

Southern Company Transmission Business Practices

Distribution of Imbalance Penalties

In Order No. 890, the Federal Energy Regulatory Commission (FERC) required transmission providers to develop a mechanism for distributing imbalance penalty revenues collected as a result of the following provisions of the Tariff:

- Energy imbalance service penalties incurred per Schedules 4
- Generator imbalance service penalties incurred per Schedules 10

The charges assessed by Southern pursuant to Schedules 4 and 10 that are in excess of its incremental costs are referred to as “Imbalance Penalties,” and are subject to distribution to all non-offending customers.

Penalty refunds will be calculated hourly and distributed to non-offending customers on an annual basis on or before the deadline for submitting FERC Form-1.¹

A non-offending customer is defined as the transmission provider on behalf of its native load customers and any transmission customer that purchased transmission, energy imbalance or generator imbalance service during the month the imbalance penalty occurred and was not assessed an imbalance penalty charge during the hour for which the imbalance penalty is being distributed to non-offending customers.

For each hour, Southern will determine the offending customers, non-offending customers, and total imbalance penalties assessed during the hour. For each hour, the penalty revenues will be allocated among non-offending customers in proportion to their respective transmission usage during the hour.

The non-offending customer’s usage during the hour will be determined as follows:

- For each point-to-point, energy imbalance, and generator imbalance customer, its total schedules for the hour.
- For each network integration transmission service customer, its bulk load for the hour.
- For the transmission provider on behalf of its native load customers, the native load customers’ bulk load for the hour.

Imbalance penalties in dispute at the time of the distribution will be excluded from the penalty refund calculations and adjusted for in a subsequent calendar year depending upon the date of resolution (including any judicial appeals).

¹ However, the penalty revenues accrued in 2007 will not be distributed until after FERC accepts Southern’s filing of its penalty distribution methodologies and accepts its filing of its annual compliance showing its penalty assessments and proposed distributions for 2007.