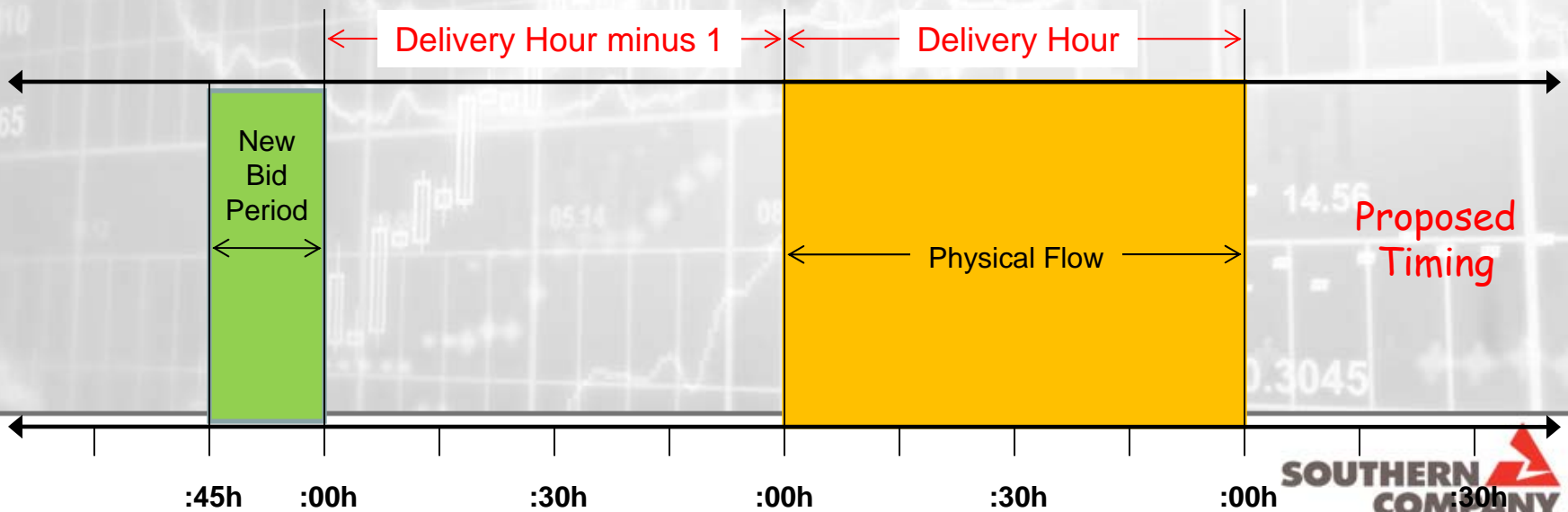
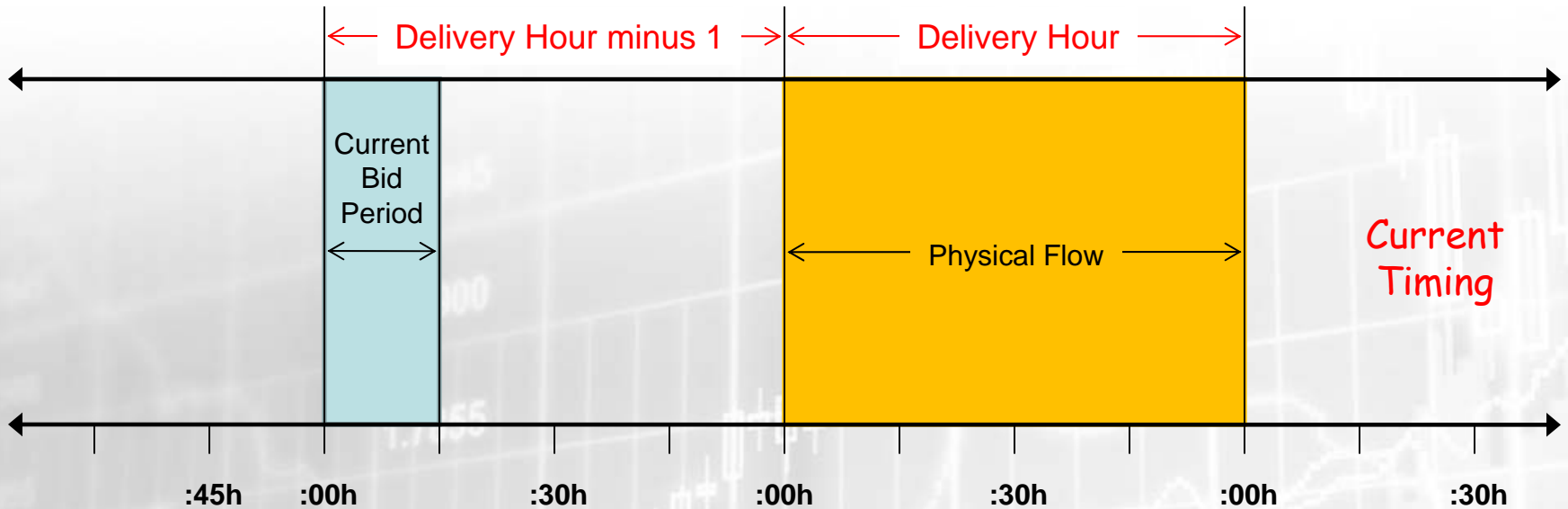
- Third party sellers will not be bound by mitigation measures in the Energy Auction applicable to Southern Companies.
- The tariff will be changed to separate the mitigation measures (applicable only to Southern Companies) from the Auction Rules (applicable to all participants, including Southern Companies):
 - “Rules of the Bid-Based Energy Auction” (Auction Rules)
 - “Rules on Southern Companies’ Energy Auction Participation” (Southern’s Mitigation)
- This restructuring should facilitate 3rd party participation by more easily identifying those aspects of the auction applicable to them.
- The Auction Rules will be posted on the Energy Auction website.

Auction Participant Feedback

Hour-Ahead Auction Timing

- Feedback
 - The opening of the bid period needs to be earlier
- Current Timing
 - Bid Period opens at 60 minutes prior to Delivery Hour
 - Bid Period closes at 45 minutes prior to Delivery Hour
- Proposed Revised Timing
 - Bid Period opens at *75 minutes* prior to Delivery Hour
 - Bid Period closes at *60 minutes* prior to Delivery Hour

Hour-Ahead Auction Timing

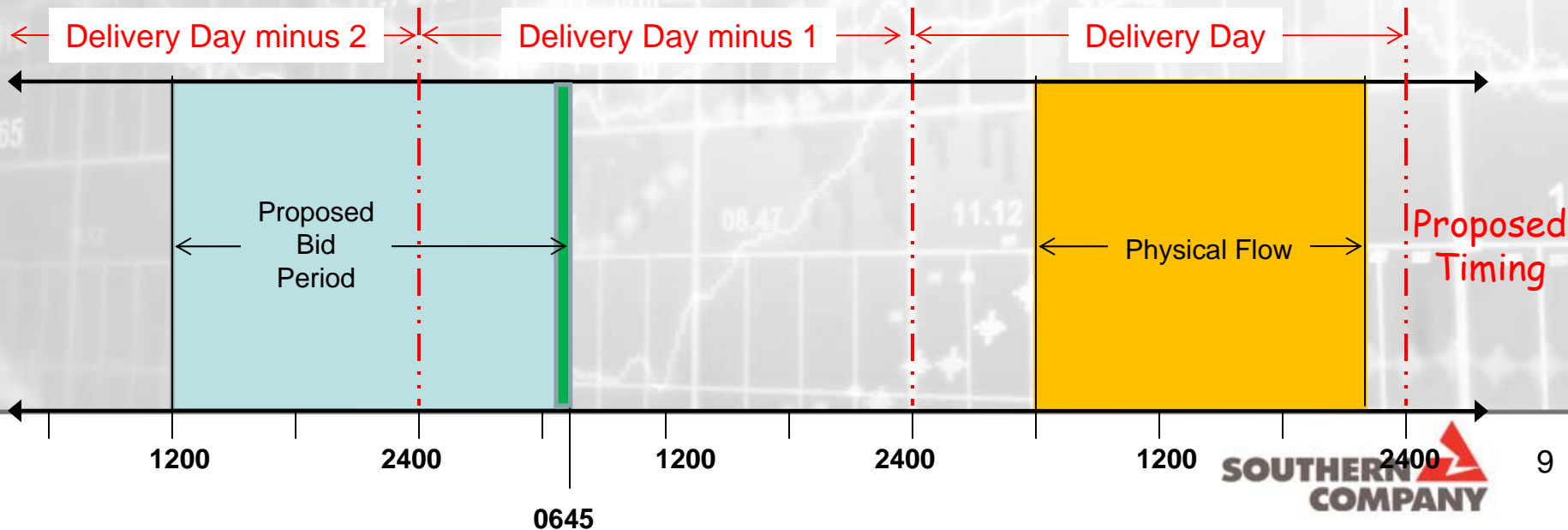
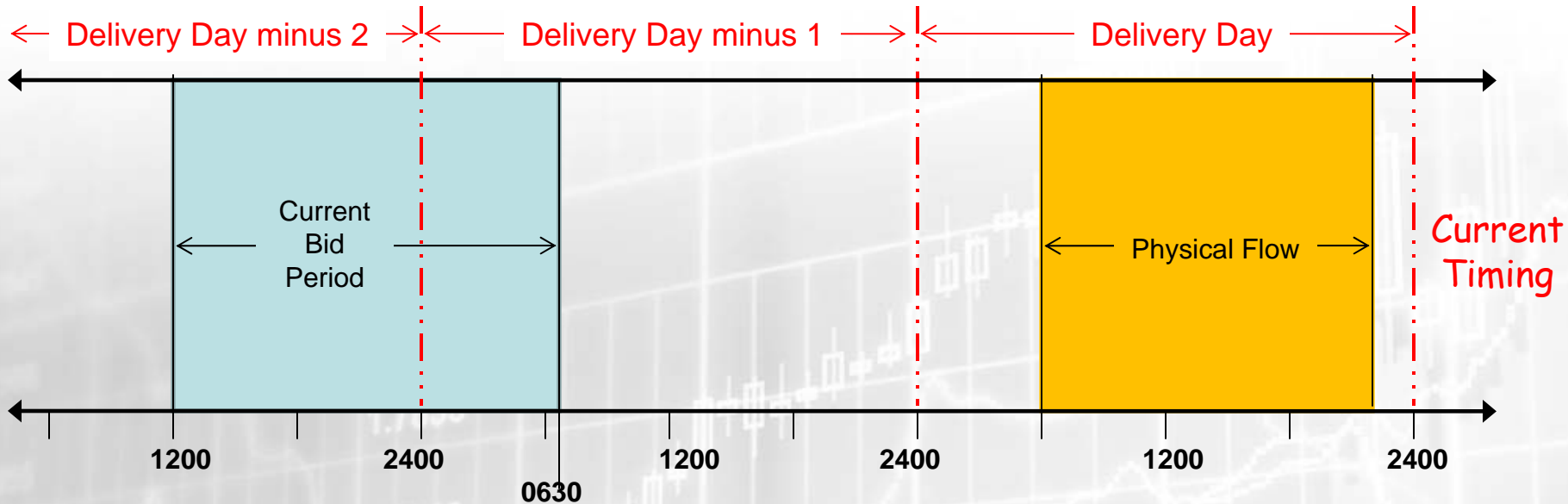


Auction Participant Feedback

Day-Ahead Auction Timing

- Feedback
 - The closing of the bid period needs to be later
- Current Timing
 - Bid Period opens at Noon two Business Days prior to Delivery Day
 - Bid Period closes at 6:30 AM one Business Day prior to Delivery Day
- Proposed Revised Timing
 - Bid Period opens at Noon two Business Days prior to Delivery Day
 - Bid Period closes at **6:45 AM** one Business Day prior to Delivery Day

Day-Ahead Auction Timing



Auction Participant Feedback

Implied Heat Rate in the Day-Ahead Auction

- Feedback
 - Eliminate the use of the implied heat rate
- Response
 - The requirement to submit bids and offers in an implied heat rate format will be eliminated (subject to the condition below) and replaced a \$/MWH format for such bids and offers.
 - The implied heat rate format was put in place to protect against fuel price risk associated with Southern Companies being required to submit offers at the opening of each bid period.
 - Given the elimination of the implied heat rate format for day-ahead offers, Southern Companies will submit day-ahead offers in accordance with the same Auction Rules applicable to all sellers.

Independent Auction Administrator

- Objective: To address any lingering perceptions regarding the protection of 3rd Party Bid/Offer information
- Primary Responsibility
 - Manage, safeguard and store, subject to defined confidentiality provisions, all bid, offer and other transaction-related information, including the participant agreements and user registration materials related to Energy Auction participants

Administrative Fee

- To offset the administrative cost of the expanded Energy Auction (*e.g.*, software changes, Independent Auction Administrator, etc.), buyers and sellers will each be charged \$0.02/MWH for all matched transactions
- Annual True-Up Provision
 - Revenues received in excess of incremental costs incurred by Southern Companies for the expansion will be reimbursed
 - Unrecovered costs will be rolled forward into the next recovery period