

ALABAMA POWER CO  
Form 10-Q  
May 07, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**  
**o QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended March 31, 2010**  
**OR**  
**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

| <b>Commission<br/>File Number</b> | <b>Registrant, State of Incorporation,<br/>Address and Telephone Number</b>  | <b>I.R.S. Employer<br/>Identification No.</b> |
|-----------------------------------|--|---|
| 1-3526                            | <b>The Southern Company</b><br>(A Delaware Corporation)<br>30 Ivan Allen Jr. Boulevard, N.W.<br>Atlanta, Georgia 30308<br>(404) 506-5000     | 58-0690070                                    |
| 1-3164                            | <b>Alabama Power Company</b><br>(An Alabama Corporation)<br>600 North 18 <sup>th</sup> Street<br>Birmingham, Alabama 35291<br>(205) 257-1000 | 63-0004250                                    |
| 1-6468                            | <b>Georgia Power Company</b><br>(A Georgia Corporation)<br>241 Ralph McGill Boulevard, N.E.<br>Atlanta, Georgia 30308<br>(404) 506-6526      | 58-0257110                                    |
| 0-2429                            | <b>Gulf Power Company</b><br>(A Florida Corporation)<br>One Energy Place<br>Pensacola, Florida 32520<br>(850) 444-6111                       | 59-0276810                                    |
| 001-11229                         | <b>Mississippi Power Company</b><br>(A Mississippi Corporation)<br>2992 West Beach<br>Gulfport, Mississippi 39501<br>(228) 864-1211          | 64-0205820                                    |
| 333-98553                         | <b>Southern Power Company</b><br>(A Delaware Corporation)<br>30 Ivan Allen Jr. Boulevard, N.W.<br>Atlanta, Georgia 30308                     | 58-2598670                                    |



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Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files). Yes  No  (Response applicable only to The Southern Company at this time.)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| <b>Registrant</b>         | <b>Large<br/>Accelerated<br/>Filer</b> | <b>Accelerated<br/>Filer</b> | <b>Non-accelerated<br/>Filer</b> | <b>Smaller<br/>Reporting<br/>Company</b> |
|---------------------------|--|------------------------------|----------------------------------|--|
| The Southern Company      | X                                      |                              |                                  |  |
| Alabama Power Company     |  |                              | X                                |  |
| Georgia Power Company     |  |                              | X                                |  |
| Gulf Power Company        |  |                              | X                                |  |
| Mississippi Power Company |  |                              | X                                |  |
| Southern Power Company    |  |                              | X                                |  |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes  No  (Response applicable to all registrants.)

| <b>Registrant</b>                | <b>Description of<br/>Common Stock</b> | <b>Shares<br/>Outstanding<br/>at March 31, 2010</b> |
|----------------------------------|--|---|
| <b>The Southern Company</b>      | <b>Par Value \$5 Per Share</b>         | <b>824,535,663</b>                                  |
| <b>Alabama Power Company</b>     | <b>Par Value \$40 Per Share</b>        | <b>30,537,500</b>                                   |
| <b>Georgia Power Company</b>     | <b>Without Par Value</b>               | <b>9,261,500</b>                                    |
| <b>Gulf Power Company</b>        | <b>Without Par Value</b>               | <b>3,642,717</b>                                    |
| <b>Mississippi Power Company</b> | <b>Without Par Value</b>               | <b>1,121,000</b>                                    |
| <b>Southern Power Company</b>    | <b>Par Value \$0.01 Per Share</b>      | <b>1,000</b>  |

This combined Form 10-Q is separately filed by The Southern Company, Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, and Southern Power Company. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to the other registrants.

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**March 31, 2010**

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| <b>Term</b>             | <b>Meaning</b>   |
|-------------------------|--|
| 2007 Retail Rate Plan   | Georgia Power's retail rate plan for the years 2008 through 2010   |
| AFUDC                   | Allowance for funds used during construction   |
| Alabama Power           | Alabama Power Company  |
| Clean Air Act           | Clean Air Act Amendments of 1990   |
| DOE                     | U.S. Department of Energy  |
| Duke Energy             | Duke Energy Corporation  |
| ECO Plan                | Mississippi Power's Environmental Compliance Overview Plan   |
| EPA                     | U.S. Environmental Protection Agency   |
| FERC                    | Federal Energy Regulatory Commission   |
| Fitch                   | Fitch Ratings, Inc.  |
| Form 10-K               | Combined Annual Report on Form 10-K of Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power for the year ended December 31, 2009  |
| GAAP                    | Generally Accepted Accounting Principles   |
| Georgia Power           | Georgia Power Company  |
| Gulf Power              | Gulf Power Company   |
| IGCC                    | Integrated coal gasification combined cycle  |
| IIC                     | Intercompany Interchange Contract  |
| Internal Revenue Code   | Internal Revenue Code of 1986, as amended  |
| IRS                     | Internal Revenue Service   |
| KWH                     | Kilowatt-hour  |
| LIBOR                   | London Interbank Offered Rate  |
| Mirant                  | Mirant Corporation   |
| Mississippi Power       | Mississippi Power Company  |
| mmBtu                   | Million British thermal unit   |
| Moody's                 | Moody's Investors Service  |
| MW                      | Megawatt   |
| MWH                     | Megawatt-hour  |
| NRC                     | Nuclear Regulatory Commission  |
| NSR                     | New Source Review  |
| OCI                     | Other Comprehensive Income   |
| PEP                     | Mississippi Power's Performance Evaluation Plan  |
| Power Pool              | The operating arrangement whereby the integrated generating resources of the traditional operating companies and Southern Power are subject to joint commitment and dispatch in order to serve their combined load obligations |
| PPA                     | Power Purchase Agreement   |
| PSC                     | Public Service Commission  |
| Rate ECR registrants    | Alabama Power's energy cost recovery rate mechanism<br>Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power   |
| SCS                     | Southern Company Services, Inc.  |
| SEC                     | Securities and Exchange Commission   |
| Southern Company        | The Southern Company   |
| Southern Company system | Southern Company, the traditional operating companies, Southern Power, and other subsidiaries  |



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**DEFINITIONS**

(continued)

| <b>Term</b>                     | <b>Meaning</b>  |
|---------------------------------|---|
| SouthernLINC Wireless           | Southern Communications Services, Inc.  |
| Southern Nuclear                | Southern Nuclear Operating Company, Inc.  |
| Southern Power                  | Southern Power Company  |
| S&P                             | Standard and Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. |
| traditional operating companies | Alabama Power, Georgia Power, Gulf Power, and Mississippi Power                     |
| Westinghouse                    | Westinghouse Electric Company LLC   |
| wholesale revenues              | revenues generated from sales for resale  |

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

This Quarterly Report on Form 10-Q contains forward-looking statements. Forward-looking statements include, among other things, statements concerning the strategic goals for the wholesale business, retail sales, customer growth, economic recovery, fuel cost recovery and other rate actions, environmental regulations and expenditures, earnings, dividend payout ratios, access to sources of capital, financing activities, start and completion of construction projects, plans and estimated costs for new generation resources, impact of the American Recovery and Reinvestment Act of 2009, impact of recent healthcare legislation, estimated sales and purchases under new power sale and purchase agreements, and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as may, will, could, should, expects, plans, anticipates, believes, estimates, predicts, potential, or continue or the negative of these terms or other similar terminology. There are various factors that could cause actual results to differ materially from those suggested by the forward-looking statements;

accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory change, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry, implementation of the Energy Policy Act of 2005, environmental laws including regulation of water quality, coal combustion byproducts, and emissions of sulfur, nitrogen, carbon, soot, particulate matter, hazardous air pollutants, including mercury, and other substances, and also changes in tax and other laws and regulations to which Southern Company and its subsidiaries are subject, as well as changes in application of existing laws and regulations;
- current and future litigation, regulatory investigations, proceedings, or inquiries, including the pending EPA civil actions against certain Southern Company subsidiaries, FERC matters, IRS audits, and Mirant matters;
- the effects, extent, and timing of the entry of additional competition in the markets in which Southern Company's subsidiaries operate;
- variations in demand for electricity, including those relating to weather, the general economy and recovery from the recent recession, population and business growth (and declines), and the effects of energy conservation measures;
- available sources and costs of fuels;
- effects of inflation;
- ability to control costs and avoid cost overruns during the development and construction of facilities;
- investment performance of Southern Company's employee benefit plans and nuclear decommissioning trusts;
- advances in technology;
- state and federal rate regulations and the impact of pending and future rate cases and negotiations, including rate actions relating to fuel and other cost recovery mechanisms;
- regulatory approvals and actions related to the potential Plant Vogtle expansion, including Georgia PSC and NRC approvals and potential DOE loan guarantees;
- the performance of projects undertaken by the non-utility businesses and the success of efforts to invest in and develop new opportunities;
- internal restructuring or other restructuring options that may be pursued;
- potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed or beneficial to Southern Company or its subsidiaries;
- the ability of counterparties of Southern Company and its subsidiaries to make payments as and when due and to perform as required;
- the ability to obtain new short- and long-term contracts with wholesale customers;
- the direct or indirect effect on Southern Company's business resulting from terrorist incidents and the threat of terrorist incidents;
- interest rate fluctuations and financial market conditions and the results of financing efforts, including Southern Company's and its subsidiaries' credit ratings;
- the ability of Southern Company and its subsidiaries to obtain additional generating capacity at competitive prices;
- catastrophic events such as fires, earthquakes, explosions, floods, hurricanes, droughts, pandemic health events such as influenzas, or other similar occurrences;

the direct or indirect effects on Southern Company's business resulting from incidents affecting the U.S. electric grid or operation of generating resources;  
the effect of accounting pronouncements issued periodically by standard setting bodies; and  
other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed by the registrants from time to time with the SEC.

**Each registrant expressly disclaims any obligation to update any forward-looking statements.**

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**THE SOUTHERN COMPANY  
AND SUBSIDIARY COMPANIES**

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**THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

|  | For the Three Months<br>Ended March 31, |                |
|--|---|----------------|
|  | 2010                                    | 2009           |
|  | <i>(in thousands)</i>                   |                |
| <b>Operating Revenues:</b>   |   |                |
| Retail revenues  | \$ 3,458,920                            | \$ 3,064,659   |
| Wholesale revenues   | 541,587                                 | 451,414        |
| Other electric revenues  | 135,435                                 | 122,798        |
| Other revenues   | 21,375                                  | 27,436         |
| <br>Total operating revenues   | <br>4,157,317                           | <br>3,666,307  |
| <b>Operating Expenses:</b>   |   |                |
| Fuel   | 1,645,158                               | 1,406,267      |
| Purchased power  | 126,566                                 | 107,644        |
| Other operations and maintenance   | 908,024                                 | 871,081        |
| MC Asset Recovery litigation settlement  |   | 202,000        |
| Depreciation and amortization  | 343,380                                 | 389,758        |
| Taxes other than income taxes  | 212,195                                 | 199,880        |
| <br>Total operating expenses   | <br>3,235,323                           | <br>3,176,630  |
| <b>Operating Income</b>  | <b>921,994</b>                          | 489,677        |
| <b>Other Income and (Expense):</b>   |   |                |
| Allowance for equity funds used during construction  | 49,391                                  | 42,612         |
| Interest income  | 4,787                                   | 6,908          |
| Leveraged lease income (losses)  | 6,131                                   | 9,441          |
| Interest expense, net of amounts capitalized   | (222,482)                               | (225,727)      |
| Other income (expense), net  | (13,437)                                | (13,826)       |
| <br>Total other income and (expense)   | <br>(175,610)                           | <br>(180,592)  |
| <b>Earnings Before Income Taxes</b>  | <b>746,384</b>                          | 309,085        |
| Income taxes   | 235,681                                 | 167,169        |
| <br><b>Consolidated Net Income</b>   | <br><b>510,703</b>                      | <br>141,916    |
| <b>Dividends on Preferred and Preference Stock of Subsidiaries</b>                                   | <b>16,195</b>                           | 16,195         |
| <br><b>Consolidated Net Income After Dividends on Preferred and Preference Stock of Subsidiaries</b> | <br><b>\$ 494,508</b>                   | <br>\$ 125,721 |
| <br><b>Common Stock Data:</b>  |   |                |
| Earnings per share (EPS) -   |   |                |
| Basic EPS  | \$ 0.60                                 | \$ 0.16        |
| Diluted EPS  | \$ 0.60                                 | \$ 0.16        |
| Average number of shares of common stock outstanding (in thousands)                                  |   |                |

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|   |                  |           |
|---|------------------|-----------|
| Basic   | <b>822,526</b>   | 779,858   |
| Diluted                                       | <b>824,787</b>   | 781,645   |
| Cash dividends paid per share of common stock | <b>\$ 0.4375</b> | \$ 0.4200 |

The accompanying notes as they relate to Southern Company are an integral part of these condensed financial statements.

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**THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

|   | For the Three Months<br>Ended March 31, |             |
|---|---|-------------|
|   | 2010                                    | 2009        |
|   | <i>(in thousands)</i>                   |             |
| <b>Operating Activities:</b>  |   |             |
| Consolidated net income   | \$ 510,703                              | \$ 141,916  |
| Adjustments to reconcile consolidated net income to net cash provided from operating activities |   |             |
| Depreciation and amortization, total  | 421,568                                 | 456,833     |
| Deferred income taxes   | 107,374                                 | (30,386)    |
| Deferred revenues   | (19,846)                                | (10,732)    |
| Allowance for equity funds used during construction   | (49,391)                                | (42,612)    |
| Leveraged lease income (losses)   | (6,131)                                 | (9,441)     |
| Pension, postretirement, and other employee benefits  | 4,627                                   | 7,974       |
| Stock based compensation expense  | 18,973                                  | 16,955      |
| Hedge settlements   |   | (16,167)    |
| MC Asset Recovery litigation settlement   |   | 202,000     |
| Other, net  | (48,531)                                | 8,550       |
| Changes in certain current assets and liabilities   |   |             |
| -Receivables  | 43,402                                  | 292,162     |
| -Fossil fuel stock  | 133,275                                 | (160,992)   |
| -Materials and supplies   | 696                                     | (12,648)    |
| -Other current assets   | (94,609)                                | (67,717)    |
| -Accounts payable   | (99,951)                                | 80,995      |
| -Accrued taxes  | (72,598)                                | (185,215)   |
| -Accrued compensation   | (112,453)                               | (319,715)   |
| -Other current liabilities  | 1,852                                   | 49,371      |
| Net cash provided from operating activities   | 738,960                                 | 401,131     |
| <b>Investing Activities:</b>  |   |             |
| Property additions  | (1,054,040)                             | (1,136,212) |
| Investment in restricted cash from pollution control revenue bonds                              | (1)                                     | (49,348)    |
| Distribution of restricted cash from pollution control revenue bonds                            | 7,582                                   | 23,079      |
| Nuclear decommissioning trust fund purchases  | (238,302)                               | (379,332)   |
| Nuclear decommissioning trust fund sales  | 189,445                                 | 381,280     |
| Cost of removal, net of salvage   | (28,241)                                | (30,231)    |
| Change in construction payables   | 28,199                                  | 116,003     |
| Other investing activities  | 7,170                                   | (47,269)    |
| Net cash used for investing activities  | (1,088,188)                             | (1,122,030) |
| <b>Financing Activities:</b>  |   |             |
| Increase in notes payable, net  | 132,211                                 | 121,274     |
| Proceeds  |   |             |
| Long-term debt issuances  | 350,000                                 | 1,255,925   |

|  |                   |            |
|--|-------------------|------------|
| Common stock issuances   | <b>147,345</b>    | 151,379    |
| Redemptions  |                   |            |
| Long-term debt   | <b>(255,562)</b>  | (193,417)  |
| Payment of common stock dividends                                      | <b>(359,144)</b>  | (326,780)  |
| Payment of dividends on preferred and preference stock of subsidiaries | <b>(16,194)</b>   | (16,265)   |
| Other financing activities   | <b>(100)</b>      | (15,618)   |
| Net cash provided from (used for) financing activities                 | <b>(1,444)</b>    | 976,498    |
| <b>Net Change in Cash and Cash Equivalents</b>                         | <b>(350,672)</b>  | 255,599    |
| <b>Cash and Cash Equivalents at Beginning of Period</b>                | <b>689,722</b>    | 416,581    |
| <b>Cash and Cash Equivalents at End of Period</b>                      | <b>\$ 339,050</b> | \$ 672,180 |

**Supplemental Cash Flow Information:**

Cash paid during the period for

Interest (net of \$20,828 and \$18,298 capitalized for 2010 and 2009, respectively)

\$ 181,934 \$ 178,560

Income taxes (net of refunds)

\$ 5,610 \$ 172,517

The accompanying notes as they relate to Southern Company are an integral part of these condensed financial statements.

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**THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

|   | At March<br>31,<br>2010 | At December<br>31,<br>2009 |
|---|-------------------------|----------------------------|
|   | <i>(in thousands)</i>   |                            |
| <b>Assets</b>                                       |                         |                            |
| <b>Current Assets:</b>                              |                         |                            |
| Cash and cash equivalents                           | \$ 339,050              | \$ 689,722                 |
| Restricted cash and cash equivalents                | 35,554                  | 43,135                     |
| Receivables   |                         |                            |
| Customer accounts receivable                        | 998,672                 | 953,222                    |
| Unbilled revenues                                   | 337,865                 | 394,492                    |
| Under recovered regulatory clause revenues          | 197,565                 | 333,459                    |
| Other accounts and notes receivable                 | 362,761                 | 374,670                    |
| Accumulated provision for uncollectible accounts    | (26,282)                | (24,568)                   |
| Fossil fuel stock, at average cost                  | 1,313,716               | 1,446,984                  |
| Materials and supplies, at average cost             | 798,024                 | 793,847                    |
| Vacation pay  | 145,758                 | 145,049                    |
| Prepaid expenses                                    | 439,414                 | 508,338                    |
| Other regulatory assets, current                    | 225,164                 | 166,549                    |
| Other current assets                                | 52,870                  | 48,558                     |
| Total current assets                                | 5,220,131               | 5,873,457                  |
| <b>Property, Plant, and Equipment:</b>              |                         |                            |
| In service  | 54,909,016              | 53,587,853                 |
| Less accumulated depreciation                       | 19,371,351              | 19,121,271                 |
| Plant in service, net of depreciation               | 35,537,665              | 34,466,582                 |
| Nuclear fuel, at amortized cost                     | 679,368                 | 593,119                    |
| Construction work in progress                       | 3,781,363               | 4,170,596                  |
| Total property, plant, and equipment                | 39,998,396              | 39,230,297                 |
| <b>Other Property and Investments:</b>              |                         |                            |
| Nuclear decommissioning trusts, at fair value       | 1,167,560               | 1,070,117                  |
| Leveraged leases                                    | 616,394                 | 610,252                    |
| Miscellaneous property and investments              | 284,984                 | 282,974                    |
| Total other property and investments                | 2,068,938               | 1,963,343                  |
| <b>Deferred Charges and Other Assets:</b>           |                         |                            |
| Deferred charges related to income taxes            | 1,133,674               | 1,047,452                  |
| Unamortized debt issuance expense                   | 205,419                 | 208,346                    |
| Unamortized loss on reacquired debt                 | 249,785                 | 254,936                    |
| Deferred under recovered regulatory clause revenues | 501,165                 | 373,245                    |
| Other regulatory assets, deferred                   | 2,788,142               | 2,701,910                  |
| Other deferred charges and assets                   | 414,395                 | 392,880                    |

|   |                      |               |
|---|----------------------|---------------|
| Total deferred charges and other assets | <b>5,292,580</b>     | 4,978,769     |
| <b>Total Assets</b>                     | <b>\$ 52,580,045</b> | \$ 52,045,866 |

The accompanying notes as they relate to Southern Company are an integral part of these condensed financial statements.

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**THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

| <b>Liabilities and Stockholders Equity</b>          | <b>At March<br/>31,<br/>2010</b> | <b>At December<br/>31,<br/>2009</b> |
|---|----------------------------------|-------------------------------------|
|   | <i>(in thousands)</i>            |                                     |
| <b>Current Liabilities:</b>                         |                                  |                                     |
| Securities due within one year                      | \$ 1,243,596                     | \$ 1,112,705                        |
| Notes payable                                       | 769,967                          | 639,199                             |
| Accounts payable                                    | 1,229,108                        | 1,329,448                           |
| Customer deposits                                   | 337,014                          | 330,582                             |
| Accrued taxes                                       |                                  |                                     |
| Accrued income taxes                                | 74,508                           | 13,005                              |
| Unrecognized tax benefits                           | 158,993                          | 165,645                             |
| Other accrued taxes                                 | 200,072                          | 398,384                             |
| Accrued interest                                    | 229,224                          | 218,188                             |
| Accrued vacation pay                                | 181,051                          | 183,911                             |
| Accrued compensation                                | 141,409                          | 247,950                             |
| Liabilities from risk management activities         | 181,525                          | 124,648                             |
| Other regulatory liabilities, current               | 408,816                          | 528,147                             |
| Other current liabilities                           | 360,620                          | 292,016                             |
| <b>Total current liabilities</b>                    | <b>5,515,903</b>                 | <b>5,583,828</b>                    |
| <b>Long-term Debt</b>                               | <b>18,097,952</b>                | <b>18,131,244</b>                   |
| <b>Deferred Credits and Other Liabilities:</b>      |                                  |                                     |
| Accumulated deferred income taxes                   | 6,635,337                        | 6,454,822                           |
| Deferred credits related to income taxes            | 244,573                          | 248,232                             |
| Accumulated deferred investment tax credits         | 451,155                          | 447,650                             |
| Employee benefit obligations                        | 2,299,778                        | 2,304,344                           |
| Asset retirement obligations                        | 1,217,546                        | 1,201,343                           |
| Other cost of removal obligations                   | 1,103,065                        | 1,091,425                           |
| Other regulatory liabilities, deferred              | 325,968                          | 277,932                             |
| Other deferred credits and liabilities              | 412,097                          | 345,888                             |
| <b>Total deferred credits and other liabilities</b> | <b>12,689,519</b>                | <b>12,371,636</b>                   |
| <b>Total Liabilities</b>                            | <b>36,303,374</b>                | <b>36,086,708</b>                   |
| <b>Redeemable Preferred Stock of Subsidiaries</b>   | <b>374,496</b>                   | <b>374,496</b>                      |
| <b>Stockholders Equity:</b>                         |                                  |                                     |
| <b>Common Stockholders Equity:</b>                  |                                  |                                     |
| Common stock, par value \$5 per share               |                                  |                                     |
| Authorized 1 billion shares                         |                                  |                                     |
| Issued March 31, 2010: 825,023,621 Shares;          |                                  |                                     |
| December 31, 2009: 820,151,801 Shares               |                                  |                                     |

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Treasury March 31, 2010: 487,958 Shares;  
December 31, 2009: 505,116 Shares

|   |                      |               |
|---|----------------------|---------------|
| Par value   | <b>4,125,133</b>     | 4,100,742     |
| Paid-in capital                                       | <b>3,141,952</b>     | 2,994,245     |
| Treasury, at cost                                     | <b>(15,508)</b>      | (14,797)      |
| Retained earnings                                     | <b>8,021,810</b>     | 7,884,922     |
| Accumulated other comprehensive loss                  | <b>(78,540)</b>      | (87,778)      |
| <b>Total Common Stockholders Equity</b>               | <b>15,194,847</b>    | 14,877,334    |
| <b>Preferred and Preference Stock of Subsidiaries</b> | <b>707,328</b>       | 707,328       |
| <b>Total Stockholders Equity</b>                      | <b>15,902,175</b>    | 15,584,662    |
| <b>Total Liabilities and Stockholders Equity</b>      | <b>\$ 52,580,045</b> | \$ 52,045,866 |

The accompanying notes as they relate to Southern Company are an integral part of these condensed financial statements.

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**THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

|   | For the Three Months<br>Ended March 31, |            |
|---|---|------------|
|   | <b>2010</b>                             | 2009       |
|   | <i>(in thousands)</i>                   |            |
| <b>Consolidated Net Income</b>  | <b>\$ 510,703</b>                       | \$ 141,916 |
| Other comprehensive income (loss):  |   |            |
| Qualifying hedges:  |   |            |
| Changes in fair value, net of tax of \$786 and \$762, respectively  | <b>1,201</b>                            | 1,147      |
| Reclassification adjustment for amounts included in net income, net of tax of \$3,552 and \$3,833, respectively | <b>5,646</b>                            | 6,098      |
| Marketable securities:  |   |            |
| Change in fair value, net of tax of \$1,144 and \$91, respectively  | <b>2,026</b>                            | 734        |
| Pension and other post retirement benefit plans:  |   |            |
| Reclassification adjustment for amounts included in net income, net of tax of \$230 and \$222, respectively     | <b>365</b>                              | 350        |
| <b>Total other comprehensive income (loss)</b>  | <b>9,238</b>                            | 8,329      |
| Dividends on preferred and preference stock of subsidiaries   | <b>(16,195)</b>                         | (16,195)   |
| <b>Comprehensive Income</b>   | <b>\$ 503,746</b>                       | \$ 134,050 |

The accompanying notes as they relate to Southern Company are an integral part of these condensed financial statements.

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**THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES**  
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**FIRST QUARTER 2010 vs. FIRST QUARTER 2009**

**OVERVIEW**

Discussion of the results of operations is focused on Southern Company's primary business of electricity sales in the Southeast by the traditional operating companies—Alabama Power, Georgia Power, Gulf Power, and Mississippi Power—and Southern Power. The traditional operating companies are vertically integrated utilities providing electric service in four Southeastern states. Southern Power constructs, acquires, owns, and manages generation assets and sells electricity at market-based rates in the wholesale market. Southern Company's other business activities include investments in leveraged lease projects, telecommunications, and renewable energy projects. For additional information on these businesses, see BUSINESS—The Southern Company System—Traditional Operating Companies, Southern Power, and Other Businesses in Item 1 of the Form 10-K.

Southern Company continues to focus on several key performance indicators. These indicators include customer satisfaction, plant availability, system reliability, and earnings per share. For additional information on these indicators, see MANAGEMENT'S DISCUSSION AND ANALYSIS—OVERVIEW—Key Performance Indicators of Southern Company in Item 7 of the Form 10-K.

**RESULTS OF OPERATIONS*****Net Income***

First Quarter 2010 vs. First Quarter 2009

| <i>(change in millions)</i> | <i>(% change)</i> |
|-----------------------------|-------------------|
| \$368.8                     | 293.3             |

Southern Company's first quarter 2010 net income after dividends on preferred and preference stock of subsidiaries was \$494.5 million (\$0.60 per share) compared to \$125.7 million (\$0.16 per share) for the first quarter 2009. The increase for the first quarter 2010 when compared to the corresponding period in 2009 was primarily the result of a litigation settlement agreement with MC Asset Recovery, LLC (MC Asset Recovery) in the first quarter 2009; increases in revenues due to significantly colder weather; the amortization of the regulatory liability related to other cost of removal obligations at Georgia Power as authorized by the Georgia PSC; and revenues associated with increases in rates under Alabama Power's Rate Stabilization and Equalization Plan (Rate RSE) and Rate Certificated New Plant for environmental costs (Rate CNP Environmental) that took effect January 2010. The increase for the first quarter 2010 was partially offset by increases in operations and maintenance expenses.

***Retail Revenues***

First Quarter 2010 vs. First Quarter 2009

| <i>(change in millions)</i> | <i>(% change)</i> |
|-----------------------------|-------------------|
| \$394.3                     | 12.9              |

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**THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES**  
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In the first quarter 2010, retail revenues were \$3.46 billion compared to \$3.06 billion for the corresponding period in 2009. Details of the change to retail revenues follow:

|                              | <b>First Quarter<br/>2010</b> |                   |
|------------------------------|-------------------------------|-------------------|
|                              | <i>(in millions)</i>          | <i>(% change)</i> |
| Retail prior year            | \$3,064.7                     |                   |
| Estimated change in          |                               |                   |
| Rates and pricing            | 75.4                          | 2.5               |
| Sales growth (decline)       | 11.5                          | 0.4               |
| Weather                      | 125.8                         | 4.1               |
| Fuel and other cost recovery | 181.5                         | 5.9               |
| <br>                         |                               |                   |
| Retail current year          | \$3,458.9                     | 12.9%             |

Revenues associated with changes in rates and pricing increased in the first quarter 2010 when compared to the corresponding period in 2009 primarily due to Rate RSE and Rate CNP Environmental increases at Alabama Power effective January 2010 and recovery of environmental compliance costs at Gulf Power.

Revenues attributable to changes in sales growth increased in the first quarter 2010 when compared to the corresponding period in 2009 due to a 2.6% increase in weather-adjusted retail KWH sales. This increase was mainly due to a 6.9% increase in weather-adjusted industrial KWH sales and a 1.6% increase in weather-adjusted residential KWH sales, partially offset by a 0.3% decrease in weather-adjusted commercial KWH sales. The increase in weather-adjusted industrial KWH sales was primarily due to increased production activity in the primary metals, transportation, and chemical sectors.

Revenues resulting from changes in weather increased \$125.8 million in the first quarter 2010 as a result of significantly colder weather when compared to the corresponding period in 2009.

Fuel and other cost recovery revenues increased \$181.5 million in the first quarter 2010 when compared to the corresponding period in 2009. Electric rates for the traditional operating companies include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these provisions, fuel revenues generally equal fuel expenses, including the fuel component of purchased power costs, and do not affect net income.

**Wholesale Revenues**

First Quarter 2010 vs. First Quarter 2009

|                             |                   |
|-----------------------------|-------------------|
| <i>(change in millions)</i> | <i>(% change)</i> |
| \$90.2                      | 20.0              |

In the first quarter 2010, wholesale revenues were \$541.6 million compared to \$451.4 million for the corresponding period in 2009. Wholesale fuel revenues, which are generally offset by wholesale fuel expenses and do not affect net income, increased \$80.7 million in the first quarter 2010 when compared to the corresponding period in 2009.

Excluding wholesale fuel revenues, wholesale revenues increased \$9.5 million in the first quarter 2010 when compared to the corresponding period in 2009. The increase in the first quarter 2010 was primarily due to higher energy prices and a 10.1% increase in KWH sales primarily resulting from significantly colder weather when compared to the corresponding period in 2009. Also contributing to the increase were energy and capacity revenues under a new PPA that began in January 2010 at Southern Power.



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**Other Electric Revenues**

First Quarter 2010 vs. First Quarter 2009

|                             |                   |
|-----------------------------|-------------------|
| <i>(change in millions)</i> | <i>(% change)</i> |
| \$12.6                      | 10.3              |

In the first quarter 2010, other electric revenues were \$135.4 million compared to \$122.8 million for the corresponding period in 2009. The increase in the first quarter 2010 when compared to the corresponding period in 2009 was primarily the result of a \$5.7 million increase in transmission revenues, a \$2.8 million increase in co-generation revenues due to increased sales volume, and a \$2.3 million increase in rents from electric property. The increase in the first quarter 2010 was partially offset by a decrease in revenues from other energy services of \$5.2 million. Revenues from co-generation and other energy services are generally offset by related expenses and do not affect net income.

**Other Revenues**

First Quarter 2010 vs. First Quarter 2009

|                             |                   |
|-----------------------------|-------------------|
| <i>(change in millions)</i> | <i>(% change)</i> |
| \$(6.0)                     | (22.1)            |

In the first quarter 2010, other revenues were \$21.4 million compared to \$27.4 million for the corresponding period in 2009. The decrease for the first quarter 2010 when compared to the corresponding period in 2009 was primarily the result of a \$5.6 million decrease in revenues at SouthernLINC Wireless related to lower average revenue per subscriber and fewer subscribers due to increased competition in the industry.

**Fuel and Purchased Power Expenses**

|   |   |
|---|---|
|   | First Quarter 2010<br>vs.<br>First Quarter 2009 |
|   | <i>(change in millions)</i> <i>(% change)</i>   |
| Fuel*                                   | \$238.9      17.0                               |
| Purchased power                         | 18.9      17.6                                  |
| Total fuel and purchased power expenses | \$257.8   |

\* Fuel includes fuel purchased by the Southern Company system for tolling agreements where power is generated by the provider and is included in purchased power when determining the average cost of purchased power.

Fuel and purchased power expenses for the first quarter 2010 were \$1.77 billion compared to \$1.51 billion for the corresponding period in 2009. The increase for the first quarter 2010 when compared to the corresponding period in 2009 was primarily the result of a \$121.6 million net increase related to total KWHs generated and purchased and a \$136.2 million increase in the average cost of fuel and purchased power. The increase in the total KWHs generated and purchased resulted primarily from increased generation, and the increase in average cost of fuel and purchased power resulted primarily from higher fossil fuel prices when compared to the corresponding period in 2009.

Fuel expenses at the traditional operating companies are generally offset by fuel revenues and do not affect net income. See FUTURE EARNINGS POTENTIAL State PSC Matters Retail Fuel Cost Recovery herein for additional information. Fuel expenses incurred under Southern Power's PPAs are generally the responsibility of the counterparties and do not significantly affect net income.

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Details of Southern Company's cost of generation and purchased power are as follows:

| Average Cost    | First<br>Quarter<br>2010<br><i>(cents per net KWH)</i> | First<br>Quarter<br>2009 | Percent<br>Change |
|-----------------|--|--------------------------|-------------------|
| Fuel            | 3.59   | 3.40                     | 5.6               |
| Purchased power | 7.82   | 5.09                     | 53.6              |

Energy purchases will vary depending on demand for energy within the Southern Company service area, the market cost of available energy as compared to the cost of Southern Company system-generated energy, and the availability of Southern Company system generation.

**Other Operations and Maintenance Expenses**

First Quarter 2010 vs. First Quarter 2009

|                             |                   |
|-----------------------------|-------------------|
| <i>(change in millions)</i> | <i>(% change)</i> |
| \$36.9                      | 4.2               |

In the first quarter 2010, other operations and maintenance expenses were \$908.0 million compared to \$871.1 million for the corresponding period in 2009. The increase in the first quarter 2010 when compared to the corresponding period in 2009 was primarily the result of a \$22.4 million increase in fossil, hydro, and nuclear expenses mainly due to scheduled outages, an \$18.9 million increase in commodity and labor costs, a \$17.6 million increase in affiliated service company expenses, and an \$8.2 million increase in the injuries and damages reserve. The increase for the first quarter 2010 was partially offset by a \$29.4 million charge in the first quarter 2009 in connection with a voluntary attrition plan at Georgia Power.

**MC Asset Recovery Litigation Settlement**

First Quarter 2010 vs. First Quarter 2009

|                             |                   |
|-----------------------------|-------------------|
| <i>(change in millions)</i> | <i>(% change)</i> |
| \$(202.0)                   | N/M               |

N/M Not Meaningful

In the first quarter 2009, Southern Company entered into a litigation settlement agreement with MC Asset Recovery which resulted in a charge of \$202.0 million and required MC Asset Recovery to release Southern Company and certain other designated avoidance actions assigned to MC Asset Recovery in connection with Mirant's plan of reorganization, as well as to release all actions against current or former officers and directors of Mirant and Southern Company that have or could have been filed. The settlement has been completed and resolves all claims by MC Asset Recovery against Southern Company. In June 2009, the case was dismissed with prejudice. See Note (B) to the Condensed Financial Statements under "Mirant Matters" herein for additional information.

**Depreciation and Amortization**

First Quarter 2010 vs. First Quarter 2009

*(change in millions)*  
 \$(46.4)

*(% change)*  
 (11.9)

In the first quarter 2010, depreciation and amortization was \$343.4 million compared to \$389.8 million for the corresponding period in 2009. The decrease for the first quarter 2010 when compared to the corresponding period 2009 was primarily the result of amortization of \$60.3 million of the regulatory liability related to other cost of removal obligations as authorized by the Georgia PSC. This decrease for the first quarter 2010 was partially offset by depreciation on additional plant in service related to transmission, distribution, and environmental projects at Georgia Power. See Note 3 to the financial statements of Southern Company in Item 8 of the Form 10-K under Retail Regulatory Matters Georgia Power Cost of Removal for additional information on the other cost of removal regulatory liability.

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***Taxes Other Than Income Taxes***

First Quarter 2010 vs. First Quarter 2009

| <i>(change in millions)</i> | <i>(% change)</i> |
|-----------------------------|-------------------|
| \$12.3                      | 6.2               |

In the first quarter 2010, taxes other than income taxes were \$212.2 million compared to \$199.9 million for the corresponding period in 2009. The increase for the first quarter 2010 when compared to the corresponding period in 2009 was primarily the result of increases in municipal franchise fees at Georgia Power resulting from increases in retail revenues.

***Allowance for Funds Used During Construction***

First Quarter 2010 vs. First Quarter 2009

| <i>(change in millions)</i> | <i>(% change)</i> |
|-----------------------------|-------------------|
| \$6.8                       | 15.9              |

In the first quarter 2010, AFUDC equity was \$49.4 million compared to \$42.6 million for the corresponding period in 2009. The increase for the first quarter 2010 when compared to the corresponding period in 2009 was primarily due to the increase in construction work in progress balances related to three new combined cycle generating units and two new nuclear generating units at Georgia Power, as well as ongoing environmental and transmission projects. This increase for the first quarter 2010 was partially offset by decreases in construction work in progress related to the completion of environmental projects at generating facilities at Alabama Power and Gulf Power.

***Income Taxes***

First Quarter 2010 vs. First Quarter 2009

| <i>(change in millions)</i> | <i>(% change)</i> |
|-----------------------------|-------------------|
| \$68.5                      | 41.0              |

In the first quarter 2010, income taxes were \$235.7 million compared to \$167.2 million for the corresponding period in 2009. The increase for the first quarter 2010 when compared to the corresponding period in 2009 was primarily the result of higher pre-tax earnings, partially offset by a decrease in uncertain tax positions of \$16.0 million at Georgia Power related to state income tax credits that remain subject to litigation. See **FUTURE EARNINGS POTENTIAL** Income Tax Matters – Georgia State Income Tax Credits and Note (B) to the Condensed Financial Statements under Income Tax Matters – Georgia State Income Tax Credits herein for additional information.

**FUTURE EARNINGS POTENTIAL**

The results of operations discussed above are not necessarily indicative of Southern Company's future earnings potential. The level of Southern Company's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Southern Company's primary business of selling electricity. These factors include the traditional operating companies' ability to maintain a constructive regulatory environment that continues to allow for the recovery of all prudently incurred costs during a time of increasing costs. Other major factors include profitability of the competitive wholesale supply business and federal regulatory policy, which may impact Southern Company's level of participation in this market. Future earnings for the electricity business in the near term will depend, in part, upon maintaining energy sales which is subject to a number of factors. These factors include weather, competition,

new energy contracts with neighboring utilities and other wholesale customers, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in the service area. In addition, the level of future earnings for the wholesale supply business also depends on numerous factors including creditworthiness of

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customers, total generating capacity available in the Southeast, future acquisitions and construction of generating facilities, and the successful remarketing of capacity as current contracts expire. Recessionary conditions have impacted sales for the traditional operating companies and have negatively impacted wholesale capacity revenues at Southern Power. The timing and extent of the economic recovery will impact growth and may impact future earnings. For additional information relating to these issues, see RISK FACTORS in Item 1A and MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL of Southern Company in Item 7 of the Form 10-K.

**Environmental Matters**

Compliance costs related to the Clean Air Act and other environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis. See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under Environmental Matters in Item 8 of the Form 10-K for additional information.

***Carbon Dioxide Litigation******New York Case***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation New York Case of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under Environmental Matters Carbon Dioxide Litigation New York Case in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation. The U.S. Court of Appeals for the Second Circuit denied the defendants' petition for rehearing en banc on March 5, 2010 and granted the defendants request to stay the mandate to allow the defendants to file a petition for writ of certiorari with the U.S. Supreme Court on March 16, 2010. The ultimate outcome of these matters cannot be determined at this time.

***Other Litigation***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation Other Litigation of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under Environmental Matters Carbon Dioxide Litigation Other Litigation in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation related to Hurricane Katrina. On February 26, 2010, the U.S. Court of Appeals for the Fifth Circuit granted the defendants' petition for rehearing en banc. The ultimate outcome of this matter cannot be determined at this time.

***Air Quality***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Air Quality of Southern Company in Item 7 of the Form 10-K for information regarding the Industrial Boiler Maximum Achievable Control Technology regulations. On April 29, 2010, the EPA issued a proposed rule that would establish emissions limits for various hazardous air pollutants typically emitted from industrial boilers, including biomass boilers. The EPA is required to finalize the rules by December 16, 2010. The impact of these proposed regulations will depend on their final form and any legal challenges, and cannot be determined at this time.

***Coal Combustion Byproducts***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Coal Combustion Byproducts of Southern Company in Item 7 of the Form 10-K for information regarding potential additional regulation of coal combustion byproducts. On May 4, 2010, the EPA issued a proposal requesting comments on two potential regulatory options for management and disposal

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of coal combustion byproducts, either of which could require conversion of existing storage units to lined landfills with additional waste management and groundwater monitoring requirements. Under both options, the EPA proposes to exempt the beneficial reuse of coal combustion byproducts from regulation. The outcome of these proposed regulations will depend on their final form and any legal challenges, and cannot be determined at this time. However, additional regulation of coal combustion byproducts could have a significant impact on the traditional operating companies' management, beneficial use, and disposal of such byproducts and could result in significant additional compliance costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

***Global Climate Issues***

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters - Global Climate Issues of Southern Company in Item 7 of the Form 10-K for information regarding the potential for legislation and regulation addressing greenhouse gas and other emissions. On April 1, 2010, the EPA issued a final rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that, once this rule becomes effective on January 2, 2011, carbon dioxide and other greenhouse gases will become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. The EPA also published a proposed rule governing how these programs would be applied to stationary sources, including power plants, in October 2009. The EPA is expected to finalize this proposed rule during 2010. The ultimate outcome of these proposed and final rules cannot be determined at this time and will depend on additional regulatory action and any legal challenges.

***State PSC Matters******Retail Fuel Cost Recovery***

The traditional operating companies each have established fuel cost recovery rates approved by their respective state PSCs. In recent years, the traditional operating companies have experienced volatility in pricing of fuel commodities with higher than expected pricing for coal and uranium and volatile price swings in natural gas. These higher fuel costs have resulted in total under recovered fuel costs included in the balance sheets of Georgia Power and Gulf Power of approximately \$696 million at March 31, 2010. Alabama Power and Mississippi Power collected all previously under recovered fuel costs and, as of March 31, 2010, had a total over recovered fuel balance of \$208 million. At December 31, 2009, total under recovered fuel costs included in the balance sheets of Georgia Power and Gulf Power were approximately \$667 million and Alabama Power and Mississippi Power had a total over recovered fuel balance of \$229 million. Fuel cost recovery revenues are adjusted for differences in actual recoverable fuel costs and amounts billed in current regulated rates. Accordingly, changes to the billing factors will have no significant effect on Southern Company's revenues or net income but will affect cash flow. The traditional operating companies continuously monitor the under or over recovered fuel cost balances. See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - PSC Matters - Fuel Cost Recovery of Southern Company in Item 7 and Note 3 to the financial statements under Retail Regulatory Matters - Alabama Power - Fuel Cost Recovery and Retail Regulatory Matters - Georgia Power - Fuel Cost Recovery in Item 8 of the Form 10-K for additional information. On March 11, 2010, the Georgia PSC voted to approve the stipulation among Georgia Power, the Georgia PSC Public Interest Advocacy Staff, and three customer groups with the exception that the under recovered fuel balance be collected over 42 months. The new rates, which became effective April 1, 2010, will result in an increase of approximately \$373 million to Georgia Power's total annual fuel cost recovery billings. Georgia Power is required to file its next fuel case by March 1, 2011.

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**Legislation**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Legislation of Southern Company in Item 7 of the Form 10-K for additional information.

On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law and, on March 30, 2010, the Health Care and Education Reconciliation Act of 2010 (HCERA and, together with PPACA, the Acts), which makes various amendments to certain aspects of the PPACA, was signed into law. The Acts effectively change the tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide prescription drug benefits that are at least actuarially equivalent to the corresponding benefits provided under Medicare Part D. The federal subsidy paid to employers was introduced as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MPDIMA). Since the 2006 tax year, Southern Company and the traditional operating companies have been receiving the federal subsidy related to certain retiree prescription drug plans that were determined to be actuarially equivalent to the benefit provided under Medicare Part D. Under the MPDIMA, the federal subsidy does not reduce an employer's income tax deduction for the costs of providing such prescription drug plans nor is it subject to income tax individually. Under the Acts, beginning in 2013, an employer's income tax deduction for the costs of providing Medicare Part D-equivalent prescription drug benefits to retirees will be reduced by the amount of the federal subsidy. Under GAAP, any impact from a change in tax law must be recognized in the period enacted regardless of the effective date; however, as a result of state regulatory treatment, this change had no material impact on the financial statements of Southern Company. Southern Company is in the process of assessing the extent to which the legislation may affect its future health care and related employee benefit plan costs. Any future impact on the financial statements of Southern Company cannot be determined at this time.

On April 28, 2010, Southern Company signed a Smart Grid Investment Grant agreement with the DOE, formally accepting a \$165 million grant under the American Recovery and Reinvestment Act of 2009. This funding, to be matched by Southern Company, will be used for transmission and distribution automation and modernization projects.

**Income Tax Matters**

***Georgia State Income Tax Credits***

Georgia Power's 2005 through 2008 income tax filings for the State of Georgia include state income tax credits for increased activity through Georgia ports. Georgia Power had also filed similar claims for the years 2002 through 2004. The Georgia Department of Revenue has not responded to these claims. In July 2007, Georgia Power filed a complaint in the Superior Court of Fulton County to recover the credits claimed for the years 2002 through 2004. On March 22, 2010, the Superior Court of Fulton County ruled in favor of Georgia Power's motion for summary judgment. On April 30, 2010, the Georgia Department of Revenue filed its notice of appeal with the Georgia Court of Appeals. An unrecognized tax benefit has been recorded related to these credits. If Georgia Power prevails, these claims could have a significant, and possibly material, positive effect on Southern Company's net income. If Georgia Power is not successful, payment of the related state tax could have a significant, and possibly material, negative effect on Southern Company's cash flow. See Note 5 to the financial statements of Southern Company under

Unrecognized Tax Benefits in Item 8 of the Form 10-K and Note (G) to the Condensed Financial Statements herein for additional information. The ultimate outcome of this matter cannot now be determined.

**Construction Projects**

The subsidiary companies of Southern Company are engaged in continuous construction programs to accommodate existing and estimated future loads on their respective systems. Southern Company intends to continue its strategy of developing and constructing new generating facilities, including units at Southern Power, proposed new nuclear units, and a proposed IGCC facility, as well as adding environmental control equipment and expanding the transmission and distribution systems. For the traditional operating companies, major generation construction projects are subject to state

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PSC approvals in order to be included in retail rates. While Southern Power generally constructs and acquires generation assets covered by long-term PPAs, any uncontracted capacity could negatively affect future earnings. See Note 7 to the financial statements of Southern Company under Construction Program in Item 8 of the Form 10-K for estimated construction expenditures for the next three years. In addition, see Note 3 to the financial statements of Southern Company under Retail Regulatory Matters Georgia Power Nuclear Construction and Retail Regulatory Matters Integrated Coal Gasification Combined Cycle in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under Retail Regulatory Matters Nuclear and Retail Regulatory Matters Integrated Coal Gasification Combined Cycle herein for additional information.

**Other Matters**

Southern Company and its subsidiaries are involved in various other matters being litigated, regulatory matters, and certain tax-related issues that could affect future earnings. In addition, Southern Company and its subsidiaries are subject to certain claims and legal actions arising in the ordinary course of business. The business activities of Southern Company's subsidiaries are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as opacity and air and water quality standards, has increased generally throughout the United States. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against Southern Company and its subsidiaries cannot be predicted at this time; however, for current proceedings not specifically reported herein or in Note 3 to the financial statements of Southern Company in Item 8 of the Form 10-K, management does not anticipate that the liabilities, if any, arising from such current proceedings would have a material adverse effect on Southern Company's financial statements.

The extent of coastal contamination resulting from the oil spill that began in April 2010 in the Gulf of Mexico has potential impacts on certain steam plant operations as well as potential significant economic impacts on the affected areas within Southern Company's service territory. The ultimate impact of this matter cannot be determined at this time.

See the Notes to the Condensed Financial Statements herein for discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

**ACCOUNTING POLICIES**

**Application of Critical Accounting Policies and Estimates**

Southern Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States. Significant accounting policies are described in Note 1 to the financial statements of Southern Company in Item 8 of the Form 10-K. In the application of these policies, certain estimates are made that may have a material impact on Southern Company's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. See MANAGEMENT'S DISCUSSION AND ANALYSIS ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates of Southern Company in Item 7 of the Form 10-K for a complete discussion of Southern Company's critical accounting policies and estimates related to Electric Utility Regulation, Contingent Obligations, Unbilled Revenues, and Pension and Other Postretirement Benefits.

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**FINANCIAL CONDITION AND LIQUIDITY**

**Overview**

Southern Company's financial condition remained stable at March 31, 2010. Southern Company intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See Sources of Capital and Financing Activities herein for additional information. Net cash provided from operating activities totaled \$739.0 million for the first quarter 2010, an increase of \$337.8 million from the corresponding period in 2009. Significant changes in operating cash flow for the first quarter 2010 as compared to the corresponding period in 2009 include an increase in net income as previously discussed and a reduction in fossil fuel stock. Net cash used for investing activities totaled \$1.1 billion for the first quarter 2010. This amount was unchanged from the corresponding period in 2009 and consisted primarily of property, plant, and equipment additions. Net cash used for financing activities totaled \$1.4 million for the first quarter 2010, a decrease of \$977.9 million from the corresponding period in 2009, primarily due to fewer issuances of securities in the first quarter 2010.

Significant balance sheet changes for the first quarter 2010 include a decrease in cash and cash equivalents of \$351 million and an increase of \$768 million in total property, plant, and equipment for the installation of equipment to comply with environmental standards and construction of generation, transmission, and distribution facilities. Other significant changes include an increase in equity of \$318 million.

The market price of Southern Company's common stock at March 31, 2010 was \$33.16 per share (based on the closing price as reported on the New York Stock Exchange) and the book value was \$18.43 per share, representing a market-to-book ratio of 180%, compared to \$33.32, \$18.15, and 184%, respectively, at the end of 2009. The dividend for the first quarter 2010 was \$0.4375 per share compared to \$0.42 per share in the first quarter 2009. In April 2010, the quarterly dividend payable in June 2010 was increased to \$0.455 per share.

**Capital Requirements and Contractual Obligations**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Southern Company in Item 7 of the Form 10-K for a description of Southern Company's capital requirements for its construction program and other funding requirements associated with scheduled maturities of long-term debt, as well as the related interest, preferred and preference stock dividends, leases, trust funding requirements, other purchase commitments, unrecognized tax benefits and interest, and derivative obligations. Approximately \$1.24 billion will be required through March 31, 2011 for maturities of long-term debt. The construction programs are subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in environmental statutes and regulations; changes in nuclear plants to meet new regulatory requirements; changes in FERC rules and regulations; PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

**Sources of Capital**

Southern Company intends to meet its future capital needs through internal cash flow and external security issuances. Equity capital can be provided from any combination of Southern Company's stock plans, private placements, or public offerings. The amount and timing of additional equity capital to be raised in 2010, as well as in subsequent years, will be contingent on Southern Company's investment opportunities. The traditional operating companies and Southern Power plan to obtain the funds required for construction and other purposes from sources similar to those used in the past, which were primarily from operating cash flows, security issuances, term loans, short-term borrowings, and equity contributions from Southern Company.

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However, the amount, type, and timing of any future financings, if needed, will depend upon prevailing market conditions, regulatory approval, and other factors. See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Sources of Capital of Southern Company in Item 7 of the Form 10-K for additional information.

In addition, on February 16, 2010, the DOE offered Georgia Power a conditional commitment for federal loan guarantees that would apply to future Georgia Power borrowings related to two additional nuclear units on the site of Plant Vogtle (Plant Vogtle Units 3 and 4). Any borrowings guaranteed by the DOE would be full recourse to Georgia Power and secured by a first priority lien on Georgia Power's 45.7% undivided ownership interest in Plant Vogtle Units 3 and 4. Total guaranteed borrowings would not exceed 70% of eligible project costs, or approximately \$3.4 billion, and are expected to be funded by the Federal Financing Bank. Georgia Power has 90 days to accept the conditional commitment. Georgia Power will work with the DOE to finalize loan guarantees. Final approval and issuance of loan guarantees by the DOE are subject to receipt of the combined construction and operating license for Plant Vogtle Units 3 and 4 from the NRC, negotiation of definitive agreements, completion of due diligence by the DOE, receipt of any necessary regulatory approvals, and satisfaction of other conditions. There can be no assurance that the DOE will issue loan guarantees for Georgia Power.

Southern Company's current liabilities frequently exceed current assets because of the continued use of short-term debt as a funding source to meet cash needs as well as scheduled maturities of long-term debt. To meet short-term cash needs and contingencies, Southern Company has substantial cash flow from operating activities and access to capital markets, including commercial paper programs (which are backed by bank credit facilities), to meet liquidity needs. At March 31, 2010, Southern Company and its subsidiaries had approximately \$339 million of cash and cash equivalents and approximately \$4.8 billion of unused committed credit arrangements with banks. Of the unused credit arrangements, \$1.3 billion expire in 2010, \$235 million expire in 2011, and \$3.2 billion expire in 2012. Of the credit arrangements expiring in 2010 and 2011, \$81 million contain provisions allowing two-year term loans executable at expiration and \$692 million contain provisions allowing one-year term loans executable at expiration. At March 31, 2010, approximately \$1.8 billion of the credit facilities were dedicated to providing liquidity support to the traditional operating companies' variable rate pollution control revenue bonds. Subsequent to March 31, 2010, Georgia Power and Gulf Power renewed credit arrangements totaling \$500 million and extended the expiration dates to 2011. Of these facilities, \$200 million contain provisions allowing one-year term loans executable at expiration. See Note 6 to the financial statements of Southern Company under Bank Credit Arrangements in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under Bank Credit Arrangements herein for additional information. The traditional operating companies may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of each of the traditional operating companies. At March 31, 2010, the Southern Company system had approximately \$770 million of commercial paper borrowings outstanding. Management believes that the need for working capital can be adequately met by utilizing commercial paper programs, lines of credit, and cash.

**Off-Balance Sheet Financing Arrangements**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY

Off-Balance Sheet Financing Arrangements of Southern Company in Item 7 and Note 7 to the financial statements of Southern Company under Operating Leases in Item 8 of the Form 10-K for information related to Mississippi Power's lease of a combined cycle generating facility at Plant Daniel. In April 2010, Mississippi Power was required to notify the lessor, Juniper Capital L.P., if it intended to terminate the lease at the end of the initial term expiring in October 2011. Mississippi Power chose not to give notice to terminate the lease. Mississippi Power has the option to purchase the units or renew the lease. The ultimate outcome of this matter cannot be determined at this time.

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**Credit Rating Risk**

Southern Company does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change of certain subsidiaries to BBB and Baa2, or BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, energy price risk management, and construction of new generation. At March 31, 2010, the maximum potential collateral requirements under these contracts at a BBB and Baa2 rating were approximately \$9 million and at a BBB- and/or Baa3 rating were approximately \$453 million. At March 31, 2010, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately \$2.3 billion. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Southern Company's ability to access capital markets, particularly the short-term debt market.

On January 22, 2010, Fitch applied new guidelines regarding the ratings of various hybrid capital instruments and preferred securities of companies in all sectors, including banks, insurers, non-bank financial institutions, and non-financial corporate entities, including utilities. As a result, the Fitch ratings of the preferred stock, preference stock, and long-term debt payable to affiliated trusts of the traditional operating companies decreased from A to A- at Alabama Power and Georgia Power, from A- to BBB+ at Gulf Power, and from A+ to A at Mississippi Power. These ratings are not applicable to the collateral requirements described above.

**Market Price Risk**

Southern Company's market risk exposure relative to interest rate changes for the first quarter 2010 has not changed materially compared with the December 31, 2009 reporting period. Since a significant portion of outstanding indebtedness is at fixed rates, Southern Company is not aware of any facts or circumstances that would significantly affect exposures on existing indebtedness in the near term. However, the impact on future financing costs cannot now be determined.

Due to cost-based rate regulation, the traditional operating companies continue to have limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. In addition, Southern Power's exposure to market volatility in commodity fuel prices and prices of electricity is limited because its long-term sales contracts shift substantially all fuel cost responsibility to the purchaser. However, during 2010, Southern Power is exposed to market volatility in energy-related commodity prices as a result of sales of uncontracted generating capacity. The traditional operating companies continue to manage fuel-hedging programs implemented per the guidelines of their respective state PSCs. To mitigate residual risks relative to movements in electricity prices, the traditional operating companies enter into physical fixed-price contracts for the purchase and sale of electricity through the wholesale electricity market. To mitigate residual risks relative to movements in gas prices, the registrants may enter into fixed-price contracts for natural gas purchases; however, a significant portion of contracts are priced at market. As such, Southern Company had no material change in market risk exposure for the first quarter 2010 when compared with the December 31, 2009 reporting period.

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The changes in fair value of energy-related derivative contracts for the three months ended March 31, 2010 were as follows:

|   | <b>First<br/>Quarter<br/>2010<br/>Changes<br/>Fair Value<br/>(in millions)</b> |
|---|--|
| Contracts outstanding at the beginning of the period, assets (liabilities), net | \$ (178)   |
| Contracts realized or settled   | 43   |
| Current period changes <sup>(a)</sup>   | (137)  |
| <br>Contracts outstanding at the end of the period, assets (liabilities), net   | <br>\$ (272)   |

(a) Current period changes also include the changes in fair value of new contracts entered into during the period, if any.

The change in the fair value positions of the energy-related derivative contracts for the three months ended March 31, 2010 was a decrease of \$94 million, substantially all of which is due to natural gas positions. The change is attributable to both the volume and prices of natural gas. At March 31, 2010, Southern Company had a net hedge volume of 141 million mmBtu (includes location basis of 1.2 million mmBtu) with a weighted average contract cost approximately \$2.05 per mmBtu above market prices, compared to 145 million mmBtu at December 31, 2009 with a weighted average contract cost approximately \$1.23 per mmBtu above market prices. The majority of the natural gas hedges are recovered through the traditional operating companies' fuel cost recovery clauses.

The fair value of energy-related derivative contracts by hedge designation reflected in the financial statements as assets (liabilities) consists of the following:

|                                      | <b>March 31,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|--------------------------------------|---------------------------|------------------------------|
|                                      | <i>(in millions)</i>      |                              |
| <b>Asset (Liability) Derivatives</b> |                           |                              |
| Regulatory hedges                    | \$(272)                   | \$ (175)                     |
| Cash flow hedges                     | 2                         | (2)                          |
| Not designated                       | (2)                       | (1)                          |
| <br>Total fair value                 | <br>\$(272)               | <br>\$ (178)                 |

Energy-related derivative contracts that are designated as regulatory hedges relate to the traditional operating companies' fuel-hedging programs, where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as they are recovered through the fuel cost recovery clauses. Gains and losses on energy-related derivatives that are designated as cash flow hedges are mainly used by Southern Power to hedge anticipated purchases and sales and are initially deferred in OCI before being recognized in income in the same period as the hedged transaction. Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred.

Total net unrealized pre-tax gains (losses) recognized in income for the three months ended March 31, 2010 and 2009 for energy-related derivative contracts that are not hedges were \$(1) million and \$(1) million, respectively.



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The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at March 31, 2010 are as follows:

|  | <b>March 31, 2010</b> |                                |           |       |
|--|-----------------------|--------------------------------|-----------|-------|
|  | Total                 | <b>Fair Value Measurements</b> |           |       |
|  |                       | Fair Value                     | Maturity  |       |
|  |                       | Year 1                         | Years 2&3 | 4&5   |
|  |                       | <i>(in millions)</i>           |           |       |
| Level 1  | \$                    | \$                             | \$        | \$    |
| Level 2  | (272)                 | (163)                          | (108)     | (1)   |
| Level 3  |                       |                                |           |       |
| Fair value of contracts outstanding at end of period | \$(272)               | \$(163)                        | \$(108)   | \$(1) |

Southern Company uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are actively quoted, and thus fall into Level 2. See Note (C) to the Condensed Financial Statements herein for further discussion on fair value measurements.

For additional information, see MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Market Price Risk of Southern Company in Item 7 and Note 1 under Financial Instruments and Note 11 to the financial statements of Southern Company in Item 8 of the Form 10-K and Note (H) to the Condensed Financial Statements herein.

**Financing Activities**

In the first three months of 2010, Georgia Power issued \$350 million aggregate principal amount of Series 2010A Floating Rate Senior Notes due March 15, 2013. The proceeds were used to repay at maturity \$250 million aggregate principal amount of Series 2008A Floating Rate Senior Notes due March 17, 2010, to repay a portion of its outstanding short-term indebtedness, and for general corporate purposes, including Georgia Power's continuous construction program. Southern Company issued \$149 million of common stock through the Southern Investment Plan and employee and director stock plans. The proceeds were primarily used to repay short-term and long-term indebtedness and to fund ongoing construction projects. See Southern Company's Condensed Consolidated Statements of Cash Flows herein for further details regarding financing activities during the first three months of 2010.

Subsequent to March 31, 2010, Gulf Power issued \$175 million aggregate principal amount of Series 2010A 4.75% Senior Notes due April 15, 2020. The proceeds will be used to repay at maturity \$140 million aggregate principal amount of Series 2009A Floating Rate Senior Notes due June 28, 2010, to repay a portion of its outstanding short-term indebtedness, and for general corporate purposes, including Gulf Power's continuous construction program. Gulf Power settled \$100 million of interest rate hedges related to the Series 2010A Senior Note issuance at a gain of approximately \$1.5 million. The gain will be amortized to interest expense, in earnings, over 10 years.

In addition to any financings that may be necessary to meet capital requirements and contractual obligations, Southern Company and its subsidiaries plan to continue, when economically feasible, a program to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit.

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**PART I**

**Item 3. Quantitative And Qualitative Disclosures About Market Risk.**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Market Price Risk herein for each registrant and Note 1 to the financial statements of each registrant under Financial Instruments, Note 11 to the financial statements of Southern Company, Alabama Power, and Georgia Power, and Note 10 to the financial statements of Gulf Power, Mississippi Power, and Southern Power in Item 8 of the Form 10-K. Also, see Note (H) to the Condensed Financial Statements herein for information relating to derivative instruments.

**Item 4. Controls and Procedures.**

(a) Evaluation of disclosure controls and procedures.

As of the end of the period covered by this quarterly report, Southern Company conducted an evaluation under the supervision and with the participation of Southern Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures (as defined in Sections 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based upon this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the disclosure controls and procedures are effective.

(b) Changes in internal controls.

There have been no changes in Southern Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the first quarter 2010 that have materially affected or are reasonably likely to materially affect Southern Company's internal control over financial reporting.

**Item 4T. Controls and Procedures.**

(a) Evaluation of disclosure controls and procedures.

As of the end of the period covered by this quarterly report, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power conducted separate evaluations under the supervision and with the participation of each company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures (as defined in Sections 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based upon these evaluations, the Chief Executive Officer and the Chief Financial Officer, in each case, concluded that the disclosure controls and procedures are effective.

(b) Changes in internal controls.

There have been no changes in Alabama Power's, Georgia Power's, Gulf Power's, Mississippi Power's, or Southern Power's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the first quarter 2010 that have materially affected or are reasonably likely to materially affect Alabama Power's, Georgia Power's, Gulf Power's, Mississippi Power's, or Southern Power's internal control over financial reporting.

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**ALABAMA POWER COMPANY**

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**ALABAMA POWER COMPANY**  
**CONDENSED STATEMENTS OF INCOME (UNAUDITED)**

|   | For the Three Months<br>Ended March 31, |              |
|---|---|--------------|
|   | <b>2010</b>                             | 2009         |
|   | <i>(in thousands)</i>                   |              |
| <b>Operating Revenues:</b>  |   |              |
| Retail revenues   | <b>\$ 1,176,009</b>                     | \$ 1,058,137 |
| Wholesale revenues, non-affiliates                                  | <b>171,824</b>                          | 158,695      |
| Wholesale revenues, affiliates                                      | <b>98,334</b>                           | 84,352       |
| Other revenues  | <b>48,978</b>                           | 38,582       |
| <b>Total operating revenues</b>                                     | <b>1,495,145</b>                        | 1,339,766    |
| <b>Operating Expenses:</b>  |   |              |
| Fuel  | <b>489,043</b>                          | 483,233      |
| Purchased power, non-affiliates                                     | <b>17,883</b>                           | 15,544       |
| Purchased power, affiliates   | <b>51,643</b>                           | 41,560       |
| Other operations and maintenance                                    | <b>310,773</b>                          | 276,859      |
| Depreciation and amortization                                       | <b>145,283</b>                          | 143,416      |
| Taxes other than income taxes                                       | <b>81,873</b>                           | 80,281       |
| <b>Total operating expenses</b>                                     | <b>1,096,498</b>                        | 1,040,893    |
| <b>Operating Income</b>   | <b>398,647</b>                          | 298,873      |
| <b>Other Income and (Expense):</b>                                  |   |              |
| Allowance for equity funds used during construction                 | <b>13,238</b>                           | 16,725       |
| Interest income   | <b>4,038</b>                            | 4,122        |
| Interest expense, net of amounts capitalized                        | <b>(74,562)</b>                         | (72,207)     |
| Other income (expense), net   | <b>(6,501)</b>                          | (6,372)      |
| <b>Total other income and (expense)</b>                             | <b>(63,787)</b>                         | (57,732)     |
| <b>Earnings Before Income Taxes</b>                                 | <b>334,860</b>                          | 241,141      |
| Income taxes  | <b>122,246</b>                          | 85,009       |
| <b>Net Income</b>   | <b>212,614</b>                          | 156,132      |
| <b>Dividends on Preferred and Preference Stock</b>                  | <b>9,866</b>                            | 9,866        |
| <b>Net Income After Dividends on Preferred and Preference Stock</b> | <b>\$ 202,748</b>                       | \$ 146,266   |

**CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

|   | For the Three Months<br>Ended March 31, |            |
|---|---|------------|
|   | <b>2010</b>                             | 2009       |
|   | <i>(in thousands)</i>                   |            |
| <b>Net Income After Dividends on Preferred and Preference Stock</b> | <b>\$ 202,748</b>                       | \$ 146,266 |

|   |                   |            |
|---|-------------------|------------|
| Other comprehensive income (loss):  |                   |            |
| Qualifying hedges:  |                   |            |
| Changes in fair value, net of tax of \$28 and \$(886), respectively   | <b>46</b>         | (1,457)    |
| Reclassification adjustment for amounts included in net income, net of tax of \$610 and \$1,061, respectively | <b>1,003</b>      | 1,745      |
| <b>Total other comprehensive income (loss)</b>  | <b>1,049</b>      | 288        |
| <b>Comprehensive Income</b>   | <b>\$ 203,797</b> | \$ 146,554 |

The accompanying notes as they relate to Alabama Power are an integral part of these condensed financial statements.

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**ALABAMA POWER COMPANY**  
**CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)**

|  | For the Three Months<br>Ended March 31, |            |
|--|---|------------|
|  | <b>2010</b>                             | 2009       |
|  | <i>(in thousands)</i>                   |            |
| <b>Operating Activities:</b>   |   |            |
| Net income   | \$ 212,614                              | \$ 156,132 |
| Adjustments to reconcile net income to net cash provided from operating activities |   |            |
| Depreciation and amortization, total   | 168,138                                 | 164,488    |
| Deferred income taxes  | 46,926                                  | (25,795)   |
| Allowance for equity funds used during construction                                | (13,238)                                | (16,725)   |
| Pension, postretirement, and other employee benefits                               | (7,713)                                 | (4,933)    |
| Stock based compensation expense   | 2,930                                   | 2,851      |
| Other, net   | 5,975                                   | 8,858      |
| Changes in certain current assets and liabilities                                  |   |            |
| -Receivables   | 10,961                                  | 173,032    |
| -Fossil fuel stock   | 13,355                                  | (11,654)   |
| -Materials and supplies  | (3,033)                                 | (6,775)    |
| -Other current assets  | (77,543)                                | (73,518)   |
| -Accounts payable  | (75,215)                                | (136,678)  |
| -Accrued taxes   | 69,072                                  | 123,746    |
| -Accrued compensation  | (41,078)                                | (64,030)   |
| -Other current liabilities   | (38,405)                                | 7,928      |
| Net cash provided from operating activities  | 273,746                                 | 296,927    |
| <b>Investing Activities:</b>   |   |            |
| Property additions   | (254,694)                               | (337,984)  |
| Investment in restricted cash from pollution control revenue bonds                 | (1)                                     | (160)      |
| Distribution of restricted cash from pollution control revenue bonds               | 5,241                                   | 13,774     |
| Nuclear decommissioning trust fund purchases                                       | (39,486)                                | (60,600)   |
| Nuclear decommissioning trust fund sales   | 39,486                                  | 60,600     |
| Cost of removal, net of salvage  | (5,035)                                 | (5,109)    |
| Other investing activities   | (43,245)                                | 3,025      |
| Net cash used for investing activities   | (297,734)                               | (326,454)  |
| <b>Financing Activities:</b>   |   |            |
| Decrease in notes payable, net   |   | (24,995)   |
| Proceeds   |   |            |
| Capital contributions from parent company  | 5,677                                   | 6,682      |
| Senior notes issuances   |   | 500,000    |
| Payment of preferred and preference stock dividends                                | (9,863)                                 | (9,868)    |
| Payment of common stock dividends  | (135,675)                               | (130,700)  |
| Other financing activities   | (1,196)                                 | (5,822)    |
| Net cash provided from (used for) financing activities                             | (141,057)                               | 335,297    |

|   |                   |            |
|---|-------------------|------------|
| <b>Net Change in Cash and Cash Equivalents</b>          | <b>(165,045)</b>  | 305,770    |
| <b>Cash and Cash Equivalents at Beginning of Period</b> | <b>368,016</b>    | 28,181     |
| <b>Cash and Cash Equivalents at End of Period</b>       | <b>\$ 202,971</b> | \$ 333,951 |

**Supplemental Cash Flow Information:**

Cash paid during the period for

|   |                  |           |
|---|------------------|-----------|
| Interest (net of \$5,159 and \$6,992 capitalized for 2010 and 2009, respectively) | <b>\$ 58,529</b> | \$ 54,875 |
| Income taxes (net of refunds)   | <b>\$ 18,872</b> | \$ (640)  |

The accompanying notes as they relate to Alabama Power are an integral part of these condensed financial statements.

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**ALABAMA POWER COMPANY**  
**CONDENSED BALANCE SHEETS (UNAUDITED)**

|   | At March<br>31,<br>2010 | At December<br>31,<br>2009 |
|---|-------------------------|----------------------------|
|   | <i>(in thousands)</i>   |                            |
| <b>Assets</b>                                     |                         |                            |
| <b>Current Assets:</b>                            |                         |                            |
| Cash and cash equivalents                         | \$ 202,971              | \$ 368,016                 |
| Restricted cash and cash equivalents              | 31,471                  | 36,711                     |
| Receivables                                       |                         |                            |
| Customer accounts receivable                      | 353,676                 | 322,292                    |
| Unbilled revenues                                 | 116,784                 | 134,875                    |
| Under recovered regulatory clause revenues        | 372                     | 37,338                     |
| Other accounts and notes receivable               | 27,158                  | 33,522                     |
| Affiliated companies                              | 82,479                  | 61,508                     |
| Accumulated provision for uncollectible accounts  | (11,690)                | (9,551)                    |
| Fossil fuel stock, at average cost                | 381,122                 | 394,511                    |
| Materials and supplies, at average cost           | 329,149                 | 326,074                    |
| Vacation pay                                      | 54,591                  | 53,607                     |
| Prepaid expenses                                  | 187,147                 | 111,320                    |
| Other regulatory assets, current                  | 49,878                  | 34,347                     |
| Other current assets                              | 6,034                   | 6,203                      |
| Total current assets                              | 1,811,142               | 1,910,773                  |
| <b>Property, Plant, and Equipment:</b>            |                         |                            |
| In service  | 19,380,772              | 18,574,229                 |
| Less accumulated provision for depreciation       | 6,652,573               | 6,558,864                  |
| Plant in service, net of depreciation             | 12,728,199              | 12,015,365                 |
| Nuclear fuel, at amortized cost                   | 289,139                 | 253,308                    |
| Construction work in progress                     | 628,855                 | 1,256,311                  |
| Total property, plant, and equipment              | 13,646,193              | 13,524,984                 |
| <b>Other Property and Investments:</b>            |                         |                            |
| Equity investments in unconsolidated subsidiaries | 61,103                  | 59,628                     |
| Nuclear decommissioning trusts, at fair value     | 513,629                 | 489,795                    |
| Miscellaneous property and investments            | 69,430                  | 69,749                     |
| Total other property and investments              | 644,162                 | 619,172                    |
| <b>Deferred Charges and Other Assets:</b>         |                         |                            |
| Deferred charges related to income taxes          | 408,602                 | 387,447                    |
| Prepaid pension costs                             | 141,710                 | 132,643                    |
| Other regulatory assets, deferred                 | 759,220                 | 750,492                    |
| Other deferred charges and assets                 | 212,159                 | 198,582                    |

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|   |                      |               |
|---|----------------------|---------------|
| Total deferred charges and other assets | <b>1,521,691</b>     | 1,469,164     |
| <b>Total Assets</b>                     | <b>\$ 17,623,188</b> | \$ 17,524,093 |

The accompanying notes as they relate to Alabama Power are an integral part of these condensed financial statements.

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**ALABAMA POWER COMPANY**  
**CONDENSED BALANCE SHEETS (UNAUDITED)**

| <b>Liabilities and Stockholder's Equity</b>         | <b>At March<br/>31,<br/>2010</b> | <b>At December<br/>31,<br/>2009</b> |
|---|----------------------------------|-------------------------------------|
|   | <i>(in thousands)</i>            |                                     |
| <b>Current Liabilities:</b>                         |                                  |                                     |
| Securities due within one year                      | \$ 300,386                       | \$ 100,000                          |
| Accounts payable                                    |                                  |                                     |
| Affiliated  | 189,679                          | 194,675                             |
| Other   | 210,732                          | 328,400                             |
| Customer deposits                                   | 87,263                           | 86,975                              |
| Accrued taxes                                       |                                  |                                     |
| Accrued income taxes                                | 68,988                           | 14,789                              |
| Other accrued taxes                                 | 51,046                           | 31,918                              |
| Accrued interest                                    | 62,651                           | 65,455                              |
| Accrued vacation pay                                | 44,751                           | 44,751                              |
| Accrued compensation                                | 31,131                           | 71,286                              |
| Liabilities from risk management activities         | 49,010                           | 37,844                              |
| Over recovered regulatory clause revenues           | 142,008                          | 181,565                             |
| Other current liabilities                           | 43,151                           | 40,020                              |
| <b>Total current liabilities</b>                    | <b>1,280,796</b>                 | <b>1,197,678</b>                    |
| <b>Long-term Debt</b>                               | <b>5,883,255</b>                 | <b>6,082,489</b>                    |
| <b>Deferred Credits and Other Liabilities:</b>      |                                  |                                     |
| Accumulated deferred income taxes                   | 2,359,419                        | 2,293,468                           |
| Deferred credits related to income taxes            | 87,796                           | 88,705                              |
| Accumulated deferred investment tax credits         | 162,732                          | 164,713                             |
| Employee benefit obligations                        | 387,708                          | 387,936                             |
| Asset retirement obligations                        | 496,260                          | 491,007                             |
| Other cost of removal obligations                   | 682,056                          | 668,151                             |
| Other regulatory liabilities, deferred              | 194,894                          | 169,224                             |
| Deferred over recovered regulatory clause revenues  | 43,738                           | 22,060                              |
| Other deferred credits and liabilities              | 45,445                           | 37,113                              |
| <b>Total deferred credits and other liabilities</b> | <b>4,460,048</b>                 | <b>4,322,377</b>                    |
| <b>Total Liabilities</b>                            | <b>11,624,099</b>                | <b>11,602,544</b>                   |
| <b>Redeemable Preferred Stock</b>                   | <b>341,715</b>                   | <b>341,715</b>                      |
| <b>Preference Stock</b>                             | <b>343,373</b>                   | <b>343,373</b>                      |
| <b>Common Stockholder's Equity:</b>                 |                                  |                                     |
| Common stock, par value \$40 per share              |                                  |                                     |
| Authorized - 40,000,000 shares                      |                                  |                                     |

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|   |                      |               |
|---|----------------------|---------------|
| Outstanding - 30,537,500 shares                   | <b>1,221,500</b>     | 1,221,500     |
| Paid-in capital                                   | <b>2,129,233</b>     | 2,119,818     |
| Retained earnings                                 | <b>1,967,602</b>     | 1,900,526     |
| Accumulated other comprehensive loss              | <b>(4,334)</b>       | (5,383)       |
| Total common stockholder's equity                 | <b>5,314,001</b>     | 5,236,461     |
| <b>Total Liabilities and Stockholder's Equity</b> | <b>\$ 17,623,188</b> | \$ 17,524,093 |

The accompanying notes as they relate to Alabama Power are an integral part of these condensed financial statements.

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**ALABAMA POWER COMPANY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**FIRST QUARTER 2010 vs. FIRST QUARTER 2009**

**OVERVIEW**

Alabama Power operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located within the State of Alabama and to wholesale customers in the Southeast. Many factors affect the opportunities, challenges, and risks of Alabama Power's primary business of selling electricity. These factors include the ability to maintain a constructive regulatory environment, to maintain energy sales given the effects of the recession, and to effectively manage and secure timely recovery of costs. These costs include those related to projected long-term demand growth, increasingly stringent environmental standards, fuel, capital expenditures, and restoration following major storms. Appropriately balancing the need to recover these increasing costs with customer prices will continue to challenge Alabama Power for the foreseeable future.

Alabama Power continues to focus on several key performance indicators. These indicators include customer satisfaction, plant availability, system reliability, and net income after dividends on preferred and preference stock.

For additional information on these indicators, see MANAGEMENT'S DISCUSSION AND ANALYSIS OVERVIEW - Key Performance Indicators of Alabama Power in Item 7 of the Form 10-K.

**RESULTS OF OPERATIONS*****Net Income***

First Quarter 2010 vs. First Quarter 2009

|                             |                   |
|-----------------------------|-------------------|
| <i>(change in millions)</i> | <i>(% change)</i> |
| \$56.4                      | 38.6              |

Alabama Power's net income after dividends on preferred and preference stock for the first quarter 2010 was \$202.7 million compared to \$146.3 million for the corresponding period in 2009. The increase was primarily due to increases in rates under Rate Stabilization and Equalization Plan (Rate RSE) and Rate Certificated New Plant for environmental costs (Rate CNP Environmental) that took effect January 2010 as well as significantly colder weather. The increases in revenues were partially offset by increases in operations and maintenance expenses.

Even though Rate RSE and Rate CNP have increased, there was an overall annual reduction in Alabama Power's retail customer billings in 2010. See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - PSC Matters - Retail Rate Adjustments of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Retail Regulatory Matters in Item 8 of the Form 10-K for additional information.

***Retail Revenues***

First Quarter 2010 vs. First Quarter 2009

|                             |                   |
|-----------------------------|-------------------|
| <i>(change in millions)</i> | <i>(% change)</i> |
| \$117.9                     | 11.1              |

In the first quarter 2010, retail revenues were \$1.18 billion compared to \$1.06 billion for the corresponding period in 2009.

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Details of the change to retail revenues are as follows:

|                              | <b>First Quarter<br/>2010</b> |                   |
|------------------------------|-------------------------------|-------------------|
|                              | <i>(in millions)</i>          | <i>(% change)</i> |
| Retail prior year            | \$1,058.1                     |                   |
| Estimated change in          |                               |                   |
| Rates and pricing            | 61.9                          | 5.8               |
| Sales growth (decline)       | 1.6                           | 0.2               |
| Weather                      | 58.1                          | 5.5               |
| Fuel and other cost recovery | (3.7)                         | (0.4)             |
| Retail current year          | \$1,176.0                     | 11.1%             |

Revenues associated with changes in rates and pricing increased in the first quarter 2010 when compared to the corresponding period in 2009 primarily due to Rate RSE and Rate CNP Environmental increases effective January 2010.

Revenues attributable to changes in sales increased slightly in the first quarter 2010 from the corresponding period in 2009. Industrial KWH energy sales increased 10.5% due to an increase in demand resulting from changes in production levels primarily in the chemical and primary metals sectors. Weather-adjusted residential KWH energy sales increased 2.5% due to an increase in customer demand. Weather-adjusted commercial KWH energy sales decreased 0.8% due to a decrease in customer growth.

Revenues resulting from changes in weather increased in the first quarter 2010 when compared to the corresponding period in 2009. In the first quarter 2010, Alabama Power's service territory experienced significantly colder weather. As a result, residential and commercial sales increased 10.6% and 2.5%, respectively.

Fuel and other cost recovery revenues decreased in the first quarter 2010 when compared to the corresponding period in 2009 due to a decrease in costs associated with PPAs certificated by the Alabama PSC and a reduction in Rate Natural Disaster Reserve (NDR) customer billing rate as a result of achieving the target reserve balance. Electric rates include provisions to recognize the full recovery of fuel costs, purchased power costs, PPAs certificated by the Alabama PSC, and costs associated with the NDR. Under these provisions, fuel and other cost recovery revenues generally equal fuel and other cost recovery expenses and do not impact net income.

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Retail Rate Adjustments of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Retail Regulatory Matters in Item 8 of the Form 10-K for additional information.

**Wholesale Revenues Non-Affiliates**

First Quarter 2010 vs. First Quarter 2009

|                             |                   |
|-----------------------------|-------------------|
| <i>(change in millions)</i> | <i>(% change)</i> |
| \$13.1                      | 8.3               |

Wholesale revenues from non-affiliates will vary depending on the market cost of available energy compared to the cost of Alabama Power and Southern Company system-owned generation, demand for energy within the Southern Company service territory, and availability of Southern Company system generation.

In the first quarter 2010, wholesale revenues from non-affiliates were \$171.8 million compared to \$158.7 million for the corresponding period in 2009. This increase was primarily due to a 16.5% increase in the price of energy, partially

offset by a 7.0% decrease in KWH sales.

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**ALABAMA POWER COMPANY**  
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**Wholesale Revenues - Affiliates**

First Quarter 2010 vs. First Quarter 2009

|                             |                   |
|-----------------------------|-------------------|
| <i>(change in millions)</i> | <i>(% change)</i> |
| \$13.9                      | 16.6              |

Wholesale revenues from affiliates will vary depending on demand and the availability and cost of generating resources at each company within the Southern Company system. These affiliate sales are made in accordance with the IIC, as approved by the FERC. These transactions do not have a significant impact on earnings since the energy is generally sold at marginal cost.

In the first quarter 2010, wholesale revenues from affiliates were \$98.3 million compared to \$84.4 million for the corresponding period in 2009. This increase was primarily due to a 12.7% increase in KWH sales and a 3.4% increase in price.

**Other Revenues**

First Quarter 2010 vs. First Quarter 2009

|                             |                   |
|-----------------------------|-------------------|
| <i>(change in millions)</i> | <i>(% change)</i> |
| \$10.4                      | 26.9              |

In the first quarter 2010, other revenues were \$49.0 million compared to \$38.6 million for the corresponding period in 2009. This increase was due to a \$2.8 million increase in revenues from gas-fueled co-generation steam facilities as a result of greater sales volume; a \$1.4 million increase in transmission sales; a \$1.3 million adjustment related to the Open Access Transmission Tariff; a \$0.9 million increase in customer charges related to late fees; and a \$0.8 million increase in pole attachment rentals.

Co-generation steam fuel revenues do not have a significant impact on earnings since they are generally offset by fuel expense.

**Fuel and Purchased Power Expenses**

|   |                    |                   |
|---|--------------------|-------------------|
|   | First Quarter 2010 |                   |
|   | vs.                |                   |
|   | First Quarter 2009 |                   |
|   | <i>(change in</i>  | <i>(% change)</i> |
|   | <i>millions)</i>   |                   |
| Fuel*                                       | \$ 5.8             | 1.2               |
| Purchased power - non-affiliates            | 2.4                | 15.0              |
| Purchased power - affiliates                | 10.1               | 24.3              |
| <br>Total fuel and purchased power expenses | <br>\$18.3         |                   |

\* Fuel includes fuel purchased by Alabama Power for tolling agreements where power is generated by the provider and is included in purchased power when determining the average cost of purchased power.

In the first quarter 2010, total fuel and purchased power expenses were \$558.6 million compared to \$540.3 million for the corresponding period in 2009. This increase was due to a \$28.7 million increase in total KWHs generated and an \$11.7 million increase in the average cost of purchased power, partially offset by a \$19.6 million decrease in the cost

of fuel resulting from a decrease in the average cost of natural gas.

Fuel and purchased power transactions do not have a significant impact on earnings since energy expenses are generally offset by energy revenues through Rate ECR. See FUTURE EARNINGS POTENTIAL FERC and Alabama PSC Matters Retail Fuel Cost Recovery herein for additional information.

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Details of Alabama Power's cost of generation and purchased power are as follows:

| Average Cost    | First<br>Quarter<br>2010   | First<br>Quarter<br>2009 | Percent<br>Change |
|-----------------|----------------------------|--------------------------|-------------------|
|                 | <i>(cents per net KWH)</i> |                          |                   |
| Fuel            | 2.80                       | 2.92                     | (4.1)             |
| Purchased power | 7.08                       | 6.14                     | 15.3              |

In the first quarter 2010, fuel expense was \$489.0 million compared to \$483.2 million for the corresponding period in 2009. The \$5.8 million increase was due to a 34.9% increase in KWHs generated by natural gas.

*Non-Affiliates*

In the first quarter 2010, purchased power expense from non-affiliates was \$17.9 million compared to \$15.5 million for the corresponding period in 2009. This increase was related to a 54.1% increase in the average cost per KWH, partially offset by a 25.3% decrease in the amount of energy purchased.

Energy purchases from non-affiliates will vary depending on the market cost of available energy compared to the cost of Southern Company system-generated energy, demand for energy within the Southern Company system service territory, and availability of Southern Company system generation.

*Affiliates*

In the first quarter 2010, purchased power expense from affiliates was \$51.6 million compared to \$41.5 million for the corresponding period in 2009. This increase was related to a 13.8% increase in the average cost per KWH and a 9.2% increase in the amount of energy purchased.

Energy purchases from affiliates will vary depending on demand and the availability and cost of generating resources at each company within the Southern Company system. These purchases are made in accordance with the IIC, or other contractual agreements, as approved by the FERC.

***Other Operations and Maintenance Expenses***

## First Quarter 2010 vs. First Quarter 2009

|                             |                   |
|-----------------------------|-------------------|
| <i>(change in millions)</i> | <i>(% change)</i> |
| \$33.9                      | 12.2              |

In the first quarter 2010, other operations and maintenance expenses were \$310.8 million compared to \$276.9 million for the corresponding period in 2009. Steam production expenses increased \$25.2 million due to scheduled outage costs, environmental mandates (which were offset by revenues associated with Rate CNP Environmental), and maintenance costs related to increases in contract labor and material expenses. Administration and general expenses increased \$12.2 million related to an increase in affiliated service company expenses, the injuries and damages reserve, and property insurance expense.

***Allowance for Funds Used During Construction***

## First Quarter 2010 vs. First Quarter 2009

|                             |                   |
|-----------------------------|-------------------|
| <i>(change in millions)</i> | <i>(% change)</i> |
| \$(3.5)                     | (20.8)            |

In the first quarter 2010, AFUDC equity was \$13.2 million compared to \$16.7 million for the corresponding period in 2009. This decrease was due to the completion of construction projects related to environmental mandates at generating facilities, partially offset by increases in nuclear facility and general plant projects.

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**ALABAMA POWER COMPANY**  
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***Income Taxes***

First Quarter 2010 vs. First Quarter 2009

| <i>(change in millions)</i> | <i>(% change)</i> |
|-----------------------------|-------------------|
| \$37.2                      | 43.8              |

For the first quarter 2010, income taxes were \$122.2 million compared to \$85.0 million for the corresponding period in 2009. This increase was primarily due to higher pre-tax earnings.

**FUTURE EARNINGS POTENTIAL**

The results of operations discussed above are not necessarily indicative of Alabama Power's future earnings potential. The level of Alabama Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Alabama Power's primary business of selling electricity. These factors include Alabama Power's ability to maintain a constructive regulatory environment that continues to allow for the recovery of all prudently incurred costs during a time of increasing costs. Future earnings in the near term will depend, in part, upon maintaining energy sales which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in Alabama Power's service area. Recessionary conditions have impacted sales; the timing and extent of the economic recovery will impact growth and may impact future earnings. For additional information relating to these issues, see RISK FACTORS in Item 1A and MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL of Alabama Power in Item 7 of the Form 10-K.

**Environmental Matters**

Compliance costs related to the Clean Air Act and other environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis. See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Environmental Matters in Item 8 of the Form 10-K for additional information.

***Carbon Dioxide Litigation******New York Case***

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters - Carbon Dioxide Litigation - New York Case of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Environmental Matters - Carbon Dioxide Litigation - New York Case in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation. The U.S. Court of Appeals for the Second Circuit denied the defendants' petition for rehearing en banc on March 5, 2010 and granted the defendants request to stay the mandate to allow the defendants to file a petition for writ of certiorari with the U.S. Supreme Court on March 16, 2010. The ultimate outcome of these matters cannot be determined at this time.

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**ALABAMA POWER COMPANY**  
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*Other Litigation*

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation Other Litigation of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Environmental Matters Carbon Dioxide Litigation Other Litigation in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation related to Hurricane Katrina. On February 26, 2010, the U.S. Court of Appeals for the Fifth Circuit granted the defendants' petition for rehearing en banc. The ultimate outcome of this matter cannot be determined at this time.

*Coal Combustion Byproducts*

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Coal Combustion Byproducts of Alabama Power in Item 7 of the Form 10-K for information regarding potential additional regulation of coal combustion byproducts. On May 4, 2010, the EPA issued a proposal requesting comments on two potential regulatory options for management and disposal of coal combustion byproducts, either of which could require conversion of existing storage units to lined landfills with additional waste management and groundwater monitoring requirements. Under both options, the EPA proposes to exempt the beneficial reuse of coal combustion byproducts from regulation. The outcome of these proposed regulations will depend on their final form and any legal challenges, and cannot be determined at this time. However, additional regulation of coal combustion byproducts could have a significant impact on Alabama Power's management, beneficial use, and disposal of such byproducts and could result in significant additional compliance costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

*Global Climate Issues*

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Global Climate Issues of Alabama Power in Item 7 of the Form 10-K for information regarding the potential for legislation and regulation addressing greenhouse gas and other emissions. On April 1, 2010, the EPA issued a final rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that, once this rule becomes effective on January 2, 2011, carbon dioxide and other greenhouse gases will become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. The EPA also published a proposed rule governing how these programs would be applied to stationary sources, including power plants, in October 2009. The EPA is expected to finalize this proposed rule during 2010. The ultimate outcome of these proposed and final rules cannot be determined at this time and will depend on additional regulatory action and any legal challenges.

**FERC and Alabama PSC Matters**

*Retail Fuel Cost Recovery*

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Fuel Cost Recovery of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Retail Regulatory Matters Fuel Cost Recovery in Item 8 of the Form 10-K for information regarding Alabama Power's fuel cost recovery. Alabama Power's over recovered fuel costs as of March 31, 2010 totaled \$172.7 million as compared to \$199.6 million at December 31, 2009. These over recovered fuel costs at March 31, 2010 are included in over recovered regulatory clause revenues and deferred over recovered regulatory clause revenues on Alabama Power's Condensed

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Balance Sheets herein. This classification is based on an estimate which includes such factors as weather, generation availability, energy demand, and the price of energy. A change in any of these factors could have a material impact on the timing of any return of the over recovered fuel costs.

***Natural Disaster Cost Recovery***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Natural Disaster Reserve of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Retail Regulatory Matters Natural Disaster Reserve in Item 8 of the Form 10-K for information regarding natural disaster cost recovery. At March 31, 2010, Alabama Power had an accumulated balance of \$76.6 million in the target reserve for future storms, which is included in the Condensed Balance Sheets herein under other regulatory liabilities, deferred.

***Hydro Relicensing***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL FERC Matters of Alabama Power in Item 7 of the Form 10-K for information regarding Alabama Power's applications to the FERC for new licenses for certain of its hydroelectric projects. On March 31, 2010, the FERC issued a new 30-year license for the Lewis Smith and Bankhead developments on the Warrior River. The new license authorizes Alabama Power to continue operating these facilities in a manner consistent with past operations. On April 30, 2010, a stakeholders group filed a request for rehearing of the FERC order issuing the new license. The ultimate outcome of this matter cannot be determined at this time.

***Legislation***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Legislation of Alabama Power in Item 7 of the Form 10-K for additional information.

On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law and, on March 30, 2010, the Health Care and Education Reconciliation Act of 2010 (HCERA and, together with PPACA, the Acts), which makes various amendments to certain aspects of the PPACA, was signed into law. The Acts effectively change the tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide prescription drug benefits that are at least actuarially equivalent to the corresponding benefits provided under Medicare Part D. The federal subsidy paid to employers was introduced as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MPDIMA). Since the 2006 tax year, Alabama Power has been receiving the federal subsidy related to certain retiree prescription drug plans that were determined to be actuarially equivalent to the benefit provided under Medicare Part D. Under the MPDIMA, the federal subsidy does not reduce an employer's income tax deduction for the costs of providing such prescription drug plans nor is it subject to income tax individually. Under the Acts, beginning in 2013, an employer's income tax deduction for the costs of providing Medicare Part D-equivalent prescription drug benefits to retirees will be reduced by the amount of the federal subsidy. Under GAAP, any impact from a change in tax law must be recognized in the period enacted regardless of the effective date; however, as a result of state regulatory treatment, this change had no material impact on the financial statements of Alabama Power. Southern Company is in the process of assessing the extent to which the legislation may affect its future health care and related employee benefit plan costs. Any future impact on the financial statements of Alabama Power cannot be determined at this time.

On April 28, 2010, Southern Company signed a Smart Grid Investment Grant agreement with the DOE, formally accepting a \$165 million grant under the American Recovery and Reinvestment Act of 2009. This funding will be used for transmission and distribution automation and modernization projects. Alabama Power will receive, and will match, \$65 million under this agreement.

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**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Other Matters**

Alabama Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Alabama Power is subject to certain claims and legal actions arising in the ordinary course of business. Alabama Power's business activities are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as opacity and air and water quality standards, has increased generally throughout the United States. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against Alabama Power cannot be predicted at this time; however, for current proceedings not specifically reported herein or in Note 3 to the financial statements of Alabama Power in Item 8 of the Form 10-K, management does not anticipate that the liabilities, if any, arising from such current proceedings would have a material adverse effect on Alabama Power's financial statements.

The extent of coastal contamination resulting from the oil spill that began in April 2010 in the Gulf of Mexico has potential impacts on certain steam plant operations as well as potential significant economic impacts on the affected areas within Southern Company's service territory. The ultimate impact of this matter cannot be determined at this time.

See the Notes to the Condensed Financial Statements herein for discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

**ACCOUNTING POLICIES**

**Application of Critical Accounting Policies and Estimates**

Alabama Power prepares its financial statements in accordance with accounting principles generally accepted in the United States. Significant accounting policies are described in Note 1 to the financial statements of Alabama Power in Item 8 of the Form 10-K. In the application of these policies, certain estimates are made that may have a material impact on Alabama Power's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. See **MANAGEMENT'S DISCUSSION AND ANALYSIS ACCOUNTING POLICIES Application of Critical Accounting Policies and Estimates** of Alabama Power in Item 7 of the Form 10-K for a complete discussion of Alabama Power's critical accounting policies and estimates related to Electric Utility Regulation, Contingent Obligations, Unbilled Revenues, and Pension and Other Postretirement Benefits.

**FINANCIAL CONDITION AND LIQUIDITY**

**Overview**

Alabama Power's financial condition remained stable at March 31, 2010. Alabama Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See **Sources of Capital and Financing Activities** herein for additional information. Net cash provided from operating activities totaled \$273.7 million for the first three months of 2010, compared to \$296.9 million for the corresponding period in 2009. The \$23.2 million decrease in cash provided from operating activities was primarily due to less cash collections of regulatory clause revenues when compared to the prior year, partially offset by increases in net income and deferred income taxes. Net cash used for investing activities totaled \$297.7 million primarily

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

due to gross property additions related to steam generation equipment in the first three months of 2010. Net cash used for financing activities totaled \$141.1 million for the first three months of 2010, compared to \$335.3 million provided in the corresponding period in 2009. The \$476.4 million change is primarily due to fewer issuances of securities. Fluctuations in cash flow from financing activities vary from year-to-year based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for the first quarter 2010 include an increase of \$121.2 million in total property, plant, and equipment primarily due to an increase in environmental-related equipment, an increase of \$54.2 million in accrued income taxes, and an increase of \$66.0 million in accumulated deferred income taxes.

**Capital Requirements and Contractual Obligations**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Alabama Power in Item 7 of the Form 10-K for a description of Alabama Power's capital requirements for its construction program, scheduled maturities of long-term debt, as well as the related interest, derivative obligations, preferred and preference stock dividends, leases, purchase commitments, and trust funding requirements. Approximately \$300 million will be required through March 31, 2011 for maturities of long-term debt. The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in environmental statutes and regulations; changes in nuclear plants to meet new regulatory requirements; changes in FERC rules and regulations; Alabama PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

**Sources of Capital**

Alabama Power plans to obtain the funds required for construction and other purposes from sources similar to those utilized in the past. Recently, Alabama Power has primarily utilized funds from operating cash flows, unsecured debt, common stock, preferred stock, and preference stock. However, the amount, type, and timing of any future financings, if needed, will depend upon regulatory approval, prevailing market conditions, and other factors. See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Sources of Capital of Alabama Power in Item 7 of the Form 10-K for additional information.

Alabama Power's current liabilities sometimes exceed current assets because of Alabama Power's debt due within one year and the periodic use of short-term debt as a funding source primarily to meet scheduled maturities of long-term debt, as well as cash needs, which can fluctuate significantly due to the seasonality of the business. To meet short-term cash needs and contingencies, Alabama Power had at March 31, 2010 cash and cash equivalents of approximately \$203 million and unused committed credit arrangements with banks of approximately \$1.3 billion. Of the unused credit arrangements, \$481 million expire in 2010, \$25 million expire in 2011, and \$765 million expire in 2012. Of the credit arrangements that expire in 2010, \$372 million contain provisions allowing for one-year term loans executable at expiration. Alabama Power expects to renew its credit arrangements, as needed, prior to expiration. The credit arrangements provide liquidity support to Alabama Power's commercial paper borrowings and \$744 million are dedicated to funding purchase obligations related to variable rate pollution control revenue bonds. See Note 6 to the financial statements of Alabama Power under Bank Credit Arrangements in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under Bank Credit Arrangements herein for additional information. Alabama Power may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of Alabama Power and other Southern Company subsidiaries. At March 31, 2010, Alabama Power had no commercial paper borrowings outstanding. Management believes that the need for working capital can be adequately met by utilizing commercial paper programs, lines of credit, and cash.

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**Credit Rating Risk**

Alabama Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- and/or Baa3 or below. These contracts are primarily for physical electricity purchases, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management. At March 31, 2010, the maximum potential collateral requirements under these contracts at a BBB- and/or Baa3 rating were approximately \$4 million. At March 31, 2010, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately \$349 million. Included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Alabama Power's ability to access capital markets, particularly the short-term debt market.

On January 22, 2010, Fitch applied new guidelines regarding the ratings of various hybrid capital instruments and preferred securities of companies in all sectors, including banks, insurers, non-bank financial institutions, and non-financial corporate entities, including utilities. As a result, the Fitch ratings of Alabama Power's preferred stock, preference stock, and long-term debt payable to affiliated trusts decreased from A to A-. These ratings are not applicable to the collateral requirements described above.

**Market Price Risk**

During the first quarter 2010, Alabama Power had interest rate swaps totaling \$576 million expire, which did not materially increase market risk exposure relative to interest rate changes. Since a significant portion of outstanding indebtedness remains at fixed rates, Alabama Power is not aware of any facts or circumstances that would significantly affect exposures on existing indebtedness in the near term. However, the impact on future financing costs cannot now be determined.

Due to cost-based rate regulation, Alabama Power continues to have limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. To mitigate residual risks relative to movements in electricity prices, Alabama Power enters into physical fixed-price contracts for the purchase and sale of electricity through the wholesale electricity market. Alabama Power continues to manage a retail fuel-hedging program implemented per the guidelines of the Alabama PSC. As such, Alabama Power had no material change in market risk exposure for the first quarter 2010 when compared with the December 31, 2009 reporting period.

The changes in fair value of energy-related derivative contracts, the majority of which are composed of regulatory hedges, for the three months ended March 31, 2010 were as follows:

|   | <b>First<br/>Quarter<br/>2010<br/>Changes<br/>Fair Value<br/>(in millions)</b> |
|---|--|
| Contracts outstanding at the beginning of the period, assets (liabilities), net | \$ (44)  |
| Contracts realized or settled   | 14   |
| Current period changes <sup>(a)</sup>   | (37)   |
| Contracts outstanding at the end of the period, assets (liabilities), net       | \$ (67)  |

(a) Current period changes also include the changes in fair value of new contracts entered into during the period, if any.



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The change in the fair value positions of the energy-related derivative contracts for the three months ended March 31, 2010 was a decrease of \$23 million, substantially all of which is due to natural gas positions. The change is attributable to both the volume and prices of natural gas. At March 31, 2010, Alabama Power had a net hedge volume of 32 million mmBtu with a weighted average contract cost approximately \$2.07 per mmBtu above market prices, compared to 36 million mmBtu at December 31, 2009 with a weighted average contract cost approximately \$1.22 per mmBtu above market prices. The majority of the natural gas hedges are recovered through the fuel cost recovery clause.

Regulatory hedges relate to Alabama Power's fuel-hedging program where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as they are recovered through the fuel cost recovery clause.

Unrealized pre-tax gains and losses recognized in income for the three months ended March 31, 2010 and 2009 for energy-related derivative contracts that are not hedges were not material.

The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at March 31, 2010 are as follows:

|  | <b>March 31, 2010</b>          |                             |                          |                          |
|--|--------------------------------|-----------------------------|--------------------------|--------------------------|
|  | <b>Fair Value Measurements</b> |                             |                          |                          |
|  | Total<br>Fair<br>Value         | Maturity<br>Years<br>Year 1 | Maturity<br>Years<br>2&3 | Maturity<br>Years<br>4&5 |
|  | <i>(in millions)</i>           |                             |                          |                          |
| Level 1  | \$                             | \$                          | \$                       | \$                       |
| Level 2  | (67)                           | (49)                        | (18)                     |                          |
| Level 3  |                                |                             |                          |                          |
| Fair value of contracts outstanding at end of period | \$(67)                         | \$(49)                      | \$(18)                   | \$                       |

Alabama Power uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are actively quoted, and thus fall into Level 2. See Note (C) to the Condensed Financial Statements herein for further discussion on fair value measurements.

For additional information, see MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Market Price Risk of Alabama Power in Item 7 and Note 1 under Financial Instruments and Note 11 to the financial statements of Alabama Power in Item 8 of the Form 10-K and Note (H) to the Condensed Financial Statements herein.

**Financing Activities**

Alabama Power did not issue or redeem any securities during the three months ended March 31, 2010.

In addition to any financings that may be necessary to meet capital requirements and contractual obligations, Alabama Power plans to continue, when economically feasible, a program to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit.

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**GEORGIA POWER COMPANY**  
**CONDENSED STATEMENTS OF INCOME (UNAUDITED)**

|   | For the Three Months<br>Ended March 31, |                       |
|---|---|-----------------------|
|   | 2010                                    | 2009                  |
|   | <i>(in thousands)</i>                   |                       |
| <b>Operating Revenues:</b>  |   |                       |
| Retail revenues   | \$ 1,791,574                            | \$ 1,592,395          |
| Wholesale revenues, non-affiliates                                      | 109,624                                 | 95,986                |
| Wholesale revenues, affiliates  | 14,411                                  | 15,210                |
| Other revenues  | 68,556                                  | 62,250                |
| <br>Total operating revenues  | <br>1,984,165                           | <br>1,765,841         |
| <b>Operating Expenses:</b>  |   |                       |
| Fuel  | 757,501                                 | 600,490               |
| Purchased power, non-affiliates   | 81,698                                  | 61,953                |
| Purchased power, affiliates   | 161,937                                 | 197,223               |
| Other operations and maintenance  | 389,281                                 | 390,493               |
| Depreciation and amortization   | 114,182                                 | 167,111               |
| Taxes other than income taxes   | 80,474                                  | 76,248                |
| <br>Total operating expenses  | <br>1,585,073                           | <br>1,493,518         |
| <b>Operating Income</b>   | <b>399,092</b>                          | <b>272,323</b>        |
| <b>Other Income and (Expense):</b>                                      |   |                       |
| Allowance for equity funds used during construction                     | 34,732                                  | 20,754                |
| Interest income   | 413                                     | 1,230                 |
| Interest expense, net of amounts capitalized                            | (92,989)                                | (98,390)              |
| Other income (expense), net   | (5,548)                                 | (6,720)               |
| <br>Total other income and (expense)                                    | <br>(63,392)                            | <br>(83,126)          |
| <b>Earnings Before Income Taxes</b>                                     | <b>335,700</b>                          | <b>189,197</b>        |
| Income taxes  | 93,372                                  | 62,628                |
| <br><b>Net Income</b>   | <br><b>242,328</b>                      | <br><b>126,569</b>    |
| <b>Dividends on Preferred and Preference Stock</b>                      | <b>4,345</b>                            | <b>4,345</b>          |
| <br><b>Net Income After Dividends on Preferred and Preference Stock</b> | <br><b>\$ 237,983</b>                   | <br><b>\$ 122,224</b> |

**CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

|   | For the Three Months<br>Ended March 31, |                   |
|---|---|-------------------|
|   | 2010                                    | 2009              |
|   | <i>(in thousands)</i>                   |                   |
| <b>Net Income After Dividends on Preferred and Preference Stock</b> | <b>\$ 237,983</b>                       | <b>\$ 122,224</b> |

|   |                   |            |
|---|-------------------|------------|
| Other comprehensive income (loss):  |                   |            |
| Qualifying hedges:  |                   |            |
| Changes in fair value, net of tax of \$4 and \$1,180, respectively  | <b>8</b>          | 1,870      |
| Reclassification adjustment for amounts included in net income, net of tax of \$1,798 and \$1,743, respectively | <b>2,851</b>      | 2,763      |
| <b>Total other comprehensive income (loss)</b>  | <b>2,859</b>      | 4,633      |
| <b>Comprehensive Income</b>   | <b>\$ 240,842</b> | \$ 126,857 |

The accompanying notes as they relate to Georgia Power are an integral part of these condensed financial statements.

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**GEORGIA POWER COMPANY**  
**CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)**

|  | For the Three Months<br>Ended March 31, |            |
|--|---|------------|
|  | <b>2010</b>                             | 2009       |
|  | <i>(in thousands)</i>                   |            |
| <b>Operating Activities:</b>   |   |            |
| Net income   | \$ 242,328                              | \$ 126,569 |
| Adjustments to reconcile net income to net cash provided from operating activities |   |            |
| Depreciation and amortization, total   | <b>154,145</b>                          | 199,773    |
| Deferred income taxes  | <b>59,166</b>                           | (7,130)    |
| Deferred revenues  | <b>(17,881)</b>                         | (7,685)    |
| Deferred expenses  | <b>25,104</b>                           | 26,387     |
| Allowance for equity funds used during construction                                | <b>(34,732)</b>                         | (20,754)   |
| Pension, postretirement, and other employee benefits                               | <b>(3,819)</b>                          | (386)      |
| Stock based compensation expense   | <b>3,213</b>                            | 3,340      |
| Hedge settlements  |   | (16,167)   |
| Insurance cash surrender value   |   | 23,700     |
| Other, net   | <b>(23,584)</b>                         | (332)      |
| Changes in certain current assets and liabilities                                  |   |            |
| -Receivables   | <b>(9,093)</b>                          | 13,563     |
| -Fossil fuel stock   | <b>80,926</b>                           | (112,255)  |
| -Materials and supplies  | <b>1,195</b>                            | (5,065)    |
| -Prepaid income taxes  | <b>22,861</b>                           | (5,139)    |
| -Other current assets  | <b>(7,675)</b>                          | 9,627      |
| -Accounts payable  | <b>(16,825)</b>                         | 174,347    |
| -Accrued taxes   | <b>(184,654)</b>                        | (135,100)  |
| -Accrued compensation  | <b>(7,408)</b>                          | (96,144)   |
| -Other current liabilities   | <b>43,485</b>                           | 61,917     |
| Net cash provided from operating activities  | <b>326,752</b>                          | 233,066    |
| <b>Investing Activities:</b>   |   |            |
| Property additions   | <b>(625,060)</b>                        | (640,486)  |
| Distribution of restricted cash from pollution control revenue bonds               |   | 9,305      |
| Nuclear decommissioning trust fund purchases                                       | <b>(198,816)</b>                        | (318,732)  |
| Nuclear decommissioning trust fund sales   | <b>149,959</b>                          | 320,681    |
| Nuclear decommissioning trust securities lending collateral                        | <b>45,395</b>                           | (5,411)    |
| Cost of removal, net of salvage  | <b>(14,115)</b>                         | (16,368)   |
| Change in construction payables, net of joint owner portion                        | <b>41,491</b>                           | 55,767     |
| Other investing activities   | <b>5,072</b>                            | 19,536     |
| Net cash used for investing activities   | <b>(596,074)</b>                        | (575,708)  |
| <b>Financing Activities:</b>   |   |            |
| Decrease in notes payable, net   | <b>(80,879)</b>                         | (76,509)   |
| Proceeds   |   |            |
| Capital contributions from parent company  | <b>460,202</b>                          | 280,016    |

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|   |                  |            |
|---|------------------|------------|
| Senior notes issuances                                  | <b>350,000</b>   | 500,000    |
| Other long-term debt issuances                          |                  | 750        |
| Redemptions   |                  |            |
| Senior notes  | <b>(250,420)</b> | (150,361)  |
| Payment of preferred and preference stock dividends     | <b>(4,348)</b>   | (4,413)    |
| Payment of common stock dividends                       | <b>(205,000)</b> | (184,725)  |
| Other financing activities                              | <b>(1,883)</b>   | (7,554)    |
| Net cash provided from financing activities             | <b>267,672</b>   | 357,204    |
| <b>Net Change in Cash and Cash Equivalents</b>          | <b>(1,650)</b>   | 14,562     |
| <b>Cash and Cash Equivalents at Beginning of Period</b> | <b>14,309</b>    | 132,739    |
| <b>Cash and Cash Equivalents at End of Period</b>       | <b>\$ 12,659</b> | \$ 147,301 |

**Supplemental Cash Flow Information:**

|  |                   |           |
|--|-------------------|-----------|
| Cash paid during the period for  |                   |           |
| Interest (net of \$13,176 and \$9,143 capitalized for 2010 and 2009, respectively) | <b>\$ 62,182</b>  | \$ 60,905 |
| Income taxes (net of refunds)  | <b>\$ (6,197)</b> | \$ 13,330 |

The accompanying notes as they relate to Georgia Power are an integral part of these condensed financial statements.

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**GEORGIA POWER COMPANY**  
CONDENSED BALANCE SHEETS (UNAUDITED)

|   | At March<br>31,<br>2010 | At December<br>31,<br>2009 |
|---|-------------------------|----------------------------|
|   | <i>(in thousands)</i>   |                            |
| <b>Assets</b>                                       |                         |                            |
| <b>Current Assets:</b>                              |                         |                            |
| Cash and cash equivalents                           | \$ 12,659               | \$ 14,309                  |
| Receivables   |                         |                            |
| Customer accounts receivable                        | 496,449                 | 486,885                    |
| Unbilled revenues                                   | 149,417                 | 172,035                    |
| Under recovered regulatory clause revenues          | 185,899                 | 291,837                    |
| Joint owner accounts receivable                     | 166,609                 | 146,932                    |
| Other accounts and notes receivable                 | 47,141                  | 62,758                     |
| Affiliated companies                                | 17,799                  | 11,775                     |
| Accumulated provision for uncollectible accounts    | (9,835)                 | (9,856)                    |
| Fossil fuel stock, at average cost                  | 645,340                 | 726,266                    |
| Materials and supplies, at average cost             | 361,347                 | 362,803                    |
| Vacation pay  | 74,291                  | 74,566                     |
| Prepaid income taxes                                | 73,759                  | 132,668                    |
| Other regulatory assets, current                    | 100,870                 | 76,634                     |
| Other current assets                                | 42,224                  | 62,651                     |
| Total current assets                                | 2,363,969               | 2,612,263                  |
| <b>Property, Plant, and Equipment:</b>              |                         |                            |
| In service  | 25,567,541              | 25,120,034                 |
| Less accumulated provision for depreciation         | 9,607,484               | 9,493,068                  |
| Plant in service, net of depreciation               | 15,960,057              | 15,626,966                 |
| Nuclear fuel, at amortized cost                     | 390,228                 | 339,810                    |
| Construction work in progress                       | 2,619,903               | 2,521,091                  |
| Total property, plant, and equipment                | 18,970,188              | 18,487,867                 |
| <b>Other Property and Investments:</b>              |                         |                            |
| Equity investments in unconsolidated subsidiaries   | 67,452                  | 66,106                     |
| Nuclear decommissioning trusts, at fair value       | 653,931                 | 580,322                    |
| Miscellaneous property and investments              | 38,397                  | 38,516                     |
| Total other property and investments                | 759,780                 | 684,944                    |
| <b>Deferred Charges and Other Assets:</b>           |                         |                            |
| Deferred charges related to income taxes            | 664,831                 | 608,851                    |
| Deferred under recovered regulatory clause revenues | 501,165                 | 373,245                    |
| Other regulatory assets, deferred                   | 1,343,252               | 1,321,904                  |
| Other deferred charges and assets                   | 199,561                 | 205,492                    |

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|   |                      |               |
|---|----------------------|---------------|
| Total deferred charges and other assets | <b>2,708,809</b>     | 2,509,492     |
| <b>Total Assets</b>                     | <b>\$ 24,802,746</b> | \$ 24,294,566 |

The accompanying notes as they relate to Georgia Power are an integral part of these condensed financial statements.

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**GEORGIA POWER COMPANY**  
CONDENSED BALANCE SHEETS (UNAUDITED)

|  | At March<br>31,<br>2010 | At December<br>31,<br>2009 |
|--|-------------------------|----------------------------|
|  | <i>(in thousands)</i>   |                            |
| <b>Liabilities and Stockholders Equity</b>     |                         |                            |
| <b>Current Liabilities:</b>                    |                         |                            |
| Securities due within one year                 | \$ 103,819              | \$ 253,882                 |
| Notes payable                                  | 243,079                 | 323,958                    |
| Accounts payable                               |                         |                            |
| Affiliated                                     | 247,428                 | 238,599                    |
| Other  | 629,714                 | 602,003                    |
| Customer deposits                              | 204,640                 | 200,103                    |
| Accrued taxes                                  |                         |                            |
| Accrued income taxes                           | 26,270                  | 548                        |
| Unrecognized tax benefits                      | 158,210                 | 164,863                    |
| Other accrued taxes                            | 99,088                  | 290,174                    |
| Accrued interest                               | 113,787                 | 89,228                     |
| Accrued vacation pay                           | 55,098                  | 57,662                     |
| Accrued compensation                           | 37,344                  | 42,756                     |
| Liabilities from risk management activities    | 72,074                  | 49,788                     |
| Other cost of removal obligations, current     | 162,000                 | 216,000                    |
| Other regulatory liabilities, current          | 74,985                  | 99,807                     |
| Other current liabilities                      | 148,299                 | 84,319                     |
| Total current liabilities                      | 2,375,835               | 2,713,690                  |
| <b>Long-term Debt</b>                          | <b>8,029,859</b>        | <b>7,782,340</b>           |
| <b>Deferred Credits and Other Liabilities:</b> |                         |                            |
| Accumulated deferred income taxes              | 3,464,872               | 3,389,907                  |
| Deferred credits related to income taxes       | 132,419                 | 133,683                    |
| Accumulated deferred investment tax credits    | 239,186                 | 242,496                    |
| Employee benefit obligations                   | 921,235                 | 923,177                    |
| Asset retirement obligations                   | 686,912                 | 676,705                    |
| Other cost of removal obligations              | 118,037                 | 124,662                    |
| Other deferred credits and liabilities         | 165,310                 | 139,024                    |
| Total deferred credits and other liabilities   | 5,727,971               | 5,629,654                  |
| <b>Total Liabilities</b>                       | <b>16,133,665</b>       | <b>16,125,684</b>          |
| <b>Preferred Stock</b>                         | <b>44,991</b>           | <b>44,991</b>              |
| <b>Preference Stock</b>                        | <b>220,966</b>          | <b>220,966</b>             |
| <b>Common Stockholders Equity:</b>             |                         |                            |
| Common stock, without par value                |                         |                            |

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|   |                      |               |
|---|----------------------|---------------|
| Authorized - 20,000,000 shares                    |                      |               |
| Outstanding - 9,261,500 shares                    | <b>398,473</b>       | 398,473       |
| Paid-in capital                                   | <b>5,056,707</b>     | 4,592,350     |
| Retained earnings                                 | <b>2,965,917</b>     | 2,932,934     |
| Accumulated other comprehensive loss              | <b>(17,973)</b>      | (20,832)      |
| Total common stockholder's equity                 | <b>8,403,124</b>     | 7,902,925     |
| <b>Total Liabilities and Stockholder's Equity</b> | <b>\$ 24,802,746</b> | \$ 24,294,566 |

The accompanying notes as they relate to Georgia Power are an integral part of these condensed financial statements.

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**FIRST QUARTER 2010 vs. FIRST QUARTER 2009**

**OVERVIEW**

Georgia Power operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located within the State of Georgia and to wholesale customers in the Southeast. Many factors affect the opportunities, challenges, and risks of Georgia Power's business of selling electricity. These factors include the ability to maintain a constructive regulatory environment, to maintain energy sales given the effects of the recession, and to effectively manage and secure timely recovery of rising costs. These costs include those related to projected long-term demand growth, increasingly stringent environmental standards, and fuel prices. Georgia Power is currently constructing two new nuclear and three new combined cycle generating units. Appropriately balancing required costs and capital expenditures with customer prices will continue to challenge Georgia Power for the foreseeable future. Georgia Power is required to file a general rate case by July 1, 2010, which will determine whether the 2007 Retail Rate Plan should be continued, modified, or discontinued. On March 11, 2010, the Georgia PSC approved Georgia Power's request to increase its fuel cost recovery rate effective April 1, 2010. Georgia Power is required to file its next fuel cost recovery case by March 1, 2011.

Georgia Power continues to focus on several key performance indicators. These indicators include customer satisfaction, plant availability, system reliability, and net income after dividends on preferred and preference stock. For additional information on these indicators, see MANAGEMENT'S DISCUSSION AND ANALYSIS OVERVIEW - Key Performance Indicators of Georgia Power in Item 7 of the Form 10-K.

**RESULTS OF OPERATIONS*****Net Income***

| <i>(change in millions)</i> | First Quarter 2010 vs. First Quarter 2009 | <i>(% change)</i> |
|-----------------------------|---|-------------------|
| \$115.8                     |   | 94.7              |

Georgia Power's net income after dividends on preferred and preference stock for the first quarter 2010 was \$238.0 million compared to \$122.2 million for the corresponding period in 2009. The increase was primarily due to higher residential base revenues resulting from the significantly colder weather in the first quarter 2010 and the amortization of the regulatory liability related to other cost of removal obligations as authorized by the Georgia PSC.

***Retail Revenues***

| <i>(change in millions)</i> | First Quarter 2010 vs. First Quarter 2009 | <i>(% change)</i> |
|-----------------------------|---|-------------------|
| \$199.2                     |   | 12.5              |

In the first quarter 2010, retail revenues were \$1.8 billion compared to \$1.6 billion for the corresponding period in 2009.

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Details of the change to retail revenues are as follows:

|                        | <b>First Quarter<br/>2010</b> |                   |
|------------------------|-------------------------------|-------------------|
|                        | <i>(in millions)</i>          | <i>(% change)</i> |
| Retail prior year      | \$1,592.4                     |                   |
| Estimated change in    |                               |                   |
| Rates and pricing      | (2.5)                         | (0.2)             |
| Sales growth (decline) | 13.9                          | 0.9               |
| Weather                | 48.0                          | 3.0               |
| Fuel cost recovery     | 139.8                         | 8.8               |
| Retail current year    | \$1,791.6                     | 12.5%             |

Revenues associated with changes in rates and pricing decreased in the first quarter 2010 when compared to the corresponding period in 2009 due to lower contributions from market-driven rates for sales to industrial customers, partially offset by increased environmental compliance cost recovery revenues in accordance with the 2007 Retail Rate Plan.

Revenues attributable to changes in sales increased in the first quarter 2010 when compared to the corresponding period in 2009 representing signs of economic recovery in Georgia Power's sales territory. Weather-adjusted residential KWH sales increased 1.2%, weather-adjusted commercial KWH sales increased 0.9%, and weather-adjusted industrial KWH sales increased 4.6% in the first quarter 2010 when compared to the corresponding period in 2009.

Revenues resulting from changes in weather increased in the first quarter 2010 when compared to the corresponding period in 2009 due to significantly colder weather in the first quarter 2010.

Fuel revenues and costs are allocated between retail and wholesale jurisdictions. Retail fuel cost recovery revenues increased by \$139.8 million in the first quarter of 2010 when compared to the corresponding period in 2009 due to increased KWH sales and higher fuel costs.

Electric rates include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these provisions, fuel revenues generally equal fuel expenses, including the fuel component of purchased power costs, and do not affect net income.

**Wholesale Revenues - Non-Affiliates**

| First Quarter 2010 vs. First Quarter 2009 |                   |
|---|-------------------|
| <i>(change in millions)</i>               | <i>(% change)</i> |
| \$13.6                                    | 14.2              |

Wholesale revenues from non-affiliates will vary depending on the market cost of available energy compared to the cost of Georgia Power and Southern Company system-owned generation, demand for energy within the Southern Company service territory, and the availability of Southern Company system generation.

In the first quarter 2010, wholesale revenues from non-affiliates were \$109.6 million compared to \$96.0 million in the corresponding period in 2009. This increase was due to a 6.4% increase in KWH sales due to higher demand primarily resulting from significantly colder weather in the first quarter 2010.

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**Other Revenues**

| First Quarter 2010 vs. First Quarter 2009 | (change in millions) | (% change) |
|---|----------------------|------------|
|   | \$6.3                | 10.1       |

In the first quarter 2010, other revenues were \$68.6 million compared to \$62.3 million in the corresponding period in 2009. This increase was due to a \$2.8 million increase in transmission revenues due to the increased usage of Georgia Power's transmission system by non-affiliated companies and for work performed for the other owners of the integrated transmission system, a \$1.3 million increase in pole attachment and equipment rentals revenue, and a \$1.5 million increase from customer fees.

**Fuel and Purchased Power Expenses**

|  | First Quarter 2010   | vs. |  | First Quarter 2009 |
|--|----------------------|-----|--|--------------------|
|  | (change in millions) |     |  | (% change)         |
| Fuel*  | \$157.0              |     |  | 26.1               |
| Purchased power - non-affiliates               | 19.7                 |     |  | 31.9               |
| Purchased power - affiliates                   | (35.3)               |     |  | (17.9)             |
| <b>Total fuel and purchased power expenses</b> | <b>\$141.4</b>       |     |  |                    |

\* Fuel includes fuel purchased by Georgia Power for tolling agreements where power is generated by the provider and is included in purchased power when determining the average cost of purchased power.

In the first quarter 2010, total fuel and purchased power expenses were \$1.0 billion compared to \$859.7 million in the corresponding period in 2009. The increase was due to a \$44.3 million increase related to higher KWHs generated primarily due to higher customer demand as a result of significantly colder weather and a \$97.1 million increase in the average cost of fuel.

Fuel and purchased power transactions do not have a significant impact on earnings since energy expenses are generally offset by energy revenues through Georgia Power's fuel cost recovery clause. See FUTURE EARNINGS POTENTIAL - Georgia PSC Matters - Retail Fuel Cost Recovery herein for additional information.

Details of Georgia Power's cost of generation and purchased power are as follows:

|                 | First Quarter 2010  | First Quarter 2009 | Percent Change |
|-----------------|---------------------|--------------------|----------------|
|                 | (cents per net KWH) |                    |                |
| Average Cost    | 3.78                | 3.23               | 17.0           |
| Fuel            | 6.36                | 6.40               | (0.6)          |
| Purchased power |                     |                    |                |

In the first quarter 2010, fuel expense was \$757.5 million compared to \$600.5 million in the corresponding period in 2009. This increase was due to a 17.0% increase in the average cost of fuel per KWH generated and a 10.3% increase of KWHs generated as a result of higher KWH demand.

*Non-Affiliates*

In the first quarter 2010, purchased power expense from non-affiliates was \$81.7 million compared to \$62.0 million in the corresponding period in 2009. This increase was due to a 39.2% increase in the average cost per KWH purchased reflecting additional tolling agreements associated with PPAs that went into effect in June 2009 and a 0.4% increase in the volume of KWHs purchased.

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Energy purchases from non-affiliates will vary depending on the market cost of available energy compared to the cost of Southern Company system-generated energy, demand for energy within the Southern Company system service territory, and availability of Southern Company system generation.

***Affiliates***

In the first quarter 2010, purchased power expense from affiliates was \$161.9 million compared to \$197.2 million in the corresponding period in 2009. This decrease was due to a 10.3% decrease in the average cost per KWH purchased following the expiration of a PPA in December 2009 and a 3.9% decrease in the volume of KWHs purchased.

Energy purchases from affiliated companies will vary depending on demand and the availability and cost of generating resources at each company within the Southern Company system. These purchases are made in accordance with the IIC or other contractual agreements, as approved by the FERC.

***Other Operations and Maintenance Expenses***

| First Quarter 2010 vs. First Quarter 2009 |                   |
|---|-------------------|
| <i>(change in millions)</i>               | <i>(% change)</i> |
| \$(1.2)                                   | (0.3)             |

In the first quarter 2010, other operations and maintenance expenses were \$389.3 million compared to \$390.5 million in the corresponding period in 2009. This decrease was due to a \$29.4 million charge in the first quarter 2009 in connection with a voluntary attrition plan under which 579 employees elected to resign their positions effective March 31, 2009 and a \$3.6 million decrease in uncollectible account expense in 2010, partially offset by increases of \$16.8 million in power generation, \$5.5 million in transmission and distribution, and \$7.5 million in other administrative and general expenses due to cost containment in 2009.

***Depreciation and Amortization***

| First Quarter 2010 vs. First Quarter 2009 |                   |
|---|-------------------|
| <i>(change in millions)</i>               | <i>(% change)</i> |
| \$(52.9)                                  | (31.7)            |

In the first quarter 2010, depreciation and amortization was \$114.2 million compared to \$167.1 million in the corresponding period in 2009. This decrease was due to the amortization of \$60.3 million of the regulatory liability related to other cost of removal obligations as authorized by the Georgia PSC, partially offset by depreciation on additional plant in service related to transmission, distribution, and environmental projects. See Note 3 to the financial statements of Georgia Power under "Retail Regulatory Matters - Rate Plans" in Item 8 of the Form 10-K for additional information on the other cost of removal regulatory liability, which became effective in July 2009.

***Taxes Other Than Income Taxes***

| First Quarter 2010 vs. First Quarter 2009 |                   |
|---|-------------------|
| <i>(change in millions)</i>               | <i>(% change)</i> |
| \$4.3                                     | 5.5               |

In the first quarter 2010, taxes other than income taxes were \$80.5 million compared to \$76.2 million in the corresponding period in 2009. This increase was due to higher municipal franchise fees resulting from retail revenue increases during the first quarter 2010.

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**Allowance for Funds Used During Construction**

| <i>(change in millions)</i> | First Quarter 2010 vs. First Quarter 2009 | <i>(% change)</i> |
|-----------------------------|---|-------------------|
| \$13.9                      |   | 67.4              |

In the first quarter 2010, AFUDC equity was \$34.7 million compared to \$20.8 million in the corresponding period in 2009. This increase was due to the increase in construction work in progress balances related to three new combined cycle generating units at Plant McDonough, two new nuclear generating units at Plant Vogtle, and ongoing environmental and transmission projects.

**Income Taxes**

| <i>(change in millions)</i> | First Quarter 2010 vs. First Quarter 2009 | <i>(% change)</i> |
|-----------------------------|---|-------------------|
| \$30.8                      |   | 49.1              |

In the first quarter 2010, income taxes were \$93.4 million compared to \$62.6 million in the corresponding period in 2009. This increase was due to higher pre-tax earnings partially offset by a decrease in uncertain tax positions of \$16.0 million related to state income tax credits that remain subject to litigation. See FUTURE EARNINGS POTENTIAL – Income Tax Matters herein and Notes 3 and 5 to the financial statements of Georgia Power under Income Tax Matters and Unrecognized Tax Benefits, respectively, in Item 8 of the Form 10-K and Notes (B) and (G) to the Condensed Financial Statements herein under Income Tax Matters – Georgia State Income Tax Credits and Unrecognized Tax Benefits, respectively, for additional information.

**FUTURE EARNINGS POTENTIAL**

The results of operations discussed above are not necessarily indicative of Georgia Power's future earnings potential. The level of Georgia Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Georgia Power's business of selling electricity. These factors include Georgia Power's ability to maintain a constructive regulatory environment that continues to allow for the recovery of all prudently incurred costs during a time of increasing costs. Future earnings in the near term will depend, in part, upon maintaining energy sales which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in Georgia Power's service area. Recessionary conditions have impacted sales; the timing and extent of the economic recovery will impact growth and may impact future earnings. For additional information relating to these issues, see RISK FACTORS in Item 1A and MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL of Georgia Power in Item 7 of the Form 10-K.

**Environmental Matters**

Compliance costs related to the Clean Air Act and other environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – Environmental Matters of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under Environmental Matters in Item 8 of the Form 10-K for additional information.

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***Carbon Dioxide Litigation***

*New York Case*

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters - Carbon Dioxide Litigation New York Case of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under Environmental Matters Carbon Dioxide Litigation New York Case in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation. The U.S. Court of Appeals for the Second Circuit denied the defendants' petition for rehearing en banc on March 5, 2010 and granted the defendants request to stay the mandate to allow the defendants to file a petition for writ of certiorari with the U.S. Supreme Court on March 16, 2010. The ultimate outcome of these matters cannot be determined at this time.

*Other Litigation*

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters - Carbon Dioxide Litigation Other Litigation of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under Environmental Matters Carbon Dioxide Litigation - Other Litigation in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation related to Hurricane Katrina. On February 26, 2010, the U.S. Court of Appeals for the Fifth Circuit granted the defendants' petition for rehearing en banc. The ultimate outcome of this matter cannot be determined at this time.

***Air Quality***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters - Environmental Statutes and Regulations Air Quality of Georgia Power in Item 7 of the Form 10-K for information regarding the Industrial Boiler Maximum Achievable Control Technology regulations. On April 29, 2010, the EPA issued a proposed rule that would establish emissions limits for various hazardous air pollutants typically emitted from industrial boilers, including biomass boilers. The EPA is required to finalize the rules by December 16, 2010. The impact of these proposed regulations will depend on their final form and any legal challenges, and cannot be determined at this time.

***Coal Combustion Byproducts***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters - Environmental Statutes and Regulations Coal Combustion Byproducts of Georgia Power in Item 7 of the Form 10-K for information regarding potential additional regulation of coal combustion byproducts. On May 4, 2010, the EPA issued a proposal requesting comments on two potential regulatory options for management and disposal of coal combustion byproducts, either of which could require conversion of existing storage units to lined landfills with additional waste management and groundwater monitoring requirements. Under both options, the EPA proposes to exempt the beneficial reuse of coal combustion byproducts from regulation. The outcome of these proposed regulations will depend on their final form and any legal challenges, and cannot be determined at this time. However, additional regulation of coal combustion byproducts could have a significant impact on Georgia Power's management, beneficial use, and disposal of such byproducts and could result in significant additional compliance costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

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***Global Climate Issues***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters - Global Climate Issues of Georgia Power in Item 7 of the Form 10-K for information regarding the potential for legislation and regulation addressing greenhouse gas and other emissions. On April 1, 2010, the EPA issued a final rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that, once this rule becomes effective on January 2, 2011, carbon dioxide and other greenhouse gases will become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. The EPA also published a proposed rule governing how these programs would be applied to stationary sources, including power plants, in October 2009. The EPA is expected to finalize this proposed rule during 2010. The ultimate outcome of these proposed and final rules cannot be determined at this time and will depend on additional regulatory action and any legal challenges.

**Georgia PSC Matters*****Retail Fuel Cost Recovery***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Fuel Cost Recovery of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under Retail Regulatory Matters Fuel Cost Recovery in Item 8 of the Form 10-K for additional information. As of March 31, 2010, Georgia Power had a total under recovered fuel cost balance of approximately \$687 million compared to \$665 million at December 31, 2009. Fuel cost recovery revenues as recorded on the financial statements are adjusted for differences in actual recoverable fuel costs and amounts billed in current regulated rates. Accordingly, any changes in the billing factor will not have a significant effect on Georgia Power's revenues or net income, but will affect cash flow. On March 11, 2010, the Georgia PSC voted to approve the stipulation among Georgia Power, the Georgia PSC Public Interest Advocacy Staff, and three customer groups with the exception that the under recovered fuel balance be collected over 42 months. The new rates, which became effective April 1, 2010, will result in an increase of approximately \$373 million to Georgia Power's total annual fuel cost recovery billings. Georgia Power is required to file its next fuel case by March 1, 2011.

**Legislation**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Legislation of Georgia Power in Item 7 of the Form 10-K for additional information.

On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law and, on March 30, 2010, the Health Care and Education Reconciliation Act of 2010 (HCERA and, together with PPACA, the Acts), which makes various amendments to certain aspects of the PPACA, was signed into law. The Acts effectively change the tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide prescription drug benefits that are at least actuarially equivalent to the corresponding benefits provided under Medicare Part D. The federal subsidy paid to employers was introduced as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MPDIMA). Since the 2006 tax year, Georgia Power has been receiving the federal subsidy related to certain retiree prescription drug plans that were determined to be actuarially equivalent to the benefit provided under Medicare Part D. Under the MPDIMA, the federal subsidy does not reduce an employer's income tax deduction for the costs of providing such prescription drug plans nor is it subject to income tax individually. Under the Acts, beginning in 2013, an employer's income tax deduction for the costs of providing Medicare Part D-equivalent prescription drug benefits to retirees will be reduced by the amount of the federal subsidy. Under GAAP, any impact from a change in tax law must be recognized in the period enacted regardless of the effective date; however, as a result of state regulatory treatment, this

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change had no material impact on the financial statements of Georgia Power. Southern Company is in the process of assessing the extent to which the legislation may affect its future health care and related employee benefit plan costs. Any future impact on the financial statements of Georgia Power cannot be determined at this time.

On April 28, 2010, Southern Company signed a Smart Grid Investment Grant agreement with the DOE, formally accepting a \$165 million grant under the American Recovery and Reinvestment Act of 2009. This funding will be used for transmission and distribution automation and modernization projects. Georgia Power will receive, and will match, \$51 million under this agreement.

**Income Tax Matters*****Georgia State Income Tax Credits***

Georgia Power's 2005 through 2008 income tax filings for the State of Georgia include state income tax credits for increased activity through Georgia ports. Georgia Power had also filed similar claims for the years 2002 through 2004. The Georgia Department of Revenue has not responded to these claims. In July 2007, Georgia Power filed a complaint in the Superior Court of Fulton County to recover the credits claimed for the years 2002 through 2004. On March 22, 2010, the Superior Court of Fulton County ruled in favor of Georgia Power's motion for summary judgment. On April 30, 2010, the Georgia Department of Revenue filed its notice of appeal with the Georgia Court of Appeals. An unrecognized tax benefit has been recorded related to these credits. If Georgia Power prevails, these claims could have a significant, and possibly material, positive effect on Georgia Power's net income. If Georgia Power is not successful, payment of the related state tax could have a significant, and possibly material, negative effect on Georgia Power's cash flow. See Note 5 to the financial statements of Georgia Power under "Unrecognized Tax Benefits" in Item 8 of the Form 10-K and Note (G) to the Condensed Financial Statements herein for additional information. The ultimate outcome of this matter cannot now be determined.

**Construction*****Nuclear***

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Construction Nuclear of Georgia Power in Item 7 of the Form 10-K for information regarding the potential expansion of Plant Vogtle.

In June 2009, an environmental group filed a petition in the Superior Court of Fulton County, Georgia seeking review of the Georgia PSC's certification order and challenging the constitutionality of the Georgia Nuclear Financing Act. On May 5, 2010, the court dismissed as premature the plaintiffs' claim challenging the Georgia Nuclear Energy Financing Act. The dismissal of the claim related to the Georgia Nuclear Energy Financing Act is subject to appeal and the plaintiffs are expected to re-file this claim in the future. In addition, on May 5, 2010, the court issued an order remanding the Georgia PSC's certification order for inclusion of further findings of fact and conclusions of law by the Georgia PSC. A remand for further findings of fact and conclusions of law is a procedural step that does not vacate or otherwise affect the effectiveness of the Georgia PSC's certification order or the ultimate conclusion of the Georgia PSC in certifying the construction of Plant Vogtle Units 3 and 4.

In August 2009, the NRC issued letters to Westinghouse revising the review schedules needed to certify the AP1000 standard design for new reactors and expressing concerns related to the availability of adequate information and the shield building design. The shield building protects the containment and provides structural support to the containment cooling water supply. Georgia Power is continuing to work with Westinghouse and the NRC to resolve these concerns. Any possible delays in the AP1000 design certification schedule, including those addressed by the NRC in their letters, are not currently expected to affect the projected commercial operation dates for Plant Vogtle Units 3 and 4.

There are pending technical and procedural challenges to the construction and licensing of Plant Vogtle Units 3 and 4.

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Similar additional challenges at the state and federal level are expected as construction proceeds. The ultimate outcome of these matters cannot be determined at this time.

***Other Construction***

In August 2009, Georgia Power filed its quarterly construction monitoring report for Plant McDonough Units 4, 5, and 6 for the quarter ended June 30, 2009. In September 2009, Georgia Power amended the report. As amended, the report includes a request for an increase in the certified costs to construct Plant McDonough. On February 24, 2010, Georgia Power reached a stipulation agreement with the Georgia PSC staff that was approved by the Georgia PSC on March 16, 2010. The stipulation resolves the June 30, 2009 construction monitoring report, including the approval of actual expenditures and the requested increase in the certified amount.

On May 6, 2010, the Georgia PSC approved Georgia Power's request to extend the construction schedule for Plant McDonough Units 4, 5, and 6 as a result of the short-term reduction in forecasted demand.

***Other Matters***

Georgia Power is involved in various other matters being litigated, regulatory matters, and certain tax-related issues that could affect future earnings. In addition, Georgia Power is subject to certain claims and legal actions arising in the ordinary course of business. Georgia Power's business activities are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as opacity and air and water quality standards, has increased generally throughout the United States. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against Georgia Power cannot be predicted at this time; however, for current proceedings not specifically reported herein or in Note 3 to the financial statements of Georgia Power in Item 8 of the Form 10-K, management does not anticipate that the liabilities, if any, arising from such current proceedings would have a material adverse effect on Georgia Power's financial statements.

The extent of coastal contamination resulting from the oil spill that began in April 2010 in the Gulf of Mexico has potential impacts on certain steam plant operations as well as potential significant economic impacts on the affected areas within Southern Company's service territory. The ultimate impact of this matter cannot be determined at this time.

See the Notes to the Condensed Financial Statements herein for discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

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**ACCOUNTING POLICIES**

**Application of Critical Accounting Policies and Estimates**

Georgia Power prepares its financial statements in accordance with accounting principles generally accepted in the United States. Significant accounting policies are described in Note 1 to the financial statements of Georgia Power in Item 8 of the Form 10-K. In the application of these policies, certain estimates are made that may have a material impact on Georgia Power's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. See MANAGEMENT'S DISCUSSION AND ANALYSIS ACCOUNTING POLICIES Application of Critical Accounting Policies and Estimates of Georgia Power in Item 7 of the Form 10-K for a complete discussion of Georgia Power's critical accounting policies and estimates related to Electric Utility Regulation, Contingent Obligations, Unbilled Revenues, and Pension and Other Postretirement Benefits.

**FINANCIAL CONDITION AND LIQUIDITY**

**Overview**

Georgia Power's financial condition remained stable at March 31, 2010. Georgia Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See Sources of Capital and Financing Activities herein for additional information.

Net cash provided from operating activities totaled \$326.8 million for the first three months of 2010, compared to \$233.1 million for the corresponding period in 2009. The \$93.7 million increase in cash provided from operating activities in the first three months of 2010 is primarily due to a \$115.8 million increase in net income. Net cash used for investing activities totaled \$596.1 million primarily due to gross property additions to utility plant in the first three months of 2010. Net cash provided from financing activities totaled \$267.7 million for the first three months of 2010, compared to \$357.2 million for the corresponding period in 2009. The \$89.5 million decrease is primarily due to higher issuances of senior notes in the first quarter 2009, partially offset by higher capital contributions from Southern Company in the first quarter 2010.

Significant balance sheet changes for the first three months of 2010 include an increase of \$482.3 million in total property, plant, and equipment, an increase of \$247.5 million in long-term debt to replace short-term debt and provide funds for Georgia Power's continuous construction program, and an increase in paid in capital of \$464.4 million reflecting equity contributions from Southern Company.

**Capital Requirements and Contractual Obligations**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Georgia Power in Item 7 of the Form 10-K for a description of Georgia Power's capital requirements for its construction program, scheduled maturities of long-term debt, as well as related interest, derivative obligations, preferred and preference stock dividends, leases, purchase commitments, trust funding requirements, and unrecognized tax benefits. Approximately \$103.8 million will be required through March 31, 2011 to fund maturities of long-term debt. The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in environmental statutes and regulations; changes in nuclear plants to meet new regulatory requirements; changes in FERC rules and regulations; Georgia PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

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**Sources of Capital**

Georgia Power plans to obtain the funds required for construction and other purposes from sources similar to those utilized in the past. Recently, Georgia Power has primarily utilized funds from operating cash flows, short-term debt, security issuances, term loans, and equity contributions from Southern Company. However, the amount, type, and timing of any future financings, if needed, will depend upon regulatory approval, prevailing market conditions, and other factors. See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Sources of Capital of Georgia Power in Item 7 of the Form 10-K for additional information.

In addition, on February 16, 2010, the DOE offered Georgia Power a conditional commitment for federal loan guarantees that would apply to future Georgia Power borrowings related to two additional nuclear units on the site of Plant Vogtle (Plant Vogtle Units 3 and 4). Any borrowings guaranteed by the DOE would be full recourse to Georgia Power and secured by a first priority lien on Georgia Power's 45.7% undivided ownership interest in Plant Vogtle Units 3 and 4. Total guaranteed borrowings would not exceed 70% of eligible project costs, or approximately \$3.4 billion, and are expected to be funded by the Federal Financing Bank. Georgia Power has 90 days to accept the conditional commitment. Georgia Power will work with the DOE to finalize loan guarantees. Final approval and issuance of loan guarantees by the DOE are subject to receipt of the combined construction and operating license for Plant Vogtle Units 3 and 4 from the NRC, negotiation of definitive agreements, completion of due diligence by the DOE, receipt of any necessary regulatory approvals, and satisfaction of other conditions. There can be no assurance that the DOE will issue loan guarantees for Georgia Power.

Georgia Power's current liabilities frequently exceed current assets because of the continued use of short-term debt as a funding source to meet scheduled maturities of long-term debt, as well as cash needs, which can fluctuate significantly due to the seasonality of the business. To meet short-term cash needs and contingencies, Georgia Power had at March 31, 2010 approximately \$12.7 million of cash and cash equivalents and approximately \$1.7 billion of unused committed credit arrangements with banks. As of March 31, 2010, of the unused credit arrangements, \$465 million expire in 2010, \$130 million expire in 2011, and \$1.1 billion expire in 2012. Of the credit arrangements that expire in 2010 and 2011, \$40 million contain provisions allowing two-year term loans executable at expiration and \$95 million contain provisions allowing one-year term loans executable at expiration. Georgia Power expects to renew its credit arrangements, as needed, prior to expiration. At March 31, 2010, the credit arrangements were dedicated to providing liquidity support to Georgia Power's commercial paper program and approximately \$901 million of purchase obligations related to variable rate pollution control revenue bonds. Subsequent to March 31, 2010, Georgia Power renewed existing credit arrangements totaling \$425 million and extended the expiration dates to 2011. Of these facilities, \$125 million contain provisions allowing one-year term loans executable at expiration. See Note 6 to the financial statements of Georgia Power under Bank Credit Arrangements in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under Bank Credit Arrangements herein for additional information. Georgia Power may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of Georgia Power and other Southern Company subsidiaries. At March 31, 2010, Georgia Power had approximately \$243 million of commercial paper borrowings outstanding. Management believes that the need for working capital can be adequately met by utilizing commercial paper programs, lines of credit, and cash.

**Credit Rating Risk**

Georgia Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, energy price risk management, and construction of new generation. At March 31, 2010, the maximum potential collateral requirements under these contracts at a BBB- and/or Baa3 rating were approximately \$29 million. At March 31, 2010, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were



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**GEORGIA POWER COMPANY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

approximately \$1.2 billion. Included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Georgia Power's ability to access capital markets, particularly the short-term debt market.

On January 22, 2010, Fitch applied new guidelines regarding the ratings of various hybrid capital instruments and preferred securities of companies in all sectors, including banks, insurers, non-bank financial institutions, and non-financial corporate entities, including utilities. As a result, the Fitch ratings of Georgia Power's preferred stock, preference stock, and long-term debt payable to affiliated trusts decreased from A to A-. These ratings are not applicable to the collateral requirements described above.

**Market Price Risk**

Georgia Power's market risk exposure relative to interest rate changes for the first quarter 2010 has not changed materially compared with the December 31, 2009 reporting period. Since a significant portion of outstanding indebtedness is at fixed rates, Georgia Power is not aware of any facts or circumstances that would significantly affect exposures on existing indebtedness in the near term. However, the impact on future financing costs cannot now be determined.

Due to cost-based rate regulation, Georgia Power continues to have limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. To mitigate residual risks relative to movements in electricity prices, Georgia Power enters into physical fixed-price contracts for the purchase and sale of electricity through the wholesale electricity market. Georgia Power continues to manage a fuel-hedging program implemented per the guidelines of the Georgia PSC. As such, Georgia Power had no material change in market risk exposure for the first quarter 2010 relative to fuel and electricity prices when compared with the December 31, 2009 reporting period. The changes in fair value of energy-related derivative contracts, the majority of which are composed of regulatory hedges, for the three months ended March 31, 2010 were as follows:

|   | <b>First<br/>Quarter<br/>2010<br/>Changes<br/>Fair Value<br/>(in millions)</b> |
|---|--|
| Contracts outstanding at the beginning of the period, assets (liabilities), net | \$ (75)  |
| Contracts realized or settled   | 19   |
| Current period changes <sup>(a)</sup>   | (69)   |
| Contracts outstanding at the end of the period, assets (liabilities), net       | \$ (125)   |

(a) Current period changes also include the changes in fair value of new contracts entered into during the period, if any.

The change in the fair value positions of the energy-related derivative contracts for the three months ended March 31, 2010 was a decrease of \$50 million, substantially all of which is due to natural gas positions. The change is attributable to both the volume and prices of natural gas. At March 31, 2010, Georgia Power had a net hedge volume of 68 million mmBtu with a weighted average contract cost approximately \$1.85 per mmBtu above market prices, compared to 65 million mmBtu at December 31, 2009 with a weighted average contract cost approximately \$1.16 per mmBtu above market prices. The natural gas hedges are recovered through the fuel cost recovery mechanism. Regulatory hedges relate to Georgia Power's fuel-hedging program where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as they are recovered through the

fuel cost recovery mechanism.

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Unrealized pre-tax gains and losses recognized in income for the three months ended March 31, 2010 and 2009 for energy-related derivative contracts that are not hedges were not material.

The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at March 31, 2010 are as follows:

|  | <b>March 31, 2010</b>          |                      |              |              |
|--|--------------------------------|----------------------|--------------|--------------|
|  | <b>Fair Value Measurements</b> |                      |              |              |
|  | Total                          | Maturity             |              |              |
|  | Fair Value                     | Year 1               | Years<br>2&3 | Years<br>4&5 |
|  |                                | <i>(in millions)</i> |              |              |
| Level 1  | \$                             | \$                   | \$           | \$           |
| Level 2  | (125)                          | (71)                 | (53)         | (1)          |
| Level 3  |                                |                      |              |              |
| Fair value of contracts outstanding at end of period | \$(125)                        | \$(71)               | \$(53)       | \$(1)        |

Georgia Power uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are actively quoted, and thus fall into Level 2. See Note (C) to the Condensed Financial Statements herein for further discussion on fair value measurements.

For additional information, see MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Market Price Risk of Georgia Power in Item 7 and Note 1 under Financial Instruments and Note 11 to the financial statements of Georgia Power in Item 8 of the Form 10-K and Note (H) to the Condensed Financial Statements herein.

**Financing Activities**

In the first quarter 2010, Georgia Power issued \$350 million aggregate principal amount of Series 2010A Floating Rate Senior Notes due March 15, 2013. The proceeds were used to repay at maturity \$250 million aggregate principal amount of Series 2008A Floating Rate Senior Notes due March 17, 2010, to repay a portion of its outstanding short-term indebtedness, and for general corporate purposes, including Georgia Power's continuous construction program.

In addition to any financings that may be necessary to meet capital requirements and contractual obligations, Georgia Power plans to continue, when economically feasible, a program to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit.

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**GULF POWER COMPANY**

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**GULF POWER COMPANY**  
**CONDENSED STATEMENTS OF INCOME (UNAUDITED)**

|   | For the Three Months<br>Ended March 31, |               |
|---|---|---------------|
|   | <b>2010</b>                             | 2009          |
|   | <i>(in thousands)</i>                   |               |
| <b>Operating Revenues:</b>                                |   |               |
| Retail revenues   | <b>\$ 304,750</b>                       | \$ 238,391    |
| Wholesale revenues, non-affiliates                        | <b>27,914</b>                           | 21,966        |
| Wholesale revenues, affiliates                            | <b>9,518</b>                            | 5,360         |
| Other revenues  | <b>14,530</b>                           | 18,567        |
| <br>Total operating revenues                              | <br><b>356,712</b>                      | <br>284,284   |
| <b>Operating Expenses:</b>                                |   |               |
| Fuel  | <b>152,712</b>                          | 115,553       |
| Purchased power, non-affiliates                           | <b>7,435</b>                            | 4,438         |
| Purchased power, affiliates                               | <b>20,413</b>                           | 15,381        |
| Other operations and maintenance                          | <b>70,418</b>                           | 72,491        |
| Depreciation and amortization                             | <b>28,071</b>                           | 23,059        |
| Taxes other than income taxes                             | <b>25,233</b>                           | 22,448        |
| <br>Total operating expenses                              | <br><b>304,282</b>                      | <br>253,370   |
| <br><b>Operating Income</b>                               | <br><b>52,430</b>                       | <br>30,914    |
| <b>Other Income and (Expense):</b>                        |   |               |
| Allowance for equity funds used during construction       | <b>1,385</b>                            | 4,818         |
| Interest income   | <b>17</b>                               | 209           |
| Interest expense, net of amounts capitalized              | <b>(11,385)</b>                         | (9,832)       |
| Other income (expense), net                               | <b>(533)</b>                            | (616)         |
| <br>Total other income and (expense)                      | <br><b>(10,516)</b>                     | <br>(5,421)   |
| <br><b>Earnings Before Income Taxes</b>                   | <br><b>41,914</b>                       | <br>25,493    |
| Income taxes  | <b>15,063</b>                           | 7,400         |
| <br><b>Net Income</b>                                     | <br><b>26,851</b>                       | <br>18,093    |
| <b>Dividends on Preference Stock</b>                      | <b>1,551</b>                            | 1,551         |
| <br><b>Net Income After Dividends on Preference Stock</b> | <br><b>\$ 25,300</b>                    | <br>\$ 16,542 |

**CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

|   | For the Three Months<br>Ended March 31, |           |
|---|---|-----------|
|   | <b>2010</b>                             | 2009      |
|   | <i>(in thousands)</i>                   |           |
| <b>Net Income After Dividends on Preference Stock</b> | <b>\$ 25,300</b>                        | \$ 16,542 |

|   |                  |           |
|---|------------------|-----------|
| Other comprehensive income (loss):  |                  |           |
| Qualifying hedges:  |                  |           |
| Changes in fair value, net of tax of \$(953) and \$-, respectively  | <b>(1,518)</b>   |           |
| Reclassification adjustment for amounts included in net income, net of tax of \$105 and \$105, respectively | <b>166</b>       | 167       |
| <b>Total other comprehensive income (loss)</b>  | <b>(1,352)</b>   | 167       |
| <b>Comprehensive Income</b>   | <b>\$ 23,948</b> | \$ 16,709 |

The accompanying notes as they relate to Gulf Power are an integral part of these condensed financial statements.

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**GULF POWER COMPANY**  
**CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)**

|  | For the Three Months<br>Ended March 31, |           |
|--|---|-----------|
|  | <b>2010</b>                             | 2009      |
|  | <i>(in thousands)</i>                   |           |
| <b>Operating Activities:</b>   |   |           |
| Net income   | \$ 26,851                               | \$ 18,093 |
| Adjustments to reconcile net income to net cash provided from operating activities |   |           |
| Depreciation and amortization, total   | 29,659                                  | 24,269    |
| Deferred income taxes  | 2,917                                   | (4,022)   |
| Allowance for equity funds used during construction                                | (1,385)                                 | (4,818)   |
| Pension, postretirement, and other employee benefits                               | 550                                     | (391)     |
| Stock based compensation expense   | 623                                     | 479       |
| Other, net   | (520)                                   | (5,322)   |
| Changes in certain current assets and liabilities                                  |   |           |
| -Receivables   | 6,150                                   | 32,887    |
| -Fossil fuel stock   | 17,419                                  | (18,231)  |
| -Materials and supplies  | (1,170)                                 | (205)     |
| -Prepaid income taxes  | 4,530                                   | 416       |
| -Property damage cost recovery   | 11                                      | 5,428     |
| -Other current assets  | 995                                     | 916       |
| -Accounts payable  | (4,443)                                 | (13,344)  |
| -Accrued taxes   | 15,539                                  | 6,361     |
| -Accrued compensation  | (3,462)                                 | (11,576)  |
| -Other current liabilities   | 6,304                                   | 5,761     |
| Net cash provided from operating activities  | <b>100,568</b>                          | 36,701    |
| <b>Investing Activities:</b>   |   |           |
| Property additions   | (81,225)                                | (109,737) |
| Investment in restricted cash from pollution control revenue bonds                 |   | (49,188)  |
| Distribution of restricted cash from pollution control revenue bonds               | 2,340                                   |           |
| Cost of removal, net of salvage  | (5,759)                                 | (2,330)   |
| Construction payables  | (11,846)                                | 2,362     |
| Payments pursuant to long-term service agreements                                  | (699)                                   | (1,602)   |
| Other investing activities   | (190)                                   | 24        |
| Net cash used for investing activities   | <b>(97,379)</b>                         | (160,471) |
| <b>Financing Activities:</b>   |   |           |
| Decrease in notes payable, net   | (6,599)                                 | (89,930)  |
| Proceeds   |   |           |
| Common stock issued to parent  | 50,000                                  | 135,000   |
| Capital contributions from parent company  | 1,128                                   | 1,106     |
| Pollution control revenue bonds  |   | 130,400   |
| Redemptions  |   |           |
| Senior notes   | (85)                                    |           |

|   |                  |           |
|---|------------------|-----------|
| Payment of preference stock dividends                   | (1,551)          | (1,551)   |
| Payment of common stock dividends                       | (26,075)         | (22,350)  |
| Other financing activities                              | 605              | (838)     |
| Net cash provided from financing activities             | 17,423           | 151,837   |
| <b>Net Change in Cash and Cash Equivalents</b>          | <b>20,612</b>    | 28,067    |
| <b>Cash and Cash Equivalents at Beginning of Period</b> | <b>8,677</b>     | 3,443     |
| <b>Cash and Cash Equivalents at End of Period</b>       | <b>\$ 29,289</b> | \$ 31,510 |

**Supplemental Cash Flow Information:**

|   |            |          |
|---|------------|----------|
| Cash paid during the period for   |            |          |
| Interest (net of \$552 and \$1,920 capitalized for 2010 and 2009, respectively) | \$ 9,461   | \$ 8,347 |
| Income taxes (net of refunds)   | \$ (4,383) | \$ 3,281 |

The accompanying notes as they relate to Gulf Power are an integral part of these condensed financial statements.

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**GULF POWER COMPANY**  
CONDENSED BALANCE SHEETS (UNAUDITED)

| <b>Assets</b>                                    | <b>At March<br/>31,<br/>2010</b> | <b>At December<br/>31,<br/>2009</b> |
|--|----------------------------------|-------------------------------------|
|  | <i>(in thousands)</i>            |                                     |
| <b>Current Assets:</b>                           |                                  |                                     |
| Cash and cash equivalents                        | \$ 29,289                        | \$ 8,677                            |
| Restricted cash and cash equivalents             | 4,006                            | 6,347                               |
| Receivables                                      |                                  |                                     |
| Customer accounts receivable                     | 71,847                           | 64,257                              |
| Unbilled revenues                                | 46,453                           | 60,414                              |
| Under recovered regulatory clause revenues       | 11,293                           | 4,285                               |
| Other accounts and notes receivable              | 2,105                            | 4,107                               |
| Affiliated companies                             | 1,260                            | 7,503                               |
| Accumulated provision for uncollectible accounts | (1,867)                          | (1,913)                             |
| Fossil fuel stock, at average cost               | 166,242                          | 183,619                             |
| Materials and supplies, at average cost          | 44,740                           | 38,478                              |
| Other regulatory assets, current                 | 23,710                           | 19,172                              |
| Prepaid expenses                                 | 10,272                           | 44,760                              |
| Other current assets                             | 2,936                            | 3,634                               |
| <b>Total current assets</b>                      | <b>412,286</b>                   | <b>443,340</b>                      |
| <b>Property, Plant, and Equipment:</b>           |                                  |                                     |
| In service                                       | 3,496,308                        | 3,430,503                           |
| Less accumulated provision for depreciation      | 1,013,665                        | 1,009,807                           |
| <b>Plant in service, net of depreciation</b>     | <b>2,482,643</b>                 | <b>2,420,696</b>                    |
| Construction work in progress                    | 178,726                          | 159,499                             |
| <b>Total property, plant, and equipment</b>      | <b>2,661,369</b>                 | <b>2,580,195</b>                    |
| <b>Other Property and Investments</b>            | <b>16,115</b>                    | <b>15,923</b>                       |
| <b>Deferred Charges and Other Assets:</b>        |                                  |                                     |
| Deferred charges related to income taxes         | 43,353                           | 39,018                              |
| Other regulatory assets, deferred                | 202,510                          | 190,971                             |
| Other deferred charges and assets                | 22,466                           | 24,160                              |
| <b>Total deferred charges and other assets</b>   | <b>268,329</b>                   | <b>254,149</b>                      |
| <b>Total Assets</b>                              | <b>\$ 3,358,099</b>              | <b>\$ 3,293,607</b>                 |

The accompanying notes as they relate to Gulf Power are an integral part of these condensed financial statements.

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**GULF POWER COMPANY**  
CONDENSED BALANCE SHEETS (UNAUDITED)

|  | At March<br>31,<br>2010 | At December<br>31,<br>2009 |
|--|-------------------------|----------------------------|
| <i>(in thousands)</i>                          |                         |                            |
| <b>Liabilities and Stockholders Equity</b>     |                         |                            |
| <b>Current Liabilities:</b>                    |                         |                            |
| Securities due within one year                 | \$ 140,000              | \$ 140,000                 |
| Notes payable                                  | 82,289                  | 90,331                     |
| Accounts payable                               |                         |                            |
| Affiliated                                     | 44,423                  | 47,421                     |
| Other  | 69,713                  | 80,184                     |
| Customer deposits                              | 33,539                  | 32,361                     |
| Accrued taxes                                  |                         |                            |
| Accrued income taxes                           | 12,616                  | 1,955                      |
| Other accrued taxes                            | 12,083                  | 7,297                      |
| Accrued interest                               | 11,480                  | 10,222                     |
| Accrued compensation                           | 5,875                   | 9,337                      |
| Other regulatory liabilities, current          | 23,654                  | 22,416                     |
| Liabilities from risk management activities    | 14,612                  | 9,442                      |
| Other current liabilities                      | 17,510                  | 20,092                     |
| Total current liabilities                      | 467,794                 | 471,058                    |
| <b>Long-term Debt</b>                          | <b>978,939</b>          | 978,914                    |
| <b>Deferred Credits and Other Liabilities:</b> |                         |                            |
| Accumulated deferred income taxes              | 303,854                 | 297,405                    |
| Accumulated deferred investment tax credits    | 9,266                   | 9,652                      |
| Employee benefit obligations                   | 108,794                 | 109,271                    |
| Other cost of removal obligations              | 190,936                 | 191,248                    |
| Other regulatory liabilities, deferred         | 41,216                  | 41,399                     |
| Other deferred credits and liabilities         | 105,223                 | 92,370                     |
| Total deferred credits and other liabilities   | 759,289                 | 741,345                    |
| <b>Total Liabilities</b>                       | <b>2,206,022</b>        | 2,191,317                  |
| <b>Preference Stock</b>                        | <b>97,998</b>           | 97,998                     |
| <b>Common Stockholders Equity:</b>             |                         |                            |
| Common stock, without par value                |                         |                            |
| Authorized - 20,000,000 shares                 |                         |                            |
| Outstanding - March 31, 2010: 3,642,717 shares |                         |                            |
| - December 31, 2009: 3,142,717 shares          | 303,060                 | 253,060                    |
| Paid-in capital                                | 536,492                 | 534,577                    |
| Retained earnings                              | 218,341                 | 219,117                    |
| Accumulated other comprehensive loss           | (3,814)                 | (2,462)                    |

|   |                     |              |
|---|---------------------|--------------|
| Total common stockholder s equity                 | <b>1,054,079</b>    | 1,004,292    |
| <b>Total Liabilities and Stockholder s Equity</b> | <b>\$ 3,358,099</b> | \$ 3,293,607 |

The accompanying notes as they relate to Gulf Power are an integral part of these condensed financial statements.

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**GULF POWER COMPANY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**FIRST QUARTER 2010 vs. FIRST QUARTER 2009**

**OVERVIEW**

Gulf Power operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located in northwest Florida and to wholesale customers in the Southeast. Many factors affect the opportunities, challenges, and risks of Gulf Power's business of selling electricity. These factors include the ability to maintain a constructive regulatory environment, to maintain energy sales given the effects of the recession, and to effectively manage and secure timely recovery of rising costs. These costs include those related to projected long-term demand growth, increasingly stringent environmental standards, and fuel prices. Appropriately balancing the need to recover these increasing costs with customer prices will continue to challenge Gulf Power for the foreseeable future. Gulf Power continues to focus on several key performance indicators. These indicators include customer satisfaction, plant availability, system reliability, and net income after dividends on preference stock. For additional information on these indicators, see MANAGEMENT'S DISCUSSION AND ANALYSIS OVERVIEW Key Performance Indicators of Gulf Power in Item 7 of the Form 10-K.

**RESULTS OF OPERATIONS****Net Income**

| First Quarter 2010 vs. First Quarter 2009 |                   |
|---|-------------------|
| <i>(change in millions)</i>               | <i>(% change)</i> |
| \$8.8                                     | 52.9              |

Gulf Power's net income after dividends on preference stock for the first quarter 2010 was \$25.3 million compared to \$16.5 million for the corresponding period in 2009. The increase was primarily due to significantly colder weather, partially offset by a decline in sales growth.

**Retail Revenues**

| First Quarter 2010 vs. First Quarter 2009 |                   |
|---|-------------------|
| <i>(change in millions)</i>               | <i>(% change)</i> |
| \$66.3                                    | 27.9              |

In the first quarter 2010, retail revenues were \$304.7 million compared to \$238.4 million for the corresponding period in 2009.

Details of the change to retail revenues are as follows:

|                              | <b>First Quarter<br/>2010</b> |                   |
|------------------------------|-------------------------------|-------------------|
|                              | <i>(in millions)</i>          | <i>(% change)</i> |
| Retail prior year            | \$238.4                       |                   |
| Estimated change in          |                               |                   |
| Rates and pricing            | 16.2                          | 6.8               |
| Sales growth (decline)       | (2.9)                         | (1.2)             |
| Weather                      | 12.8                          | 5.4               |
| Fuel and other cost recovery | 40.2                          | 16.9              |
| Retail current year          | \$304.7                       | 27.9%             |



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**GULF POWER COMPANY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Revenues associated with changes in rates and pricing increased in the first quarter 2010 when compared to the corresponding period in 2009 primarily due to additions of environmental control projects.

Annually, Gulf Power petitions the Florida PSC for recovery of projected environmental compliance costs including any true-up amount from prior periods, and approved rates are implemented each January. These recovery provisions include related expenses and a return on average net investment. See Note 1 to the financial statements of Gulf Power under Revenues and Note 3 to the financial statements of Gulf Power under Environmental Matters Environmental Remediation and Retail Regulatory Matters Environmental Cost Recovery in Item 8 of the Form 10-K for additional information.

Revenues attributable to changes in sales declined in the first quarter 2010 when compared to the corresponding period in 2009. Weather-adjusted KWH energy sales to commercial and industrial customers decreased 3.7% and 2.6%, respectively, due to decreased customer demand. Weather-adjusted KWH energy sales to residential customers remained relatively flat.

Revenues attributable to changes in weather increased in the first quarter 2010 when compared to the corresponding period for 2009 due to significantly colder weather in the first quarter 2010.

Fuel and other cost recovery revenues increased in the first quarter 2010 when compared to the corresponding period for 2009 primarily due to increased KWH sales. Fuel and other cost recovery revenues include fuel expenses, the energy component of purchased power costs, purchased power capacity costs, and revenues related to the recovery of storm damage restoration costs. Annually, Gulf Power petitions the Florida PSC for recovery of projected fuel and purchased power costs including any true-up amount from prior periods, and approved rates are implemented each January. The recovery provisions generally equal the related expenses and have no material effect on net income. See FUTURE EARNINGS POTENTIAL Florida PSC Matters Retail Fuel Cost Recovery herein and MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Fuel Cost Recovery of Gulf Power in Item 7 and Note 1 to the financial statements of Gulf Power under Revenues and Property Damage Reserve and Note 3 to the financial statements of Gulf Power under Retail Regulatory Matters Fuel Cost Recovery in Item 8 of the Form 10-K for additional information.

**Wholesale Revenues - Non-Affiliates**

| First Quarter 2010 vs. First Quarter 2009 |                   |
|---|-------------------|
| <i>(change in millions)</i>               | <i>(% change)</i> |
| \$5.9                                     | 27.1              |

Wholesale revenues from non-affiliates will vary depending on the market cost of available energy compared to the cost of Gulf Power and Southern Company system-owned generation, demand for energy within the Southern Company service territory, and availability of Southern Company system generation. Wholesale revenues from non-affiliates are predominantly unit power sales under long-term contracts to other Florida utilities. Revenues from these contracts have both capacity and energy components. Capacity revenues reflect the recovery of fixed costs and a return on investment under the contracts. Energy is generally sold at variable cost.

In the first quarter 2010, wholesale revenues from non-affiliates were \$27.9 million compared to \$22.0 million for the corresponding period in 2009. The increase was primarily due to increased energy revenues related to a 19.2% increase in KWH sales to serve weather-related increases in customer demand, and a 14.2% increase in price related to energy rates.

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**Wholesale Revenues - Affiliates**

| First Quarter 2010 vs. First Quarter 2009 |            |
|---|------------|
| (change in millions)                      | (% change) |
| \$4.2                                     | 77.6       |

Wholesale revenues from affiliates will vary depending on demand and the availability and cost of generating resources at each company within the Southern Company system. These affiliate sales are made in accordance with the IIC, as approved by the FERC. These transactions do not have a significant impact on earnings since the energy is generally sold at marginal cost.

In the first quarter of 2010, wholesale revenues from affiliates were \$9.5 million compared to \$5.3 million for the corresponding period in 2009. The increase was primarily due to a 47.9% increase in price related to energy rates and increased energy revenues related to a 20.1% increase in KWH sales to serve weather-related increases in customer demand.

**Other Revenues**

| First Quarter 2010 vs. First Quarter 2009 |            |
|---|------------|
| (change in millions)                      | (% change) |
| \$(4.1)                                   | 21.7       |

In the first quarter of 2010, other revenues were \$14.5 million compared to \$18.6 million for the corresponding period in 2009. The decrease was primarily due to decreased revenues from other energy services, partially offset by higher franchise fees. The decreased revenues from other energy services did not have a material impact on net income since they were generally offset by associated expenses. Franchise fees have no impact on net income.

**Fuel and Purchased Power Expenses**

|   | First Quarter 2010<br>vs.<br>First Quarter 2009 |            |
|---|---|------------|
|   | (change in<br>millions)                         | (% change) |
| Fuel*                                   | \$37.1  | 32.2       |
| Purchased power - non-affiliates        | 3.0   | 67.5       |
| Purchased power - affiliates            | 5.1   | 32.7       |
| Total fuel and purchased power expenses | \$45.2  |            |

\* Fuel includes fuel purchased by Gulf Power for tolling agreements where power is generated by the provider and is included in

purchased  
power when  
determining the  
average cost of  
purchased  
power.

In the first quarter 2010, total fuel and purchased power expenses were \$180.6 million compared to \$135.4 million for the corresponding period in 2009. The net increase in fuel and purchased power expenses was due to a \$26.2 million increase as a result of the average cost of fuel and a \$19.0 million increase related to total KWHs generated and purchased.

Fuel and purchased power transactions do not have a significant impact on earnings since energy expenses are generally offset by energy revenues through Gulf Power's fuel cost recovery clause. See FUTURE EARNINGS POTENTIAL - Florida PSC Matters - Retail Fuel Cost Recovery herein for additional information.

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Details of Gulf Power's cost of generation and purchased power are as follows:

| Average Cost    | First<br>Quarter<br>2010   | First<br>Quarter<br>2009 | Percent<br>Change |
|-----------------|----------------------------|--------------------------|-------------------|
|                 | <i>(cents per net KWH)</i> |                          |                   |
| Fuel            | 4.92                       | 4.31                     | 14.15             |
| Purchased power | 6.73                       | 5.19                     | 29.67             |

In the first quarter 2010, fuel expense was \$152.7 million compared to \$115.6 million for the corresponding period in 2009. The increase was primarily due to 27.2% increase in the average cost of coal and a 10.2% increase in KWHs generated as a result of increased demand, partially offset by a 4.0% decrease in the average cost of natural gas prices.

*Non-Affiliates*

In the first quarter 2010, purchased power expense from non-affiliates was \$7.4 million compared to \$4.4 million for the corresponding period in 2009. The increase was primarily due to a 258.3% increase in average cost per KWH purchased, partially offset by a 10.1% decrease in the volume of KWHs purchased. The average cost per KWH purchased increased primarily due to a greater portion of KWHs being purchased from gas-fired generation, which had higher market pricing in the first quarter 2010 due to greater demand for natural gas due to significantly colder weather, and PPAs that began in June 2009.

Energy purchases from non-affiliates will vary depending on the market cost of available energy compared to the cost of Southern Company system-generated energy, demand for energy within the Southern Company system service territory, and the availability of Southern Company system generation.

*Affiliates*

In the first quarter 2010, purchased power expense from affiliates was \$20.4 million compared to \$15.3 million for the corresponding period in 2009. The increase was primarily due to a 52.1% increase in the volume of KWHs purchased from lower-priced Power Pool resources, partially offset by an 11.8% decrease in average cost per KWH purchased. Energy purchases from affiliates will vary depending on demand and the availability and cost of generating resources at each company within the Southern Company system. These purchases are made in accordance with the IIC or other contractual agreements, as approved by the FERC.

***Other Operations and Maintenance Expenses***

| (change in millions) | First Quarter 2010 vs. First Quarter 2009 | (% change) |
|----------------------|---|------------|
| \$(2.1)              |   | (2.9)      |

In the first quarter 2010, other operations and maintenance expenses were \$70.4 million compared to \$72.5 million for the corresponding period in 2009. The decrease was primarily due to decreases in storm recovery costs and expenses from other energy services. These decreases were offset by increased maintenance, labor, and benefits expenses. The decreased expenses from other energy services and the decreased storm recovery costs did not have a material impact on earnings since they were offset by decreased associated revenues.

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**Depreciation and Amortization**

|                             | First Quarter 2010 vs. First Quarter 2009 |                   |
|-----------------------------|---|-------------------|
| <i>(change in millions)</i> |   | <i>(% change)</i> |
| \$5.0                       |   | 21.7              |

In the first quarter 2010, depreciation and amortization was \$28.1 million compared to \$23.1 million for the corresponding period in 2009. The increase was primarily due to the addition of an environmental control project at Plant Crist being placed into service in December 2009 and other net additions to generation and distribution facilities.

**Taxes Other Than Income Taxes**

|                             | First Quarter 2010 vs. First Quarter 2009 |                   |
|-----------------------------|---|-------------------|
| <i>(change in millions)</i> |   | <i>(% change)</i> |
| \$2.8                       |   | 12.4              |

In the first quarter 2010, taxes other than income taxes were \$25.2 million compared to \$22.4 million for the corresponding period in 2009. The increase was primarily due to increases in gross receipt taxes and franchise fees, which have no impact on net income.

**Allowance for Funds Used During Construction**

|                             | First Quarter 2010 vs. First Quarter 2009 |                   |
|-----------------------------|---|-------------------|
| <i>(change in millions)</i> |   | <i>(% change)</i> |
| \$(3.4)                     |   | (71.3)            |

In the first quarter 2010, AFUDC equity was \$1.4 million compared to \$4.8 million for the corresponding period in 2009. The decrease was primarily due to an environmental control project at Plant Crist being placed into service in December 2009.

**Interest Expense, Net of Amounts Capitalized**

|                             | First Quarter 2010 vs. First Quarter 2009 |                   |
|-----------------------------|---|-------------------|
| <i>(change in millions)</i> |   | <i>(% change)</i> |
| \$1.6                       |   | 15.8              |

In the first quarter 2010, interest expense, net of amounts capitalized was \$11.4 million compared to \$9.8 million for the corresponding period in 2009. The increase was primarily due to the change in capitalization of the AFUDC debt related to an environmental control project at Plant Crist being placed into service in December 2009.

**Income Taxes**

|                             | First Quarter 2010 vs. First Quarter 2009 |                   |
|-----------------------------|---|-------------------|
| <i>(change in millions)</i> |   | <i>(% change)</i> |
| \$7.7                       |   | 103.6             |

In the first quarter 2010, income taxes were \$15.1 million compared to \$7.4 million for the corresponding period in 2009. The increase was due to higher pre-tax earnings.

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**FUTURE EARNINGS POTENTIAL**

The results of operations discussed above are not necessarily indicative of Gulf Power's future earnings potential. The level of Gulf Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Gulf Power's business of selling electricity. These factors include Gulf Power's ability to maintain a constructive regulatory environment that continues to allow for the recovery of all prudently incurred costs during a time of increasing costs. Future earnings in the near term will depend, in part, upon maintaining energy sales which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in Gulf Power's service area. Recessionary conditions have impacted sales; the timing and extent of the economic recovery will impact growth and may impact future earnings. For additional information relating to these issues, see RISK FACTORS in Item 1A and MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL of Gulf Power in Item 7 of the Form 10-K.

**Environmental Matters**

Compliance costs related to the Clean Air Act and other environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis. See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters of Gulf Power in Item 7 and Note 3 to the financial statements of Gulf Power under Environmental Matters in Item 8 of the Form 10-K for additional information.

***Carbon Dioxide Litigation***

***New York Case***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation New York Case of Gulf Power in Item 7 and Note 3 to the financial statements of Gulf Power under Environmental Matters Carbon Dioxide Litigation New York Case in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation. The U.S. Court of Appeals for the Second Circuit denied the defendants' petition for rehearing en banc on March 5, 2010 and granted the defendants' request to stay the mandate to allow the defendants to file a petition for writ of certiorari with the U.S. Supreme Court on March 16, 2010. The ultimate outcome of these matters cannot be determined at this time.

***Other Litigation***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation Other Litigation of Gulf Power in Item 7 and Note 3 to the financial statements of Gulf Power under Environmental Matters Carbon Dioxide Litigation Other Litigation in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation related to Hurricane Katrina. On February 26, 2010, the U.S. Court of Appeals for the Fifth Circuit granted the defendants' petition for rehearing en banc. The ultimate outcome of this matter cannot be determined at this time.

***Coal Combustion Byproducts***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Coal Combustion Byproducts of Gulf Power in Item 7 of the Form 10-K for information regarding potential additional regulation of coal combustion byproducts. On May 4, 2010, the EPA issued a proposal requesting comments on two potential regulatory options for management and disposal of coal combustion

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byproducts, either of which could require conversion of existing storage units to lined landfills with additional waste management and groundwater monitoring requirements. Under both options, the EPA proposes to exempt the beneficial reuse of coal combustion byproducts from regulation. The outcome of these proposed regulations will depend on their final form and any legal challenges, and cannot be determined at this time. However, additional regulation of coal combustion byproducts could have a significant impact on Gulf Power's management, beneficial use, and disposal of such byproducts and could result in significant additional compliance costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

***Global Climate Issues***

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters - Global Climate Issues of Gulf Power in Item 7 of the Form 10-K for information regarding the potential for legislation and regulation addressing greenhouse gas and other emissions. On April 1, 2010, the EPA issued a final rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that, once this rule becomes effective on January 2, 2011, carbon dioxide and other greenhouse gases will become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. The EPA also published a proposed rule governing how these programs would be applied to stationary sources, including power plants, in October 2009. The EPA is expected to finalize this proposed rule during 2010. The ultimate outcome of these proposed and final rules cannot be determined at this time and will depend on additional regulatory action and any legal challenges.

**Florida PSC Matters**

***Retail Fuel Cost Recovery***

Gulf Power has established fuel cost recovery rates approved by the Florida PSC. In recent years, Gulf Power has experienced volatility in pricing of fuel commodities with higher than expected pricing for coal and volatile price swings in natural gas. If the projected fuel cost over or under recovery balance at year-end exceeds 10% of the projected fuel revenue applicable for the period, Gulf Power is required to notify the Florida PSC and indicate if an adjustment to the fuel cost recovery factor is being requested.

Under recovered fuel costs at March 31, 2010 totaled \$9.3 million, compared to \$2.4 million at December 31, 2009. This amount is included in under recovered regulatory clause revenues on Gulf Power's Condensed Balance Sheets herein. Fuel cost recovery revenues, as recorded on the financial statements, are adjusted for differences in actual recoverable costs and amounts billed in current regulated rates. Accordingly, any change in the billing factor would have no significant effect on Gulf Power's revenues or net income, but would affect cash flow. See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - PSC Matters - Fuel Cost Recovery of Gulf Power in Item 7 and Notes 1 and 3 to the financial statements of Gulf Power under Revenues and Retail Regulatory Matters - Fuel Cost Recovery, respectively, in Item 8 of the Form 10-K for additional information.

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**Legislation**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Legislation of Gulf Power in Item 7 of the Form 10-K for additional information.

On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law and, on March 30, 2010, the Health Care and Education Reconciliation Act of 2010 (HCERA and, together with PPACA, the Acts), which makes various amendments to certain aspects of the PPACA, was signed into law. The Acts effectively change the tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide prescription drug benefits that are at least actuarially equivalent to the corresponding benefits provided under Medicare Part D. The federal subsidy paid to employers was introduced as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MPDIMA). Since the 2006 tax year, Gulf Power has been receiving the federal subsidy related to certain retiree prescription drug plans that were determined to be actuarially equivalent to the benefit provided under Medicare Part D. Under the MPDIMA, the federal subsidy does not reduce an employer's income tax deduction for the costs of providing such prescription drug plans nor is it subject to income tax individually. Under the Acts, beginning in 2013, an employer's income tax deduction for the costs of providing Medicare Part D-equivalent prescription drug benefits to retirees will be reduced by the amount of the federal subsidy. Under GAAP, any impact from a change in tax law must be recognized in the period enacted regardless of the effective date; however, as a result of state regulatory treatment, this change had no material impact on the financial statements of Gulf Power. Southern Company is in the process of assessing the extent to which the legislation may affect its future health care and related employee benefit plan costs. Any future impact on the financial statements of Gulf Power cannot be determined at this time.

On April 28, 2010, Southern Company signed a Smart Grid Investment Grant agreement with the DOE, formally accepting a \$165 million grant under the American Recovery and Reinvestment Act of 2009. This funding will be used for transmission and distribution automation and modernization projects. Gulf Power will receive, and will match, \$15.5 million under this agreement.

**Other Matters**

Gulf Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Gulf Power is subject to certain claims and legal actions arising in the ordinary course of business. Gulf Power's business activities are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as opacity and air and water quality standards, has increased generally throughout the United States. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against Gulf Power cannot be predicted at this time; however, for current proceedings not specifically reported herein or in Note 3 to the financial statements of Gulf Power in Item 8 of the Form 10-K, management does not anticipate that the liabilities, if any, arising from such current proceedings would have a material adverse effect on Gulf Power's financial statements.

The extent of coastal contamination resulting from the oil spill that began in April 2010 in the Gulf of Mexico has potential impacts on certain steam plant operations as well as potential significant economic impacts on the affected areas within Southern Company's service territory. The ultimate impact of this matter cannot be determined at this time.

See the Notes to the Condensed Financial Statements herein for discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

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**ACCOUNTING POLICIES**

**Application of Critical Accounting Policies and Estimates**

Gulf Power prepares its financial statements in accordance with accounting principles generally accepted in the United States. Significant accounting policies are described in Note 1 to the financial statements of Gulf Power in Item 8 of the Form 10-K. In the application of these policies, certain estimates are made that may have a material impact on Gulf Power's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. See MANAGEMENT'S DISCUSSION AND ANALYSIS ACCOUNTING POLICIES Application of Critical Accounting Policies and Estimates of Gulf Power in Item 7 of the Form 10-K for a complete discussion of Gulf Power's critical accounting policies and estimates related to Electric Utility Regulation, Contingent Obligations, Unbilled Revenues, and Pension and Other Postretirement Benefits.

**FINANCIAL CONDITION AND LIQUIDITY**

**Overview**

Gulf Power's financial condition remained stable at March 31, 2010. Gulf Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See Sources of Capital and Financing Activities herein for additional information. Net cash provided from operating activities totaled \$100.6 million for the first three months of 2010 compared to \$36.7 million for the corresponding period in 2009. The \$63.9 million increase in cash provided from operating activities was primarily due to a \$35.7 million decrease in fossil fuel stock resulting from an increase in generation and a decrease in cash payments related to fuel inventory; a \$26.7 million increase in liabilities primarily due to timing; and an \$8.8 million increase in net income; partially offset by a \$26.7 million decrease in collections attributable to regulatory fuel clause revenues. Net cash used for investing activities totaled \$97.4 million in the first three months of 2010 compared to \$160.5 million for the corresponding period in 2009. The \$63.1 million decrease was primarily due to a \$28.5 million decrease in gross property additions and a \$49.2 million investment in restricted cash in 2009, partially offset by a \$14.2 million increase in construction payables, primarily due to non-affiliate payables. Net cash provided from financing activities totaled \$17.4 million for the first three months of 2010, compared to \$151.8 million for the corresponding period in 2009. The \$134.4 million decrease in cash provided from financing activities was primarily due to higher issuance of common stock in 2009 and issuance of pollution control revenue bonds in 2009.

Significant balance sheet changes for the first quarter 2010 include a net increase of \$81.2 million in property, plant, and equipment, primarily related to environmental control projects; the issuance of common stock to Southern Company for \$50 million; a decrease of \$34.5 million in prepaid expenses, primarily due to a planned inspection under a long-term service agreement and a decrease in PPA deferred capacity expense due to seasonality; and other regulatory assets, deferred, and other deferred credits and liabilities increased by \$11.5 million and \$12.9 million, respectively, primarily due to an increase in PPA deferred capacity expense.

**Capital Requirements and Contractual Obligations**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Gulf Power in Item 7 of the Form 10-K for a description of Gulf Power's capital requirements for its construction program, maturities of long-term debt, leases, derivative obligations, preference stock dividends, purchase commitments, and trust funding requirements. Approximately \$140 million will be required through March 31, 2011 for maturities of long-term debt. The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors

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include: changes in business conditions; changes in load projections; storm impacts; changes in environmental statutes and regulations; changes in FERC rules and regulations; Florida PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

**Sources of Capital**

Gulf Power plans to obtain the funds required for construction and other purposes from sources similar to those utilized in the past. Recently, Gulf Power has utilized funds from operating cash flows, short-term debt, security offerings, a long-term bank note, and equity contributions from Southern Company. However, the amount, type, and timing of any future financings, if needed, will depend upon regulatory approval, prevailing market conditions, and other factors. See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Sources of Capital of Gulf Power in Item 7 of the Form 10-K for additional information.

Gulf Power's current liabilities frequently exceed current assets because of the continued use of short-term debt as a funding source to meet scheduled maturities of long-term debt, as well as cash needs, which can fluctuate significantly due to the seasonality of the business. To meet short-term cash needs and contingencies, Gulf Power had at March 31, 2010 approximately \$29.3 million of cash and cash equivalents and \$220 million of unused committed credit arrangements with banks. As of March 31, 2010, of the unused credit arrangements, \$190 million expire in 2010 and \$30 million expire in 2011. Of these credit arrangements, \$100 million contain provisions allowing one-year term loans executable at expiration. Gulf Power expects to renew its credit arrangements, as needed, prior to expiration. These credit arrangements provide liquidity support to Gulf Power's commercial paper borrowings and \$69 million are dedicated to funding purchase obligations related to variable rate pollution control revenue bonds. Subsequent to March 31, 2010, Gulf Power renewed existing credit arrangements totaling \$75 million and extended the expiration dates to 2011. All of these facilities contain provisions allowing one-year term loans executable at expiration. See Note 6 to the financial statements of Gulf Power under Bank Credit Arrangements in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under Bank Credit Arrangements herein for additional information. Gulf Power may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of Gulf Power and other Southern Company subsidiaries. At March 31, 2010, Gulf Power had \$82 million of commercial paper borrowings outstanding. Management believes that the need for working capital can be adequately met by utilizing the commercial paper program, lines of credit, and cash.

**Credit Rating Risk**

Gulf Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel transportation and storage, and energy price risk management. At March 31, 2010, the maximum potential collateral requirements under these contracts at a BBB- and/or Baa3 rating were approximately \$128 million. At March 31, 2010, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately \$572 million. Included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Gulf Power's ability to access capital markets, particularly the short-term debt market.

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On January 22, 2010, Fitch applied new guidelines regarding the ratings of various hybrid capital instruments and preferred securities of companies in all sectors, including banks, insurers, non-bank financial institutions, and non-financial corporate entities, including utilities. As a result, the Fitch rating of Gulf Power's preference stock decreased from A- to BBB+. These ratings are not applicable to the collateral requirements described above.

**Market Price Risk**

Gulf Power's market risk exposure relative to interest rate changes for the first quarter 2010 has not changed materially compared with the December 31, 2009 reporting period. Since a significant portion of outstanding indebtedness is at fixed rates, Gulf Power is not aware of any facts or circumstances that would significantly affect exposures on existing indebtedness in the near term. However, the impact on future financing costs cannot now be determined.

Due to cost-based rate regulation, Gulf Power continues to have limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. To mitigate residual risks relative to movements in electricity prices, Gulf Power enters into physical fixed-price contracts for the purchase and sale of electricity through the wholesale electricity market. Gulf Power continues to manage a fuel-hedging program implemented per the guidelines of the Florida PSC. As such, Gulf Power had no material change in market risk exposure for the first quarter 2010 when compared with the December 31, 2009 reporting period.

The changes in fair value of energy-related derivative contracts, the majority of which are composed of regulatory hedges, for the three months ended March 31, 2010 were as follows:

|   | <b>First<br/>Quarter<br/>2010<br/>Changes<br/>Fair Value<br/>(in millions)</b> |
|---|--|
| Contracts outstanding at the beginning of the period, assets (liabilities), net | \$ (14)  |
| Contracts realized or settled   | 4  |
| Current period changes <sup>(a)</sup>   | (11)   |
| <br>  |  |
| Contracts outstanding at the end of the period, assets (liabilities), net       | \$ (21)  |

(a) Current period changes also include the changes in fair value of new contracts entered into during the period, if any.

The change in the fair value positions of the energy-related derivative contracts for the three months ended March 31, 2010 was a decrease of \$7 million, substantially all of which is due to natural gas positions. The change is attributable to both the volume and prices of natural gas. At March 31, 2010, Gulf Power had a net hedge volume of 10 million mmBtu with a weighted average contract cost approximately \$2.09 per mmBtu above market prices, compared to 11 million mmBtu at December 31, 2009 with a weighted average contract cost approximately \$1.29 per mmBtu above market prices. Natural gas hedges are recovered through the fuel cost recovery clause.

Regulatory hedges relate to Gulf Power's fuel-hedging program where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as they are recovered through the fuel cost recovery clause.

Unrealized pre-tax gains and losses recognized in income for the three months ended March 31, 2010 and 2009 for energy-related derivative contracts that are not hedges were not material.

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The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at March 31, 2010 are as follows:

|  | <b>March 31, 2010</b>  |                                |                          |              |
|--|------------------------|--------------------------------|--------------------------|--------------|
|  | Total<br>Fair<br>Value | <b>Fair Value Measurements</b> |                          |              |
|  |                        | Year 1                         | Maturity<br>Years<br>2&3 | Years<br>4&5 |
|  | <i>(in millions)</i>   |                                |                          |              |
| Level 1  | \$                     | \$                             | \$                       | \$           |
| Level 2  | (21)                   | (14)                           | (6)                      | (1)          |
| Level 3  |                        |                                |                          |              |
| Fair value of contracts outstanding at end of period | \$(21)                 | \$(14)                         | \$ (6)                   | \$ (1)       |

Gulf Power uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are actively quoted, and thus fall into Level 2. See Note (C) to the Condensed Financial Statements herein for further discussion on fair value measurements.

For additional information, see MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Market Price Risk of Gulf Power in Item 7 and Note 1 under Financial Instruments and Note 10 to the financial statements of Gulf Power in Item 8 of the Form 10-K and Note (H) to the Condensed Financial Statements herein.

**Financing Activities**

In the first quarter 2010, Gulf Power issued to Southern Company 500,000 shares of common stock, without par value, and realized proceeds of \$50 million. The proceeds were used to repay a portion of Gulf Power's short-term debt and for other general corporate purposes.

Subsequent to March 31, 2010, Gulf Power issued \$175 million aggregate principal amount of Series 2010A 4.75% Senior Notes due April 15, 2020. The proceeds will be used to repay at maturity \$140 million aggregate principal amount of Series 2009A Floating Rate Senior Notes due June 28, 2010, to repay a portion of its outstanding short-term debt, and for general corporate purposes, including Gulf Power's continuous construction program.

Also subsequent to March 31, 2010, Gulf Power settled \$100 million of interest rate hedges related to the Series 2010A Senior Note issuance at a gain of approximately \$1.5 million. The gain will be amortized to interest expense over 10 years.

In addition to any financings that may be necessary to meet capital requirements, contractual obligations, and storm-recovery, Gulf Power plans to continue, when economically feasible, a program to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit.

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**MISSISSIPPI POWER COMPANY**

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**MISSISSIPPI POWER COMPANY**  
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

|  | For the Three Months<br>Ended March 31, |                      |
|--|---|----------------------|
|  | 2010                                    | 2009                 |
|  | <i>(in thousands)</i>                   |                      |
| <b>Operating Revenues:</b>                               |   |                      |
| Retail revenues  | \$ 186,587                              | \$ 175,735           |
| Wholesale revenues, non-affiliates                       | 78,889                                  | 80,154               |
| Wholesale revenues, affiliates                           | 14,675                                  | 9,418                |
| Other revenues   | 3,487                                   | 3,416                |
| <br>Total operating revenues                             | <br>283,638                             | <br>268,723          |
| <b>Operating Expenses:</b>                               |   |                      |
| Fuel   | 130,797                                 | 119,965              |
| Purchased power, non-affiliates                          | 3,621                                   | 2,835                |
| Purchased power, affiliates                              | 14,721                                  | 21,805               |
| Other operations and maintenance                         | 67,338                                  | 59,761               |
| Depreciation and amortization                            | 18,675                                  | 18,015               |
| Taxes other than income taxes                            | 18,460                                  | 14,924               |
| <br>Total operating expenses                             | <br>253,612                             | <br>237,305          |
| <b>Operating Income</b>                                  | <b>30,026</b>                           | <b>31,418</b>        |
| <b>Other Income and (Expense):</b>                       |   |                      |
| Interest income  | 33                                      | 632                  |
| Interest expense, net of amounts capitalized             | (6,179)                                 | (4,762)              |
| Other income (expense), net                              | 1,549                                   | 1,629                |
| <br>Total other income and (expense)                     | <br>(4,597)                             | <br>(2,501)          |
| <b>Earnings Before Income Taxes</b>                      | <b>25,429</b>                           | <b>28,917</b>        |
| Income taxes   | 9,743                                   | 10,513               |
| <br><b>Net Income</b>                                    | <br><b>15,686</b>                       | <br><b>18,404</b>    |
| <b>Dividends on Preferred Stock</b>                      | <b>433</b>                              | <b>433</b>           |
| <br><b>Net Income After Dividends on Preferred Stock</b> | <br><b>\$ 15,253</b>                    | <br><b>\$ 17,971</b> |

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

|  | For the Three Months<br>Ended March 31, |                  |
|--|---|------------------|
|  | 2010                                    | 2009             |
|  | <i>(in thousands)</i>                   |                  |
| <b>Net Income After Dividends on Preferred Stock</b> | <b>\$ 15,253</b>                        | <b>\$ 17,971</b> |
| Other comprehensive income (loss):                   |   |                  |

Qualifying hedges:

|   |                  |           |
|---|------------------|-----------|
| Changes in fair value, net of tax of \$12 and \$166, respectively | <b>20</b>        | 268       |
| <b>Comprehensive Income</b>                                       | <b>\$ 15,273</b> | \$ 18,239 |

The accompanying notes as they relate to Mississippi Power are an integral part of these condensed financial statements.

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**MISSISSIPPI POWER COMPANY**  
**CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)**

|  | For the Three Months<br>Ended March 31, |           |
|--|---|-----------|
|  | 2010                                    | 2009      |
|  | <i>(in thousands)</i>                   |           |
| <b>Operating Activities:</b>   |   |           |
| Net income   | \$ 15,686                               | \$ 18,404 |
| Adjustments to reconcile net income to net cash provided from operating activities |   |           |
| Depreciation and amortization, total   | 20,118                                  | 19,479    |
| Deferred income taxes  | (8,080)                                 | (4,562)   |
| Pension, postretirement, and other employee benefits                               | 1,822                                   | 1,902     |
| Stock based compensation expense   | 757                                     | 657       |
| Generation construction screening costs  | (18,832)                                | (8,400)   |
| Other, net   | 1,144                                   | (113)     |
| Changes in certain current assets and liabilities                                  |   |           |
| -Receivables   | 7,715                                   | 19,380    |
| -Under recovered regulatory clause revenues  |   | 12,947    |
| -Fossil fuel stock   | 17,761                                  | (20,315)  |
| -Materials and supplies  | (885)                                   | (379)     |
| -Prepaid income taxes  |   | 1,061     |
| -Other current assets  | (8,262)                                 | (2,592)   |
| -Other accounts payable  | 970                                     | (17,890)  |
| -Accrued taxes   | (12,109)                                | (18,604)  |
| -Accrued compensation  | (7,719)                                 | (15,483)  |
| -Over recovered regulatory clause revenues   | 7,596                                   |           |
| -Other current liabilities   | (708)                                   | 1,629     |
| Net cash provided from (used for) operating activities                             | 16,974                                  | (12,879)  |
| <b>Investing Activities:</b>   |   |           |
| Property additions   | (19,054)                                | (26,476)  |
| Cost of removal, net of salvage  | (3,375)                                 | (2,941)   |
| Construction payables  | 2,812                                   | 1,082     |
| Other investing activities   | (5,316)                                 | (506)     |
| Net cash used for investing activities   | (24,933)                                | (28,841)  |
| <b>Financing Activities:</b>   |   |           |
| Decrease in notes payable, net   |   | (26,293)  |
| Proceeds   |   |           |
| Capital contributions from parent company  | 752                                     | 1,294     |
| Senior notes issuances   |   | 125,000   |
| Redemptions  |   |           |
| Capital leases   | (323)                                   |           |
| Senior notes   |   | (40,000)  |
| Payment of preferred stock dividends   | (433)                                   | (433)     |
| Payment of common stock dividends  | (17,150)                                | (17,125)  |

|   |                  |           |
|---|------------------|-----------|
| Other financing activities                              | <b>74</b>        | (1,742)   |
| Net cash provided from (used for) financing activities  | <b>(17,080)</b>  | 40,701    |
| <b>Net Change in Cash and Cash Equivalents</b>          | <b>(25,039)</b>  | (1,019)   |
| <b>Cash and Cash Equivalents at Beginning of Period</b> | <b>65,025</b>    | 22,413    |
| <b>Cash and Cash Equivalents at End of Period</b>       | <b>\$ 39,986</b> | \$ 21,394 |

**Supplemental Cash Flow Information:**

Cash paid during the period for

Interest (net of \$9 and \$125 capitalized for 2010 and 2009, respectively) **\$ 7,028** \$ 3,847Income taxes (net of refunds) **\$ (3,821)** \$ (2,325)

The accompanying notes as they relate to Mississippi Power are an integral part of these condensed financial statements.

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**MISSISSIPPI POWER COMPANY**  
CONDENSED BALANCE SHEETS (UNAUDITED)

| <b>Assets</b>                                    | <b>At March<br/>31,<br/>2010</b> | <b>At December<br/>31,<br/>2009</b> |
|--|----------------------------------|-------------------------------------|
|  | <i>(in thousands)</i>            |                                     |
| <b>Current Assets:</b>                           |                                  |                                     |
| Cash and cash equivalents                        | \$ 39,986                        | \$ 65,025                           |
| Receivables                                      |                                  |                                     |
| Customer accounts receivable                     | 36,271                           | 36,766                              |
| Unbilled revenues                                | 25,212                           | 27,168                              |
| Other accounts and notes receivable              | 6,247                            | 11,337                              |
| Affiliated companies                             | 13,041                           | 13,215                              |
| Accumulated provision for uncollectible accounts | (842)                            | (940)                               |
| Fossil fuel stock, at average cost               | 109,477                          | 127,237                             |
| Materials and supplies, at average cost          | 28,678                           | 27,793                              |
| Other regulatory assets, current                 | 67,582                           | 53,273                              |
| Prepaid income taxes                             | 35,105                           | 32,237                              |
| Other current assets                             | 15,611                           | 12,625                              |
| <b>Total current assets</b>                      | <b>376,368</b>                   | <b>405,736</b>                      |
| <b>Property, Plant, and Equipment:</b>           |                                  |                                     |
| In service                                       | 2,327,318                        | 2,316,494                           |
| Less accumulated provision for depreciation      | 958,076                          | 950,373                             |
| Plant in service, net of depreciation            | 1,369,242                        | 1,366,121                           |
| Construction work in progress                    | 65,061                           | 48,219                              |
| <b>Total property, plant, and equipment</b>      | <b>1,434,303</b>                 | <b>1,414,340</b>                    |
| <b>Other Property and Investments</b>            | <b>6,729</b>                     | <b>7,018</b>                        |
| <b>Deferred Charges and Other Assets:</b>        |                                  |                                     |
| Deferred charges related to income taxes         | 13,161                           | 8,536                               |
| Other regulatory assets, deferred                | 232,984                          | 209,100                             |
| Other deferred charges and assets                | 22,570                           | 27,951                              |
| <b>Total deferred charges and other assets</b>   | <b>268,715</b>                   | <b>245,587</b>                      |
| <b>Total Assets</b>                              | <b>\$ 2,086,115</b>              | <b>\$ 2,072,681</b>                 |

The accompanying notes as they relate to Mississippi Power are an integral part of these condensed financial statements.

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**MISSISSIPPI POWER COMPANY**  
**CONDENSED BALANCE SHEETS (UNAUDITED)**

|  | At March<br>31,<br>2010 | At December<br>31,<br>2009 |
|--|-------------------------|----------------------------|
| <i>(in thousands)</i>                          |                         |                            |
| <b>Liabilities and Stockholders Equity</b>     |                         |                            |
| <b>Current Liabilities:</b>                    |                         |                            |
| Securities due within one year                 | \$ 81,356               | \$ 1,330                   |
| Accounts payable                               |                         |                            |
| Affiliated                                     | 45,414                  | 49,209                     |
| Other  | 46,075                  | 38,662                     |
| Customer deposits                              | 11,572                  | 11,143                     |
| Accrued taxes                                  |                         |                            |
| Accrued income taxes                           | 31,318                  | 10,590                     |
| Other accrued taxes                            | 16,710                  | 49,547                     |
| Accrued interest                               | 4,290                   | 5,739                      |
| Accrued compensation                           | 6,066                   | 13,785                     |
| Other regulatory liabilities, current          | 5,982                   | 7,610                      |
| Over recovered regulatory clause liabilities   | 56,191                  | 48,596                     |
| Liabilities from risk management activities    | 29,619                  | 19,454                     |
| Other current liabilities                      | 24,557                  | 21,142                     |
| Total current liabilities                      | 359,150                 | 276,807                    |
| <b>Long-term Debt</b>                          | 413,173                 | 493,480                    |
| <b>Deferred Credits and Other Liabilities:</b> |                         |                            |
| Accumulated deferred income taxes              | 223,507                 | 223,066                    |
| Deferred credits related to income taxes       | 12,819                  | 13,937                     |
| Accumulated deferred investment tax credits    | 12,528                  | 12,825                     |
| Employee benefit obligations                   | 163,070                 | 161,778                    |
| Other cost of removal obligations              | 101,911                 | 97,820                     |
| Other regulatory liabilities, deferred         | 55,267                  | 54,576                     |
| Other deferred credits and liabilities         | 53,658                  | 47,090                     |
| Total deferred credits and other liabilities   | 622,760                 | 611,092                    |
| <b>Total Liabilities</b>                       | 1,395,083               | 1,381,379                  |
| <b>Redeemable Preferred Stock</b>              | 32,780                  | 32,780                     |
| <b>Common Stockholders Equity:</b>             |                         |                            |
| Common stock, without par value                |                         |                            |
| Authorized - 1,130,000 shares                  |                         |                            |
| Outstanding - 1,121,000 shares                 | 37,691                  | 37,691                     |
| Paid-in capital                                | 327,169                 | 325,562                    |
| Retained earnings                              | 293,372                 | 295,269                    |
| Accumulated other comprehensive income (loss)  | 20                      |                            |

|   |                     |              |
|---|---------------------|--------------|
| Total common stockholder s equity                 | <b>658,252</b>      | 658,522      |
| <b>Total Liabilities and Stockholder s Equity</b> | <b>\$ 2,086,115</b> | \$ 2,072,681 |

The accompanying notes as they relate to Mississippi Power are an integral part of these condensed financial statements.

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**MISSISSIPPI POWER COMPANY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**FIRST QUARTER 2010 vs. FIRST QUARTER 2009**

**OVERVIEW**

Mississippi Power operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located within the State of Mississippi and to wholesale customers in the Southeast. Many factors affect the opportunities, challenges, and risks of Mississippi Power's business of selling electricity. These factors include the ability to maintain a constructive regulatory environment, to maintain energy sales given the effects of the recession, and to effectively manage and secure timely recovery of rising costs. These costs include those related to projected long-term demand growth, increasingly stringent environmental standards, fuel, capital expenditures, and restoration following major storms. Mississippi Power has various regulatory mechanisms that operate to address cost recovery. Appropriately balancing required costs and capital expenditures with reasonable retail rates will continue to challenge Mississippi Power for the foreseeable future.

Mississippi Power continues to focus on several key performance indicators. In recognition that Mississippi Power's long-term financial success is dependent upon how well it satisfies its customers' needs, Mississippi Power's retail base rate mechanism, PEP, includes performance indicators that directly tie customer service indicators to Mississippi Power's allowed return. In addition to the PEP performance indicators, Mississippi Power focuses on other performance measures, including broader measures of customer satisfaction, plant availability, system reliability, and net income after dividends on preferred stock. For additional information on these indicators, see MANAGEMENT'S DISCUSSION AND ANALYSIS OVERVIEW Key Performance Indicators of Mississippi Power in Item 7 of the Form 10-K.

**RESULTS OF OPERATIONS*****Net Income***

First Quarter 2010 vs. First Quarter 2009

|                             |                   |
|-----------------------------|-------------------|
| <i>(change in millions)</i> | <i>(% change)</i> |
| \$(2.7)                     | (15.1)            |

Mississippi Power's net income after dividends on preferred stock for the first quarter 2010 was \$15.3 million compared to \$18.0 million for the corresponding period in 2009. The decrease in net income after dividends on preferred stock for the first quarter 2010 was primarily due to a decrease in wholesale energy revenue from non-affiliate customers served outside Mississippi Power's service territory; a decrease in interest income; and increases in operations and maintenance expenses and interest expense, net of amounts capitalized. The decrease in net income after dividends on preferred stock for the first quarter 2010 was partially offset by an increase in territorial base revenue primarily resulting from significantly colder weather in the first quarter 2010 compared to the first quarter 2009.

***Retail Revenues***

First Quarter 2010 vs. First Quarter 2009

|                             |                   |
|-----------------------------|-------------------|
| <i>(change in millions)</i> | <i>(% change)</i> |
| \$10.9                      | 6.1               |

In the first quarter 2010, retail revenues were \$186.6 million compared to \$175.7 million for the corresponding period in 2009.

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**MISSISSIPPI POWER COMPANY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Details of the change to retail revenues are as follows:

|                              | <b>First Quarter<br/>2010</b> |                   |
|------------------------------|-------------------------------|-------------------|
|                              | <i>(in millions)</i>          | <i>(% change)</i> |
| Retail prior year            | \$ 175.7                      |                   |
| Estimated change in          |                               |                   |
| Rates and pricing            | (0.2)                         | (0.1)             |
| Sales growth (decline)       | (1.1)                         | (0.7)             |
| Weather                      | 6.9                           | 3.9               |
| Fuel and other cost recovery | 5.3                           | 3.0               |
| Retail current year          | \$ 186.6                      | 6.1%              |

Revenues associated with changes in rates and pricing decreased in the first quarter 2010 when compared to the corresponding period in 2009 due to a \$0.7 million decrease related to System Restoration Rider (SRR) revenues pursuant to an order from the Mississippi PSC, partially offset by an increase of \$0.5 million related to the ECO Plan rate. For additional information on SRR, see MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters System Restoration Rider of Mississippi Power in Item 7 of the Form 10-K. Revenues attributable to changes in sales declined in the first quarter 2010 when compared to the corresponding period in 2009, primarily resulting from the continued decline in the number of residential and commercial customers due to a weak job market and customer relocations, partially offset by continued economic recovery for some larger industrial customers and increased residential energy use. Weather-adjusted KWH energy sales to residential customers increased 4.6% primarily due to improved economic conditions and lower fuel costs. Weather-adjusted KWH energy sales to commercial customers decreased 6.9% primarily due to the declining number of commercial customers in Mississippi Power's service territory. KWH energy sales to industrial customers increased 7.4% as a result of increased production for several large industrial customers due to improving economic conditions. Revenues attributable to changes in weather increased in the first quarter 2010 when compared to the corresponding period for 2009 due to significantly colder weather in the first quarter 2010. Fuel and other cost recovery revenues increased in the first quarter 2010 when compared to the corresponding period in 2009 primarily as a result of higher recoverable fuel costs. Recoverable fuel costs include fuel and purchased power expenses reduced by the fuel portion of wholesale revenues from energy sold to customers outside Mississippi Power's service territory. Electric rates include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these provisions, fuel revenues generally equal fuel expenses, including the fuel component of purchased power costs, and do not affect net income.

**Wholesale Revenues Non-Affiliates**

First Quarter 2010 vs. First Quarter 2009

|                             |                   |
|-----------------------------|-------------------|
| <i>(change in millions)</i> | <i>(% change)</i> |
| \$(1.3)                     | (1.6)             |

Wholesale revenues from non-affiliates will vary depending on the market cost of available energy compared to the cost of Mississippi Power and Southern Company system-owned generation, demand for energy within the Southern Company service territory, and availability of Southern Company system generation.



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**MISSISSIPPI POWER COMPANY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

In the first quarter 2010, wholesale revenues from non-affiliates were \$78.9 million compared to \$80.2 million for the corresponding period in 2009. The decrease was due to \$8.4 million in decreased revenues from customers outside Mississippi Power's service territory, partially offset by \$7.2 million in increased revenues from customers inside Mississippi Power's service territory. The \$8.4 million decrease in revenues from customers outside Mississippi Power's service territory was primarily due to a \$9.6 million decrease in sales, partially offset by a \$1.1 million increase associated with higher prices, resulting from higher marginal cost of fuel. The \$7.2 million increase in revenues from customers inside Mississippi Power's service territory was primarily due to a \$4.2 million increase in fuel revenues and a \$3.0 million increase in wholesale base revenues due to significantly colder weather when compared to the corresponding period in 2009.

**Wholesale Revenues - Affiliates**

First Quarter 2010 vs. First Quarter 2009

|                             |                   |
|-----------------------------|-------------------|
| <i>(change in millions)</i> | <i>(% change)</i> |
| \$5.3                       | 55.8              |

Wholesale revenues from affiliates will vary depending on demand and the availability and cost of generating resources at each company within the Southern Company system. These affiliate sales are made in accordance with the IIC, as approved by the FERC. These transactions do not have a significant impact on earnings since the energy is generally sold at marginal cost.

In the first quarter 2010, wholesale revenues from affiliates were \$14.7 million compared to \$9.4 million for the corresponding period in 2009. The increase was primarily due to a \$4.9 million increase in energy revenues, of which \$4.3 million was associated with increased sales and \$0.6 million was associated with lower prices. Capacity revenues increased \$0.3 million.

**Fuel and Purchased Power Expenses**

|   |                    |                   |
|---|--------------------|-------------------|
|   | First Quarter 2010 |                   |
|   | vs.                |                   |
|   | First Quarter 2009 |                   |
|   | <i>(change in</i>  | <i>(% change)</i> |
|   | <i>millions)</i>   | <i>(% change)</i> |
| Fuel  | \$10.8             | 9.0               |
| Purchased power - non-affiliates            | 0.8                | 27.7              |
| Purchased power - affiliates                | (7.1)              | (32.5)            |
| <br>Total fuel and purchased power expenses | <br>\$ 4.5         |                   |

In the first quarter 2010, total fuel and purchased power expenses were \$149.1 million compared to \$144.6 million for the corresponding period in 2009. The increase was primarily due to an \$11.6 million increase in total KWHs generated and purchased, partially offset by a \$7.1 million decrease in cost of fuel and purchased power.

Fuel and purchased power transactions do not have a significant impact on earnings since energy expenses are generally offset by energy revenues through Mississippi Power's fuel cost recovery clause. See FUTURE EARNINGS POTENTIAL - FERC and Mississippi PSC Matters - Retail Regulatory Matters herein for additional information. Details of Mississippi Power's cost of generation and purchased power are as follows:

Percent

| Average Cost    | First<br>Quarter<br>2010   | First<br>Quarter<br>2009 | Change |
|-----------------|----------------------------|--------------------------|--------|
|                 | <i>(cents per net KWH)</i> |                          |        |
| Fuel            | 4.23                       | 4.44                     | (4.7)  |
| Purchased power | 3.76                       | 3.91                     | (3.8)  |

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**MISSISSIPPI POWER COMPANY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

In the first quarter 2010, fuel expense was \$130.8 million compared to \$120.0 million for the corresponding period in 2009. The increase was primarily due to a 14.3% increase in generation from Mississippi Power facilities resulting from higher energy demand in the first quarter 2010 compared to the corresponding period in 2009. This increase was partially offset by a 4.7% decrease in the price of fuel primarily due to a decrease in coal prices.

*Non-Affiliates*

In the first quarter 2010, purchased power expense from non-affiliates was \$3.6 million compared to \$2.8 million for the corresponding period in 2009. The increase was primarily the result of a 172.5% increase in the average cost of purchased power per KWH, partially offset by a 53.1% decrease in KWH volume purchased. The increase in prices was due to a higher marginal cost of fuel while the decrease in volume was a result of higher cost opportunity purchases.

Energy purchases from non-affiliates will vary depending on the market cost of available energy compared to the cost of Southern Company system-generated energy, demand for energy within the Southern Company system service territory, and availability of Southern Company system generation.

*Affiliates*

In the first quarter 2010, purchased power expense from affiliates was \$14.7 million compared to \$21.8 million for the corresponding period in 2009. The decrease was primarily due to a 25.5% decrease in the average cost of purchased power per KWH and a 9.4% decrease in KWH volume purchased.

Energy purchases from affiliates will vary depending on demand and the availability and cost of generating resources at each company within the Southern Company system. These purchases are made in accordance with the IIC, as approved by the FERC.

***Other Operations and Maintenance Expenses***

## First Quarter 2010 vs. First Quarter 2009

| <i>(change in millions)</i> | <i>(% change)</i> |
|-----------------------------|-------------------|
| \$7.5                       | 12.7              |

In the first quarter 2010, other operations and maintenance expenses were \$67.3 million compared to \$59.8 million for the corresponding period in 2009. The increase was primarily due to a \$2.9 million increase in generation planned maintenance expenses, a \$1.0 million increase in environmental expenses, a \$1.0 million increase in transmission and distribution maintenance expenses, and a \$2.1 million increase in administrative and general expenses primarily due to an increase in affiliate service company expenses.

***Taxes Other Than Income Taxes***

## First Quarter 2010 vs. First Quarter 2009

| <i>(change in millions)</i> | <i>(% change)</i> |
|-----------------------------|-------------------|
| \$3.6                       | 23.7              |

In the first quarter 2010, taxes other than income taxes were \$18.5 million compared to \$14.9 million for the corresponding period in 2009. The increase was primarily due to a \$3.2 million increase in ad valorem taxes, a \$0.2 million increase in franchise taxes, and a \$0.1 million increase in payroll taxes.

The retail portion of the increase in ad valorem taxes is recoverable under Mississippi Power's ad valorem tax cost recovery clause and, therefore, does not affect net income.

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**MISSISSIPPI POWER COMPANY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

***Interest Income***

First Quarter 2010 vs. First Quarter 2009

| <i>(change in millions)</i> | <i>(% change)</i> |
|-----------------------------|-------------------|
| (\$0.6)                     | (94.8)            |

In the first quarter 2010, interest income decreased \$0.6 million compared to the corresponding period in 2009. The decrease was primarily due to lower interest income related to a regulatory recovery mechanism for fuel and energy cost hedging.

***Interest Expense, Net of Amounts Capitalized***

First Quarter 2010 vs. First Quarter 2009

| <i>(change in millions)</i> | <i>(% change)</i> |
|-----------------------------|-------------------|
| \$1.4                       | 29.8              |

In the first quarter 2010, interest expense, net of amounts capitalized was \$6.2 million compared to \$4.8 million for the corresponding period in 2009. The increase was primarily due to a \$0.9 million increase in interest expense associated with the issuance of new long-term debt in March 2009, a \$0.2 million increase in interest expense associated with higher commitment fees, and a \$0.2 million increase in interest expense related to a regulatory recovery mechanism for fuel and energy cost hedging.

For additional information, see MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Financing Activities of Mississippi Power in Item 7 of the Form 10-K.

***Income Taxes***

First Quarter 2010 vs. First Quarter 2009

| <i>(change in millions)</i> | <i>(% change)</i> |
|-----------------------------|-------------------|
| \$(0.8)                     | (7.3)             |

In the first quarter 2010, income taxes were \$9.7 million compared to \$10.5 million for the corresponding period in 2009. The decrease was primarily due to a \$1.0 million decrease resulting from the decrease in pre-tax earnings and a \$0.1 million decrease due to higher State of Mississippi manufacturing investment tax credits, partially offset by a \$0.3 million increase due to a lower federal production activities deduction.

**FUTURE EARNINGS POTENTIAL**

The results of operations discussed above are not necessarily indicative of Mississippi Power's future earnings potential. The level of Mississippi Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Mississippi Power's business of selling electricity. These factors include Mississippi Power's ability to maintain a constructive regulatory environment that continues to allow for the recovery of all prudently incurred costs during a time of increasing costs. Future earnings in the near term will depend, in part, upon maintaining energy sales which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in Mississippi Power's service area. Recessionary conditions have impacted sales; the timing and extent of the economic recovery will impact growth and may impact future earnings. For additional information relating to these issues, see RISK FACTORS in Item 1A and

MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL of Mississippi Power in  
Item 7 of the Form 10-K.

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**MISSISSIPPI POWER COMPANY**  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Environmental Matters**

Compliance costs related to the Clean Air Act and other environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis. See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters of Mississippi Power in Item 7 and Note 3 to the financial statements of Mississippi Power under Environmental Matters in Item 8 of the Form 10-K for additional information.

***Carbon Dioxide Litigation***

***New York Case***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation New York Case of Mississippi Power in Item 7 and Note 3 to the financial statements of Mississippi Power under Environmental Matters Carbon Dioxide Litigation New York Case in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation. The U.S. Court of Appeals for the Second Circuit denied the defendants' petition for rehearing en banc on March 5, 2010 and granted the defendants request to stay the mandate to allow the defendants to file a petition for writ of certiorari with the U.S. Supreme Court on March 16, 2010. The ultimate outcome of these matters cannot be determined at this time.

***Other Litigation***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation Other Litigation of Mississippi Power in Item 7 and Note 3 to the financial statements of Mississippi Power under Environmental Matters Carbon Dioxide Litigation Other Litigation in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation related to Hurricane Katrina. On February 26, 2010, the U.S. Court of Appeals for the Fifth Circuit granted the defendants' petition for rehearing en banc. The ultimate outcome of this matter cannot be determined at this time.

***Coal Combustion Byproducts***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Coal Combustion Byproducts of Mississippi Power in Item 7 of the Form 10-K for information regarding potential additional regulation of coal combustion byproducts. On May 4, 2010, the EPA issued a proposal requesting comments on two potential regulatory options for management and disposal of coal combustion byproducts, either of which could require conversion of existing storage units to lined landfills with additional waste management and groundwater monitoring requirements. Under both options, the EPA proposes to exempt the beneficial reuse of coal combustion byproducts from regulation. The outcome of these proposed regulations will depend on their final form and any legal challenges, and cannot be determined at this time. However, additional regulation of coal combustion byproducts could have a significant impact on Mississippi Power's management, beneficial use, and disposal of such byproducts and could result in significant additional compliance costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

***Global Climate Issues***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Global Climate Issues of Mississippi Power in Item 7 of the Form 10-K for information regarding the potential for legislation and regulation addressing greenhouse gas and other emissions. On April 1, 2010, the EPA issued a final

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rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that, once this rule becomes effective on January 2, 2011, carbon dioxide and other greenhouse gases will become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. The EPA also published a proposed rule governing how these programs would be applied to stationary sources, including power plants, in October 2009. The EPA is expected to finalize this proposed rule during 2010. The ultimate outcome of these proposed and final rules cannot be determined at this time and will depend on additional regulatory action and any legal challenges.

**FERC and Mississippi PSC Matters**

***Retail Regulatory Matters***

***Performance Evaluation Plan***

See Note 3 to the financial statements of Mississippi Power under **Retail Regulatory Matters** **Performance Evaluation Plan** in Item 8 of the Form 10-K for additional information regarding Mississippi Power's base rates.

In November 2009, the revised PEP was approved by the Mississippi PSC and Mississippi Power resumed annual evaluations. Mississippi Power filed its annual PEP filing for 2010 under the revised PEP, which resulted in a lower allowed return on investment but no rate change.

On March 15, 2010, Mississippi Power submitted its annual PEP lookback filing for 2009, which recommended no surcharge or refund. The ultimate outcome of this matter cannot now be determined.

***System Restoration Rider***

See **MANAGEMENT'S DISCUSSION AND ANALYSIS** **FUTURE EARNINGS POTENTIAL** **PSC Matters** **System Restoration Rider** of Mississippi Power in Item 7 of the Form 10-K for additional information.

In September 2009, the Mississippi PSC issued an order requiring Mississippi Power to develop SRR factors designed to reduce SRR revenue by approximately \$1.5 million. The revised factors were in effect from November 2009 to March 2010. Beginning in April 2010, the SRR factors were reset to zero. On January 29, 2010, Mississippi Power submitted its 2010 SRR rate filing with the Mississippi PSC and expects to accrue approximately \$3.0 million to the property damage reserve in 2010.

***Environmental Compliance Overview Plan***

See Note 3 to the financial statements of Mississippi Power under **Retail Regulatory Matters** **Environmental Compliance Overview Plan** in Item 8 of the Form 10-K for information on Mississippi Power's annual environmental filing with the Mississippi PSC.

On February 12, 2010, Mississippi Power submitted its 2010 ECO Plan notice which proposes an increase in annual revenues for Mississippi Power of approximately \$3.9 million. In its 2010 ECO Plan filing, Mississippi Power is proposing to change the true-up provision of the ECO Plan rate schedule to consider actual revenues collected in addition to actual costs. Hearings on the ECO Plan are expected to be held with the Mississippi PSC in June 2010. The final outcome of this matter cannot now be determined.

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*Fuel Cost Recovery*

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Fuel Cost Recovery of Mississippi Power in Item 7 of the Form 10-K for information regarding Mississippi Power's fuel cost recovery. Mississippi Power establishes an annual retail fuel cost recovery factor that is approved by the Mississippi PSC. Mississippi Power is required to file for an adjustment to the retail fuel cost recovery factor annually; such filing occurred in November 2009. The Mississippi PSC approved the retail fuel cost recovery factor on December 15, 2009 with the new rates effective January 2010. The retail fuel cost recovery factor will result in an annual decrease in an amount equal to 11.3% of total 2009 retail revenues. At March 31, 2010, the amount of over recovered retail fuel costs included in the balance sheet was \$35.3 million compared to \$29.4 million at December 31, 2009. Mississippi Power also has a wholesale Municipal and Rural Associations (MRA) and a Market Based (MB) fuel cost recovery factor. Effective January 1, 2010, the wholesale MRA fuel rate decreased, resulting in an annual decrease in an amount equal to 20.9% of total 2009 MRA revenue. Effective February 1, 2010, the wholesale MB fuel rate decreased, resulting in an annual decrease in an amount equal to 16.9% of total 2009 MB revenue. At March 31, 2010, the amount of over recovered wholesale MRA and MB fuel costs included in the balance sheet was \$17.5 million and \$3.4 million compared to \$16.8 million and \$2.4 million, respectively, at December 31, 2009. Mississippi Power's operating revenues are adjusted for differences in actual recoverable fuel cost and amounts billed in accordance with the currently approved cost recovery rate. Accordingly, this decrease to the billing factor will have no significant effect on Mississippi Power's revenues or net income, but will decrease annual cash flow.

*Depreciation Study*

See Note 1 to the financial statements of Mississippi Power under Depreciation and Amortization in Item 8 of the Form 10-K for additional information. In September 2009, Mississippi Power filed a depreciation study, as of December 31, 2008, with the Mississippi PSC and the FERC. The FERC accepted this study in October 2009. On April 20, 2010, the Mississippi PSC issued an order approving the depreciation rates effective January 1, 2010.

**Integrated Coal Gasification Combined Cycle**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Integrated Coal Gasification Combined Cycle and PSC Matters Mississippi Baseload Construction Legislation of Mississippi Power in Item 7 and Note 3 to the financial statements of Mississippi Power under Integrated Coal Gasification Combined Cycle in Item 8 of the Form 10-K for information regarding the Kemper IGCC.

On March 9, 2010, the Mississippi Department of Environmental Quality issued the PSD air permit modification for the Kemper IGCC, which modifies the original PSD air permit issued in October 2008. The Mississippi Chapter of the Sierra Club has requested a formal evidentiary hearing regarding the issuance of the modified permit.

Mississippi Power filed an application in November 2009 with the DOE and in December 2009 with the IRS for certain tax credits available to projects using advanced coal technologies under the Energy Improvement and Extension Act of 2008. The DOE subsequently certified the Kemper IGCC, and on April 30, 2010, the IRS allocated \$279 million of tax credits under Section 48A of the Internal Revenue Code to Mississippi Power. The utilization of these credits is dependent upon meeting the IRS certification requirements and completing the Kemper IGCC in a timely manner. Mississippi Power has secured all environmental reviews and permits necessary to commence construction of the Kemper IGCC and has entered into a binding contract for the steam turbine generator, completing two milestone requirements for these credits.

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On April 29, 2010, the Mississippi PSC issued an order finding that Mississippi Power's application to acquire, construct, and operate the Kemper IGCC did not satisfy the requirement of public convenience and necessity in the form that the project and the related cost recovery were originally proposed by Mississippi Power. The order requires Mississippi Power to accept certain conditions prior to the Mississippi PSC's approval of a Certificate of Public Convenience and Necessity. Among those conditions imposed in the order, Mississippi Power would be required to accept a construction cost cap of \$2.4 billion and an operating cost cap based on assumptions contained in Mississippi Power's proposal. In addition, the order deferred a decision on whether, when, and to what extent the Mississippi PSC would apply the cost recovery provisions of the State of Mississippi Baseload Act of 2008 (Baseload Act) for financing cost recovery on construction work in progress (CWIP) balances during construction. According to the order, while the Kemper IGCC satisfies the eligibility requirements for application of the Baseload Act, the Mississippi PSC declined to approve CWIP recovery until Mississippi Power submits additional evidence supporting a specific request for CWIP within a defined recovery period. Mississippi Power expects to file a motion for reconsideration or, in the alternative, for rehearing, of the order.

The April 2010 order also approved recovery of \$46 million of \$50.5 million in prudent pre-construction costs incurred through March 2009. The remaining \$4.5 million is associated with overhead costs and variable pay of SCS, which were recommended for exclusion from pre-construction costs by a consultant hired by the Mississippi Public Utilities Staff. An additional \$2.7 million has been incurred for costs of this type since March 2009. The remaining \$4.5 million, as well as additional pre-construction amounts incurred to date, will be reviewed and addressed in a future proceeding.

As of March 31, 2010, Mississippi Power had spent a total of \$97.0 million associated with Mississippi Power's generation resource planning, evaluation, and screening activities, including regulatory filing costs. Costs incurred during the first quarter 2010 totaled \$23.5 million compared to \$8.4 million during the first quarter 2009. Of the total \$97.0 million, \$87.0 million was deferred in other regulatory assets, \$9.0 million was related to land purchases capitalized, and \$1.0 million was previously expensed.

In the event that Mississippi Power does not proceed with the Kemper IGCC, Mississippi Power would seek recovery of the pre-construction costs incurred as of March 2010, as well as contract termination obligations and other costs incurred since March 2010, in the amount of approximately \$41.0 million. In November 2009, the Mississippi PSC issued an order that found Mississippi Power has a demonstrated need for additional capacity. In the event that Mississippi Power does not proceed with the Kemper IGCC, Mississippi Power would provide for its capacity need through either the construction of a combined cycle plant, a PPA, or other means available to Mississippi Power.

The ultimate outcome of these matters cannot now be determined.

**Legislation**

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Legislation of Mississippi Power in Item 7 of the Form 10-K for additional information.

On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law and, on March 30, 2010, the Health Care and Education Reconciliation Act of 2010 (HCERA and, together with PPACA, the Acts), which makes various amendments to certain aspects of the PPACA, was signed into law. The Acts effectively change the tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide prescription drug benefits that are at least actuarially equivalent to the corresponding benefits provided under Medicare Part D. The federal subsidy paid to employers was introduced as part of the Medicare Prescription Drug, Improvement, and Modernization Act of

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2003 (MPDIMA). Since the 2006 tax year, Mississippi Power has been receiving the federal subsidy related to certain retiree prescription drug plans that were determined to be actuarially equivalent to the benefit provided under Medicare Part D. Under the MPDIMA, the federal subsidy does not reduce an employer's income tax deduction for the costs of providing such prescription drug plans nor is it subject to income tax individually. Under the Acts, beginning in 2013, an employer's income tax deduction for the costs of providing Medicare Part D-equivalent prescription drug benefits to retirees will be reduced by the amount of the federal subsidy. Under GAAP, any impact from a change in tax law must be recognized in the period enacted regardless of the effective date; however, as a result of state regulatory treatment, this change had no material impact on the financial statements of Mississippi Power. Southern Company is in the process of assessing the extent to which the legislation may affect its future health care and related employee benefit plan costs. Any future impact on the financial statements of Mississippi Power cannot be determined at this time.

On April 8, 2010, Mississippi Power received notice that an award had been granted under the American Recovery and Reinvestment Act of 2009 grant application for smart grid workforce training. Mississippi Power will receive, and will match, \$2.6 million under this agreement. Receipt of this award is subject to negotiation of definitive agreements with the DOE. The ultimate impact of these matters cannot be determined at this time.

On April 28, 2010, Southern Company signed a Smart Grid Investment Grant agreement with the DOE, formally accepting a \$165 million grant under the American Recovery and Reinvestment Act of 2009. This funding will be used for transmission and distribution automation and modernization projects. Mississippi Power will receive, and will match, \$25 million under this agreement.

**Other Matters**

Mississippi Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Mississippi Power is subject to certain claims and legal actions arising in the ordinary course of business. Mississippi Power's business activities are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as opacity and air and water quality standards, has increased generally throughout the United States. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against Mississippi Power cannot be predicted at this time; however, for current proceedings not specifically reported herein or in Note 3 to the financial statements of Mississippi Power in Item 8 of the Form 10-K, management does not anticipate that the liabilities, if any, arising from such current proceedings would have a material adverse effect on Mississippi Power's financial statements.

The extent of coastal contamination resulting from the oil spill that began in April 2010 in the Gulf of Mexico has potential impacts on certain steam plant operations as well as potential significant economic impacts on the affected areas within Southern Company's service territory. The ultimate impact of this matter cannot be determined at this time.

See the Notes to the Condensed Financial Statements herein for discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

**ACCOUNTING POLICIES**

**Application of Critical Accounting Policies and Estimates**

Mississippi Power prepares its financial statements in accordance with accounting principles generally accepted in the United States. Significant accounting policies are described in Note 1 to the financial statements of Mississippi Power in Item 8 of the Form 10-K. In the application of these policies, certain estimates are made that may have a material impact on Mississippi Power's results of operations and related disclosures. Different assumptions and measurements could



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produce estimates that are significantly different from those recorded in the financial statements. See MANAGEMENT'S DISCUSSION AND ANALYSIS ACCOUNTING POLICIES Application of Critical Accounting Policies and Estimates of Mississippi Power in Item 7 of the Form 10-K for a complete discussion of Mississippi Power's critical accounting policies and estimates related to Electric Utility Regulation, Contingent Obligations, Unbilled Revenues, Plant Daniel Operating Lease, and Pension and Other Postretirement Benefits.

**FINANCIAL CONDITION AND LIQUIDITY****Overview**

Mississippi Power's financial condition remained stable at March 31, 2010. Mississippi Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See Sources of Capital and Financing Activities herein for additional information. Net cash provided from operating activities totaled \$17.0 million for the first three months of 2010, compared to net cash used for operating activities of \$12.9 million for the corresponding period in 2009. The \$29.9 million increase in cash provided from operating activities is primarily due to a decrease in fossil fuel stock resulting from an increase in Mississippi Power-owned generation and a decrease in cash payments related to fuel inventory, partially offset by an increase in spending related to the Kemper IGCC and a decrease in cash related to lower fuel rates effective in the first quarter 2010. Net cash used for investing activities totaled \$24.9 million for the first three months of 2010, compared to \$28.8 million for the corresponding period in 2009. The \$3.9 million decrease in net cash used for investing activities is primarily due to a decrease in property additions. Net cash used for financing activities totaled \$17.1 million for the first three months of 2010, compared to net cash provided from financing activities of \$40.7 million for the corresponding period in 2009. The \$57.8 million increase in net cash used for financing activities was primarily due to the issuance of \$125 million in senior notes in the first quarter 2009, partially offset by the repayment of \$40 million of senior notes and a decrease of \$26.3 million in notes payable in the first quarter 2009. Significant balance sheet changes for the first three months of 2010 include a decrease in cash of \$25.0 million. Fossil fuel stock decreased \$17.8 million due to decreases in coal inventory and emissions allowances of \$17.0 million and \$0.8 million, respectively. Other regulatory assets increased \$38.2 million primarily due to increased spending related to the Kemper IGCC and mark-to-market losses on forward gas contracts. Total property, plant, and equipment increased by \$20.0 million primarily due to construction projects in progress. Accrued income taxes increased by \$20.7 million primarily due to the tax accrual for 2010. Other accrued taxes decreased by \$32.8 million primarily due to property tax payments of \$42.8 million in the first quarter 2010. Liabilities from risk management activities increased \$10.2 million due to mark-to-market losses on energy related derivative positions.

**Capital Requirements and Contractual Obligations**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Mississippi Power in Item 7 of the Form 10-K for a description of Mississippi Power's capital requirements for its construction program, lease obligations, purchase commitments, derivative obligations, preferred stock dividends, and trust funding requirements. Approximately \$81.4 million will be required through March 31, 2011 for maturities of long-term debt. The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; storm impacts; changes in environmental statutes and regulations; changes in FERC rules and regulations; Mississippi PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

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**Sources of Capital**

Mississippi Power plans to obtain the funds required for construction and other purposes from sources similar to those utilized in the past. Mississippi Power has primarily utilized funds from operating cash flows, short-term borrowings, external security offerings, and capital contributions from Southern Company. However, the amount, type, and timing of any future financings, if needed, will depend upon regulatory approval, prevailing market conditions, and other factors. See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY

Sources of Capital of Mississippi Power in Item 7 of the Form 10-K for additional information.

Mississippi Power's current liabilities sometimes exceed current assets because of the continued use of short-term debt as a funding source to meet scheduled maturities of long-term debt, as well as cash needs, which can fluctuate significantly due to the seasonality of the business. To meet short-term cash needs and contingencies, Mississippi Power had at March 31, 2010 approximately \$40 million of cash and cash equivalents and \$156 million of unused committed credit arrangements with banks. Of the unused credit arrangements, \$106 million expire in 2010 and \$50 million expire in 2011. Of these credit arrangements, \$41 million contain provisions allowing two-year term loans executable at expiration and \$65 million contain provisions allowing one-year term loans executable at expiration. Mississippi Power expects to renew its credit arrangements, as needed, prior to expiration. The credit arrangements provide liquidity support to Mississippi Power's commercial paper program and \$40 million are dedicated to funding purchase obligations related to variable rate pollution control revenue bonds. See Note 6 to the financial statements of Mississippi Power under Bank Credit Arrangements in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under Bank Credit Arrangements herein for additional information. Mississippi Power may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of Mississippi Power and other Southern Company subsidiaries. At March 31, 2010, Mississippi Power had no commercial paper borrowings outstanding. Management believes that the need for working capital can be adequately met by utilizing commercial paper, lines of credit, and cash.

**Off-Balance Sheet Financing Arrangements**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY

Off-Balance Sheet Financing Arrangements of Mississippi Power in Item 7 and Note 7 to the financial statements of Mississippi Power under Operating Leases in Item 8 of the Form 10-K for information related to Mississippi Power's lease of a combined cycle generating facility at Plant Daniel. In April 2010, Mississippi Power was required to notify the lessor, Juniper Capital L.P., if it intended to terminate the lease at the end of the initial term expiring in October 2011. Mississippi Power chose not to give notice to terminate the lease. Mississippi Power has the option to purchase the units or renew the lease. The ultimate outcome of this matter cannot be determined at this time.

**Credit Rating Risk**

Mississippi Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- and/or Baa3 or below. These contracts are for physical electricity sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management. At March 31, 2010, the maximum potential collateral requirements under these contracts at a BBB- and/or Baa3 rating were approximately \$4 million. At March 31, 2010, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately \$396 million. Included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Mississippi Power's ability to access capital markets, particularly the short-term debt market.

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On January 22, 2010, Fitch applied new guidelines regarding the ratings of various hybrid capital instruments and preferred securities of companies in all sectors, including banks, insurers, non-bank financial institutions, and non-financial corporate entities, including utilities. As a result, the Fitch rating of Mississippi Power's preferred stock decreased from A+ to A. These ratings are not applicable to the collateral requirements described above.

**Market Price Risk**

Mississippi Power's market risk exposure relative to interest rate changes for the first quarter 2010 has not changed materially compared with the December 31, 2009 reporting period. Since a significant portion of outstanding indebtedness is at fixed rates, Mississippi Power is not aware of any facts or circumstances that would significantly affect exposures on existing indebtedness in the near term. However, the impact on future financing costs cannot now be determined.

Due to cost-based rate regulation, Mississippi Power continues to have limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. To mitigate residual risks relative to movements in electricity prices, Mississippi Power enters into physical fixed-price contracts for the purchase and sale of electricity through the wholesale electricity market. Mississippi Power continues to manage retail fuel-hedging programs implemented per the guidelines of the Mississippi PSC and wholesale fuel-hedging programs under agreements with wholesale customers. As such, Mississippi Power had no material change in market risk exposure for the first quarter 2010 when compared with the December 31, 2009 reporting period.

The changes in fair value of energy-related derivative contracts, the majority of which are composed of regulatory hedges, for the three months ended March 31, 2010 were as follows:

|   | <b>First<br/>Quarter<br/>2010<br/>Changes<br/>Fair Value<br/>(in millions)</b> |
|---|--|
| Contracts outstanding at the beginning of the period, assets (liabilities), net | \$ (42)  |
| Contracts realized or settled   | 6  |
| Current period changes <sup>(a)</sup>   | (23)   |
| Contracts outstanding at the end of the period, assets (liabilities), net       | \$ (59)  |

(a) Current period changes also include the changes in fair value of new contracts entered into during the period, if any.

The change in the fair value positions of the energy-related derivative contracts for the three months ended March 31, 2010 was a decrease of \$17 million, substantially all of which is due to natural gas positions. The change is attributable to the price of natural gas. At March 31, 2010, Mississippi Power had a net hedge volume of 23 million mmBtu with a weighted average contract cost approximately \$2.62 per mmBtu above market prices, compared to

23 million mmBtu at December 31, 2009 with a weighted average contract cost approximately \$1.83 per mmBtu above market prices. The majority of the natural gas hedges are recovered through the energy cost management clause.

Regulatory hedges relate to Mississippi Power's fuel-hedging program where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as they are recovered through the energy cost management clause.

Unrealized pre-tax gains and losses recognized in income for the three months ended March 31, 2010 and 2009 for energy-related derivative contracts that are not hedges were not material.

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The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at March 31, 2010 are as follows:

|  | <b>March 31, 2010</b>  |                                |                          |              |
|--|------------------------|--------------------------------|--------------------------|--------------|
|  | Total<br>Fair<br>Value | <b>Fair Value Measurements</b> |                          |              |
|  |                        | Year 1                         | Maturity<br>Years<br>2&3 | Years<br>4&5 |
|  | <i>(in millions)</i>   |                                |                          |              |
| Level 1  | \$                     | \$                             | \$                       | \$           |
| Level 2  | (59)                   | (30)                           | (29)                     |              |
| Level 3  |                        |                                |                          |              |
| Fair value of contracts outstanding at end of period | \$(59)                 | \$(30)                         | \$(29)                   | \$           |

Mississippi Power uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are actively quoted, and thus fall into Level 2. See Note (C) to the Condensed Financial Statements herein for further discussion on fair value measurements.

For additional information, see MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Market Price Risk of Mississippi Power in Item 7 and Note 1 under Financial Instruments and Note 10 to the financial statements of Mississippi Power in Item 8 of the Form 10-K and Note (H) to the Condensed Financial Statements herein.

**Financing Activities**

Mississippi Power did not issue or redeem any securities during the three months ended March 31, 2010.

In addition to any financings that may be necessary to meet capital requirements, contractual obligations, and storm restoration costs, Mississippi Power plans to continue, when economically feasible, a program to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit.

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**SOUTHERN POWER COMPANY  
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**SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

|  | For the Three Months<br>Ended March 31, |           |
|--|---|-----------|
|  | <b>2010</b>                             | 2009      |
|  | <i>(in thousands)</i>                   |           |
| <b>Operating Revenues:</b>                   |   |           |
| Wholesale revenues, non-affiliates           | <b>\$ 153,337</b>                       | \$ 94,612 |
| Wholesale revenues, affiliates               | <b>101,757</b>                          | 135,284   |
| Other revenues                               | <b>1,394</b>                            | 1,621     |
| <b>Total operating revenues</b>              | <b>256,488</b>                          | 231,517   |
| <b>Operating Expenses:</b>                   |   |           |
| Fuel   | <b>97,514</b>                           | 65,781    |
| Purchased power, non-affiliates              | <b>18,542</b>                           | 21,482    |
| Purchased power, affiliates                  | <b>23,411</b>                           | 15,202    |
| Other operations and maintenance             | <b>38,878</b>                           | 32,973    |
| Depreciation and amortization                | <b>29,109</b>                           | 24,339    |
| Taxes other than income taxes                | <b>5,106</b>                            | 4,759     |
| <b>Total operating expenses</b>              | <b>212,560</b>                          | 164,536   |
| <b>Operating Income</b>                      | <b>43,928</b>                           | 66,981    |
| <b>Other Income and (Expense):</b>           |   |           |
| Interest expense, net of amounts capitalized | <b>(20,054)</b>                         | (21,559)  |
| Other income (expense), net                  | <b>419</b>                              | (211)     |
| <b>Total other income and (expense)</b>      | <b>(19,635)</b>                         | (21,770)  |
| <b>Earnings Before Income Taxes</b>          | <b>24,293</b>                           | 45,211    |
| Income taxes                                 | <b>9,483</b>                            | 17,295    |
| <b>Net Income</b>                            | <b>\$ 14,810</b>                        | \$ 27,916 |

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

|   | For the Three Months<br>Ended March 31, |           |
|---|---|-----------|
|   | <b>2010</b>                             | 2009      |
|   | <i>(in thousands)</i>                   |           |
| <b>Net Income</b>   | <b>\$ 14,810</b>                        | \$ 27,916 |
| Other comprehensive income (loss):  |   |           |
| Qualifying hedges:  |   |           |
| Changes in fair value, net of tax of \$1,714 and \$302, respectively  | <b>2,677</b>                            | 466       |
| Reclassification adjustment for amounts included in net income, net of tax of \$1,003 and \$935, respectively | <b>1,567</b>                            | 1,440     |

|  |                  |           |
|--|------------------|-----------|
| <b>Total other comprehensive income (loss)</b> | <b>4,244</b>     | 1,906     |
| <b>Comprehensive Income</b>                    | <b>\$ 19,054</b> | \$ 29,822 |

The accompanying notes as they relate to Southern Power are an integral part of these condensed financial statements.

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**SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

|  | For the Three Months<br>Ended March 31, |                  |
|--|---|------------------|
|  | 2010                                    | 2009             |
|  | <i>(in thousands)</i>                   |                  |
| <b>Operating Activities:</b>   |   |                  |
| Net income   | \$ 14,810                               | \$ 27,916        |
| Adjustments to reconcile net income to net cash provided from operating activities |   |                  |
| Depreciation and amortization, total   | 32,355                                  | 27,371           |
| Deferred income taxes  | 13,388                                  | 18,763           |
| Deferred revenues  | (20,993)                                | (22,020)         |
| Mark-to-market adjustments   | 762                                     | 883              |
| Accumulated billings on construction contract                                      | 401                                     | 11,520           |
| Accumulated costs on construction contract   | (13)                                    | (20,145)         |
| Other, net   | 541                                     | (134)            |
| Changes in certain current assets and liabilities                                  |   |                  |
| -Receivables   | 16,566                                  | 2,439            |
| -Fossil fuel stock   | 3,815                                   | 1,464            |
| -Materials and supplies  | 4,721                                   | (497)            |
| -Prepaid income taxes  | (9,201)                                 | 7,870            |
| -Other current assets  | 1,020                                   | 652              |
| -Accounts payable  | (15,247)                                | (19,840)         |
| -Accrued taxes   | 3,433                                   | 3,628            |
| -Accrued interest  | (12,028)                                | (12,194)         |
| -Other current liabilities   | 297                                     | 88               |
| Net cash provided from operating activities  | 34,627                                  | 27,764           |
| <b>Investing Activities:</b>   |   |                  |
| Property additions   | (67,556)                                | (4,632)          |
| Change in construction payables  | 15,489                                  | (271)            |
| Payments pursuant to long-term service agreements                                  | (8,145)                                 | (6,136)          |
| Other investing activities   | (245)                                   |                  |
| Net cash used for investing activities   | (60,457)                                | (11,039)         |
| <b>Financing Activities:</b>   |   |                  |
| Increase in notes payable, net   | 48,006                                  |                  |
| Proceeds Capital contributions   | 702                                     | 1,060            |
| Payment of common stock dividends  | (26,775)                                | (26,525)         |
| Net cash provided from (used for) financing activities                             | 21,933                                  | (25,465)         |
| <b>Net Change in Cash and Cash Equivalents</b>                                     | <b>(3,897)</b>                          | <b>(8,740)</b>   |
| <b>Cash and Cash Equivalents at Beginning of Period</b>                            | <b>7,152</b>                            | <b>37,894</b>    |
| <b>Cash and Cash Equivalents at End of Period</b>                                  | <b>\$ 3,255</b>                         | <b>\$ 29,154</b> |

**Supplemental Cash Flow Information:**

Cash paid during the period for

|  |                  |             |
|--|------------------|-------------|
| Interest (net of \$1,926 and \$78 capitalized for 2010 and 2009, respectively) | <b>\$ 28,900</b> | \$ 30,791   |
| Income taxes (net of refunds)  | <b>\$ 1,532</b>  | \$ (10,003) |

The accompanying notes as they relate to Southern Power are an integral part of these condensed financial statements.

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**SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

|  | At March<br>31,<br>2010 | At December<br>31,<br>2009 |
|--|-------------------------|----------------------------|
|  | <i>(in thousands)</i>   |                            |
| <b>Assets</b>  |                         |                            |
| <b>Current Assets:</b>   |                         |                            |
| Cash and cash equivalents  | \$ 3,255                | \$ 7,152                   |
| Receivables  |                         |                            |
| Customer accounts receivable   | 29,874                  | 28,873                     |
| Other accounts receivable  | 1,829                   | 2,064                      |
| Affiliated companies   | 23,256                  | 38,561                     |
| Fossil fuel stock, at average cost   | 11,536                  | 15,351                     |
| Materials and supplies, at average cost  | 26,886                  | 31,607                     |
| Prepaid service agreements - current   | 23,821                  | 44,090                     |
| Prepaid income taxes   | 23,878                  | 5,177                      |
| Other prepaid expenses   | 2,261                   | 3,176                      |
| Assets from risk management activities   | 16,040                  | 4,901                      |
| Other current assets   | 6,650                   | 6,754                      |
| <br>Total current assets   | <br>169,286             | <br>187,706                |
| <b>Property, Plant, and Equipment:</b>   |                         |                            |
| In service   | 2,972,925               | 2,994,463                  |
| Less accumulated provision for depreciation  | 459,472                 | 439,457                    |
| <br>Plant in service, net of depreciation  | <br>2,513,453           | <br>2,555,006              |
| Construction work in progress  | 263,770                 | 153,982                    |
| <br>Total property, plant, and equipment   | <br>2,777,223           | <br>2,708,988              |
| <b>Other Property and Investments:</b>   |                         |                            |
| Goodwill   | 1,835                   | 1,794                      |
| Other intangible assets, net of amortization of \$151 and \$17 at March 31, 2010 and December 31, 2009, respectively | 48,969                  | 49,102                     |
| <br>Total other property and investments   | <br>50,804              | <br>50,896                 |
| <b>Deferred Charges and Other Assets:</b>  |                         |                            |
| Prepaid long-term service agreements   | 71,012                  | 74,513                     |
| Other deferred charges and assets - affiliated   | 3,474                   | 3,540                      |
| Other deferred charges and assets - non-affiliated   | 16,407                  | 17,410                     |
| <br>Total deferred charges and other assets  | <br>90,893              | <br>95,463                 |
| <br><b>Total Assets</b>  | <br><b>\$ 3,088,206</b> | <br><b>\$ 3,043,053</b>    |

The accompanying notes as they relate to Southern Power are an integral part of these condensed financial statements.



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**SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

|   | At March<br>31,<br>2010 | At December<br>31,<br>2009 |
|---|-------------------------|----------------------------|
|   | <i>(in thousands)</i>   |                            |
| <b>Liabilities and Stockholder's Equity</b>             |                         |                            |
| <b>Current Liabilities:</b>                             |                         |                            |
| Notes payable   | \$ 166,954              | \$ 118,948                 |
| Accounts payable  |                         |                            |
| Affiliated  | 52,271                  | 58,493                     |
| Other   | 31,193                  | 31,128                     |
| Accrued taxes   |                         |                            |
| Accrued income taxes                                    | 2,340                   | 1,449                      |
| Other accrued taxes                                     | 6,358                   | 2,576                      |
| Accrued interest  | 17,895                  | 29,923                     |
| Liabilities from risk management activities             | 15,102                  | 8,119                      |
| Other current liabilities                               | 471                     | 323                        |
| Total current liabilities                               | 292,584                 | 250,959                    |
| <b>Long-term Debt</b>                                   | 1,297,670               | 1,297,607                  |
| <b>Deferred Credits and Other Liabilities:</b>          |                         |                            |
| Accumulated deferred income taxes                       | 253,292                 | 238,293                    |
| Deferred convertible investment tax credits             | 26,300                  | 16,800                     |
| Deferred capacity revenues - affiliated                 | 14,392                  | 36,369                     |
| Other deferred credits and liabilities - affiliated     | 5,392                   | 5,651                      |
| Other deferred credits and liabilities - non-affiliated | 10,474                  | 2,252                      |
| Total deferred credits and other liabilities            | 309,850                 | 299,365                    |
| <b>Total Liabilities</b>                                | 1,900,104               | 1,847,931                  |
| <b>Common Stockholder's Equity:</b>                     |                         |                            |
| Common stock, par value \$.01 per share                 |                         |                            |
| Authorized - 1,000,000 shares                           |                         |                            |
| Outstanding - 1,000 shares                              |                         |                            |
| Paid-in capital   | 865,163                 | 864,462                    |
| Retained earnings                                       | 340,096                 | 352,061                    |
| Accumulated other comprehensive loss                    | (17,157)                | (21,401)                   |
| Total common stockholder's equity                       | 1,188,102               | 1,195,122                  |
| <b>Total Liabilities and Stockholder's Equity</b>       | \$ 3,088,206            | \$ 3,043,053               |

The accompanying notes as they relate to Southern Power are an integral part of these condensed financial statements.

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**SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**FIRST QUARTER 2010 vs. FIRST QUARTER 2009**

**OVERVIEW**

Southern Power and its wholly-owned subsidiaries construct, acquire, own, and manage generation assets and sell electricity at market-based prices in the wholesale market. Southern Power continues to execute its strategy through a combination of acquiring and constructing new power plants and by entering into PPAs with investor owned utilities, independent power producers, municipalities, and electric cooperatives.

To evaluate operating results and to ensure Southern Power's ability to meet its contractual commitments to customers, Southern Power focuses on several key performance indicators. These indicators include peak season equivalent forced outage rate (EFOR), return on invested capital (ROIC), and net income. EFOR defines the hours during peak demand times when Southern Power's generating units are not available due to forced outages (the lower the better). ROIC is focused on earning a return on all invested capital that meets or exceeds Southern Power's weighted average cost of capital. For additional information on these indicators, see MANAGEMENT'S DISCUSSION AND ANALYSIS OVERVIEW Key Performance Indicators of Southern Power in Item 7 of the Form 10-K.

**RESULTS OF OPERATIONS*****Net Income***

| First Quarter 2010 vs. First Quarter 2009 |                   |
|---|-------------------|
| <i>(change in millions)</i>               | <i>(% change)</i> |
| \$(13.1)                                  | (46.9)            |

Southern Power's net income for the first quarter 2010 was \$14.8 million compared to \$27.9 million for the corresponding period in 2009. The decrease was primarily due to decreased affiliate capacity revenues, higher other operations and maintenance expenses, and higher depreciation and amortization.

***Wholesale Revenues - Non-Affiliates***

| First Quarter 2010 vs. First Quarter 2009 |                   |
|---|-------------------|
| <i>(change in millions)</i>               | <i>(% change)</i> |
| \$58.7                                    | 62.1              |

Wholesale energy sales to non-affiliates will vary depending on the energy demand of those customers and their generation capacity, as well as the market cost of available energy compared to the cost of Southern Power's energy. Increases and decreases in revenues that are driven by fuel prices are accompanied by an increase or decrease in fuel costs and do not have a significant impact on net income.

Wholesale energy sales to non-affiliates for the first quarter 2010 were \$153.3 million compared to \$94.6 million for the corresponding period in 2009. The increase was mainly due to \$19.2 million of energy and capacity revenues under a new PPA that began in January 2010 and \$34.7 million of energy sales that were not covered by PPAs as a result of significantly more favorable weather in the first quarter 2010 compared to 2009.

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Power Sales Agreements of Southern Power in Item 7 of the Form 10-K for additional information.

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**SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES**  
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**Wholesale Revenues - Affiliates**

First Quarter 2010 vs. First Quarter 2009

|                             |                   |
|-----------------------------|-------------------|
| <i>(change in millions)</i> | <i>(% change)</i> |
| \$(33.5)                    | (24.8)            |

Wholesale energy sales to affiliated companies within the Southern Company system will vary depending on demand and the availability and cost of generating resources at each company. Sales to affiliate companies that are not covered by PPAs are made in accordance with the IIC, as approved by the FERC. Increases and decreases in revenues that are driven by fuel prices are accompanied by an increase or decrease in fuel costs and do not have a significant impact on net income.

Wholesale revenues from affiliates for the first quarter 2010 were \$101.8 million compared to \$135.3 million for the corresponding period in 2009. The decrease was primarily the result of \$38.7 million and \$19.2 million of lower energy and capacity revenues, respectively, associated with the expiration of PPAs covering Plant Wansley Units 6 and 7 in December 2009. These decreases were partially offset by increased energy revenues of \$20.9 million related to increased power sales under the IIC and \$3.5 million of capacity revenues associated with a new PPA with Gulf Power that began in June 2009.

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Power Sales Agreements of Southern Power in Item 7 of the Form 10-K for additional information.

**Fuel and Purchased Power Expenses**

|   |   |                   |
|---|---|-------------------|
|   | First Quarter 2010<br>vs.<br>First Quarter 2009 |                   |
|   | <i>(change in<br/>millions)</i>                 | <i>(% change)</i> |
| Fuel                                    | \$31.7  | 48.2              |
| Purchased power - non-affiliates        | (2.9)   | (13.7)            |
| Purchased power - affiliates            | 8.2   | 54.0              |
| Total fuel and purchased power expenses | \$37.0  |                   |

Southern Power PPAs generally provide that the purchasers are responsible for substantially all of the cost of fuel. Consequently, any increase or decrease in fuel costs is generally accompanied by an increase or decrease in related fuel revenues and does not have a significant impact on net income. Southern Power is responsible for the cost of fuel for units that are not covered under PPAs. Power from these units is sold into the market or sold to affiliates under the IIC.

In the first quarter 2010, total fuel and purchased power expenses were \$139.5 million compared to \$102.5 million for the corresponding period in 2009. Fuel and purchased power expenses increased \$16.0 million due to a 3.4% increase in the average cost of natural gas and a 44.0% increase in the average cost of purchased power. Additionally, fuel and purchased power expenses increased \$21.0 million due to an increase in KWHs generated and purchased.

In the first quarter 2010, fuel expense was \$97.5 million compared to \$65.8 million for the corresponding period in 2009. Fuel expense increased \$3.2 million due to a 3.4% increase in the average cost of natural gas and \$28.5 million due to an increase in KWHs generated.

In the first quarter 2010, purchased power expense was \$42.0 million compared to \$36.7 million for the corresponding period in 2009. Purchased power expenses increased \$12.8 million due to an increase in the average cost of purchased power partially offset by a \$7.5 million decrease due to fewer KWHs purchased.

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**SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES**  
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**Other Operations and Maintenance Expenses**

First Quarter 2010 vs. First Quarter 2009

|                             |                   |
|-----------------------------|-------------------|
| <i>(change in millions)</i> | <i>(% change)</i> |
| \$5.9                       | 17.9              |

In the first quarter 2010, other operations and maintenance expenses were \$38.9 million compared to \$33.0 million for the corresponding period in 2009. This increase was primarily due to a \$2.9 million increase in salaries and wages relating mainly to payroll taxes, a \$1.8 million increase related to more scheduled generating plant outages in the first quarter 2010 compared to the corresponding period in 2009, and a \$0.6 million increase in contract labor expense.

**Depreciation and Amortization**

First Quarter 2010 vs. First Quarter 2009

|                             |                   |
|-----------------------------|-------------------|
| <i>(change in millions)</i> | <i>(% change)</i> |
| \$4.8                       | 19.6              |

In the first quarter 2010, depreciation and amortization was \$29.1 million compared to \$24.3 million for the corresponding period in 2009. The increase was primarily due to equipment retirements at Plant Franklin Unit 2 and Plant Harris Unit 1.

See Note 1 to the financial statements of Southern Power under "Depreciation" in Item 8 of the Form 10-K for additional information.

**Interest Expense, Net of Amounts Capitalized**

First Quarter 2010 vs. First Quarter 2009

|                             |                   |
|-----------------------------|-------------------|
| <i>(change in millions)</i> | <i>(% change)</i> |
| \$(1.5)                     | (7.0)             |

In the first quarter 2010, interest expense, net of amounts capitalized was \$20.1 million compared to \$21.6 million for the corresponding period in 2009. The decrease was primarily due to an increase in capitalized interest associated with the construction of the Cleveland County combustion turbine units and the Nacogdoches biomass plant. See FUTURE EARNINGS POTENTIAL - Construction Projects herein for additional information.

**Income Taxes**

First Quarter 2010 vs. First Quarter 2009

|                             |                   |
|-----------------------------|-------------------|
| <i>(change in millions)</i> | <i>(% change)</i> |
| \$(7.8)                     | (45.2)            |

In the first quarter 2010, income taxes were \$9.5 million compared to \$17.3 million for the corresponding period in 2009 primarily due to lower pre-tax earnings.

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**SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES  
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**FUTURE EARNINGS POTENTIAL**

The results of operations discussed above are not necessarily indicative of Southern Power's future earnings potential. The level of Southern Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Southern Power's competitive wholesale business. These factors include Southern Power's ability to achieve sales growth while containing costs. The level of future earnings also depends on numerous factors including regulatory matters (such as those related to affiliate contracts), creditworthiness of customers, total generating capacity available in the Southeast, the successful remarketing of capacity as current contracts expire, and Southern Power's ability to execute its acquisition strategy and to construct generating facilities. Other factors that could influence future earnings include weather, demand, generation patterns, and operational limitations. Recessionary conditions have lowered demand and have negatively impacted capacity revenues under Southern Power's PPAs where the amounts purchased are based on demand. Southern Power is unable to predict whether demand under these PPAs will return to pre-recession levels. The timing and extent of the economic recovery will impact future earnings. For additional information relating to these issues, see RISK FACTORS in Item 1A and MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL of Southern Power in Item 7 of the Form 10-K.

**Environmental Matters**

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters of Southern Power in Item 7 of the Form 10-K for information on the development by federal and state environmental regulatory agencies of additional control strategies for emissions of air pollution from industrial sources, including electric generating facilities. Compliance with possible additional federal or state legislation or regulations related to global climate change, air quality, or other environmental and health concerns could also affect earnings. While Southern Power's PPAs generally contain provisions that permit charging the counterparty with some of the new costs incurred as a result of changes in environmental laws and regulations, the full impact of any such regulatory or legislative changes cannot be determined at this time.

***Carbon Dioxide Litigation***

***Other Litigation***

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters - Carbon Dioxide Litigation - Other Litigation of Southern Power in Item 7 and Note 3 to the financial statements of Southern Power under Carbon Dioxide Litigation - Other Litigation in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation related to Hurricane Katrina. On February 26, 2010, the U.S. Court of Appeals for the Fifth Circuit granted the defendants' petition for rehearing en banc. The ultimate outcome of this matter cannot be determined at this time.

***Environmental Statutes and Regulations***

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters - Environmental Statutes and Regulations of Southern Power in Item 7 of the Form 10-K for information regarding the Industrial Boiler Maximum Achievable Control Technology regulations. On April 29, 2010, the EPA issued a proposed rule that would establish emissions limits for various hazardous air pollutants typically emitted from industrial boilers, including biomass boilers. The EPA is required to finalize the rules by December 16, 2010. The impact of these proposed regulations will depend on their final form and any legal challenges, and cannot be determined at this time.

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**SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES  
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***Global Climate Issues***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Global Climate Issues of Southern Power in Item 7 of the Form 10-K for information regarding the potential for legislation and regulation addressing greenhouse gas and other emissions. On April 1, 2010, the EPA issued a final rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that, once this rule becomes effective on January 2, 2011, carbon dioxide and other greenhouse gases will become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. The EPA also published a proposed rule governing how these programs would be applied to stationary sources, including power plants, in October 2009. The EPA is expected to finalize this proposed rule during 2010. The ultimate outcome of these proposed and final rules cannot be determined at this time and will depend on additional regulatory action and any legal challenges.

**Legislation**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Legislation of Southern Power in Item 7 of the Form 10-K for additional information. On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law and, on March 30, 2010, the Health Care and Education Reconciliation Act of 2010 (HCERA and, together with PPACA, the Acts), which makes various amendments to certain aspects of the PPACA, was signed into law. The Acts effectively change the tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide prescription drug benefits that are at least actuarially equivalent to the corresponding benefits provided under Medicare Part D. The federal subsidy paid to employers was introduced as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MPDIMA). Since the 2006 tax year, Southern Company has been receiving the federal subsidy related to certain retiree prescription drug plans that were determined to be actuarially equivalent to the benefit provided under Medicare Part D. Under the MPDIMA, the federal subsidy does not reduce an employer's income tax deduction for the costs of providing such prescription drug plans nor is it subject to income tax individually. Under the Acts, beginning in 2013, an employer's income tax deduction for the costs of providing Medicare Part D-equivalent prescription drug benefits to retirees will be reduced by the amount of the federal subsidy. Under GAAP, any impact from a change in tax law must be recognized in the period enacted regardless of the effective date. Southern Power incurred a non-cash write-off of approximately \$3 million to expense during the quarter ended March 31, 2010. Southern Company is in the process of assessing the extent to which the legislation may affect its future health care and related employee benefit plan costs. Any future impact on the financial statements of Southern Power cannot be determined at this time.

**Construction Projects**

***Cleveland County Units 1-4***

In December 2008, Southern Power announced that it would build an electric generating plant in Cleveland County, North Carolina. The plant will consist of four combustion turbine natural gas generating units with a total capacity of 720 MWs. The units are expected to go into commercial operation in 2012. Costs incurred through March 31, 2010 were \$80.5 million. The total estimated construction cost is expected to be between \$350 million and \$400 million.

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**SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES  
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***Nacogdoches***

On October 8, 2009, Southern Power acquired all of the outstanding membership interests of Nacogdoches Power LLC from American Renewables LLC, the original developer of the project. Nacogdoches is constructing a biomass generating plant in Sacul, Texas with an estimated capacity of 100 MWs. The generating plant will be fueled from wood waste. Construction commenced in 2009 and the plant is expected to begin commercial operation in 2012. Costs incurred through March 31, 2010 were \$133.2 million. The total estimated cost of the project is expected to be between \$475 million and \$500 million. The output of the plant is contracted under a PPA with Austin Energy that begins in 2012 and expires upon the earlier of 2032 or when a contractual limit of \$2.3 billion in billings is reached.

**Other Matters**

Southern Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Southern Power is subject to certain claims and legal actions arising in the ordinary course of business. Southern Power's business activities are subject to extensive governmental regulation related to public health and the environment. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as opacity and air and water quality standards, has increased generally throughout the United States. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such potential litigation against Southern Power and its subsidiaries cannot be predicted at this time; however, for current proceedings not specifically reported herein or in Note 3 to the financial statements of Southern Power in Item 8 of the Form 10-K, management does not anticipate that the liabilities, if any, arising from any such proceedings would have a material adverse effect on Southern Power's financial statements. See Note (B) to the Condensed Financial Statements herein for discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

**ACCOUNTING POLICIES**

**Application of Critical Accounting Policies and Estimates**

Southern Power prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States. Significant accounting policies are described in Note 1 to the financial statements of Southern Power in Item 8 of the Form 10-K. In the application of these policies, certain estimates are made that may have a material impact on Southern Power's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. See MANAGEMENT'S DISCUSSION AND ANALYSIS ACCOUNTING POLICIES Application of Critical Accounting Policies and Estimates of Southern Power in Item 7 of the Form 10-K for a complete discussion of Southern Power's critical accounting policies and estimates related to Revenue Recognition, Percentage of Completion, Impairment of Long Lived Assets and Intangibles, Acquisition Accounting, Contingent Obligations, Depreciation, and Convertible Investment Tax Credits.

**FINANCIAL CONDITION AND LIQUIDITY**

**Overview**

Southern Power's financial condition remained stable at March 31, 2010. Southern Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements as needed to meet future capital and liquidity needs. See Sources of Capital herein for additional information on lines of credit.

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**SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES**  
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Net cash provided from operating activities totaled \$34.6 million for the first three months of 2010, compared to \$27.8 million for the corresponding period in 2009. This increase was mainly due to a reduction in accounts receivable related to lower sales to affiliate companies. Net cash used for investing activities totaled \$60.5 million for the first three months of 2010, compared to \$11.0 million for the corresponding period in 2009. The \$49.5 million increase was primarily due to an increase in construction work in progress related to construction activities at Cleveland County and Nacogdoches. Net cash provided from financing activities totaled \$21.9 million for the first three months of 2010, compared to \$25.5 million cash used for financing activities for the corresponding period in 2009. The increase was primarily due to an increase in short-term borrowings in 2010.

Significant asset changes in the balance sheet for the first quarter 2010 include an increase in construction work in progress due to Cleveland County and Nacogdoches construction activities and a decrease in accounts receivable-affiliated companies mainly due to the expiration, in December 2009, of PPAs covering Plant Wansley Units 6 and 7.

Significant liability and stockholder's equity changes in the balance sheet for the first quarter 2010 include an increase in notes payable mainly related to Cleveland County and Nacogdoches construction activities and a decrease in deferred capacity revenues affiliated due to seasonality.

**Capital Requirements and Contractual Obligations**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Southern Power in Item 7 of the Form 10-K for a description of Southern Power's capital requirements for its construction program, maturing debt, interest, leases, derivative obligations, purchase commitments, and long-term service agreements. The construction programs are subject to periodic review and revision; these amounts include estimates for potential plant acquisitions and new construction as well as ongoing capital improvements. Planned expenditures for plant acquisitions may vary due to market opportunities and Southern Power's ability to execute its growth strategy. Actual construction costs may vary from these estimates because of changes in factors such as: business conditions; environmental statutes and regulations; FERC rules and regulations; load projections; legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital.

**Sources of Capital**

Southern Power may use operating cash flows, external funds, equity capital, or loans from Southern Company to finance any new projects, acquisitions, and ongoing capital requirements. Southern Power expects to generate external funds from the issuance of unsecured senior debt and commercial paper or utilization of credit arrangements from banks. However, the amount, type, and timing of any future financings, if needed, will depend upon prevailing market conditions, regulatory approval, and other factors. See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Sources of Capital of Southern Power in Item 7 of the Form 10-K for additional information.

Southern Power's current liabilities frequently exceed current assets due to the use of short-term indebtedness as a funding source to meet cash needs which can fluctuate significantly due to the seasonality of the business. To meet liquidity and capital resource requirements, Southern Power had at March 31, 2010 cash and cash equivalents of approximately \$3 million and \$400 million in committed credit arrangements with banks, all of which expire in 2012. Proceeds from these credit arrangements may be used for working capital and general corporate purposes as well as liquidity support for Southern Power's commercial paper program. See Note 6 to the financial statements of Southern Power under Bank Credit Arrangements in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under Bank Credit Arrangements herein for additional information. Southern Power's commercial paper program is used to finance acquisition and construction costs related to electric generating facilities and for general corporate purposes. At March 31, 2010, Southern Power had \$167 million of commercial paper borrowings outstanding.



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**SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management believes that the need for working capital can be adequately met by utilizing commercial paper programs, lines of credit, and cash.

**Credit Rating Risk**

Southern Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB and Baa2, or BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel transportation and storage, and energy price risk management. At March 31, 2010, the maximum potential collateral requirements under these contracts at a BBB and Baa2 rating were approximately \$9 million and at a BBB- and/or Baa3 rating were approximately \$327 million. At March 31, 2010, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately \$999 million. Included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Southern Power's ability to access capital markets, particularly the short-term debt market. In addition, through the acquisition of Plant Rowan, Southern Power assumed PPAs with Duke Energy and North Carolina Municipal Power Agency No. 1 (NCMPA1) that could require collateral, but not accelerated payment, in the event of a downgrade of Southern Power's credit. The Duke Energy PPA defines the downgrade to be below BBB- or Baa3. The NCMPA1 PPA requires credit assurances without stating a specific credit rating. The amount of collateral required would depend upon actual losses, if any, resulting from a credit downgrade for both PPAs.

**Market Price Risk**

Southern Power is exposed to market risks, including changes in interest rates and certain energy-related commodity prices and, occasionally, currency exchange rates. To manage the volatility attributable to these exposures, Southern Power takes advantage of natural offsets and enters into various derivative transactions for the remaining exposures pursuant to Southern Power's policies in areas such as counterparty exposure and hedging practices. It is Southern Power's policy that derivatives be used primarily for hedging purposes. Derivative positions are monitored using techniques that include market valuation and sensitivity analysis.

Southern Power's market risk exposure relative to interest rate changes for the first quarter 2010 has not changed materially compared with the December 31, 2009 reporting period. Since a significant portion of outstanding indebtedness is at fixed rates, Southern Power is not aware of any facts or circumstances that would significantly affect exposure on existing indebtedness in the near term. However, the impact on future financing costs cannot now be determined.

Because energy from Southern Power's facilities is primarily sold under long-term PPAs with tolling agreements and provisions shifting substantially all of the responsibility for fuel cost to the counterparties, Southern Power's exposure to market volatility in commodity fuel prices and prices of electricity is generally limited. However, Southern Power has been and may continue to be exposed to market volatility in energy-related commodity prices as a result of sales of uncontracted generating capacity.

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**SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The changes in fair value of energy-related derivative contracts for the three months ended March 31, 2010 were as follows:

|   | <b>First<br/>Quarter<br/>2010<br/>Changes</b> |
|---|---|
|   | Fair Value                                    |
|   | <i>(in millions)</i>                          |
| Contracts outstanding at the beginning of the period, assets (liabilities), net | \$ (3.5)                                      |
| Contracts realized or settled   | 0.5   |
| Current period changes <sup>(a)</sup>   | 3.1   |
| Contracts outstanding at the end of the period, assets (liabilities), net       | \$ 0.1  |

(a) Current period changes also include the changes in fair value of new contracts entered into during the period, if any.

The increase in the fair value positions of the energy-related derivative contracts for the three months ended March 31, 2010 was \$3.6 million, which is due to both power and natural gas positions. This change is attributable to both the volume and prices of power and natural gas as follows:

|   | <b>March 31,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> |
|---|---------------------------|----------------------------------|
| <b>Power (net sold)</b>   |                           |                                  |
| MWHs <i>(in millions)</i>   | 1.3                       | 2.7                              |
| Weighted average contract cost per MWH above (below) market prices <i>(in dollars)</i>                  | \$ 9.03                   | \$ (0.36)                        |
| <b>Natural gas (net purchase)</b>   |                           |                                  |
| Commodity million mmBtu   | 6.4                       | 8.3                              |
| Location basis million mmBtu  | 1.2                       | 2.0                              |
| Commodity Weighted average contract cost per mmBtu above (below) market prices <i>(in dollars)</i>      | \$ 2.41                   | \$ 0.29                          |
| Location basis Weighted average contract cost per mmBtu above (below) market prices <i>(in dollars)</i> | \$ (0.03)                 | \$ (0.04)                        |

The fair value of energy-related derivative contracts by hedge designation reflected in the financial statements as assets (liabilities) consists of the following:

| <b>Asset (Liability) Derivatives</b> | <b>March<br/>31,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> |
|--------------------------------------|-------------------------------|----------------------------------|
|                                      | <i>(in millions)</i>          |                                  |
| Cash flow hedges                     | \$ 1.8                        | \$ (2.5)                         |
| Not designated                       | (1.7)                         | (1.0)                            |
| Total fair value                     | \$ 0.1                        | \$ (3.5)                         |

Gains and losses on energy-related derivatives used by Southern Power to hedge anticipated purchases and sales are initially deferred in OCI before being recognized in income in the same period as the hedged transaction. Gains and losses on derivative contracts that are not designated as hedges are recognized in the statements of income as incurred. Total net unrealized pre-tax losses recognized in income for the three months ended March 31, 2010 for energy-related derivative contracts that are not hedges were \$0.7 million and will continue to be marked to market until the settlement date. For the three months ended March 31, 2009, the total net unrealized pre-tax losses recognized in the statements of income were \$1.0 million.

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**SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
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The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at March 31, 2010 are as follows:

|  | <b>March 31, 2010</b>  |                                |                          |              |
|--|------------------------|--------------------------------|--------------------------|--------------|
|  | Total<br>Fair<br>Value | <b>Fair Value Measurements</b> |                          |              |
|  |                        | Year 1                         | Maturity<br>Years<br>2&3 | Years<br>4&5 |
|  |                        |                                |                          |              |
|  |                        | <i>(in millions)</i>           |                          |              |
| Level 1  | \$                     | \$                             | \$                       | \$           |
| Level 2  | 0.1                    | 1.0                            | (1.0)                    | 0.1          |
| Level 3  |                        |                                |                          |              |
| Fair value of contracts outstanding at end of period | \$0.1                  | \$1.0                          | \$(1.0)                  | \$0.1        |

Southern Power uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are actively quoted, and thus fall into Level 2. See Note (C) to the Condensed Financial Statements herein for further discussion on fair value measurements.

For additional information, see MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Market Price Risk of Southern Power in Item 7 and Note 1 under Financial Instruments and Note 9 to the financial statements of Southern Power in Item 8 of the Form 10-K and Note (H) to the Condensed Financial Statements herein.

**Financing Activities**

Southern Power did not issue or redeem any long-term securities during the three months ended March 31, 2010.

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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS  
FOR  
THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES  
ALABAMA POWER COMPANY  
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SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES  
INDEX TO APPLICABLE NOTES TO  
FINANCIAL STATEMENTS BY REGISTRANT**

| <b>Registrant</b> | <b>Applicable Notes</b>   |
|-------------------|---------------------------|
| Southern Company  | A, B, C, D, E, F, G, H, I |
| Alabama Power     | A, B, C, E, F, G, H       |
| Georgia Power     | A, B, C, E, F, G, H       |
| Gulf Power        | A, B, C, E, F, G, H       |
| Mississippi Power | A, B, C, E, F, G, H       |
| Southern Power    | A, B, C, E, G, H          |

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**THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES  
ALABAMA POWER COMPANY  
GEORGIA POWER COMPANY  
GULF POWER COMPANY  
MISSISSIPPI POWER COMPANY**

**SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS:**

**(A) INTRODUCTION**

The condensed quarterly financial statements of each registrant included herein have been prepared by such registrant, without audit, pursuant to the rules and regulations of the SEC. The Condensed Balance Sheets as of December 31, 2009 have been derived from the audited financial statements of each registrant. In the opinion of each registrant's management, the information regarding such registrant furnished herein reflects all adjustments, which, except as otherwise disclosed, are of a normal recurring nature, necessary to present fairly the results of operations for the periods ended March 31, 2010 and 2009. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although each registrant believes that the disclosures regarding such registrant are adequate to make the information presented not misleading. Disclosures which would substantially duplicate the disclosures in the Form 10-K and details which have not changed significantly in amount or composition since the filing of the Form 10-K are generally omitted from this Quarterly Report on Form 10-Q. Therefore, these Condensed Financial Statements should be read in conjunction with the financial statements and the notes thereto included in the Form 10-K. Due to the seasonal variations in the demand for energy, operating results for the periods presented are not necessarily indicative of the operating results to be expected for the full year.

Certain prior years' data presented in the financial statements have been reclassified to conform to the current year presentation.

**Affiliate Transactions**

Gulf Power purchased a turbine rotor assembly that was jointly-owned by Southern Power and Georgia Power for approximately \$11 million. These affiliate transactions were in accordance with FERC and state PSC rules and guidelines.

**Variable Interest Entities**

Effective January 1, 2010, the traditional operating companies and Southern Power adopted new accounting guidance which modified the consolidation model and expanded disclosures related to variable interest entities (VIE). The primary beneficiary of a VIE is required to consolidate the VIE when it has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. The adoption of this new accounting guidance did not result in the traditional operating companies or Southern Power consolidating any VIEs that were not already consolidated under previous guidance, nor deconsolidating any VIEs.

Southern Power has certain wholly-owned subsidiaries that are determined to be VIEs. Southern Power is considered the primary beneficiary of these VIEs because it controls the most significant activities of the VIEs, including operating and maintaining the respective assets, and has the obligation to absorb expected losses of these VIEs to the extent of its equity interests.

**(B) CONTINGENCIES AND REGULATORY MATTERS**

See Note 3 to the financial statements of the registrants in Item 8 of the Form 10-K for information relating to various lawsuits, other contingencies, and regulatory matters.

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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

**General Litigation Matters**

Each registrant is subject to certain claims and legal actions arising in the ordinary course of business. In addition, each registrant's business activities are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as opacity and air and water quality standards, has increased generally throughout the United States. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against the registrants and any of their subsidiaries cannot be predicted at this time; however, for current proceedings not specifically reported herein or in Note 3 to the financial statements of each registrant in Item 8 of the Form 10-K, management does not anticipate that the liabilities, if any, arising from such current proceedings would have a material adverse effect on such registrant's financial statements.

**Mirant Matters**

Mirant was an energy company with businesses that included independent power projects and energy trading and risk management companies in the U.S. and selected other countries. It was a wholly-owned subsidiary of Southern Company until its initial public offering in October 2000. In April 2001, Southern Company completed a spin-off to its shareholders of its remaining ownership, and Mirant became an independent corporate entity.

In July 2003, Mirant and certain of its affiliates filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Northern District of Texas. The Bankruptcy Court entered an order confirming Mirant's plan of reorganization in December 2005, and Mirant announced that this plan became effective in January 2006. As part of the plan, Mirant transferred substantially all of its assets and its restructured debt to a new corporation that adopted the name Mirant Corporation (Reorganized Mirant).

Under the terms of the separation agreements entered into in connection with the spin-off, Mirant agreed to indemnify Southern Company for certain costs. As a result of Mirant's bankruptcy, Southern Company sought reimbursement as an unsecured creditor in Mirant's Chapter 11 proceeding. If Southern Company's claims for indemnification with respect to these costs are allowed, then Mirant's indemnity obligations to Southern Company would constitute unsecured claims against Mirant entitled to stock in Reorganized Mirant. As a result of the \$202 million settlement in March 2009 of another suit related to Mirant (MC Asset Recovery litigation), the maximum amount Southern Company can assert by proof of claim in the Mirant bankruptcy is capped at \$9.5 million. See Note 5 to the financial statements of Southern Company under *Effective Tax Rate* in Item 8 of the Form 10-K for more information regarding the MC Asset Recovery litigation settlement. The final outcome of this matter cannot now be determined.

**Environmental Matters**

***New Source Review Actions***

In November 1999, the EPA brought a civil action in the U.S. District Court for the Northern District of Georgia against certain Southern Company subsidiaries, including Alabama Power and Georgia Power, alleging that these subsidiaries had violated the NSR provisions of the Clean Air Act and related state laws at certain coal-fired generating facilities. After Alabama Power was dismissed from the original action, the EPA filed a

separate action in January 2001 against Alabama Power in the U.S. District Court for the Northern District of Alabama. In these lawsuits, the EPA alleges that NSR violations occurred at eight coal-fired generating facilities operated by Alabama Power and Georgia Power, including facilities co-owned by Mississippi Power and Gulf Power. The civil actions request penalties and injunctive relief, including an order requiring installation of the best available control technology at the affected units. The EPA concurrently issued notices of violation to Gulf Power and Mississippi Power relating to Gulf Power's Plant Crist and Mississippi Power's Plant Watson. In early 2000, the EPA filed a motion to amend its complaint to add Gulf Power and Mississippi Power as defendants based on the allegations in the notices of violation. However, in March 2001, the court

**Table of Contents****NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

denied the motion based on lack of jurisdiction, and the EPA has not re-filed. The original action, now solely against Georgia Power, has been administratively closed since the spring of 2001, and the case has not been reopened.

In June 2006, the U.S. District Court for the Northern District of Alabama entered a consent decree between Alabama Power and the EPA, resolving a portion of the Alabama Power lawsuit relating to the alleged NSR violations at Plant Miller. In July 2008, the U.S. District Court for the Northern District of Alabama granted partial summary judgment in favor of Alabama Power with respect to its other affected units regarding the proper legal test for determining whether projects are routine maintenance, repair, and replacement and therefore are excluded from NSR permitting. The decision did not resolve the case, which remains ongoing.

Southern Company and the traditional operating companies believe that they complied with applicable laws and the EPA regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes maximum civil penalties of \$25,000 to \$37,500 per day, per violation at each generating unit, depending on the date of the alleged violation. An adverse outcome could require substantial capital expenditures or affect the timing of currently budgeted capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. Such expenditures could affect future results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

***Carbon Dioxide Litigation****New York Case*

In July 2004, three environmental groups and attorneys general from eight states, each outside of Southern Company's service territory, and the corporation counsel for New York City filed complaints in the U.S. District Court for the Southern District of New York against Southern Company and four other electric power companies. The complaints allege that the companies' emissions of carbon dioxide, a greenhouse gas, contribute to global warming, which the plaintiffs assert is a public nuisance. Under common law public and private nuisance theories, the plaintiffs seek a judicial order (1) holding each defendant jointly and severally liable for creating, contributing to, and/or maintaining global warming and (2) requiring each of the defendants to cap its emissions of carbon dioxide and then reduce those emissions by a specified percentage each year for at least a decade. The plaintiffs have not, however, requested that damages be awarded in connection with their claims. Southern Company believes these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. In September 2005, the U.S. District Court for the Southern District of New York granted Southern Company's and the other defendants' motions to dismiss these cases. The plaintiffs filed an appeal to the U.S. Court of Appeals for the Second Circuit in October 2005 and, in September 2009, the U.S. Court of Appeals for the Second Circuit reversed the district court's ruling, vacating the dismissal of the plaintiffs' claim, and remanding the case to the district court. In November 2009, the defendants, including Southern Company, sought rehearing en banc. The U.S. Court of Appeals for the Second Circuit denied the defendants' petition for rehearing en banc on March 5, 2010 and granted the defendants' request to stay the mandate to allow the defendants to file a petition for writ of certiorari with the U.S. Supreme Court on March 16, 2010. The ultimate outcome of these matters cannot be determined at this time.

*Kivalina Case*

In February 2008, the Native Village of Kivalina and the City of Kivalina filed a suit in the U.S. District Court for the Northern District of California against several electric utilities (including Southern Company), several oil companies, and a coal company. The plaintiffs are the governing bodies of an Inupiat village in Alaska. The

plaintiffs contend that the village is being destroyed by erosion allegedly caused by global warming that the plaintiffs attribute to emissions of greenhouse gases by the defendants. The plaintiffs assert claims for public and private nuisance and contend that some of the defendants have acted in concert and are therefore jointly and severally liable for the plaintiffs' damages. The suit seeks damages for lost property values and for the cost of relocating the village, which is alleged to be \$95 million to \$400 million. Southern Company believes that these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. In September 2009, the U.S. District Court for the Northern District of California granted the defendants' motions to dismiss the case based on lack of jurisdiction and ruled the claims were barred by the political question doctrine and by the plaintiffs' failure to establish the standard for determining that the defendants' conduct

**Table of Contents****NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

caused the injury alleged. In November 2009, the plaintiffs filed an appeal with the U.S. Court of Appeals for the Ninth Circuit challenging the district court's order dismissing the case. The ultimate outcome of this matter cannot be determined at this time.

*Other Litigation*

Common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas emissions have become more frequent, and courts have recently determined that private parties and states have standing to bring such claims. For example, in October 2009, the U.S. Court of Appeals for the Fifth Circuit reversed the U.S. District Court for the Southern District of Mississippi's dismissal of private party claims against certain oil, coal, chemical, and utility companies alleging damages as a result of Hurricane Katrina. In reversing the dismissal, the U.S. Court of Appeals for the Fifth Circuit held that plaintiffs have standing to assert their nuisance, trespass, and negligence claims and none of these claims are barred by the political question doctrine. On February 26, 2010, the U.S. Court of Appeals for the Fifth Circuit granted the defendants' petition for rehearing en banc. Southern Company is not currently a party to this litigation, but the traditional operating companies and Southern Power were named as defendants in an amended complaint which was rendered moot in August 2007 by the U.S. District Court for the Southern District of Mississippi when such court dismissed the original matter. The ultimate outcome of this matter cannot be determined at this time.

**Environmental Remediation**

The registrants must comply with environmental laws and regulations that cover the handling and disposal of waste and releases of hazardous substances. Under these various laws and regulations, the subsidiaries may also incur substantial costs to clean up properties. The traditional operating companies have each received authority from their respective state PSCs to recover approved environmental compliance costs through regulatory mechanisms. Within limits approved by the state PSCs, these rates are adjusted annually or as necessary.

Georgia Power's environmental remediation liability as of March 31, 2010 was \$14.6 million. Georgia Power has been designated or identified as a potentially responsible party (PRP) at sites governed by the Georgia Hazardous Site Response Act and/or by the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), including a large site in Brunswick, Georgia on the CERCLA National Priorities List (NPL). The parties have completed the removal of wastes from the Brunswick site as ordered by the EPA. Additional claims for recovery of natural resource damages at this site or for the assessment and potential cleanup of other sites on the Georgia Hazardous Sites Inventory and CERCLA NPL are anticipated; however, they are not expected to have a material impact on Georgia Power's financial statements.

By letter dated September 30, 2008, the EPA advised Georgia Power that it has been designated as a PRP at the Ward Transformer Superfund site located in Raleigh, North Carolina. Numerous other entities have also received notices from the EPA. Georgia Power, along with other named PRPs, is negotiating with the EPA to address cleanup of the site and reimbursement for past expenditures related to work performed at the site. In addition, in April 2009, two PRPs filed separate actions in the U.S. District Court for the Eastern District of North Carolina against numerous other PRPs, including Georgia Power, seeking contribution from the defendants for expenses incurred by the plaintiffs related to work performed at a portion of the site. The ultimate outcome of these matters will depend upon further environmental assessment and the ultimate number of PRPs and cannot be determined at this time; however, it is not expected to have a material impact on Georgia Power's financial statements.

Gulf Power's environmental remediation liability includes estimated costs of environmental remediation projects of approximately \$63.5 million as of March 31, 2010. These estimated costs relate to site closure criteria by the Florida Department of Environmental Protection (FDEP) for potential impacts to soil and groundwater from herbicide applications at Gulf Power substations. The schedule for completion of the remediation projects will be subject to FDEP approval. The projects have been approved by the Florida PSC for recovery through Gulf Power's environmental cost recovery clause; therefore, there was no impact on net income as a result of these estimates.

In 2003, the Texas Commission on Environmental Quality (TCEQ) designated Mississippi Power as a potentially responsible party at a site in Texas. The site was owned by an electric transformer company that handled Mississippi

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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

Power's transformers as well as those of many other entities. The site owner is now in bankruptcy and the State of Texas has entered into an agreement with Mississippi Power and several other utilities to investigate and remediate the site. Amounts expensed related to this work were not material. Hundreds of entities have received notices from the TCEQ requesting their participation in the anticipated site remediation. The final impact of this matter on Mississippi Power will depend upon further environmental assessment and the ultimate number of potentially responsible parties. The remediation expenses incurred by Mississippi Power are expected to be recovered through the ECO Plan.

The final outcome of these matters cannot now be determined. However, based on the currently known conditions at these sites and the nature and extent of activities relating to these sites, Southern Company, Georgia Power, Gulf Power, and Mississippi Power do not believe that additional liabilities, if any, at these sites would be material to their respective financial statements.

**FERC Matters**

***Market-Based Rate Authority***

Each of the traditional operating companies and Southern Power have authorization from the FERC to sell power to non-affiliates, including short-term opportunity sales, at market-based prices. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate.

In December 2004, the FERC initiated a proceeding to assess Southern Company's generation market power within its retail service territory. The ability to charge market-based rates in other markets was not an issue in the proceeding. Any new market-based rate sales by any subsidiary of Southern Company in Southern Company's retail service territory entered into during a 15-month refund period that ended in May 2006 could have been subject to refund to a cost-based rate level.

In December 2009, Southern Company and the FERC trial staff reached an agreement in principle that would resolve the proceeding in its entirety. The agreement does not reflect any finding or suggestion that any subsidiary of Southern Company possesses or has exercised any market power. The agreement likewise does not require Southern Company to make any refunds related to sales during the 15-month refund period. The agreement does provide for the traditional operating companies and Southern Power to donate a total of \$1.7 million to nonprofit organizations in the states in which they operate for the purpose of offsetting the electricity bills of low-income retail customers. The agreement is subject to review and approval by the FERC.

The joint offer of settlement was filed on March 2, 2010. The final decision regarding the resolution of the settlement now resides with the FERC, and there is no deadline by which a decision must be reached.

***Intercompany Interchange Contract***

Southern Company's generation fleet in its retail service territory is operated under the Intercompany Interchange Contract (IIC), as approved by the FERC. In May 2005, the FERC initiated a new proceeding to examine (1) the provisions of the IIC among the traditional operating companies, Southern Power, and SCS, as agent, under the terms of which the Power Pool is operated, (2) whether any parties to the IIC have violated the FERC's standards of conduct applicable to utility companies that are transmission providers, and (3) whether Southern Company's code of conduct defining Southern Power as a system company rather than a marketing affiliate is just and reasonable. In connection with the formation of Southern Power, the FERC authorized Southern Power's inclusion in the IIC in 2000. The FERC also previously approved Southern Company's code of conduct.

In October 2006, the FERC issued an order accepting a settlement resolving the proceeding subject to Southern Company's agreement to accept certain modifications to the settlement's terms. Southern Company notified the FERC that it accepted the modifications. The modifications largely involve functional separation and information restrictions related to marketing activities conducted on behalf of Southern Power. In November 2006, Southern Company filed with the FERC a compliance plan in connection with the order. In April 2007, the FERC approved, with certain modifications, the plan submitted by Southern Company. Implementation of the plan did not have a material impact on Southern

**Table of Contents****NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

Company's or the traditional operating companies' financial statements. In November 2007, Southern Company notified the FERC that the plan had been implemented. In December 2008, the FERC division of audits issued for public comment its final audit report pertaining to compliance implementation and related matters. No comments were submitted challenging the audit report's findings of Southern Company's compliance. The proceeding remains open pending a decision from the FERC regarding the audit report.

**Right of Way Litigation**

Southern Company and certain of its subsidiaries, including Mississippi Power, have been named as defendants in numerous lawsuits brought by landowners since 2001. The plaintiffs' lawsuits claim that defendants may not use, or sublease to third parties, some or all of the fiber optic communications lines on the rights of way that cross the plaintiffs' properties and that such actions exceed the easements or other property rights held by defendants. The plaintiffs assert claims for, among other things, trespass and unjust enrichment and seek compensatory and punitive damages and injunctive relief. Management of Southern Company and Mississippi Power believe that they have complied with applicable laws and that the plaintiffs' claims are without merit.

To date, Mississippi Power has entered into agreements with plaintiffs in approximately 95% of the actions pending against Mississippi Power to clarify its easement rights in the State of Mississippi. These agreements have been approved by the Circuit Courts of Harrison County and Jasper County, Mississippi (First Judicial Circuit), and the related cases have been dismissed. These agreements have not resulted in any material effects on Southern Company's or Mississippi Power's financial statements.

In addition, in late 2001, certain subsidiaries of Southern Company, including Mississippi Power, were named as defendants in a lawsuit brought in Troup County, Georgia, Superior Court by Interstate Fiber Network, a subsidiary of telecommunications company ITC DeltaCom, Inc. that uses rights of way. This lawsuit alleges, among other things, that the defendants are contractually obligated to indemnify, defend, and hold harmless the telecommunications company from any liability that may be assessed against it in pending and future right of way litigation. Southern Company and Mississippi Power believe that the plaintiff's claims are without merit. In the fall of 2004, the trial court stayed the case until resolution of the underlying landowner litigation discussed above. In January 2005, the Georgia Court of Appeals dismissed the telecommunications company's appeal of the trial court's order for lack of jurisdiction. An adverse outcome in this matter, combined with an adverse outcome against the telecommunications company in one or more of the right of way lawsuits, could result in substantial judgments; however, the final outcome of these matters cannot now be determined.

**Nuclear Fuel Disposal Cost Litigation**

See Note 3 to the financial statements of Southern Company, Alabama Power, and Georgia Power under Nuclear Fuel Disposal Costs in Item 8 of the Form 10-K for information regarding the litigation brought by Alabama Power and Georgia Power against the government for breach of contracts related to the disposal of spent nuclear fuel. In July 2007, the U.S. Court of Federal Claims awarded Georgia Power approximately \$30 million, based on its ownership interests, and awarded Alabama Power approximately \$17 million, representing substantially all of the direct costs of the expansion of spent nuclear fuel storage facilities at Plants Farley, Hatch, and Vogtle from 1998 through 2004. In November 2007, the government's motion for reconsideration was denied. In January 2008, the government filed an appeal and, in February 2008, filed a motion to stay the appeal. In April 2008, the U.S. Court of Appeals for the Federal Circuit granted the government's motion to stay the appeal pending the court's decisions in three other similar cases already on appeal. Those cases were decided in August 2008. The U.S. Court of Appeals for the Federal Circuit has left the stay of appeals in place pending the decision in an appeal of several other cases involving spent nuclear fuel contracts. On April 12, 2010, the government informed the U.S. Court of Appeals for the Federal Circuit that it

did not intend to challenge the decision in the last of those cases and proposed that the stay be lifted so that the appeal can proceed.

In April 2008, a second claim against the government was filed for damages incurred after December 31, 2004 (the court-mandated cut-off in the original claim), due to the government's alleged continuing breach of contract. In October 2008, the U.S. Court of Appeals for the Federal Circuit denied a similar request by the government to stay this proceeding. The complaint does not contain any specific dollar amount for recovery of damages. Damages will continue to accumulate

**Table of Contents****NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

until the issue is resolved or the storage is provided. No amounts have been recognized in the financial statements as of March 31, 2010 for either claim. The final outcome of these matters cannot be determined at this time, but no material impact on net income is expected as any damage amounts collected from the government are expected to be returned to customers.

**Income Tax Matters*****Georgia State Income Tax Credits***

Georgia Power's 2005 through 2008 income tax filings for the State of Georgia include state income tax credits for increased activity through Georgia ports. Georgia Power had also filed similar claims for the years 2002 through 2004. The Georgia Department of Revenue has not responded to these claims. In July 2007, Georgia Power filed a complaint in the Superior Court of Fulton County to recover the credits claimed for the years 2002 through 2004. On March 22, 2010, the Superior Court of Fulton County ruled in favor of Georgia Power's motion for summary judgment. On April 30, 2010, the Georgia Department of Revenue filed its notice of appeal with the Georgia Court of Appeals. An unrecognized tax benefit has been recorded related to these credits. If Georgia Power prevails, these claims could have a significant, and possibly material, positive effect on Georgia Power's and Southern Company's net income. If Georgia Power is not successful, payment of the related state tax could have a significant, and possibly material, negative effect on Georgia Power's and Southern Company's cash flow. See Note 5 to the financial statements of Southern Company and Georgia Power in Item 8 of the Form 10-K under "Unrecognized Tax Benefits" and Note (G) herein for additional information. The ultimate outcome of this matter cannot now be determined.

**Retail Regulatory Matters*****Retail Rate Matters***

On March 11, 2010, the Georgia PSC voted to approve the stipulation among Georgia Power, the Georgia PSC Public Interest Advocacy Staff, and three customer groups with the exception that the under recovered fuel balance be collected over 42 months. The new rates, which became effective April 1, 2010, will result in an increase of approximately \$373 million to Georgia Power's total annual fuel cost recovery billings. Georgia Power is required to file its next fuel case by March 1, 2011.

***Nuclear***

See Note 3 to the financial statements of Southern Company and Georgia Power under "Retail Regulatory Matters" Georgia Power Nuclear Construction and Construction Nuclear, respectively, in Item 8 of the Form 10-K for additional information regarding Georgia Power's construction of two nuclear generating units at Plant Vogtle.

In June 2009, an environmental group filed a petition in the Superior Court of Fulton County, Georgia seeking review of the Georgia PSC's certification order and challenging the constitutionality of the Georgia Nuclear Financing Act. On May 5, 2010, the court dismissed as premature the plaintiffs' claim challenging the Georgia Nuclear Energy Financing Act. The dismissal of the claim related to the Georgia Nuclear Energy Financing Act is subject to appeal and the plaintiffs are expected to re-file this claim in the future. In addition, on May 5, 2010, the court issued an order remanding the Georgia PSC's certification order for inclusion of further findings of fact and conclusions of law by the Georgia PSC. A remand for further findings of fact and conclusions of law is a procedural step that does not vacate or otherwise affect the effectiveness of the Georgia PSC's certification order or the ultimate conclusion of the Georgia PSC in certifying the construction of Plant Vogtle Units 3 and 4.

In August 2009, the NRC issued letters to Westinghouse revising the review schedules needed to certify the AP1000 standard design for new reactors and expressing concerns related to the availability of adequate information and the shield building design. The shield building protects the containment and provides structural support to the containment cooling water supply. Georgia Power is continuing to work with Westinghouse and the NRC to resolve these concerns. Any possible delays in the AP1000 design certification schedule, including those addressed by the NRC in their letters, are not currently expected to affect the projected commercial operation dates for Plant Vogtle Units 3 and 4.

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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

There are pending technical and procedural challenges to the construction and licensing of Plant Vogtle Units 3 and 4. Similar additional challenges at the state and federal level are expected as construction proceeds.

The ultimate outcome of these matters cannot be determined at this time.

***Other Construction***

In August 2009, Georgia Power filed its quarterly construction monitoring report for Plant McDonough Units 4, 5, and 6 for the quarter ended June 30, 2009. In September 2009, Georgia Power amended the report. As amended, the report includes a request for an increase in the certified costs to construct Plant McDonough. On February 24, 2010, Georgia Power reached a stipulation agreement with the Georgia PSC staff that was approved by the Georgia PSC on March 16, 2010. The stipulation resolves the June 30, 2009 construction monitoring report, including the approval of actual expenditures and the requested increase in the certified amount.

On May 6, 2010, the Georgia PSC approved Georgia Power's request to extend the construction schedule for Plant McDonough Units 4, 5, and 6 as a result of the short-term reduction in forecasted demand.

***Integrated Coal Gasification Combined Cycle***

See Note 3 to the financial statements of Southern Company under Retail Regulatory Matters-Integrated Coal Gasification Combined Cycle (IGCC) and of Mississippi Power under Integrated Coal Gasification Combined Cycle in Item 8 of the Form 10-K for information regarding Mississippi Power's construction of the Kemper IGCC.

On March 9, 2010, the Mississippi Department of Environmental Quality issued the PSD air permit modification for the Kemper IGCC, which modifies the original PSD air permit issued in October 2008. The Mississippi Chapter of the Sierra Club has requested a formal evidentiary hearing regarding the issuance of the modified permit.

Mississippi Power filed an application in November 2009 with the DOE and in December 2009 with the IRS for certain tax credits available to projects using advanced coal technologies under the Energy Improvement and Extension Act of 2008. The DOE subsequently certified the Kemper IGCC, and on April 30, 2010, the IRS allocated \$279 million of tax credits under Section 48A of the Internal Revenue Code to Mississippi Power. The utilization of these credits is dependent upon meeting the IRS certification requirements and completing the Kemper IGCC in a timely manner. Mississippi Power has secured all environmental reviews and permits necessary to commence construction of the Kemper IGCC and has entered into a binding contract for the steam turbine generator, completing two milestone requirements for these credits.

On April 29, 2010, the Mississippi PSC issued an order finding that Mississippi Power's application to acquire, construct, and operate the Kemper IGCC did not satisfy the requirement of public convenience and necessity in the form that the project and the related cost recovery were originally proposed by Mississippi Power. The order requires Mississippi Power to accept certain conditions prior to the Mississippi PSC's approval of a Certificate of Public Convenience and Necessity. Among those conditions imposed in the order, Mississippi Power would be required to accept a construction cost cap of \$2.4 billion and an operating cost cap based on assumptions contained in Mississippi Power's proposal. In addition, the order deferred a decision on whether, when, and to what extent the Mississippi PSC would apply the cost recovery provisions of the State of Mississippi Baseload Act of 2008 (Baseload Act) for financing cost recovery on construction work in progress (CWIP) balances

during construction. According to the order, while the Kemper IGCC satisfies the eligibility requirements for application of the Baseload Act, the Mississippi PSC declined to approve CWIP recovery until Mississippi Power submits additional evidence supporting a specific request for CWIP within a defined recovery period. Mississippi Power expects to file a motion for reconsideration or, in the alternative, for rehearing, of the order.

**Table of Contents****NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

The April 2010 order also approved recovery of \$46 million of \$50.5 million in prudent pre-construction costs incurred through March 2009. The remaining \$4.5 million is associated with overhead costs and variable pay of SCS, which were recommended for exclusion from pre-construction costs by a consultant hired by the Mississippi Public Utilities Staff. An additional \$2.7 million has been incurred for costs of this type since March 2009. The remaining \$4.5 million, as well as additional pre-construction amounts incurred to date, will be reviewed and addressed in a future proceeding.

As of March 31, 2010, Mississippi Power had spent a total of \$97.0 million associated with Mississippi Power's generation resource planning, evaluation, and screening activities, including regulatory filing costs. Costs incurred during the first quarter 2010 totaled \$23.5 million compared to \$8.4 million during the first quarter 2009. Of the total \$97.0 million, \$87.0 million was deferred in other regulatory assets, \$9.0 million was related to land purchases capitalized, and \$1.0 million was previously expensed.

In the event that Mississippi Power does not proceed with the Kemper IGCC, Mississippi Power would seek recovery of the pre-construction costs incurred as of March 2010, as well as contract termination obligations and other costs incurred since March 2010, in the amount of approximately \$41.0 million. In November 2009, the Mississippi PSC issued an order that found Mississippi Power has a demonstrated need for additional capacity. In the event that Mississippi Power does not proceed with the Kemper IGCC, Mississippi Power would provide for its capacity need through either the construction of a combined cycle plant, a PPA, or other means available to Mississippi Power.

The ultimate outcome of these matters cannot now be determined.

**(C) FAIR VALUE MEASUREMENTS**

As of March 31, 2010, assets and liabilities measured at fair value on a recurring basis during the period, together with the level of the fair value hierarchy in which they fall, are as follows:

|  | Fair Value Measurements Using   |   |  | Total |
|--|---|---|--|-------|
|  | Quoted<br>Prices<br>in Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |       |
| <b>As of March 31, 2010:</b>                     |   |   |  |       |
|  | <i>(in millions)</i>  |   |  |       |
| <b>Southern Company</b>                          |   |   |  |       |
| Assets:  |   |   |  |       |
| Energy-related derivatives                       | \$  | \$ 16   | \$   | \$ 16 |
| Interest rate derivatives                        |   | 6   |  | 6     |
| Nuclear decommissioning trusts <sup>(a)(b)</sup> | 766   | 416   |  | 1,182 |
| Cash equivalents and restricted cash             | 201   |   |  | 201   |
| Other investments                                | 22  | 50  | 19   | 91    |

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|  |       |        |       |         |
|--|-------|--------|-------|---------|
| Total  | \$989 | \$ 488 | \$ 19 | \$1,496 |
| Liabilities:                                   |       |        |       |         |
| Energy-related derivatives                     | \$    | \$ 288 | \$    | \$ 288  |
| Interest rate derivatives                      |       | 8      |       | 8       |
| Total  | \$    | \$ 296 | \$    | \$ 296  |
| <b>Alabama Power</b>                           |       |        |       |         |
| Assets:  |       |        |       |         |
| Nuclear decommissioning trusts: <sup>(a)</sup> |       |        |       |         |
| Domestic equity                                | \$309 | \$ 51  | \$    | \$ 360  |
| U.S. Treasury and government agency securities | 13    | 5      |       | 18      |
| Corporate bonds                                |       | 81     |       | 81      |
| Mortgage and asset backed securities           |       | 40     |       | 40      |
| Other  |       | 14     |       | 14      |
| Cash equivalents and restricted cash           | 115   |        |       | 115     |
| Total  | \$437 | \$ 191 | \$    | \$ 628  |
| Liabilities:                                   |       |        |       |         |
| Energy-related derivatives                     | \$    | \$ 67  | \$    | \$ 67   |

**Table of Contents****NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

| As of March 31, 2010:                          | Fair Value Measurements Using   |   |  | Total  |
|--|---|---|--|--------|
|  | Quoted<br>Prices<br>in Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |        |
|  | <i>(in millions)</i>  |   |  |        |
| <b>Georgia Power</b>                           |   |   |  |        |
| Assets:  |   |   |  |        |
| Nuclear decommissioning trusts: <sup>(a)</sup> |   |   |  |        |
| Domestic equity                                | \$444   | \$ 1  | \$   | \$445  |
| U.S. Treasury and government agency securities |   | 35  |  | 35     |
| Municipal bonds                                |   | 22  |  | 22     |
| Corporate bonds                                |   | 98  |  | 98     |
| Mortgage and asset backed securities           |   | 43  |  | 43     |
| Other  |   | 26  |  | 26     |
| Total  | \$444   | \$ 225  | \$   | \$669  |
| Liabilities:                                   |   |   |  |        |
| Energy-related derivatives                     | \$  | \$ 125  | \$   | \$ 125 |
| Interest rate derivatives                      |   | 1   |  | 1      |
| Total  | \$  | \$ 126  | \$   | \$ 126 |
| <b>Gulf Power</b>                              |   |   |  |        |
| Assets:  |   |   |  |        |
| Interest rate derivatives                      | \$  | \$ 1  | \$   | \$ 1   |
| Cash equivalents and restricted cash           | 16  |   |  | 16     |
| Total  | \$ 16   | \$ 1  | \$   | \$ 17  |
| Liabilities:                                   |   |   |  |        |
| Energy-related derivatives                     | \$  | \$ 21   | \$   | \$ 21  |
| Interest rate derivatives                      |   | 1   |  | 1      |
| Total  | \$  | \$ 22   | \$   | \$ 22  |
| <b>Mississippi Power</b>                       |   |   |  |        |
| Assets:  |   |   |  |        |
| Cash equivalents                               | \$ 37   | \$  | \$   | \$ 37  |

## Liabilities:

|                            |    |       |    |       |
|----------------------------|----|-------|----|-------|
| Energy-related derivatives | \$ | \$ 59 | \$ | \$ 59 |
|----------------------------|----|-------|----|-------|

**Southern Power**

## Assets:

|                            |    |       |    |       |
|----------------------------|----|-------|----|-------|
| Energy-related derivatives | \$ | \$ 16 | \$ | \$ 16 |
|----------------------------|----|-------|----|-------|

## Liabilities:

|                            |    |       |    |       |
|----------------------------|----|-------|----|-------|
| Energy-related derivatives | \$ | \$ 16 | \$ | \$ 16 |
|----------------------------|----|-------|----|-------|

(a) Excludes receivables related to investment income, pending investment sales, and payables related to pending investment purchases.

(b) For additional detail, see the nuclear decommissioning trusts sections for Alabama Power and Georgia Power in this table.

***Valuation Methodologies***

The energy-related derivatives primarily consist of over-the-counter financial products for natural gas and physical power products, including from time to time, basis swaps. These are standard products used within the energy industry and are valued using the market approach. The inputs used are mainly from observable market sources, such as forward natural gas prices, power prices, implied volatility, and LIBOR interest rates. Interest rate derivatives are also standard over-the-counter financial products valued using the market approach. Inputs include LIBOR interest rates, interest rate futures contracts, and occasionally implied volatility of interest rate options. See Note (H) herein for additional information on how these derivatives are used.

**Table of Contents****NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

Other investments include investments in funds that are valued using the market approach and income approach. Securities that are traded in the open market are valued at the closing price on their principal exchange as of the measurement date. Discounts are applied in accordance with GAAP when certain trading restrictions exist. For investments that are not traded in the open market, the price paid will have been determined based on market factors including comparable multiples and the expectations regarding cash flows and business plan execution. As the investments mature or if market conditions change materially, further analysis of the fair market value of the investment is performed. This analysis is typically based on a metric, such as multiple of earnings, revenues, earnings before interest and income taxes, or earnings adjusted for certain cash changes. These multiples are based on comparable multiples for publicly traded companies or other relevant prior transactions.

For fair value measurements of investments within the nuclear decommissioning trusts and rabbi trust funds, specifically the fixed income assets using significant other observable inputs and significant unobservable inputs, the primary valuation technique used is the market approach. External pricing vendors are designated for each of the asset classes in the nuclear decommissioning trusts and rabbi trust funds with each security discriminately assigned a primary pricing source, based on similar characteristics.

A market price secured from the primary source vendor is then used in the valuation of the assets within the trusts. As a general approach, market pricing vendors gather market data (including indices and market research reports) and integrate relative credit information, observed market movements, and sector news into proprietary pricing models, pricing systems, and mathematical tools. Dealer quotes and other market information including live trading levels and pricing analysts judgment are also obtained when available.

As of March 31, 2010, the fair value measurements of investments calculated at net asset value per share (or its equivalent), as well as the nature and risks of those investments, are as follows:

| <b>As of March 31, 2010:</b>             | <b>Fair Value</b> | <b>Unfunded Commitments</b> | <b>Redemption Frequency</b> | <b>Redemption Notice Period</b> |
|--|-------------------|-----------------------------|-----------------------------|---------------------------------|
| <i>(in millions)</i>                     |                   |                             |                             |                                 |
| <b>Southern Company</b>                  |                   |                             |                             |                                 |
| Nuclear decommissioning trusts:          |                   |                             |                             |                                 |
| Corporate bonds commingled funds         | \$ 60             | None                        | Daily                       | 1 to 3 days                     |
| Other commingled funds                   | 26                | None                        | Daily                       | Not applicable                  |
| Trust owned life insurance               | 80                | None                        | Daily                       | 15 days                         |
| Cash equivalents and restricted cash:    |                   |                             |                             |                                 |
| Money market funds                       | 201               | None                        | Daily                       | Not applicable                  |
| Other:                                   |                   |                             |                             |                                 |
| Deferred compensation money market funds | 2                 | None                        | Daily                       | Not applicable                  |
| <b>Alabama Power</b>                     |                   |                             |                             |                                 |
| Nuclear decommissioning trusts:          |                   |                             |                             |                                 |
| Trust owned life insurance               | \$ 80             | None                        | Daily                       | 15 days                         |
| Cash equivalents and restricted cash:    |                   |                             |                             |                                 |
| Money market funds                       | 115               | None                        | Daily                       | Not applicable                  |

**Georgia Power**

Nuclear decommissioning trusts:

|                                  |       |      |       |                |
|----------------------------------|-------|------|-------|----------------|
| Corporate bonds commingled funds | \$ 60 | None | Daily | 1 to 3 days    |
| Other commingled funds           | 26    | None | Daily | Not applicable |

**Gulf Power**

Cash equivalents and restricted cash:

|                    |       |      |       |                |
|--------------------|-------|------|-------|----------------|
| Money market funds | \$ 16 | None | Daily | Not applicable |
|--------------------|-------|------|-------|----------------|

**Mississippi Power**

Cash equivalents:

|                    |       |      |       |                |
|--------------------|-------|------|-------|----------------|
| Money market funds | \$ 37 | None | Daily | Not applicable |
|--------------------|-------|------|-------|----------------|

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**Table of Contents****NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

The commingled funds in the nuclear decommissioning trusts invest primarily in a diversified portfolio of investment high grade money market instruments, including, but not limited to, commercial paper, notes, repurchase agreements, and other evidences of indebtedness with a maturity not exceeding 13 months from the date of purchase. The commingled funds will, however, maintain a dollar-weighted average portfolio maturity of 90 days or less. The assets may be longer term investment grade fixed income obligations having a maximum five year final maturity with put features or floating rates with a reset rate date of 13 months or less. The primary objective for the commingled funds is a high level of current income consistent with stability of principal and liquidity.

Alabama Power's nuclear decommissioning trusts include investments in Trust-Owned Life Insurance (TOLI). The taxable nuclear decommissioning trust invests in the TOLI in order to minimize the impact of taxes on the portfolio and can draw on the value of the TOLI through death proceeds, loans against the cash surrender value, and/or the cash surrender value, subject to legal restrictions. The amounts reported in the tables above reflect the fair value of investments the insurer has made in relation to the TOLI agreements. The nuclear decommissioning trusts do not own the underlying investments, but the fair value of the investments approximates the cash surrender value of the TOLI policies. The investments made by the insurer are in commingled funds. The commingled funds primarily include investments in domestic and international equity securities and predominantly high-quality fixed income securities. These fixed income securities include U.S. Treasury and government agency fixed income securities, non-U.S. government and agency fixed income securities, domestic and foreign corporate fixed income securities, and, to some degree, mortgage and asset backed securities. The passively managed funds seek to replicate the performance of a related index. The actively managed funds seek to exceed the performance of a related index through security analysis and selection.

Southern Company, Alabama Power, and Georgia Power continue to elect the option to fair value investment securities held in the nuclear decommissioning trust funds. For the three months ended March 31, 2010, the increase in fair value of the funds, which includes reinvested interest and dividends, is recorded in the regulatory liability and was \$20 million for Alabama Power, \$24 million for Georgia Power, and \$44 million for Southern Company.

The money market funds are short-term investments of excess funds in various money market mutual funds, which are portfolios of short-term debt securities. The money market funds are regulated by the SEC and typically receive the highest rating from credit rating agencies. Regulatory and rating agency requirements for money market funds include minimum credit ratings and maximum maturities for individual securities and a maximum weighted average portfolio maturity. Redemptions are available on a same day basis up to the full amount of the investments in the money market funds.

Changes in the fair value measurement of the Level 3 items using significant unobservable inputs for Southern Company at March 31, 2010 are as follows:

|   | <b>Level 3<br/>Other</b> |
|---|--------------------------|
|   | <i>(in millions)</i>     |
| Beginning balance at December 31, 2009    | \$ 35                    |
| Total gains (losses) realized/unrealized: |                          |
| Included in OCI                           | 4                        |
| Transfers out of Level 3                  | (20)                     |

Ending balance at March 31, 2010

\$ 19

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**Table of Contents****NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

Transfers in and out of the levels of fair value hierarchy are recognized as of the end of the reporting period. At March 31, 2010, the value of one of the investments was reclassified from Level 3 to Level 1 because the securities began trading on the public market. The reclassification is reflected in the table above as a transfer out of Level 3 at its fair value. Additionally, the discount is no longer being applied because the trading restrictions have been removed.

At March 31, 2010, other financial instruments for which the carrying amount did not equal fair value were as follows:

|                        | <b>Carrying<br/>Amount</b> | <b>Fair Value</b> |
|------------------------|----------------------------|-------------------|
|                        | <i>(in millions)</i>       |                   |
| <b>Long-term debt:</b> |                            |                   |
| Southern Company       | \$ 19,242                  | \$ 19,669         |
| Alabama Power          | \$ 6,183                   | \$ 6,347          |
| Georgia Power          | \$ 8,072                   | \$ 8,154          |
| Gulf Power             | \$ 1,119                   | \$ 1,142          |
| Mississippi Power      | \$ 491                     | \$ 502            |
| Southern Power         | \$ 1,298                   | \$ 1,391          |

The fair values were based on closing market prices (Level 1) or closing prices of comparable instruments (Level 2).

**(D) STOCKHOLDERS EQUITY****Earnings per Share**

For Southern Company, the only difference in computing basic and diluted earnings per share is attributable to exercised options and outstanding options under the stock option plan. See Note 8 to the financial statements of Southern Company in Item 8 of the Form 10-K for further information on the stock option plan. The effect of the stock options was determined using the treasury stock method. Shares used to compute diluted earnings per share are as follows:

|                    | <b>Three<br/>Months<br/>Ended<br/>March 31,<br/>2010</b> | Three Months<br>Ended<br>March 31,<br>2009 |
|--------------------|--|--|
|                    | <i>(in thousands)</i>                                    |  |
| As reported shares | <b>822,526</b>   | 779,858                                    |
| Effect of options  | <b>2,261</b>   | 1,787                                      |
| Diluted shares     | <b>824,787</b>   | 781,645                                    |

For the three months ended March 31, 2010 and March 31, 2009, there were 25 million and 38 million stock options, respectively, that were not included in the diluted earnings per share calculation because they were anti-dilutive. Assuming an average stock price of \$38.01 (the highest exercise price of the anti-dilutive options outstanding), the effect of options for the three months ended March 31, 2010 and March 31, 2009 would have increased by 2 million and 3 million shares, respectively.



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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)

**Changes in Stockholders' Equity**

The following table presents year-to-date changes in stockholders' equity of Southern Company:

|  | Number of<br>Common Shares |          | Common<br>Stockholders<br>Equity | Preferred<br>and<br>Preference<br>Stock of<br>Subsidiaries | Total<br>Stockholders<br>Equity |
|--|----------------------------|----------|----------------------------------|--|---------------------------------|
|  | Issued                     | Treasury |                                  |  |                                 |
|  | <i>(in thousands)</i>      |          |                                  | <i>(in millions)</i>                                       |                                 |
| <b>Balance at December 31, 2009</b>                          | 820,152                    | (505)    | \$ 14,878                        | \$ 707   | \$ 15,585                       |
| Net income after dividends on preferred and preference stock |                            |          | 495                              |  | 495                             |
| Other comprehensive income (loss)                            |                            |          | 9                                |  | 9                               |
| Stock issued   | 4,872                      |          | 171                              |  | 171                             |
| Cash dividends on common stock                               |                            |          | (359)                            |  | (359)                           |
| Other  |                            | 17       | 1                                |  | 1                               |
| <b>Balance at March 31, 2010</b>                             | 825,024                    | (488)    | \$ 15,195                        | \$ 707   | \$ 15,902                       |
| <b>Balance at December 31, 2008</b>                          | 777,616                    | (424)    | \$ 13,276                        | \$ 707   | \$ 13,983                       |
| Net income after dividends on preferred and preference stock |                            |          | 126                              |  | 126                             |
| Other comprehensive income (loss)                            |                            |          | 8                                |  | 8                               |
| Stock issued   | 5,249                      |          | 171                              |  | 171                             |
| Cash dividends on common stock                               |                            |          | (327)                            |  | (327)                           |
| Other  |                            | (8)      | (1)                              |  | (1)                             |
| <b>Balance at March 31, 2009</b>                             | 782,865                    | (432)    | \$ 13,253                        | \$ 707   | \$ 13,960                       |

## (E) FINANCING

**Bank Credit Arrangements**

Bank credit arrangements provide liquidity support to the registrants' commercial paper borrowings and the traditional operating companies' variable rate pollution control revenue bonds. See Note 6 to the financial statements of Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power under "Bank Credit Arrangements" in Item 8 of the Form 10-K for additional information.

The following table outlines the credit arrangements by company as of March 31, 2010:

|  | Executable<br>Term-Loans |     | Expires |
|--|--------------------------|-----|---------|
|  | One                      | Two |         |

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| <b>Company</b>    | <b>Total</b>   | <b>Unused</b>  | <b>Year</b>  | <b>Years</b>         | <b>2010</b>    | <b>2011</b>  | <b>2012</b>    |
|-------------------|----------------|----------------|--------------|----------------------|----------------|--------------|----------------|
|                   |                |                |              | <i>(in millions)</i> |                |              |                |
| Southern Company  | \$ 950         | \$ 950         | \$           | \$                   | \$             | \$           | \$ 950         |
| Alabama Power     | 1,271          | 1,271          | 372          |                      | 481            | 25           | 765            |
| Georgia Power     | 1,715          | 1,703          | 95           | 40                   | 465            | 130          | 1,120          |
| Gulf Power        | 220            | 220            | 100          |                      | 190            | 30           |                |
| Mississippi Power | 156            | 156            | 65           | 41                   | 106            | 50           |                |
| Southern Power    | 400            | 400            |              |                      |                |              | 400            |
| Other             | 60             | 60             | 60           |                      | 60             |              |                |
| <b>Total</b>      | <b>\$4,772</b> | <b>\$4,760</b> | <b>\$692</b> | <b>\$81</b>          | <b>\$1,302</b> | <b>\$235</b> | <b>\$3,235</b> |





**Table of Contents****NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)****(G) EFFECTIVE TAX RATE AND UNRECOGNIZED TAX BENEFITS****Effective Tax Rate**

Southern Company's effective tax rate was 31.6% for the three months ended March 31, 2010, as compared to 54.1% for the corresponding period in 2009. See Note 5 to the financial statements of each registrant in Item 8 of the Form 10-K for information on the effective income tax rate. Southern Company's effective tax rate decreased for the three months ended March 31, 2010 as compared to March 31, 2009 primarily due to the \$202 million charge for the MC Asset Recovery litigation settlement, which occurred in the first quarter 2009. Southern Company is currently evaluating potential recovery of the settlement payment through various means including insurance, claims in U.S. Bankruptcy Court, and other avenues. The degree to which any recovery is realized will determine, in part, the final income tax treatment of the settlement payment. Additionally, Georgia Power's effective tax rate decreased for the three months ended March 31, 2010 as compared to March 31, 2009 from 33.1% to 27.8%, primarily due to the recognition of additional Georgia state tax credits and additional AFUDC equity, which is not taxable, in the first quarter 2010.

**Unrecognized Tax Benefits**

Changes during 2010 for unrecognized tax benefits are as follows:

|  | <b>Southern<br/>Company</b> | <b>Alabama<br/>Power</b> | <b>Georgia<br/>Power</b> | <b>Gulf<br/>Power</b> | <b>Mississippi<br/>Power</b> | <b>Southern<br/>Power</b> |
|--|-----------------------------|--------------------------|--------------------------|-----------------------|------------------------------|---------------------------|
|  | <i>(in millions)</i>        |                          |                          |                       |                              |                           |
| Unrecognized tax benefits<br>as of December 31, 2009 | \$ 199                      | \$ 6                     | \$ 181                   | \$ 2                  | \$ 3                         | \$                        |
| Tax positions from current<br>periods                | 11                          |                          | 11                       |                       |                              |                           |
| Tax positions from prior<br>periods                  | (23)                        |                          | (23)                     |                       |                              |                           |
| Reductions due to<br>settlements                     |                             |                          |                          |                       |                              |                           |
| Reductions due to expired<br>statute of limitations  |                             |                          |                          |                       |                              |                           |
| Balance as of March 31,<br>2010                      | \$ 187                      | \$ 6                     | \$ 169                   | \$ 2                  | \$ 3                         | \$                        |

All of the unrecognized tax benefits as of March 31, 2010 and December 31, 2009 would impact the effective tax rate of Southern Company and its subsidiaries if recognized. The tax positions increase from current periods relates primarily to the Georgia state tax credits litigation and other miscellaneous uncertain tax positions. The tax positions decrease from prior periods relates to the Georgia state tax credits litigation. See Note (B) under Income Tax Matters - Georgia State Income Tax Credits herein for additional information.

Accrued interest for unrecognized tax benefits was as follows:

|  | <b>Georgia</b> | <b>Other</b> | <b>As of<br/>March<br/>31,</b> | <b>As of<br/>December<br/>31,</b> |
|--|----------------|--------------|--------------------------------|-----------------------------------|
|  |                |              |                                |                                   |

|  | <b>Power</b> | <b>Registrants</b> | <b>2010</b>          | <b>2009</b> |
|--|--------------|--------------------|----------------------|-------------|
|  |              |                    | <i>(in millions)</i> |             |
| Interest accrued as of December 31, 2009 | \$20         | \$ 1               | \$ 21                | \$ 21       |
| Interest reclassified due to settlements |              |                    |                      |             |
| Interest accrued during the period       |              |                    |                      |             |
| Balance as of March 31, 2010             | \$20         | \$ 1               | \$ 21                | \$ 21       |

None of the registrants accrued any penalties on uncertain tax positions.

It is reasonably possible that the amount of the unrecognized tax benefits associated with a majority of Southern Company's and Georgia Power's unrecognized tax positions will significantly increase or decrease within the next 12 months. The resolution of the Georgia state tax credits litigation would substantially reduce the balances. The conclusion or settlement of state audits could also impact the balances significantly. At this time, an estimate of the range of reasonably possible outcomes cannot be determined.

**Table of Contents****NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)****(H) DERIVATIVES**

Southern Company, the traditional operating companies, and Southern Power are exposed to market risks, primarily commodity price risk and interest rate risk. To manage the volatility attributable to these exposures, each company nets its exposures, where possible, to take advantage of natural offsets and enters into various derivative transactions for the remaining exposures pursuant to each company's policies in areas such as counterparty exposure and risk management practices. Each company's policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques including, but not limited to, market valuation, value at risk, stress testing, and sensitivity analysis. Derivative instruments are recognized at fair value in the balance sheets as either assets or liabilities.

**Energy-Related Derivatives**

The traditional operating companies and Southern Power enter into energy-related derivatives to hedge exposures to electricity, gas, and other fuel price changes. However, due to cost-based rate regulations, the traditional operating companies have limited exposure to market volatility in commodity fuel prices and prices of electricity. Each of the traditional operating companies manages fuel-hedging programs, implemented per the guidelines of their respective state PSCs, through the use of financial derivative contracts. Southern Power has limited exposure to market volatility in commodity fuel prices and prices of electricity because its long-term sales contracts shift substantially all fuel cost responsibility to the purchaser. However, Southern Power has been and may continue to be exposed to market volatility in energy-related commodity prices as a result of sales of uncontracted generating capacity.

To mitigate residual risks relative to movements in electricity prices, the traditional operating companies and Southern Power may enter into physical fixed-price or heat rate contracts for the purchase and sale of electricity through the wholesale electricity market. To mitigate residual risks relative to movements in gas prices, the traditional operating companies and Southern Power may enter into fixed-price contracts for natural gas purchases; however, a significant portion of contracts are priced at market.

Energy-related derivative contracts are accounted for in one of three methods:

*Regulatory Hedges* Energy-related derivative contracts which are designated as regulatory hedges relate primarily to the traditional operating companies' fuel-hedging programs, where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as the underlying fuel is used in operations and ultimately recovered through the respective fuel cost recovery clauses.

*Cash Flow Hedges* Gains and losses on energy-related derivatives designated as cash flow hedges, which are mainly used by Southern Power, to hedge anticipated purchases and sales are initially deferred in OCI before being recognized in the statements of income in the same period as the hedged transactions are reflected in earnings.

*Not Designated* Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred.

Some energy-related derivative contracts require physical delivery as opposed to financial settlement, and this type of derivative is both common and prevalent within the electric industry. When an energy-related derivative contract is settled physically, any cumulative unrealized gain or loss is reversed and the contract price is recognized in the respective line item representing the actual price of the underlying goods being delivered.



**Table of Contents****NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

At March 31, 2010, the net volume of energy-related derivative contracts for power and natural gas positions for the registrants, together with the longest hedge date over which the respective entity is hedging its exposure to the variability in future cash flows for forecasted transactions and the longest date for derivatives not designated as hedges, were as follows:

| As of March 31, 2010: | Net<br>Sold<br>MWH<br><br>(in<br>millions) | Power         | Longest           | Net  | Gas           | Longest           |
|-----------------------|--|---------------|-------------------|--|---------------|-------------------|
|                       |  | Hedge<br>Date | Non-Hedge<br>Date | Purchased<br>mmBtu<br><br>(in<br>millions) | Hedge<br>Date | Non-Hedge<br>Date |
| Southern Company      | 1.8  | 2010          | 2010              | 141*                                       | 2014          | 2014              |
| Alabama Power         | 0.2  | 2010          |                   | 32   | 2014          |                   |
| Georgia Power         | 0.3  | 2010          |                   | 68   | 2014          |                   |
| Gulf Power            |  |               |                   | 10   | 2014          |                   |
| Mississippi Power     |  |               |                   | 23   | 2014          |                   |
| Southern Power        | 1.3  | 2010          | 2010              | 8*   | 2012          | 2014              |

\* Includes location basis of 1.2 million British thermal units (mmBtu).

In addition to the volumes discussed in the above table, the traditional operating companies and Southern Power enter into physical natural gas supply contracts that provide the option to sell back excess gas due to operational constraints. The maximum expected volume of natural gas subject to such a feature is 8 million mmbtu for Southern Company and 6 million mmbtu for Georgia Power and less than 1 million mmbtu for each of the other companies.

For the next 12-month period ending March 31, 2011, Southern Company and Southern Power expect to reclassify \$11 million in gains from OCI to revenue and \$8 million in losses from OCI to fuel expense with respect to cash flow hedges. Such amounts are immaterial for all other registrants.

**Interest Rate Derivatives**

Southern Company and certain subsidiaries also enter into interest rate derivatives, which include forward-starting interest rate swaps, to hedge exposure to changes in interest rates. Derivatives related to existing variable rate securities or forecasted transactions are accounted for as cash flow hedges. Derivatives related to existing fixed rate securities are accounted for as fair value hedges. The derivatives employed as hedging instruments are structured to minimize ineffectiveness.

For cash flow hedges, the derivatives fair value gains or losses are recorded in OCI and are reclassified into earnings at the same time the hedged transactions affect earnings. For fair value hedges, the derivatives fair value gains or losses and hedged items fair value gains or losses are both recorded in earnings at the same time, providing an offset with any difference representing ineffectiveness.

At March 31, 2010, the following interest rate derivatives were outstanding:

|   | Notional<br>Amount       | Interest Rate<br>Received       | Interest Rate<br>Paid                  | Hedge<br>Maturity<br>Date | Fair<br>Value<br>Gain<br>(Loss)<br>March<br>31,<br>2010 |
|---|--------------------------|---------------------------------|--|---------------------------|---|
|   | <i>(in<br/>millions)</i> |                                 |  |                           | <i>(in<br/>millions)</i>                                |
| <b><i>Cash flow hedges of existing debt</i></b>   |                          |                                 |  |                           |   |
| Southern Company                                  | \$ 300                   | 3-month LIBOR +<br>0.40% spread | 1.24%*                                 | October 2011              | \$  |
| Georgia Power                                     | 300                      | 1-month LIBOR                   | 2.43%*                                 | April 2010                | (1)   |
| <b><i>Cash flow hedges on forecasted debt</i></b> |                          |                                 |  |                           |   |
| Gulf Power  | 100                      | 3-month LIBOR                   | 3.79%*                                 | April 2020                |   |
| <b><i>Fair value hedges of existing debt</i></b>  |                          |                                 |  |                           |   |
| Southern Company                                  | 350                      | 4.15%                           | 3-month<br>LIBOR +<br>1.96%*<br>spread | May 2014                  | (1)   |
| Total   | \$1,050                  |                                 |  |                           | \$ (2)  |

\* Weighted  
Average

**Table of Contents****NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

Subsequent to March 31, 2010, Gulf Power settled \$100 million of interest rate hedges related to the Series 2010A Senior Note issuance at a gain of approximately \$1.5 million. The gain will be amortized to interest expense over 10 years.

The following table reflects the estimated pre-tax gains (losses) that will be reclassified from OCI to interest expense for the next 12-month period ending March 31, 2011, together with the longest date that total deferred gains and losses are expected to be amortized into earnings.

| <b>Registrant</b> | <b>Estimated Gain<br/>(Loss) to<br/>be Reclassified for<br/>the<br/>12 Months<br/>Ending<br/>March 31, 2011</b> | <b>Total Deferred<br/>Gains (Losses)<br/>Amortized<br/>Through</b> |
|-------------------|---|--|
|                   | <i>(in millions)</i>  |  |
| Southern Company  | \$ (23)   | 2037   |
| Alabama Power     | 1   | 2035   |
| Georgia Power     | (11)  | 2037   |
| Gulf Power        | (1)   | 2020   |
| Southern Power    | (11)  | 2016   |

**Derivative Financial Statement Presentation and Amounts**

At March 31, 2010, the fair value of energy-related derivatives and interest rate derivatives was reflected in the balance sheets as follows:

| <b>Derivative Category and Balance Sheet Location</b>   | <b>Asset Derivatives at March 31, 2010</b> |                      |                      |                   |                          |                       |
|---|--|----------------------|----------------------|-------------------|--------------------------|-----------------------|
|   | <b>Southern Company</b>                    | <b>Alabama Power</b> | <b>Georgia Power</b> | <b>Gulf Power</b> | <b>Mississippi Power</b> | <b>Southern Power</b> |
|   | <i>(in millions)</i>                       |                      |                      |                   |                          |                       |
| <b>Derivatives designated as hedging instruments in cash flow and fair value hedges</b>       |  |                      |                      |                   |                          |                       |
| Energy-related derivatives:   |  |                      |                      |                   |                          |                       |
| Other current assets*   | \$ 12                                      | \$                   | \$                   | \$                | \$                       | \$                    |
| Assets from risk management activities  |  |                      |                      |                   |                          | 12                    |
| Interest rate derivatives:  |  |                      |                      |                   |                          |                       |
| Other current assets  | 5  |                      |                      | 1                 |                          |                       |
| Other deferred charges and assets   | 1  |                      |                      |                   |                          |                       |
| <b>Total derivatives designated as hedging instruments in cash flow and fair value hedges</b> | <b>\$ 18</b>                               | <b>\$</b>            | <b>\$</b>            | <b>\$ 1</b>       | <b>\$</b>                | <b>\$ 12</b>          |

**Derivatives not designated as hedging instruments**

Energy-related derivatives:

|  |      |    |    |    |    |    |
|--|------|----|----|----|----|----|
| Other current assets*                  | \$ 4 | \$ | \$ | \$ | \$ | \$ |
| Assets from risk management activities |      |    |    |    |    | 4  |

**Total derivatives not designated as hedging instruments**

|  |      |    |    |    |    |      |
|--|------|----|----|----|----|------|
|  | \$ 4 | \$ | \$ | \$ | \$ | \$ 4 |
|--|------|----|----|----|----|------|

**Total asset derivatives**

|  |      |    |    |     |    |      |
|--|------|----|----|-----|----|------|
|  | \$22 | \$ | \$ | \$1 | \$ | \$16 |
|--|------|----|----|-----|----|------|

\* Southern Company includes Assets from risk management activities in Other current assets where applicable.

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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)

| Derivative Category and Balance Sheet Location  | Liability Derivatives at March 31, 2010 |               |               |              |                   |                |
|---|---|---------------|---------------|--------------|-------------------|----------------|
|   | Southern Company                        | Alabama Power | Georgia Power | Gulf Power   | Mississippi Power | Southern Power |
|   | Fair Value                              |               |               |              |                   |                |
|   | (in millions)                           |               |               |              |                   |                |
| <b>Derivatives designated as hedging instruments for regulatory purposes</b>                  |   |               |               |              |                   |                |
| Energy-related derivatives:   |   |               |               |              |                   |                |
| Liabilities from risk management activities   | \$ 164                                  | \$ 49         | \$ 71         | \$ 14        | \$ 30             |                |
| Other deferred credits and liabilities  | 108                                     | 18            | 54            | 7            | 29                |                |
| <b>Total derivatives designated as hedging instruments for regulatory purposes</b>            | <b>\$ 272</b>                           | <b>\$ 67</b>  | <b>\$ 125</b> | <b>\$ 21</b> | <b>\$ 59</b>      | <b>N/A</b>     |
| <b>Derivatives designated as hedging instruments in cash flow and fair value hedges</b>       |   |               |               |              |                   |                |
| Energy-related derivatives:   |   |               |               |              |                   |                |
| Liabilities from risk management activities   | \$ 9                                    | \$            | \$            | \$           | \$                | \$ 9           |
| Other deferred charges and assets   | 1                                       |               |               |              |                   | 1              |
| Interest rate derivatives:  |   |               |               |              |                   |                |
| Liabilities from risk management activities   | 2                                       |               | 1             | 1            |                   |                |
| Other deferred charges and assets   | 6                                       |               |               |              |                   |                |
| <b>Total derivatives designated as hedging instruments in cash flow and fair value hedges</b> | <b>\$ 18</b>                            | <b>\$</b>     | <b>\$ 1</b>   | <b>\$ 1</b>  | <b>\$</b>         | <b>\$ 10</b>   |
| <b>Derivatives not designated as hedging instruments</b>                                      |   |               |               |              |                   |                |
| Energy-related derivatives:   |   |               |               |              |                   |                |
| Liabilities from risk management activities   | \$ 6                                    | \$            | \$            | \$           | \$                | \$ 6           |
| <b>Total liability derivatives</b>  | <b>\$ 296</b>                           | <b>\$ 67</b>  | <b>\$ 126</b> | <b>\$ 22</b> | <b>\$ 59</b>      | <b>\$ 16</b>   |

All derivative instruments are measured at fair value. See Note (C) herein for additional information. At March 31, 2010, the pre-tax effect of unrealized derivative gains (losses) arising from energy-related derivative instruments designated as regulatory hedging instruments and deferred on the balance sheet were as follows:

| Derivative Category and Balance Sheet Location        | Regulatory Hedge Unrealized Gain (Loss) Recognized on the Balance Sheet |               |                |               |                   |
|---|---|---------------|----------------|---------------|-------------------|
|   | Southern Company  | Alabama Power | Georgia Power  | Gulf Power    | Mississippi Power |
|   | <i>(in millions)</i>  |               |                |               |                   |
| Energy-related derivatives:                           |   |               |                |               |                   |
| Other regulatory assets, current                      | \$(164)   | \$(49)        | \$ (71)        | \$(14)        | \$ (30)           |
| Other regulatory assets, deferred                     | (108)   | (18)          | (54)           | (7)           | (29)              |
| <b>Total energy-related derivative gains (losses)</b> | <b>\$(272)</b>  | <b>\$(67)</b> | <b>\$(125)</b> | <b>\$(21)</b> | <b>\$(59)</b>     |

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**Table of Contents****NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

For the three months ended March 31, 2010, the pre-tax effect of interest rate derivatives designated as fair value hedging instruments on Southern Company's statements of income were immaterial.

For the three months ended March 31, 2010 and March 31, 2009, the pre-tax effect of energy-related derivatives and interest rate derivatives designated as cash flow hedging instruments on the statements of income were as follows:

| Derivatives in Cash Flow<br>Hedging Relationships | Gain (Loss)<br>Recognized in<br>OCI<br>on Derivative<br>(Effective<br>Portion) |       | Gain (Loss) Reclassified from Accumulated OCI<br>into Income (Effective Portion) |                      |         |
|---|--|-------|--|----------------------|---------|
|   |  |       | Statements of Income Location  | Amount               |         |
|   | 2010   | 2009  |  | 2010 2009            |         |
|   | <i>(in millions)</i>   |       |  | <i>(in millions)</i> |         |
| <b>Southern Company</b>                           |  |       |  |                      |         |
| Energy-related derivatives                        | \$ 5   | \$ 1  | Fuel   | \$                   | \$      |
| Interest rate derivatives                         | (3)  | 1     | Interest expense   | (9)                  | (10)    |
| Total   | \$ 2   | \$ 2  |  | \$ (9)               | \$ (10) |
| <b>Alabama Power</b>                              |  |       |  |                      |         |
| Interest rate derivatives                         | \$   | \$(2) | Interest expense   | \$(2)                | \$ (3)  |
| <b>Georgia Power</b>                              |  |       |  |                      |         |
| Interest rate derivatives                         | \$   | \$ 3  | Interest expense   | \$(5)                | \$ (5)  |
| <b>Gulf Power</b>                                 |  |       |  |                      |         |
| Interest rate derivatives                         | \$(2)  | \$    | Interest expense   | \$                   | \$      |
| <b>Southern Power</b>                             |  |       |  |                      |         |
| Energy-related derivatives                        | \$ 4   | \$ 1  | Fuel   | \$                   | \$      |
| Interest rate derivatives                         |  |       | Interest expense   | (3)                  | (2)     |
| Total   | \$ 4   | \$ 1  |  | \$(3)                | \$ (2)  |

There was no material ineffectiveness recorded in earnings for any registrant for any period presented.

For the three months ended March 31, 2010 and March 31, 2009, the pre-tax effect of energy-related derivatives not designated as hedging instruments on the statements of income were as follows:

**Derivatives not Designated  
as Hedging Instruments**

| Unrealized Gain (Loss) Recognized in Income |        |
|---|--------|
| Statements of Income Location               | Amount |

|                            |                    | <b>2010</b>          | 2009  |
|----------------------------|--------------------|----------------------|-------|
|                            |                    | <i>(in millions)</i> |       |
| <b>Southern Company</b>    |                    |                      |       |
| Energy-related derivatives | Wholesale revenues | <b>\$ 1</b>          | \$ 4  |
|                            | Fuel               | <b>(1)</b>           | (4)   |
|                            | Purchased power    | <b>(1)</b>           | (1)   |
| Total                      |                    | <b>\$(1)</b>         | \$(1) |
| <b>Southern Power</b>      |                    |                      |       |
| Energy-related derivatives | Wholesale revenues | <b>\$ 1</b>          | \$ 4  |
|                            | Fuel               | <b>(1)</b>           | (4)   |
|                            | Purchased power    | <b>(1)</b>           | (1)   |
| Total                      |                    | <b>\$(1)</b>         | \$(1) |

**Table of Contents****NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)****Contingent Features**

The registrants do not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain derivatives that could require collateral, but not accelerated payment, in the event of various credit rating changes of certain Southern Company subsidiaries. At March 31, 2010, the fair value of derivative liabilities with contingent features, by registrant, is as follows:

|                        | <b>Southern<br/>Company</b> | <b>Alabama<br/>Power</b> | <b>Georgia<br/>Power</b> | <b>Gulf<br/>Power</b> | <b>Mississippi<br/>Power</b> | <b>Southern<br/>Power</b> |
|------------------------|-----------------------------|--------------------------|--------------------------|-----------------------|------------------------------|---------------------------|
|                        | <i>(in millions)</i>        |                          |                          |                       |                              |                           |
| Derivative liabilities | \$55                        | \$9                      | \$34                     | \$5                   | \$6                          | \$1                       |

At March 31, 2010, the registrants had no collateral posted with their derivative counterparties; however, because of the joint and several liability features underlying these derivatives, the maximum potential collateral requirements arising from the credit-risk-related contingent features, at a rating below BBB- and/or Baa3, is \$55 million for each registrant.

Currently, each of the registrants has investment grade credit ratings from the major rating agencies with respect to debt, preferred securities, preferred stock, and/or preference stock. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. For the traditional operating companies and Southern Power, included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participants has a credit rating change to below investment grade.

**(I) SEGMENT AND RELATED INFORMATION**

Southern Company's reportable business segments are the sale of electricity in the Southeast by the four traditional operating companies and Southern Power. Revenues from sales by Southern Power to the traditional operating companies were \$102 million and \$135 million for the three months ended March 31, 2010 and March 31, 2009, respectively. The All Other column includes parent Southern Company, which does not allocate operating expenses to business segments. Also, this category includes segments below the quantitative threshold for separate disclosure. These segments include investments in telecommunications, renewable energy projects, and leveraged lease projects. All other intersegment revenues are not material. Financial data for business segments and products and services are as follows:

|                                       | <b>Electric Utilities</b>                               |                               |              |                                       |                     |          |           |
|---------------------------------------|---|-------------------------------|--------------|---------------------------------------|---------------------|----------|-----------|
|                                       | <b>Traditional<br/>Operating Southern<br/>Companies</b> | <b>Power<br/>Eliminations</b> | <b>Total</b> | <b>All<br/>Other<br/>Eliminations</b> | <b>Consolidated</b> |          |           |
|                                       | <i>(in millions)</i>                                    |                               |              |                                       |                     |          |           |
| Three Months Ended March 31,<br>2010: |   |                               |              |                                       |                     |          |           |
| Operating revenues                    | \$ 4,005  | \$ 256                        | \$ (125)     | \$ 4,136                              | \$ 41               | \$ (20)  | \$ 4,157  |
| Segment net income (loss) *           | 481   | 15                            | 496          | (1)                                   | 495                 |          |           |
| Total assets at March 31, 2010        | \$49,047  | \$3,088                       | \$ (99)      | \$52,036                              | \$1,073             | \$ (529) | \$ 52,580 |
| Three Months Ended March 31,<br>2009: |   |                               |              |                                       |                     |          |           |
| Operating revenues                    | \$ 3,557  | \$ 232                        | \$ (150)     | \$ 3,639                              | \$ 44               | \$ (17)  | \$ 3,666  |

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|                                   |          |         |         |          |         |         |          |
|-----------------------------------|----------|---------|---------|----------|---------|---------|----------|
| Segment net income (loss)*        | 302      | 28      |         | 330      | (205)   | 1       | 126      |
| Total assets at December 31, 2009 | \$48,403 | \$3,043 | \$(143) | \$51,303 | \$1,223 | \$(480) | \$52,046 |

\* After dividends  
on preferred and  
preference stock  
of subsidiaries

**Products and Services**

| Period                            | Retail  | Electric Utilities Revenues |       | Total   |
|-----------------------------------|---------|-----------------------------|-------|---------|
|                                   |         | Wholesale                   | Other |         |
|                                   |         | <i>(in millions)</i>        |       |         |
| Three Months Ended March 31, 2010 | \$3,459 | \$542                       | \$135 | \$4,136 |
| Three Months Ended March 31, 2009 | \$3,065 | \$451                       | \$123 | \$3,639 |

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

See the Notes to the Condensed Financial Statements herein for information regarding certain legal and administrative proceedings in which the registrants are involved.

**Item 1A. Risk Factors.**

See RISK FACTORS in Item 1A of the Form 10-K for a discussion of the risk factors of the registrants. There have been no material changes to these risk factors from those previously disclosed in the Form 10-K.

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**Item 6. Exhibits.**

**(4) Instruments Describing Rights of Security Holders, Including Indentures**

**Georgia Power**

- (c)1 - Fortieth Supplemental Indenture to Senior Note Indenture dated as of March 16, 2010, providing for the issuance of the Series 2010A Floating Rate Senior Notes due March 15, 2013. (Designated in Form 8-K dated March 9, 2010, File No. 1-6468, as Exhibit 4.2.)

**Gulf Power**

- (d)1 - Sixteenth Supplemental Indenture to Senior Note Indenture dated as of April 13, 2010, providing for the issuance of the Series 2010A 4.75% Senior Notes due April 15, 2020. (Designated in Form 8-K dated April 6, 2010, File No. 0-2429, as Exhibit 4.2.)

**(10) Material Contracts**

**Georgia Power**

- (c)1 - Amendment No. 2, dated as of January 15, 2010, to the Engineering, Procurement and Construction Agreement, dated as of April 8, 2008, between Georgia Power, for itself and as agent for Oglethorpe Power Corporation, Municipal Electric Authority of Georgia, and Dalton Utilities, as owners, and a consortium consisting of Westinghouse and Stone & Webster, as contractor, for Units 3 & 4 at the Vogtle Electric Generating Plant Site. (Georgia Power has requested confidential treatment for certain portions of this document pursuant to an application for confidential treatment sent to the SEC. Georgia Power has omitted such portions from the filing and filed them separately with the SEC.)
- (c)2 - Amendment No. 3, dated as of February 23, 2010, to the Engineering, Procurement and Construction Agreement, dated as of April 8, 2008, between Georgia Power, for itself and as agent for Oglethorpe Power Corporation, Municipal Electric Authority of Georgia, and Dalton Utilities, as owners, and a consortium consisting of Westinghouse and Stone & Webster, as contractor, for Units 3 & 4 at the Vogtle Electric Generating Plant Site. (Georgia Power has requested confidential treatment for certain portions of this document pursuant to an application for confidential treatment sent to the SEC. Georgia Power has omitted such portions from the filing and filed them separately with the SEC.)
- (c)3 - Retention and Restricted Stock Unit Award Agreement between Joseph A. (Buzz) Miller and Southern Nuclear.

**(24) Power of Attorney and Resolutions**

**Southern Company**

- (a)1 - Power of Attorney and resolution. (Designated in the Form 10-K for the year ended December 31, 2009, File No. 1-3526 as Exhibit 24(a) and incorporated herein by reference.)

**Alabama Power**

- (b)1 - Power of Attorney and resolution. (Designated in the Form 10-K for the year ended December 31, 2009, File No. 1-3164 as Exhibit 24(b) and incorporated herein by reference.)



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**Georgia Power**

- (c)1 - Power of Attorney and resolution. (Designated in the Form 10-K for the year ended December 31, 2009, File No. 1-6468 as Exhibit 24(c) and incorporated herein by reference.)

**Gulf Power**

- (d)1 - Power of Attorney and resolution. (Designated in the Form 10-K for the year ended December 31, 2009, File No. 0-2429 as Exhibit 24(d) and incorporated herein by reference.)

**Mississippi Power**

- (e)1 - Power of Attorney and resolution. (Designated in the Form 10-K for the year ended December 31, 2009, File No. 001-11229 as Exhibit 24(e) and incorporated herein by reference.)

**Southern Power**

- (f)1 - Power of Attorney and resolution. (Designated in the Form 10-K for the year ended December 31, 2009, File No. 333-98553 as Exhibit 24(f) and incorporated herein by reference.)

**(31) Section 302 Certifications**

**Southern Company**

- (a)1 - Certificate of Southern Company's Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
- (a)2 - Certificate of Southern Company's Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

**Alabama Power**

- (b)1 - Certificate of Alabama Power's Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
- (b)2 - Certificate of Alabama Power's Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

**Georgia Power**

- (c)1 - Certificate of Georgia Power's Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
- (c)2 - Certificate of Georgia Power's Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

**Gulf Power**

(d)1 - Certificate of Gulf Power's Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

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- (d)2 - Certificate of Gulf Power's Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

**Mississippi Power**

- (e)1 - Certificate of Mississippi Power's Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
- (e)2 - Certificate of Mississippi Power's Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

**Southern Power**

- (f)1 - Certificate of Southern Power's Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
- (f)2 - Certificate of Southern Power's Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

**(32) Section 906 Certifications**

**Southern Company**

- (a) - Certificate of Southern Company's Chief Executive Officer and Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.

**Alabama Power**

- (b) - Certificate of Alabama Power's Chief Executive Officer and Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.

**Georgia Power**

- (c) - Certificate of Georgia Power's Chief Executive Officer and Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.

**Gulf Power**

- (d) - Certificate of Gulf Power's Chief Executive Officer and Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.

**Mississippi Power**

- (e) - Certificate of Mississippi Power's Chief Executive Officer and Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.

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**Southern Power**

- (f) - Certificate of Southern Power's Chief Executive Officer and Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.

**(101) XBRL Related Documents**

**Southern Company**

|     |  |
|-----|--|
| INS | XBRL Instance Document                       |
| SCH | XBRL Taxonomy Extension Schema Document      |
| CAL | XBRL Taxonomy Calculation Linkbase Document  |
| LAB | XBRL Taxonomy Label Linkbase Document        |
| PRE | XBRL Taxonomy Presentation Linkbase Document |

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**THE SOUTHERN COMPANY  
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

THE SOUTHERN COMPANY

By *David M. Ratcliffe*  
*Chairman, President, and Chief Executive Officer*  
*(Principal Executive Officer)*

By *W. Paul Bowers*  
*Executive Vice President and Chief Financial Officer*  
*(Principal Financial Officer)*

By */s/ Melissa K. Caen*  
*(Melissa K. Caen, Attorney-in-fact)*

Date: May 7, 2010

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**ALABAMA POWER COMPANY  
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

ALABAMA POWER COMPANY

By *Charles D. McCrary*  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

By *Art P. Beattie*  
*Executive Vice President, Chief Financial Officer, and Treasurer*  
*(Principal Financial Officer)*

By */s/ Melissa K. Caen*  
  
*(Melissa K. Caen, Attorney-in-fact)*

Date: May 7, 2010

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**GEORGIA POWER COMPANY  
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

GEORGIA POWER COMPANY

By *Michael D. Garrett*  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

By *Ronnie R. Labrato*  
*Executive Vice President, Chief Financial Officer, and Treasurer*  
*(Principal Financial Officer)*

By */s/ Melissa K. Caen*  
  
*(Melissa K. Caen, Attorney-in-fact)*

Date: May 7, 2010

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**GULF POWER COMPANY  
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

**GULF POWER COMPANY**

By *Susan N. Story*  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

By *Philip C. Raymond*  
*Vice President and Chief Financial Officer*  
*(Principal Financial Officer)*

By */s/ Melissa K. Caen*  
  
*(Melissa K. Caen, Attorney-in-fact)*

Date: May 7, 2010

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**MISSISSIPPI POWER COMPANY  
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

MISSISSIPPI POWER COMPANY

By *Anthony J. Topazi*  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

By *Frances Turnage*  
*Vice President, Treasurer, and Chief Financial Officer*  
*(Principal Financial Officer)*

By */s/ Melissa K. Caen*  
  
*(Melissa K. Caen, Attorney-in-fact)*

Date: May 7, 2010

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**SOUTHERN POWER COMPANY  
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

SOUTHERN POWER COMPANY

By *Ronnie L. Bates*  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

By *Michael W. Southern*  
*Senior Vice President, Treasurer, and Chief Financial Officer*  
*(Principal Financial Officer)*

By */s/ Melissa K. Caen*  
  
*(Melissa K. Caen, Attorney-in-fact)*

Date: May 7, 2010