

RATE CNP ADJUSTMENT FOR COMMERCIAL OPERATION OF CERTIFICATED NEW PLANT

By order of the Alabama Public Service Commission dated October 29, 2004 in Dockets #18117 and #18416.

Effective for December 1, 1982 billings and thereafter; modified effective for July 1, 1985 billings and thereafter; modified effective for April 1, 1990 billings and thereafter; modified effective for April, 2000 billings and thereafter; modified effective for January, 2005 billings and thereafter.

PAGE 1 of 9	EFFECTIVE DATE November 1, 2004	REVISION Fourth
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AVAILABILITY

Same as the specific rate incorporating this Rate CNP by reference.

APPLICABILITY

Applicable as an integral part of each rate schedule of the Company in which reference is made to this Rate CNP.

EXPLANATORY STATEMENT

Rate CNP is designed to adjust monthly billings to recover certain costs associated with: (i) a generating facility of the Company that has been the subject of a certificate of convenience and necessity issued by Alabama Public Service Commission; and/or (ii) a power purchase arrangement that has been the subject of a certificate of convenience and necessity issued by Alabama Public Service Commission; and/or (iii) compliance with environmental laws, regulations, or other such mandates. The billing mechanism to recover such costs is hereinafter referred to as the "CNP Adjustment", and is comprised of the CNP Plant Factor, the CNP Purchase Factor, and the CNP Environmental Factor. Rate CNP is made a part of each of the rate schedules of the Company to which Rate CNP is applicable and any modification, amendment or replacement of such rate schedules. All bills rendered under such rate schedules of the Company will be subject to the CNP Adjustment.

DERIVATION OF CNP ADJUSTMENT

The CNP Adjustment to be applied to each kilowatt-hour in the affected monthly billings shall be the CNP Factor associated with certificated generating facilities (as described in Subpart A below), the CNP Factor associated with certificated purchase arrangements (as described in Subpart B below), and the CNP Factor associated with environmental compliance (as described in Subpart C below). Those factors shall be derived as follows:

A. CNP FACTOR FOR CERTIFICATED GENERATING FACILITIES

The CNP Factor associated with certificated generating facilities ("CNP Plant Factor") is based upon the financial effects resulting from the commercial operation of such facilities (i.e., when "Construction work in progress - Electric" is closed for accounting purposes to "Electric plant in service"). The amount of this CNP Plant Factor shall be determined by the following steps:

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PAGE 2 of 9	EFFECTIVE DATE November 1, 2004	REVISION Fourth
----------------	------------------------------------	--------------------

- (1) The additions to "Electric plant in service" (Account 101) by reason of the commercial operation of the certificated plant will be taken from the books of account of the Company, as closed for the month in which commercial operation commences.
- (2) Amounts from Item (1) will be separated to retail electric service by application of jurisdictional separation factors set forth in the most recent cost-of-service study filed by the Company with the Commission.
- (3) The weighted cost of capital shall be determined by use of the embedded costs of debt, preferred stock and tax credits at the close of the month in which the commercial operation commences and weighting shall be accomplished by applying the capital structure ratios then prevailing. The cost of common equity in such determination shall be the higher of: (a) the "adjusting point" of the Equity Return Range under Rate RSE as then operative; or (b) the allowed rate of return on common equity as then reflected in the most recent rate order of the Commission.
- (4) The income tax requirement associated with the preferred stock and common equity weighted cost of capital shall be determined by the formula: [combined tax rate ÷ (1 - combined tax rate)] (preferred stock weighted cost plus common equity weighted cost). The combined tax rate shall be calculated as

$$T = \frac{F + S - 2FS}{1 - FS}$$

where "F" is the statutory Federal income tax rate and "S" is the statutory State income tax rate.

- (5) The "additional retail revenue requirement" will be computed by the multiplication of Item (2) above times the total of Items (3) and (4) above.
- (6) The total retail kilowatt-hours sold during the twelve (12) months ending with the month in which commercial operation commences shall be determined from the books of account.
- (7) The additional retail revenue requirement (Item (5) above) will be divided by said number of kilowatt-hours (Item (6) above), with the resulting amount rounded to the nearest .0001 cent.

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PAGE 3 of 9	EFFECTIVE DATE November 1, 2004	REVISION Fourth
-----------------------	---	---------------------------

B. CNP FACTOR FOR CERTIFICATED POWER PURCHASE ARRANGEMENTS

The CNP Factor associated with certificated power purchase arrangements ("CNP Purchase Factor") is based upon the cost of all such arrangements. The amount of the CNP Purchase Factor shall be determined by the following steps:

- (1) The estimated cost of all such purchases (excluding the energy cost recoverable through Rate ECR) will be projected for the twelve (12) month period from April 1 through March 31.
- (2) The amount from Item (1) will be separated to retail electric service by application of the expense jurisdictional separation factor set forth in the most recent cost-of-service study filed by the Company with the Commission.
- (3) The amount of any over-recovery or under-recovery balance, as of the end of the immediately preceding calendar year, will be determined.
- (4) The "additional retail revenue requirement" will be computed by the addition of Items (2) and (3) above.
- (5) The total retail kilowatt-hours will be projected for the twelve (12) month period from April 1 through March 31.
- (6) The additional retail revenue requirement (Item (4) above) will be divided by the total retail kilowatt-hours (Item (5) above), with the resulting amount rounded to the nearest .0001 cent.

C. CNP FACTOR FOR ENVIRONMENTAL COMPLIANCE

The CNP factor associated with environmental compliance ("CNP Environmental Factor") is based upon the cost of compliance with environmental laws, regulations, and/or other mandates having a similar purpose ("environmental mandates"). The amount of the CNP Environmental Factor shall be determined by the following steps:

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PAGE 4 of 9	EFFECTIVE DATE November 1, 2004	REVISION Fourth
----------------	------------------------------------	--------------------

- (1) Projected in service plant balances associated with capital additions to certificated generating facilities (or any other capital additions as made necessary subsequent to the effective date of this Subpart C) in order to comply with environmental mandates will be determined for the upcoming twelve (12) month period from January 1 to December 31 ("environmental cost year").
- (2) The plant balances calculated in Item (1) (less (a) any projected balance of associated accumulated depreciation, (b) any projected balance of associated accumulated deferred income taxes, and (c) any projected balance of accumulated tax credits) will be summed and divided by twelve (12) to derive the "average net environmental plant balance". The average net environmental plant balance (less any portion of that balance associated with unit power sales agreements or other wholesale power arrangements of a similar nature) will then be separated to retail electric service by application of jurisdictional separation factors set forth in the most recent cost-of-service study filed by the Company with the Commission to derive the "retail average net environmental plant balance".
- (3) The weighted cost of capital shall be determined by use of the embedded costs of debt, preferred stock and common equity as of September 30 prior to the environmental cost year and weighting shall be accomplished by applying the capital structure ratios then prevailing. The cost of common equity in such determination shall be the higher of: (a) the "adjusting point" of the Equity Return Range under Rate RSE as then operative; or (b) the allowed rate of return on common equity as then reflected in the most recent rate order of the Commission. If investments attributable to environmental mandates become eligible for tax exempt financing, the amount of facilities financed at the tax exempt rates will be reflected at the embedded tax exempt rate(s) and the balance of investments financed by taxable debt will utilize the embedded cost of debt excluding the tax exempt debt.
- (4) The income tax requirement associated with the preferred stock and common equity weighted cost of capital shall be determined by the formula: [combined tax rate ÷ (1 – combined tax rate)] (preferred stock weighted cost plus common equity weighted cost). The combined tax rate shall be calculated as

$$T = \frac{F + S - 2FS}{1 - FS}$$

Where "F" is the statutory Federal income tax rate and "S" is the statutory State income tax rate.

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PAGE 5 of 9	EFFECTIVE DATE November 1, 2004	REVISION Fourth
----------------	------------------------------------	--------------------

- (5) The revenue requirement for the retail average net environmental plant balance will be computed by the multiplication of Item (2) above times the total of Items (3) and (4) above.
- (6) Projected operation and maintenance expenses and depreciation expense that are attributable to environmental mandates will be determined for the environmental cost year. These expenses (less any portion of the expenses associated with unit power sales agreements or other wholesale power arrangements of a similar nature) will then be separated to retail electric service by application of the expense jurisdictional separation factor set forth in the most recent cost-of-service study filed by the Company with the Commission.
- (7) The amount of any over-recovery or under-recovery (“true-up calculation”) will be determined with respect to Items (5) and (6) above based upon the actual average net environmental plant balance, actual expenses, actual depreciation expense, and actual retail kilowatt-hours, as opposed to the projections of these inputs that were used to derive the CNP Environmental Factor. The true-up calculation will be performed for the current environmental cost year using actual data through September 30 and projections of the inputs for the remainder of the calendar year. A true-up calculation will also be performed for the period of October 1 through December 31 of the prior environmental cost year, together with other appropriate adjustments to reflect actual data to the extent practicable.
- (8) The “additional retail revenue requirement” (“RRR”) will be computed by the addition of Items (5), (6) and (7) above.
- (9) The additional retail revenue requirement (Item (8) above) will be allocated to each of the respective rate schedules that are subject to this Rate CNP in accordance with the formula set out below and will be applied to that schedule so as to adjust the kilowatt-hour charges thereunder.

ALLOCATION FORMULA

$$\frac{(RRR) \frac{BR_s}{BR_t}}{kWh_s} = \text{CNP Environmental Factor}$$

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PAGE 6 of 9	EFFECTIVE DATE November 1, 2004	REVISION Fourth
----------------	------------------------------------	--------------------

Where, for the environmental cost year,

RRR = Additional retail revenue requirement.

BR_s = Base rate revenue recorded for each respective rate schedule that is subject to this Rate CNP for the twelve (12) months ended September 30 prior to the environmental cost year. "Base rate revenue" from any such rate schedule excludes amounts from Rate ECR and Rate T.

BR_t = Total base rate revenues recorded from all rate schedules that are subject to this Rate CNP for the twelve (12) months ended September 30 prior to the environmental cost year. Such base rate revenues exclude amounts from Rate ECR and Rate T.

kWh_s = Estimated kilowatt-hour sales for the respective rate schedule for the upcoming environmental cost year.

The resulting amount (rounded to the nearest .0001 cent) shall be the CNP Environmental Factor for that respective rate schedule.

APPLICABLE CNP ADJUSTMENT

The CNP Plant Factor, the CNP Purchase Factor, and the CNP Environmental Factor shall become effective as follows:

1. With respect to the CNP Plant Factor determined pursuant to Subpart A of this Rate CNP, the per-kilowatt-hour charge associated with each calculation shall be applied in each monthly billing beginning with the second calendar month following the month when the plant begins commercial operation. Each such CNP Plant Factor shall be incorporated in the charge for each kilowatt-hour under each of the rate schedules that are subject to this Rate CNP.
2. With respect to the CNP Purchase Factor determined pursuant to Subpart B of this Rate CNP:

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PAGE 7 of 9	EFFECTIVE DATE November 1, 2004	REVISION Fourth
----------------	------------------------------------	--------------------

- (a) By February 1 of each year, the Company will file with the Commission a CNP Purchase Factor (along with appropriate supporting materials) to be separately applied to each kilowatt-hour under each of the rate schedules that are subject to this Rate CNP. In the event a certificated power purchase will begin or end during the projected twelve (12) month period (April 1 through March 31), the Company will also include in its filing a "replacement factor" that recognizes the effect of such new or terminated purchase.
- (b) The CNP Purchase Factor filed by February of a given year will be effective for April billings of that year and will continue in effect through March billings of the following year; provided, however, that in the event the Company's filing includes a replacement factor, that replacement factor will become effective for the billing month immediately following the month in which the certificated power purchase begins or terminates (in lieu of the initial factor) and will continue in effect for billings through the following March.
- (c) In the event a power purchase that will begin during the projected twelve (12) month period is certificated by the Commission after the CNP Purchase Factor is filed, the Company may either: (i) file a new CNP Purchase Factor that recognizes the effect of the newly-certificated power purchase; or (ii) include the cost associated with that purchase in the balance described in Item (3) until such purchase can be reflected in Item (1) of the next scheduled CNP Purchase Factor calculation. Unanticipated terminations or other such events will be handled in the same manner.
- (d) The Company will make relevant books and records available for inspection by the Staff as needed in order to resolve any questions from the Commission or its Staff concerning application of any CNP Purchase Factor developed hereunder. Reasonable arrangements will be made to preserve the confidentiality of any competitively-sensitive or proprietary data that is accessed during any such inspection.
- (e) In the event this Rate CNP is terminated or withdrawn, the CNP Purchase Factor (including related true-ups) shall nevertheless continue to operate until all previously certificated power purchase arrangements have expired or otherwise been terminated in accordance with their terms.

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PAGE 8 of 9	EFFECTIVE DATE November 1, 2004	REVISION Fourth
----------------	------------------------------------	--------------------

3. With respect to the CNP Environmental Factor determined pursuant to Subpart C of this Rate CNP:
 - (a) For each rate schedule subject to this Rate CNP, the Company will file with the Commission, by December 1 of each year, the CNP Environmental Factor (along with appropriate supporting materials) to be separately applied to each kilowatt-hour thereunder.
 - (b) Each CNP Environmental Factor filed by December 1 of a given year will be effective for January billings of the next succeeding year and will continue in effect through December billings of that same year.
 - (c) Subsequent to the filing of each CNP Environmental Factor, an informal meeting will be convened on the second Tuesday in December, as designated by the Commission, in order to review and discuss the Company's environmental compliance activities. At this meeting, the Company will provide an overview of its environmental compliance plan for the next five (5) years, together with the estimated cost associated with the implementation of that plan. The Company will also discuss pending environmental laws, regulations or other mandates relevant to its environmental compliance activities, as well as any other matters or information that it or the Commission considers relevant and appropriate in that regard. The Company will file the above-referenced environmental compliance plan at least thirty (30) days prior to the December 1 deadline for filing the CNP Environmental Factors described in Item 3(a) above.
 - (d) The Company will make relevant books and records available for inspection by the Commission Staff as needed to resolve any questions concerning the Company's environmental compliance plan and the development of any CNP Environmental Factor hereunder. Reasonable arrangements will be made to preserve the confidentiality of any competitively-sensitive or proprietary data that is accessed during any such inspection.

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PAGE 9 of 9	EFFECTIVE DATE November 1, 2004	REVISION Fourth
-----------------------	---	---------------------------

ADDITIONAL REQUIREMENTS APPLICABLE TO THE CNP PLANT FACTOR

1. By a comparable calculation a lessened retail revenue requirements and a per-kilowatt-hour reduction shall be computed based upon the book closing for the month in which an ownership interest in a previously certificated plant is transferred by the Company so as to remove a portion of said net plant from net plant dedicated to retail electric service. Such adjustment shall be based upon the amount of plant (net of any buy-back by the Company) transferred in excess of the amount of such net plant already allocated to the non-retail jurisdiction. Such adjustment shall be applied in each monthly billing beginning with the second calendar month following such transfer.
2. There will be no adjustment pursuant to Subpart A with respect to Units 2, 3, and 4 of the Company's James H. Miller, Jr. Steam Plant.

SPECIAL RULES

The Special Rules Governing the Operation of Rates RSE and CNP constitute an integral part of this rate.

RATE CNP – APPENDIX A ADJUSTMENT FOR COMMERCIAL OPERATION OF CERTIFICATED NEW PLANT

By order of the Alabama Public Service Commission June 12, 1995 in Docket #24860.

Effective for adjustments to July 1, 1995 billings and July 1, 1996 billings.

PAGE 1 of 1	EFFECTIVE DATE July, 1995 Billings and July, 1996 Billings	REVISION Original
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COMBUSTION TURBINES AT GREENE COUNTY STEAM PLANT

WAIVER OF CNP ADJUSTMENTS APPLICABLE TO NON-RESIDENTIAL RATE SCHEDULES

The CNP adjustments scheduled for July 1995 and July 1996 (when the combustion turbine units at the Greene County Steam Plant will be placed in operation) are waived for all non-residential rate schedules, but will remain effective for all residential rate schedules.