

ALABAMA POWER CO  
Form 10-Q  
August 06, 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 June 30, 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 File Number</b>	<b>Registrant, State of Incorporation, Address and Telephone Number</b>	<b>I.R.S. Employer Identification No.</b>
1-3526	<b>The Southern Company</b> (A Delaware Corporation) 30 Ivan Allen Jr. Boulevard, N.W. Atlanta, Georgia 30308 (404) 506-5000	58-0690070
1-3164	<b>Alabama Power Company</b> (An Alabama Corporation) 600 North 18 <sup>th</sup> Street Birmingham, Alabama 35291 (205) 257-1000	63-0004250
1-6468	<b>Georgia Power Company</b> (A Georgia Corporation) 241 Ralph McGill Boulevard, N.E. Atlanta, Georgia 30308 (404) 506-6526	58-0257110
0-2429	<b>Gulf Power Company</b> (A Florida Corporation) One Energy Place Pensacola, Florida 32520 (850) 444-6111	59-0276810
001-11229	<b>Mississippi Power Company</b> (A Mississippi Corporation) 2992 West Beach Gulfport, Mississippi 39501 (228) 864-1211	64-0205820
333-98553	<b>Southern Power Company</b> (A Delaware Corporation) 30 Ivan Allen Jr. Boulevard, N.W. 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 Accelerated Filer</b>	<b>Accelerated Filer</b>	<b>Non-accelerated Filer</b>	<b>Smaller Reporting 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 Common Stock</b>	<b>Shares Outstanding at June 30, 2010</b>
<b>The Southern Company</b>	<b>Par Value \$5 Per Share</b>	<b>830,705,693</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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**June 30, 2010**

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**DEFINITIONS**

<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 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, financial reform legislation, 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 Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Operating Revenues:</b>				
Retail revenues	\$ 3,571,480	\$ 3,293,012	\$ 7,030,400	\$ 6,357,671
Wholesale revenues	473,229	437,750	1,014,816	889,164
Other electric revenues	142,152	128,403	277,587	251,201
Other revenues	20,558	25,999	41,933	53,435
<b>Total operating revenues</b>	<b>4,207,419</b>	3,885,164	<b>8,364,736</b>	7,551,471
<b>Operating Expenses:</b>				
Fuel	1,628,985	1,449,138	3,274,143	2,855,405
Purchased power	128,373	133,188	254,939	240,832
Other operations and maintenance	918,391	831,214	1,826,415	1,702,295
MC Asset Recovery litigation settlement				202,000
Depreciation and amortization	366,553	377,341	709,933	767,099
Taxes other than income taxes	214,066	208,089	426,261	407,969
<b>Total operating expenses</b>	<b>3,256,368</b>	2,998,970	<b>6,491,691</b>	6,175,600
<b>Operating Income</b>	<b>951,051</b>	886,194	<b>1,873,045</b>	1,375,871
<b>Other Income and (Expense):</b>				
Allowance for equity funds used during construction	45,300	47,500	94,691	90,112
Interest income	4,807	4,870	9,594	11,778
Leveraged lease income (losses)	669	8,676	6,800	18,117
Gain on disposition of lease termination		26,300		26,300
Loss on extinguishment of debt		(17,184)		(17,184)
Interest expense, net of amounts capitalized	(218,669)	(232,830)	(441,151)	(458,557)
Other income (expense), net	(9,267)	(3,001)	(22,704)	(16,827)
<b>Total other income and (expense)</b>	<b>(177,160)</b>	(165,669)	<b>(352,770)</b>	(346,261)
<b>Earnings Before Income Taxes</b>	<b>773,891</b>	720,525	<b>1,520,275</b>	1,029,610
Income taxes	247,502	225,717	483,183	392,886
<b>Consolidated Net Income</b>	<b>526,389</b>	494,808	<b>1,037,092</b>	636,724
<b>Dividends on Preferred and Preference Stock of Subsidiaries</b>	<b>16,195</b>	16,195	<b>32,390</b>	32,390
<b>Consolidated Net Income After Dividends on Preferred and Preference Stock of Subsidiaries</b>	<b>\$ 510,194</b>	\$ 478,613	<b>\$ 1,004,702</b>	\$ 604,334

**Common Stock Data:**

Earnings per share (EPS) -

Basic EPS	\$	<b>0.62</b>	\$	0.61	\$	<b>1.22</b>	\$	0.77
Diluted EPS	\$	<b>0.61</b>	\$	0.60	\$	<b>1.21</b>	\$	0.77

Average number of shares of common stock  
outstanding (in thousands)

Basic	<b>828,363</b>	790,748	<b>825,444</b>	785,303				
Diluted	<b>832,622</b>	792,068	<b>828,752</b>	786,865				
Cash dividends paid per share of common stock	\$	<b>0.4550</b>	\$	0.4375	\$	<b>0.8925</b>	\$	0.8575

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 Six Months Ended June 30,	
	<b>2010</b>	2009
	<i>(in thousands)</i>	
<b>Operating Activities:</b>		
Consolidated net income	\$ 1,037,092	\$ 636,724
Adjustments to reconcile consolidated net income to net cash provided from operating activities		
Depreciation and amortization, total	867,583	895,354
Deferred income taxes	215,318	(13,807)
Deferred revenues	(47,361)	(26,295)
Allowance for equity funds used during construction	(94,691)	(90,112)
Leveraged lease income (losses)	(6,800)	(18,117)
Gain on disposition of lease termination		(26,300)
Loss on extinguishment of debt		17,184
Pension, postretirement, and other employee benefits	(1,252)	(10,939)
Stock based compensation expense	23,809	18,956
Hedge settlements	1,530	(16,167)
Generation construction screening costs	(50,554)	(14,049)
Other, net	(57,830)	42,293
Changes in certain current assets and liabilities		
-Receivables	(255,399)	74,770
-Fossil fuel stock	72,216	(375,888)
-Materials and supplies	(6,806)	(20,079)
-Other current assets	(88,138)	(96,394)
-Accounts payable	(52,091)	14,711
-Accrued taxes	(79,767)	(140,308)
-Accrued compensation	(33,932)	(298,670)
-Other current liabilities	(27,965)	66,748
Net cash provided from operating activities	<b>1,414,962</b>	619,615
<b>Investing Activities:</b>		
Property additions	(1,935,716)	(2,192,959)
Investment in restricted cash from pollution control revenue bonds	(11)	(49,478)
Distribution of restricted cash from pollution control revenue bonds	11,403	59,741
Nuclear decommissioning trust fund purchases	(515,901)	(823,416)
Nuclear decommissioning trust fund sales	488,561	788,690
Proceeds from property sales	216	339,903
Cost of removal, net of salvage	(59,989)	(63,705)
Change in construction payables	12,934	128,101
Other investing activities	(37,037)	8,063
Net cash used for investing activities	<b>(2,035,540)</b>	(1,805,060)
<b>Financing Activities:</b>		

Increase in notes payable, net	<b>244,037</b>	148,090
Proceeds		
Long-term debt issuances	<b>1,146,000</b>	1,785,474
Common stock issuances	<b>341,447</b>	539,088
Redemptions		
Long-term debt	<b>(754,304)</b>	(199,929)
Payment of common stock dividends	<b>(735,009)</b>	(670,226)
Payment of dividends on preferred and preference stock of subsidiaries	<b>(32,394)</b>	(32,465)
Other financing activities	<b>(12,643)</b>	(19,327)
Net cash provided from financing activities	<b>197,134</b>	1,550,705
<b>Net Change in Cash and Cash Equivalents</b>	<b>(423,444)</b>	365,260
<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>\$ 266,278</b>	\$ 781,841

**Supplemental Cash Flow Information:**

Cash paid during the period for		
Interest (net of \$40,130 and \$38,594 capitalized for 2010 and 2009, respectively)	<b>\$ 387,451</b>	\$ 386,729
Income taxes (net of refunds)	<b>\$ 285,247</b>	\$ 468,278

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>Assets</b>	<b>At June 30, 2010</b>	<b>At December 31, 2009</b>
	<i>(in thousands)</i>	
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 266,278	\$ 689,722
Restricted cash and cash equivalents	31,743	43,135
Receivables		
Customer accounts receivable	1,180,856	953,222
Unbilled revenues	496,265	394,492
Under recovered regulatory clause revenues	193,998	333,459
Other accounts and notes receivable	352,798	374,670
Accumulated provision for uncollectible accounts	(27,152)	(24,568)
Fossil fuel stock, at average cost	1,383,220	1,446,984
Materials and supplies, at average cost	805,205	793,847
Vacation pay	145,422	145,049
Prepaid expenses	479,878	508,338
Other regulatory assets, current	175,237	166,549
Other current assets	40,514	48,558
<b>Total current assets</b>	<b>5,524,262</b>	<b>5,873,457</b>
<b>Property, Plant, and Equipment:</b>		
In service	55,698,851	53,587,853
Less accumulated depreciation	19,647,708	19,121,271
<b>Plant in service, net of depreciation</b>	<b>36,051,143</b>	<b>34,466,582</b>
Nuclear fuel, at amortized cost	677,178	593,119
Construction work in progress	3,902,173	4,170,596
<b>Total property, plant, and equipment</b>	<b>40,630,494</b>	<b>39,230,297</b>
<b>Other Property and Investments:</b>		
Nuclear decommissioning trusts, at fair value	1,055,036	1,070,117
Leveraged leases	614,830	610,252
Miscellaneous property and investments	286,142	282,974
<b>Total other property and investments</b>	<b>1,956,008</b>	<b>1,963,343</b>
<b>Deferred Charges and Other Assets:</b>		
Deferred charges related to income taxes	1,167,278	1,047,452
Unamortized debt issuance expense	199,558	208,346
Unamortized loss on reacquired debt	255,180	254,936
Deferred under recovered regulatory clause revenues	479,896	373,245
Other regulatory assets, deferred	2,724,931	2,701,910
Other deferred charges and assets	436,883	392,880

Total deferred charges and other assets	<b>5,263,726</b>	4,978,769
<b>Total Assets</b>	<b>\$ 53,374,490</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 June 30, 2010</b>	<b>At December 31, 2009</b>
	<i>(in thousands)</i>	
<b>Current Liabilities:</b>		
Securities due within one year	\$ 1,514,465	\$ 1,112,705
Notes payable	881,638	639,199
Accounts payable	1,282,523	1,329,448
Customer deposits	335,625	330,582
Accrued taxes		
Accrued income taxes	25,664	13,005
Unrecognized tax benefits	168,400	165,645
Other accrued taxes	319,321	398,384
Accrued interest	220,153	218,188
Accrued vacation pay	181,150	183,911
Accrued compensation	222,301	247,950
Liabilities from risk management activities	124,154	124,648
Other regulatory liabilities, current	297,328	528,147
Other current liabilities	362,728	292,016
<b>Total current liabilities</b>	<b>5,935,450</b>	<b>5,583,828</b>
<b>Long-term Debt</b>	<b>18,134,554</b>	<b>18,131,244</b>
<b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	6,725,211	6,454,822
Deferred credits related to income taxes	241,669	248,232
Accumulated deferred investment tax credits	457,809	447,650
Employee benefit obligations	2,287,633	2,304,344
Asset retirement obligations	1,233,019	1,201,343
Other cost of removal obligations	1,119,382	1,091,425
Other regulatory liabilities, deferred	233,355	277,932
Other deferred credits and liabilities	391,623	345,888
<b>Total deferred credits and other liabilities</b>	<b>12,689,701</b>	<b>12,371,636</b>
<b>Total Liabilities</b>	<b>36,759,705</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 June 30, 2010: 831,147,821 Shares		
December 31, 2009: 820,151,801 Shares		

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Treasury June 30, 2010: 442,128 Shares

December 31, 2009: 505,116 Shares

Par value	<b>4,155,676</b>	4,100,742
Paid-in capital	<b>3,310,322</b>	2,994,245
Treasury, at cost	<b>(14,923)</b>	(14,797)
Retained earnings	<b>8,156,346</b>	7,884,922
Accumulated other comprehensive loss	<b>(74,460)</b>	(87,778)
<b>Total Common Stockholders Equity</b>	<b>15,532,961</b>	14,877,334
<b>Preferred and Preference Stock of Subsidiaries</b>	<b>707,328</b>	707,328
<b>Total Stockholders Equity</b>	<b>16,240,289</b>	15,584,662
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 53,374,490</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 Ended June 30,		For the Six Months Ended June 30,	
	<b>2010</b>	2009	<b>2010</b>	2009
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Consolidated Net Income</b>	<b>\$ 526,389</b>	\$ 494,808	<b>\$ 1,037,092</b>	\$ 636,724
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of \$(1,267), \$(1,744), \$(481), and \$(982), respectively	<b>(1,982)</b>	(2,811)	<b>(781)</b>	(1,664)
Reclassification adjustment for amounts included in net income, net of tax of \$3,124, \$4,630, \$6,676, and \$8,463, respectively	<b>4,928</b>	7,370	<b>10,574</b>	13,468
Marketable securities:				
Change in fair value, net of tax of \$472, \$1,204, \$1,616, and \$1,295, respectively	<b>770</b>	2,935	<b>2,796</b>	3,669
Pension and other post retirement benefit plans:				
Reclassification adjustment for amounts included in net income, net of tax of \$230, \$221, \$460, and \$443, respectively	<b>364</b>	349	<b>729</b>	699
<b>Total other comprehensive income (loss)</b>	<b>4,080</b>	7,843	<b>13,318</b>	16,172
Dividends on preferred and preference stock of subsidiaries	<b>(16,195)</b>	(16,195)	<b>(32,390)</b>	(32,390)
<b>Comprehensive Income</b>	<b>\$ 514,274</b>	\$ 486,456	<b>\$ 1,018,020</b>	\$ 620,506

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

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**SECOND QUARTER 2010 vs. SECOND QUARTER 2009**  
**AND**  
**YEAR-TO-DATE 2010 vs. YEAR-TO-DATE 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**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$31.6	6.6	\$400.4	66.2

Southern Company's second quarter 2010 net income after dividends on preferred and preference stock of subsidiaries was \$510.2 million (\$0.62 per share) compared to \$478.6 million (\$0.61 per share) for second quarter 2009. The increase for the second quarter 2010 when compared to the corresponding period in 2009 was primarily the result of increases in revenues as a result of warmer weather, the amortization of the regulatory liability related to other cost of removal obligations at Georgia Power as authorized by the Georgia PSC, 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 in January 2010, and increases in sales primarily in the industrial sector. The increase for the second quarter 2010 was partially offset by increases in operations and maintenance expense, a gain in the second quarter 2009 on the early termination of two international leveraged lease investments, and an increase in depreciation on additional plant in service related to environmental, distribution, and transmission projects.

Southern Company's year-to-date 2010 net income after dividends on preferred and preference stock of subsidiaries was \$1.00 billion (\$1.22 per share) compared to \$604.3 million (\$0.77 per share) for year-to-date 2009. The increase for year-to-date 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 as a result of warmer weather in the second quarter 2010 and significantly colder weather in the first quarter 2010, the amortization of the regulatory liability related to other cost of removal obligations at Georgia Power as authorized by the Georgia PSC, revenues associated with increases in rates under Alabama Power's Rate RSE and Rate CNP Environmental that took effect in January 2010, and increases in sales primarily in the industrial sector. The increase for year-to-date 2010 was partially offset by increases in operations and maintenance expense, a gain in 2009 on the early termination of two international leveraged lease investments, and an increase in depreciation on additional plant in service related to environmental, distribution, and transmission projects.



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**THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES**  
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**Retail Revenues**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$278.5	8.5	\$672.7	10.6

In the second quarter 2010, retail revenues were \$3.57 billion compared to \$3.29 billion for the corresponding period in 2009. For year-to-date 2010, retail revenues were \$7.03 billion compared to \$6.36 billion for the corresponding period in 2009.

Details of the change to retail revenues are as follows:

	<b>Second Quarter</b>		<b>Year-to-Date</b>	
	<b>2010</b>	<b>(%)</b>	<b>2010</b>	<b>(%)</b>
	<i>(in millions)</i>	<i>change</i>	<i>(in millions)</i>	<i>(% change)</i>
Retail prior year	\$3,293.0		\$6,357.7	
Estimated change in				
Rates and pricing	57.9	1.8	134.6	2.1
Sales growth (decline)	30.9	0.9	42.4	0.7
Weather	54.0	1.6	179.8	2.8
Fuel and other cost recovery	135.7	4.1	315.9	5.0
Retail current year	\$3,571.5	8.4%	\$7,030.4	10.6%

Revenues associated with changes in rates and pricing increased in the second quarter and for year-to-date 2010 when compared to the corresponding periods in 2009 primarily due to Rate RSE and Rate CNP Environmental increases at Alabama Power, recovery of environmental compliance costs at Gulf Power, and increased recognition of environmental compliance cost recovery revenues at Georgia Power in accordance with the 2007 Retail Rate Plan. These increases were partially offset by lower contributions from market-driven rates for sales to industrial customers at Georgia Power.

Revenues attributable to changes in sales increased in the second quarter and for year-to-date 2010 when compared to the corresponding periods in 2009 due to increases in weather-adjusted retail KWH sales of 3.8% and 3.2%, respectively. For the second quarter 2010, weather-adjusted residential KWH sales increased 1.4%, weather-adjusted commercial KWH sales decreased 1.0%, and weather-adjusted industrial KWH sales increased 12.3%. For year-to-date 2010, weather-adjusted residential KWH sales increased 1.5%, weather-adjusted commercial KWH sales decreased 0.7%, and weather-adjusted industrial KWH sales increased 9.7%. Increased demand in the primary metals, chemicals, paper, and transportation sectors were the main contributors to the increases in weather-adjusted industrial KWH sales for the second quarter and year-to-date 2010.

Revenues resulting from changes in weather increased in the second quarter and for year-to-date 2010 as a result of warmer weather in the second quarter 2010 and significantly colder weather in the first quarter 2010 when compared to the corresponding periods in 2009.

Fuel and other cost recovery revenues increased \$135.7 million in the second quarter 2010 and \$315.9 million for year-to-date 2010 when compared to the corresponding periods 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.

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**Wholesale Revenues**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$35.4	8.1	\$125.7	14.1

Wholesale energy sales will vary depending on the market cost of available energy compared to the cost of Southern Company system-owned generation, demand for energy within the Southern Company service territory, and the availability of Southern Company system generation. 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. In the second quarter 2010, wholesale revenues were \$473.2 million compared to \$437.8 million for the corresponding period in 2009. The increase was primarily due to energy and capacity revenues under new PPAs that began in January and June 2010 at Southern Power, as well as energy sales not covered by PPAs at Southern Power as a result of more favorable weather in the second quarter 2010 when compared to the corresponding period in 2009. This increase was partially offset by the expiration of long-term unit power sales contracts in May 2010 at Alabama Power and the capacity subject to those contracts being made available for retail service starting in June 2010. For year-to-date 2010, wholesale revenues were \$1.01 billion compared to \$889.2 million for the corresponding period in 2009. This increase was primarily due to energy and capacity revenues under new PPAs that began in January and June 2010 at Southern Power, as well as energy sales not covered by PPAs at Southern Power due to more favorable weather year-to-date 2010 when compared to the corresponding period in 2009.

**Other Electric Revenues**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$13.8	10.7	\$26.4	10.5

In the second quarter 2010, other electric revenues were \$142.2 million compared to \$128.4 million for the corresponding period in 2009. This increase was primarily the result of a \$4.6 million increase in transmission revenues, a \$4.8 million increase in co-generation revenues due to increased sales volume, a \$1.2 million increase in rents from electric property, and a \$1.3 million increase in outdoor lighting revenues. For year-to-date 2010, other electric revenues were \$277.6 million compared to \$251.2 million for the corresponding period in 2009. This increase was primarily the result of a \$10.4 million increase in transmission revenues, a \$7.6 million increase in co-generation revenues due to increased sales volume, a \$3.6 million increase in rents from electric property, and a \$1.4 million increase in outdoor lighting revenues. Revenues from co-generation and other energy services are generally offset by related expenses and do not affect net income.

**Other Revenues**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(5.4)	(20.9)	\$(11.5)	(21.5)

In the second quarter 2010, other revenues were \$20.6 million compared to \$26.0 million for the corresponding period in 2009. The decrease was primarily the result of a \$5.0 million decrease in revenues at SouthernLINC Wireless related to lower average revenue per subscriber and fewer subscribers due to increased competition in the industry.

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For year-to-date 2010, other revenues were \$41.9 million compared to \$53.4 million for the corresponding period in 2009. The decrease was primarily the result of a \$10.7 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**

	Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
	<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
Fuel*	\$179.8	12.4	\$418.7	14.7
Purchased power	(4.8)	(3.6)	14.1	5.9
Total fuel and purchased power expenses	\$175.0		\$432.8	

\* 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 second quarter 2010 were \$1.76 billion compared to \$1.58 billion for the corresponding period in 2009. The increase was primarily the result of a \$92.6 million increase related to total KWHs generated and purchased and an \$82.4 million increase in the average cost of fuel and purchased power. The increase in total KWHs generated and purchased resulted primarily from increased generation and higher fossil fuel prices when compared to the corresponding period in 2009.

For year-to-date 2010, fuel and purchased power expenses were \$3.53 billion compared to \$3.10 billion for the corresponding period in 2009. The increase was primarily the result of a \$214.0 million increase related to total KWHs generated and purchased and a \$218.8 million increase in the average cost of fuel and purchased power. The increase in total KWHs generated and purchased resulted primarily from increased generation and 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.

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

	Second Quarter 2010	Second Quarter 2009	Percent Change	Year-to-Date 2010	Year-to-Date 2009	Percent Change
	<i>(cents per net KWH)</i>			<i>(cents per net KWH)</i>		
Average Cost	3.50	3.34	4.8	3.55	3.37	5.3
Fuel	3.50	3.34	4.8	3.55	3.37	5.3
Purchased power	5.91	5.59	5.7	6.50	5.36	21.3

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.

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**Other Operations and Maintenance Expenses**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$87.2	10.5	\$124.1	7.3

In the second quarter 2010, other operations and maintenance expenses were \$918.4 million compared to \$831.2 million for the corresponding period in 2009. The increase was primarily the result of a \$37.7 million increase in fossil, hydro, and nuclear expenses, a \$22.0 million increase in commodity and labor costs, a \$20.9 million increase in transmission and distribution expenses, a \$3.6 million increase in administrative and general expenses, and a \$3.0 million increase in customer service and sales expenses.

For year-to-date 2010, other operations and maintenance expenses were \$1.83 billion compared to \$1.70 billion for the corresponding period in 2009. The increase was primarily the result of a \$70.0 million increase in fossil, hydro, and nuclear expenses, a \$40.1 million increase in commodity and labor costs, a \$28.7 million increase in transmission and distribution expenses, and a \$19.1 million increase in affiliated service companies' expenses. The increase 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**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<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**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(10.8)	(2.9)	\$(57.2)	(7.5)

In the second quarter 2010, depreciation and amortization was \$366.5 million compared to \$377.3 million for the corresponding period in 2009. The decrease was primarily the result of amortization of \$54.0 million of the regulatory liability related to other cost of removal obligations at Georgia Power as authorized by the Georgia PSC. The decrease was partially offset by depreciation on additional plant in service related to environmental, transmission, and distribution projects.

For year-to-date 2010, depreciation and amortization was \$709.9 million compared to \$767.1 million for the corresponding period in 2009. The decrease was primarily the result of amortization of \$114.3 million of the regulatory liability related to other cost of removal obligations at Georgia Power as authorized by the Georgia PSC. The decrease was partially offset by depreciation on additional plant in service related to environmental, transmission, and distribution projects.

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 amortization of the other cost of removal regulatory liability.

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**Taxes Other Than Income Taxes**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$6.0	2.9	\$18.3	4.5

In the second quarter 2010, taxes other than income taxes were \$214.1 million compared to \$208.1 million for the corresponding period in 2009. For year-to-date 2010, taxes other than income taxes were \$426.3 million compared to \$408.0 million for the corresponding period in 2009. The second quarter and year-to-date 2010 increases were primarily the result of higher municipal franchise fees resulting from increased retail revenues at Georgia Power and increases in ad valorem taxes at Mississippi Power.

**Allowance for Funds Used During Construction**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(2.2)	(4.6)	\$4.6	5.1

In the second quarter 2010, AFUDC equity was \$45.3 million compared to \$47.5 million for the corresponding period in 2009. The decrease was primarily due to the completion of environmental projects at Alabama Power and Gulf Power, partially offset by increases in construction work in progress balances related to three new combined cycle units and two new nuclear generating units at Georgia Power.

For year-to-date 2010, AFUDC equity was \$94.7 million compared to \$90.1 million for the corresponding period in 2009. The increase was primarily due to the increase in construction work in progress balances related to three new combined cycle units and two new nuclear generating units at Georgia Power, partially offset by the completion of environmental projects at Alabama Power and Gulf Power.

**Leveraged Lease Income**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(8.0)	(92.3)	\$(11.3)	(62.5)

In the second quarter 2010, leveraged lease income was \$0.7 million compared to \$8.7 million for the corresponding period in 2009. For year-to-date 2010, leveraged lease income was \$6.8 million compared to \$18.1 million for the corresponding period in 2009. The second quarter and year-to-date 2010 decreases were primarily related to the early termination of two leveraged lease investments in the second quarter of 2009.

**Gain on Disposition of Lease Termination**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(26.3)	N/M	\$(26.3)	N/M

N/M Not Meaningful

In the second quarter 2009, Southern Company terminated two international leveraged lease investments early which resulted in a gain of \$26.3 million.

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**THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES**  
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**Loss on Extinguishment of Debt**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(17.2)	N/M	\$(17.2)	N/M

N/M Not Meaningful

In the second quarter 2009, Southern Company terminated two international leveraged lease investments early. The proceeds from the terminations were used to extinguish all debt related to leveraged lease investments, a portion of which had make-whole redemption provisions which resulted in a loss of \$17.2 million.

**Interest Expense, Net of Amounts Capitalized**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(14.1)	(6.1)	\$(17.4)	(3.8)

In the second quarter 2010, interest expense, net of amounts capitalized was \$218.7 million compared to \$232.8 million for the corresponding period in 2009. The decrease was primarily due to an \$8.9 million decrease related to lower average interest rates on variable rate debt and a \$10.2 million decrease in other interest charges. Partially offsetting this decrease was a \$3.9 million increase associated with \$420.4 million in additional debt outstanding at June 30, 2010 when compared to June 30, 2009.

For year-to-date 2010, interest expense, net of amounts capitalized was \$441.2 million compared to \$458.6 million for the corresponding period in 2009. The decrease was primarily related to a \$19.2 million decrease related to lower average interest rates on variable rate debt and a \$13.8 million decrease in other interest charges. Partially offsetting this decrease was a \$17.2 million increase associated with \$420.4 million in additional debt outstanding at June 30, 2010 when compared to June 30, 2009.

**Income Taxes**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$21.8	9.7	\$90.3	23.0

In the second quarter 2010, income taxes were \$247.5 million compared to \$225.7 million for the corresponding period in 2009. This increase was primarily due to higher pre-tax earnings in the second quarter 2010, partially offset by state investment tax credits at Georgia Power and tax benefits associated with the construction of a biomass facility at Southern Power.

For year-to-date 2010, income taxes were \$483.2 million compared to \$392.9 million for the corresponding period in 2009. This increase was primarily due to higher pre-tax earnings in 2010, partially offset by a decrease in uncertain tax positions at Georgia Power related to state income tax credits that remain subject to litigation, state investment tax credits at Georgia Power, and tax benefits associated with the construction of a biomass facility at Southern Power.

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 and Note (G) to the Condensed Financial Statements under Effective Tax Rate and Unrecognized Tax Benefits herein for additional

information.

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**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 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. On August 2, 2010, the defendants filed a petition for writ of certiorari with the U.S. Supreme Court. 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 May 28, 2010, the U.S. Court of Appeals for the Fifth Circuit dismissed the plaintiffs' appeal of the case based on procedural grounds relating to the loss of a quorum by the full court on reconsideration, reinstating the district court decision in favor of the defendants. The plaintiffs have until August 26, 2010 to file a petition for writ of certiorari with the U.S. Supreme Court. The ultimate outcome of this matter cannot be determined at this time.

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***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 the outcome of any legal challenges, and cannot be determined at this time.

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 proposed sulfur dioxide (SO<sub>2</sub>) regulations. On June 2, 2010, the EPA issued its final revisions to the National Ambient Air Quality Standard for SO<sub>2</sub>, including the establishment of a new short-term standard. The ultimate impact of the revised standard will depend on additional regulatory action, state implementation, and the outcome of any legal challenges, and cannot be determined at this time.

On January 22, 2010, the EPA finalized revisions to the National Ambient Air Quality Standard for Nitrogen Dioxide (NO<sub>2</sub>) by setting a new one-hour standard that became effective on April 12, 2010. The impact of this regulation will depend on additional regulatory action, state implementation, and the outcome of any legal challenges, and cannot be determined at this time. Although none of the areas within Southern Company's service territory are expected to be designated as nonattainment for the standard, based on current ambient air quality monitoring data, the new NO<sub>2</sub> standard could result in significant additional compliance and operational costs for units that require new source permitting.

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 Clean Air Interstate Rule (CAIR). On August 2, 2010, the EPA published a proposed rule to replace CAIR, which was overturned by the U.S. Court of Appeals for the D.C. Circuit in 2008 but left in place pending the promulgation of a replacement rule. This proposed rule, referred to as the Transport Rule, would require 31 eastern states and the District of Columbia (D.C.) to reduce power plant emissions of SO<sub>2</sub> and nitrogen oxides (NO<sub>x</sub>) that contribute to downwind states' nonattainment of federal ozone and/or fine particulate matter ambient air quality standards. To address fine particulate matter standards, the proposed Transport Rule would require D.C. and 27 eastern states, including Alabama, Florida, and Georgia, to reduce annual emissions of SO<sub>2</sub> and NO<sub>x</sub> from power plants. To address ozone standards, the proposed Transport Rule would also require D.C. and 25 states, including each of the states in Southern Company's service territory, to achieve additional reductions in NO<sub>x</sub> emissions from power plants during the ozone season. The proposed Transport Rule contains a preferred option that would allow limited interstate trading of emissions allowances; however, the EPA also requests comment on two alternative approaches that would not allow interstate trading of emissions allowances. The EPA states that it also intends to develop a second phase of the Transport Rule next year to address the more stringent ozone air quality standards as they are finalized. The EPA expects to finalize the Transport Rule in late spring of 2011 and to set the initial compliance deadline starting in 2012. The impact of this proposed regulation and potential future regulation will depend on its final form, state implementation, and the outcome of any legal challenges, and cannot be determined at this time. These regulations could result in significant additional compliance and operational 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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***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 June 21, 2010, the EPA published a rulemaking proposal which requested comments on two potential regulatory options for management and disposal of coal combustion byproducts: regulation as a solid waste or regulation as a hazardous waste. Adoption of either option could require closure of or significant change to existing storage units and construction of lined landfills, as well as additional waste management and groundwater monitoring requirements. Under both options, the EPA proposes to exempt the beneficial reuse of coal combustion byproducts from regulation; however, the final regulation could significantly alter the options available for beneficial reuse. The outcome of these proposed regulations will depend on their final form and the outcome of any legal challenges, and cannot be determined at this time. However, additional regulation of coal combustion byproducts could have a significant impact on the management, beneficial use, and disposal of such byproducts. These changes could result in significant additional compliance and operational 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. On May 13, 2010, the EPA issued a final rule governing how these programs would be applied to stationary sources, including power plants. This rule establishes two phases for applying PSD and Title V requirements to greenhouse gas emissions sources. The first phase, beginning on January 2, 2011, will apply to sources and projects that would already be covered under PSD or Title V, whereas the second phase, beginning July 1, 2011, will apply to sources and projects that would not otherwise trigger those programs but for their greenhouse gas emissions. The ultimate outcome of these final rules cannot be determined at this time and will depend on the outcome of 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 \$669 million at June 30, 2010. Alabama Power and Mississippi Power collected all previously under recovered fuel costs and, as of June 30, 2010, had a total over recovered fuel balance of approximately \$133 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



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**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.

***Retail Rate Matters***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Georgia Power of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under Retail Regulatory Matters Georgia Power Retail Rate Plans and Cost of Removal in Item 8 of the Form 10-K for additional information regarding the 2007 Retail Rate Plan.

On August 27, 2009, the Georgia PSC approved an accounting order that would allow Georgia Power to amortize up to \$324 million of its regulatory liability related to other cost of removal obligations. Under the terms of the accounting order, Georgia Power was entitled to amortize up to one-third of the regulatory liability (\$108 million) in 2009, limited to the amount needed to earn no more than a 9.75% retail return on equity (ROE). In addition, Georgia Power may amortize up to two-thirds of the regulatory liability (\$216 million) in 2010, limited to the amount needed to earn no more than a 10.15% retail ROE. Through June 30, 2010, Georgia Power had amortized \$155.3 million of the regulatory liability and currently expects to amortize the remaining allowed \$108 million by December 31, 2010. In accordance with the 2007 Retail Rate Plan, Georgia Power filed a base rate case with the Georgia PSC on July 1, 2010. The filing includes a requested rate increase totaling \$615 million, or 8.2% of retail revenues, to be effective January 1, 2011 based on a proposed retail ROE of 11.95%. The requested increase will be recovered through Georgia Power's existing base rate tariffs as follows: \$451 million, or 6.0%, through the traditional base rate tariffs; \$115 million, or 1.5%, through the Environmental Compliance Cost Recovery (ECCR) tariff; \$32 million through the Demand Side Management (DSM) tariffs; and \$17 million through the Municipal Franchise Fee (MFF) tariff. The majority of the increase in retail revenues is being requested to cover the costs of environmental compliance and continued investment in new generation, transmission, and distribution facilities to support growth and ensure reliability. The remainder of the increase includes recovery of higher operation, maintenance, and other investment costs to meet the current and future demand for electricity.

Unlike rate plans based on traditional one-year test periods, the 2007 Retail Rate Plan was designed to operate for the three-year period ending December 31, 2010. The 2010 rate case request includes proposed enhancements to the structure of the 2007 Retail Rate Plan to fit the current economic climate, including a process of annual tariff compliance reviews that would allow it to continue to operate for multiple years (Proposed Alternate Rate Plan). The primary points of the Proposed Alternate Rate Plan include:

- § Continuation of a plus or minus 100 basis point range for ROE.
- § Creation of an Adjustable Cost Recovery (ACR) tariff. If approved, beginning with an effective date of January 1, 2012, the ACR will work to maintain Georgia Power's earnings within the ROE band established by the Georgia PSC in this case. If Georgia Power's earnings projected for the upcoming year are within the ROE band, no adjustment under the ACR tariff will be requested. If Georgia Power's earnings projected for the upcoming year are outside (either above or below) the approved ROE band, the ACR tariff will be used to adjust projected earnings back to the mid-point of the approved ROE band.

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The ACR tariff would also return to the sharing mechanism used prior to the 2007 Retail Rate Plan whereby two-thirds of any actual earnings for the previous year above the approved ROE band would be refunded to customers, with the remaining one-third retained by Georgia Power as incentive to manage expenses and operate as efficiently as possible. In addition, if earnings are below the approved ROE band, Georgia Power would accept one-third of the shortfall and retail customers would be responsible for the remaining two-thirds.

- § Creation of a new Certified Capacity Cost Recovery (CCCR) tariff to recover costs related to new capacity additions certified by the Georgi