

ALABAMA POWER CO  
Form 10-K  
February 25, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K**

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the Fiscal Year Ended December 31, 2009  
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 18th 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>	58-2598670

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(A Delaware Corporation)  
30 Ivan Allen Jr. Boulevard, N.W.  
Atlanta, Georgia 30308  
(404) 506-5000

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**Securities registered pursuant to Section 12(b) of the Act:<sup>1</sup>**

Each of the following classes or series of securities registered pursuant to Section 12(b) of the Act is listed on the New York Stock Exchange.

<b>Title of each class</b>		<b>Registrant</b>
<b>Common Stock, \$5 par value</b>		<b>The Southern Company</b>
 <b>Class A preferred, cumulative, \$25 stated capital</b>		 <b>Alabama Power Company</b>
5.20% Series	5.83% Series	
5.30% Series		
 <b>Senior Notes</b>		
5 5/8% Series AA	5.875% Series II	
5 7/8% Series GG	6.375% Series JJ	
5.875% Series 2007B		
 <b>Class A Preferred Stock, non-cumulative, Par value \$25 per share</b>		 <b>Georgia Power Company</b>
6 1/8% Series		
 <b>Senior Notes</b>		
5.90% Series O	6% Series R	5.70% Series X
5.75% Series T	6% Series W	5.75% Series G <sup>2</sup>
6.375% Series 2007D	8.20% Series 2008C	
 <b>Long-term debt payable to affiliated trusts, \$25 liquidation amount</b>		
5 7/8% Trust Preferred Securities <sup>3</sup>		
 <b>Senior Notes</b>		 <b>Gulf Power Company</b>
5.25% Series H	5.75% Series I	
5.875% Series J		

1 As of December 31, 2009.

2 Assumed by Georgia Power Company in connection with its merger with Savannah Electric and Power

Company,  
effective July 1,  
2006.

- 3 Issued by  
Georgia Power  
Capital Trust  
VII and  
guaranteed by  
Georgia Power  
Company.
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**Senior Notes**

**Mississippi Power  
Company**

5 5/8% Series E

**Depository preferred shares, each representing one-fourth  
of a share of preferred stock, cumulative, \$100 par value**

5.25% Series

**Securities registered pursuant to Section 12(g) of the Act:<sup>4</sup>**

**Title of each class**

**Registrant**

**Preferred stock, cumulative, \$100 par value**

**Alabama Power  
Company**

4.20% Series

4.60% Series

4.72% Series

4.52% Series

4.64% Series

4.92% Series

**Preferred stock, cumulative, \$100 par value**

**Mississippi Power  
Company**

4.40% Series

4.60% Series

4.72% Series

4 As of  
December 31,  
2009.

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

<b>Registrant</b>	<b>Yes</b>	<b>No</b>
The Southern Company	<input type="checkbox"/>	
Alabama Power Company	<input type="checkbox"/>	
Georgia Power Company	<input type="checkbox"/>	
Gulf Power Company		<input type="checkbox"/>
Mississippi Power Company		<input type="checkbox"/>
Southern Power Company		<input type="checkbox"/>

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No  (Response applicable to all registrants.)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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	<input type="checkbox"/>			
Alabama Power Company			<input type="checkbox"/>	
Georgia Power Company			<input type="checkbox"/>	
Gulf Power Company			<input type="checkbox"/>	
Mississippi Power Company			<input type="checkbox"/>	
Southern Power Company			<input type="checkbox"/>	

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.)

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Aggregate market value of The Southern Company's common stock held by non-affiliates of The Southern Company at June 30, 2009: \$24.8 billion. All of the common stock of the other registrants is held by The Southern Company. A description of each registrant's common stock follows:

<b>Registrant</b>	<b>Description of Common Stock</b>	<b>Shares Outstanding at January 31, 2010</b>
The Southern Company	Par Value \$5 Per Share	820,372,722
Alabama Power Company	Par Value \$40 Per Share	30,537,500
Georgia Power Company	Without Par Value	9,261,500
Gulf Power Company	Without Par Value	3,642,717
Mississippi Power Company	Without Par Value	1,121,000
Southern Power Company	Par Value \$0.01 Per Share	1,000

Documents incorporated by reference: specified portions of The Southern Company's Definitive Proxy Statement on Schedule 14A relating to the 2010 Annual Meeting of Stockholders are incorporated by reference into PART III. In addition, specified portions of the Definitive Information Statements on Schedule 14C of Alabama Power Company, Georgia Power Company, and Mississippi Power Company relating to each of their respective 2010 Annual Meetings of Shareholders are incorporated by reference into PART III.

Southern Power Company meets the conditions set forth in General Instructions I(1)(a) and (b) of Form 10-K and is therefore filing this Form 10-K with the reduced disclosure format specified in General Instructions I(2)(b), (c), and (d) of Form 10-K.

This combined Form 10-K 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 company is filed by such company on its own behalf. Each company makes no representation as to information relating to the other companies.



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When used in Items 1 through 5 and Items 9A through 15, the following terms will have the meanings indicated.

<b>Term</b>	<b>Meaning</b>
AFUDC	Allowance for Funds Used During Construction
Alabama Power	Alabama Power Company
AMEA	Alabama Municipal Electric Authority
Clean Air Act	Clean Air Act Amendments of 1990
Dalton	Dalton Utilities
DOE	United States Department of Energy
Duke Energy	Duke Energy Corporation
Energy Act of 1992	Energy Policy Act of 1992
Energy Act of 2005	Energy Policy Act of 2005
EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
FMPA	Florida Municipal Power Agency
FP&L	Florida Power & Light Company
Georgia Power	Georgia Power Company
Gulf Power	Gulf Power Company
Hampton	City of Hampton, Georgia
IBEW	International Brotherhood of Electrical Workers
IIC	Intercompany Interchange Contract
IPP	Independent Power Producer
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
KUA	Kissimmee Utility Authority
MEAG Power	Municipal Electric Authority of Georgia
Mirant	Mirant Corporation
Mississippi Power	Mississippi Power Company
Moody's	Moody's Investors Service
NRC	Nuclear Regulatory Commission
OPC	Oglethorpe Power Corporation
OUC	Orlando Utilities Commission
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
PowerSouth	PowerSouth Energy Cooperative (formerly, Alabama Electric Cooperative, Inc.)
PPA	Power Purchase Agreement
Progress Energy Carolinas	Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc.
Progress Energy Florida	Florida Power Corporation, d/b/a Progress Energy Florida, Inc.
PSC	Public Service Commission
registrants	The Southern Company, Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, and Southern Power Company

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**DEFINITIONS**

(continued)

<b>Term</b>	<b>Meaning</b>
RFP	Request for Proposal
RUS	Rural Utilities Service (formerly Rural Electrification Administration)
S&P	Standard and Poor's, a division of The McGraw-Hill Companies
SCS	Southern Company Services, Inc. (the system service company)
SEC	Securities and Exchange Commission
SEGCO	Southern Electric Generating Company
SEPA	Southeastern Power Administration
SERC	Southeastern Electric Reliability Council
SMEPA	South Mississippi Electric Power Association
Southern Company	The Southern Company
Southern Company system	Southern Company, the traditional operating companies, Southern Power, SEGCO, Southern Nuclear, SCS, SouthernLINC Wireless, and other subsidiaries
Southern Holdings	Southern Company Holdings, Inc.
SouthernLINC Wireless	Southern Communications Services, Inc.
Southern Nuclear	Southern Nuclear Operating Company, Inc.
Southern Power	Southern Power Company
Southern Renewable Energy	Southern Renewable Energy, Inc.
Stone & Webster	Stone & Webster, Inc.
traditional operating companies	Alabama Power Company, Georgia Power Company, Gulf Power Company, and Mississippi Power Company
TVA	Tennessee Valley Authority
Westinghouse	Westinghouse Electric Company LLC

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**CAUTIONARY STATEMENT REGARDING  
FORWARD-LOOKING INFORMATION**

This Annual Report on Form 10-K contains forward-looking statements. Forward-looking statements include, among other things, statements concerning the strategic goals for the wholesale business, retail sales, customer growth, storm damage cost recovery and repairs, fuel cost recovery and other rate actions, environmental regulations and expenditures, earnings, dividend payout ratios, access to sources of capital, projections for postretirement benefit and nuclear decommissioning trust contributions, financing activities, start and completion of construction projects, plans and estimated costs for new generation resources, impacts of adoption of new accounting rules, potential exemptions from ad valorem taxation of the Kemper IGCC project, impact of the American Recovery and Reinvestment Act of 2009, impact of healthcare legislation, if any, 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 and emissions of sulfur, nitrogen, mercury, carbon, soot, particulate matter, or coal combustion byproducts 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 filed by the registrants from time to time with the SEC.

**The registrants expressly disclaim any obligation to update any forward-looking statements.**

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**PART I**

**Item 1. BUSINESS**

Southern Company was incorporated under the laws of Delaware on November 9, 1945. Southern Company is domesticated under the laws of Georgia and is qualified to do business as a foreign corporation under the laws of Alabama. Southern Company owns all of the outstanding common stock of Alabama Power, Georgia Power, Gulf Power, and Mississippi Power, each of which is an operating public utility company. The traditional operating companies supply electric service in the states of Alabama, Georgia, Florida, and Mississippi. More particular information relating to each of the traditional operating companies is as follows:

*Alabama Power* is a corporation organized under the laws of the State of Alabama on November 10, 1927, by the consolidation of a predecessor Alabama Power Company, Gulf Electric Company, and Houston Power Company. The predecessor Alabama Power Company had been in continuous existence since its incorporation in 1906.

*Georgia Power* was incorporated under the laws of the State of Georgia on June 26, 1930 and was admitted to do business in Alabama on September 15, 1948.

*Gulf Power* is a Florida corporation that has had a continuous existence since it was originally organized under the laws of the State of Maine on November 2, 1925. Gulf Power was admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976, and in Georgia on November 20, 1984. Gulf Power became a Florida corporation after being domesticated under the laws of the State of Florida on November 2, 2005.

*Mississippi Power* was incorporated under the laws of the State of Mississippi on July 12, 1972, was admitted to do business in Alabama on November 28, 1972, and effective December 21, 1972, by the merger into it of the predecessor Mississippi Power Company, succeeded to the business and properties of the latter company. The predecessor Mississippi Power Company was incorporated under the laws of the State of Maine on November 24, 1924 and was admitted to do business in Mississippi on December 23, 1924 and in Alabama on December 7, 1962.

In addition, Southern Company owns all of the common stock of Southern Power, which is also an operating public utility company. Southern Power constructs, acquires, owns, and manages generation assets and sells electricity at market-based rates in the wholesale market. Southern Power is a corporation organized under the laws of Delaware on January 8, 2001 and was admitted to do business in the States of Alabama, Florida, and Georgia on January 10, 2001, in the State of Mississippi on January 30, 2001, and in the State of North Carolina on February 19, 2007.

Southern Company also owns all of the outstanding common stock or membership interests of SouthernLINC Wireless, Southern Nuclear, SCS, Southern Holdings, Southern Renewable Energy, and other direct and indirect subsidiaries. SouthernLINC Wireless provides digital wireless communications for use by Southern Company and its subsidiary companies and markets these services to the public and also provides wholesale fiber optic solutions to telecommunication providers in the Southeast. Southern Nuclear operates and provides services to Alabama Power's and Georgia Power's nuclear plants and is currently developing new nuclear generation at Plant Vogtle. SCS is the system service company providing, at cost, specialized services to Southern Company and its subsidiary companies. Southern Holdings is an intermediate holding subsidiary for Southern Company's investments in leveraged leases. Southern Renewable Energy was formed in January 2010 to acquire, own, and construct renewable generation assets. Alabama Power and Georgia Power each own 50% of the outstanding common stock of SEGCO. SEGCO is an operating public utility company that owns electric generating units with an aggregate capacity of 1,019,680 kilowatts at Plant Gaston on the Coosa River near Wilsonville, Alabama. Alabama Power and Georgia Power are each entitled to one-half of SEGCO's capacity and energy. Alabama Power acts as SEGCO's agent in the operation of SEGCO's units and furnishes coal to SEGCO as fuel for its units. SEGCO also owns one 230,000 volt transmission line extending from Plant Gaston to the Georgia state line at which point connection is made with the Georgia Power

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transmission line system.

Southern Company's segment information is included in Note 12 to the financial statements of Southern Company in Item 8 herein.

The registrants' Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports are made available on Southern Company's website, free of charge, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Southern Company's internet address is [www.southerncompany.com](http://www.southerncompany.com).

**The Southern Company System**

**Traditional Operating Companies**

The traditional operating companies own generation, transmission, and distribution facilities. See PROPERTIES in Item 2 herein for additional information on the traditional operating companies' generating facilities. Each company's transmission facilities are connected to the respective company's own generating plants and other sources of power (including certain generating plants owned by Southern Power) and are interconnected with the transmission facilities of the other traditional operating companies and SEGCO. For information on the State of Georgia's integrated transmission system, see Territory Served by the Traditional Operating Companies and Southern Power herein.

Agreements in effect with principal neighboring utility systems provide for capacity and energy transactions that may be entered into from time to time for reasons related to reliability or economics. Additionally, the traditional operating companies have entered into voluntary reliability agreements with the subsidiaries of Entergy Corporation, Florida Electric Power Coordinating Group, and TVA and with Progress Energy Carolinas, Duke Energy, South Carolina Electric & Gas Company, and Virginia Electric and Power Company, each of which provides for the establishment and periodic review of principles and procedures for planning and operation of generation and transmission facilities, maintenance schedules, load retention programs, emergency operations, and other matters affecting the reliability of bulk power supply. The traditional operating companies have joined with other utilities in the Southeast (including some of those referred to above) to form the SERC to augment further the reliability and adequacy of bulk power supply. Through the SERC, the traditional operating companies are represented on the National Electric Reliability Council.

The utility assets of the traditional operating companies and certain utility assets of Southern Power are operated as a single integrated electric system, or power pool, pursuant to the IIC. Activities under the IIC are administered by SCS, which acts as agent for the traditional operating companies and Southern Power. The fundamental purpose of the power pool is to provide for the coordinated operation of the electric facilities in an effort to achieve the maximum possible economies consistent with the highest practicable reliability of service. Subject to service requirements and other operating limitations, system resources are committed and controlled through the application of centralized economic dispatch. Under the IIC, each traditional operating company and Southern Power retains its lowest cost energy resources for the benefit of its own customers and delivers any excess energy to the power pool for use in serving customers of other traditional operating companies or Southern Power or for sale by the power pool to third parties. The IIC provides for the recovery of specified costs associated with the affiliated operations thereunder, as well as the proportionate sharing of costs and revenues resulting from power pool transactions with third parties. Southern Company, each traditional operating company, Southern Power, Southern Nuclear, SEGCO, and other subsidiaries have contracted with SCS to furnish, at direct or allocated cost and upon request, the following services: general and design engineering, purchasing, accounting and statistical analysis, finance and treasury, tax, information resources, marketing, auditing, insurance and pension administration, human resources, systems and procedures, digital wireless communications, and other services with respect to business and operations and power pool transactions. Southern Power and SouthernLINC Wireless have also secured from the traditional operating companies certain services which are furnished at cost and, in the case of Southern Power which is subject to FERC regulations, in compliance with such regulations.

Alabama Power and Georgia Power each have a contract with Southern Nuclear to operate Plant Farley and Plants



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Hatch and Vogtle, respectively. In addition, Georgia Power has a contract with Southern Nuclear to develop, construct, license, and operate additional generating units at Plant Vogtle. See Regulation Nuclear Regulation herein for additional information.

**Southern Power**

Southern Power is an electric wholesale generation subsidiary with market-based rate authority from the FERC. Southern Power constructs, acquires, owns, and manages generation assets and sells electricity at market-based prices in the wholesale market. Southern Power's business activities are not subject to traditional state regulation like the traditional operating companies but are subject to regulation by the FERC. Southern Power has attempted to insulate itself from significant fuel supply, fuel transportation, and electric transmission risks by making such risks the responsibility of the counterparties to its PPAs. However, Southern Power's future earnings will depend on the parameters of the wholesale market, federal regulation, and the efficient operation of its wholesale generating assets. For additional information on Southern Power's business activities, see MANAGEMENT'S DISCUSSION AND ANALYSIS OVERVIEW Business Activities of Southern Power in Item 7 herein.

In June 2008, Southern Power completed construction on Plant Franklin Unit 3 which added 659 megawatts to the Southern Company system generating capacity. In December 2008, Southern Power announced plans to construct a 720 megawatt electric generating plant in North Carolina. This new plant is expected to go into commercial operation in 2012.

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 Power LLC is constructing a biomass generating plant in Sacul, Texas with an estimated capacity of 100 megawatts. The generating plant will be fueled from wood waste. Construction began in late 2009 and the plant is expected to begin commercial operation in 2012. 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 in 2032.

On December 17, 2009, Southern Power acquired all of the outstanding membership interests of West Georgia Generating Company, LLC (West Georgia) from Broadway Gen Funding, LLC, an affiliate of LS Power. West Georgia was merged into Southern Power as of the acquisition date and Southern Power now owns a dual-fueled generating plant near Thomaston, Georgia with nameplate capacity of approximately 669 megawatts. The plant consists of four combustion turbine natural gas generating units with oil back-up. The output from two units is contracted under PPAs with MEAG Power and the Georgia Energy Cooperative (GEC). The MEAG Power PPA began in 2009 and expires in 2029. The GEC PPA begins in 2010 and expires in 2030.

As of December 31, 2009, Southern Power had 7,880 megawatts of nameplate capacity in commercial operation.

**Other Businesses**

Southern Holdings is an intermediate holding subsidiary for Southern Company's investments in leveraged leases. SouthernLINC Wireless provides digital wireless communications for use by Southern Company and its subsidiary companies and markets its services to non-affiliates within the Southeast. SouthernLINC Wireless delivers multiple wireless communication options including push to talk, cellular service, text messaging, wireless internet access, and wireless data. Its system covers approximately 127,000 square miles in the Southeast. SouthernLINC Wireless also provides wholesale fiber optic solutions to telecommunication providers in the Southeast under the name Southern Telecom.

On January 25, 2010, Southern Renewable Energy was formed to acquire, own, and construct renewable generation assets.

These efforts to invest in and develop new business opportunities offer potential returns exceeding those of rate-regulated operations. However, these activities also involve a higher degree of risk.

**Table of Contents****Construction Programs**

The subsidiary companies of Southern Company are engaged in continuous construction programs to accommodate existing and estimated future loads on their respective systems. For estimated construction and environmental expenditures for the periods 2010 through 2012, see Note 7 to the financial statements of Southern Company and each traditional operating company under Construction Program and Note 7 to the financial statements of Southern Power under Expansion Program in Item 8 herein. Estimated construction costs in 2010 are expected to be apportioned approximately as follows: (in millions)

	Southern Company System*	Alabama Power	Georgia Power	Gulf Power	Mississippi Power	Southern Power
New generation	\$2,188	\$	\$1,254	\$ 3	\$ 341	\$590
Environmental	545	136	259	113	11	
Other generating facilities, including associated plant substations	528	228	154	54	39	37
New business	435	169	218	25	23	
Transmission	461	119	265	45	32	
Distribution	290	137	110	25	18	
Nuclear fuel	258	111	147			
General plant	231	85	89	6	8	
	\$4,936	\$985	\$2,496	\$271	\$472	\$627

\* These amounts include the traditional operating companies and Southern Power (as detailed in the table above) as well as the amounts for the other subsidiaries. See Other Businesses herein for additional information.

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.

Under Georgia law, Georgia Power is required to file an IRP for approval by the Georgia PSC. Through the IRP process, the Georgia PSC must pre-certify the construction of new power plants and new PPAs. See **Rate Matters Integrated Resource Planning** herein for additional information.

See **Regulation Environmental Statutes and Regulations** herein for additional information with respect to certain existing and proposed environmental requirements and **PROPERTIES Jointly-Owned Facilities** in Item 2 herein for additional information concerning Alabama Power's, Georgia Power's, and Southern Power's joint ownership of certain generating units and related facilities with certain non-affiliated utilities.

**Financing Programs**

See each of the registrant's **MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY** in Item 7 herein and Note 6 to the financial statements of each registrant in Item 8 herein for information concerning financing programs.

**Fuel Supply**

The traditional operating companies and SEGCO's supply of electricity is derived predominantly from coal. Southern Power's supply of electricity is primarily fueled by natural gas. See **MANAGEMENT'S DISCUSSION AND ANALYSIS RESULTS OF OPERATION Fuel and Purchased Power Expenses** of Southern Company and each traditional operating company in Item 7 herein for information regarding the electricity generated and the average cost of fuel in cents per net kilowatt-hour generated for the years 2007 through 2009.

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The traditional operating companies have agreements in place from which they expect to receive approximately 98% of their coal burn requirements in 2010. These agreements have terms ranging between one and eight years. In 2009, the weighted average sulfur content of all coal burned by the traditional operating companies was 74% sulfur. This sulfur level, along with banked and purchased sulfur dioxide allowances, allowed the traditional operating companies to remain within limits set by the Phase II acid rain requirements of the Clean Air Act. In 2009, the Southern Company system purchased approximately \$18.3 million of sulfur dioxide and nitrogen oxide emissions allowances to be used in current and future periods. As additional environmental regulations are proposed that impact the utilization of coal, the traditional operating companies' fuel mix will be monitored to ensure that the traditional operating companies remain in compliance with applicable laws and regulations. Additionally, Southern Company and the traditional operating companies will continue to evaluate the need to purchase additional emissions allowances and the timing of capital expenditures for emissions control equipment. See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters of Southern Company and each traditional operating company in Item 7 herein for information on the Clean Air Act and global climate issues.

SCS, acting on behalf of the traditional operating companies and Southern Power, has agreements in place for the natural gas burn requirements of the Southern Company system. For 2010, SCS has contracted for 207.5 billion cubic feet of natural gas supply under agreements with remaining terms up to 11 years. In addition to gas supply, SCS has contracts in place for both firm gas transportation and storage. Management believes that these contracts provide sufficient natural gas supplies, transportation, and storage to ensure normal operations of the Southern Company system's natural gas generating units.

Changes in fuel prices to the traditional operating companies are generally reflected in fuel adjustment clauses contained in rate schedules. See Rate Matters - Rate Structure and Cost Recovery Plans herein for additional information. Southern Power's PPAs generally provide that the counterparty is responsible for substantially all of the cost of fuel.

Alabama Power and Georgia Power have numerous contracts covering a portion of their nuclear fuel needs for uranium, conversion services, enrichment services, and fuel fabrication. These contracts have varying expiration dates and most of them are for less than 10 years. Management believes that sufficient capacity for nuclear fuel supplies and processing exists to preclude the impairment of normal operations of the Southern Company system's nuclear generating units.

Alabama Power and Georgia Power have contracts with the United States, acting through the DOE, that provide for the permanent disposal of spent nuclear fuel. The DOE failed to begin disposing of spent fuel in 1998, as required by the contracts, and Alabama Power and Georgia Power are pursuing legal remedies against the government for breach of contract. See Note 3 to the financial statements of Southern Company, Alabama Power, and Georgia Power under Nuclear Fuel Disposal Costs in Item 8 herein for additional information.

**Territory Served by the Traditional Operating Companies and Southern Power**

The territory in which the traditional operating companies provide electric service comprises most of the states of Alabama and Georgia together with the northwestern portion of Florida and southeastern Mississippi. In this territory there are non-affiliated electric distribution systems which obtain some or all of their power requirements either directly or indirectly from the traditional operating companies. The territory has an area of approximately 120,000 square miles and an estimated population of approximately 13 million. Southern Power sells electricity at market-based prices in the wholesale market to investor-owned utilities, IPPs, municipalities, and electric cooperatives.

Alabama Power is engaged, within the State of Alabama, in the generation and purchase of electricity and the transmission, distribution, and sale of such electricity at retail in over 650 communities (including Anniston, Birmingham, Gadsden, Mobile, Montgomery, and Tuscaloosa), as well as in rural areas, and at wholesale to 15 municipally-owned electric distribution systems, 11 of which are served indirectly through sales to AMEA, and two rural distributing cooperative associations. Alabama Power owns coal reserves near its Plant Gorgas and uses the output of coal from the reserves in its generating plants. Alabama Power also sells, and cooperates with dealers in promoting the sale of, electric appliances.



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Georgia Power is engaged in the generation and purchase of electricity and the transmission, distribution, and sale of such electricity within the State of Georgia at retail in over 600 communities (including Athens, Atlanta, Augusta, Columbus, Macon, Rome, and Savannah), as well as in rural areas, and at wholesale currently to OPC, MEAG Power, Dalton, Hampton, and various electric membership corporations.

Gulf Power is engaged, within the northwestern portion of Florida, in the generation and purchase of electricity and the transmission, distribution, and sale of such electricity at retail in 71 communities (including Pensacola, Panama City, and Fort Walton Beach), as well as in rural areas, and at wholesale to a non-affiliated utility and a municipality.

Mississippi Power is engaged in the generation and purchase of electricity and the transmission, distribution, and sale of such electricity within 23 counties in southeastern Mississippi, at retail in 123 communities (including Biloxi, Gulfport, Hattiesburg, Laurel, Meridian, and Pascagoula), as well as in rural areas, and at wholesale to one municipality, six rural electric distribution cooperative associations, and one generating and transmitting cooperative. For information relating to kilowatt-hour sales by customer classification for the traditional operating companies, see MANAGEMENT'S DISCUSSION AND ANALYSIS - RESULTS OF OPERATIONS of each traditional operating company in Item 7 herein. Also, for information relating to the sources of revenues for Southern Company, each traditional operating company, and Southern Power, reference is made to Item 7 herein.

The RUS has authority to make loans to cooperative associations or corporations to enable them to provide electric service to customers in rural sections of the country. There are 71 electric cooperative organizations operating in the territory in which the traditional operating companies provide electric service at retail or wholesale.

One of these organizations, PowerSouth, is a generating and transmitting cooperative selling power to several distributing cooperatives, municipal systems, and other customers in south Alabama and northwest Florida.

PowerSouth owns generating units with approximately 1,776 megawatts of nameplate capacity, including an undivided 8.16% ownership interest in Alabama Power's Plant Miller Units 1 and 2. PowerSouth's facilities were financed with RUS loans secured by long-term contracts requiring distributing cooperatives to take their requirements from PowerSouth to the extent such energy is available.

Alabama Power and Gulf Power have entered into separate agreements with PowerSouth involving interconnection between their respective systems. The delivery of capacity and energy from PowerSouth to certain distributing cooperatives in the service areas of Alabama Power and Gulf Power is governed by the Southern Company/PowerSouth Network Transmission Service Agreement. The rates for this service to PowerSouth are on file with the FERC. See PROPERTIES - Jointly-Owned Facilities in Item 2 herein for details of Alabama Power's joint-ownership with PowerSouth of a portion of Plant Miller.

Four electric cooperative associations, financed by the RUS, operate within Gulf Power's service area. These cooperatives purchase their full requirements from PowerSouth and SEPA (a federal power marketing agency). A non-affiliated utility also operates within Gulf Power's service area and purchases its full requirements from Gulf Power.

Mississippi Power has an interchange agreement with SMEPA, a generating and transmitting cooperative, pursuant to which various services are provided, including the furnishing of protective capacity by Mississippi Power to SMEPA. There are also 65 municipally-owned electric distribution systems operating in the territory in which the traditional operating companies provide electric service at retail or wholesale.

Forty-eight municipally-owned electric distribution systems and one county-owned system receive their requirements through MEAG Power, which was established by a Georgia state statute in 1975. MEAG Power serves these requirements from self-owned generation facilities, some of which are acquired and jointly-owned with Georgia Power, power purchased from Georgia Power, and purchases from other resources. MEAG Power also has a pseudo

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scheduling and services agreement with Georgia Power. Dalton serves its requirements from self-owned generation facilities, some of which are acquired and jointly-owned with Georgia Power, and through purchases from Georgia Power and Southern Power through a service agreement. In addition, Georgia Power serves the full requirements of Hampton's electric distribution system under a market-based contract. See PROPERTIES Jointly-Owned Facilities in Item 2 herein for additional information.

Georgia Power has entered into substantially similar agreements with Georgia Transmission Corporation (formerly OPC's transmission division), MEAG Power, and Dalton providing for the establishment of an integrated transmission system to carry the power and energy of all parties. The agreements require an investment by each party in the integrated transmission system in proportion to its respective share of the aggregate system load. See PROPERTIES Jointly-Owned Facilities in Item 2 herein for additional information.

Southern Power has PPAs with some of the traditional operating companies and with other investor-owned utilities, IPPs, municipalities, and electric cooperatives. See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Power Sales Agreements of Southern Power in Item 7 herein for additional information concerning Southern Power's PPAs.

SCS, acting on behalf of the traditional operating companies, also has a contract with SEPA providing for the use of the traditional operating companies' facilities at government expense to deliver to certain cooperatives and municipalities, entitled by federal statute to preference in the purchase of power from SEPA, quantities of power equivalent to the amounts of power allocated to them by SEPA from certain United States government hydroelectric projects.

The retail service rights of all electric suppliers in the State of Georgia are regulated by the Territorial Electric Service Act of 1973. Pursuant to the provisions of this Act, all areas within existing municipal limits were assigned to the primary electric supplier therein. Areas outside of such municipal limits were either to be assigned or to be declared open for customer choice of supplier by action of the Georgia PSC pursuant to standards set forth in this Act. Consistent with such standards, the Georgia PSC has assigned substantially all of the land area in the state to a supplier. Notwithstanding such assignments, this Act provides that any new customer locating outside of 1973 municipal limits and having a connected load of at least 900 kilowatts may exercise a one-time choice for the life of the premises to receive electric service from the supplier of its choice. See Competition herein for additional information.

Pursuant to the 1956 Utility Act, the Mississippi PSC issued Grandfather Certificates of public convenience and necessity to Mississippi Power and to six distribution rural cooperatives operating in southeastern Mississippi, then served in whole or in part by Mississippi Power, authorizing them to distribute electricity in certain specified geographically described areas of the state. The six cooperatives serve approximately 325,000 retail customers in a certificated area of approximately 10,300 square miles. In areas included in a Grandfather Certificate, the utility holding such certificate may, without further certification, extend its lines up to five miles; other extensions within that area by such utility, or by other utilities, may not be made except upon a showing of, and a grant of a certificate of, public convenience and necessity. Areas included in such a certificate which are subsequently annexed to municipalities may continue to be served by the holder of the certificate, irrespective of whether it has a franchise in the annexing municipality. On the other hand, the holder of the municipal franchise may not extend service into such newly annexed area without authorization by the Mississippi PSC.

**Competition**

The electric utility industry in the United States is continuing to evolve as a result of regulatory and competitive factors. Among the early primary agents of change was the Energy Act of 1992 which allowed IPPs to access a utility's transmission network in order to sell electricity to other utilities.

The competition for retail energy sales among competing suppliers of energy is influenced by various factors, including price, availability, technological advancements, service, and reliability. These factors are, in turn, affected by, among other influences, regulatory, political, and environmental considerations, taxation, and supply.

Generally, the traditional operating companies have experienced, and expect to continue to experience, competition

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in their respective retail service territories in varying degrees as the result of self-generation (as described below) by customers and other factors. See also Territory Served by the Traditional Operating Companies and Southern Power herein for additional information concerning suppliers of electricity operating within or near the areas served at retail by the traditional operating companies.

Southern Power competes with investor owned utilities, IPPs, and others for wholesale energy sales primarily in the Southeastern United States wholesale market. The needs of this market are driven by the demands of end users in the Southeast and the generation available. Southern Power's success in wholesale energy sales is influenced by various factors including reliability and availability of Southern Power's plants, availability of transmission to serve the demand, price, and Southern Power's ability to contain costs.

Alabama Power currently has cogeneration contracts in effect with 11 industrial customers. Under the terms of these contracts, Alabama Power purchases excess generation of such companies. During 2009, Alabama Power purchased approximately 232 million kilowatt-hours from such companies at a cost of \$16.5 million.

Georgia Power currently has contracts in effect with nine small power producers whereby Georgia Power purchases their excess generation. During 2009, Georgia Power purchased 14.7 million kilowatt-hours from such companies at a cost of \$0.6 million. Georgia Power has PPAs for electricity with two cogeneration facilities. Payments are subject to reductions for failure to meet minimum capacity output. During 2009, Georgia Power purchased 42.3 million kilowatt-hours at a cost of \$19.7 million from these facilities.

Also during 2009, Georgia Power purchased energy from eight customer-owned generating facilities. Seven of the eight customers provide only energy to Georgia Power. These seven customers make no capacity commitment and are not dispatched by Georgia Power. Georgia Power does have a contract with the remaining customer for eight megawatts of dispatchable capacity and energy. During 2009, Georgia Power purchased a total of 56.3 million kilowatt-hours from the eight customers at a cost of approximately \$1.9 million.

Gulf Power currently has agreements in effect with various industrial, commercial, and qualifying facilities pursuant to which Gulf Power purchases as available energy from customer-owned generation. During 2009, Gulf Power purchased 76 million kilowatt-hours from such companies for approximately \$4.3 million.

Mississippi Power currently has a cogeneration agreement in effect with one of its industrial customers. Under the terms of this contract, Mississippi Power purchases any excess generation. During 2009, Mississippi Power did not purchase any excess generation from this customer.

**Seasonality**

The demand for electric power generation is affected by seasonal differences in the weather. At the traditional operating companies and Southern Power, the demand for power peaks during the summer months, with market prices reflecting the demand of power and available generating resources at that time. Power demand peaks can also be recorded during the winter. As a result, the overall operating results of Southern Company, the traditional operating companies, and Southern Power in the future may fluctuate substantially on a seasonal basis. In addition, Southern Company, the traditional operating companies, and Southern Power have historically sold less power when weather conditions are milder.

**Regulation**

**State Commissions**

The traditional operating companies are subject to the jurisdiction of their respective state PSCs. The PSCs have broad powers of supervision and regulation over public utilities operating in the respective states, including their rates, service regulations, sales of securities (except for the Mississippi PSC), and, in the cases of the Georgia PSC and the Mississippi PSC, in part, retail service territories. See Territory Served by the Traditional Operating Companies and Southern Power and Rate Matters herein for additional information.



**Table of Contents****Federal Power Act**

The traditional operating companies, Southern Power and its generation subsidiaries, and SEGCO are all public utilities engaged in wholesale sales of energy in interstate commerce and therefore are subject to the rate, financial, and accounting jurisdiction of the FERC under the Federal Power Act. The FERC must approve certain financings and allows an at cost standard for services rendered by system service companies such as SCS. The FERC is also authorized to establish regional reliability organizations which are authorized to enforce reliability standards, to address impediments to the construction of transmission, and to prohibit manipulative energy trading practices. Alabama Power and Georgia Power are also subject to the provisions of the Federal Power Act or the earlier Federal Water Power Act applicable to licensees with respect to their hydroelectric developments. Among the hydroelectric projects subject to licensing by the FERC are 14 existing Alabama Power generating stations having an aggregate installed capacity of 1,662,400 kilowatts and 18 existing Georgia Power generating stations having an aggregate installed capacity of 1,087,296 kilowatts.

In May 2008, the FERC issued a new 30-year license for the Morgan Falls project, located on the Chattahoochee River near Atlanta, with an effective start date of March 1, 2009. In 2007, Georgia Power began the relicensing process for Bartlett's Ferry which is located on the Chattahoochee River near Columbus, Georgia. The current Bartlett's Ferry license expires in 2014 and the application for a new license is expected to be submitted to the FERC in 2012. In July 2005, Alabama Power filed two applications with the FERC for new 50-year licenses for its seven hydroelectric developments on the Coosa River (Weiss, Henry, Logan Martin, Lay, Mitchell, Jordan, and Bouldin) and for the Lewis Smith and Bankhead developments on the Warrior River. The FERC licenses for all of these nine developments expired in July and August 2007. The FERC issued an annual license for the Coosa developments in August 2007 and issued an annual license for the Warrior developments in September 2007. Both of these licenses were automatically renewed in 2008 and 2009 pursuant to FERC regulations. These annual licenses provide the FERC with additional time to complete its review of the license applications. In 2006, Alabama Power initiated the process of developing an application to relicense the Martin hydroelectric project located on the Tallapoosa River. The current Martin license will expire in 2013 and the application for a new license is expected to be filed with the FERC in 2011. In 2010, Alabama Power plans to initiate the process of developing an application to relicense the Holt hydroelectric project located on Warrior River. The current Holt license will expire in August 2015 and the application for a new license is expected to be filed prior to that time. See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - FERC Matters of Alabama Power in Item 7 herein for additional information. Georgia Power and OPC also have a license, expiring in 2027, for the Rocky Mountain Plant, a pure pumped storage facility of 847,800 kilowatt capacity. See PROPERTIES - Jointly-Owned Facilities in Item 2 herein for additional information.

Licenses for all projects, excluding those discussed above, expire in the period 2023-2034 in the case of Alabama Power's projects and in the period 2014-2039 in the case of Georgia Power's projects.

Upon or after the expiration of each license, the United States Government, by act of Congress, may take over the project or the FERC may relicense the project either to the original licensee or to a new licensee. In the event of takeover or relicensing to another, the original licensee is to be compensated in accordance with the provisions of the Federal Power Act, such compensation to reflect the net investment of the licensee in the project, not in excess of the fair value of the property, plus reasonable damages to other property of the licensee resulting from the severance therefrom of the property. If the FERC does not act on the new license application prior to the expiration of the existing license, the FERC is required to issue annual licenses, under the same terms and conditions of the existing license, until a new license is issued.

**Nuclear Regulation**

Alabama Power, Georgia Power, and Southern Nuclear are subject to regulation by the NRC. The NRC is responsible for licensing and regulating nuclear facilities and materials and for conducting research in support of the licensing and regulatory process, as mandated by the Atomic Energy Act of 1954, as amended; the Energy Reorganization Act of 1974, as amended; and the Nuclear Nonproliferation Act of 1978; and in accordance with the

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National Environmental Policy Act of 1969, as amended, and other applicable statutes. These responsibilities also include protecting public health and safety, protecting the environment, protecting and safeguarding nuclear materials and nuclear power plants in the interest of national security, and assuring conformity with antitrust laws.

In January 2002, the NRC granted Georgia Power a 20-year extension of the licenses for both units at Plant Hatch which permits the operation of units 1 and 2 until 2034 and 2038, respectively. In May 2005, the NRC granted Alabama Power a 20-year extension of the licenses for both units at Plant Farley which permits operation of units 1 and 2 until 2037 and 2041, respectively. On June 3, 2009, the NRC approved 20-year extensions of the licenses for the operation of Plant Vogtle Units 1 and 2 to 2047 and 2049, respectively.

On August 26, 2009, the NRC issued an Early Site Permit and Limited Work Authorization to Southern Nuclear, on behalf of Georgia Power, OPC, MEAG Power, and Dalton (collectively, Owners), related to two additional nuclear units on the site of Plant Vogtle (Plant Vogtle Units 3 and 4). In March 2008, Southern Nuclear filed an application with the NRC for a combined construction and operating license for Plant Vogtle Units 3 and 4, which, if licensed by the NRC, are scheduled to be placed in service in 2016 and 2017, respectively. See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Construction Nuclear of Georgia Power in Item 7 herein and Note 3 to the financial statements of Southern Company under Retail Regulatory Matters - Georgia Power Nuclear Construction and Georgia Power under Construction Nuclear in Item 8 herein for additional information. See Notes 1 and 9 to the financial statements of Southern Company, Alabama Power, and Georgia Power in Item 8 herein for information on nuclear decommissioning costs and nuclear insurance.

**Environmental Statutes and Regulations**

Southern Company's operations are subject to extensive regulation by state and federal environmental agencies under a variety of statutes and regulations governing environmental media, including air, water, and land resources.

Compliance with these existing environmental requirements involves significant capital and operating costs, a major portion of which is expected to be recovered through existing ratemaking provisions or market-based rates for Southern Power. There is no assurance, however, that all such costs will be recovered.

Compliance with the federal Clean Air Act and resulting regulations has been, and will continue to be, a significant focus for Southern Company, each traditional operating company, Southern Power, and SEGCO. In addition, existing environmental laws and regulations may be changed or new laws and regulations may be adopted or otherwise become applicable to Southern Company, the traditional operating companies, Southern Power, or SEGCO, including laws and regulations designed to address global climate change, air quality, water quality, management of waste materials and coal combustion byproducts, including coal ash, or other environmental, public health, and welfare concerns. See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL

Environmental Matters of Southern Company and each of the traditional operating companies in Item 7 herein for additional information about the Clean Air Act and other environmental issues, including, but not limited to, the litigation brought by the EPA under the New Source Review provisions of the Clean Air Act, possible additional and/or revised regulations related to air and water quality, possible climate change legislation and regulation, and possible regulation of coal combustion byproducts. Also see MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters of Southern Power in Item 7 herein for information about the environmental issues and possible climate change legislation and regulation.

Southern Company, the traditional operating companies, Southern Power, and SEGCO are unable to predict at this time what additional steps they may be required to take as a result of the implementation of existing or future requirements pertaining to climate change, air quality, water quality, and management of waste materials and coal combustion byproducts, including coal ash, but such steps could adversely affect system operations and result in substantial additional costs.

The outcome of the matters mentioned above under Regulation cannot now be determined, except that these developments may affect unit retirement and replacement decisions and may result in delays in obtaining appropriate licenses for generating facilities, increased construction and operating costs, or reduced generation, the nature and extent of which, while not determinable at this time, could be substantial.

**Table of Contents****Rate Matters****Rate Structure and Cost Recovery Plans**

The rates and service regulations of the traditional operating companies are uniform for each class of service throughout their respective service areas. Rates for residential electric service are generally of the block type based upon kilowatt-hours used and include minimum charges. Residential and other rates contain separate customer charges. Rates for commercial service are presently of the block type and, for large customers, the billing demand is generally used to determine capacity and minimum bill charges. These large customers' rates are generally based upon usage by the customer and include rates with special features to encourage off-peak usage. Additionally, Alabama Power, Gulf Power, and Mississippi Power are generally allowed by their respective state PSCs to negotiate the terms and cost of service to large customers. Such terms and cost of service, however, are subject to final state PSC approval.

Fuel and net purchased energy costs are recovered through specific fuel cost recovery provisions at the traditional operating companies. These fuel cost recovery provisions are adjusted to reflect increases or decreases in such costs as needed. Gulf Power's and Mississippi Power's fuel cost recovery provisions are adjusted annually to reflect increases or decreases in such costs. Georgia Power filed for an adjustment to its fuel cost recovery rate on December 15, 2009. If approved by the Georgia PSC, the adjustment would be effective on April 1, 2010. Alabama Power's fuel clause is adjusted as required. Revenues are adjusted for differences between recoverable costs and amounts actually recovered in current rates.

Approved environmental compliance and storm damage costs are recovered at Alabama Power and Mississippi Power through cost recovery provisions approved by their respective state PSCs. Within limits approved by their respective PSCs, these rates are adjusted to reflect increases or decreases in such costs as required.

Georgia Power's environmental compliance costs are recovered in base rates. Under the 2007 retail rate plan, an environmental compliance cost recovery tariff was implemented effective January 1, 2008 to allow recovery of environmental costs mandated by state and federal regulation. See Note 3 to the financial statements of Southern Company under Retail Regulatory Matters Georgia Power Retail Rate Plans and Georgia Power under Retail Regulatory Matters Rate Plans in Item 8 herein for additional information.

See Integrated Resource Planning herein for a discussion of Georgia PSC certification of new demand-side or supply-side resources for Georgia Power. In addition, see MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Construction Nuclear of Georgia Power in Item 7 herein and Note 3 to the financial statements of Southern Company under Retail Regulatory Matters Georgia Power Nuclear Construction and Georgia Power under Construction Nuclear in Item 8 herein for a discussion of the Georgia Nuclear Financing Act and the Georgia PSC certification of Plant Vogtle Units 3 and 4, which allow Georgia Power to recover financing costs for construction of the new nuclear units during the construction period beginning in 2011.

Alabama Power recovers the cost of certificated new plant and purchased power capacity through cost recovery provisions which are approved annually. Gulf Power files a rate clause request annually with the Florida PSC to recover costs associated with purchased power capacity, energy conservation, and environmental compliance.

Revenues are adjusted for differences between recoverable costs and amounts actually recovered in current rates. See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters of Southern Company and each of the traditional operating companies in Item 7 herein and Note 3 to the financial statements of Southern Company under Retail Regulatory Matters and Note 3 to the financial statements of each of the traditional operating companies under Retail Regulatory Matters in Item 8 herein for a discussion of rate matters. Also, see Note 1 to the financial statements of Southern Company and each of the traditional operating companies in Item 8 herein for a discussion of recovery of fuel costs, storm damage costs, and environmental compliance costs through rates.

The traditional operating companies and Southern Power are authorized by 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.

**Table of Contents****Integrated Resource Planning*****Georgia Power***

Triennially, Georgia Power must file an IRP with the Georgia PSC that specifies how it intends to meet the future electrical needs of its customers through a combination of demand-side and supply-side resources. The Georgia PSC, under state law, must certify any new demand-side or supply-side resources for Georgia Power to get cost recovery. Once certified, the lesser of actual or certified construction costs and purchased power costs will be recoverable through rates.

On August 31, 2009, Georgia Power filed with the Georgia PSC its first semi-annual construction monitoring report for Plant Vogtle Units 3 and 4 for the period ended June 30, 2009, which did not include any proposed change to the estimated construction cost as certified by the Georgia PSC in March 2009. On February 25, 2010, the Georgia PSC approved the expenditures made by Georgia Power pursuant to the certification through June 30, 2009. The Georgia PSC also ordered that in its future semi-annual construction monitoring reports, Georgia Power will report against a total certified cost of approximately \$6.1 billion, which is the effective certified amount after giving effect to the Georgia Nuclear Energy Financing Act. Georgia Power will continue to file construction monitoring reports by February 28 and August 31 of each year during the construction period.

In connection with its approval of the updated IRP on March 17, 2009, the Georgia PSC also approved Georgia Power's plan for the installation of emissions controls at its Plant Branch Units 1-4 and Plant Yates Units 6 and 7. However, Georgia Power has suspended further engineering and construction activity on the emissions control projects at Plant Branch Units 1 and 2 and Plant Yates Units 6 and 7 until more information is available from the rulemaking and legislative process, thereby mitigating the risk related to significant capital expenditures associated with those projects. Georgia Power continues to review the economic feasibility of installing controls at Plant Branch Units 3 and 4. Georgia Power intends to continue to operate these units in the near term and reevaluate the economics of installing emissions controls on these units as more information becomes available.

Georgia Power plans to convert the 155-megawatt coal-fired Plant Mitchell Unit 3 to a renewable biomass facility fueled primarily with wood chips. Georgia Power filed a request for approval of the certification of the Plant Mitchell biomass conversion with the Georgia PSC in August 2008. On March 17, 2009, the Georgia PSC approved Georgia Power's request for certification of the Plant Mitchell biomass conversion. Georgia Power filed an air permit application for the conversion with the Georgia Environmental Protection Division in December 2008. Georgia Power expects to be granted an air permit in 15 to 18 months from the filing date. With the uncertainty of how future EPA regulations might affect allowable industrial boiler emissions, Georgia Power has decided to delay the conversion of Plant Mitchell Unit 3 to biomass until the EPA rules are better defined, which is expected in April 2010. Georgia Power had originally planned to begin retrofit construction at Plant Mitchell in April 2011 with the unit becoming operational in June 2012. A new project schedule has yet to be determined.

On January 29, 2010, Georgia Power filed its 2010 IRP for approval by the Georgia PSC. The 2010 IRP projected that Georgia Power's current supply-side and demand-side resources are sufficient to provide a cost effective and reliable source of capacity and energy at least through 2014. The 2010 IRP identifies potential regulations relating to coal combustion byproducts and maximum achievable control technology for hazardous air pollutants, as well as potential legislation or regulations that would impose mandatory restrictions on greenhouse gas emissions. See **MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters - Environmental Statutes and Regulations - Air Quality, Environmental Matters - Environmental Statutes and Regulations - Coal Combustion Byproducts, and Environmental Matters - Global Climate Issues** of Georgia Power in Item 7 herein. While neither proposed nor final EPA regulations have been released at this time with respect to hazardous air pollutants or coal combustion byproducts, Georgia Power currently estimates that compliance would be required by about January 2015. The 2010 IRP includes preliminary retirement studies under a variety of potential scenarios for units at seven of Georgia Power's coal-fired generating plants. These studies indicated that, depending on the final requirements in both of these anticipated EPA regulations and any legislation or regulation relating to greenhouse gas emissions, as well as estimates of long-term fuel prices, Georgia Power may conclude that it is more economical to retire certain coal-fired generating units than to install the required controls and/or that Georgia Power may not be able to complete installation of required controls on all such units by 2015 where such installation is determined to be

more economical. Given the uncertainty and the amount of capacity at

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risk of retirement, Georgia Power has restarted its 2015 RFP for 1,000 megawatts of capacity and energy. However, Georgia Power's capacity needs could change significantly depending on the final requirements resulting from these environmental regulations.

The Georgia PSC certified the construction of Plant McDonough Units 4, 5, and 6 (natural gas-fired units) and the retirement of Plant McDonough Units 1 and 2 (coal-fired units) in 2007. On August 10, 2009, Georgia Power filed its quarterly construction monitoring report for Plant McDonough Units 4, 5, and 6 for the quarter ended June 30, 2009. On September 30, 2009, Georgia Power amended the report. As amended, the report includes a request for an increase in the certified costs to construct Plant McDonough. The Georgia PSC held a hearing in December 2009 and is scheduled to render its decision on March 16, 2010.

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

See Note 3 to the financial statements of Southern Company and Georgia Power in Item 8 herein for additional information regarding the proposed Plant Vogtle Units 3 and 4.

***Gulf Power***

Annually by April 1, Gulf Power must file a 10-year site plan with the Florida PSC containing Gulf Power's estimate of its power-generating needs in the period and the general location of its proposed power plant sites. The 10-year site plans submitted by the state's electric utilities are reviewed by the Florida PSC and subsequently classified as either suitable or unsuitable. The Florida PSC then reports its findings along with any suggested revisions to the Florida Department of Environmental Protection for its consideration at any subsequent electrical power plant site certification proceedings. Under Florida law, any 10-year site plans submitted by an electric utility are considered tentative information for planning purposes only and may be amended at any time at the discretion of the utility with written notification to the Florida PSC. At least every five years, the Florida PSC must conduct proceedings to establish numerical goals for all investor-owned electric utilities and certain municipal or cooperative electric utilities in the state to reduce the growth rates of weather-sensitive peak demand, to reduce and control the growth rates of electric consumption, and to increase the conservation of expensive resources, such as petroleum fuels. Overall residential kilowatts and kilowatt hours goals and overall commercial/industrial kilowatt and kilowatt hours goals for each utility are set by the Florida PSC for each year over a 10-year period. The goals are to be based on an estimate of the total cost effective kilowatts and kilowatt hours savings reasonably achievable through demand-side management in each utility's service area over a 10-year period. Once goals have been set, each affected utility must develop and submit plans and programs to meet the overall goals within its service area to the Florida PSC for review and approval. Once approved, the utilities are required to submit periodic reports which the Florida PSC then uses to prepare its annual report to the Governor and Legislature of the goals that have been established and the progress towards meeting those goals.

Gulf Power's most recent 10-year site plan was classified by the Florida PSC as suitable in December 2009. Gulf Power's most recent 10-year site plan and environmental compliance plan identify potential environmental regulations relating to maximum achievable control technology for hazardous air pollutants and potential legislation or regulation that would impose mandatory restrictions on greenhouse gas emissions. See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Air Quality, Environmental Matters Environmental Statutes and Regulations Coal Combustion Byproducts, and Environmental Matters Global Climate Issues of Gulf Power in Item 7 herein. The site plan and environmental compliance plan include preliminary retirement studies under a variety of potential scenarios for units at each of Gulf Power's coal-fired generating plants. These studies indicate that, depending on the final requirements in these anticipated EPA regulations and any legislation or regulations relating to greenhouse gas emissions, as well as estimates of long-term fuel prices, Gulf Power may conclude that it is more economical to retire certain of its coal-fired generating units prior to 2020 and to replace such units with new or purchased capacity.

Also in December 2009, the Florida PSC adopted new numerical conservation goals for Gulf Power along with other electric utilities in the state. The Florida PSC adopted more aggressive goals due in part to the consideration of possible greenhouse gas emissions costs incurred in connection with possible climate change legislation and a change in the manner in which the Florida PSC considers the effect of so-called free-riders on the level of



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conservation reasonably achievable through utility programs. Gulf Power's plans and programs to meet the new goals are scheduled to be submitted to the Florida PSC for review by the end of the first quarter 2010. The costs of implementing Gulf Power's conservation plans and programs are recovered through specific conservation recovery rates set annually by the Florida PSC.

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

***Mississippi Power***

On December 7, 2009, Mississippi Power filed its 2010 IRP with the Mississippi PSC. The filing was made in connection with the Mississippi PSC certification proceedings relating to the proposed Kemper County IGCC project. In the 2010 IRP, Mississippi Power projected that it will have a need for new capacity in the 2013 to 2015 timeframe. The 2010 IRP indicated a need range of approximately 200 megawatts to 300 megawatts in 2014, which reflects growth in load and the anticipated retirement of older gas steam units Plant Eaton Units 1 through 3 and Plant Watson Units 1 through 3 in 2012 and 2013, respectively. In addition, due to potential retirements of existing coal units, the Mississippi PSC found a need in 2015 that ranges from 304 megawatts to 1,276 megawatts.

The range of needs for 2015 is based on potential environmental regulations relating to maximum achievable control technology for hazardous air pollutants, as well as potential legislation or regulations that would impose mandatory restrictions on greenhouse gas emissions. See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Air Quality and Environmental Matters Global Climate Issues of Mississippi Power in Item 7 herein. Depending on the final requirements in the anticipated EPA regulations and any legislation or regulation relating to greenhouse gas emissions, as well as estimates of long-term fuel prices, Mississippi Power may conclude that it is more economical to discontinue burning coal at certain coal-fired generating units than to install the required controls.

Mississippi Power's 2010 IRP indicated that Mississippi Power plans to construct the Kemper County IGCC to meet its identified needs, to add environmental controls at Plant Daniel Units 1 and 2, to defer environmental controls at Plant Watson Units 4 and 5, and to continue operation of the combined cycle Plant Daniel Units 3 and 4.

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

**Mississippi Base Load Construction Legislation**

In the 2008 regular session of the Mississippi legislature, a bill was passed and signed by the Governor in May 2008 to enhance the Mississippi PSC's authority to facilitate development and construction of base load generation in the State of Mississippi (Baseload Act). The Baseload Act authorizes, but does not require, the Mississippi PSC to adopt a cost recovery mechanism that includes in retail base rates, prior to and during construction, all or a portion of the prudently incurred pre-construction and construction costs incurred by a utility in constructing a base load electric generating plant. Prior to the passage of the Baseload Act, such costs would traditionally be recovered only after the plant was placed in service. The Baseload Act also provides for periodic prudence reviews by the Mississippi PSC and prohibits the cancellation of any such generating plant without the approval of the Mississippi PSC. In the event of cancellation of the construction of the plant without approval of the Mississippi PSC, the Baseload Act authorizes the Mississippi PSC to make a public interest determination as to whether and to what extent the utility will be afforded rate recovery for costs incurred in connection with such cancelled generating plant. The effect of this legislation on Southern Company and Mississippi Power cannot now be determined.

On January 16, 2009, Mississippi Power filed for a Certificate of Public Convenience and Necessity with the Mississippi PSC to allow construction of a new electric generating plant located in Kemper County, Mississippi. This certificate, if approved by the Mississippi PSC, would authorize Mississippi Power to acquire, construct, and operate the Kemper IGCC and related facilities. The Kemper IGCC, subject to federal and state reviews and certain regulatory approvals, is expected to begin commercial operation in May 2014. See Note 3 to the financial statements of Southern Company and Mississippi Power in Item 8 herein for additional information.



**Table of Contents****Employee Relations**

The Southern Company system had a total of 26,112 employees on its payroll at December 31, 2009.

	Employees at December 31, 2009
Alabama Power	6,842
Georgia Power	8,599
Gulf Power	1,365
Mississippi Power	1,285
SCS	4,184
Southern Holdings*	
Southern Nuclear	3,485
Southern Power**	
Other	352
<b>Total</b>	<b>26,112</b>

\* Southern Holdings has agreements with SCS whereby all employee services are rendered at cost.

\*\* Southern Power has no employees. Southern Power has agreements with SCS and the traditional operating companies whereby employee services are rendered at amounts in compliance with FERC regulations.

The traditional operating companies have separate agreements with local unions of the IBEW generally covering wages, working conditions, and procedures for handling grievances and arbitration. These agreements apply with certain exceptions to operating, maintenance, and construction employees.

On August 15, 2009, a five-year labor agreement between Alabama Power and nine local unions with the IBEW expired. Prior to the expiration of this agreement, Alabama Power and the IBEW entered into a new five-year labor

agreement with a ratification date of May 29, 2009. Parts of this new agreement took effect on August 15, 2009, when the original agreement expired, and the remainder took effect on January 1, 2010. The new agreement expires on August 15, 2014.

Georgia Power has an agreement with the IBEW covering wages and working conditions, which is in effect through June 30, 2011. Upon notice given at least 60 days prior to that date, negotiations may be initiated with respect to agreement terms to be effective after such date.

The agreement between Gulf Power and the IBEW covering wages and working conditions was scheduled to expire on October 15, 2009. The agreement has not been terminated by either party and remains in effect through October 14, 2010. Negotiations for a new agreement began in September 2009 and are on-going.

Mississippi Power has an agreement with the IBEW covering wages and working conditions, which is in effect until August 16, 2010. Upon notice given at least 60 days prior to that date, negotiations may be initiated with respect to agreement terms to be effective after such date.

Southern Nuclear and the IBEW ratified a labor agreement for certain employees at Plants Hatch and Vogtle on May 21, 2009. The agreement is effective through June 30, 2011. A five-year agreement between Southern Nuclear and the IBEW representing certain employees at Plant Farley was ratified on July 8, 2009. The agreement became effective on August 15, 2009 and will remain in effect through August 15, 2014.

The agreements also make the terms of the pension plans for the companies discussed above subject to collective bargaining with the unions at either a five-year or a 10-year cycle, depending upon union and company actions.

**Table of Contents****Item 1A. RISK FACTORS**

**In addition to the other information in this Form 10-K, including MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL in Item 7 of each registrant, and other documents filed by Southern Company and/or its subsidiaries with the SEC from time to time, the following factors should be carefully considered in evaluating Southern Company and its subsidiaries. Such factors could affect actual results and cause results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, Southern Company and/or its subsidiaries.**

**Risks Related to the Energy Industry**

**Southern Company and its subsidiaries are subject to substantial governmental regulation. Compliance with current and future regulatory requirements and procurement of necessary approvals, permits, and certificates may result in substantial costs to Southern Company and its subsidiaries.**

Southern Company and its subsidiaries, including the traditional operating companies and Southern Power, are subject to substantial regulation from federal, state, and local regulatory agencies. Southern Company and its subsidiaries are required to comply with numerous laws and regulations and to obtain numerous permits, approvals, and certificates from the governmental agencies that regulate various aspects of their businesses, including rates and charges, service regulations, retail service territories, sales of securities, asset acquisitions and sales, accounting policies and practices, and the operation of fossil-fuel, hydroelectric, and nuclear generating facilities. For example, the rates charged to wholesale customers by the traditional operating companies and by Southern Power must be approved by the FERC. These wholesale rates could be affected absent the ability to conduct business pursuant to FERC market-based rate authority. Additionally, the respective state PSCs must approve the traditional operating companies' requested rates for retail customers. While the retail rates of the traditional operating companies are designed to provide for the full recovery of costs (including a reasonable return on invested capital), there can be no assurance that a state PSC, in a future rate proceeding, will not attempt to alter the timing or amount of certain costs for which recovery is sought or to modify the current authorized rate of return.

Southern Company and its subsidiaries believe the necessary permits, approvals, and certificates have been obtained for their respective existing operations and that their respective businesses are conducted in accordance with applicable laws; however, the impact of any future revision or changes in interpretations of existing regulations or the adoption of new laws and regulations applicable to Southern Company or any of its subsidiaries cannot now be predicted. Changes in regulation or the imposition of additional regulations could influence the operating environment of Southern Company and its subsidiaries and may result in substantial costs.

**Risks Related to Environmental and Climate Change Legislation and Regulation**

**Southern Company's, the traditional operating companies', and Southern Power's costs of compliance with environmental laws are significant. The costs of compliance with future environmental laws, including laws and regulations designed to address global climate change, renewable energy standards, air quality, coal combustion byproducts, and other matters and the incurrence of environmental liabilities could affect unit retirement decisions and negatively impact the net income, cash flows, and financial condition of Southern Company, the traditional operating companies, or Southern Power.**

Southern Company, the traditional operating companies, and Southern Power are subject to extensive federal, state, and local environmental requirements which, among other things, regulate air emissions, water usage and discharges, and the management of hazardous and solid waste in order to adequately protect the environment. Compliance with these legal requirements requires Southern Company, the traditional operating companies, and Southern Power to commit significant expenditures for installation of pollution control equipment, environmental monitoring, emissions fees, and permits at all of their respective facilities. These expenditures are significant and Southern Company, the traditional operating companies, and Southern Power expect that they will increase in the future. Through 2009, Southern Company had invested approximately \$7.5 billion in capital projects to comply with these requirements, with annual totals of \$1.3 billion, \$1.6 billion, and \$1.5 billion for 2009, 2008, and 2007, respectively. Southern Company expects that capital expenditures to assure compliance with existing and new statutes and regulations will be an additional \$545 million, \$721 million, and \$1.2 billion for 2010, 2011, and 2012,



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respectively. Because the compliance strategy is impacted by changes to existing environmental laws, statutes, and regulations, the cost, availability, and existing inventory of emissions allowances, and the fuel mix, the ultimate outcome cannot be determined at this time.

If Southern Company, any traditional operating company, or Southern Power fails to comply with environmental laws and regulations, even if caused by factors beyond its control, that failure may result in the assessment of civil or criminal penalties and fines. The EPA has filed civil actions against Alabama Power and Georgia Power and issued notices of violation to Gulf Power and Mississippi Power alleging violations of the new source review provisions of the Clean Air Act. Southern Company is a party to suits alleging emissions of carbon dioxide, a greenhouse gas, contribute to global warming. An adverse outcome in any of these matters could require substantial capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. Such expenditures could affect unit retirement and replacement decisions, and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates or market-based rates for Southern Power. 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. Existing environmental laws and regulations may be revised or new laws and regulations related to global climate change, air quality, coal combustion byproducts, including coal ash, or other environmental and health concerns may be adopted or become applicable to Southern Company, the traditional operating companies, and Southern Power. For example, federal legislative proposals that would impose mandatory requirements on greenhouse gas emissions and renewable energy standards continue to be actively considered in Congress, and the reduction of greenhouse gas emissions has been identified as a high priority by the current Administration. On June 26, 2009, the American Clean Energy and Security Act of 2009, which would impose mandatory greenhouse gas restrictions through implementation of a cap and trade program, a renewable energy standard, and other measures, was passed by the House of Representatives. Similar legislation is being considered by the Senate. In 2007, the U. S. Supreme Court ruled that the EPA has authority to regulate greenhouse gas emissions from new motor vehicles. On December 15, 2009, the EPA published a final determination, which became effective on January 14, 2010, that certain greenhouse gas emissions from new motor vehicles endanger public health and welfare due to climate change. The EPA has stated that finalization of this rule will cause carbon dioxide and other greenhouse gases to become regulated pollutants under certain provisions of the Clean Air Act applicable to stationary sources, including power plants. On October 27, 2009, the EPA published a proposed rule governing how these programs would be applied to such sources. The EPA has stated that it expects to finalize these proposed rules in March 2010.

In addition, the EPA is expected to issue additional regulations and designations with respect to air quality under the Clean Air Act, including eight-hour ozone standards, sulfur dioxide standards, a replacement Clean Air Interstate Rule relating to nitrogen oxide and sulfur dioxide emissions, and a Maximum Achievable Control Technology rule for coal and oil-fired electric generating units, which will likely address numerous hazardous air pollutants, including mercury. In addition, the EPA is currently evaluating whether additional regulation of coal combustion byproducts is merited under federal solid and hazardous waste laws. The EPA is expected to issue a proposal regarding additional regulation of coal combustion byproducts in early 2010.

International climate change negotiations under the United Nations Framework Convention on Climate Change also continue. A nonbinding agreement was announced during the most recent round of negotiations in December 2009 that included a pledge from both developed and developing countries to reduce their greenhouse gas emissions. The cost impact of such legislation, regulation, new interpretations, or international negotiations would depend upon the specific requirements enacted and cannot be determined at this time. For example, the impact of currently proposed legislation relating to greenhouse gas emissions would depend on a variety of factors, including the specific greenhouse gas emissions limits or renewable energy requirements, the timing of implementation of these

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limits or requirements, the level of emissions allowances allocated and the level that must be purchased, the purchase price of emissions allowances, the development and commercial availability of technologies for renewable energy and for the reduction of emissions, the degree to which offsets may be used for compliance, provisions for cost containment (if any), the impact on coal and natural gas prices, and cost recovery through regulated rates or market-based rates for Southern Power.

Although the outcome cannot be determined at this time, legislation or regulation related to greenhouse gas emissions, renewable energy standards, air quality, coal combustion byproducts and other matters, individually or together, are likely to result in significant and additional compliance costs, including significant capital expenditures, and could result in additional operating restrictions. These costs could affect future unit retirement and replacement decisions, and could result in the retirement of a significant number of coal-fired generating units of the traditional operating companies. Additional compliance costs and costs related to potential unit retirements could affect results of operations, cash flows, and financial condition if such costs are not recovered from customers. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively impact results of operations, cash flows, and financial condition.

**General Risks Related to Operation of Southern Company's Utility Subsidiaries**

**The regional power market in which Southern Company and its utility subsidiaries compete may have changing transmission regulatory structures, which could affect the ownership of these assets and related revenues and expenses.**

The traditional operating companies currently own and operate transmission facilities as part of a vertically integrated utility. Transmission revenues are not separated from generation and distribution revenues in their approved retail rates. Current FERC efforts that may potentially change the regulatory and/or operational structure of transmission include rules related to the standardization of generation interconnection. The financial condition, net income, and cash flows of Southern Company and its utility subsidiaries could be adversely affected by future changes in the federal regulatory or operational structure of transmission.

**The net income of Southern Company, the traditional operating companies, and Southern Power could be negatively impacted by competitive activity in the wholesale electricity markets.**

Competition at the wholesale level continues to expand and evolve in the electricity markets. As a result of changes in federal law and regulatory policy, competition in the wholesale electricity markets has increased due to greater participation by traditional electricity suppliers, non-utility generators, IPPs, wholesale power marketers, and brokers. FERC rules related to transmission are designed to facilitate competition in the wholesale market on a nationwide basis by providing greater flexibility and more choices to wholesale power customers, including initiatives designed to promote and encourage the integration of renewable sources of supply. Moreover, along with transactions contemplating physical delivery of energy, futures contracts and derivatives are traded on various commodities exchanges. Southern Company, the traditional operating companies, and Southern Power cannot predict the impact of these and other such developments, nor can they predict the effect of changes in levels of wholesale supply and demand, which are typically driven by factors beyond their control.

**Risks Related to Southern Company and its Business**

**Southern Company may be unable to meet its ongoing and future financial obligations and to pay dividends on its common stock if its subsidiaries are unable to pay upstream dividends or repay funds to Southern Company.**

Southern Company is a holding company and, as such, Southern Company has no operations of its own. Substantially all of Southern Company's consolidated assets are held by subsidiaries. Southern Company's ability to meet its financial obligations and to pay dividends on its common stock is primarily dependent on the net income and cash flows of its subsidiaries and their ability to pay upstream dividends or to repay funds to Southern Company. Prior to funding Southern Company, Southern Company's subsidiaries have regulatory restrictions and financial obligations that must be satisfied, including among others, debt service and preferred and preference stock dividends. Southern Company's subsidiaries are separate legal entities and have no obligation to provide Southern Company with funds for its payment obligations.



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**The financial performance of Southern Company and its subsidiaries may be adversely affected if they are unable to successfully operate their facilities or perform certain corporate functions.**

The financial performance of Southern Company and its subsidiaries depends on the successful operation of its subsidiaries' electric generating, transmission, and distribution facilities. Operating these facilities involves many risks, including:

operator error or failure of equipment or processes;

operating limitations that may be imposed by environmental or other regulatory requirements;

labor disputes;

terrorist attacks;

fuel or material supply interruptions;

compliance with mandatory reliability standards, including mandatory cyber security standards;

information technology system failure;

cyber intrusion; and

catastrophic events such as fires, earthquakes, explosions, floods, droughts, hurricanes, pandemic health events such as influenzas, or other similar occurrences.

A severe drought could reduce the availability of water and restrict or prevent the operation of certain generating facilities. A decrease or elimination of revenues from the electric generation, transmission, or distribution facilities or an increase in the cost of operating the facilities would reduce the net income and cash flows and could adversely impact the financial condition of the affected traditional operating company or Southern Power and of Southern Company.

**The traditional operating companies could be subject to higher costs and penalties as a result of mandatory reliability standards.**

As a result of the Energy Policy Act of 2005, owners and operators of bulk power transmission systems, including the traditional operating companies, are subject to mandatory reliability standards enacted by the North American Reliability Corporation and enforced by the FERC. Compliance with the mandatory reliability standards may subject the traditional operating companies and Southern Company to higher operating costs and may result in increased capital expenditures. If any traditional operating company is found to be in noncompliance with the mandatory reliability standards, the traditional operating company could be subject to sanctions, including substantial monetary penalties.

**The revenues of Southern Company, the traditional operating companies, and Southern Power depend in part on sales under PPAs. The failure of a counterparty to one of these PPAs to perform its obligations, or the failure to renew the PPAs, could have a negative impact on the net income and cash flows of the affected traditional operating company or Southern Power and of Southern Company.**

Most of Southern Power's generating capacity has been sold to purchasers under PPAs. In addition, the traditional operating companies enter into PPAs with non-affiliated parties. Revenues are dependent on the continued performance by the purchasers of their obligations under these PPAs. Even though Southern Power and the traditional operating companies have a rigorous credit evaluation process, the failure of one of the purchasers to perform its obligations could have a negative impact on the net income and cash flows of the affected traditional operating company or Southern Power and of Southern Company. Although these credit evaluations take into account the possibility of default by a purchaser, actual exposure to a default by a purchaser may be greater than the





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credit evaluation predicts. Additionally, neither Southern Power nor any traditional operating company can predict whether the PPAs will be renewed at the end of their respective terms or on what terms any renewals may be made. If a PPA is not renewed, a replacement PPA cannot be assured.

**Southern Company, the traditional operating companies, and Southern Power may incur additional costs or delays in the construction of new plants or other facilities and may not be able to recover their investments.**

**The facilities of the traditional operating companies and Southern Power require ongoing capital expenditures.**

The businesses of the registrants require substantial capital expenditures for investments in new facilities and capital improvements to transmission, distribution, and generation facilities, including those to meet environmental standards. Certain of the traditional operating companies and Southern Power are in the process of constructing new generating facilities and adding environmental controls equipment at existing generating facilities. Southern Company intends to continue its strategy of developing and constructing other new facilities, including new nuclear generating units, combined cycle units, including the proposed integrated coal gasification combined cycle facility, and the proposed biomass generating units, expanding existing facilities, and adding environmental control equipment. These types of projects are long-term in nature and may involve facility designs that have not been finalized or previously constructed. The completion of these types of projects without delays or significant cost overruns is subject to substantial risks, including:

shortages and inconsistent quality of equipment, materials, and labor;

work stoppages;

contractor or supplier non-performance under construction or other agreements;

delays in or failure to receive necessary permits, approvals, and other regulatory authorizations;

impacts of new and existing laws and regulations, including environmental laws and regulations;

continued public and policymaker support for such projects;

adverse weather conditions;

unforeseen engineering problems;

changes in project design or scope;

environmental and geological conditions;

delays or increased costs to interconnect facilities to transmission grids;

unanticipated cost increases, including materials and labor; and

attention to other projects.

In addition, with respect to the construction of new nuclear units, a major incident at a nuclear facility anywhere in the world could cause the NRC to delay or prohibit construction of new nuclear units. If a traditional operating company or Southern Power is unable to complete the development or construction of a facility or decides to delay or cancel construction of a facility, it may not be able to recover its investment in that facility and may incur substantial cancellation payments under equipment purchase orders or construction contracts. Even if a construction project is completed, the total costs may be higher than estimated and there is no assurance that the traditional operating company will be able to recover such expenditures through regulated rates. In addition, construction delays and contractor performance shortfalls can result in the loss of revenues and may, in turn, adversely affect the net income

and financial position of a traditional operating company or Southern Power and of Southern Company.  
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Furthermore, if construction projects are not completed according to specification, a traditional operating company or Southern Power and Southern Company may incur liabilities and suffer reduced plant efficiency, higher operating costs, and reduced net income.

Once facilities come into commercial operation, ongoing capital expenditures are required to maintain reliable levels of operation. Significant portions of the traditional operating companies' existing facilities were constructed many years ago. Older generation equipment, even if maintained in accordance with good engineering practices, may require significant capital expenditures to maintain efficiency, to comply with changing environmental requirements, or to provide reliable operations.

**Changes in technology may make Southern Company's electric generating facilities owned by the traditional operating companies and Southern Power less competitive.**

A key element of the business model of Southern Company, the traditional operating companies, and Southern Power is that generating power at central station power plants achieves economies of scale and produces power at a competitive cost. There are distributed generation technologies that produce power, including fuel cells, microturbines, wind turbines, and solar cells. It is possible that advances in technology will reduce the cost of alternative methods of producing power to a level that is competitive with that of most central station power electric production. If this were to happen and if these technologies achieved economies of scale, the market share of Southern Company, the traditional operating companies, and Southern Power could be eroded, and the value of their respective electric generating facilities could be reduced. It is also possible that rapid advances in central station power generation technology could reduce the value of the current electric generating facilities owned by Southern Company, the traditional operating companies, and Southern Power. Changes in technology could also alter the channels through which electric customers buy or utilize power, which could reduce the revenues or increase the expenses of Southern Company, the traditional operating companies, or Southern Power.

**Operation of nuclear facilities involves inherent risks, including environmental, health, regulatory, terrorism, and financial risks, that could result in fines or the closure of Southern Company's nuclear units owned by Alabama Power or Georgia Power and which may present potential exposures in excess of insurance coverage.**

Alabama Power owns, and contracts for the operation of, two nuclear units and Georgia Power holds undivided interests in, and contracts for the operation of, four existing nuclear units and the construction of Plant Vogtle Units 3 and 4. The six existing units are operated by Southern Nuclear and represent approximately 3,680 megawatts, or 8.6%, of Southern Company's generation capacity as of December 31, 2009. Nuclear facilities are subject to environmental, health, and financial risks such as on-site storage of spent nuclear fuel, the ability to dispose of such spent nuclear fuel, the ability to maintain adequate reserves for decommissioning, potential liabilities arising out of the operation of these facilities, and the threat of a possible terrorist attack. Alabama Power and Georgia Power maintain decommissioning trusts and external insurance coverage to minimize the financial exposure to these risks; however, it is possible that damages could exceed the amount of insurance coverage.

The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. In the event of non-compliance, the NRC has the authority to impose fines or shut down any unit, depending upon its assessment of the severity of the situation, until compliance is achieved. NRC orders or regulations related to increased security measures and any future safety requirements promulgated by the NRC could require Alabama Power and Georgia Power to make substantial operating and capital expenditures at their nuclear plants. In addition, although Alabama Power, Georgia Power, and Southern Company have no reason to anticipate a serious nuclear incident at their plants, if an incident did occur, it could result in substantial costs to Alabama Power or Georgia Power and Southern Company. A major incident at a nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation or licensing of any domestic nuclear unit.

In addition, potential terrorist threats and increased public scrutiny of utilities could result in increased nuclear licensing or compliance costs that are difficult or impossible to predict.

**The generation operations and energy marketing operations of Southern Company, the traditional operating companies, and Southern Power are subject to risks, many of which are beyond their control, including**

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**changes in power prices and fuel costs, that may reduce Southern Company's, the traditional operating companies', and Southern Power's revenues and increase costs.**

The generation operations and energy marketing operations of Southern Company, the traditional operating companies, and Southern Power are subject to changes in power prices or fuel costs, which could increase the cost of producing power or decrease the amount Southern Company, the traditional operating companies, and Southern Power receive from the sale of power. The market prices for these commodities may fluctuate significantly over relatively short periods of time. Southern Company, the traditional operating companies, and Southern Power attempt to mitigate risks associated with fluctuating fuel costs by passing these costs on to customers through the traditional operating companies' fuel cost recovery clauses or through PPAs. Among the factors that could influence power prices and fuel costs are:

prevailing market prices for coal, natural gas, uranium, fuel oil, and other fuels used in the generation facilities of the traditional operating companies and Southern Power including associated transportation costs, and supplies of such commodities;

demand for energy and the extent of additional supplies of energy available from current or new competitors;

liquidity in the general wholesale electricity market;

weather conditions impacting demand for electricity;

seasonality;

transmission or transportation constraints or inefficiencies;

availability of competitively priced alternative energy sources;

forced or unscheduled plant outages for the Southern Company system, its competitors, or third party providers;

the financial condition of market participants;

the economy in the service territory, the nation, and worldwide, including the impact of economic conditions on industrial and commercial demand for electricity and the worldwide demand for fuels;

natural disasters, wars, embargos, acts of terrorism, and other catastrophic events; and

federal, state, and foreign energy and environmental regulation and legislation.

Certain of these factors could increase the expenses of the traditional operating companies or Southern Power and Southern Company. For the traditional operating companies, such increases may not be fully recoverable through rates. Other of these factors could reduce the revenues of the traditional operating companies or Southern Power and Southern Company.

Historically, the traditional operating companies from time to time have experienced underrecovered fuel cost balances and deficits in their storm cost recovery reserve balances and may experience such balances in the future. While the traditional operating companies are generally authorized to recover underrecovered fuel costs through fuel cost recovery clauses and storm recovery costs through special rate provisions administered by the respective PSCs, recovery may be denied if costs are deemed to be imprudently incurred and delays in the authorization of such recovery could negatively impact the cash flows of the affected traditional operating company and Southern Company.



**Table of Contents****A downgrade in the credit ratings of Southern Company, the traditional operating companies, or Southern Power could negatively affect their ability to access capital at reasonable costs and/or could require Southern Company, the traditional operating companies, or Southern Power to post collateral or replace certain indebtedness.**

There are a number of factors that rating agencies evaluate to arrive at credit ratings for Southern Company, the traditional operating companies, and Southern Power, including capital structure, regulatory environment, the ability to cover liquidity requirements, and other commitments for capital. Southern Company, the traditional operating companies, and Southern Power could experience a downgrade in their ratings if any of the rating agencies conclude that the level of business or financial risk of the industry or Southern Company, the traditional operating companies, or Southern Power has deteriorated. Changes in ratings methodologies by the agencies could also have a negative impact on credit ratings. If one or more rating agencies downgrade Southern Company, the traditional operating companies, or Southern Power, borrowing costs would increase, its pool of investors and funding sources would likely decrease, and, particularly for any downgrade to below investment grade, collateral requirements may be triggered in a number of contracts.

**The use of derivative contracts by Southern Company and its subsidiaries in the normal course of business could result in financial losses that negatively impact the net income of Southern Company and its subsidiaries.**

Southern Company and its subsidiaries, including the traditional operating companies and Southern Power, use derivative instruments, such as swaps, options, futures, and forwards, to manage their commodity and interest rate exposures and, to a lesser extent, engage in limited trading activities. Southern Company and its subsidiaries could recognize financial losses as a result of volatility in the market values of these contracts or if a counterparty fails to perform. These risks are managed through risk management policies, limits, and procedures. These risk management policies, limits, and procedures might not work as planned and cannot entirely eliminate the risks associated with these activities. In addition, derivative contracts entered for hedging purposes might not off-set the underlying exposure being hedged as expected resulting in financial losses. In the absence of actively quoted market prices and pricing information from external sources, the valuation of these financial instruments can involve management's judgment or use of estimates. The factors used in the valuation of these instruments become more difficult to predict and the calculations become less reliable the further into the future these estimates are made. As a result, changes in the underlying assumptions or use of alternative valuation methods could affect the value of the reported fair value of these contracts.

**The traditional operating companies and Southern Power may not be able to obtain adequate fuel supplies, which could limit their ability to operate their facilities.**

The traditional operating companies and Southern Power purchase fuel, including coal, natural gas, uranium, and fuel oil, from a number of suppliers. Disruption in the delivery of fuel, including disruptions as a result of, among other things, transportation delays, weather, labor relations, force majeure events, or environmental regulations affecting any of these fuel suppliers, could limit the ability of the traditional operating companies and Southern Power to operate their respective facilities, and thus reduce the net income of the affected traditional operating company or Southern Power and Southern Company.

The traditional operating companies are dependent on coal for much of their electric generating capacity. Each traditional operating company has coal supply contracts in place; however, there can be no assurance that the counterparties to these agreements will fulfill their obligations to supply coal to the traditional operating companies. The suppliers under these agreements may experience financial or technical problems which inhibit their ability to fulfill their obligations to the traditional operating companies. In addition, the suppliers under these agreements may not be required to supply coal to the traditional operating companies under certain circumstances, such as in the event of a natural disaster. If the traditional operating companies are unable to obtain their coal requirements under these contracts, the traditional operating companies may be required to purchase their coal requirements at higher prices, which may not be fully recoverable through rates.

In addition, Southern Power in particular, and the traditional operating companies to a lesser extent, are dependent on natural gas for a portion of their electric generating capacity. Natural gas supplies can be subject to disruption in





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the event production or distribution is curtailed, such as in the event of a hurricane.

In addition, world market conditions for fuels can impact the availability of natural gas, coal, and uranium.

**Demand for power could exceed supply capacity, resulting in increased costs for purchasing capacity in the open market or building additional generation capabilities.**

Through the traditional operating companies and Southern Power, Southern Company is currently obligated to supply power to retail customers and wholesale customers under long-term PPAs. At peak times, the demand for power required to meet this obligation could exceed Southern Company's available generation capacity. Market or competitive forces may require that the traditional operating companies or Southern Power purchase capacity on the open market or build additional generation capabilities. Because regulators may not permit the traditional operating companies to pass all of these purchase or construction costs on to their customers, the traditional operating companies may not be able to recover any of these costs or may have exposure to regulatory lag associated with the time between the incurrence of costs of purchased or constructed capacity and the traditional operating companies' recovery in customers' rates. Under Southern Power's long-term fixed price PPAs, Southern Power would not have the ability to recover any of these costs. These situations could have negative impacts on net income and cash flows for the affected traditional operating company or Southern Power and Southern Company.

**Demand for power could decrease or fail to grow at expected rates, resulting in stagnant or reduced revenues, limited growth opportunities, and potentially stranded generation assets.**

Southern Company, the traditional operating companies, and Southern Power each engage in a long-term planning process to determine the optimal mix and timing of new generation assets required to serve future load obligations. This planning process must look many years into the future in order to accommodate the long lead times associated with the permitting and construction of new generation facilities. Inherent risk exists in predicting demand this far into the future as these future loads are dependent on many uncertain factors, including regional economic conditions, customer usage patterns, efficiency programs, and customer technology adoption. Because regulators may not permit the traditional operating companies to adjust rates to recover the costs of new generation assets while such assets are being constructed, the traditional operating companies may not be able to fully recover these costs or may have exposure to regulatory lag associated with the time between the incurrence of costs of additional capacity and the traditional operating companies' recovery in customers' rates. Under Southern Power's model of selling capacity and energy at negotiated market-based rates under long-term PPAs, Southern Power might not be able to fully execute its business plan if market prices drop below original forecasts. Southern Power may not be able to extend its existing PPAs or to find new buyers for existing generation assets as existing PPAs expire, or it may be forced to market these assets at prices lower than originally intended. These situations could have negative impacts on net income and cash flows for the affected traditional operating company or Southern Power and Southern Company.

**The operating results of Southern Company, the traditional operating companies, and Southern Power are affected by weather conditions and may fluctuate on a seasonal and quarterly basis. In addition, significant weather events, such as hurricanes, tornadoes, floods, and droughts, or a terrorist attack could result in substantial damage to or limit the operation of the properties of the traditional operating companies and Southern Power and could negatively impact results of operation, financial condition, and liquidity.**

Electric power supply is generally a seasonal business. In many parts of the country, demand for power peaks during the summer months, with market prices also peaking at that time. In other areas, power demand peaks during the winter. As a result, the overall operating results of Southern Company, the traditional operating companies, and Southern Power in the future may fluctuate substantially on a seasonal basis. In addition, the traditional operating companies and Southern Power have historically sold less power when weather conditions are milder. Unusually mild weather in the future could reduce the revenues, net income, available cash, and borrowing ability of Southern Company, the traditional operating companies, and Southern Power.

In addition, volatile or significant weather events or a terrorist attack could result in substantial damage to the transmission and distribution lines of the traditional operating companies and the generating facilities of the

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traditional operating companies and Southern Power. The traditional operating companies and Southern Power have significant investments in the Atlantic and Gulf Coast regions which could be subject to major storm activity. Further, severe drought conditions can reduce the availability of water and restrict or prevent the operation of certain generating facilities.

Each traditional operating company maintains a reserve for property damage to cover the cost of damages from weather events to its transmission and distribution lines and the cost of uninsured damages to its generating facilities and other property. In the event a traditional operating company experiences any of these weather events or any natural disaster, or other catastrophic event, such as a terrorist attack, recovery of costs in excess of reserves and insurance coverage is subject to the approval of its state PSC. While the traditional operating companies generally are entitled to recover prudently incurred costs incurred in connection with such an event, any denial by the applicable state PSC or delay in recovery of any portion of such costs could have a material negative impact on a traditional operating company's and Southern Company's results of operations, financial condition, and liquidity.

In addition, damages resulting from significant weather events within the service territory of any traditional operating company or affecting Southern Power's customers may result in the loss of customers and reduced demand for electricity. For example, Hurricane Katrina hit the Gulf Coast of Mississippi in August 2005 and caused substantial damage within Mississippi Power's service territory. As of December 31, 2009, Mississippi Power had approximately 4.6% fewer retail customers as compared to pre-storm levels. Any significant loss of customers or reduction in demand for electricity could have a material negative impact on a traditional operating company's, Southern Power's, and Southern Company's results of operations, financial condition, and liquidity.

**Failure to attract and retain an appropriately qualified workforce could negatively impact Southern Company's and its subsidiaries' results of operations.**

Events such as an aging workforce without appropriate replacements, mismatch of skillset to future needs, or unavailability of contract resources may lead to operating challenges or increased costs. Such operating challenges include lack of resources, loss of knowledge, and a lengthy time period associated with skill development, especially with the workforce needs associated with new nuclear construction. Failure to hire and adequately obtain replacement employees, including the ability to transfer significant internal historical knowledge and expertise to the new employees, or the future availability and cost of contract labor may adversely affect Southern Company and its subsidiaries' ability to manage and operate their businesses. If Southern Company and its subsidiaries, including the traditional operating companies, are unable to successfully attract and retain an appropriately qualified workforce, results of operations could be negatively impacted.

**Risks Related to Market and Economic Volatility**

**The business of Southern Company, the traditional operating companies, and Southern Power is dependent on their ability to successfully access funds through capital markets and financial institutions. The inability of Southern Company, any traditional operating company, or Southern Power to access funds may limit its ability to execute its business plan by impacting its ability to fund capital investments or acquisitions that Southern Company, the traditional operating companies, or Southern Power may otherwise rely on to achieve future earnings and cash flows.**

Southern Company, the traditional operating companies, and Southern Power rely on access to both short-term money markets and longer-term capital markets as a significant source of liquidity for capital requirements not satisfied by the cash flow from their respective operations. If Southern Company, any traditional operating company, or Southern Power is not able to access capital at competitive rates, its ability to implement its business plan will be limited by impacting its ability to fund capital investments or acquisitions that Southern Company, the traditional operating companies, or Southern Power may otherwise rely on to achieve future earnings and cash flows. In addition, Southern Company, the traditional operating companies, and Southern Power rely on committed bank lending agreements as back-up liquidity which allows them to access low cost money markets. Each of Southern Company, the traditional operating companies, and Southern Power believes that it will maintain sufficient access to these financial markets based upon current credit ratings. However, certain market disruptions may increase its cost of borrowing or adversely affect its ability to raise capital through the issuance of securities or other borrowing arrangements or its ability to secure committed bank lending agreements used as back-up sources of



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capital. Such disruptions could include:

an economic downturn or uncertainty;

the bankruptcy of an unrelated energy company or financial institution;

capital markets volatility and interruption;

financial institution distress;

market prices for electricity and gas;

terrorist attacks or threatened attacks on Southern Company's facilities or unrelated energy companies' facilities;

war or threat of war; or

the overall health of the utility and financial institution industries.

**Market performance and other changes may decrease the value of benefit plans and decommissioning trust assets or may increase medical costs, which then could require significant additional funding.**

The performance of the capital markets affects the values of the assets held in trust under Southern Company's pension and postretirement benefit plans and the assets held in trust to satisfy obligations to decommission Alabama Power's and Georgia Power's nuclear plants. Southern Company, Alabama Power, and Georgia Power have significant obligations in these areas and hold significant assets in these trusts. These assets are subject to market fluctuations and will yield uncertain returns, which may fall below projected return rates. A decline in the market value of these assets, as has been experienced in prior periods, may increase the funding requirements relating to Southern Company's benefit plan liabilities and Alabama Power's and Georgia Power's decommissioning obligations. Additionally, changes in interest rates affect the liabilities under Southern Company's pension and postretirement benefit plans; as interest rates decrease, the liabilities increase, potentially requiring additional funding. Further, changes in demographics, including increased numbers of retirements or changes in life expectancy assumptions, may also increase the funding requirements of the obligations related to the pension benefit plans. Southern Company and its subsidiaries are also facing rising medical benefit costs, including the current costs for active and retired employees. It is possible that these costs may increase at a rate that is significantly higher than anticipated. If Southern Company is unable to successfully manage benefit plan assets and medical benefit costs and Alabama Power and Georgia Power are unable to successfully manage the decommissioning trust funds, results of operations and financial position could be negatively affected. Additionally, Southern Company and its subsidiaries may also be affected by the potential passage of healthcare legislation.

**Southern Company, the traditional operating companies, and Southern Power are subject to risks associated with a changing economic environment, which could impact their ability to obtain adequate insurance and the financial stability of the customers of the traditional operating companies and Southern Power.**

The financial condition of some insurance companies, the threat of terrorism, and the hurricanes that affected the Gulf Coast, among other things, have had disruptive effects on the insurance industry. The availability of insurance covering risks that Southern Company, the traditional operating companies, Southern Power, and their respective competitors typically insure against may decrease, and the insurance that Southern Company, the traditional operating companies, and Southern Power are able to obtain may have higher deductibles, higher premiums, and more restrictive policy terms.

Additionally, Southern Company, the traditional operating companies, and Southern Power are exposed to risks related to general economic conditions in their applicable service territory and are thus impacted by the economic cycles of the customers each serves. Any economic downturn or disruption of financial markets could negatively affect the financial stability of the customers and counterparties of the traditional operating companies and Southern



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Power. As territories served by the traditional operating companies and Southern Power experience economic downturns, energy consumption patterns may change and revenues may be negatively impacted. Additionally, customers could voluntarily reduce their consumption of electricity in response to decreases in their disposable income or individual conservation efforts. If commercial and industrial customers experience economic downturns, their consumption of electricity may decline. As a result, revenues may be negatively impacted.

Further, the results of operations of the traditional operating companies and Southern Power are affected by customer growth in their applicable service territory. Customer growth and customer usage can be affected by economic factors in the service territory of the traditional operating companies and Southern Power and elsewhere, including, for example, job and income growth, housing starts, and new home prices. A population decline and/or business closings in the territory served by the traditional operating companies or Southern Power or slower than anticipated customer growth as a result of the current recession or otherwise could also have a negative impact on revenues and could result in greater expense for uncollectible customer balances.

As with other parts of the country, the territories served by the traditional operating companies and Southern Power have been impacted by the current economic recession. The traditional operating companies have experienced some decline in the rate of residential and commercial sales growth, and also have experienced declining sales to commercial and industrial customers due to the economic recession. Southern Power is expected to experience reduced future revenues for its requirements customers due to the economic recession. The timing and extent of the recovery cannot be predicted.

These and the other factors discussed above could adversely affect Southern Company's, the traditional operating companies', and Southern Power's level of future net income.

**Energy conservation and energy price increases could negatively impact financial results.**

A number of regulatory and legislative bodies have proposed or introduced requirements and/or incentives to reduce energy consumption by certain dates. Conservation programs could impact the financial results of Southern Company, the traditional operating companies, and Southern Power in different ways. To the extent conservation results in reduced energy demand or significantly slows the growth in demand, the value of wholesale generation assets of the traditional operating companies and Southern Power and other unregulated business activities could be adversely impacted. In addition, conservation could negatively impact the traditional operating companies depending on the regulatory treatment of the associated impacts. If any traditional operating company is required to invest in conservation measures that result in reduced sales from effective conservation, regulatory lag in adjusting rates for the impact of these measures could have a negative financial impact on such traditional operating company and Southern Company. Southern Company, the traditional operating companies, and Southern Power could also be impacted if any future energy price increases result in a decrease in customer usage. Southern Company, the traditional operating companies, and Southern Power are unable to determine what impact, if any, conservation and increases in energy prices will have on financial condition or results of operations.

**Item 1B. UNRESOLVED STAFF COMMENTS.**

None.

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The traditional operating companies, Southern Power, and SEGCO, at December 31, 2009, owned and/or operated 34 hydroelectric generating stations, 34 fossil fuel generating stations, three nuclear generating stations, and 12 combined cycle/cogeneration stations. The amounts of capacity for each company are shown in the table below.

Generating Station	Location	Nameplate Capacity (1)
		(Kilowatts)
<b>FOSSIL STEAM</b>		
Gadsden	Gadsden, AL	120,000
Gorgas	Jasper, AL	1,221,250
Barry	Mobile, AL	1,525,000
Greene County	Demopolis, AL	300,000(2)
Gaston Unit 5	Wilsonville, AL	880,000
Miller	Birmingham, AL	2,532,288(3)
<b>Alabama Power Total</b>		<b>6,578,538</b>
Bowen	Cartersville, GA	3,160,000
Branch	Milledgeville, GA	1,539,700
Hammond	Rome, GA	800,000
Kraft	Port Wentworth, GA	281,136
McDonough (4)	Atlanta, GA	490,000
McIntosh	Effingham County, GA	163,117
McManus	Brunswick, GA	115,000
Mitchell	Albany, GA	125,000
Scherer	Macon, GA	750,924(5)
Wansley	Carrollton, GA	925,550(6)
Yates	Newnan, GA	1,250,000
<b>Georgia Power Total</b>		<b>9,600,427</b>
Crist	Pensacola, FL	970,000
Daniel	Pascagoula, MS	500,000(7)
Lansing Smith	Panama City, FL	305,000
Scholz	Chattahoochee, FL	80,000
Scherer Unit 3	Macon, GA	204,500(5)
<b>Gulf Power Total</b>		<b>2,059,500</b>
Daniel	Pascagoula, MS	500,000(7)
Eaton	Hattiesburg, MS	67,500
Greene County	Demopolis, AL	200,000(2)
Sweatt	Meridian, MS	80,000

Watson	Gulfport, MS	1,012,000
<b>Mississippi Power Total</b>		1,859,500
Gaston Units 1-4	Wilsonville, AL	
<b>SEGCO Total</b>		1,000,000(8)
<b>Total Fossil Steam</b>		21,097,965
<b>NUCLEAR STEAM</b>		
Farley	Dothan, AL	
<b>Alabama Power Total</b>		1,720,000
Hatch	Baxley, GA	899,612(9)
Vogtle	Augusta, GA	1,060,240(10)
<b>Georgia Power Total</b>		1,959,852
<b>Total Nuclear Steam</b>		3,679,852
<b>COMBUSTION TURBINES</b>		
Greene County	Demopolis, AL	
<b>Alabama Power Total</b>		720,000
Boulevard	Savannah, GA	59,100
Bowen	Cartersville, GA	39,400
Intercession City	Intercession City, FL	47,667(11)
Kraft	Port Wentworth, GA	22,000
McDonough	Atlanta, GA	78,800
McIntosh Units 1 through 8	Effingham County, GA	640,000
McManus	Brunswick, GA	481,700
Mitchell	Albany, GA	118,200
Robins	Warner Robins, GA	158,400
Wansley	Carrollton, GA	26,322
Wilson	Augusta, GA	354,100
<b>Georgia Power Total</b>		2,025,689
Lansing Smith Unit A	Panama City, FL	39,400
Pea Ridge Units 1-3	Pea Ridge, FL	15,000
<b>Gulf Power Total</b>		54,400
Chevron Cogenerating Station	Pascagoula, MS	147,292(12)





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Generating Station	Location	Nameplate Capacity (1) (Kilowatts)
Watson	Gulfport, MS	39,360
<b>Mississippi Power Total</b>		226,052
Dahlberg	Jackson County, GA	756,000
Oleander	Cocoa, FL	791,301
Rowan	Salisbury, NC	455,250
West Georgia	Thomaston, GA	668,800
<b>Southern Power Total</b>		2,671,351
Gaston (SEGCO)	Wilsonville, AL	19,680(8)
<b>Total Combustion Turbines</b>		5,717,172
<b>COGENERATION</b>		
Washington County	Washington County, AL	123,428
GE Plastics Project	Burkeville, AL	104,800
Theodore	Theodore, AL	236,418
<b>Total Cogeneration</b>		464,646
<b>COMBINED CYCLE</b>		
Barry	Mobile, AL	
<b>Alabama Power Total</b>		1,070,424
McIntosh Units 10&11	Effingham County, GA	
<b>Georgia Power Total</b>		1,318,920
Smith	Lynn Haven, FL	
<b>Gulf Power Total</b>		545,500
Daniel (Leased)	Pascagoula, MS	
<b>Mississippi Power Total</b>		1,070,424
Franklin	Smiths, AL	1,857,820
Harris	Autaugaville, AL	1,318,920
Rowan	Salisbury, NC	530,550
Stanton Unit A	Orlando, FL	428,649(13)
Wansley	Carrollton, GA	1,073,000

<b>Southern Power Total</b>		5,208,939
<b>Total Combined Cycle</b>		9,214,207
<b>HYDROELECTRIC FACILITIES</b>		
Bankhead	Holt, AL	53,985
Bouldin	Wetumpka, AL	225,000
Harris	Wedowee, AL	132,000
Henry	Ohatchee, AL	72,900
Holt	Holt, AL	46,944
Jordan	Wetumpka, AL	100,000
Lay	Clanton, AL	177,000
Lewis Smith	Jasper, AL	157,500
Logan Martin	Vincent, AL	135,000
Martin	Dadeville, AL	182,000
Mitchell	Verbena, AL	170,000
Thurlow	Tallassee, AL	81,000
Weiss	Leesburg, AL	87,750
Yates	Tallassee, AL	47,000
<b>Alabama Power Total</b>		1,668,079
Barnett Shoals (Leased)	Athens, GA	2,800
Bartletts Ferry	Columbus, GA	173,000
Goat Rock	Columbus, GA	38,600
Lloyd Shoals	Jackson, GA	14,400
Morgan Falls	Atlanta, GA	16,800
North Highlands	Columbus, GA	29,600
Oliver Dam	Columbus, GA	60,000
Rocky Mountain	Rome, GA	215,256(14)
Sinclair Dam	Milledgeville, GA	45,000
Tallulah Falls	Clayton, GA	72,000
Terrora	Clayton, GA	16,000
Tugalo	Clayton, GA	45,000
Wallace Dam	Eatonton, GA	321,300
Yonah	Toccoa, GA	22,500
6 Other Plants		18,080
<b>Georgia Power Total</b>		1,090,336
<b>Total Hydroelectric Facilities</b>		2,758,415
<b>Total Generating Capacity</b>		42,932,257

**Notes:**

- (1) See Jointly-Owned Facilities herein for additional information.
- (2) Owned by Alabama Power and Mississippi Power as tenants in common in the proportions of 60% and 40%, respectively.
- (3) Capacity shown is Alabama Power's portion (91.84%) of total plant capacity.
- (4) McDonough Units 1 and 2 are scheduled to be retired in October 2011 and October 2010, respectively.
- (5) Capacity shown for Georgia Power is 8.4% of Units 1 and 2 and 75% of Unit 3. Capacity shown for Gulf Power is 25% of Unit 3.

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- (6) Capacity shown is Georgia Power's portion (53.5%) of total plant capacity.
- (7) Represents 50% of the plant which is owned as tenants in common by Gulf Power and Mississippi Power.
- (8) SEGCO is jointly-owned by Alabama Power and Georgia Power. See BUSINESS in Item 1 herein for additional information.
- (9) Capacity shown is Georgia Power's portion (50.1%) of total plant capacity.
- (10) Capacity shown is Georgia Power's portion (45.7%) of total plant capacity.
- (11) Capacity shown represents 33 1/3% of total plant capacity. Georgia Power owns a 1/3 interest in the unit with 100% use of the unit from June through September.

Progress Energy  
Florida operates  
the unit.

(12) Generation is  
dedicated to a  
single industrial  
customer.

(13) Capacity shown  
is Southern  
Power's portion  
(65%) of total  
plant capacity.

(14) Capacity shown  
is Georgia  
Power's portion  
(25.4%) of total  
plant capacity.  
OPC operates  
the plant.

Except as discussed below under "Titles to Property," the principal plants and other important units of the traditional operating companies, Southern Power, and SEGCO are owned in fee by the respective companies. It is the opinion of management of each such company that its operating properties are adequately maintained and are substantially in good operating condition.

Mississippi Power owns a 79-mile length of 500-kilovolt transmission line which is leased to Entergy Gulf States. The line, completed in 1984, extends from Plant Daniel to the Louisiana state line. Entergy Gulf States is paying a use fee over a 40-year period covering all expenses and the amortization of the original \$57 million cost of the line. At December 31, 2009, the unamortized portion of this cost was approximately \$21 million.

In 2009, the maximum demand on the traditional operating companies, Southern Power, and SEGCO was 34,471,000 kilowatts and occurred on June 22, 2009. The all-time maximum demand of 38,777,000 kilowatts on the traditional operating companies, Southern Power, and SEGCO occurred on August 22, 2007. These amounts exclude demand served by capacity retained by MEAG Power, OPC, and SEPA. The reserve margin for the traditional operating companies, Southern Power, and SEGCO in 2009 was 26.4%. See SELECTED FINANCIAL DATA in Item 6 herein for additional information on peak demands.

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**Jointly-Owned Facilities**

Alabama Power, Georgia Power, and Southern Power have undivided interests in certain generating plants and other related facilities to or from non-affiliated parties. The percentages of ownership are as follows:

	Total Capacity	Percentage Ownership											
		Alabama Power	Georgia Power	OPC	MEAG Power	Progress Energy	Southern Power	OUC	FMPA	KUA			
	(Megawatts)												
Plant Miller													
Units 1 and 2	1,320	91.8%	8.2%	%	%	%	%	%	%	%	%	%	%
Plant Hatch	1,796			50.1	30.0	17.7	2.2						
Plant Vogtle	2,320			45.7	30.0	22.7	1.6						
Plant Scherer													
Units 1 and 2	1,636			8.4	60.0	30.2	1.4						
Plant Wansley	1,779			53.5	30.0	15.1	1.4						
Rocky Mountain	848			25.4	74.6								
Intercession City, FL	143			33.3				66.7					
Plant Stanton A	660								65%	28%	3.5%	3.5%	

Alabama Power and Georgia Power have contracted to operate and maintain the respective units in which each has an interest (other than Rocky Mountain and Intercession City) as agent for the joint owners. SCS provides operation and maintenance services for Plant Stanton A.

In addition, Georgia Power has commitments regarding a portion of a five percent interest in Plant Vogtle Units 1 and 2 owned by MEAG Power that are in effect until the later of retirement of the plant or the latest stated maturity date of MEAG Power's bonds issued to finance such ownership interest. The payments for capacity are required whether any capacity is available. The energy cost is a function of each unit's variable operating costs. Except for the portion of the capacity payments related to the Georgia PSC's disallowances of Plant Vogtle Units 1 and 2 costs, the cost of such capacity and energy is included in purchased power from non-affiliates in Georgia Power's statements of income in Item 8 herein. Also see Note 7 to the financial statements of Georgia Power under Commitments - Purchased Power Commitments in Item 8 herein for additional information.

**Titles to Property**

The traditional operating companies, Southern Power's, and SEGCO's interests in the principal plants (other than certain pollution control facilities, one small hydroelectric generating station leased by Georgia Power, combined cycle units at Plant Daniel leased by Mississippi Power, and the land on which five combustion turbine generators of Mississippi Power are located, which is held by easement) and other important units of the respective companies are owned in fee by such companies, subject only to the liens pursuant to pollution control revenue bonds of Alabama Power and Gulf Power on specific pollution control facilities. See Note 6 to the financial statements of Southern Company, Alabama Power, and Gulf Power under Assets Subject to Lien and Note 7 to the financial statements of Mississippi Power under Operating Leases - Plant Daniel Combined Cycle Generating Units in Item 8 herein for additional information. The traditional operating companies own the fee interests in certain of their principal plants as tenants in common. See Jointly-Owned Facilities herein for additional information. Properties such as electric transmission and distribution lines and steam heating mains are constructed principally on rights-of-way which are maintained under franchise or are held by easement only. A substantial portion of lands submerged by reservoirs is held under flood right easements.

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**Item 3. LEGAL PROCEEDINGS**

**(1) United States of America v. Alabama Power** (United States District Court for the Northern District of Alabama)  
**United States of America v. Georgia Power** (United States District Court for the Northern District of Georgia)

See Note 3 to the financial statements of Southern Company and each traditional operating company under Environmental Matters New Source Review Actions in Item 8 herein for information.

**(2) Environmental Remediation**

See Note 3 to the financial statements of Southern Company, Georgia Power, Gulf Power, and Mississippi Power under Environmental Matters Environmental Remediation and Note 3 to the financial statements of Mississippi Power under Retail Regulatory Matters Environmental Compliance Overview Plan in Item 8 herein for information related to environmental remediation.

**(3) Right of Way Litigation**

See Note 3 to the financial statements of Southern Company and Mississippi Power under Right of Way Litigation in Item 8 herein for information.

See Note 3 to the financial statements of each registrant in Item 8 herein for descriptions of additional legal and administrative proceedings discussed therein.

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

**Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power**  
None.



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**EXECUTIVE OFFICERS OF SOUTHERN COMPANY**

*(Identification of executive officers of Southern Company is inserted in Part I in accordance with Regulation S-K, Item 401(b), Instruction 3.) The ages of the officers set forth below are as of December 31, 2009.*

**David M. Ratcliffe**

Chairman, President, Chief Executive Officer, and Director

Age 61

Elected in 1999. President since April 2004; Chairman and Chief Executive Officer since July 2004.

**W. Paul Bowers**

Executive Vice President and Chief Financial Officer

Age 53

Elected in 2001. Executive Vice President and Chief Financial Officer since February 2008 and Executive Vice President since May 2007. Previously served as President of Southern Company Generation, a business unit of Southern Company, and Executive Vice President of SCS from May 2001 through January 2008; and President and Chief Executive Officer of Southern Power from May 2001 through March 2005.

**Thomas A. Fanning**

Executive Vice President and Chief Operating Officer

Age 52

Elected in 2003. Executive Vice President and Chief Operating Officer since February 2008. Previously served as Executive Vice President and Chief Financial Officer from May 2007 through January 2008 and Executive Vice President, Chief Financial Officer, and Treasurer from April 2003 to May 2007.

**Michael D. Garrett**

Executive Vice President

Age 60

Elected in 2004. Executive Vice President since January 2004. He also serves as Chief Executive Officer, President, and Director of Georgia Power since April 2004.

**G. Edison Holland, Jr.**

Executive Vice President, General Counsel, and Secretary

Age 57

Elected in 2001. Executive Vice President and General Counsel since April 2001.

**C. Alan Martin**

Executive Vice President

Age 61

Elected in 2008. Executive Vice President since February 2008. He also serves as President and Chief Executive Officer of SCS since February 2008. Previously served as Executive Vice President of the Customer Service Organization at Alabama Power from May 2001 through January 2008.

**Charles D. McCrary**

Executive Vice President

Age 58

Elected in 1998. Executive Vice President since February 2002. He also serves as Chief Executive Officer, President, and Director of Alabama Power since October 2001.

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**James H. Miller, III**

President and Chief Executive Officer of Southern Nuclear

Age 60

Elected in 2008. President and Chief Executive Officer of Southern Nuclear since August 27, 2008. Previously served as Senior Vice President and General Counsel of Georgia Power from March 2004 through August 2008.

**Susan N. Story**

President and Chief Executive Officer of Gulf Power

Age 49

Elected in 2003. President and Chief Executive Officer of Gulf Power since April 2003.

**Anthony J. Topazi**

President and Chief Executive Officer of Mississippi Power

Age 59

Elected in 2003. President and Chief Executive Officer of Mississippi Power since January 2004.

**Christopher C. Womack**

Executive Vice President

Age 51

Elected in 2008. Executive Vice President and President of External Affairs since January 1, 2009. Previously served as Executive Vice President of External Affairs of Georgia Power from March 2006 through December 2008 and Senior Vice President of Fossil and Hydro Generation and Senior Production Officer of Georgia Power from December 2001 to February 2006.

The officers of Southern Company were elected for a term running from the first meeting of the directors following the last annual meeting (May 27, 2009) for one year until the first board meeting after the next annual meeting or until their successors are elected and have qualified.

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**EXECUTIVE OFFICERS OF ALABAMA POWER**

*(Identification of executive officers of Alabama Power is inserted in Part I in accordance with Regulation S-K, Item 401(b), Instruction 3.) The ages of the officers set forth below are as of December 31, 2009.*

**Charles D. McCrary**

President, Chief Executive Officer, and Director

Age 58

Elected in 2001. President, Chief Executive Officer, and Director since October 2001; Executive Vice President of Southern Company since February 2002.

**Art P. Beattie**

Executive Vice President, Chief Financial Officer, and Treasurer

Age 55

Elected in 2004. Executive Vice President, Chief Financial Officer, and Treasurer since February 2005. Previously served as Vice President and Comptroller of Alabama Power from 1998 through January 2005.

**Mark A. Crosswhite**

Executive Vice President

Age 47

Elected in 2008. Executive Vice President of External Affairs since February 1, 2008. Previously served as Senior Vice President and Counsel of Alabama Power from July 2006 through January 2008; Senior Vice President, General Counsel, and Assistant Secretary of Southern Power from March 2004 through January 2005; and Vice President of SCS from March 2004 through January 2008.

**Steven R. Spencer**

Executive Vice President

Age 54

Elected in 2001. Executive Vice President of the Customer Service Organization since February 1, 2008. Previously served as Executive Vice President of External Affairs from 2001 through January 2008.

**Jerry L. Stewart**

Senior Vice President

Age 60

Elected in 1999. Senior Vice President of Fossil and Hydro Generation since 1999.

The officers of Alabama Power were elected for a term running from the meeting of the directors held on April 24, 2009 for one year or until their successors are elected and have qualified.

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**EXECUTIVE OFFICERS OF GEORGIA POWER**

*(Identification of executive officers of Georgia Power is inserted in Part I in accordance with Regulation S-K, Item 401(b), Instruction 3.) The ages of the officers set forth below are as of December 31, 2009.*

**Michael D. Garrett**

President, Chief Executive Officer, and Director

Age 60

Elected in 2003. President, Chief Executive Officer, and Director of Georgia Power since April 2004.

**Mickey A. Brown**

Executive Vice President

Age 62

Elected in 2001. Executive Vice President of the Customer Service Organization since January 2005.

**Ronnie R. Labrato**

Executive Vice President, Chief Financial Officer, and Treasurer

Age 56

Elected in 2009. Executive Vice President, Chief Financial Officer, and Treasurer since April 2009. Previously served as Vice President of Internal Auditing at SCS from April 2008 to March 2009 and Vice President and Chief Financial Officer of Gulf Power from July 2001 to March 2008.

**Joseph A. Miller**

Executive Vice President

Age 48

Elected in 2009. Executive Vice President of Nuclear Development since May 2009. Also serves as Executive Vice President of Nuclear Development at Southern Nuclear since February 2006. Previously served as Vice President of Government Relations at SCS from May 1999 to January 2006.

**W. Craig Barrs**

Executive Vice President

Age 52

Elected in 2008. Executive Vice President of External Affairs since January 2010. Previously served as Senior Vice President of External Affairs from January 2009 to January 2010, Vice President of Governmental and Regulatory Affairs from April 2008 to December 2008, Vice President of the Coastal Region from August 2006 to March 2008, President and Chief Executive Officer of Savannah Electric and Power Company from January 2006 until its merger with and into Georgia Power which was completed in July 2006, and Vice President of Community and Economic Development from November 2002 to December 2005.

**Douglas E. Jones**

Senior Vice President

Age 51

Elected in 2005. Senior Vice President of Fossil and Hydro Generation since March 2006. Previously served as Senior Vice President of Customer Service and Sales from January 2005 to February 2006 and Executive Vice President of Southern Power from January 2004 to January 2005.

**Thomas P. Bishop**

Senior Vice President, Chief Compliance Officer, and General Counsel

Age 49

Elected in 2008. Senior Vice President, Chief Compliance Officer, and General Counsel since September 2008.

Previously served as Vice President and Associate General Counsel for SCS from July 2004 to September 2008.

The officers of Georgia Power were elected for a term running from the meeting of the directors held on May 20, 2009 for one year or until their successors are elected and have qualified.

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**EXECUTIVE OFFICERS OF MISSISSIPPI POWER**

*(Identification of executive officers of Mississippi Power is inserted in Part I in accordance with Regulation S-K, Item 401(b), Instruction 3.) The ages of the officers set forth below are as of December 31, 2009.*

**Anthony J. Topazi**

President, Chief Executive Officer, and Director

Age 59

Elected in 2003. President, Chief Executive Officer, and Director since January 1, 2004.

**Thomas O. Anderson, IV**

Vice President

Age 50

Elected in 2009. Vice President of Generation Development since July 2009. Previously served as Project Director, Mississippi Power Generation Development from March 2008 to July 2009; Project Manager, Southern Power Generation from June 2007 to March 2008; and Generation Development Manager, SCS Generation Development from September 1998 to June 2007.

**John W. Atherton**

Vice President

Age 49

Elected in 2004. Vice President of External Affairs since January 2005. Previously served as the Director of Economic Development from September 2003 to January 2005.

**Kimberly D. Flowers**

Vice President

Age 45

Elected in 2005. Vice President and Senior Production Officer since March 2005. Previously served as Plant Manager, Plant Bowen, Georgia Power from November 2000 until March 2005.

**Donald R. Horsley**

Vice President

Age 55

Elected in 2006. Vice President of Customer Services and Retail Marketing since April 2006. Previously served as Vice President of Transmission at Alabama Power from March 2005 to March 2006 and Manager, Transmission Lines at Alabama Power from February 2001 to March 2005.

**Frances Turnage**

Vice President, Treasurer, and  
Chief Financial Officer

Age 61

Elected in 2005. Vice President, Treasurer, and Chief Financial Officer since March 2005. Previously served as Comptroller from 1993 to March 2005.

The officers of Mississippi Power were elected for a term running from the meeting of the directors held on April 8, 2009 for one year or until their successors are elected and have qualified.

**Table of Contents****PART II****Item 5. MARKET FOR REGISTRANTS' COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

(a)(1) The common stock of Southern Company is listed and traded on the New York Stock Exchange. The common stock is also traded on regional exchanges across the United States. The high and low stock prices as reported on the New York Stock Exchange for each quarter of the past two years were as follows:

	High	Low
<b>2009</b>		
First Quarter	\$37.62	\$26.48
Second Quarter	32.05	27.19
Third Quarter	32.67	30.27
Fourth Quarter	34.47	30.89
<b>2008</b>		
First Quarter	\$40.60	\$33.71
Second Quarter	37.81	34.28
Third Quarter	40.00	34.46
Fourth Quarter	38.18	29.82

There is no market for the other registrants' common stock, all of which is owned by Southern Company.

(a)(2) Number of Southern Company's common stockholders of record at January 31, 2010: 92,374

Each of the other registrants have one common stockholder, Southern Company.

(a)(3) Dividends on each registrant's common stock are payable at the discretion of their respective board of directors. The dividends on common stock declared by Southern Company and the traditional operating companies to their stockholder(s) for the past two years were as follows:

Registrant	Quarter	2009	2008
		(in thousands)	
<b>Southern Company</b>	First	\$326,780	\$307,960
	Second	343,446	322,634
	Third	348,702	323,844
	Fourth	350,538	325,681
<b>Alabama Power</b>	First	130,700	122,825
	Second	130,700	122,825
	Third	130,700	122,825
	Fourth	130,700	122,825
<b>Georgia Power</b>	First	184,725	180,300
	Second	184,725	180,300
	Third	184,725	180,300
	Fourth	184,725	180,300

<b>Gulf Power</b>	First	22,350	20,425
	Second	22,300	20,425
	Third	22,325	20,425
	Fourth	22,325	20,425

<b>Mississippi Power</b>	First	17,125	17,100
	Second	17,125	17,100
	Third	17,125	17,100
	Fourth	17,125	17,100

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In 2009 and 2008, Southern Power paid dividends to Southern Company as follows:

<b>Registrant</b>	<b>Quarter</b>	<b>2009</b>	<b>2008</b>
		(in millions)	
<b>Southern Power</b>	First	\$26.525	\$23.63
	Second	26.525	23.63
	Third	26.525	23.63
	Fourth	26.525	23.63

The dividend paid per share of Southern Company's common stock was 40.25¢ for the first quarter of 2008 and 42¢ for the second, third, and fourth quarters of 2008. In 2009, Southern Company paid a dividend per share of 42¢ in the first quarter of 2009 and 43.75¢ for the second, third, and fourth quarters of 2009.

The traditional operating companies and Southern Power can only pay dividends to Southern Company out of retained earnings or paid-in-capital.

Southern Power's credit facility and senior note indenture contain potential limitations on the payment of common stock dividends. At December 31, 2009, Southern Power was in compliance with the conditions of this credit facility and thus had no restrictions on its ability to pay common stock dividends. See Note 8 to the financial statements of Southern Company under "Common Stock Dividend Restrictions" and Note 6 to the financial statements of Southern Power under "Dividend Restrictions" in Item 8 herein for additional information regarding these restrictions.

(a)(4) Securities authorized for issuance under equity compensation plans.

See Part III, Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters under the heading "Equity Compensation Plan Information" herein.

(b) Use of Proceeds

Not applicable.

(c) Issuer Purchases of Equity Securities

None.

**Item 6. SELECTED FINANCIAL DATA**

Southern Company. See "SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA," contained herein at pages II-95 and II-96.

Alabama Power. See "SELECTED FINANCIAL AND OPERATING DATA," contained herein at pages II-167 and II-168.

Georgia Power. See "SELECTED FINANCIAL AND OPERATING DATA," contained herein at pages II-242 and II-243.

Gulf Power. See "SELECTED FINANCIAL AND OPERATING DATA," contained herein at pages II-308 and II-309.

Mississippi Power. See "SELECTED FINANCIAL AND OPERATING DATA," contained herein at pages II-382 and II-383.

Southern Power. See "SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA," contained herein at page II-430.

**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Southern Company. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," contained herein at pages II-11 through II-39.



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Alabama Power. See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, contained herein at pages II-100 through II-122.

Georgia Power. See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, contained herein at pages II-172 through II-195.

Gulf Power. See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, contained herein at pages II-247 through II-267.

Mississippi Power. See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, contained herein at pages II-313 through II-338.

Southern Power. See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, contained herein at pages II-387 through II-406.

**Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FINANCIAL CONDITION AND LIQUIDITY - Market Price Risk of each of the registrants in Item 7 herein and Note 1 of each of the registrant's financial statements under Financial Instruments in Item 8 herein. See also Note 10 to the financial statements of Southern Company, Alabama Power, and Georgia Power, Note 9 to the financial statements of Gulf Power and Mississippi Power, and Note 8 to the financial statements of Southern Power in Item 8 herein.

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None.	

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**Item 9A. CONTROLS AND PROCEDURES**

**Disclosure Controls And Procedures.**

As of the end of the period covered by this annual report, Southern Company conducted an evaluation under the supervision and with the participation of Southern Company's management, including the Chief Executive Officer and 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.

**Internal Control Over Financial Reporting.**

**(a) Management's Annual Report on Internal Control Over Financial Reporting.**

Southern Company's Management's Report on Internal Control Over Financial Reporting is included on page II-9 of this Form 10-K.

**(b) Attestation Report of the Registered Public Accounting Firm.**

The report of Deloitte & Touche LLP, Southern Company's independent registered public accounting firm, regarding Southern Company's internal control over financial reporting is included on page II-10 of this Form 10-K.

**(c) 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 fourth quarter 2009 that have materially affected or are reasonably likely to materially affect Southern Company's internal control over financial reporting other than as described in the next paragraph.

In October 2009, Georgia Power implemented a new general ledger system. The implementation of this system provides additional operational and internal control benefits including system security and automation of previously manual controls. This process improvement initiative was not in response to an identified internal control deficiency.

**Item 9A(T). CONTROLS AND PROCEDURES**

**Disclosure Controls And Procedures.**

As of the end of the period covered by this annual 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 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.

**Internal Control Over Financial Reporting.**

**(a) Management's Annual Report on Internal Control Over Financial Reporting.**

Alabama Power's Management's Report on Internal Control Over Financial Reporting is included on page II-98 of this Form 10-K.

Georgia Power's Management's Report on Internal Control Over Financial Reporting is included on page II-170 of this Form 10-K.

Gulf Power's Management's Report on Internal Control Over Financial Reporting is included on page II-245 of this Form 10-K.

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Mississippi Power's Management's Report on Internal Control Over Financial Reporting is included on page II-311 of this Form 10-K.

Southern Power's Management's Report on Internal Control Over Financial Reporting is included on page II-385 of this Form 10-K.

**(b) Changes in internal controls.**

There have been no changes in Alabama 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 fourth quarter 2009 that have materially affected or are reasonably likely to materially affect Alabama Power's, Gulf Power's, Mississippi Power's, or Southern Power's internal control over financial reporting.

There have been no changes in Georgia 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 fourth quarter 2009 that have materially affected or are reasonably likely to materially affect Georgia Power's internal control over financial reporting, other than as described in the next sentence. In October 2009, Georgia Power implemented a new general ledger system. The implementation of this system provides additional operational and internal control benefits including system security and automation of previously manual controls. This process improvement initiative was not in response to an identified internal control deficiency.

**Item 9B. OTHER INFORMATION**

**Georgia Power**

On February 23, 2010, Georgia Power, acting for itself and as agent for OPC, MEAG Power, and Dalton (collectively, Owners), and a consortium consisting of Westinghouse and Stone & Webster (collectively, Consortium) entered into an amendment (Amendment) to the Engineering, Procurement, and Construction Agreement, dated as of April 8, 2008 (Agreement), between the Owners and the Consortium, relating to Plant Vogtle Units 3 and 4. Under the Agreement, the Owners agreed to pay a purchase price that will be subject to certain price escalation and adjustments, including certain index-based adjustments, as well as adjustments for change orders, and performance bonuses. The Amendment, which is subject to the approval of the Georgia PSC, replaces certain of the index-based adjustments to the purchase price with fixed escalation amounts.

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Construction Nuclear of Georgia Power in Item 7 herein and Note 3 to the financial statements of Georgia Power under Construction Nuclear in Item 8 herein for information regarding Georgia Power's construction of Plant Vogtle Units 3 and 4.

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**THE SOUTHERN COMPANY  
AND SUBSIDIARY COMPANIES  
FINANCIAL SECTION**

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**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
Southern Company and Subsidiary Companies 2009 Annual Report**

Southern Company's management is responsible for establishing and maintaining an adequate system of internal control over financial reporting as required by the Sarbanes-Oxley Act of 2002 and as defined in Exchange Act Rule 13a-15(f). A control system can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Under management's supervision, an evaluation of the design and effectiveness of Southern Company's internal control over financial reporting was conducted based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that Southern Company's internal control over financial reporting was effective as of December 31, 2009. Deloitte & Touche LLP, an independent registered public accounting firm, as auditors of Southern Company's financial statements, has issued an attestation report on the effectiveness of Southern Company's internal control over financial reporting as of December 31, 2009. Deloitte & Touche LLP's report on Southern Company's internal control over financial reporting is included herein.

/s/ David M. Ratcliffe

David M. Ratcliffe

Chairman, President, and Chief Executive Officer

/s/ W. Paul Bowers

W. Paul Bowers

Executive Vice President and Chief Financial Officer

February 25, 2010

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**Table of Contents****REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
To the Board of Directors and Stockholders of  
Southern Company**

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of Southern Company and Subsidiary Companies (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. We also have audited the Company's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting (page II-9). Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements (pages II-40 to II-93) referred to above present fairly, in all material respects, the financial position of Southern Company and Subsidiary Companies as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP

Atlanta, Georgia  
February 25, 2010

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

**Southern Company and Subsidiary Companies 2009 Annual Report**

**OVERVIEW**

**Business Activities**

The primary business of Southern Company (the Company) is electricity sales in the Southeast by the traditional operating companies—Alabama Power, Georgia Power, Gulf Power, and Mississippi Power—and Southern Power. The four 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.

Many factors affect the opportunities, challenges, and risks of Southern Company's electricity business. These factors include the traditional operating companies' 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. Each of the traditional operating companies has various regulatory mechanisms that operate to address cost recovery. Appropriately balancing required costs and capital expenditures with customer prices will continue to challenge the Company for the foreseeable future.

Another major factor is the profitability of the competitive market-based wholesale generating business and federal regulatory policy, which may impact Southern Company's level of participation in this market. The Company continues to face regulatory challenges related to transmission issues at the national level. Southern Power continues to execute its strategy through a combination of acquiring and constructing new power plants and by entering into power purchase agreements (PPAs) with investor owned utilities, independent power producers, municipalities, and electric cooperatives.

Southern Company's other business activities include investments in leveraged lease projects, renewable energy projects, and telecommunications. Management continues to evaluate the contribution of each of these activities to total shareholder return and may pursue acquisitions and dispositions accordingly.

**Key Performance Indicators**

In striving to maximize shareholder value while providing cost-effective energy to more than four million customers, Southern Company continues to focus on several key indicators. These indicators include customer satisfaction, plant availability, system reliability, and earnings per share (EPS), excluding the MC Asset Recovery, LLC (MC Asset Recovery) litigation settlement discussed below. Southern Company's financial success is directly tied to the satisfaction of its customers. Key elements of ensuring customer satisfaction include outstanding service, high reliability, and competitive prices. Management uses customer satisfaction surveys and reliability indicators to evaluate the Company's results.

Peak season equivalent forced outage rate (Peak Season EFOR) is an indicator of fossil/hydro and nuclear plant availability and efficient generation fleet operations during the months when generation needs are greatest. The rate is calculated by dividing the number of hours of forced outages by total generation hours. The fossil/hydro 2009 Peak Season EFOR of 1.44% was better than the target. The nuclear 2009 Peak Season EFOR of 2.61% was slightly better than the target. Transmission and distribution system reliability performance is measured by the frequency and duration of outages. Performance targets for reliability are set internally based on historical performance, expected weather conditions, and expected capital expenditures. The performance for 2009 was better than the target for these reliability measures.

Southern Company entered into a settlement agreement with MC Asset Recovery to resolve a complaint alleging that Southern Company caused Mirant Corporation (Mirant) to engage in certain fraudulent transfers and to pay illegal dividends to Southern Company prior to the spin-off of Mirant in 2001. Pursuant to the settlement, Southern Company recorded a charge of \$202 million in 2009. The settlement has been completed and resolves all claims by MC Asset Recovery against Southern Company. Southern Company management uses the non-GAAP (defined below) measure of EPS, excluding the MC Asset Recovery litigation settlement, to evaluate the performance of Southern Company's ongoing business activities. Southern Company believes the presentation of this non-GAAP measure of earnings and EPS excluding the MC Asset Recovery litigation settlement is useful for investors because it provides earnings

information that is consistent with the historical and ongoing business activities of the Company. The presentation of this information is not meant to be considered a substitute for financial measures prepared in accordance with generally accepted accounting principles (GAAP).

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Southern Company's 2009 results compared with its targets for some of these key indicators are reflected in the following chart:

<b>Key Performance Indicator</b>	<b>2009 Target Performance</b>	<b>2009 Actual Performance</b>
	<b>Top quartile in</b>	<b>Top</b>
<b>Customer Satisfaction</b>	<b>customer surveys</b>	<b>quartile</b>
<b>Peak Season EFOR fossil/hydro</b>	<b>2.75% or less</b>	<b>1.44%</b>
<b>Peak Season EFOR nuclear</b>	<b>2.75% or less</b>	<b>2.61%</b>
<b>Basic EPS</b>	<b>\$2.30 \$2.45</b>	<b>\$ 2.07</b>
<b>EPS, excluding the MC Asset Recovery litigation settlement</b>		<b>\$ 2.32</b>

See RESULTS OF OPERATIONS herein for additional information on the Company's financial performance. The performance achieved in 2009 reflects the continued emphasis that management places on these indicators as well as the commitment shown by employees in achieving or exceeding management's expectations.

**Earnings**

Southern Company's net income after dividends on preferred and preference stock of subsidiaries was \$1.64 billion in 2009, a decrease of \$99 million from the prior year. This decrease was primarily the result of a litigation settlement with MC Asset Recovery, a decrease in revenues from lower kilowatt-hour (KWH) demand across all customer classes, a decrease in revenues from market-response rates to large commercial and industrial customers, higher depreciation and amortization, higher interest expense, and unfavorable weather. The 2009 decrease was partially offset by an increase in revenues from customer charges at Alabama Power, increased recognition of environmental compliance cost recovery (ECCR) revenues at Georgia Power in accordance with its retail rate plan for the years 2008 through 2010 (2007 Retail Rate Plan), lower operations and maintenance expenses, an increase in allowance for funds used during construction (AFUDC) equity, which is not taxable, a 2008 charge related to the tax treatment of leveraged lease investments, and a gain on the early retirement of two international leveraged lease investments. Net income after dividends on preferred and preference stock of subsidiaries was \$1.74 billion in 2008 and \$1.73 billion in 2007. Basic EPS was \$2.07 in 2009, \$2.26 in 2008, and \$2.29 in 2007. Diluted EPS, which factors in additional shares related to stock-based compensation, was \$2.06 in 2009, \$2.25 in 2008, and \$2.28 in 2007.

**Dividends**

Southern Company has paid dividends on its common stock since 1948. Dividends paid per share of common stock were \$1.7325 in 2009, \$1.6625 in 2008, and \$1.595 in 2007. In January 2010, Southern Company declared a quarterly dividend of 43.75 cents per share. This is the 249th consecutive quarter that Southern Company has paid a dividend equal to or higher than the previous quarter. The Company targets a dividend payout ratio of approximately 65% to 70% of net income. For 2009, the actual payout ratio was 83.3% while the payout ratio of net income excluding the MC Asset Recovery litigation settlement was 74.2%.

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**RESULTS OF OPERATIONS**

**Electricity Business**

Southern Company's electric utilities generate and sell electricity to retail and wholesale customers in the Southeast. A condensed statement of income for the electricity business follows:

	<b>Amount</b>	<b>Increase (Decrease) from Prior Year</b>		
	<b>2009</b>	<b>2009</b>	2008	2007
		<i>(in millions)</i>		
Electric operating revenues	<b>\$ 15,642</b>	<b>\$ (1,358)</b>	\$ 1,860	\$ 1,052
Fuel	<b>5,952</b>	<b>(865)</b>	973	701
Purchased power	<b>474</b>	<b>(341)</b>	300	(28)
Other operations and maintenance	<b>3,401</b>	<b>(183)</b>	111	183
Depreciation and amortization	<b>1,476</b>	<b>62</b>	199	51
Taxes other than income taxes	<b>816</b>	<b>22</b>	56	23
<b>Total electric operating expenses</b>	<b>12,119</b>	<b>(1,305)</b>	1,639	930
Operating income	<b>3,523</b>	<b>(53)</b>	221	122
Other income (expense), net	<b>199</b>	<b>53</b>	26	66
Interest expense, net of amounts capitalized	<b>834</b>	<b>61</b>	10	46
Income taxes	<b>988</b>	<b>(49)</b>	87	1
<b>Net income</b>	<b>1,900</b>	<b>(12)</b>	150	141
Dividends on preferred and preference stock of subsidiaries	<b>65</b>		17	13
<b>Net income after dividends on preferred and preference stock of subsidiaries</b>	<b>\$ 1,835</b>	<b>\$ (12)</b>	\$ 133	\$ 128

**Electric Operating Revenues**

Details of electric operating revenues were as follows:

	<b>Amount</b>		
	<b>2009</b>	2008	2007
		<i>(in millions)</i>	
Retail - prior year	<b>\$ 14,055</b>	\$ 12,639	\$ 11,801
Estimated change in			
Rates and pricing	<b>144</b>	668	161
Sales growth (decline)	<b>(208)</b>		60
Weather	<b>(21)</b>	(106)	54
Fuel and other cost recovery	<b>(663)</b>	854	563
<b>Retail - current year</b>	<b>13,307</b>	14,055	12,639

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Wholesale revenues	<b>1,802</b>	2,400	1,988
Other electric operating revenues	<b>533</b>	545	513
Electric operating revenues	<b>\$15,642</b>	\$17,000	\$15,140
Percent change	<b>(8.0%)</b>	12.3%	7.5%

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Retail revenues decreased \$748 million, increased \$1.4 billion, and increased \$838 million in 2009, 2008, and 2007, respectively. The significant factors driving these changes are shown in the preceding table. The increase in rates and pricing in 2009 was primarily due to an increase in revenues from customer charges at Alabama Power and increased recognition of ECCR revenues at Georgia Power in accordance with its 2007 Retail Rate Plan, partially offset by a decrease in revenues from market-response rates to large commercial and industrial customers at Georgia Power. The 2008 increase in rates and pricing when compared to the prior year was primarily due to Alabama Power's increase under its Rate Stabilization and Equalization Plan (Rate RSE), as ordered by the Alabama Public Service Commission (PSC), and Georgia Power's increase under its 2007 Retail Rate Plan, as ordered by the Georgia PSC. Also contributing to the 2008 increase was an increase in revenues from market-response rates to large commercial and industrial customers. The 2007 increase in rates and pricing when compared to the prior year was primarily due to Alabama Power's increase under its Rate RSE, as ordered by the Alabama PSC. Partially offsetting the 2007 increase was a decrease in revenues from market-response rates to large commercial and industrial customers. See Energy Sales below for a discussion of changes in the volume of energy sold, including changes related to sales growth (decline) and weather.

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, and do not affect net income. The traditional operating companies may also have one or more regulatory mechanisms to recover other costs such as environmental, storm damage, new plants, and PPAs.

Wholesale revenues consist of PPAs with investor-owned utilities and electric cooperatives, unit power sales contracts, and short-term opportunity sales. Short-term opportunity sales are made at market-based rates that generally provide a margin above the Company's variable cost to produce the energy.

In 2009, wholesale revenues decreased \$598 million. Wholesale fuel revenues, which are generally offset by wholesale fuel expenses and do not affect net income, decreased \$603 million in 2009. Excluding wholesale fuel revenues, wholesale revenues increased \$5 million primarily due to additional revenues associated with a new PPA at Southern Power's Plant Franklin Unit 3 which began in January 2009, partially offset by fewer short-term opportunity sales due to lower gas prices and reduced margins on short-term opportunity sales.

In 2008, wholesale revenues increased \$412 million primarily as a result of a 21.8% increase in the average cost of fuel per net KWH generated, as well as revenues resulting from new and existing PPAs and revenues derived from contracts for Southern Power's Plant Oleander Unit 5 and Plant Franklin Unit 3 placed in operation in December 2007 and June 2008, respectively. The 2008 increase was partially offset by a decrease in short-term opportunity sales and weather-related generation load reductions.

In 2007, wholesale revenues increased \$166 million primarily as a result of a 9.5% increase in the average cost of fuel per net KWH generated. Excluding fuel, wholesale revenues were flat when compared to the prior year.

Revenues associated with PPAs and opportunity sales were as follows:

	2009	2008	2007
		<i>(in millions)</i>	
Other power sales			
Capacity and other	\$ 575	\$ 538	\$ 533
Energy	735	1,319	989
Total	<b>\$ 1,310</b>	<b>\$ 1,857</b>	<b>\$ 1,522</b>



**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)****Southern Company and Subsidiary Companies 2009 Annual Report**

Capacity revenues under unit power sales contracts, principally sales to Florida utilities, reflect the recovery of fixed costs and a return on investment. Unit power KWH sales decreased 7.5%, 2.1%, and 0.8% in 2009, 2008, and 2007, respectively. Fluctuations in oil and natural gas prices, which are the primary fuel sources for unit power sales contracts, influence changes in these sales. See FUTURE EARNINGS POTENTIAL PSC Matters Alabama Power herein for additional information regarding the termination of certain unit power sales contracts in 2010. However, because the energy is generally sold at variable cost, these fluctuations have a minimal effect on earnings. The capacity and energy components of the unit power sales contracts were as follows:

	<b>2009</b>	2008	2007
	<i>(in millions)</i>		
Unit power sales			
Capacity	<b>\$225</b>	\$223	\$202
Energy	<b>267</b>	320	264
Total	<b>\$492</b>	\$543	\$466

**Energy Sales**

Changes in revenues are influenced heavily by the change in the volume of energy sold from year to year. KWH sales for 2009 and the percent change by year were as follows:

	<b>KWHs</b>		<b>Percent Change</b>	
	<b>2009</b>	<b>2009</b>	2008	2007
	<i>(in billions)</i>			
Residential	<b>51.7</b>	<b>(1.1)%</b>	(2.0)%	1.8%
Commercial	<b>53.5</b>	<b>(1.7)</b>	(0.4)	3.2
Industrial	<b>46.4</b>	<b>(11.8)</b>	(3.7)	(0.7)
Other	<b>1.0</b>	<b>2.0</b>	(2.9)	4.4
Total retail	<b>152.6</b>	<b>(4.8)</b>	(2.1)	1.4
Wholesale	<b>33.5</b>	<b>(14.9)</b>	(3.4)	5.9
Total energy sales	<b>186.1</b>	<b>(6.8)</b>	(2.3)	2.3

Changes in retail energy sales are comprised of changes in electricity usage by customers, changes in weather, and changes in the number of customers. Retail energy sales decreased 7.7 billion KWHs in 2009 primarily as a result of lower usage by industrial customers due to the recessionary economy. Reduced demand in the primary metal, chemical, and textile sectors, as well as the stone, clay, and glass sector, contributed most significantly to the decrease in industrial KWH sales. Unfavorable weather also contributed to lower KWH sales across all customer classes. The number of customers in 2009 was flat compared to 2008. Retail energy sales in 2008 decreased 3.4 billion KWHs as a result of a 1.4% decrease in electricity usage mainly due to a slowing economy that worsened during the fourth quarter. The 2008 decrease in residential sales resulted primarily from lower home occupancy rates in Southern Company's service area when compared to 2007. Throughout the year, reduced demand in the textile sector, the lumber sector, and the stone, clay, and glass sector contributed to the decrease in 2008 industrial sales. Additional weakness in the fourth quarter 2008 affected all major industrial segments. Significantly less favorable weather in

2008 when compared to 2007 also contributed to the 2008 decrease in retail energy sales. These decreases were partially offset by customer growth of 0.6%. Retail energy sales in 2007 increased 2.3 billion KWHs as a result of 1.3% customer growth and favorable weather in 2007 when compared to 2006. The 2007 decrease in industrial sales primarily resulted from reduced demand and closures within the textile sector, as well as decreased demand in the primary metals sector and the stone, clay, and glass sector.

Wholesale energy sales decreased by 5.9 billion KWHs in 2009, decreased by 1.4 billion KWHs in 2008, and increased by 2.3 billion KWHs in 2007. The decrease in wholesale energy sales in 2009 was primarily related to fewer short-term opportunity sales driven by lower gas prices and fewer uncontracted generating units at Southern Power available to sell electricity on the wholesale market. The decrease in wholesale energy sales in 2008 was primarily related to longer planned maintenance outages at a fossil unit in 2008 as compared to 2007 which reduced the availability of this unit for wholesale sales. Lower short-term opportunity sales primarily related to higher coal prices also contributed to the 2008 decrease. These decreases were partially offset by Plant Oleander Unit 5 and Plant Franklin Unit 3 being placed in operation in December 2007 and June 2008, respectively. The increase in wholesale energy sales in 2007 was primarily related to new PPAs acquired by Southern Company through the acquisition of Plant Rowan in September 2006, as well as new contracts with EnergyUnited Electric Membership Corporation that commenced in September 2006 and January 2007. An increase in KWH sales under existing PPAs also contributed to the 2007 increase.

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***Fuel and Purchased Power Expenses***

Fuel costs constitute the single largest expense for the electric utilities. The mix of fuel sources for generation of electricity is determined primarily by demand, the unit cost of fuel consumed, and the availability of generating units. Additionally, the electric utilities purchase a portion of their electricity needs from the wholesale market. Details of electricity generated and purchased by the electric utilities were as follows:

	2009	2008	2007
Total generation ( <i>billions of KWHs</i> )	<b>187</b>	198	206
Total purchased power ( <i>billions of KWHs</i> )	<b>8</b>	11	8
Sources of generation ( <i>percent</i> )			
Coal	<b>57</b>	68	70
Nuclear	<b>16</b>	15	14
Gas	<b>23</b>	16	15
Hydro	<b>4</b>	1	1
Cost of fuel, generated ( <i>cents per net KWH</i> )			
Coal	<b>3.70</b>	3.27	2.61
Nuclear	<b>0.55</b>	0.50	0.50
Gas	<b>4.58</b>	7.58	6.64
Average cost of fuel, generated ( <i>cents per net KWH</i> )*	<b>3.38</b>	3.52	2.89
Average cost of purchased power ( <i>cents per net KWH</i> )	<b>6.37</b>	7.85	7.20

\* Fuel includes fuel purchased by the Company 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 2009, fuel and purchased power expenses were \$6.4 billion, a decrease of \$1.2 billion or 15.8% below 2008 costs. This decrease was primarily the result of an \$839 million decrease related to the total KWHs generated and purchased due primarily to lower customer demand. Also contributing to this decrease was a \$367 million reduction in the average cost of fuel and purchased power resulting primarily from a 39.6% decrease in the cost of gas per KWH generated.

In 2008, fuel and purchased power expenses were \$7.6 billion, an increase of \$1.3 billion or 20.0% above 2007 costs. This increase was primarily the result of a \$1.3 billion net increase in the average cost of fuel and purchased power partially resulting from a 25.3% increase in the cost of coal per net KWH generated and a 14.2% increase in the cost of gas per net KWH generated.

In 2007, fuel and purchased power expenses were \$6.4 billion, an increase of \$673 million or 11.8% above 2006 costs. This increase was primarily the result of a \$543 million net increase in the average cost of fuel and purchased power partially resulting from a 51.4% decrease in hydro generation as a result of a severe drought. Also contributing to this increase was a \$130 million increase related to higher net KWHs generated and purchased.

Coal prices continued to be influenced by worldwide demand from developing countries, as well as increased mining and fuel transportation costs. While coal prices reached unprecedented high levels in 2008, the recessionary economy pushed prices downward in 2009. However, the lower prices did not fully offset the higher priced coal already in inventory and under long-term contract. Demand for natural gas in the United States also was affected by the recessionary economy leading to significantly lower natural gas prices. During 2009, uranium prices continued to moderate from the highs set during 2007. Worldwide production levels increased in 2009; however, secondary supplies and inventories were still required to meet worldwide reactor demand.

Fuel expenses generally do not affect net income, since they are offset by fuel revenues under the traditional operating companies' fuel cost recovery provisions. See FUTURE EARNINGS POTENTIAL PSC Matters Fuel Cost Recovery herein for additional information. Likewise, Southern Power's PPAs generally provide that the purchasers are responsible for substantially all of the cost of fuel.

***Other Operations and Maintenance Expenses***

Other operations and maintenance expenses were \$3.4 billion, \$3.6 billion, and \$3.5 billion, decreasing \$183 million, increasing \$111 million, and increasing \$183 million in 2009, 2008, and 2007, respectively. Discussion of significant variances for components of other operations and maintenance expenses follows.

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Other production expenses at fossil, hydro, and nuclear plants decreased \$70 million, increased \$63 million, and increased \$128 million in 2009, 2008, and 2007, respectively. Production expenses fluctuate from year to year due to variations in outage schedules and normal changes in the cost of labor and materials. Other production costs decreased in 2009 mainly due to a \$104 million decrease related to less planned spending on outages and maintenance, as well as other cost containment activities, which were the results of efforts to offset the effects of the recessionary economy. The 2009 decrease was partially offset by a \$6 million increase related to new facilities, a \$5 million loss on the transfer of Southern Power's Plant Desoto in 2009, a \$6 million gain recognized in 2008 by Southern Power on the sale of an undeveloped tract of land to the Orlando Utilities Commission (OUC), and a \$17 million increase in nuclear refueling costs. See Note 1 to the financial statements under Property, Plant, and Equipment for additional information regarding nuclear refueling costs. Other production expenses increased in 2008 primarily due to a \$64 million increase related to expenses incurred for maintenance outages at generating units and a \$30 million increase related to labor and materials expenses, partially offset by a \$15 million decrease in nuclear refueling costs. The 2008 increase was also partially offset by a \$24 million decrease related to new facilities, mainly lower costs associated with the 2007 write-off of Southern Power's integrated coal gasification combined cycle (IGCC) project with the OUC. Other production expenses increased in 2007 primarily due to a \$40 million increase related to expenses incurred for maintenance outages at generating units and a \$29 million increase related to new facilities, mainly costs associated with the write-off of Southern Power's IGCC project and the acquisitions of Plants DeSoto and Rowan by Southern Power in June and September 2006, respectively. A \$25 million increase related to labor and materials expenses and a \$22 million increase in nuclear refueling costs also contributed to the 2007 increase.

Transmission and distribution expenses decreased \$41 million, increased \$4 million, and increased \$21 million in 2009, 2008, and 2007, respectively. Transmission and distribution expenses fluctuate from year to year due to variations in maintenance schedules and normal changes in the cost of labor and materials. Transmission and distribution expenses decreased in 2009 primarily related to lower planned spending, as well as other cost containment activities. The 2008 increase in transmission and distribution expenses was not material when compared to the prior year. Transmission and distribution expenses increased in 2007 primarily as a result of increases in labor and materials costs and maintenance associated with additional investment to meet customer growth.

Customer sales and service expenses decreased \$42 million, increased \$32 million, and increased \$7 million in 2009, 2008, and 2007, respectively. Customer sales and service expenses decreased in 2009 primarily as a result of a \$12 million decrease in customer service expenses, an \$8 million decrease in meter reading expenses, a \$10 million decrease in sales expenses, and a \$7 million decrease in customer records related expenses. The 2008 increase in customer sales and service expenses was primarily a result of an increase in customer service expenses, including a \$13 million increase in uncollectible accounts expense, a \$9 million increase in meter reading expenses, and an \$8 million increase for customer records and collections. The 2007 increase in customer sales and service expenses was not material when compared to the prior year.

Administrative and general expenses decreased \$30 million, increased \$12 million, and increased \$27 million in 2009, 2008, and 2007, respectively. The 2009 decrease in administrative and general expenses was primarily the result of cost containment activities which were the results of efforts to offset the effects of the recessionary economy. The 2008 increase in administrative and general expenses was not material when compared to 2007. Administrative and general expenses increased in 2007 primarily as a result of a \$16 million increase in legal costs and expenses associated with an increase in employees. Also contributing to the 2007 increase was a \$14 million increase in accrued expenses for the litigation and workers' compensation reserve, partially offset by an \$8 million decrease in property damage expense.

***Depreciation and Amortization***

Depreciation and amortization increased \$62 million in 2009 primarily as a result of an increase in plant in service related to environmental, transmission, and distribution projects mainly at Alabama Power and Georgia Power and the completion of Southern Power's Plant Franklin Unit 3, as well as an increase in depreciation rates at Southern Power. Partially offsetting the 2009 increase was a decrease associated with the amortization of the regulatory liability related

to the cost of removal obligations as authorized by the Georgia PSC. See Note 3 to the financial statements under Retail Regulatory Matters Georgia Power Cost of Removal for additional information regarding Georgia Power's cost of removal amortization.

Depreciation and amortization increased \$199 million in 2008 primarily as a result of an increase in plant in service related to environmental, transmission, and distribution projects mainly at Alabama Power and Georgia Power and generation projects at Georgia Power. An increase in depreciation rates at Georgia Power and Southern Power also contributed to the 2008 increase, as well as the expiration of a rate order previously allowing Georgia Power to levelize certain purchased power capacity costs and the completion of Plant Oleander Unit 5 in December 2007 and Plant Franklin Unit 3 in June 2008.

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Depreciation and amortization increased \$51 million in 2007 primarily as a result of an increase in plant in service related to environmental, transmission, and distribution projects mainly at Alabama Power and Georgia Power. An increase in the amortization expense of a regulatory liability recorded in 2003 in connection with the Mississippi PSC's accounting order on Plant Daniel capacity also contributed to the 2007 increase. Partially offsetting the 2007 increase was a reduction in amortization expense due to a Georgia Power regulatory liability related to the levelization of certain purchased power capacity costs as ordered by the Georgia PSC under the terms of the retail rate order effective January 1, 2005. See Note 1 to the financial statements under **Depreciation and Amortization** for additional information.

***Taxes Other Than Income Taxes***

Taxes other than income taxes increased \$22 million in 2009 primarily as a result of increases in the bases of state and municipal public utility license taxes at Alabama Power and an increase in franchise fees at Gulf Power. Increases in franchise fees are associated with increases in revenues from energy sales. Taxes other than income taxes increased \$56 million in 2008 primarily as a result of increases in franchise fees and municipal gross receipt taxes associated with increases in revenues from energy sales, as well as increases in property taxes associated with property tax actualizations and additional plant in service. Taxes other than income taxes increased \$23 million in 2007 primarily as a result of increases in franchise and municipal gross receipts taxes associated with increases in revenues from energy sales, partially offset by a decrease in property taxes resulting from the resolution of a dispute with Monroe County, Georgia.

***Other Income (Expense), Net***

Other income (expense), net increased \$53 million in 2009 primarily due to an increase in AFUDC equity as a result of environmental projects at Alabama Power and Gulf Power and additional investments in transmission and distribution projects at Alabama Power. In addition, during 2009, Southern Power recognized a \$13 million profit under a construction contract with the OUC whereby Southern Power provided engineering, procurement, and construction services to build a combined cycle unit. Other income (expense), net increased \$26 million in 2008 primarily as a result of an increase in AFUDC equity related to additional investments in environmental equipment at generating plants at Alabama Power, Georgia Power, and Gulf Power, as well as additional investments in transmission and distribution projects mainly at Alabama Power and Georgia Power. Other income (expense), net increased \$66 million in 2007 primarily as a result of an increase in AFUDC equity related to additional investments in environmental equipment at generating plants and transmission and distribution projects mainly at Alabama Power and Georgia Power.

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

Total interest charges and other financing costs increased by \$61 million in 2009 primarily as a result of a \$100 million increase associated with \$1.4 billion in additional debt outstanding at December 31, 2009 compared to December 31, 2008. Also contributing to the 2009 increase was \$16 million in other interest costs. The 2009 increase was partially offset by \$42 million related to lower average interest rates on existing variable rate debt and \$13 million of additional capitalized interest as compared to 2008.

Total interest charges and other financing costs increased by \$10 million in 2008 primarily as a result of a \$65 million increase associated with \$1.8 billion in additional debt outstanding at December 31, 2008 compared to December 31, 2007. Also contributing to the 2008 increase was \$5 million in other interest costs. The 2008 increase was partially offset by \$55 million related to lower average interest rates on existing variable rate debt and \$7 million of additional capitalized interest as compared to 2007.

Total interest charges and other financing costs increased by \$46 million in 2007 primarily as a result of a \$59 million increase associated with \$703 million in additional debt outstanding at December 31, 2007 compared to December 31, 2006 and higher interest rates associated with the issuance of new long-term debt. Also contributing to the 2007 increase was \$7 million related to higher average interest rates on existing variable rate debt and \$19 million in other interest costs. The 2007 increase was partially offset by \$38 million of additional capitalized interest as compared to 2006.

***Income Taxes***

Income taxes decreased \$49 million in 2009 primarily due to lower pre-tax earnings as compared to 2008, an increase in AFUDC equity, which is not taxable, and an increase in the Internal Revenue Code of 1986, as amended (Internal Revenue Code), Section 199 production activities deduction. See Note 5 to the financial statements under **Effective Tax Rate** for additional information.

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Income taxes increased \$87 million in 2008 primarily due to higher pre-tax earnings as compared to 2007 and a 2007 deduction for a Georgia Power land donation. The 2008 increase was partially offset by an increase in AFUDC equity, which is not taxable.

Income taxes were relatively flat in 2007 as higher pre-tax earnings as compared to 2006 were largely offset due to a deduction for a Georgia Power land donation; an increase in AFUDC equity, which is not taxable; and an increase in the Section 199 production activities deduction.

**Dividends on Preferred and Preference Stock of Subsidiaries**

Dividends on preferred and preference stock of subsidiaries for 2009 were flat compared to the prior year.

Dividends on preferred and preference stock of subsidiaries increased \$17 million in 2008 primarily as a result of issuances of \$320 million and \$150 million of preference stock in the third and fourth quarters of 2007, respectively, partially offset by the redemption of \$125 million of preferred stock in January 2008.

Dividends on preferred and preference stock of subsidiaries increased \$13 million in 2007 primarily as a result of a \$470 million increase associated with additional preference stock outstanding at December 31, 2007 compared to December 31, 2006.

**Other Business Activities**

Southern Company's other business activities include the parent company (which does not allocate operating expenses to business units), investments in leveraged lease projects, and telecommunications. Southern Company's investment in synthetic fuel projects ended at December 31, 2007. These businesses are classified in general categories and may comprise one or more of the following subsidiaries: Southern Company Holdings invests in various projects, including leveraged lease projects; SouthernLINC Wireless provides digital wireless communications for use by Southern Company and its subsidiary companies and also markets these services to the public and provides fiber cable services within the Southeast.

A condensed statement of income for Southern Company's other business activities follows:

	<b>Amount</b>	<b>Increase (Decrease) from Prior Year</b>		
	<b>2009</b>	<b>2009</b>	2008	2007
	<i>(in millions)</i>			
Operating revenues	<b>\$ 101</b>	<b>\$ (26)</b>	\$ (86)	\$(55)
Other operations and maintenance	<b>125</b>	<b>(40)</b>	(44)	(29)
MC Asset Recovery litigation settlement	<b>202</b>	<b>202</b>		
Depreciation and amortization	<b>27</b>	<b>(2)</b>	(1)	(6)
Taxes other than income taxes	<b>2</b>	<b>(1)</b>		
Total operating expenses	<b>356</b>	<b>159</b>	(45)	(35)
Operating income (loss)	<b>(255)</b>	<b>(185)</b>	(41)	(20)
Equity in income (losses) of unconsolidated subsidiaries	<b>(1)</b>	<b>(11)</b>	35	35
Leveraged lease income (losses)	<b>40</b>	<b>125</b>	(125)	(29)
Other income (expense), net	<b>3</b>	<b>(8)</b>	(31)	74
Interest expense	<b>71</b>	<b>(22)</b>	(30)	(26)
Income taxes	<b>(92)</b>	<b>30</b>	(7)	53

Net income (loss)	<b>\$(192)</b>	<b>\$ (87)</b>	\$(125)	\$ 33
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***Operating Revenues***

Southern Company's non-electric operating revenues from these other businesses decreased \$26 million in 2009 primarily as a result of a \$25 million decrease in revenues at SouthernLINC Wireless related to lower average revenue per subscriber and fewer subscribers due to increased competition in the industry. The \$86 million decrease in 2008 primarily resulted from a \$60 million decrease associated with Southern Company terminating its investment in synthetic fuel projects at December 31, 2007 and a \$21 million decrease in revenues at SouthernLINC Wireless related to lower average revenue per subscriber and fewer subscribers due to

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increased competition in the industry. Also contributing to the 2008 decrease was a \$5 million decrease in revenues from Southern Company's energy-related services business. The \$55 million decrease in 2007 primarily resulted from a \$14 million decrease in fuel procurement service revenues following a contract termination, a \$13 million decrease in revenues at SouthernLINC Wireless related to lower average revenue per subscriber and fewer subscribers due to increased competition in the industry, and an \$11 million decrease in revenues from Southern Company's energy-related services business.

***Other Operations and Maintenance Expenses***

Other operations and maintenance expenses for these other businesses decreased \$40 million in 2009 primarily as a result of a \$15 million decrease in salary and wages, advertising, equipment, and network costs at SouthernLINC Wireless; a \$10 million decrease in expenses associated with leveraged lease litigation costs; and a \$6 million decrease in parent company expenses associated with the MC Asset Recovery litigation. Other operations and maintenance expenses decreased \$44 million in 2008 primarily as a result of \$11 million of lower coal expenses related to Southern Company terminating its investment in synthetic fuel projects at December 31, 2007; \$9 million of lower sales expenses at SouthernLINC Wireless related to lower sales volume; and \$5 million of lower parent company expenses related to advertising, litigation, and property insurance costs. Other operations and maintenance expenses decreased \$29 million in 2007 primarily as a result of \$11 million of lower production expenses related to the termination of Southern Company's membership interest in one of the synthetic fuel entities and \$8 million attributed to the wind-down of one of the Company's energy-related services businesses.

***MC Asset Recovery Litigation Settlement***

On March 31, 2009, Southern Company entered into a litigation settlement agreement with MC Asset Recovery which resulted in a charge of \$202 million and requires 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. Pursuant to the settlement, Southern Company recorded a charge in the first quarter 2009 of \$202 million, which was paid in the second quarter 2009. The settlement has been completed and resolves all claims by MC Asset Recovery against Southern Company. On June 29, 2009, the case was dismissed with prejudice.

***Equity in Income (Losses) of Unconsolidated Subsidiaries***

Southern Company made investments in two synthetic fuel production facilities that generated operating losses. These investments allowed Southern Company to claim federal income tax credits that offset these operating losses and made the projects profitable. Equity in income (losses) of unconsolidated subsidiaries decreased \$11 million in 2009 as a result of an \$11 million gain recognized in 2008 related to the dissolution of a partnership that was associated with these synthetic fuel production facilities. Equity in income (losses) of unconsolidated subsidiaries increased \$35 million in 2008 primarily as a result of Southern Company terminating its investment in synthetic fuel projects at December 31, 2007. Equity in income (losses) of unconsolidated subsidiaries increased \$35 million in 2007 primarily as a result of terminating Southern Company's membership interest in one of the synthetic fuel entities which reduced the amount of the Company's share of the losses and, therefore, the funding obligation for the year. Also contributing to the 2007 decrease were adjustments to the phase-out of the related federal income tax credits, partially offset by higher operating expenses due to idled production in 2006 and decreased production in 2007 in anticipation of exiting the business.

***Leveraged Lease Income (Losses)***

Southern Company has several leveraged lease agreements which relate to international and domestic energy generation, distribution, and transportation assets. Southern Company receives federal income tax deductions for depreciation and amortization, as well as interest on long-term debt related to these investments. Leveraged lease income (losses) increased \$125 million in 2009 primarily as a result of the application in 2008 of certain accounting standards related to leveraged leases, as well as a \$26 million gain recorded in the second quarter 2009 associated with the early termination of two international leveraged lease investments. The proceeds from the termination were required to be used to extinguish all debt related to leveraged lease investments, a portion of which had make-whole

redemption provisions. This resulted in a \$17 million loss and partially offset the 2009 increase. Leveraged lease income (losses) decreased \$125 million in 2008 as a result of Southern Company's decision to participate in a settlement with the Internal Revenue Service (IRS) related to deductions for several sale-in-lease-out transactions and the resulting application of certain accounting standards related to leveraged leases. Leveraged lease income (losses) decreased \$29 million in 2007 as a result of the adoption of certain accounting standards related to leveraged leases, as well as an expected decline in leveraged lease income over the terms of the leases.

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**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)****Southern Company and Subsidiary Companies 2009 Annual Report*****Other Income (Expense), Net***

The 2009 change in other income (expense), net for these other businesses when compared to the prior year was not material. Other income (expense), net decreased \$31 million in 2008 primarily as a result of the 2007 gain on a derivative transaction in the synthetic fuel business which settled on December 31, 2007. Other income (expense), net increased \$74 million in 2007 primarily as a result of a \$60 million increase related to changes in the value of derivative transactions in the synthetic fuel business and a \$16 million increase related to the 2006 impairment of investments in the synthetic fuel entities, partially offset by the release of \$6 million in certain contractual obligations associated with these investments in 2006.

***Interest Expense***

Total interest charges and other financing costs for these other businesses decreased \$22 million in 2009 primarily as a result of \$26 million associated with lower average interest rates on existing variable rate debt and a \$2 million decrease attributed to other interest charges. The 2009 decrease was partially offset by a \$4 million increase associated with \$63 million in additional debt outstanding at December 31, 2009 compared to December 31, 2008. Total interest charges and other financing costs decreased \$30 million in 2008 primarily as a result of \$29 million associated with lower average interest rates on existing variable rate debt and a \$4 million decrease attributed to lower interest rates associated with new debt issued to replace maturing securities. At December 31, 2008, these other businesses had \$92 million in additional debt outstanding compared to December 31, 2007. The 2008 decrease was partially offset by a \$5 million increase in other interest costs. Total interest charges and other financing costs decreased by \$26 million in 2007 primarily as a result of \$16 million of losses on debt that was reacquired in 2006. Also contributing to the 2007 decrease was \$97 million less debt outstanding at December 31, 2007 compared to December 31, 2006, lower interest rates associated with the issuance of new long-term debt, and a \$4 million decrease in other interest costs.

***Income Taxes***

Income taxes for these other businesses increased \$30 million in 2009 excluding the effects of the \$202 million charge resulting from the litigation settlement with MC Asset Recovery in the first quarter 2009. The 2009 increase was primarily due to the application in 2008 of certain accounting standards related to leveraged leases and income taxes. Partially offsetting this increase was lower tax expense associated with the early termination of two international leveraged lease investments and the extinguishment of the associated debt discussed previously under Leveraged Lease Income (Losses). Income taxes decreased \$7 million in 2008 primarily as a result of leveraged lease losses discussed previously under Leveraged Lease Income (Losses), partially offset by a \$36 million decrease in net synthetic fuel tax credits as a result of Southern Company terminating its investment in synthetic fuel projects at December 31, 2007. Income taxes increased \$53 million in 2007 primarily as a result of a \$30 million decrease in net synthetic fuel tax credits as a result of terminating Southern Company's membership interest in one of the synthetic fuel entities in 2006 and increasing the synthetic fuel tax credit reserves due to an anticipated phase-out of synthetic fuel tax credits due to higher oil prices. See Note 5 to the financial statements under Effective Tax Rate for further information.

***Effects of Inflation***

The traditional operating companies are subject to rate regulation that is generally based on the recovery of historical and projected costs. The effects of inflation can create an economic loss since the recovery of costs could be in dollars that have less purchasing power. Southern Power is party to long-term contracts reflecting market-based rates, including inflation expectations. Any adverse effect of inflation on Southern Company's results of operations has not been substantial.

**FUTURE EARNINGS POTENTIAL****General**

The four traditional operating companies operate as vertically integrated utilities providing electricity to customers within their service areas in the Southeastern United States. Prices for electricity provided to retail customers are set by state PSCs under cost-based regulatory principles. Prices for wholesale electricity sales, interconnecting transmission lines, and the exchange of electric power are regulated by the Federal Energy Regulatory Commission

(FERC). Retail rates and earnings are reviewed and may be adjusted periodically within certain limitations. Southern Power continues to focus on long-term capacity contracts, optimized by limited energy trading activities. See ACCOUNTING POLICIES Application of Critical Accounting Policies and Estimates Electric Utility Regulation herein and Note 3 to the financial statements for additional information about regulatory matters.

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The results of operations for the past three years are not necessarily indicative of 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 prudently incurred costs during a time of increasing costs. Other major factors include the profitability of the competitive wholesale supply business and federal regulatory policy which may impact Southern Company's level of participation in this market. Southern Company continues to face regulatory challenges related to transmission issues at the national level. 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 negatively impacted sales for the traditional operating companies, particularly to industrial and commercial customers, and have negatively impacted wholesale capacity revenues at Southern Power. The timing and extent of the economic recovery will impact future earnings.

Southern Company system generating capacity increased 325 megawatts due to Southern Power's acquisition of West Georgia Generating Company, LLC and divestiture of DeSoto County Generating Company, LLC in December 2009. In general, Southern Company has constructed or acquired new generating capacity only after entering into long-term capacity contracts for the new facilities or to meet requirements of Southern Company's regulated retail markets, both of which are optimized by limited energy trading activities. See FUTURE EARNINGS POTENTIAL - Construction Program herein and Note 7 to the financial statements for additional information.

As part of its ongoing effort to adapt to changing market conditions, Southern Company continues to evaluate and consider a wide array of potential business strategies. These strategies may include business combinations, partnerships, acquisitions involving other utility or non-utility businesses or properties, disposition of certain assets, internal restructuring, or some combination thereof. Furthermore, Southern Company may engage in new business ventures that arise from competitive and regulatory changes in the utility industry. Pursuit of any of the above strategies, or any combination thereof, may significantly affect the business operations, risks, and financial condition of Southern Company.

**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. Environmental compliance spending over the next several years may exceed amounts estimated. Some of the factors driving the potential for such an increase are higher commodity costs, market demand for labor, and scope additions and clarifications. The timing, specific requirements, and estimated costs could also change as environmental statutes and regulations are adopted or modified. See Note 3 to the financial statements under Environmental Matters for additional information.

***New Source Review Actions***

In November 1999, the Environmental Protection Agency (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 New Source Review (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 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.

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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 believes that the traditional operating companies 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, on September 21, 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. On November 5, 2009, the defendants, including Southern Company, sought rehearing en banc, and the court's ruling is subject to potential appeal. Therefore, 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. On September 30, 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 caused the injury alleged. On November 5, 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, on October 16, 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

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assert their nuisance, trespass, and negligence claims and none of these claims are barred by the political question doctrine. The 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 Statutes and Regulations******General***

The electric utilities' operations are subject to extensive regulation by state and federal environmental agencies under a variety of statutes and regulations governing environmental media, including air, water, and land resources.

Applicable statutes include the Clean Air Act; the Clean Water Act; the Comprehensive Environmental Response, Compensation, and Liability Act; the Resource Conservation and Recovery Act; the Toxic Substances Control Act; the Emergency Planning & Community Right-to-Know Act; the Endangered Species Act; and related federal and state regulations. Compliance with these environmental requirements involves significant capital and operating costs, a major portion of which is expected to be recovered through existing ratemaking provisions. Through 2009, the electric utilities had invested approximately \$7.5 billion in capital projects to comply with these requirements, with annual totals of \$1.3 billion, \$1.6 billion, and \$1.5 billion for 2009, 2008, and 2007, respectively. The Company expects that capital expenditures to assure compliance with existing and new statutes and regulations will be an additional \$545 million, \$721 million, and \$1.2 billion for 2010, 2011, and 2012, respectively. The Company's compliance strategy can be affected by changes to existing environmental laws, statutes, and regulations; the cost, availability, and existing inventory of emissions allowances; and the Company's fuel mix. Environmental costs that are known and estimable at this time are included in capital expenditures discussed under FINANCIAL CONDITION AND LIQUIDITY - Capital Requirements and Contractual Obligations herein.

Compliance with any new federal or state legislation or regulations related to global climate change, air quality, coal combustion byproducts, including coal ash, or other environmental and health concerns could also significantly affect Southern Company. Although new or revised environmental legislation or regulations could affect many areas of Southern Company's operations, the full impact of any such changes cannot be determined at this time.

***Air Quality***

Compliance with the Clean Air Act and resulting regulations has been and will continue to be a significant focus for Southern Company. Through 2009, the electric utilities have spent approximately \$6.6 billion in reducing sulfur dioxide (SO<sub>2</sub>) and nitrogen oxide (NO<sub>x</sub>) emissions and in monitoring emissions pursuant to the Clean Air Act. Additional controls are currently being installed at several plants to further reduce air emissions, maintain compliance with existing regulations, and meet new requirements.

The EPA regulates ground level ozone through implementation of an eight-hour ozone air quality standard. A 20-county area within metropolitan Atlanta is the only location within Southern Company's service area that is currently designated as nonattainment for the standard, which could require additional reductions in NO<sub>x</sub> emissions from power plants. In March 2008, however, the EPA issued a final rule establishing a more stringent eight-hour ozone standard, and on January 6, 2010, the EPA proposed further reductions in the standard. The EPA is expected to finalize the revised standard in August 2010 and require state implementation plans for any nonattainment areas by December 2013. The revised eight-hour ozone standard is expected to result in designation of new nonattainment areas within Southern Company's service territory.

During 2005, the EPA's annual fine particulate matter nonattainment designations became effective for several areas within Southern Company's service area in Alabama and Georgia. State plans for addressing the nonattainment designations for this standard could require further reductions in SO<sub>2</sub> and NO<sub>x</sub> emissions from power plants. In September 2006, the EPA published a final rule which increased the stringency of the 24-hour average fine particulate matter air quality standard. The Birmingham, Alabama area has been designated as nonattainment for the 24-hour standard, and a state implementation plan for this nonattainment area is due in December 2012.

On December 8, 2009, the EPA also proposed revisions to the National Ambient Air Quality Standard for SO<sub>2</sub>. The EPA is expected to finalize the revised SO<sub>2</sub> standard in June 2010.

Twenty-eight eastern states, including each of the states within Southern Company's service area, are subject to the requirements of the Clean Air Interstate Rule (CAIR). The rule calls for additional reductions of NO<sub>x</sub> and/or SO<sub>2</sub> to be achieved in two phases, 2009/2010 and 2015. In July 2008 and December 2008, the U.S. Court of Appeals for the District of Columbia Circuit issued

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decisions invalidating certain aspects of CAIR, but left CAIR compliance requirements in place while the EPA develops a revised rule. States in the Southern Company service territory have completed plans to implement CAIR, and emissions reductions are being accomplished by the installation of emissions controls at coal-fired facilities of the electric utilities and/or by the purchase of emissions allowances. The EPA is expected to issue a proposed CAIR replacement rule in July 2010.

The Clean Air Visibility Rule was finalized in July 2005, with a goal of restoring natural visibility conditions in certain areas (primarily national parks and wilderness areas) by 2064. The rule involves the application of Best Available Retrofit Technology (BART) to certain sources built between 1962 and 1977, and any additional emissions reductions necessary for each designated area to achieve reasonable progress toward the natural conditions goal by 2018 and for each ten-year period thereafter. For power plants, the Clean Air Visibility Rule allows states to determine that CAIR satisfies BART requirements for SO<sub>2</sub> and NO<sub>x</sub>, and no additional controls beyond CAIR are anticipated to be necessary at any of the traditional operating companies' facilities. States have completed or are currently completing implementation plans for BART compliance and other measures required to achieve the first phase of reasonable progress.

The EPA is currently developing a Maximum Achievable Control Technology (MACT) rule for coal and oil-fired electric generating units, which will likely address numerous Hazardous Air Pollutants, including mercury. In March 2005, the EPA issued the Clean Air Mercury Rule (CAMR), a cap and trade program for the reduction of mercury emissions from coal-fired power plants. In February 2008, the U.S. Court of Appeals for the District of Columbia Circuit vacated the CAMR. In a separate proceeding in the U.S. District Court for the District of Columbia, the EPA entered into a proposed consent decree that requires the EPA to issue a proposed MACT rule by March 16, 2011 and a final rule by November 16, 2011.

In February 2004, the EPA finalized the Industrial Boiler (IB) MACT rule, which imposed limits on hazardous air pollutants from industrial boilers, including biomass boilers. Compliance with the final rule was scheduled to begin in September 2007; however, in response to challenges to the final rule, the U.S. Court of Appeals for the District of Columbia Circuit vacated the IB MACT rule in its entirety in July 2007 and ordered the EPA to develop a new IB MACT rule. In September 2009, the deadline to promulgate a proposed rule was extended from July 15, 2009 to April 15, 2010, with a final rule required by December 16, 2010. The EPA is currently developing the new rule and may change the methodology to determine the MACT limits for industrial boilers.

The impacts of the eight-hour ozone standards, the fine particulate matter nonattainment designations, and future revisions to CAIR, the SO<sub>2</sub> standard, the Clean Air Visibility Rule, and the MACT rules for electric generating units and industrial boilers on the Company cannot be determined at this time and will depend on the specific provisions of the final rules, resolution of any legal challenges, and the development and implementation of rules at the state level. However, these additional regulations 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.

The Company has developed and continually updates a comprehensive environmental compliance strategy to assess compliance obligations associated with the continuing and new environmental requirements discussed above. As part of this strategy, the Company has already installed a number of SO<sub>2</sub> and NO<sub>x</sub> emissions controls and plans to install additional controls within the next several years to ensure continued compliance with applicable air quality requirements. In addition, most units in Georgia are required to install specific emissions controls according to a schedule set forth in the state's Multipollutant Rule, which is designed to reduce emissions of SO<sub>2</sub>, NO<sub>x</sub>, and mercury in Georgia.

*Water Quality*

In July 2004, the EPA published final regulations under the Clean Water Act to reduce impingement and entrainment of fish, shellfish, and other forms of aquatic life at existing power plant cooling water intake structures. The use of cost-benefit analysis in the rule was ultimately appealed to the U.S. Supreme Court. On April 1, 2009, the U.S. Supreme Court held that the EPA could consider costs in arriving at its standards and in providing variances from

those standards for existing intake structures. The EPA is now in the process of revising the regulations. While the U.S. Supreme Court's decision may ultimately result in greater flexibility for demonstrating compliance with the standards, the full scope of the regulations will depend on further rulemaking by the EPA and the actual requirements established by state regulatory agencies and, therefore, cannot be determined at this time.

On December 28, 2009, the EPA announced its determination that revision of the current effluent guidelines for steam electric power plants is warranted and proposed a plan to adopt such revisions by 2013. New wastewater treatment requirements are expected and may result in the installation of additional controls on certain Southern Company system facilities. The impact of revised guidelines will depend on the studies conducted in connection with the rulemaking, as well as the specific requirements of the final rule, and, therefore, cannot be determined at this time.

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**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)****Southern Company and Subsidiary Companies 2009 Annual Report***Environmental Remediation*

Southern Company must comply with other environmental laws and regulations that cover the handling and disposal of waste and releases of hazardous substances. Under these various laws and regulations, the traditional operating companies could incur substantial costs to clean up properties. The traditional operating companies conduct studies to determine the extent of any required cleanup and have recognized in their respective financial statements the costs to clean up known sites. Amounts for cleanup and ongoing monitoring costs were not material for any year presented. The traditional operating companies may be liable for some or all required cleanup costs for additional sites that may require environmental remediation. See Note 3 to the financial statements under Environmental Matters Environmental Remediation for additional information.

*Coal Combustion Byproducts*

The EPA is currently evaluating whether additional regulation of coal combustion byproducts is merited under federal solid and hazardous waste laws. The EPA has collected information from the electric utility industry on surface impoundment safety and conducted on-site inspections at three facilities of Alabama Power and Georgia Power as part of its evaluation. The traditional operating companies have a routine and robust inspection program in place to ensure the integrity of their respective coal ash surface impoundments. The EPA is expected to issue a proposal regarding additional regulation of coal combustion byproducts in early 2010. The impact of these additional regulations on the Company will depend on the specific provisions of the final rule 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*

Federal legislative proposals that would impose mandatory requirements related to greenhouse gas emissions, renewable energy standards, and energy efficiency standards continue to be considered in Congress, and the reduction of greenhouse gas emissions has been identified as a high priority by the current Administration. On June 26, 2009, the American Clean Energy and Security Act of 2009 (ACES), which would impose mandatory greenhouse gas restrictions through implementation of a cap and trade program, a renewable energy standard, and other measures, was passed by the House of Representatives. ACES would require reductions of greenhouse gas emissions on a national basis to a level that is 17% below 2005 levels by 2020, 42% below 2005 levels by 2030, and 83% below 2005 levels by 2050. In addition, ACES would provide for renewable energy standards of 6% by 2012 and 20% by 2020. Similar legislation is being considered by the Senate. The financial and operational impact of such legislation, if enacted, will depend on a variety of factors. These factors include the specific greenhouse gas emissions limits or renewable energy requirements, the timing of implementation of these limits or requirements, the level of emissions allowances allocated and the level that must be purchased, the purchase price of emissions allowances, the development and commercial availability of technologies for renewable energy and for the reduction of emissions, the degree to which offsets may be used for compliance, provisions for cost containment (if any), the impact on coal and natural gas prices, and cost recovery through regulated rates. There can be no assurance that any legislation will be enacted or as to the ultimate form of any legislation. Additional or alternative legislation may be adopted as well.

In April 2007, the U.S. Supreme Court ruled that the EPA has authority under the Clean Air Act to regulate greenhouse gas emissions from new motor vehicles. On December 15, 2009, the EPA published a final determination, which became effective on January 14, 2010, that certain greenhouse gas emissions from new motor vehicles endanger public health and welfare due to climate change. On September 28, 2009, the EPA published a proposed rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that once this rule is effective, it will cause carbon dioxide and other greenhouse gases to 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, on October 27, 2009. The EPA has stated that it expects to finalize these proposed rules in March 2010. The ultimate outcome of the endangerment finding and these proposed rules cannot be determined at this time and will depend on additional regulatory action and any legal challenges.

International climate change negotiations under the United Nations Framework Convention on Climate Change also continue. A nonbinding agreement was announced during the most recent round of negotiations in December 2009 that included a pledge from both developed and developing countries to reduce their greenhouse gas emissions. The outcome and impact of the international negotiations cannot be determined at this time.



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Although the outcome of federal, state, or international initiatives cannot be determined at this time, mandatory restrictions on the Company's greenhouse gas emissions or requirements relating to renewable energy or energy efficiency on the federal or state level are likely to result in significant additional compliance costs, including significant capital expenditures. These costs could affect future unit retirement and replacement decisions, and could result in the retirement of a significant number of coal-fired generating units. See Item 1 BUSINESS Rate Matters Integrated Resource Planning for additional information. Also, additional compliance costs and costs related to unit retirements could affect results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively impact results of operations, cash flows, and financial condition. In 2008, the total carbon dioxide emissions from the fossil fuel-fired electric generating units owned by the electric utilities were approximately 142 million metric tons. The preliminary estimate of carbon dioxide emissions from these units in 2009 is approximately 121 million metric tons. The level of carbon dioxide emissions from year to year will be dependent on the level of generation and mix of fuel sources, which is determined primarily by demand, the unit cost of fuel consumed, and the availability of generating units.

The Company is actively evaluating and developing electric generating technologies with lower greenhouse gas emissions. These include new nuclear generation, including two additional generating units at Plant Vogtle in Georgia; proposed construction of an advanced IGCC unit with approximately 65% carbon capture in Kemper County, Mississippi; and renewables investments, including the construction of a biomass plant in Sacul, Texas. The Company is currently considering additional projects and is pursuing research into the costs and viability of other renewable technologies for the Southeast.

**PSC Matters*****Alabama Power***

Rate RSE adjustments are based on forward-looking information for the applicable upcoming calendar year. Rate adjustments for any two-year period, when averaged together, cannot exceed 4% per year and any annual adjustment is limited to 5%. Retail rates remain unchanged when the retail return on common equity (ROE) is projected to be between 13% and 14.5%. If Alabama Power's actual retail ROE is above the allowed equity return range, customer refunds will be required; however, there is no provision for additional customer billings should the actual retail ROE fall below the allowed equity return range.

On December 1, 2009, Alabama Power made its Rate RSE submission to the Alabama PSC of projected data for calendar year 2010. The Rate RSE increase for 2010 is 3.2%, or \$152 million annually, and was effective in January 2010. The revenue adjustment under the Rate RSE is largely attributable to the costs associated with fossil capacity which is currently dedicated to certain long-term wholesale contracts that expire during 2010. Retail cost of service for 2010 reflects the cost for that portion of the year in which this capacity is no longer committed to wholesale. The termination of these long-term wholesale contracts will result in a significant decrease in unit power sales capacity revenues. In an Alabama PSC order dated January 5, 2010, the Alabama PSC acknowledged that a full calendar year of costs for such capacity would be reflected in the Rate RSE calculation beginning in 2011 and thereafter. Under the terms of Rate RSE, the maximum increase for 2011 cannot exceed 4.76%.

The Alabama PSC has also approved a rate mechanism that provides for adjustments to recognize the cost of placing new generating facilities in retail service and for the recovery of retail costs associated with certificated PPAs under a Rate Certificated New Plant (Rate CNP). There was no adjustment to Rate CNP in April 2007, 2008, or 2009. Effective April 2010, Rate CNP will be reduced approximately \$70 million annually, primarily due to the expiration on May 31, 2010 of the PPA with Southern Power covering the capacity of Plant Harris Unit 1. Rate CNP also allows for the recovery of Alabama Power's retail costs associated with environmental laws, regulations, or other such mandates. The rate mechanism is based on forward-looking information and provides for the recovery of these costs pursuant to a factor that is calculated annually. Environmental costs to be recovered include operations and maintenance expenses, depreciation, and a return on invested capital.

On December 1, 2009, Alabama Power made its Rate CNP environmental submission to the Alabama PSC of projected data for calendar year 2010. The Rate CNP environmental increase for 2010 is 4.3%, or \$195 million annually, based upon projected billings. Under the terms of the rate mechanism, the adjustment became effective in January 2010. The Rate CNP environmental adjustment is primarily attributable to scrubbers being placed in service during 2010 at four of Alabama Power's generating plants. See Note 3 to the financial statements under Retail Regulatory Matters - Alabama Power - Retail Rate Plans for further information.

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In December 2007, the Georgia PSC approved the 2007 Retail Rate Plan. Under the 2007 Retail Rate Plan, Georgia Power's earnings are evaluated against a retail ROE range of 10.25% to 12.25%. Retail base rates increased by approximately \$100 million effective January 1, 2008 to provide for cost recovery of transmission, distribution, generation, and other investments, as well as increased operating costs. In addition, the ECCR tariff was implemented to allow for the recovery of costs related to environmental projects mandated by state and federal regulations. The ECCR tariff increased rates by approximately \$222 million effective January 1, 2008.

In connection with the 2007 Retail Rate Plan, Georgia Power agreed that it would not file for a general base rate increase during this period unless its projected retail ROE falls below 10.25%. The economic recession has significantly reduced Georgia Power's revenues upon which retail rates were set under the 2007 Retail Rate Plan. In June 2009, despite stringent efforts to reduce expenses, Georgia Power's projected retail ROE for both 2009 and 2010 was below 10.25%. However, in lieu of filing to increase customer rates as allowed under the 2007 Retail Rate Plan, on June 29, 2009, Georgia Power filed a request with the Georgia PSC for 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. On August 27, 2009, the Georgia PSC approved the accounting order. 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 ROE. For the year ended December 31, 2009, Georgia Power amortized \$41 million of the regulatory liability. 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. Georgia Power is required to file a general rate case by July 1, 2010, in response to which the Georgia PSC would be expected to determine whether the 2007 Retail Rate Plan should be continued, modified, or discontinued. See Note 3 to the financial statements under *Retail Regulatory Matters - Georgia Power - Retail Rate Plans* for additional information.

***Fuel Cost Recovery***

The traditional operating companies each have established fuel cost recovery rates approved by their respective state PSCs. In previous years, the traditional operating companies experienced higher than expected fuel costs for coal, natural gas, and uranium. 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 \$667 million at December 31, 2009. During the third quarter 2009, Alabama Power and Mississippi Power collected all previously under recovered fuel costs and, as of December 31, 2009, have a total over recovered fuel balance of \$229 million. The total under recovered fuel costs included in the balance sheets of the traditional operating companies at December 31, 2008 was \$1.2 billion. The traditional operating companies continuously monitor the under or over recovered fuel cost balances.

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, changing the billing factor has no significant effect on the Company's revenues or net income, but does impact annual cash flow. See Note 1 to the financial statements under *Revenues* 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* for additional information.

***Legislation***

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (ARRA). Major tax incentives in the ARRA include an extension of bonus depreciation and multiple renewable energy incentives, which could have a significant impact on the future cash flow and net income of Southern Company. Southern Company's cash flow reduction to 2009 tax payments as a result of the bonus depreciation provisions of the ARRA was approximately \$250 million. On December 8, 2009, President Obama announced proposals to accelerate job growth that include an extension of the bonus depreciation provision for the ARRA for 2010, which could have a significant impact on the future cash flow and net income of Southern Company.

On October 27, 2009, Southern Company and its subsidiaries received notice that an award of \$165 million had been granted under the ARRA grant application for transmission and distribution automation and modernization projects

pending final negotiations. Southern Company continues to assess the other financial implications of the ARRA. The U.S. House of Representatives and the U.S. Senate have passed separate bills related to healthcare reform. Both bills include a provision that would make Medicare Part D subsidy reimbursements taxable. If enacted into law, this provision could have a

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significant negative impact on Southern Company's net income. See Note 2 to the financial statements under **Other Postretirement Benefits** for additional information.

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

**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 has 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. An unrecognized tax benefit has been recorded related to these credits. See Note 5 to the financial statements under

**Unrecognized Tax Benefits** for additional information. 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. The ultimate outcome of this matter cannot now be determined.

***Internal Revenue Code Section 199 Domestic Production Deduction***

The American Jobs Creation Act of 2004 created a tax deduction for a portion of income attributable to U.S. production activities as defined in Section 199 of the Internal Revenue Code. The deduction is equal to a stated percentage of qualified production activities net income. The percentage is phased in over the years 2005 through 2010 with a 3% rate applicable to the years 2005 and 2006, a 6% rate applicable for the years 2007 through 2009, and a 9% rate thereafter. See Note 5 to the financial statements under **Effective Tax Rate** for additional information.

**Construction Program**

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 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 under **Construction Program** for estimated construction expenditures for the next three years. In addition, see Note 3 to the financial statements under **Retail Regulatory Matters - Georgia Power Nuclear Construction** and **Retail Regulatory Matters - Integrated Coal Gasification Combined Cycle** 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, 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. See Note 3 to the financial statements for information regarding material issues.



**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)****Southern Company and Subsidiary Companies 2009 Annual Report****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. 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. Senior management has discussed the development and selection of the critical accounting policies and estimates described below with the Audit Committee of Southern Company's Board of Directors.

***Electric Utility Regulation***

Southern Company's traditional operating companies, which comprised approximately 97% of Southern Company's total operating revenues for 2009, are subject to retail regulation by their respective state PSCs and wholesale regulation by the FERC. These regulatory agencies set the rates the traditional operating companies are permitted to charge customers based on allowable costs. As a result, the traditional operating companies apply accounting standards which require the financial statements to reflect the effects of rate regulation. Through the ratemaking process, the regulators may require the inclusion of costs or revenues in periods different than when they would be recognized by a non-regulated company. This treatment may result in the deferral of expenses and the recording of related regulatory assets based on anticipated future recovery through rates or the deferral of gains or creation of liabilities and the recording of related regulatory liabilities. The application of the accounting standards has a further effect on the Company's financial statements as a result of the estimates of allowable costs used in the ratemaking process. These estimates may differ from those actually incurred by the traditional operating companies; therefore, the accounting estimates inherent in specific costs such as depreciation, nuclear decommissioning, and pension and postretirement benefits have less of a direct impact on the Company's results of operations than they would on a non-regulated company.

As reflected in Note 1 to the financial statements, significant regulatory assets and liabilities have been recorded. Management reviews the ultimate recoverability of these regulatory assets and liabilities based on applicable regulatory guidelines and accounting principles generally accepted in the United States. However, adverse legislative, judicial, or regulatory actions could materially impact the amounts of such regulatory assets and liabilities and could adversely impact the Company's financial statements.

***Contingent Obligations***

Southern Company and its subsidiaries are subject to a number of federal and state laws and regulations, as well as other factors and conditions that potentially subject them to environmental, litigation, income tax, and other risks. See FUTURE EARNINGS POTENTIAL herein and Note 3 to the financial statements for more information regarding certain of these contingencies. Southern Company periodically evaluates its exposure to such risks and, in accordance with GAAP, records reserves for those matters where a non-tax-related loss is considered probable and reasonably estimable and records a tax asset or liability if it is more likely than not that a tax position will be sustained. The adequacy of reserves can be significantly affected by external events or conditions that can be unpredictable; thus, the ultimate outcome of such matters could materially affect Southern Company's financial statements.

These events or conditions include the following:

- Changes in existing state or federal regulation by governmental authorities having jurisdiction over air quality, water quality, coal combustion byproducts, including coal ash, control of toxic substances, hazardous and solid wastes, and other environmental matters.

- Changes in existing income tax regulations or changes in IRS or state revenue department interpretations of existing regulations.

- Identification of additional sites that require environmental remediation or the filing of other complaints in which Southern Company or its subsidiaries may be asserted to be a potentially responsible party.

Identification and evaluation of other potential lawsuits or complaints in which Southern Company or its subsidiaries may be named as a defendant.

Resolution or progression of new or existing matters through the legislative process, the court systems, the IRS, state revenue departments, the FERC, or the EPA.

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**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)****Southern Company and Subsidiary Companies 2009 Annual Report*****Unbilled Revenues***

Revenues related to the retail sale of electricity are recorded when electricity is delivered to customers. However, the determination of KWH sales to individual customers is based on the reading of their meters, which is performed on a systematic basis throughout the month. At the end of each month, amounts of electricity delivered to customers, but not yet metered and billed, are estimated. Components of the unbilled revenue estimates include total KWH territorial supply, total KWH billed, estimated total electricity lost in delivery, and customer usage. These components can fluctuate as a result of a number of factors including weather, generation patterns, and power delivery volume and other operational constraints. These factors can be unpredictable and can vary from historical trends. As a result, the overall estimate of unbilled revenues could be significantly affected, which could have a material impact on the Company's results of operations.

***Pension and Other Postretirement Benefits***

Southern Company's calculation of pension and other postretirement benefits expense is dependent on a number of assumptions. These assumptions include discount rates, health care cost trend rates, expected long-term return on plan assets, mortality rates, expected salary and wage increases, and other factors. Components of pension and other postretirement benefits expense include interest and service cost on the pension and other postretirement benefit plans, expected return on plan assets and amortization of certain unrecognized costs and obligations. Actual results that differ from the assumptions utilized are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. While the Company believes that the assumptions used are appropriate, differences in actual experience or significant changes in assumptions would affect its pension and other postretirement benefits costs and obligations.

Key elements in determining Southern Company's pension and other postretirement benefit expense in accordance with GAAP are the expected long-term return on plan assets and the discount rate used to measure the benefit plan obligations and the periodic benefit plan expense for future periods. The expected long-term return on postretirement benefit plan assets is based on Southern Company's investment strategy, historical experience, and expectations for long-term rates of return that considers external actuarial advice.

Southern Company determines the long-term return on plan assets by applying the long-term rate of expected returns on various asset classes to Southern Company's target asset allocation. Southern Company discounts the future cash flows related to its postretirement benefit plans using a single-point discount rate developed from the weighted average of market-observed yields for high quality fixed income securities with maturities that correspond to expected benefit payments.

The following table illustrates the sensitivity to changes in Southern Company's long-term assumptions with respect to the expected long-term rate of return on plan assets and the assumed discount rate:

<b>Change in Assumption</b>	<b>Increase/(Decrease) in Total Benefit Expense for 2010</b>	<b>Increase/(Decrease) in Projected Obligation for Pension Plan at December 31, 2009</b>	<b>Increase/(Decrease) in Projected Obligation for Other Postretirement Benefit Plans at December 31, 2009</b>
		<i>(in millions)</i>	
25 basis point change in discount rate	\$11/\$(8)	\$226/\$(214)	\$53/\$(51)
25 basis point change in salary assumption	\$9/\$(8)	\$58/\$(55)	N/M
25 basis point change in long-term return on plan assets	\$19/\$(19)	N/M	N/M

N/M Not meaningful



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In June 2009, the Financial Accounting Standards Board issued new guidance on the consolidation of variable interest entities, which replaces the quantitative-based risks and rewards calculation for determining whether an enterprise is the primary beneficiary in a variable interest entity with an approach that is primarily qualitative, requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity, and requires additional disclosures about an enterprise's involvement in variable interest entities. Southern Company adopted this new guidance effective January 1, 2010, with no material impact on its financial statements.

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

Southern Company's financial condition remained stable at December 31, 2009. Throughout the turmoil in the financial markets, Southern Company has maintained adequate access to capital without drawing on any of its committed bank credit arrangements used to support its commercial paper programs and variable rate pollution control revenue bonds. 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. Market rates for committed credit have increased, and Southern Company and its subsidiaries have been and expect to continue to be subject to higher costs as existing facilities are replaced or renewed. Total committed credit fees for Southern Company and its subsidiaries currently average less than 1/2 of 1% per year. See Sources of Capital and Financing Activities herein for additional information.

Southern Company's investments in pension and nuclear decommissioning trust funds remained stable in value as of December 31, 2009. Southern Company expects that the earliest that cash may have to be contributed to the pension trust fund is 2012 and such contribution could be significant; however, projections of the amount vary significantly depending on key variables including future trust fund performance and cannot be determined at this time. Southern Company does not expect any changes to funding obligations to the nuclear decommissioning trusts prior to 2011. Net cash provided from operating activities in 2009 totaled \$3.3 billion, a decrease of \$201 million from the corresponding period in 2008. Significant changes in operating cash flow for 2009 as compared to the corresponding period in 2008 include a reduction to net income as previously discussed, increased levels of coal inventory, and increased cash outflows for tax payments. These uses of funds were partially offset by increased cash inflows as a result of higher fuel cost recovery rates included in customer billings. Net cash provided from operating activities in 2008 totaled \$3.5 billion, an increase of \$30 million as compared to 2007. Significant changes in operating cash flow for 2008 included a \$264 million increase in the use of funds for fossil fuel inventory as compared to the corresponding period in 2007. This use of funds was offset by an increase in cash of \$312 million in accrued taxes primarily due to a difference between the periods in payments for federal taxes and property taxes. Net cash provided from operating activities in 2007 totaled \$3.4 billion, an increase of \$583 million as compared to the corresponding period in 2006. The increase was primarily due to an increase in net income as previously discussed, an increase in cash collections from previously deferred fuel and storm damage costs, and a reduction in cash outflows compared to the previous year in fossil fuel inventory.

Net cash used for investing activities in 2009 totaled \$4.3 billion primarily due to property additions to utility plant of \$4.7 billion, partially offset by approximately \$340 million in cash received from the early termination of two leveraged lease investments. Net cash used for investing activities in 2008 totaled \$4.1 billion primarily due to property additions to utility plant of \$4.0 billion. In 2007, net cash used for investing activities was \$3.7 billion primarily due to property additions to utility plant of \$3.5 billion.

Net cash provided from financing activities totaled \$1.3 billion in 2009 primarily due to the issuance of new long-term debt and common stock issuances, partially offset by cash outflows for repayments of long-term debt and dividend payments. Net cash provided from financing activities totaled \$878 million in 2008 primarily due to long-term debt issuances. Net cash provided from financing activities totaled \$309 million in 2007 primarily due to replacement of short-term debt with longer term financing and cash raised from common stock programs.

Significant balance sheet changes in 2009 include an increase of \$3.4 billion 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

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significant changes include an increase in long-term debt, excluding amounts due within one year, of \$1.3 billion used primarily for construction expenditures and general corporate purposes and \$1.6 billion of additional equity.

At the end of 2009, the closing price of Southern Company's common stock was \$33.32 per share, compared with book value of \$18.15 per share. The market-to-book value ratio was 184% at the end of 2009, compared with 217% at year-end 2008.

Southern Company, each of the traditional operating companies, and Southern Power have received investment grade credit ratings from the major rating agencies with respect to debt, preferred securities, preferred stock, and/or preference stock. Southern Company Services, Inc. has an investment grade corporate credit rating. See **Credit Rating Risk** herein for additional information.

**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 the 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. However, the type and timing of any financings, if needed, will depend upon prevailing market conditions, regulatory approval, and other factors. In addition, on February 16, 2010, the U.S. Department of Energy (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, including obtaining any necessary regulatory approvals. 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 Nuclear Regulatory Commission (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.

The issuance of securities by the traditional operating companies is generally subject to the approval of the applicable state PSC. The issuance of all securities by Mississippi Power and Southern Power and short-term securities by Georgia Power is generally subject to regulatory approval by the FERC. Additionally, with respect to the public offering of securities, Southern Company and certain of its subsidiaries file registration statements with the Securities and Exchange Commission (SEC) under the Securities Act of 1933, as amended (1933 Act). The amounts of securities authorized by the appropriate regulatory authorities, as well as the amounts, if any, registered under the 1933 Act, are continuously monitored and appropriate filings are made to ensure flexibility in the capital markets.

Southern Company, each traditional operating company, and Southern Power obtain financing separately without credit support from any affiliate. See Note 6 to the financial statements under **Bank Credit Arrangements** for additional information. The Southern Company system does not maintain a centralized cash or money pool.

Therefore, funds of each company are not commingled with funds of any other company.

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).

At December 31, 2009, Southern Company and its subsidiaries had approximately \$690 million of cash and cash equivalents and \$4.8 billion of unused credit arrangements with banks, of which \$1.5 billion expire in 2010,

\$25 million expire in 2011, and \$3.2 billion expire in 2012. Approximately \$81 million of the credit facilities expiring in 2010 allow for the execution of term loans for an additional two-year period, and \$517 million allow for the execution of one-year term loans. Most of these arrangements contain covenants that limit debt levels and typically contain cross default provisions that are restricted only to the indebtedness of the individual company. Southern Company and its subsidiaries are currently in compliance with all such covenants. A portion of the unused credit with banks is allocated to provide liquidity support to the traditional operating companies variable rate pollution control

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revenue bonds. The amount of variable rate pollution control revenue bonds requiring liquidity support as of December 31, 2009 was approximately \$1.6 billion. Subsequent to December 31, 2009, two remarketings of pollution control revenue bonds increased that amount to \$1.8 billion. See Note 6 to the financial statements under "Bank Credit Arrangements" for additional information.

**Financing Activities**

During 2009, Southern Company issued \$350 million of Series 2009A 4.15% Senior Notes due May 15, 2014 and \$300 million of Series 2009B Floating Rate Senior Notes due October 21, 2011, and its subsidiaries issued \$1.8 billion of senior notes and incurred obligations of \$625 million related to the issuance of pollution control revenue bonds. A portion of the proceeds of the newly issued pollution control revenue bonds were used to retire \$327 million of outstanding pollution control revenue bonds. Southern Company also issued 22.6 million shares of common stock for \$673 million through the Southern Investment Plan and employee and director stock plans. In addition, Southern Company issued 19.9 million shares of common stock through at-the-market issuances pursuant to sales agency agreements related to Southern Company's continuous equity offering program and received cash proceeds of \$613 million, net of \$6 million in fees and commissions. The proceeds were primarily used to redeem or repay at maturity \$1.2 billion of long-term debt, to fund ongoing construction projects, to repay short-term and long-term indebtedness, and for general corporate purposes.

Also during 2009, Georgia Power and Gulf Power entered into forward starting interest rate swaps to mitigate exposure to interest rate changes related to anticipated debt issuances. The notional amounts of the swaps totaled \$200 million and \$100 million, respectively. Georgia Power had net realized losses of \$19 million upon termination of \$300 million of interest rate hedges during 2009. The effective portion of these losses has been deferred in other comprehensive income and is being amortized to interest expense over the life of the original interest rate hedge.

In 2009, Southern Company used a portion of the cash received from the early termination of two leveraged lease investments to extinguish \$253 million of debt which included all debt related to these leveraged lease investments and to pay make-whole redemption premiums of \$17 million associated with such debt.

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.

**Off-Balance Sheet Financing Arrangements**

In 2001, Mississippi Power began the initial 10-year term of a lease agreement for a combined cycle generating facility built at Plant Daniel for approximately \$370 million. In 2003, the generating facility was acquired by Juniper Capital L.P. (Juniper), a limited partnership whose investors are unaffiliated with Mississippi Power. Simultaneously, Juniper entered into a restructured lease agreement with Mississippi Power. Juniper has also entered into leases with other parties unrelated to Mississippi Power. The assets leased by Mississippi Power comprise less than 50% of Juniper's assets. Mississippi Power is not required to consolidate the leased assets and related liabilities, and the lease with Juniper is considered an operating lease. The lease also provides for a residual value guarantee, approximately 73% of the acquisition cost, by Mississippi Power that is due upon termination of the lease in the event that Mississippi Power does not renew the lease or purchase the assets and that the fair market value is less than the unamortized cost of the assets. In April 2010, 18 months prior to the end of the initial lease term, Mississippi Power may elect to renew for 10 years. See Note 7 to the financial statements under "Operating Leases" for additional information.

**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 facilities. At December 31, 2009, 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 \$467 million. At December 31, 2009, 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.

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On September 2, 2009, Moody's Investors Service (Moody's) affirmed the credit ratings of Southern Company's senior unsecured notes and commercial paper of A3/P-1, respectively, and revised the rating outlook for Southern Company to negative. On September 4, 2009, Fitch Ratings, Inc. affirmed Southern Company's long-term and commercial paper credit ratings of A/F1, respectively, and maintained its stable rating outlook. On October 6, 2009, Standard and Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. (S&P) affirmed the credit ratings of Southern Company's senior unsecured notes and commercial paper of A-/A-1, respectively, and maintained a stable rating outlook.

**Market Price Risk**

Southern Company is exposed to market risks, primarily commodity price risk and interest rate risk. To manage the volatility attributable to these exposures, the Company nets the exposures, where possible, to take advantage of natural offsets and enters into various derivative transactions for the remaining exposures pursuant to the Company's policies in areas such as counterparty exposure and risk management practices. Company 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.

To mitigate future exposure to a change in interest rates, the Company enters into forward starting interest rate swaps and other derivatives that have been designated as hedges. Derivatives outstanding at December 31, 2009 have a notional amount of \$976 million and are related to anticipated debt issuances and various floating rate obligations over the next year. The weighted average interest rate on \$2.7 billion of long-term variable interest rate exposure that has not been hedged at January 1, 2010 was 0.76%. If Southern Company sustained a 100 basis point change in interest rates for all unhedged variable rate long-term debt, the change would affect annualized interest expense by approximately \$27 million at January 1, 2010. For further information, see Note 1 to the financial statements under Financial Instruments and Note 11 to the financial statements.

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, 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 enter into physical fixed-price contracts for the purchase and sale of electricity through the wholesale electricity market and, to a lesser extent, into financial hedge contracts for natural gas purchases. The traditional operating companies continue to manage fuel-hedging programs implemented per the guidelines of their respective state PSCs. The changes in fair value of energy-related derivative contracts were as follows at December 31:

	<b>2009</b>	2008
	<b>Changes</b>	Changes
	Fair Value	
	<i>(in millions)</i>	
Contracts outstanding at the beginning of the period, assets (liabilities), net	\$(285)	\$ 4
Contracts realized or settled	367	(150)
Current period changes <sup>(a)</sup>	(260)	(139)
Contracts outstanding at the end of the period, assets (liabilities), net	\$(178)	\$(285)

(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 year ended December 31, 2009 was an increase of \$107 million, substantially all of which is due to natural gas positions. The change is attributable to both the volume of million British thermal units (mmBtu) and prices of natural gas. At December 31, 2009, Southern Company had a net hedge volume of 154 million mmBtu (includes location basis of 2 million mmBtu) with a weighted average contract cost approximately \$1.17 per mmBtu above market prices, compared to 149 million mmBtu (includes location basis of 2 million mmBtu) at December 31, 2008 with a weighted average contract cost approximately \$1.97 per mmBtu above market prices. The majority of the natural gas hedges are recorded through the traditional operating companies fuel cost recovery clauses.

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**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
**Southern Company and Subsidiary Companies 2009 Annual Report**

At December 31, the net fair value of energy-related derivative contracts by hedge designation was reflected in the financial statements as assets/(liabilities) as follows:

<b>Asset (Liability) Derivatives</b>	<b>2009</b>	<b>2008</b>
	<i>(in millions)</i>	
Regulatory hedges	<b>\$ (175)</b>	\$ (288)
Cash flow hedges	<b>(2)</b>	(1)
Not designated	<b>(1)</b>	4
<b>Total fair value</b>	<b>\$ (178)</b>	\$ (285)

Energy-related derivative contracts which 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 designated as cash flow hedges are mainly used by Southern Power to hedge anticipated purchases and sales and are initially deferred in other comprehensive income 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 the statements of income for the years ended December 31, 2009, 2008, and 2007 for energy-related derivative contracts that are not hedges were \$(5) million, \$1 million, and \$3 million, respectively.

The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at December 31, 2009 are as follows:

	<b>December 31, 2009</b>			
	<b>Fair Value Measurements</b>			
	Total	Maturity		
	Fair Value	Year 1	Years 2&3	Years 4&5
	<i>(in millions)</i>			
Level 1	\$	\$	\$	\$
Level 2	(178)	(113)	(65)	
Level 3				
<b>Fair value of contracts outstanding at end of period</b>	<b>\$(178)</b>	<b>\$(113)</b>	<b>\$(65)</b>	<b>\$</b>

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 10 to the financial statements for further discussion on fair value measurement.

Southern Company is exposed to market price risk in the event of nonperformance by counterparties to energy-related and interest rate derivative contracts. Southern Company only enters into agreements and material transactions with counterparties that have investment grade credit ratings by Moody's and S&P or with counterparties who have posted collateral to cover potential credit exposure. Therefore, Southern Company does not anticipate market risk exposure from nonperformance by the counterparties. For additional information, see Note 1 to the financial statements under Financial Instruments and Note 11 to the financial statements.

Southern Company performs periodic reviews of its leveraged lease transactions, both domestic and international and the creditworthiness of the lessees, including a review of the value of the underlying leased assets and the credit ratings of the lessees. Southern Company's domestic lease transactions generally do not have any credit enhancement mechanisms; however, the lessees in its international lease transactions have pledged various deposits as additional security to secure the obligations. The lessees in the Company's international lease transactions are also required to provide additional collateral in the event of a credit downgrade below a certain level.

During 2007, Southern Company had derivatives in place to reduce its exposure to a phase-out of certain income tax credits related to synthetic fuel production in 2007. In accordance with Internal Revenue Code Section 45K, these tax credits were subject to limitation as the annual average price of oil increased. Because these transactions were not designated as hedges, the gains and losses were recognized in the statements of income as incurred. These derivatives settled on January 1, 2008 and thus there was no income statement impact for the years ended December 31, 2008 and 2009. For 2007, the unrealized fair value gain recognized in other income to mark the transactions to market was \$27 million.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
**Southern Company and Subsidiary Companies 2009 Annual Report**  
**Capital Requirements and Contractual Obligations**

The construction program of Southern Company is currently estimated to be \$4.9 billion for 2010, \$5.3 billion for 2011, and \$6.2 billion for 2012. These estimates include costs for new generation construction. Environmental expenditures included in these estimated amounts are \$545 million, \$721 million, and \$1.2 billion for 2010, 2011, and 2012, respectively. 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. See Note 3 to the financial statements under Retail Regulatory Matters Georgia Power Nuclear Construction and Retail Regulatory Matters Integrated Coal Gasification Combined Cycle and Note 7 to the financial statements under Construction Program for additional information.

As a result of NRC requirements, Alabama Power and Georgia Power have external trust funds for nuclear decommissioning costs; however, Alabama Power currently has no additional funding requirements. For additional information, see Note 1 to the financial statements under Nuclear Decommissioning.

In addition, as discussed in Note 2 to the financial statements, Southern Company provides postretirement benefits to substantially all employees and funds trusts to the extent required by the traditional operating companies respective regulatory commissions.

Other funding requirements related to obligations associated with scheduled maturities of long-term debt, as well as the related interest, derivative obligations, preferred and preference stock dividends, leases, and other purchase commitments are as follows. See Notes 1, 6, 7, and 11 to the financial statements for additional information.

**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
**Southern Company and Subsidiary Companies 2009 Annual Report**  
**Contractual Obligations**

	2010	2011- 2012	2013- 2014	After 2014	Uncertain Timing <sup>(d)</sup>	Total
	<i>(in millions)</i>					
Long-term debt <sup>(a)</sup>						
Principal	\$ 1,092	\$ 2,880	\$ 1,361	\$ 13,836	\$	\$ 19,169
Interest	894	1,732	1,455	11,905		15,986
Preferred and preference stock dividends <sup>(b)</sup>	65	130	130			325
Other derivative obligations <sup>(c)</sup>						
Energy-related	119	66				185
Operating leases	144	192	99	124		559
Capital leases	21	26	11	40		98
Unrecognized tax benefits and interest <sup>(d)</sup>	184				36	220
Purchase commitments <sup>(e)</sup>						
Capital <sup>(f)</sup>	4,665	11,160				15,825
Limestone <sup>(g)</sup>	37	72	76	110		295
Coal	4,490	4,707	1,913	2,508		13,618
Nuclear fuel	271	323	231	297		1,122
Natural gas <sup>(h)</sup>	1,349	2,192	1,504	4,153		9,198
Biomass fuel <sup>(i)</sup>		17	35	128		180
Purchased power	253	524	502	2,742		4,021
Long-term service agreements <sup>(j)</sup>	103	251	263	1,738		2,355
Trusts						
Nuclear decommissioning <sup>(k)</sup>	3	7	7	53		70
Postretirement benefits <sup>(l)</sup>	43	76				119
<b>Total</b>	<b>\$ 13,733</b>	<b>\$ 24,355</b>	<b>\$ 7,587</b>	<b>\$ 37,634</b>	<b>\$ 36</b>	<b>\$ 83,345</b>

(a) All amounts are reflected based on final maturity dates. Southern Company and its subsidiaries plan to continue to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit. Variable rate

interest obligations are estimated based on rates as of January 1, 2010, as reflected in the statements of capitalization.

Fixed rates include, where applicable, the effects of interest rate derivatives employed to manage interest rate risk.

Excludes capital lease amounts (shown separately).

- (b) Preferred and preference stock do not mature; therefore, amounts are provided for the next five years only.
- (c) For additional information, see Notes 1 and 11 to the financial statements.
- (d) The timing related to the realization of \$36 million in unrecognized tax benefits and interest payments in individual years beyond 12 months cannot be reasonably and reliably estimated due to uncertainties in the timing of the effective

settlement of tax positions. See Notes 3 and 5 to the financial statements for additional information.

- (e) Southern Company generally does not enter into non-cancelable commitments for other operations and maintenance expenditures. Total other operations and maintenance expenses for 2009, 2008, and 2007 were \$3.5 billion, \$3.8 billion, and \$3.7 billion, respectively.
  
- (f) Southern Company forecasts capital expenditures over a three-year period. Amounts represent current estimates of total expenditures excluding those amounts related to contractual purchase commitments for nuclear fuel. At December 31, 2009, significant purchase commitments were outstanding in connection with the construction



program.

- (g) As part of Southern Company's program to reduce sulfur dioxide emissions from its coal plants, the traditional operating companies have entered into various long-term commitments for the procurement of limestone to be used in flue gas desulfurization equipment.
- (h) Natural gas purchase commitments are based on various indices at the time of delivery. Amounts reflected have been estimated based on the New York Mercantile Exchange future prices at December 31, 2009.
- (i) Biomass fuel commitments are based on minimum committed tonnage of wood waste purchases.
- (j) Long-term service agreements include price escalation based on inflation indices.

- (k) Projections of nuclear decommissioning trust contributions are based on the 2007 Retail Rate Plan and are subject to change in Georgia Power's 2010 retail rate case.
- (l) Southern Company forecasts postretirement trust contributions over a three-year period. Southern Company expects that the earliest that cash may have to be contributed to the pension trust fund is 2012 and such contribution could be significant; however, projections of the amount vary significantly depending on key variables including future trust fund performance and cannot be determined at this time. Therefore, no amounts related to the pension trust fund are included in the table. See Note 2 to the financial statements for additional information

related to the pension and postretirement plans, including estimated benefit payments. Certain benefit payments will be made through the related trusts. Other benefit payments will be made from Southern Company's corporate assets.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
**Southern Company and Subsidiary Companies 2009 Annual Report**  
**Cautionary Statement Regarding Forward-Looking Statements**

Southern Company's 2009 Annual Report contains forward-looking statements. Forward-looking statements include, among other things, statements concerning the strategic goals for the wholesale business, retail sales, customer growth, storm damage cost recovery and repairs, fuel cost recovery and other rate actions, environmental regulations and expenditures, earnings, dividend payout ratios, access to sources of capital, projections for postretirement benefit and nuclear decommissioning trust contributions, financing activities, start and completion of construction projects, plans and estimated costs for new generation resources, impacts of adoption of new accounting rules, potential exemptions from ad valorem taxation of the Kemper IGCC project, impact of the American Recovery and Reinvestment Act of 2009, impact of healthcare legislation, if any, 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, estimates, projects, 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 and emissions of sulfur, nitrogen, mercury, carbon, soot, particulate matter, or coal combustion byproducts 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 Company from time to time with the SEC.

**Southern Company expressly disclaims any obligation to update any forward-looking statements.**

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**Table of Contents****CONSOLIDATED STATEMENTS OF INCOME****For the Years Ended December 31, 2009, 2008, and 2007****Southern Company and Subsidiary Companies 2009 Annual Report**

	<b>2009</b>	2008 <i>(in millions)</i>	2007
<b>Operating Revenues:</b>			
Retail revenues	<b>\$ 13,307</b>	\$ 14,055	\$ 12,639
Wholesale revenues	<b>1,802</b>	2,400	1,988
Other electric revenues	<b>533</b>	545	513
Other revenues	<b>101</b>	127	213
Total operating revenues	<b>15,743</b>	17,127	15,353
<b>Operating Expenses:</b>			
Fuel	<b>5,952</b>	6,818	5,856
Purchased power	<b>474</b>	815	515
Other operations and maintenance	<b>3,526</b>	3,748	3,670
MC Asset Recovery litigation settlement	<b>202</b>		
Depreciation and amortization	<b>1,503</b>	1,443	1,245
Taxes other than income taxes	<b>818</b>	797	741
Total operating expenses	<b>12,475</b>	13,621	12,027
<b>Operating Income</b>	<b>3,268</b>	3,506	3,326
<b>Other Income and (Expense):</b>			
Allowance for equity funds used during construction	<b>200</b>	152	106
Interest income	<b>23</b>	33	45
Equity in (losses) income of unconsolidated subsidiaries	<b>(1)</b>	11	(24)
Leveraged lease income (losses)	<b>31</b>	(85)	40
Gain on disposition of lease termination	<b>26</b>		
Loss on extinguishment of debt	<b>(17)</b>		
Interest expense, net of amounts capitalized	<b>(905)</b>	(866)	(886)
Other income (expense), net	<b>(21)</b>	(29)	10
Total other income and (expense)	<b>(664)</b>	(784)	(709)
<b>Earnings Before Income Taxes</b>	<b>2,604</b>	2,722	2,617
Income taxes	<b>896</b>	915	835
<b>Consolidated Net Income</b>	<b>1,708</b>	1,807	1,782
Dividends on Preferred and Preference Stock of Subsidiaries	<b>65</b>	65	48
<b>Consolidated Net Income After Dividends on Preferred and Preference Stock of Subsidiaries</b>	<b>\$ 1,643</b>	\$ 1,742	\$ 1,734

**Common Stock Data:**

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Earnings per share (EPS)			
Basic EPS	\$ <b>2.07</b>	\$ 2.26	\$ 2.29
Diluted EPS	<b>2.06</b>	2.25	2.28
Average number of shares of common stock outstanding (in millions)			
Basic	<b>795</b>	771	756
Diluted	<b>796</b>	775	761
Cash dividends paid per share of common stock	\$ <b>1.7325</b>	\$ 1.6625	\$ 1.595

The accompanying notes are an integral part of these financial statements.

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**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2009, 2008, and 2007**  
**Southern Company and Subsidiary Companies 2009 Annual Report**

	2009	2008 <i>(in millions)</i>	2007
<b>Operating Activities:</b>			
Consolidated net income	\$ 1,708	\$ 1,807	\$ 1,782
Adjustments to reconcile consolidated net income to net cash provided from operating activities			
Depreciation and amortization, total	1,788	1,704	1,486
Deferred income taxes	25	215	7
Deferred revenues	(54)	120	(2)
Allowance for equity funds used during construction	(200)	(152)	(106)
Equity in (income) losses of unconsolidated subsidiaries	1	(11)	24
Leveraged lease (income) losses	(31)	85	(40)
Gain on disposition of lease termination	(26)		
Loss on extinguishment of debt	17		
Pension, postretirement, and other employee benefits	(3)	21	39
Stock based compensation expense	23	20	28
Hedge settlements	(19)	15	10
Other, net	79	(97)	80
Changes in certain current assets and liabilities			
-Receivables	585	(176)	165
-Fossil fuel stock	(432)	(303)	(39)
-Materials and supplies	(39)	(23)	(71)
-Other current assets	(47)	(36)	
-Accounts payable	(125)	(74)	105
-Accrued taxes	(95)	293	(19)
-Accrued compensation	(226)	36	(40)
-Other current liabilities	334	20	25
Net cash provided from operating activities	3,263	3,464	3,434
<b>Investing Activities:</b>			
Property additions	(4,670)	(3,961)	(3,546)
Investment in restricted cash from pollution control revenue bonds	(55)	(96)	(157)
Distribution of restricted cash from pollution control revenue bonds	119	69	78
Nuclear decommissioning trust fund purchases	(1,234)	(720)	(783)
Nuclear decommissioning trust fund sales	1,228	712	775
Proceeds from property sales	340	34	33
Cost of removal, net of salvage	(119)	(123)	(108)
Change in construction payables	215	83	38
Other investing activities	(143)	(124)	(39)
Net cash used for investing activities	(4,319)	(4,126)	(3,709)
<b>Financing Activities:</b>			



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Decrease in notes payable, net	(306)	(314)	(669)
Proceeds			
Long-term debt issuances	3,042	3,687	3,826
Preferred and preference stock			470
Common stock issuances	1,286	474	538
Redemptions			
Long-term debt	(1,234)	(1,469)	(2,565)
Redeemable preferred stock		(125)	
Payment of common stock dividends	(1,369)	(1,280)	(1,205)
Payment of dividends on preferred and preference stock of subsidiaries	(65)	(66)	(40)
Other financing activities	(25)	(29)	(46)
Net cash provided from financing activities	1,329	878	309
<b>Net Change in Cash and Cash Equivalents</b>	<b>273</b>	<b>216</b>	<b>34</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>417</b>	<b>201</b>	<b>167</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 690</b>	<b>\$ 417</b>	<b>\$ 201</b>

The accompanying notes are an integral part of these financial statements.

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**Table of Contents****CONSOLIDATED BALANCE SHEETS****At December 31, 2009 and 2008****Southern Company and Subsidiary Companies 2009 Annual Report**

<b>Assets</b>	<b>2009</b>	2008
	<i>(in millions)</i>	
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 690	\$ 417
Restricted cash and cash equivalents	43	103
Receivables		
Customer accounts receivable	953	1,054
Unbilled revenues	394	320
Under recovered regulatory clause revenues	333	646
Other accounts and notes receivable	375	301
Accumulated provision for uncollectible accounts	(25)	(26)
Fossil fuel stock, at average cost	1,447	1,018
Materials and supplies, at average cost	794	757
Vacation pay	145	140
Prepaid expenses	508	302
Other regulatory assets, current	167	275
Other current assets	49	51
<b>Total current assets</b>	<b>5,873</b>	<b>5,358</b>
<b>Property, Plant, and Equipment:</b>		
In service	53,588	50,618
Less accumulated depreciation	19,121	18,286
<b>Plant in service, net of depreciation</b>	<b>34,467</b>	<b>32,332</b>
Nuclear fuel, at amortized cost	593	510
Construction work in progress	4,170	3,036
<b>Total property, plant, and equipment</b>	<b>39,230</b>	<b>35,878</b>
<b>Other Property and Investments:</b>		
Nuclear decommissioning trusts, at fair value	1,070	864
Leveraged leases	610	897
Miscellaneous property and investments	283	227
<b>Total other property and investments</b>	<b>1,963</b>	<b>1,988</b>
<b>Deferred Charges and Other Assets:</b>		
Deferred charges related to income taxes	1,047	973
Unamortized debt issuance expense	208	208
Unamortized loss on reacquired debt	255	271
Deferred under recovered regulatory clause revenues	373	606
Other regulatory assets, deferred	2,702	2,636
Other deferred charges and assets	395	429

Total deferred charges and other assets	<b>4,980</b>	5,123
<b>Total Assets</b>	<b>\$ 52,046</b>	\$ 48,347

The accompanying notes are an integral part of these financial statements.

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**Table of Contents****CONSOLIDATED BALANCE SHEETS****At December 31, 2009 and 2008****Southern Company and Subsidiary Companies 2009 Annual Report**

<b>Liabilities and Stockholders Equity</b>	<b>2009</b>	<b>2008</b>
	<i>(in millions)</i>	
<b>Current Liabilities:</b>		
Securities due within one year	\$ 1,113	\$ 617
Notes payable	639	953
Accounts payable	1,329	1,250
Customer deposits	331	302
Accrued taxes		
Accrued income taxes	13	197
Unrecognized tax benefits	166	131
Other accrued taxes	398	396
Accrued interest	218	196
Accrued vacation pay	184	179
Accrued compensation	248	447
Liabilities from risk management activities	125	261
Other regulatory liabilities, current	528	78
Other current liabilities	292	219
<b>Total current liabilities</b>	<b>5,584</b>	<b>5,226</b>
<b>Long-Term Debt</b> (See accompanying statements)	<b>18,131</b>	<b>16,816</b>
<b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	6,455	6,080
Deferred credits related to income taxes	248	259
Accumulated deferred investment tax credits	448	455
Employee benefit obligations	2,304	2,057
Asset retirement obligations	1,201	1,183
Other cost of removal obligations	1,091	1,321
Other regulatory liabilities, deferred	278	262
Other deferred credits and liabilities	346	330
<b>Total deferred credits and other liabilities</b>	<b>12,371</b>	<b>11,947</b>
<b>Total Liabilities</b>	<b>36,086</b>	<b>33,989</b>
<b>Redeemable Preferred Stock of Subsidiaries</b> (See accompanying statements)	<b>375</b>	<b>375</b>
<b>Total Stockholders Equity</b> (See accompanying statements)	<b>15,585</b>	<b>13,983</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 52,046</b>	<b>\$ 48,347</b>
<b>Commitments and Contingent Matters</b> (See notes)		

The accompanying notes are an integral part of these financial statements.

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**Table of Contents****CONSOLIDATED STATEMENTS OF CAPITALIZATION****At December 31, 2009 and 2008****Southern Company and Subsidiary Companies 2009 Annual Report**

		2009	2008	2009	2008
		(in millions)		(percent of total)	
<b>Long-Term Debt:</b>					
Long-term debt payable to affiliated trusts					
<u>Maturity</u>	<u>Interest Rates</u>				
2044	5.88%	\$ 206	\$ 206		
Variable rate (3.35% at 1/1/10) due 2042		206	206		
Total long-term debt payable to affiliated trusts		412	412		
Long-term senior notes and debt					
<u>Maturity</u>	<u>Interest Rates</u>				
2009	4.10% to 7.00%		128		
2010	4.70%	102	102		
2011	4.00% to 5.57%	304	303		
2012	4.85% to 6.25%	1,778	1,778		
2013	4.35% to 6.00%	936	936		
2014	4.15% to 4.90%	425	75		
2015 through 2048	4.25% to 8.20%	9,847	8,362		
Adjustable rates (at 1/1/10):					
2009	2.3288% to 2.36%		440		
2010	0.35% to 0.97%	990	1,034		
2011	0.68% to 2.95%	790	490		
Total long-term senior notes and debt		15,172	13,648		
Other long-term debt					
Pollution control revenue bonds					
<u>Maturity</u>	<u>Interest Rates</u>				
2016 through 2048	1.40% to 6.00%	1,973	2,030		
Variable rates (at 1/1/10):					
2011 through 2049	0.18% to 0.44%	1,612	1,257		
Total other long-term debt		3,585	3,287		
Capitalized lease obligations		98	106		
Unamortized debt (discount), net		(23)	(20)		
Total long-term debt (annual interest requirement \$894 million)		19,244	17,433		
Less amount due within one year		1,113	617		

Long-term debt excluding amount due within one year	<b>18,131</b>	16,816	<b>53.2%</b>	53.9%
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**CONSOLIDATED STATEMENTS OF CAPITALIZATION** (continued)  
**At December 31, 2009 and 2008**  
**Southern Company and Subsidiary Companies 2009 Annual Report**

	2009 <i>(in millions)</i>	2008	2009 <i>(percent of total)</i>	2008
<b>Redeemable Preferred Stock of Subsidiaries:</b>				
<u>Cumulative preferred stock</u>				
\$100 par or stated value		4.20% to 5.44%		
Authorized	20 million shares			
Outstanding	1 million shares	81		81
\$1 par value	4.95% to 5.83%			
Authorized	28 million shares			
Outstanding	12 million shares: \$25 stated value	294		294
Total redeemable preferred stock of subsidiaries (annual dividend requirement \$20 million)	375	375	1.1	1.2
<b>Common Stockholders Equity:</b>				
Common stock, par value \$5 per share	4,101	3,888		
Authorized	1 billion shares			
Issued	2009: 820 million shares 2008: 778 million shares			
Treasury	2009: 0.5 million shares 2008: 0.4 million shares			
Paid-in capital	2,995	1,893		
Treasury, at cost	(15)	(12)		
Retained earnings	7,885	7,612		
Accumulated other comprehensive income (loss)	(88)	(105)		
Total common stockholders equity	14,878	13,276	43.6	42.6
<b>Preferred and Preference Stock of Subsidiaries:</b>				
<u>Non-cumulative preferred stock</u>				
\$25 par value		6.00% to 6.13%		
Authorized	60 million shares			
Outstanding	2 million shares	45		45
<u>Preference stock</u>				
Authorized	65 million shares			
Outstanding	\$1 par value 5.63% to 6.50%	343		343
	14 million shares (non-cumulative)			
	\$100 par or stated value 6.00% to 6.50%	319		319
	3 million shares (non-cumulative)			
Total preferred and preference stock of subsidiaries	707	707	2.1	2.3



(annual dividend requirement \$45 million)

Total stockholders' equity	<b>15,585</b>	13,983		
<b>Total Capitalization</b>	<b>\$34,091</b>	\$31,174	<b>100.0%</b>	100.0%

The accompanying notes are an integral part of these financial statements.

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**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**For the Years Ended December 31, 2009, 2008, and 2007**  
**Southern Company and Subsidiary Companies 2009 Annual Report**

	Number of		Common Stock			Accumulated	Preferred	Total	
	Common Shares Issued (in thousands)	Treasury	Par Value	Paid-In Capital	Treasury	Other Comprehensive Income (Loss)	and Preference Stock of Subsidiaries		
						Retained Earnings (in millions)			
<b>Balance at December 31, 2006</b>	751,864	(5,594)	\$3,759	\$1,096	\$(192)	\$ 6,765	\$ (57)	\$ 246	\$11,617
Net income after dividends on preferred and preference stock of subsidiaries						1,734			1,734
Other comprehensive income							27		27
Cumulative effect of new accounting standards (a)						(140)			(140)
Stock issued	11,639	5,255	58	356	183			461	1,058
Cash dividends						(1,204)			(1,204)
Other		(60)		2	(2)				
<b>Balance at December 31, 2007</b>	763,503	(399)	3,817	1,454	(11)	7,155	(30)	707	13,092
Net income after dividends on preferred and preference stock of subsidiaries						1,742			1,742
Other comprehensive income							(75)		(75)
Stock issued	14,113		71	438					509
Cash dividends						(1,279)			(1,279)
Other		(25)		1	(1)	(6)			(6)
<b>Balance at December 31, 2008</b>	777,616	(424)	3,888	1,893	(12)	7,612	(105)	707	13,983

Net income after dividends on preferred and preference stock of subsidiaries										1,643	1,643
Other comprehensive income									17		17
Stock issued	42,536		213	1,100							1,313
Cash dividends									(1,369)		(1,369)
Other		(81)		2	(3)				(1)		(2)
<b>Balance at December 31, 2009</b>	<b>820,152</b>	<b>(505)</b>	<b>\$4,101</b>	<b>\$2,995</b>	<b>\$ (15)</b>	<b>\$ 7,885</b>	<b>\$ (88)</b>	<b>\$ 707</b>			<b>\$15,585</b>

The accompanying notes are an integral part of these financial statements.

(a) In 2007 Southern Company recorded two adjustments net of tax in respect of new accounting guidance; a \$125 million adjustment in respect of leverage lease transactions and a \$15 million adjustment in respect of uncertain tax positions.

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**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**For the Years Ended December 31, 2009, 2008, and 2007**  
**Southern Company and Subsidiary Companies 2009 Annual Report**

	<b>2009</b>	2008 <i>(in millions)</i>	2007
<b>Consolidated Net Income</b>	<b>\$ 1,708</b>	\$ 1,807	\$ 1,782
Other comprehensive income:			
Qualifying hedges:			
Changes in fair value, net of tax of \$(3), \$(19), and \$(3), respectively	<b>(4)</b>	(30)	(5)
Reclassification adjustment for amounts included in net income, net of tax of \$18, \$7, and \$6, respectively	<b>28</b>	11	9
Marketable securities:			
Change in fair value, net of tax of \$1, \$(4), and \$3, respectively	<b>4</b>	(7)	4
Reclassification adjustment for amounts included in net income, net of tax of \$-, \$-, and \$-, respectively			(1)
Pension and other postretirement benefit plans:			
Benefit plan net gain (loss), net of tax of \$(8), \$(32), and \$13, respectively	<b>(12)</b>	(51)	20
Additional prior service costs from amendment to non-qualified plans, net of tax of \$-, \$-, and \$(2), respectively			(2)
Reclassification adjustment for amounts included in net income, net of tax of \$1, \$1, and \$1, respectively	<b>1</b>	2	2
Total other comprehensive income (loss)	<b>17</b>	(75)	27
Dividends on preferred and preference stock of subsidiaries	<b>(65)</b>	(65)	(48)
<b>Consolidated Comprehensive Income</b>	<b>\$ 1,660</b>	\$ 1,667	\$ 1,761

The accompanying notes are an integral part of these financial statements.

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**Table of Contents****NOTES TO FINANCIAL STATEMENTS****Southern Company and Subsidiary Companies 2009 Annual Report****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****General**

The Southern Company (the Company) is the parent company of four traditional operating companies, Southern Power Company (Southern Power), Southern Company Services, Inc. (SCS), Southern Communications Services, Inc. (SouthernLINC Wireless), Southern Company Holdings, Inc. (Southern Holdings), Southern Nuclear Operating Company, Inc. (Southern Nuclear), and other direct and indirect subsidiaries. The traditional operating companies, Alabama Power Company (Alabama Power), Georgia Power Company (Georgia Power), Gulf Power Company (Gulf Power), and Mississippi Power Company (Mississippi Power), 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. SCS, the system service company, provides, at cost, specialized services to Southern Company and its subsidiary companies. SouthernLINC Wireless provides digital wireless communications for use by Southern Company and its subsidiary companies and also markets these services to the public and provides fiber cable services within the Southeast. Southern Holdings is an intermediate holding company subsidiary for Southern Company's investments in leveraged leases. Southern Nuclear operates and provides services to Southern Company's nuclear power plants.

The financial statements reflect Southern Company's investments in the subsidiaries on a consolidated basis. The equity method is used for entities in which the Company has significant influence but does not control and for variable interest entities where the Company is not the primary beneficiary. All material intercompany transactions have been eliminated in consolidation. Certain prior years' data presented in the financial statements have been reclassified to conform to the current year presentation.

The traditional operating companies, Southern Power, and certain of their subsidiaries are subject to regulation by the Federal Energy Regulatory Commission (FERC) and the traditional operating companies are also subject to regulation by their respective state public service commissions (PSC). The companies follow accounting principles generally accepted in the United States and comply with the accounting policies and practices prescribed by their respective commissions. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates, and the actual results may differ from those estimates.

**Related Party Transactions**

Alabama Power and Georgia Power purchased synthetic fuel from Alabama Fuel Products, LLC (AFP), an entity in which Southern Holdings held a 30% ownership interest until July 2006, when its ownership interest was terminated. Synfuel Services, Inc. (SSI), another subsidiary of Southern Holdings, provided fuel transportation services to AFP that were ultimately reflected in the cost of the synthetic fuel billed to Alabama Power and Georgia Power. Subsequent to the termination of Southern Company's membership interest in AFP, Alabama Power and Georgia Power continued to purchase an additional \$6 million and \$750 million in fuel from AFP in 2008 and 2007, respectively. SSI continued to provide fuel transportation services of \$131 million in 2007, which were eliminated against fuel expense in the financial statements. SSI also provided other additional services to AFP and a related party of AFP totaling \$47 million in 2007. The synthetic fuel investments and related party transactions were terminated on December 31, 2007.

**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report****Regulatory Assets and Liabilities**

The traditional operating companies are subject to the provisions of the Financial Accounting Standards Board in accounting for the effects of rate regulation. Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process. Regulatory assets and (liabilities) reflected in the balance sheets at December 31 relate to:

	<b>2009</b>	2008	Note
	<i>(in millions)</i>		
Deferred income tax charges	<b>\$ 1,048</b>	\$ 972	(a)
Asset retirement obligations-asset	<b>125</b>	236	(a,i)
Asset retirement obligations-liability	<b>(47)</b>	(5)	(a,i)
Other cost of removal obligations	<b>(1,307)</b>	(1,321)	(a)
Deferred income tax credits	<b>(249)</b>	(260)	(a)
Loss on reacquired debt	<b>255</b>	271	(b)
Vacation pay	<b>145</b>	140	(c,i)
Under recovered regulatory clause revenues	<b>40</b>	432	(d)
Over recovered regulatory clause revenues	<b>(218)</b>	(3)	(d)
Building leases	<b>47</b>	49	(f)
Generating plant outage costs	<b>39</b>	45	(d)
Under recovered storm damage costs	<b>22</b>	27	(d)
Property damage reserves	<b>(157)</b>	(97)	(h)
Fuel hedging-asset	<b>187</b>	314	(d)
Fuel hedging-liability	<b>(2)</b>	(10)	(d)
Other assets	<b>156</b>	163	(d)
Environmental remediation-asset	<b>68</b>	67	(h,i)
Environmental remediation-liability	<b>(13)</b>	(19)	(h)
Environmental compliance cost recovery	<b>(96)</b>	(135)	(g)
Other liabilities	<b>(51)</b>	(43)	(j)
Underfunded retiree benefit plans	<b>2,268</b>	2,068	(e,i)
<b>Total assets (liabilities), net</b>	<b>\$ 2,260</b>	\$ 2,891	

Note: The recovery and amortization periods for these regulatory assets and (liabilities) are as follows:

- (a) Asset retirement and removal assets and liabilities are recorded, deferred income tax assets are recovered, other cost of removal, and deferred tax liabilities are amortized over the related property lives, which may range up to 65 years. Asset retirement and removal assets and liabilities will be settled and trued up following completion of the related activities. Other cost of removal obligations include \$216 million at Georgia Power that may be amortized during 2010 in accordance with the August 27, 2009 Georgia PSC order. See Note 3 under Retail Regulatory Matters Georgia Power Cost of Removal for additional information.
- (b) Recovered over either the remaining life of the original issue or, if refinanced, over the life of the new issue, which may range up to 50 years.
- (c) Recorded as earned by employees and recovered as paid, generally within one year.

- (d) Recorded and recovered or amortized as approved by the appropriate state PSCs over periods not exceeding 10 years.
- (e) Recovered and amortized over the average remaining service period which may range up to 15 years. See Note 2 for additional information.
- (f) Recovered over the remaining lives of the buildings through 2026.
- (g) This balance represents deferred revenue associated with Georgia Power's environmental compliance cost recovery (ECCR) tariff established in its retail rate plan for the years 2008 through 2010 (2007 Retail Rate Plan). The recovery of the forecasted environmental compliance costs was levelized to collect equal annual amounts between January 1, 2008 and December 31, 2010 under the tariff.
- (h) Recovered as storm restoration or environmental remediation expenses are incurred.
- (i) Not earning a return as offset in rate base by a corresponding asset or liability.
- (j) Recorded and recovered or amortized as approved by the appropriate state PSC over periods up to the life of the plant or the remaining life of the original issue or, if refinanced, over the life of the new issue which may range up to 50 years.

In the event that a portion of a traditional operating company's operations is no longer subject to applicable accounting rules for rate regulation, such company would be required to write off or reclassify to accumulated other comprehensive income related regulatory assets and liabilities that are not specifically recoverable through regulated rates. In addition, the traditional operating company would be required to determine if any impairment to other assets, including plant, exists and write down the assets, if impaired, to their fair values. All regulatory assets and liabilities are to be reflected in rates. See Note 3 under Retail Regulatory Matters Alabama Power, Retail Regulatory Matters Georgia Power, and Retail Regulatory Matters Integrated Coal Gasification Combined Cycle for additional information.

**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report****Revenues**

Wholesale capacity revenues are generally recognized on a levelized basis over the appropriate contract periods. Energy and other revenues are recognized as services are provided. Unbilled revenues related to retail sales are accrued at the end of each fiscal period. Electric rates for the traditional operating companies include provisions to adjust billings for fluctuations in fuel costs, fuel hedging, the energy component of purchased power costs, and certain other costs. Revenues are adjusted for differences between these actual costs and amounts billed in current regulated rates. Under or over recovered regulatory clause revenues are recorded in the balance sheets and are recovered or returned to customers through adjustments to the billing factors.

Retail fuel cost recovery mechanisms vary by each traditional operating company, but in general, the process requires periodic filings with the appropriate state PSC. Alabama Power continuously monitors the under/over recovered balance and files for a revised fuel rate when management deems appropriate. Georgia Power filed a new fuel case on December 15, 2009. The new rates are expected to become effective April 1, 2010. Gulf Power is required to notify the Florida PSC if the projected fuel cost over or under recovery exceeds 10% of the projected fuel revenue applicable for the period and indicate if an adjustment to the fuel cost recovery factor is being requested. Mississippi Power is required to file for an adjustment to the fuel cost recovery factor annually. See Note 3 under Retail Regulatory Matters

Alabama Power Fuel Cost Recovery and Retail Regulatory Matters Georgia Power Fuel Cost Recovery for additional information.

Southern Company has a diversified base of customers. No single customer or industry comprises 10% or more of revenues. For all periods presented, uncollectible accounts averaged less than 1% of revenues.

**Fuel Costs**

Fuel costs are expensed as the fuel is used. Fuel expense generally includes the cost of purchased emissions allowances as they are used. Fuel expense also includes the amortization of the cost of nuclear fuel and a charge, based on nuclear generation, for the permanent disposal of spent nuclear fuel. See Note 3 under Nuclear Fuel Disposal Costs for additional information.

**Income and Other Taxes**

Southern Company uses the liability method of accounting for deferred income taxes and provides deferred income taxes for all significant income tax temporary differences. Taxes that are collected from customers on behalf of governmental agencies to be remitted to these agencies are presented net on the statements of income.

In accordance with regulatory requirements, deferred investment tax credits (ITCs) for the traditional operating companies are amortized over the lives of the related property with such amortization normally applied as a credit to reduce depreciation in the statements of income. Credits amortized in this manner amounted to \$24 million in 2009, \$23 million in 2008, and \$23 million in 2007. At December 31, 2009, all ITCs available to reduce federal income taxes payable had been utilized.

Under the American Recovery and Reinvestment Act of 2009, certain renewable projects at Southern Company's non-regulated subsidiaries are eligible for ITCs or cash grants. These non-regulated companies have elected to receive ITCs. The credits are recorded as a deferred credit, which will be amortized over the life of the asset, and the tax basis of the asset is reduced by 50% of the credits received, resulting in a deferred tax asset. The non-regulated companies have elected to recognize the tax benefit of this basis difference as a reduction to income tax expense as costs are incurred during the construction period. This basis difference will reverse and be recorded to income tax expense over the useful life of the asset once placed in service.

In accordance with accounting standards related to the uncertainty in income taxes, Southern Company recognizes tax positions that are more likely than not of being sustained upon examination by the appropriate taxing authorities. See Note 5 under Unrecognized Tax Benefits for additional information.

**Property, Plant, and Equipment**

Property, plant, and equipment is stated at original cost less regulatory disallowances and impairments. Original cost includes: materials; labor; minor items of property; appropriate administrative and general costs; payroll-related costs such as taxes, pensions, and other benefits; and the interest capitalized and/or cost of funds used during construction.





**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report**

Southern Company's property, plant, and equipment consisted of the following at December 31:

	2009	2008
	<i>(in millions)</i>	
Generation	<b>\$ 28,204</b>	\$ 26,154
Transmission	<b>7,380</b>	7,085
Distribution	<b>14,335</b>	13,856
General	<b>2,917</b>	2,750
Plant acquisition adjustment	<b>43</b>	43
Utility plant in service	<b>52,879</b>	49,888
IT equipment and software	<b>182</b>	240
Communications equipment	<b>423</b>	450
Other	<b>104</b>	40
Other plant in service	<b>709</b>	730
Total plant in service	<b>\$ 53,588</b>	\$ 50,618

The cost of replacements of property, exclusive of minor items of property, is capitalized. The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense as incurred or performed with the exception of nuclear refueling costs, which are recorded in accordance with specific state PSC orders. Alabama Power accrues estimated nuclear refueling costs in advance of the unit's next refueling outage. Georgia Power defers and amortizes nuclear refueling costs over the unit's operating cycle before the next refueling. The refueling cycles for Alabama Power and Georgia Power range from 18 to 24 months for each unit. In accordance with a Georgia PSC order, Georgia Power also defers the costs of certain significant inspection costs for the combustion turbines at Plant McIntosh and amortizes such costs over 10 years, which approximates the expected maintenance cycle.

**Depreciation and Amortization**

Depreciation of the original cost of utility plant in service is provided primarily by using composite straight-line rates, which approximated 3.2% in 2009, 3.2% in 2008, and 3.0% in 2007. Depreciation studies are conducted periodically to update the composite rates. These studies are filed with the respective state PSC for the traditional operating companies. Accumulated depreciation for utility plant in service totaled \$18.7 billion and \$17.9 billion at December 31, 2009 and 2008, respectively. When property subject to composite depreciation is retired or otherwise disposed of in the normal course of business, its original cost, together with the cost of removal, less salvage, is charged to accumulated depreciation. For other property dispositions, the applicable cost and accumulated depreciation is removed from the balance sheet accounts and a gain or loss is recognized. Minor items of property included in the original cost of the plant are retired when the related property unit is retired.

Under Georgia Power's retail rate plan for the three years ended December 31, 2007 (2004 Retail Rate Plan), Georgia Power was ordered to recognize Georgia PSC-certified capacity costs in rates evenly over the three years covered by the 2004 Retail Rate Plan. Georgia Power recorded credits to amortization of \$19 million in 2007. The 2007 Retail Rate Plan did not include a similar order. On August 27, 2009, the Georgia PSC approved an accounting order allowing Georgia Power to amortize up to \$324 million of its regulatory liability related to other cost of removal obligations. See Note 3 under Retail Regulatory Matters Georgia Power Cost of Removal for additional information. In May 2004, the Mississippi PSC approved Mississippi Power's request to reclassify 266 megawatts (MWs) of Plant Daniel Units 3 and 4 capacity to jurisdictional cost of service effective January 1, 2004 and authorized Mississippi Power to include the related costs and revenue credits in jurisdictional rate base, cost of service, and revenue

requirement calculations for purposes of retail rate recovery. Mississippi Power amortized the related regulatory liability, pursuant to the Mississippi PSC's order, by \$6 million in 2007 resulting in an increase to earnings in that year. Depreciation of the original cost of other plant in service is provided primarily on a straight-line basis over estimated useful lives ranging from three to 30 years. Accumulated depreciation for other plant in service totaled \$419 million and \$433 million at December 31, 2009 and 2008, respectively.

**Asset Retirement Obligations and Other Costs of Removal**

Asset retirement obligations are computed as the present value of the ultimate costs for an asset's future retirement and are recorded in the period in which the liability is incurred. The costs are capitalized as part of the related long-lived asset and depreciated over the asset's useful life. The Company has received accounting guidance from the various state PSCs allowing the continued accrual of

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other future retirement costs for long-lived assets that the Company does not have a legal obligation to retire. Accordingly, the accumulated removal costs for these obligations are reflected in the balance sheets as a regulatory liability. See Note 3 under Retail Regulatory Matters Georgia Power Cost of Removal for additional information related to Georgia Power's cost of removal regulatory liability.

The liability recognized to retire long-lived assets primarily relates to the Company's nuclear facilities, Plants Farley, Hatch, and Vogtle. The fair value of assets legally restricted for settling retirement obligations related to nuclear facilities as of December 31, 2009 was \$1.1 billion. In addition, the Company has retirement obligations related to various landfill sites, underground storage tanks, asbestos removal, and disposal of polychlorinated biphenyls in certain transformers. The Company also has identified retirement obligations related to certain transmission and distribution facilities, co-generation facilities, certain wireless communication towers, and certain structures authorized by the U.S. Army Corps of Engineers. However, liabilities for the removal of these assets have not been recorded because the range of time over which the Company may settle these obligations is unknown and cannot be reasonably estimated. The Company will continue to recognize in the statements of income allowed removal costs in accordance with its regulatory treatment. Any differences between costs recognized in accordance with accounting standards related to asset retirement and environmental obligations, and those reflected in rates are recognized as either a regulatory asset or liability, as ordered by the various state PSCs, and are reflected in the balance sheets. See

Nuclear Decommissioning herein for further information on amounts included in rates. Details of the asset retirement obligations included in the balance sheets are as follows:

	<b>2009</b>	2008
	<i>(in millions)</i>	
Balance beginning of year	<b>\$ 1,185</b>	\$ 1,203
Liabilities incurred	<b>2</b>	4
Liabilities settled	<b>(10)</b>	(4)
Accretion	<b>77</b>	75
Cash flow revisions	<b>(48)</b>	(93)
Balance end of year	<b>\$ 1,206</b>	\$ 1,185

**Nuclear Decommissioning**

The Nuclear Regulatory Commission (NRC) requires licensees of commercial nuclear power reactors to establish a plan for providing reasonable assurance of funds for future decommissioning. Alabama Power and Georgia Power have external trust funds (the Funds) to comply with the NRC's regulations. Use of the Funds is restricted to nuclear decommissioning activities and the Funds are managed and invested in accordance with applicable requirements of various regulatory bodies, including the NRC, the FERC, and state PSCs, as well as the Internal Revenue Service (IRS). The Funds are required to be held by one or more trustees with an individual net worth of at least \$100 million. The FERC requires the Funds' managers to exercise the standard of care in investing that a prudent investor would use in the same circumstances. The FERC regulations also require, except for investments tied to market indices or other mutual funds, that the Funds' managers may not invest in any securities of the utility for which it manages funds or its affiliates. In addition, the NRC prohibits investments in securities of power reactor licensees. While Southern Company is allowed to prescribe an overall investment policy to the Funds' managers, neither Southern Company nor its subsidiaries or affiliates are allowed to engage in the day-to-day management of the Funds or to mandate individual investment decisions. Day-to-day management of the investments in the Funds is delegated to unrelated third party managers with oversight by Southern Company, Alabama Power, and Georgia Power management. The Funds managers are authorized, within broad limits, to actively buy and sell securities at their own discretion in order to maximize the investment return on the Funds' investments. The Funds are invested in a tax-efficient manner in a diversified mix of equity and fixed income securities and are reported as trading securities.

Southern Company records the investment securities held in the Funds at fair value, as disclosed in Note 10. Gains and losses, whether realized, unrealized, or identified as other-than-temporary, are recorded in the regulatory liability for asset retirement obligations in the balance sheets and are not included in net income or other comprehensive income. Fair value adjustments, realized gains, and other-than-temporary impairment losses are determined on a specific identification basis.

At December 31, 2009, investment securities in the Funds totaled \$1.1 billion consisting of equity securities of \$774 million, debt securities of \$272 million, and \$22 million of other securities. At December 31, 2008, investment securities in the Funds totaled \$862 million consisting of equity securities of \$518 million, debt securities of \$323 million, and \$21 million of other securities. These amounts exclude receivables related to investment income and pending investment sales, and payables related to pending investment purchases.

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Sales of the securities held in the Funds resulted in cash proceeds of \$1.2 billion, \$712 million, and \$775 million in 2009, 2008, and 2007, respectively, all of which were reinvested. For 2009, fair value increases, including reinvested interest and dividends and excluding expenses, were \$215 million, of which \$198 million related to securities held in the Funds at December 31, 2009. For 2008, fair value reductions, including reinvested interest and dividends and excluding expenses, were \$(278) million. Realized gains and other-than-temporary impairment losses were \$78 million and \$(76) million, respectively, in 2007. While the investment securities held in the Funds are reported as trading securities, the Funds continue to be managed with a long-term focus. Accordingly, all purchases and sales within the Funds are presented separately in the statement of cash flows as investing cash flows, consistent with the nature of and purpose for which the securities were acquired.

Amounts previously recorded in internal reserves are being transferred into the external trust funds over periods approved by the Alabama PSC. The NRC's minimum external funding requirements are based on a generic estimate of the cost to decommission only the radioactive portions of a nuclear unit based on the size and type of reactor.

Alabama Power and Georgia Power have filed plans with the NRC designed to ensure that, over time, the deposits and earnings of the external trust funds will provide the minimum funding amounts prescribed by the NRC.

At December 31, 2009, the accumulated provisions for decommissioning were as follows:

	<b>Plant Farley</b>	<b>Plant Hatch (in millions)</b>	<b>Plant Vogtle</b>
External trust funds	\$ 490	\$ 360	\$ 206
Internal reserves	25		
<b>Total</b>	<b>\$ 515</b>	<b>\$ 360</b>	<b>\$ 206</b>

Site study cost is the estimate to decommission a specific facility as of the site study year. The estimated costs of decommissioning based on the most current studies, which were performed in 2008 for Plant Farley and in 2009 for the Georgia Power plants, were as follows for Alabama Power's Plant Farley and Georgia Power's ownership interests in Plants Hatch and Vogtle:

	<b>Plant Farley</b>	<b>Plant Hatch</b>	<b>Plant Vogtle</b>
Decommissioning periods:			
Beginning year	2037	2034	2047
Completion year	2065	2063	2067
		<i>(in millions)</i>	
Site study costs:			
Radiated structures	\$ 1,060	\$ 583	\$ 500
Non-radiated structures	72	46	71
<b>Total</b>	<b>\$ 1,132</b>	<b>\$ 629</b>	<b>\$ 571</b>

The decommissioning periods and site study costs for Plant Vogtle reflect the extended operating license approved by the NRC on June 3, 2009. The decommissioning cost estimates are based on prompt dismantlement and removal of the plant from service. The actual decommissioning costs may vary from the above estimates because of changes in the assumed date of decommissioning, changes in NRC requirements, or changes in the assumptions used in making

these estimates.

For ratemaking purposes, Alabama Power's decommissioning costs are based on the site study, and Georgia Power's decommissioning costs are based on the NRC generic estimate to decommission the radioactive portion of the facilities as of 2006. The estimates used in current rates are \$531 million and \$366 million for Plants Hatch and Vogtle, respectively. Amounts expensed were \$3 million annually for 2009 and 2008 and \$7 million for 2007 for Plant Vogtle. Significant assumptions used to determine these costs for ratemaking were an inflation rate of 4.5% and 2.9% for Alabama Power and Georgia Power, respectively, and a trust earnings rate of 7.0% and 4.9% for Alabama Power and Georgia Power, respectively. As a result of license extensions, amounts previously contributed to the external trust funds for Plants Hatch and Farley are currently projected to be adequate to meet the decommissioning obligations.

**Allowance for Funds Used During Construction (AFUDC) and Interest Capitalized**

In accordance with regulatory treatment, the traditional operating companies record AFUDC, which represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new regulated facilities. While cash is not realized currently from such allowance, it increases the revenue requirement over the service life of the plant through a higher rate base and higher depreciation. The equity component of AFUDC is not included in calculating taxable income. Interest related to the construction of new facilities not included in the traditional operating companies' regulated rates is capitalized in accordance with

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standard interest capitalization requirements. AFUDC and interest capitalized, net of income taxes were 15.3%, 11.2%, and 8.4% of net income for 2009, 2008, and 2007, respectively.

Cash payments for interest totaled \$788 million, \$787 million, and \$798 million in 2009, 2008, and 2007, respectively, net of amounts capitalized of \$84 million, \$71 million, and \$64 million, respectively.

**Impairment of Long-Lived Assets and Intangibles**

Southern Company evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on either a specific regulatory disallowance or an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by either the amount of regulatory disallowance or by estimating the fair value of the assets and recording a loss if the carrying value is greater than the fair value. For assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment loss is required. Until the assets are disposed of, their estimated fair value is re-evaluated when circumstances or events change.

**Storm Damage Reserves**

Each traditional operating company maintains a reserve to cover the cost of damages from major storms to its transmission and distribution lines and generally the cost of uninsured damages to its generation facilities and other property. In accordance with their respective state PSC orders, the traditional operating companies accrued \$44 million in 2009. Alabama Power, Gulf Power, and Mississippi Power also have discretionary authority from their state PSCs to accrue certain additional amounts as circumstances warrant. In 2009, such additional accruals totaled \$40 million. There were no material accruals for 2008 or 2007.

**Leveraged Leases**

Southern Company has several leveraged lease agreements, with terms ranging up to 45 years, which relate to international and domestic energy generation, distribution, and transportation assets. Southern Company receives federal income tax deductions for depreciation and amortization, as well as interest on long-term debt related to these investments. The Company reviews all important lease assumptions at least annually, or more frequently if events or changes in circumstances indicate that a change in assumptions has occurred or may occur. These assumptions include the effective tax rate, the residual value, the credit quality of the lessees, and the timing of expected tax cash flows. Southern Company's net investment in domestic leveraged leases consists of the following at December 31:

	<b>2009</b>	2008
	<i>(in millions)</i>	
Net rentals receivable	<b>\$ 487</b>	\$ 492
Unearned income	<b>(218)</b>	(230)
Investment in leveraged leases	<b>269</b>	262
Deferred taxes from leveraged leases	<b>(211)</b>	(189)
Net investment in leveraged leases	<b>\$ 58</b>	\$ 73

A summary of the components of income from domestic leveraged leases was as follows:

	<b>2009</b>	2008	2007
	<i>(in millions)</i>		
Pretax leveraged lease income	<b>\$ 12</b>	\$ 14	\$ 16
Income tax expense	<b>(5)</b>	(6)	(7)



Net leveraged lease income	\$ 7	\$ 8	\$ 9
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Southern Company's net investment in international leveraged leases consists of the following at December 31:

	<b>2009</b>	2008
	<i>(in millions)</i>	
Net rentals receivable	<b>\$ 734</b>	\$1,298
Unearned income	<b>(393)</b>	(663)
Investment in leveraged leases	<b>341</b>	635
Current taxes payable		(120)
Deferred taxes from leveraged leases	<b>(40)</b>	(117)
Net investment in leveraged leases	<b>\$ 301</b>	\$ 398

A summary of the components of income from international leveraged leases was as follows:

	<b>2009</b>	2008	2007
	<i>(in millions)</i>		
Pretax leveraged lease income (loss)	<b>\$19</b>	\$(99)	\$24
Income tax benefit (expense)	<b>(7)</b>	35	(8)
Net leveraged lease income (loss)	<b>\$12</b>	\$(64)	\$16

The Company terminated two international leveraged lease investments during 2009. The proceeds were used to extinguish all debt related to leveraged lease investments, a portion of which had make-whole redemption provisions. This resulted in a \$17 million loss which partially offset a \$26 million gain on the terminations.

**Cash and Cash Equivalents**

For purposes of the financial statements, temporary cash investments are considered cash equivalents. Temporary cash investments are securities with original maturities of 90 days or less.

**Materials and Supplies**

Generally, materials and supplies include the average costs of transmission, distribution, and generating plant materials. Materials are charged to inventory when purchased and then expensed or capitalized to plant, as appropriate, at weighted average cost when installed.

**Fuel Inventory**

Fuel inventory includes the average costs of oil, coal, natural gas, and emissions allowances. Fuel is charged to inventory when purchased and then expensed as used and recovered by the traditional operating companies through fuel cost recovery rates approved by each state PSC. Emissions allowances granted by the Environmental Protection Agency (EPA) are included in inventory at zero cost.

**Financial Instruments**

Southern Company uses derivative financial instruments to limit exposure to fluctuations in interest rates, the prices of certain fuel purchases, and electricity purchases and sales. All derivative financial instruments are recognized as either assets or liabilities (included in Other or shown separately as Risk Management Activities) and are measured at fair value. See Note 10 for additional information. Substantially all of Southern Company's bulk energy purchases and sales contracts that meet the definition of a derivative are excluded from fair value accounting requirements because they qualify for the normal scope exception, and are accounted for under the accrual method. Other derivative contracts qualify as cash flow hedges of anticipated transactions or are recoverable through the traditional operating companies' fuel hedging programs. This results in the deferral of related gains and losses in other comprehensive income or regulatory assets and liabilities, respectively, until the hedged transactions occur. Any ineffectiveness

arising from cash flow hedges is recognized currently in net income. Other derivative contracts, including derivatives related to synthetic fuel investments, are marked to market through current period income and are recorded on a net basis in the statements of income. See Note 11 for additional information.

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The Company does not offset fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting arrangement. At December 31, 2009, the amount included in Accounts payable in the balance sheets that the Company has recognized for the obligation to return cash collateral arising from derivative instruments was not material.

Southern Company is exposed to losses related to financial instruments in the event of counterparties nonperformance. The Company has established controls to determine and monitor the creditworthiness of counterparties in order to mitigate the Company's exposure to counterparty credit risk.

**Comprehensive Income**

The objective of comprehensive income is to report a measure of all changes in common stock equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners.

Comprehensive income consists of net income, changes in the fair value of qualifying cash flow hedges and marketable securities, certain changes in pension and other postretirement benefit plans, and reclassifications for amounts included in net income.

Accumulated other comprehensive income (loss) balances, net of tax effects, were as follows:

	<b>Qualifying Hedges</b>	<b>Marketable Securities</b>	<b>Pension and Other Postretirement Benefit Plans</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>
				<i>(in millions)</i>
Balance at December 31, 2008	\$ (73)	\$ 6	\$ (38)	\$ (105)
Current period change	24	4	(11)	17
<b>Balance at December 31, 2009</b>	<b>\$ (49)</b>	<b>\$ 10</b>	<b>\$ (49)</b>	<b>\$ (88)</b>

**Variable Interest Entities**

The primary beneficiary of a variable interest entity must consolidate the related assets and liabilities. Certain of the traditional operating companies have established certain wholly-owned trusts to issue preferred securities. See Note 6 under Long-Term Debt Payable to Affiliated Trusts for additional information. However, Southern Company and the applicable traditional operating companies are not considered the primary beneficiaries of the trusts. Therefore, the investments in these trusts are reflected as Other Investments, and the related loans from the trusts are included in Long-term Debt in the balance sheets.

**2. RETIREMENT BENEFITS**

Southern Company has a defined benefit, trusteed, pension plan covering substantially all employees. The plan is funded in accordance with requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA). No contributions to the plan are expected for the year ending December 31, 2010. Southern Company also provides certain defined benefit pension plans for a selected group of management and highly compensated employees. Benefits under these non-qualified pension plans are funded on a cash basis. In addition, Southern Company provides certain medical care and life insurance benefits for retired employees through other postretirement benefit plans. The traditional operating companies fund related trusts to the extent required by their respective regulatory commissions. For the year ending December 31, 2010, postretirement trust contributions are expected to total approximately \$43 million.

The measurement date for plan assets and obligations for 2009 and 2008 was December 31 while the measurement date for prior years was September 30. Pursuant to accounting standards related to defined postretirement benefit plans, Southern Company was required to change the measurement date for its defined postretirement benefit plans

from September 30 to December 31 beginning with the year ended December 31, 2008. As permitted, Southern Company adopted the measurement date provisions effective January 1, 2008, resulting in an increase in long-term liabilities of \$28 million and an increase in prepaid pension costs of approximately \$16 million.

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report****Pension Plans**

The total accumulated benefit obligation for the pension plans was \$6.3 billion in 2009 and \$5.5 billion in 2008. Changes during the plan year ended December 31, 2009 and the 15-month period ended December 31, 2008 in the projected benefit obligations and the fair value of plan assets were as follows:

	<b>2009</b>	2008
	<i>(in millions)</i>	
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	<b>\$ 5,879</b>	\$ 5,660
Service cost	<b>146</b>	182
Interest cost	<b>387</b>	435
Benefits paid	<b>(282)</b>	(324)
Actuarial loss (gain)	<b>628</b>	(74)
Balance at end of year	<b>6,758</b>	5,879
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	<b>5,093</b>	7,624
Actual return (loss) on plan assets	<b>792</b>	(2,234)
Employer contributions	<b>24</b>	27
Benefits paid	<b>(282)</b>	(324)
Fair value of plan assets at end of year	<b>5,627</b>	5,093
Accrued liability	<b>\$(1,131)</b>	\$ (786)

At December 31, 2009, the projected benefit obligations for the qualified and non-qualified pension plans were \$6.3 billion and \$0.4 billion, respectively. All pension plan assets are related to the qualified pension plan. Pension plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the Internal Revenue Code of 1986, as amended (Internal Revenue Code). In 2009, in determining the optimal asset allocation for the pension fund, the Company performed an extensive study based on projections of both assets and liabilities over a 10-year forward horizon. The primary goal of the study was to maximize plan funded status. The Company's investment policy covers a diversified mix of assets, including equity and fixed income securities, real estate, and private equity. Derivative instruments are used primarily to gain efficient exposure to the various asset classes and as hedging tools. The Company minimizes the risk of large losses primarily through diversification but also monitors and manages other aspects of risk. The actual composition of the Company's pension plan assets as of December 31, 2009 and 2008, along with the targeted mix of assets, is presented below:

	Target	<b>2009</b>	2008
Domestic equity	29%	<b>33%</b>	34%
International equity	28	<b>29</b>	23
Fixed income	15	<b>15</b>	14
Special situations	3		
Real estate investments	15	<b>13</b>	19
Private equity	10	<b>10</b>	10
Total	100%	<b>100%</b>	100%

The investment strategy for plan assets related to the Company's defined benefit plan is to be broadly diversified across major asset classes. The asset allocation is established after consideration of various factors that affect the assets and liabilities of the pension plan including, but not limited to, historical and expected returns, volatility, correlations of asset classes, the current level of assets and liabilities, and the assumed growth in assets and liabilities. Because a significant portion of the liability of the pension plan is long-term in nature, the assets are invested consistent with long-term investment expectations for return and risk. To manage the actual asset class exposures relative to the target asset allocation, the Company employs a formal rebalancing program. As additional risk management, external investment managers and service providers are subject to written guidelines to ensure appropriate and prudent investment practices.

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Detailed below is a description of the investment strategies for each major asset category disclosed above:

**Domestic equity.** This portion of the portfolio comprises a mix of large and small capitalization stocks with generally an equal distribution of value and growth attributes managed both actively and through passive index approaches.

**International equity.** This portion of the portfolio is actively managed with a blend of growth stocks and value stocks with both developed and emerging market exposure.

**Fixed income.** This portion of the portfolio is actively managed through an allocation to long-dated, investment grade corporate and government bonds.

**Special situations.** Though currently unfunded, this portion of the portfolio was established both to execute opportunistic investment strategies with the objectives of diversifying and enhancing returns and exploiting short-term inefficiencies, as well as to invest in promising new strategies of a longer-term nature.

**Real estate investments.** Assets in this portion of the portfolio are invested in traditional private market, equity-oriented investments in real properties (indirectly through pooled funds or partnerships) and in publicly traded real estate securities.

**Private equity.** This portion of the portfolio generally consists of investments in private partnerships that invest in private or public securities typically through privately negotiated and/or structured transactions. Leveraged buyouts, venture capital, and distressed debt are examples of investment strategies within this category.

The fair values of pension plan assets as of December 31, 2009 and 2008 are presented below. These fair value measurements exclude cash, receivables related to investment income, pending investments sales, and payables related to pending investment purchases.

As of December 31, 2009:	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	<i>(in millions)</i>			
Assets:				
Domestic equity*	\$1,117	\$ 462	\$	\$1,579
International equity*	1,444	144		1,588
Fixed income:				
U.S. Treasury, government, and agency bonds		416		416
Mortgage- and asset-backed securities		113		113
Corporate bonds		279		279
Pooled funds		10		10
Cash equivalents and other	3	341		344
Special situations				
Real estate investments	174		547	721



Private equity			555	555
Total	\$2,738	\$1,765	\$ 1,102	\$5,605
Liabilities:				
Derivatives	(5)	(1)		(6)
Total	\$2,733	\$1,764	\$ 1,102	\$5,599

\* Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

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	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>As of December 31, 2008:</b>				
Assets:				
Domestic equity*	\$ 1,049	\$ 427	\$	\$ 1,476
International equity*	944	87		1,031
Fixed income:				
U.S. Treasury, government, and agency bonds		441		441
Mortgage- and asset-backed securities		209		209
Corporate bonds		286		286
Pooled funds		3		3
Cash equivalents and other	22	202		224
Special situations				
Real estate investments	144		839	983
Private equity			490	490
Total	\$ 2,159	\$ 1,655	\$ 1,329	\$ 5,143
Liabilities:				
Derivatives	(8)			(8)
Total	\$ 2,151	\$ 1,655	\$ 1,329	\$ 5,135

\* Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified

with no  
significant  
concentrations  
of risk.

Changes in the fair value measurement of the Level 3 items in the pension plan assets valued using significant unobservable inputs for the years ended December 31, 2009 and 2008 are as follows:

	2009		2008	
	Real Estate	Private	Real Estate	Private
	Investments	Equity	Investments	Equity
	<i>(in millions)</i>			
Beginning balance	\$ 839	\$490	\$1,045	\$ 520
Actual return on investments:				
Related to investments held at year end	(240)	37	(170)	(141)
Related to investments sold during the year	(65)	10	4	25
Total return on investments	(305)	47	(166)	(116)
Purchases, sales, and settlements	13	18	(40)	86
Transfers into/out of Level 3				
Ending balance	\$ 547	\$555	\$ 839	\$ 490

The fair values presented above are prepared in accordance with applicable accounting standards regarding fair value. For purposes of determining the fair value of the pension plan assets and the appropriate level designation, management relies on information provided by the plan's trustee. This information is reviewed and evaluated by management with changes made to the trustee information as appropriate.

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Securities for which the activity is observable on an active market or traded exchange are categorized as Level 1. Fixed income securities classified as Level 2 are valued using matrix pricing, a common model using observable inputs. Domestic and international equity securities classified as Level 2 consist of pooled funds where the value is not quoted on an exchange but where the value is determined using observable inputs from the market. Securities that are valued using unobservable inputs are classified as Level 3 and include investments in real estate and investments in limited partnerships. The Company invests (through the pension plan trustee) directly in the limited partnerships which then invest in various types of funds or various private entities within a fund. The fair value of the limited partnerships investments is based on audited annual capital accounts statements which are generally prepared on a fair value basis. The Company also relies on the fact that, in most instances, the underlying assets held by the limited partnerships are reported at fair value. External investment managers typically send valuations to both the custodian and to the Company within 90 days of quarter end. The custodian reports the most recent value available and adjusts the value for cash flows since the statement date for each respective fund.

Amounts recognized in the consolidated balance sheets related to the Company's pension plans consist of the following:

	<b>2009</b>	2008
	<i>(in millions)</i>	
Other regulatory assets, deferred	<b>\$ 1,894</b>	\$1,579
Other current liabilities	<b>(25)</b>	(23)
Employee benefit obligations	<b>(1,106)</b>	(763)
Accumulated other comprehensive income	<b>74</b>	54

Presented below are the amounts included in accumulated other comprehensive income and regulatory assets at December 31, 2009 and 2008 related to the defined benefit pension plans that had not yet been recognized in net periodic pension cost along with the estimated amortization of such amounts for 2010.

	<b>Prior Service Cost</b>	<b>Net (Gain)Loss</b>
	<i>(in millions)</i>	
<b>Balance at December 31, 2009:</b>		
Accumulated other comprehensive income	<b>\$ 10</b>	<b>\$ 64</b>
Regulatory assets	<b>188</b>	<b>1,706</b>
Total	<b>\$198</b>	<b>\$ 1,770</b>
<b>Balance at December 31, 2008:</b>		
Accumulated other comprehensive income	\$ 12	\$ 42
Regulatory assets	220	1,359
Total	\$232	\$ 1,401
<b>Estimated amortization in net periodic pension cost in 2010:</b>		
Accumulated other comprehensive income	\$ 1	\$ 1
Regulatory assets	31	9

Total

\$ 32

\$ 10

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The components of other comprehensive income, along with the changes in the balances of regulatory assets and regulatory liabilities, related to the defined benefit pension plans for the year ended December 31, 2009 and the 15 months ended December 31, 2008 are presented in the following table:

	<b>Accumulated Other Comprehensive Income</b>	<b>Regulatory Assets (in millions)</b>	<b>Regulatory Liabilities</b>
<b>Balance at December 31, 2007</b>	\$(26)	\$ 188	\$(1,288)
Net loss	83	1,412	1,322
Change in prior service costs			
Reclassification adjustments:			
Amortization of prior service costs	(2)	(10)	(34)
Amortization of net gain	(1)	(11)	
Total reclassification adjustments	(3)	(21)	(34)
Total change	80	1,391	1,288
<b>Balance at December 31, 2008</b>	54	1,579	
Net loss	<b>21</b>	<b>355</b>	
Change in prior service costs		<b>1</b>	
Reclassification adjustments:			
Amortization of prior service costs	<b>(1)</b>	<b>(34)</b>	
Amortization of net gain		<b>(7)</b>	
Total reclassification adjustments	<b>(1)</b>	<b>(41)</b>	
Total change	<b>20</b>	<b>315</b>	
<b>Balance at December 31, 2009</b>	<b>\$ 74</b>	<b>\$1,894</b>	<b>\$</b>

Components of net periodic pension cost were as follows:

	<b>2009</b>	2008 (in millions)	2007
Service cost	<b>\$ 146</b>	\$ 146	\$ 147
Interest cost	<b>387</b>	348	324
Expected return on plan assets	<b>(541)</b>	(525)	(481)
Recognized net loss	<b>7</b>	9	10
Net amortization	<b>35</b>	37	35
Net periodic pension cost	<b>\$ 34</b>	\$ 15	\$ 35

Net periodic pension cost is the sum of service cost, interest cost, and other costs netted against the expected return on plan assets. The expected return on plan assets is determined by multiplying the expected rate of return on plan assets

and the market-related value of plan assets. In determining the market-related value of plan assets, the Company has elected to amortize changes in the market value of all plan assets over five years rather than recognize the changes immediately. As a result, the accounting value of plan assets that is used to calculate the expected return on plan assets differs from the current fair value of the plan assets.

Future benefit payments reflect expected future service and are estimated based on assumptions used to measure the projected benefit obligation for the pension plans. At December 31, 2009, estimated benefit payments were as follows:

	<b>Benefit Payments</b> <i>(in millions)</i>
2010	\$ 323
2011	341
2012	360
2013	383
2014	417
2015 to 2019	2,456

**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report****Other Postretirement Benefits**

Changes during the plan year ended December 31, 2009 and the 15-month period ended December 31, 2008 in the accumulated postretirement benefit obligations (APBO) and in the fair value of plan assets were as follows:

	<b>2009</b>	2008
	<i>(in millions)</i>	
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	<b>\$ 1,733</b>	\$ 1,797
Service cost	<b>26</b>	36
Interest cost	<b>113</b>	138
Benefits paid	<b>(93)</b>	(108)
Actuarial loss (gain)	<b>34</b>	(139)
Plan amendments	<b>(59)</b>	
Retiree drug subsidy	<b>5</b>	9
Balance at end of year	<b>1,759</b>	1,733
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	<b>631</b>	820
Actual return (loss) on plan assets	<b>127</b>	(232)
Employer contributions	<b>72</b>	142
Benefits paid	<b>(87)</b>	(99)
Fair value of plan assets at end of year	<b>743</b>	631
Accrued liability	<b>\$(1,016)</b>	\$(1,102)

Other postretirement benefit plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the Internal Revenue Code. The Company's investment policy covers a diversified mix of assets, including equity and fixed income securities, real estate, and private equity. Derivative instruments are used primarily to gain efficient exposure to the various asset classes and as hedging tools. The Company minimizes the risk of large losses primarily through diversification but also monitors and manages other aspects of risk. The actual composition of the Company's other postretirement benefit plan assets as of the end of the year, along with the targeted mix of assets, is presented below:

	Target	<b>2009</b>	2008
Domestic equity	42%	<b>37%</b>	34%
International equity	19	<b>24</b>	18
Fixed income	30	<b>32</b>	38
Special situations	1		
Real estate investments	5	<b>4</b>	7
Private equity	3	<b>3</b>	3
Total	100%	<b>100%</b>	100%

Detailed below is a description of the investment strategies for each major asset category disclosed above:



**Domestic equity.** This portion of the portfolio comprises a mix of large and small capitalization stocks with generally an equal distribution of value and growth attributes managed both actively and through passive index approaches.

**International equity.** This portion of the portfolio is actively managed with a blend of growth stocks and value stocks with both developed and emerging market exposure.

**Fixed income.** This portion of the portfolio is actively managed through an allocation to long-dated, investment grade corporate and government bonds.

**Special situations.** Though currently unfunded, this portion of the portfolio was established both to execute opportunistic investment strategies with the objectives of diversifying and enhancing returns and exploiting short-term inefficiencies, as well as to invest in promising new strategies of a longer-term nature.

**Trust-owned life insurance.** Some of the Company's taxable trusts invest in these investments in order to minimize the impact of taxes on the portfolio.

**Real estate investments.** Assets in this portion of the portfolio are invested in traditional private market, equity-oriented investments in real properties (indirectly through pooled funds or partnerships) and in publicly traded real estate securities.

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**Private equity.** This portion of the portfolio generally consists of investments in private partnerships that invest in private or public securities typically through privately negotiated and/or structured transactions. Leveraged buyouts, venture capital, and distressed debt are examples of investment strategies within this category. The fair values of other postretirement benefit plan assets as of December 31, 2009 and 2008 are presented below. These fair value measurements exclude cash, receivables related to investment income, pending investments sales, and payables related to pending investment purchases.

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>As of December 31, 2009:</b>				
Assets:				
Domestic equity*	\$ 149	\$ 42	\$	\$ 191
International equity*	62	36		98
Fixed income:				
U.S. Treasury, government, and agency bonds		22		22
Mortgage- and asset-backed securities		5		5
Corporate bonds		12		12
Pooled funds		18		18
Cash equivalents and other		54		54
Trust-owned life insurance		270		270
Special situations				
Real estate investments	7		24	31
Private equity			24	24
Total	\$ 218	\$ 459	\$ 48	\$ 725

\* Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>As of December 31, 2008:</b>				
Assets:				

Assets:

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Domestic equity*	\$ 114	\$ 47	\$	\$ 161
International equity*	41	24		65
Fixed income:				
U.S. Treasury, government, and agency bonds		23		23
Mortgage- and asset-backed securities		9		9
Corporate bonds		12		12
Pooled funds		9		9
Cash equivalents and other	1	73		74
Trust-owned life insurance		215		215
Special situations				
Real estate investments	6		36	42
Private equity			21	21
Total	\$ 162	\$ 412	\$ 57	\$ 631

\* Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report**

Changes in the fair value measurement of the Level 3 items in the other postretirement benefit plan assets valued using significant unobservable inputs for the years ended December 31, 2009 and 2008 are as follows:

	2009		2008	
	Real Estate  Investments	Private Equity	Real Estate  Investments	Private Equity
Beginning balance	\$ 36	\$ 21	\$44	\$ 22
Actual return on investments:				
Related to investments held at year end	(10)	2	(6)	(6)
Related to investments sold during the year	(3)			1
Total return on investments	(13)	2	(6)	(5)
Purchases, sales, and settlements	1	1	(2)	4
Transfers into/out of Level 3				
Ending balance	\$ 24	\$ 24	\$36	\$ 21

The fair values presented above are prepared in accordance with applicable accounting standards regarding fair value. For purposes of determining the fair value of the pension plan assets and the appropriate level designation, management relies on information provided by the plan's trustee. This information is reviewed and evaluated by management with changes made to the trustee information as appropriate.

Securities for which the activity is observable on an active market or traded exchange are categorized as Level 1. Fixed income securities classified as Level 2 are valued using matrix pricing, a common model using observable inputs. Domestic and international equity securities classified as Level 2 consist of pooled funds where the value is not quoted on an exchange but where the value is determined using observable inputs from the market. Securities that are valued using unobservable inputs are classified as Level 3 and include investments in real estate and investments in limited partnerships. The Company invests (through the pension plan trustee) directly in the limited partnerships which then invest in various types of funds or various private entities within a fund. The fair value of the limited partnerships' investments is based on audited annual capital accounts statements which are generally prepared on a fair value basis. The Company also relies on the fact that, in most instances, the underlying assets held by the limited partnerships are reported at fair value. External investment managers typically send valuations to both the custodian and to the Company within 90 days of quarter end. The custodian reports the most recent value available and adjusts the value for cash flows since the statement date for each respective fund.

Amounts recognized in the balance sheets related to the Company's other postretirement benefit plans consist of the following:

	2009	2008
	<i>(in millions)</i>	
Other regulatory assets, deferred	\$ 374	\$ 489
Other current liabilities		(3)
Employee benefit obligations	(1,016)	(1,099)
Accumulated other comprehensive income	5	8



**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report**

Presented below are the amounts included in accumulated other comprehensive income and regulatory assets at December 31, 2009 and 2008 related to the other postretirement benefit plans that had not yet been recognized in net periodic postretirement benefit cost along with the estimated amortization of such amounts for 2010.

	<b>Prior Service Cost</b>	<b>Net (Gain) Loss <i>(in millions)</i></b>	<b>Transition Obligation</b>
<b>Balance at December 31, 2009:</b>			
Accumulated other comprehensive income	\$	\$ 5	\$
Regulatory assets	<b>41</b>	<b>298</b>	<b>35</b>
Total	<b>\$41</b>	<b>\$ 303</b>	<b>\$ 35</b>
<b>Balance at December 31, 2008:</b>			
Accumulated other comprehensive income	\$ 3	\$ 5	\$
Regulatory assets	88	335	66
Total	\$91	\$ 340	\$ 66
<b>Estimated amortization as net periodic postretirement benefit cost in 2010:</b>			
Accumulated other comprehensive income	\$	\$	\$
Regulatory assets	5	5	10
Total	\$ 5	\$ 5	\$ 10

The components of other comprehensive income, along with the changes in the balance of regulatory assets, related to the other postretirement benefit plans for the plan year ended December 31, 2009 and the 15 months ended December 31, 2008 are presented in the following table:

	<b>Accumulated Other Comprehensive Income <i>(in millions)</i></b>	<b>Regulatory Assets</b>
<b>Balance at December 31, 2007</b>	\$ 8	\$ 360
Net loss	1	166
Change in prior service costs/transition obligation		
Reclassification adjustments:		
Amortization of transition obligation		(18)
Amortization of prior service costs	(1)	(11)
Amortization of net gain		(8)
Total reclassification adjustments	(1)	(37)
Total change		129

<b>Balance at December 31, 2008</b>	8	489
Net loss (gain)		<b>(33)</b>
Change in prior service costs/transition obligation	<b>(3)</b>	<b>(56)</b>
Reclassification adjustments:		
Amortization of transition obligation		<b>(13)</b>
Amortization of prior service costs		<b>(8)</b>
Amortization of net gain		<b>(5)</b>
Total reclassification adjustments		<b>(26)</b>
Total change	<b>(3)</b>	<b>(115)</b>
<b>Balance at December 31, 2009</b>	<b>\$ 5</b>	<b>\$ 374</b>

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report**

Components of the other postretirement benefit plans net periodic cost were as follows:

	<b>2009</b>	2008 <i>(in millions)</i>	2007
Service cost	<b>\$ 26</b>	\$ 28	\$ 27
Interest cost	<b>113</b>	111	107
Expected return on plan assets	<b>(61)</b>	(59)	(52)
Net amortization	<b>25</b>	31	38
 Net postretirement cost	 <b>\$103</b>	 \$111	 \$120

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Act) provides a 28% prescription drug subsidy for Medicare eligible retirees. The effect of the subsidy reduced Southern Company's expenses for the years ended December 31, 2009, 2008, and 2007 by approximately \$33 million, \$35 million, and \$35 million, respectively.

Future benefit payments, including prescription drug benefits, reflect expected future service and are estimated based on assumptions used to measure the accumulated benefit obligation for the postretirement plans. Estimated benefit payments are reduced by drug subsidy receipts expected as a result of the Medicare Act as follows:

	<b>Benefit Payments</b>	<b>Subsidy Receipts</b> <i>(in millions)</i>	<b>Total</b>
2010	\$107	\$ (8)	\$ 99
2011	117	(9)	108
2012	123	(11)	112
2013	129	(12)	117
2014	134	(14)	120
2015 to 2019	722	(93)	629

**Actuarial Assumptions**

The weighted average rates assumed in the actuarial calculations used to determine both the benefit obligations as of the measurement date and the net periodic costs for the pension and other postretirement benefit plans for the following year are presented below. Net periodic benefit costs were calculated in 2006 for the 2007 plan year using a discount rate of 6.00% and an annual salary increase of 3.50%.

	<b>2009</b>	2008	2007
Discount rate:			
Pension plans	<b>5.93%</b>	6.75%	6.30%
Other postretirement benefit plans	<b>5.83</b>	6.75	6.30
Annual salary increase	<b>4.18</b>	3.75	3.75
Long-term return on plan assets:			
Pension plans	<b>8.50</b>	8.50	8.50
Other postretirement benefit plans	<b>7.51</b>	7.59	7.58

The Company estimates the expected rate of return on pension plan and other postretirement benefit plan assets using a financial model to project the expected return on each current investment portfolio. The analysis projects an expected rate of return on each of seven different asset classes in order to arrive at the expected return on the entire



portfolio relying on each trust's target asset allocation and reasonable capital market assumptions. The financial model is based on four key inputs: anticipated returns by asset class (based in part on historical returns), each trust's asset allocation, an anticipated inflation rate, and the projected impact of a periodic rebalancing of each trust's portfolio.

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An additional assumption used in measuring the APBO was a weighted average medical care cost trend rate of 8.50% for 2010, decreasing gradually to 5.25% through the year 2016 and remaining at that level thereafter. An annual increase or decrease in the assumed medical care cost trend rate of 1% would affect the APBO and the service and interest cost components at December 31, 2009 as follows:

	<b>1 Percent Increase</b>	<b>1 Percent Decrease</b>
	<i>(in millions)</i>	
Benefit obligation	\$ 115	\$ 102
Service and interest costs	9	9

**Employee Savings Plan**

Southern Company also sponsors a 401(k) defined contribution plan covering substantially all employees. The Company provides an 85% matching contribution up to 6% of an employee's base salary. Total matching contributions made to the plan for 2009, 2008, and 2007 were \$78 million, \$76 million, and \$73 million, respectively.

**3. CONTINGENCIES AND REGULATORY MATTERS****General Litigation Matters**

Southern Company and its subsidiaries are subject to certain claims and legal actions arising in the ordinary course of business. In addition, 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, 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.

**Mirant Matters**

Mirant Corporation (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 on March 31, 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 under Effective

Tax Rate for more information regarding the MC Asset Recovery settlement. The final outcome of this matter cannot now be determined.

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report****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 New Source Review (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 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 believes that the traditional operating companies 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, on September 21, 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. On November 5, 2009, the defendants, including Southern Company, sought rehearing en banc, and the court's ruling is subject to potential appeal. Therefore, 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

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report**

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. On September 30, 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 caused the injury alleged. On November 5, 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, on October 16, 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. The 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***

Southern Company's subsidiaries 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 December 31, 2009 was \$12.5 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.

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, on April 30, 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 Southern Company's financial statements.

Gulf Power's environmental remediation liability includes estimated costs of environmental remediation projects of approximately \$65.2 million as of December 31, 2009. 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. 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, management does not believe that additional liabilities, if any, at these sites would be material to the financial statements.

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report****FERC Matters*****Market-Based Rate Authority***

Each of the traditional operating companies and Southern Power has 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.

On December 23, 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.

***Intercompany Interchange Contract***

The 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 of Southern Company 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 the Company's 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 believes that its subsidiaries 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 financial statements.

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report**

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 Fibernet, Inc., a subsidiary of telecommunications company ITC DeltaCom, Inc. that uses certain of the defendants' 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. The Company believes 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.

The final outcome of these matters cannot now be determined.

**Nuclear Fuel Disposal Costs**

Alabama Power and Georgia Power have contracts with the United States, acting through the U.S. Department of Energy (DOE), which provide for the permanent disposal of spent nuclear fuel. The DOE failed to begin disposing of spent nuclear fuel in 1998 as required by the contracts, and Alabama Power and Georgia Power are pursuing legal remedies against the government for breach of contract.

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 another case involving spent nuclear fuel contracts.

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 until the issue is resolved or the storage is provided. No amounts have been recognized in the financial statements as of December 31, 2009 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.

Sufficient pool storage capacity for spent fuel is available at Plant Vogtle to maintain full-core discharge capability for both units into 2014. Construction of an on-site dry storage facility at Plant Vogtle is expected to begin in sufficient time to maintain pool full-core discharge capability. At Plants Hatch and Farley, on-site dry storage facilities are operational and can be expanded to accommodate spent fuel through the expected life of each plant.

**Income Tax Matters**

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 has 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. An unrecognized tax benefit has been recorded related to these credits. See Note 5 under "Unrecognized Tax Benefits" for additional information. 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. The ultimate outcome of this matter cannot now be determined.



**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report****Retail Regulatory Matters*****Alabama Power******Retail Rate Plans***

Alabama Power operates under a Rate Stabilization and Equalization Plan (Rate RSE) approved by the Alabama PSC. Rate RSE adjustments are based on forward-looking information for the applicable upcoming calendar year. Rate adjustments for any two-year period, when averaged together, cannot exceed 4% per year and any annual adjustment is limited to 5%. Retail rates remain unchanged when the retail return on common equity (ROE) is projected to be between 13% and 14.5%. If Alabama Power's actual retail ROE is above the allowed equity return range, customer refunds will be required; however, there is no provision for additional customer billings should the actual retail ROE fall below the allowed equity return range. In October 2008, the Alabama PSC approved a corrective rate package effective January 2009, that primarily provides for adjustments associated with customer charges to certain existing rate structures. Alabama Power agreed to a moratorium on any increase in rates in 2009 under Rate RSE. On December 1, 2009, Alabama Power made its Rate RSE submission to the Alabama PSC of projected data for calendar year 2010. The Rate RSE increase for 2010 is 3.2%, or \$152 million annually, and became effective in January 2010. The revenue adjustment under the Rate RSE is largely attributable to the costs associated with fossil capacity which is currently dedicated to certain long-term wholesale contracts that expire during 2010. Retail cost of service for 2010 reflects the costs for that portion of the year in which this capacity is no longer committed to wholesale. In an Alabama PSC order dated January 5, 2010, the Alabama PSC acknowledged that a full calendar year of costs for such capacity would be reflected in the Rate RSE calculation beginning in 2011 and thereafter. Under the terms of Rate RSE, the maximum increase for 2011 cannot exceed 4.76%.

The Alabama PSC has also approved a rate mechanism that provides for adjustments to recognize the cost of placing new generating facilities in retail service and for the recovery of retail costs associated with certificated power purchase agreements (PPAs) under a Rate Certificated New Plant (Rate CNP). There was no adjustment to Rate CNP in April 2007, 2008, or 2009. Effective April 2010, Rate CNP will be reduced approximately \$70 million annually, primarily due to the expiration on May 31, 2010 of the PPA with Southern Power covering the capacity of Plant Harris Unit 1. Rate CNP also allows for the recovery of Alabama Power's retail costs associated with environmental laws, regulations, or other such mandates. The rate mechanism is based on forward-looking information and provides for the recovery of these costs pursuant to a factor that is calculated annually. Environmental costs to be recovered include operations and maintenance expenses, depreciation, and a return on invested capital. Retail rates increased approximately 2.4% in January 2008 and 0.6% in January 2007 due to environmental costs. In October 2008, Alabama Power agreed to defer collection during 2009 of any increase in rates under this portion of Rate CNP which permits recovery of costs associated with environmental laws and regulations until 2010. The deferral of the retail rate adjustments had an immaterial impact on annual cash flows, and had no significant effect on Southern Company's revenues or net income in 2009. On December 1, 2009, Alabama Power made its Rate CNP environmental submission to the Alabama PSC of projected data for calendar year 2010. The Rate CNP environmental increase for 2010 is 4.3%, or \$195 million annually, based upon projected billings. Under the terms of the rate mechanism, the adjustment became effective in January 2010. The Rate CNP environmental adjustment is primarily attributable to scrubbers being placed in service during 2010 at four of Alabama Power's generating plants.

***Fuel Cost Recovery***

Alabama Power has established fuel cost recovery rates under an energy cost recovery clause (Rate ECR) approved by the Alabama PSC. Rates are based on an estimate of future energy costs and the current over or under recovered balance. In June 2007, the Alabama PSC approved Alabama Power's request to increase the retail energy cost recovery rate to 3.100 cents per kilowatt hour (KWH), effective with billings beginning July 2007. In October 2008, the Alabama PSC approved an increase in Alabama Power's Rate ECR factor to 3.983 cents per KWH effective with billings beginning October 2008. On June 2, 2009, the Alabama PSC approved a decrease in Alabama Power's Rate ECR factor to 3.733 cents per KWH for billings beginning June 9, 2009. On December 1, 2009, the Alabama PSC approved a decrease in Alabama Power's Rate ECR factor to 2.731 cents per KWH for billings beginning

January 2010 through December 2011. The Alabama PSC further approved an additional reduction in the Rate ECR factor of 0.328 cents per KWH for the billing months of January 2010 through December 2010 resulting in a Rate ECR factor of 2.403 cents per KWH for such 12-month period. For billing months beginning January 2012, the Rate ECR factor shall be 5.910 cents per KWH, absent a contrary order by the Alabama PSC. Rate ECR revenues, as recorded on the financial statements, are adjusted for the difference in actual recoverable fuel costs and amounts billed in current regulated rates. Accordingly, the approved decreases in the Rate ECR factor will have no significant effect on Southern Company's net income, but will decrease operating cash flows related to fuel cost recovery in 2010 when compared to 2009. As of December 31, 2009, Alabama Power had an over recovered fuel balance of approximately \$200 million, of which approximately \$22 million is included in other regulatory liabilities, deferred in the balance sheets. Alabama Power, along with the Alabama PSC, will continue to monitor the over recovered fuel cost balance to determine whether an additional adjustment to billing rates is required.

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report*****Georgia Power******Retail Rate Plans***

In December 2004, the Georgia PSC approved the 2004 Retail Rate Plan. Under the terms of the 2004 Retail Rate Plan, Georgia Power's earnings were evaluated against a retail ROE range of 10.25% to 12.25%. Two-thirds of any earnings above 12.25% were applied to rate refunds, with the remaining one-third retained by Georgia Power. Retail rates and customer fees increased by approximately \$203 million effective January 1, 2005 to cover the higher costs of purchased power, operating and maintenance expenses, environmental compliance, and continued investment in new generation, transmission, and distribution facilities to support growth and ensure reliability. In 2007, Georgia Power refunded 2005 earnings above 12.25% retail ROE. There were no refunds related to earnings for 2007.

In December 2007, the Georgia PSC approved the 2007 Retail Rate Plan. Under the 2007 Retail Rate Plan, Georgia Power's earnings are evaluated against a retail ROE range of 10.25% to 12.25%. Retail base rates increased by approximately \$100 million effective January 1, 2008 to provide for cost recovery of transmission, distribution, generation, and other investments, as well as increased operating costs. In addition, the ECCR tariff was implemented to allow for the recovery of costs related to environmental projects mandated by state and federal regulations. The ECCR tariff increased rates by approximately \$222 million effective January 1, 2008. In connection with the 2007 Retail Rate Plan, Georgia Power agreed that it would not file for a general base rate increase during this period unless its projected retail ROE falls below 10.25%. Georgia Power is required to file a general rate case by July 1, 2010, in response to which the Georgia PSC would be expected to determine whether the 2007 Retail Rate Plan should be continued, modified, or discontinued.

***Cost of Removal***

The economic recession has significantly reduced Georgia Power's revenues upon which retail rates were set under the 2007 Retail Rate Plan. In June 2009, despite stringent efforts to reduce expenses, Georgia Power's projected retail ROE for both 2009 and 2010 was below 10.25%. However, in lieu of filing to increase customer rates as allowed under the 2007 Retail Rate Plan, on June 29, 2009, Georgia Power filed a request with the Georgia PSC for 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.

On August 27, 2009, the Georgia PSC approved the accounting order. 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 ROE. For the year ended December 31, 2009, Georgia Power amortized \$41 million of the regulatory liability. 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.

***Fuel Cost Recovery***

Georgia Power has established fuel cost recovery rates approved by the Georgia PSC. The Georgia PSC approved increases in Georgia Power's total annual billings of approximately \$383 million effective March 1, 2007 and approximately \$222 million effective June 1, 2008. On December 15, 2009, Georgia Power filed for a fuel cost recovery increase with the Georgia PSC. On February 22, 2010, Georgia Power, the Georgia PSC Public Interest Advocacy Staff, and three customer groups entered into a stipulation to resolve the case, subject to approval by the Georgia PSC (the Stipulation). Under the terms of the Stipulation, Georgia Power's annual fuel cost recovery billings will increase by approximately \$425 million. In addition, Georgia Power will implement an interim fuel rider, which would allow Georgia Power to adjust its fuel cost recovery rates prior to the next fuel case if the under recovered fuel balance exceeds budget by more than \$75 million. Georgia Power is required to file its next fuel case by March 1, 2011. The Georgia PSC is scheduled to vote on the Stipulation on March 11, 2010 with the new fuel rates to become effective April 1, 2010. The ultimate outcome of this matter cannot be determined at this time.

As of December 31, 2009, Georgia Power's under recovered fuel balance totaled approximately \$665 million, which if the Stipulation is approved, Georgia Power will recover over 32 months beginning April 1, 2010. Therefore, approximately \$373 million of the under recovered regulatory clause revenues for Georgia Power is included in deferred charges and other assets at December 31, 2009.

Fuel cost recovery revenues as recorded in the financial statements are adjusted for differences in actual recoverable costs and amounts billed in current regulated rates. Accordingly, a change in the billing factor has no significant effect on Southern Company's revenues or net income, but does impact annual cash flow.

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report***Nuclear Construction*

On August 26, 2009, the NRC issued an Early Site Permit and Limited Work Authorization to Southern Nuclear, on behalf of Georgia Power, Oglethorpe Power Corporation (OPC), the Municipal Electric Authority of Georgia (MEAG Power), and the City of Dalton, Georgia, an incorporated municipality in the State of Georgia acting by and through its Board of Water, Light and Sinking Fund Commissioners (collectively, Owners), related to two additional nuclear units on the site of Plant Vogtle (Plant Vogtle Units 3 and 4). See Note 4 for additional information on these co-owners. In March 2008, Southern Nuclear filed an application with the NRC for a combined construction and operating license for the new units. If licensed by the NRC, Plant Vogtle Units 3 and 4 are scheduled to be placed in service in 2016 and 2017, respectively.

In April 2008, Georgia Power, acting for itself and as agent for the Owners, and a consortium consisting of Westinghouse Electric Company LLC (Westinghouse) and Stone & Webster, Inc. (collectively, Consortium) entered into an engineering, procurement, and construction agreement to design, engineer, procure, construct, and test two AP1000 nuclear units with electric generating capacity of approximately 1,100 MWs each and related facilities, structures, and improvements at Plant Vogtle (Vogtle 3 and 4 Agreement).

The Vogtle 3 and 4 Agreement is an arrangement whereby the Consortium supplies and constructs the entire facility with the exception of certain items provided by the Owners. Under the terms of the Vogtle 3 and 4 Agreement, the Owners agreed to pay a purchase price that will be subject to certain price escalations and adjustments, including certain index-based adjustments, as well as adjustments for change orders, and performance bonuses for early completion and unit performance. Each Owner is severally (and not jointly) liable for its proportionate share, based on its ownership interest, of all amounts owed to the Consortium under the Vogtle 3 and 4 Agreement. Georgia Power's proportionate share is 45.7%.

On February 23, 2010, Georgia Power, acting for itself and as agent for the Owners, and the Consortium entered into an amendment to the Vogtle 3 and 4 Agreement. The amendment, which is subject to the approval of the Georgia PSC, replaces certain of the index-based adjustments to the purchase price with fixed escalation amounts.

On March 17, 2009, the Georgia PSC voted to certify construction of Plant Vogtle Units 3 and 4 at an in-service cost of \$6.4 billion. In addition, the Georgia PSC voted to approve inclusion of the related construction work in progress accounts in rate base.

On April 21, 2009, the Governor of the State of Georgia signed into law the Georgia Nuclear Energy Financing Act that will allow Georgia Power to recover financing costs for nuclear construction projects by including the related construction work in progress accounts in rate base during the construction period. The cost recovery provisions will become effective on January 1, 2011. With respect to Plant Vogtle Units 3 and 4, this legislation allows Georgia Power to recover projected financing costs of approximately \$1.7 billion during the construction period beginning in 2011, which reduces the projected in-service cost to approximately \$4.4 billion.

On June 15, 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 Energy Financing Act. Georgia Power believes there is no meritorious basis for this petition and intends to vigorously defend against the requested actions.

On August 27, 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. Similar additional challenges at the state and federal level are expected as construction proceeds.



On August 31, 2009, Georgia Power filed with the Georgia PSC its first semi-annual construction monitoring report for Plant Vogtle Units 3 and 4 for the period ended June 30, 2009 which did not include any proposed change to the estimated construction cost as certified by the Georgia PSC in March 2009. On February 25, 2010, the Georgia PSC approved the expenditures made by Georgia Power pursuant to the certification through June 30, 2009. The Georgia PSC also ordered that in its future semi-annual construction monitoring reports, Georgia Power will report against a total certified cost of approximately \$6.1 billion, which is the effective certified amount after giving effect to the Georgia Nuclear Energy Financing Act as described above. Georgia Power will continue to file construction monitoring reports by February 28 and August 31 of each year during the construction period. The ultimate outcome of these matters cannot now be determined.

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report****Integrated Coal Gasification Combined Cycle (IGCC)**

On January 16, 2009, Mississippi Power filed for a Certificate of Public Convenience and Necessity with the Mississippi PSC to allow construction of a new electric generating plant located in Kemper County, Mississippi. The plant would utilize an advanced integrated coal gasification combined cycle technology with an output capacity of 582 MWs. The Kemper IGCC will use locally mined lignite from a proposed mine adjacent to the plant as fuel. This certificate, if approved by the Mississippi PSC, would authorize Mississippi Power to acquire, construct and operate the Kemper IGCC and related facilities. The Kemper IGCC, subject to federal and state reviews and certain regulatory approvals, is expected to begin commercial operation in May 2014. The Mississippi PSC has issued orders allowing Mississippi Power to defer the costs associated with the generation resource planning, evaluation, and screening activities as a regulatory asset. As of December 31, 2009, Mississippi Power had spent a total of \$73.5 million of such costs including regulatory filing costs.

On November 9, 2009, the Mississippi PSC issued an order that found Mississippi Power has a demonstrated need for additional capacity. Hearings to determine the appropriate resource to fill the need were held in February 2010 with a decision due by May 2010.

The ultimate outcome of this matter cannot now be determined.

**4. JOINT OWNERSHIP AGREEMENTS**

Alabama Power owns an undivided interest in units 1 and 2 of Plant Miller and related facilities jointly with Power South Energy Cooperative, Inc. Georgia Power owns undivided interests in Plants Vogtle, Hatch, Scherer, and Wansley in varying amounts jointly with OPC, MEAG Power, the City of Dalton, Georgia, Florida Power & Light Company, and Jacksonville Electric Authority. In addition, Georgia Power has joint ownership agreements with OPC for the Rocky Mountain facilities and with Florida Power Corporation for a combustion turbine unit at Intercession City, Florida. Southern Power owns an undivided interest in Plant Stanton Unit A and related facilities jointly with the Orlando Utilities Commission, Kissimmee Utility Authority, and Florida Municipal Power Agency.

At December 31, 2009, Alabama Power's, Georgia Power's, and Southern Power's ownership and investment (exclusive of nuclear fuel) in jointly owned facilities with the above entities were as follows:

	<b>Percent Ownership</b>	<b>Amount of Investment</b>	<b>Accumulated Depreciation</b>
		<i>(in millions)</i>	
Plant Vogtle (nuclear) Units 1 and 2	<b>45.7%</b>	\$3,285	\$ 1,916
Plant Hatch (nuclear)	<b>50.1</b>	937	522
Plant Miller (coal) Units 1 and 2	<b>91.8</b>	1,063	449
Plant Scherer (coal) Units 1 and 2	<b>8.4</b>	133	70
Plant Wansley (coal)	<b>53.5</b>	696	195
Rocky Mountain (pumped storage)	<b>25.4</b>	175	106
Intercession City (combustion turbine)	<b>33.3</b>	12	3
Plant Stanton (combined cycle) Unit A	<b>65.0</b>	151	20

At December 31, 2009, the portion of total construction work in progress related to Plants Miller, Scherer, Wansley, and Vogtle Units 3 and 4 was \$244 million, \$247 million, \$5 million, and \$611 million, respectively. Construction at Plants Miller, Wansley, and Scherer relates primarily to environmental projects. See Note 3 under "Retail Regulatory Matters - Georgia Power - Nuclear Construction" for information on Plant Vogtle Units 3 and 4.

Alabama Power, Georgia Power, and Southern Power have contracted to operate and maintain the jointly owned facilities, except for Rocky Mountain and Intercession City, as agents for their respective co-owners. The companies proportionate share of their plant operating expenses is included in the corresponding operating expenses in the statements of income and each company is responsible for providing its own financing.



**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report****5. INCOME TAXES**

Southern Company files a consolidated federal income tax return and combined state income tax returns for the States of Alabama, Georgia, and Mississippi. Under a joint consolidated income tax allocation agreement, each subsidiary's current and deferred tax expense is computed on a stand-alone basis. In accordance with IRS regulations, each company is jointly and severally liable for the tax liability.

**Current and Deferred Income Taxes**

Details of income tax provisions are as follows:

	<b>2009</b>	2008 <i>(in millions)</i>	2007
Federal			
Current	<b>\$771</b>	\$628	\$715
Deferred	<b>40</b>	177	11
	<b>811</b>	805	726
State			
Current	<b>100</b>	72	114
Deferred	<b>(15)</b>	38	(5)
	<b>85</b>	110	109
Total	<b>\$896</b>	\$915	\$835

Net cash payments for income taxes in 2009, 2008, and 2007 were \$975 million, \$537 million, and \$732 million, respectively.

The tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases, which give rise to deferred tax assets and liabilities, are as follows:

	<b>2009</b>	2008 <i>(in millions)</i>
Deferred tax liabilities		
Accelerated depreciation	<b>\$5,938</b>	\$5,356
Property basis differences	<b>986</b>	968
Leveraged lease basis differences	<b>251</b>	306
Employee benefit obligations	<b>384</b>	364
Under recovered fuel clause	<b>271</b>	516
Premium on reacquired debt	<b>100</b>	107
Regulatory assets associated with employee benefit obligations	<b>939</b>	869
Regulatory assets associated with asset retirement obligations	<b>486</b>	480
Other	<b>216</b>	132
Total	<b>9,571</b>	9,098
Deferred tax assets		
Federal effect of state deferred taxes	<b>302</b>	354
State effect of federal deferred taxes	<b>108</b>	105

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Employee benefit obligations	<b>1,435</b>	1,325
Over recovered fuel clause	<b>119</b>	
Other property basis differences	<b>132</b>	144
Deferred costs	<b>65</b>	99
Cost of removal	<b>109</b>	
Unbilled revenue	<b>96</b>	100
Other comprehensive losses	<b>81</b>	82
Asset retirement obligations	<b>486</b>	480
Other	<b>458</b>	279
Total	<b>3,391</b>	2,968
Total deferred tax liabilities, net	<b>6,180</b>	6,130
Portion included in prepaid expenses (accrued income taxes), net	<b>229</b>	(90)
Deferred state tax assets	<b>105</b>	103
Valuation allowance	<b>(59)</b>	(63)
Accumulated deferred income taxes	<b>\$6,455</b>	\$6,080

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report**

At December 31, 2009, Southern Company had a State of Georgia net operating loss (NOL) carryforward totaling \$1.0 billion, which could result in net state income tax benefits of \$55 million, if utilized. However, Southern Company has established a valuation allowance for the potential \$55 million tax benefit due to the remote likelihood that the tax benefit will be realized. These NOLs expire between 2010 and 2021. During 2009, Southern Company utilized \$4 million in available NOLs, which resulted in a \$0.2 million state income tax benefit. The State of Georgia allows the filing of a combined return, which should substantially reduce any additional NOL carryforwards.

At December 31, 2009, the tax-related regulatory assets and liabilities were \$1.05 billion and \$249 million, respectively. These assets are attributable to tax benefits flowed through to customers in prior years and to taxes applicable to capitalized interest. These liabilities are attributable to deferred taxes previously recognized at rates higher than the current enacted tax law and to unamortized investment tax credits.

**Effective Tax Rate**

The provision for income taxes differs from the amount of income taxes determined by applying the applicable U.S. federal statutory rate to earnings before income taxes and preferred and preference dividends of subsidiaries, as a result of the following:

	<b>2009</b>	2008	2007
Federal statutory rate	<b>35.0%</b>	35.0%	35.0%
State income tax, net of federal deduction	<b>2.1</b>	2.6	2.7
Synthetic fuel tax credits			(1.4)
Employee stock plans dividend deduction	<b>(1.4)</b>	(1.3)	(1.3)
Non-deductible book depreciation	<b>0.9</b>	0.8	0.9
Difference in prior years deferred and current tax rate	<b>(0.1)</b>	(0.2)	(0.2)
AFUDC-Equity	<b>(2.7)</b>	(1.9)	(1.4)
Production activities deduction	<b>(0.7)</b>	(0.4)	(0.8)
Leveraged lease termination	<b>(0.9)</b>		
MC Asset Recovery	<b>2.7</b>		
Donations	<b>(0.4)</b>		(0.8)
Other	<b>(0.1)</b>	(1.0)	(0.8)
Effective income tax rate	<b>34.4%</b>	33.6%	31.9%

Southern Company's 2009 effective tax rate increased from 2008 primarily due to the \$202 million charge recorded for the MC Asset Recovery litigation settlement, which completed and resolved all claims by MC Asset Recovery against Southern Company. Southern Company is currently evaluating potential recovery of the settlement payment through various means. The degree to which any recovery is realized will determine, in part, the final income tax treatment of the settlement payment. The ultimate outcome of any such recovery and/or income tax treatment cannot be determined at this time. The increase in Southern Company's effective tax rate was partially offset by the gain on the early termination of an international leveraged lease investment and the increase in AFUDC related to increased construction expenditures.

The American Jobs Creation Act of 2004 created a tax deduction for a portion of income attributable to U. S. production activities as defined in the Internal Revenue Code Section 199 (production activities deduction). The deduction is equal to a stated percentage of qualified production activities net income. The percentage is phased in over the years 2005 through 2010 with a 3% rate applicable to the years 2005 and 2006, a 6% rate applicable for the years 2007 through 2009, and a 9% rate thereafter. The IRS has not clearly defined a methodology for calculating this deduction. However, Southern Company reached an agreement with the IRS on a calculation methodology and signed a closing agreement in December 2008. Therefore, in 2008, Southern Company reversed the unrecognized tax benefit related to the calculation methodology and adjusted the deduction for all previous years to conform to the agreement

which resulted in a decrease in the 2008 deduction when compared to the 2007 deduction. Certain aspects of the production activities deduction remain unresolved. The net impact of the reversal of the unrecognized tax benefits combined with the application of the new methodology had no material effect on the Company's financial statements. For 2009, Georgia Power donated 5,111 acres of land to the State of Georgia. In 2007, Georgia Power donated 2,200 acres of land in the Tallulah Gorge State Park to the State of Georgia. The estimated value of the donations lowered the effective income tax rate for the years ended December 31, 2009 and December 31, 2007.

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report****Unrecognized Tax Benefits**

For 2009, the total amount of unrecognized tax benefits increased by \$53 million, resulting in a balance of \$199 million as of December 31, 2009.

Changes during the year in unrecognized tax benefits were as follows:

	<b>2009</b>	2008 <i>(in millions)</i>	2007
Unrecognized tax benefits at beginning of year	<b>\$146</b>	\$ 264	\$211
Tax positions from current periods	<b>53</b>	49	46
Tax positions from prior periods	<b>2</b>	130	7
Reductions due to settlements		(297)	
Reductions due to expired statute of limitations	<b>(2)</b>		
Balance at end of year	<b>\$199</b>	\$ 146	\$264

The tax positions from current periods increase for 2009 relate primarily to the Georgia state tax credits litigation, the production activities deduction tax position, and other miscellaneous uncertain tax positions. The tax positions increase from prior periods for 2009 relates primarily to the production activities deduction tax position. See Note 3 under **Income Tax Matters** for additional information.

Impact on Southern Company's effective tax rate, if recognized, is as follows:

	<b>2009</b>	2008 <i>(in millions)</i>	2007
Tax positions impacting the effective tax rate	<b>\$199</b>	\$143	\$ 96
Tax positions not impacting the effective tax rate		3	168
Balance of unrecognized tax benefits	<b>\$199</b>	\$146	\$264

The tax positions impacting the effective tax rate primarily relate to Georgia state tax credit litigation at Georgia Power and the production activities deduction tax position. See Note 3 under **Income Tax Matters** for additional information.

Accrued interest for unrecognized tax benefits was as follows:

	<b>2009</b>	2008 <i>(in millions)</i>	2007
Interest accrued at beginning of year	<b>\$15</b>	\$ 31	\$27
Interest reclassified due to settlements		(49)	
Interest accrued during the year	<b>6</b>	33	4
Balance at end of year	<b>\$21</b>	\$ 15	\$31

Southern Company classifies interest on tax uncertainties as interest expense. The net amount of interest accrued during 2009 was primarily associated with the Georgia state tax credit litigation.

Southern Company did not accrue any penalties on uncertain tax positions.



It is reasonably possible that the amount of the unrecognized benefit with respect to a majority of Southern Company's unrecognized tax positions will significantly increase or decrease within the next 12 months. The possible settlement of the Georgia state tax credits litigation and/or the conclusion or settlement of state audits could impact the balances significantly. At this time, an estimate of the range of reasonably possible outcomes cannot be determined. The IRS has audited and closed all tax returns prior to 2004. The audits for the state returns have either been concluded, or the statute of limitations has expired, for years prior to 2006.

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report****6. FINANCING****Long-Term Debt Payable to Affiliated Trusts**

Certain of the traditional operating companies have formed certain wholly-owned trust subsidiaries for the purpose of issuing preferred securities. The proceeds of the related equity investments and preferred security sales were loaned back to the applicable traditional operating company through the issuance of junior subordinated notes totaling \$412 million, which constitute substantially all of the assets of these trusts and are reflected in the balance sheets as

Long-term Debt. Such traditional operating companies each consider that the mechanisms and obligations relating to the preferred securities issued for its benefit, taken together, constitute a full and unconditional guarantee by it of the respective trusts' payment obligations with respect to these securities. At December 31, 2009, preferred securities of \$400 million were outstanding. See Note 1 under Variable Interest Entities for additional information on the accounting treatment for these trusts and the related securities.

**Securities Due Within One Year**

A summary of scheduled maturities and redemptions of securities due within one year at December 31 was as follows:

	2009	2008
	<i>(in millions)</i>	
Capitalized leases	\$ 21	\$ 20
Senior notes	1,090	565
Other long-term debt	2	32
Total	\$1,113	\$617

Maturities through 2014 applicable to total long-term debt are as follows: \$1.1 billion in 2010; \$1.1 billion in 2011; \$1.8 billion in 2012; \$941 million in 2013; and \$430 million in 2014.

**Bank Term Loans**

Certain of the traditional operating companies have entered into bank term loan agreements. In 2008, Georgia Power borrowed \$300 million under a three-year term loan agreement. In 2008, Gulf Power borrowed \$110 million under a three-year loan agreement. Mississippi Power also borrowed \$80 million under a three-year term loan agreement in 2008. The proceeds of these loans were used to repay maturing long-term and short-term indebtedness and for other general corporate purposes.

**Senior Notes**

Southern Company and its subsidiaries issued a total of \$2.4 billion of senior notes in 2009. Southern Company issued \$650 million, and the traditional operating companies' combined issuances totaled \$1.8 billion. The proceeds of these issuances were used to repay long-term and short-term indebtedness and for other general corporate purposes.

At December 31, 2009 and 2008, Southern Company and its subsidiaries had a total of \$14.7 billion and \$12.9 billion, respectively, of senior notes outstanding. At December 31, 2009 and 2008, Southern Company had a total of \$1.8 billion and \$1.1 billion, respectively, of senior notes outstanding.

**Pollution Control Revenue Bonds**

Pollution control obligations represent loans to the traditional operating companies from public authorities of funds derived from sales by such authorities of revenue bonds issued to finance pollution control and solid waste disposal facilities. The traditional operating companies have \$3.6 billion of outstanding pollution control revenue bonds and are required to make payments sufficient for the authorities to meet principal and interest requirements of such bonds. Proceeds from certain issuances are restricted until qualifying expenditures are incurred.

**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report****Assets Subject to Lien**

Each of Southern Company's subsidiaries is organized as a legal entity, separate and apart from Southern Company and its other subsidiaries. Alabama Power and Gulf Power have granted one or more liens on certain of their respective property in connection with the issuance of certain pollution control revenue bonds with an outstanding principal amount of \$194 million. There are no agreements or other arrangements among the subsidiary companies under which the assets of one company have been pledged or otherwise made available to satisfy obligations of Southern Company or any of its other subsidiaries.

**Bank Credit Arrangements**

At December 31, 2009, unused credit arrangements with banks totaled \$4.8 billion, of which \$1.5 billion expires during 2010, \$25 million expires in 2011, and \$3.2 billion expires in 2012. The following table outlines the credit arrangements by company:

Company	Total	Unused	Executable Term-Loans		Expires		
			One Year	Two Years <i>(in millions)</i>	2010	2011	2012
Southern Company	\$ 950	\$ 950	\$	\$	\$	\$	\$ 950
Alabama Power	1,271	1,271	372		481	25	765
Georgia Power	1,715	1,703		40	595		1,120
Gulf Power	220	220	70		220		
Mississippi Power	156	156	15	41	156		
Southern Power	400	400					400
Other	60	60	60		60		
<b>Total</b>	<b>\$4,772</b>	<b>\$4,760</b>	<b>\$517</b>	<b>\$81</b>	<b>\$1,512</b>	<b>\$25</b>	<b>\$3,235</b>

All of the credit arrangements require payment of commitment fees based on the unused portion of the commitments or the maintenance of compensating balances with the banks. Commitment fees average approximately 1/2 of 1% or less for Southern Company, the traditional operating companies, and Southern Power. Compensating balances are not legally restricted from withdrawal.

Most of the credit arrangements with banks have covenants that limit debt levels to 65% of total capitalization, as defined in the agreements. For purposes of these definitions, debt excludes the long-term debt payable to affiliated trusts and, in certain arrangements, other hybrid securities. At December 31, 2009, Southern Company, Southern Power, and the traditional operating companies were each in compliance with their respective debt limit covenants. In addition, the credit arrangements typically contain cross default provisions that would be triggered if the borrower defaulted on other indebtedness above a specified threshold. The cross default provisions are restricted only to the indebtedness, including any guarantee obligations, of the company that has such credit arrangements. Southern Company and its subsidiaries are currently in compliance with all such covenants.

A portion of the \$4.8 billion unused credit with banks is allocated to provide liquidity support to the traditional operating companies' variable rate pollution control revenue bonds. The amount of variable rate pollution control revenue bonds requiring liquidity support as of December 31, 2009 was approximately \$1.6 billion. Subsequent to December 31, 2009, two remarketings of pollution control revenue bonds increased the total requiring liquidity support to \$1.8 billion.

Southern Company, the traditional operating companies, and Southern Power make short-term borrowings primarily through commercial paper programs that have the liquidity support of committed bank credit arrangements. Southern

Company and the traditional operating companies may also borrow through various other arrangements with banks. The amounts of commercial paper outstanding and included in notes payable in the balance sheets at December 31, 2009 and December 31, 2008 were \$638 million and \$794 million, respectively. The amounts of short-term bank loans included in notes payable in the balance sheets at December 31, 2008 were \$150 million. There were no short term-bank loans included in notes payable in the balance sheet at December 31, 2009.

During 2009, the peak amount outstanding for short-term debt was \$1.4 billion, and the average amount outstanding was \$956 million. The average annual interest rate on short-term debt was 0.4% for 2009 and 2.7% for 2008.

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report****Changes in Redeemable Preferred Stock of Subsidiaries**

Each of the traditional operating companies has issued preferred and/or preference stock. The preferred stock of Alabama Power and Mississippi Power contains a feature that allows the holders to elect a majority of such subsidiary's board of directors if dividends are not paid for four consecutive quarters. Because such a potential redemption-triggering event is not solely within the control of Alabama Power and Mississippi Power, this preferred stock is presented as Redeemable Preferred Stock of Subsidiaries in a manner consistent with temporary equity under applicable accounting standards. The preferred and preference stock at Georgia Power and the preference stock at Alabama Power and Gulf Power do not contain such a provision that would allow the holders to elect a majority of such subsidiary's board. As a result, under applicable accounting standards, the preferred and preference stock at Georgia Power and the preference stock at Alabama Power and Gulf Power are required to be shown as noncontrolling interest, separately presented as a component of Stockholders' Equity on Southern Company's consolidated balance sheets, consolidated statements of capitalization, and consolidated statements of stockholders' equity.

The following table presents changes during the year in redeemable preferred stock of subsidiaries for Southern Company:

	<b>Redeemable Preferred Stock of Subsidiaries (in millions)</b>
<b>Balance at December 31, 2006</b>	\$ 498
Issued	
Redeemed	
<b>Balance at December 31, 2007</b>	\$ 498
Issued	
Redeemed	(125)
Other	2
<b>Balance at December 31, 2008</b>	\$ 375
Issued	
Redeemed	
<b>Balance at December 31, 2009</b>	<b>\$ 375</b>

**7. COMMITMENTS****Construction Program**

Southern Company is engaged in continuous construction programs, currently estimated to total \$4.9 billion in 2010, \$5.3 billion in 2011, and \$6.2 billion in 2012. These amounts include \$271 million, \$157 million, and \$166 million in 2010, 2011, and 2012, respectively, for construction expenditures related to contractual purchase commitments for nuclear fuel included herein under Fuel and Purchased Power Commitments. 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. At December 31, 2009, significant purchase commitments were

outstanding in connection with the ongoing construction program, which includes new facilities and capital improvements to transmission, distribution, and generation facilities, including those to meet environmental standards. See Note 3 under Retail Regulatory Matters Georgia Power Nuclear Construction and Retail Regulatory Matters Integrated Coal Gasification Combined Cycle for additional information.

**Long-Term Service Agreements**

The traditional operating companies and Southern Power have entered into Long-Term Service Agreements (LTSAs) with General Electric (GE), Alstom Power, Inc., Mitsubishi Power Systems Americas, Inc., and Siemens AG for the purpose of securing maintenance support for the combined cycle and combustion turbine generating facilities owned or under construction by the subsidiaries. The LTSAs cover all planned inspections on the covered equipment, which generally includes the cost of all labor and materials. The LTSAs are also obligated to cover the costs of unplanned maintenance on the covered equipment subject to limits and scope specified in each contract.

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report**

In general, these LTSAs are in effect through two major inspection cycles per unit. Scheduled payments under the LTSAs, which are subject to price escalation, are made at various intervals based on actual operating hours or number of gas turbine starts of the respective units. Total remaining payments under these agreements for facilities owned are currently estimated at \$2.4 billion over the remaining life of the agreements, which are currently estimated to range up to 24 years. However, the LTSAs contain various cancellation provisions at the option of the purchasers.

Georgia Power has also entered into an LTSA with GE through 2014 for neutron monitoring system parts and electronics at Plant Hatch. Total remaining payments to GE under this agreement are currently estimated at \$8 million. The contract contains cancellation provisions at the option of Georgia Power.

Payments made under the LTSAs prior to the performance of any work are recorded as a prepayment in the balance sheets. All work performed is capitalized or charged to expense (net of any joint owner billings), as appropriate based on the nature of the work.

**Limestone Commitments**

As part of Southern Company's program to reduce sulfur dioxide emissions from its coal plants, the traditional operating companies have entered into various long-term commitments for the procurement of limestone to be used in flue gas desulfurization equipment. Limestone contracts are structured with tonnage minimums and maximums in order to account for fluctuations in coal burn and sulfur content. Southern Company has a minimum contractual obligation of 7.0 million tons, equating to approximately \$295 million, through 2019. Estimated expenditures (based on minimum contracted obligated dollars) over the next five years are \$37 million in 2010, \$36 million in 2011, \$37 million in 2012, \$38 million in 2013, and \$39 million in 2014.

**Fuel and Purchased Power Commitments**

To supply a portion of the fuel requirements of the generating plants, Southern Company has entered into various long-term commitments for the procurement of fossil, biomass fuel, and nuclear fuel. In most cases, these contracts contain provisions for price escalations, minimum purchase levels, and other financial commitments. Coal commitments include forward contract purchases for sulfur dioxide and nitrogen oxide emissions allowances. Natural gas purchase commitments contain fixed volumes with prices based on various indices at the time of delivery; amounts included in the chart below represent estimates based on New York Mercantile Exchange future prices at December 31, 2009. Also, Southern Company has entered into various long-term commitments for the purchase of capacity and electricity. Total estimated minimum long-term obligations at December 31, 2009 were as follows:

	<b>Commitments</b>				
	Natural Gas	Coal	Nuclear Fuel <i>(in millions)</i>	Biomass Fuel	Purchased Power*
2010	\$ 1,349	\$ 4,490	\$ 271	\$	\$ 253
2011	1,266	3,135	157		258
2012	926	1,572	166	17	266
2013	816	1,063	148	17	235
2014	688	850	83	18	267
2015 and thereafter	4,153	2,508	297	128	2,742
<b>Total</b>	<b>\$9,198</b>	<b>\$13,618</b>	<b>\$ 1,122</b>	<b>\$ 180</b>	<b>\$ 4,021</b>

\* Certain PPAs reflected in the table are accounted for as

operating leases.

Additional commitments for fuel will be required to supply Southern Company's future needs. Total charges for nuclear fuel included in fuel expense amounted to \$160 million in 2009, \$147 million in 2008, and \$144 million in 2007.

**Operating Leases**

In 2001, Mississippi Power began the initial 10-year term of a lease agreement for a combined cycle generating facility built at Plant Daniel for approximately \$370 million. In 2003, the generating facility was acquired by Juniper Capital L.P. (Juniper), whose partners are unaffiliated with Mississippi Power. Simultaneously, Juniper entered into a restructured lease agreement with Mississippi Power. Juniper has also entered into leases with other parties unrelated to Mississippi Power. The assets leased by Mississippi Power comprise less than 50% of Juniper's assets. Mississippi Power is not required to consolidate the leased assets and related liabilities, and the lease with Juniper is considered an operating lease. The initial lease term ends in 2011, and the lease includes a purchase and

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report**

renewal option based on the cost of the facility at the inception of the lease. Mississippi Power is required to amortize approximately 4% of the initial acquisition cost over the initial lease term. In April 2010, 18 months prior to the end of the initial lease term, Mississippi Power must notify Juniper if the lease will be terminated. Mississippi Power may elect to renew the lease for 10 years. If the lease is renewed, the agreement calls for Mississippi Power to amortize an additional 17% of the initial completion cost over the renewal period. Upon termination of the lease, at Mississippi Power's option, it may either exercise its purchase option or the facility can be sold to a third party. If Mississippi Power does not exercise either its purchase option or its renewal option, Mississippi Power could lose its rights to some or all of the 1,064 MWs of capacity at that time.

The lease provides for a residual value guarantee, approximately 73% of the acquisition cost, by Mississippi Power that is due upon termination of the lease in the event that Mississippi Power does not renew the lease or purchase the assets and that the fair market value is less than the unamortized cost of the asset. A liability of approximately \$3 million, \$5 million, and \$7 million for the fair market value of this residual value guarantee is included in the balance sheets as of December 31, 2009, 2008, and 2007, respectively.

Southern Company also has other operating lease agreements with various terms and expiration dates. Total operating lease expenses were \$186 million, \$184 million, and \$187 million for 2009, 2008, and 2007, respectively. Southern Company includes any step rents, escalations, and lease concessions in its computation of minimum lease payments, which are recognized on a straight-line basis over the minimum lease term.

At December 31, 2009, estimated minimum lease payments for noncancelable operating leases were as follows:

	<b>Minimum Lease Payments</b>			Total
	Plant Daniel	Barges & Rail		
		Cars	Other	
		<i>(in millions)</i>		
2010	\$28	\$ 70	\$ 46	\$144
2011	28	57	38	123
2012		40	29	69
2013		32	22	54
2014		27	18	45
2015 and thereafter		28	96	124
Total	\$56	\$ 254	\$249	\$559

For the traditional operating companies, a majority of the barge and rail car lease expenses are recoverable through fuel cost recovery provisions. In addition to the above rental commitments, Alabama Power and Georgia Power have obligations upon expiration of certain leases with respect to the residual value of the leased property. These leases expire in 2010, 2011, and 2013, and the maximum obligations are \$61 million, \$40 million, and \$19 million, respectively. At the termination of the leases, the lessee may either exercise its purchase option, or the property can be sold to a third party. Alabama Power and Georgia Power expect that the fair market value of the leased property would substantially reduce or eliminate the payments under the residual value obligations. However, due to the recessionary economy, it is possible that the fair market value of the leased property would not eliminate the payments under the residual value obligations on the leases expiring in 2010.

**Guarantees**

As discussed earlier in this Note under Operating Leases, Alabama Power, Georgia Power, and Mississippi Power have entered into certain residual value guarantees.

**8. COMMON STOCK****Stock Issued**

In 2009, Southern Company issued 22.6 million shares of common stock for \$673 million through the Southern Investment Plan and employee and director stock plans. In addition, Southern Company issued 19.9 million shares of common stock through at-the-market issuances pursuant to sales agency agreements related to Southern Company's continuous equity offering program and received cash proceeds of \$613 million, net of \$6 million in fees and commissions. In 2008, Southern Company raised \$474 million from the issuance of 14.1 million new common shares through the Southern Investment Plan and employee and director stock plans.

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report****Shares Reserved**

At December 31, 2009, a total of 91 million shares were reserved for issuance pursuant to the Southern Investment Plan, the Employee Savings Plan, the Outside Directors Stock Plan, and the Omnibus Incentive Compensation Plan (which includes the stock option plan discussed below).

**Stock Option Plan**

Southern Company provides non-qualified stock options to a large segment of its employees ranging from line management to executives. As of December 31, 2009, there were 7,563 current and former employees participating in the stock option plan, and there were 21 million shares of common stock remaining available for awards under this plan. The prices of options granted to date have been at the fair market value of the shares on the dates of grant. Options granted to date become exercisable pro rata over a maximum period of three years from the date of grant. Southern Company generally recognizes stock option expense on a straight-line basis over the vesting period which equates to the requisite service period; however, for employees who are eligible for retirement, the total cost is expensed at the grant date. Options outstanding will expire no later than 10 years after the date of grant, unless terminated earlier by the Southern Company Board of Directors in accordance with the stock option plan. For certain stock option awards, a change in control will provide accelerated vesting.

The estimated fair values of stock options granted in 2009, 2008, and 2007 were derived using the Black-Scholes stock option pricing model. Expected volatility was based on historical volatility of Southern Company's stock over a period equal to the expected term. Southern Company used historical exercise data to estimate the expected term that represents the period of time that options granted to employees are expected to be outstanding. The risk-free rate was based on the U.S. Treasury yield curve in effect at the time of grant that covers the expected term of the stock options. The following table shows the assumptions used in the pricing model and the weighted average grant-date fair value of stock options granted:

<b>Year Ended December 31</b>	<b>2009</b>	2008	2007
Expected volatility	<b>15.6%</b>	13.1%	14.8%
Expected term ( <i>in years</i> )	<b>5.0</b>	5.0	5.0
Interest rate	<b>1.9%</b>	2.8%	4.6%
Dividend yield	<b>5.4%</b>	4.5%	4.3%
Weighted average grant-date fair value	<b>\$1.80</b>	\$2.37	\$4.12

Southern Company's activity in the stock option plan for 2009 is summarized below:

	<b>Shares Subject To Option</b>	<b>Weighted Average Exercise Price</b>
Outstanding at December 31, 2008	36,941,273	\$ 32.09
Granted	12,292,239	31.38
Exercised	(879,555)	21.97
Cancelled	(106,638)	32.48
<b>Outstanding at December 31, 2009</b>	<b>48,247,319</b>	<b>\$ 32.10</b>
<b>Exercisable at December 31, 2009</b>	<b>30,209,272</b>	<b>\$ 31.57</b>

The number of stock options vested, and expected to vest in the future, as of December 31, 2009 was not significantly different from the number of stock options outstanding at December 31, 2009 as stated above. As of December 31,

2009, the weighted average remaining contractual term for the options outstanding and options exercisable was 6 years and 5 years, respectively, and the aggregate intrinsic value for the options outstanding and options exercisable was \$100 million and \$77 million, respectively.

As of December 31, 2009, there was \$6 million of total unrecognized compensation cost related to stock option awards not yet vested. That cost is expected to be recognized over a weighted-average period of approximately 10 months.

For the years ended December 31, 2009, 2008, and 2007, total compensation cost for stock option awards recognized in income was \$23 million, \$20 million, and \$28 million, respectively, with the related tax benefit also recognized in income of \$9 million, \$8 million, and \$11 million, respectively.

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report**

The total intrinsic value of options exercised during the years ended December 31, 2009, 2008, and 2007 was \$9 million, \$45 million, and \$81 million, respectively. The actual tax benefit realized by the Company for the tax deductions from stock option exercises totaled \$4 million, \$17 million, and \$31 million, respectively, for the years ended December 31, 2009, 2008, and 2007.

Southern Company has a policy of issuing shares to satisfy share option exercises. Cash received from issuances related to option exercises under the share-based payment arrangements for the years ended December 31, 2009, 2008, and 2007 was \$19 million, \$113 million, and \$195 million, respectively.

**Diluted Earnings Per Share**

For Southern Company, the only difference in computing basic and diluted earnings per share is attributable to outstanding options under 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>Average Common Stock Shares</b>		
	<b>2009</b>	2008	2007
		<i>(in thousands)</i>	
As reported shares	<b>794,795</b>	771,039	756,350
Effect of options	<b>1,620</b>	3,809	4,666
Diluted shares	<b>796,415</b>	774,848	761,016

The reduction in the effect of options for the years ended December 31, 2009 and 2008 compared to 2007 is primarily due to the anti-dilutive nature of certain stock options outstanding that have an exercise price that exceeds the average stock price of Southern Company shares in the year ended December 31, 2009 and 2008, respectively. At December 31, 2009 and 2008, there were 37.7 million and 6.8 million stock options outstanding, 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 years ended December 31, 2009 and 2008 would have increased by 3.4 million and 0.3 million shares, respectively.

**Common Stock Dividend Restrictions**

The income of Southern Company is derived primarily from equity in earnings of its subsidiaries. At December 31, 2009, consolidated retained earnings included \$5.6 billion of undistributed retained earnings of the subsidiaries. Southern Power's credit facility contains potential limitations on the payment of common stock dividends; as of December 31, 2009, Southern Power was in compliance with all such requirements.

**9. NUCLEAR INSURANCE**

Under the Price-Anderson Amendments Act (Act), Alabama Power and Georgia Power maintain agreements of indemnity with the NRC that, together with private insurance, cover third-party liability arising from any nuclear incident occurring at the companies' nuclear power plants. The Act provides funds up to \$12.6 billion for public liability claims that could arise from a single nuclear incident. Each nuclear plant is insured against this liability to a maximum of \$375 million by American Nuclear Insurers (ANI), with the remaining coverage provided by a mandatory program of deferred premiums that could be assessed, after a nuclear incident, against all owners of commercial nuclear reactors. A company could be assessed up to \$117.5 million per incident for each licensed reactor it operates but not more than an aggregate of \$17.5 million per incident to be paid in a calendar year for each reactor. Such maximum assessment, excluding any applicable state premium taxes, for Alabama Power and Georgia Power, based on its ownership and buyback interests, is \$235 million and \$237 million, respectively, per incident, but not more than an aggregate of \$35 million per company to be paid for each incident in any one year. Both the maximum assessment per reactor and the maximum yearly assessment are adjusted for inflation at least every five years. The next scheduled adjustment is due no later than October 29, 2013.

Alabama Power and Georgia Power are members of Nuclear Electric Insurance Limited (NEIL), a mutual insurer established to provide property damage insurance in an amount up to \$500 million for members' nuclear generating facilities.

Additionally, both companies have policies that currently provide decontamination, excess property insurance, and premature decommissioning coverage up to \$2.25 billion for losses in excess of the \$500 million primary coverage. This excess insurance is also provided by NEIL. In the event of a loss, the amount of insurance available may not be adequate to cover property damage and other incurred expenses.

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report**

NEIL also covers the additional costs that would be incurred in obtaining replacement power during a prolonged accidental outage at a member's nuclear plant. Members can purchase this coverage, subject to a deductible waiting period of up to 26 weeks, with a maximum per occurrence per unit limit of \$490 million. After the deductible period, weekly indemnity payments would be received until either the unit is operational or until the limit is exhausted in approximately three years. Alabama Power and Georgia Power each purchase the maximum limit allowed by NEIL, subject to ownership limitations. Each facility has elected a 12-week deductible waiting period.

Under each of the NEIL policies, members are subject to assessments if losses each year exceed the accumulated funds available to the insurer under that policy. The current maximum annual assessments for Alabama Power and Georgia Power under the NEIL policies would be \$38 million and \$50 million, respectively.

Claims resulting from terrorist acts are covered under both the ANI and NEIL policies (subject to normal policy limits). The aggregate, however, that NEIL will pay for all claims resulting from terrorist acts in any 12-month period is \$3.2 billion plus such additional amounts NEIL can recover through reinsurance, indemnity, or other sources.

For all on-site property damage insurance policies for commercial nuclear power plants, the NRC requires that the proceeds of such policies shall be dedicated first for the sole purpose of placing the reactor in a safe and stable condition after an accident. Any remaining proceeds are to be applied next toward the costs of decontamination and debris removal operations ordered by the NRC, and any further remaining proceeds are to be paid either to the company or to its bond trustees as may be appropriate under the policies and applicable trust indentures.

All retrospective assessments, whether generated for liability, property, or replacement power, may be subject to applicable state premium taxes.

**10. FAIR VALUE MEASUREMENTS**

Fair value measurements are based on inputs of observable and unobservable market data that a market participant would use in pricing the asset or liability. The use of observable inputs is maximized where available and the use of unobservable inputs is minimized for fair value measurement and reflects a three-tier fair value hierarchy that prioritizes inputs to valuation techniques used for fair value measurement.

Level 1 consists of observable market data in an active market for identical assets or liabilities.

Level 2 consists of observable market data, other than that included in Level 1, that is either directly or indirectly observable.

Level 3 consists of unobservable market data. The input may reflect the assumptions of the Company of what a market participant would use in pricing an asset or liability. If there is little available market data, then the

Company's own assumptions are the best available information.

In the case of multiple inputs being used in a fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy in which the fair value measurement is reported.

**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report**

As of December 31, 2009, 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 Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>As of December 31, 2009:</b>				
Assets:				
Energy-related derivatives	\$	\$ 7	\$	\$ 7
Interest rate derivatives		3		3
Nuclear decommissioning trusts: <sup>(a)</sup>				
Domestic equity	724	50		774
U.S. Treasury and government agency securities	11	36		47
Municipal bonds		23		23
Corporate bonds		137		137
Mortgage and asset backed securities		65		65
Other		22		22
Cash equivalents and restricted cash	623			623
Other	3	48	35	86
Total	\$1,361	\$ 391	\$ 35	\$1,787
Liabilities:				
Energy-related derivatives	\$	\$ 185	\$	\$ 185
Interest rate derivatives		6		6
Total	\$	\$ 191	\$	\$ 191

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



Energy-related derivatives and interest rate derivatives primarily consist of over-the-counter contracts. See Note 11 for additional information. The nuclear decommissioning trust funds are invested in a diversified mix of equity and fixed income securities. See Note 1 under Nuclear Decommissioning for additional information. The cash equivalents and restricted cash consist of securities with original maturities of 90 days or less. Other represents marketable securities and certain deferred compensation funds also invested in various marketable securities. All of these financial instruments and investments are valued primarily using the market approach.

As of December 31, 2009, 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 December 31, 2009:</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
	<i>(in millions)</i>			
Nuclear decommissioning trusts:				
Corporate bonds commingled funds	\$ 14	None	Daily	1 to 3 days
Other commingled funds	13	None	Daily	Not applicable
Trust owned life insurance	78	None	Daily	15 days
Cash equivalents and restricted cash:				
Money market funds	623	None	Daily	Not applicable
Other:				
Deferred compensation money market funds	3	None	Daily	Not applicable
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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report**

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.

One of the nuclear decommissioning trusts includes 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 trust does 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.

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 Securities and Exchange Commission 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 Company's investment in the money market funds.

Changes in the fair value measurement of the Level 3 items using significant unobservable inputs for Southern Company at December 31, 2009 and 2008 are as follows:

	<b>Level 3 Other</b> <i>(in millions)</i>
Beginning balance at December 31, 2008	\$ 35
Total gains (losses) realized/unrealized:	
Included in earnings	(3)
Included in other comprehensive income	3
<b>Ending balance at December 31, 2009</b>	<b>\$ 35</b>

Unrealized losses of \$3 million were included in earnings during 2009 relating to assets still held at December 31, 2009 and are recorded in depreciation and amortization.

As of December 31, 2009, other financial instruments for which the carrying amount did not equal fair value were as follows:

<b>Carrying Amount</b>	<b>Fair Value</b>
<i>(in millions)</i>	

Long-term debt:

<b>2009</b>	<b>\$19,145</b>	<b>\$19,567</b>
2008	\$17,327	\$17,114

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

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report****11. 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 Company enters 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 Company 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 are used to hedge anticipated purchases and sales and are initially deferred in other comprehensive income (OCI) before being recognized in 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 (continued)****Southern Company and Subsidiary Companies 2009 Annual Report**

At December 31, 2009, the net volume of energy-related derivative contracts for power and natural gas positions for Southern Company, together with the longest hedge date over which it 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:

<b>Net Sold Megawatt-hours</b>	<b>Power Longest Hedge Date</b>	<b>Longest Non-Hedge Date</b>	<b>Net Purchased mmBtu</b>	<b>Gas Longest Hedge Date</b>	<b>Longest Non-Hedge Date</b>
<i>(in millions)</i>			<i>(in millions)</i>		
2.6	2010	2010	154*	2014	2014

\* Includes location basis of 2 million British thermal units (mmBtu).

For cash flow hedges, the amounts expected to be reclassified from OCI to revenue and fuel expense for the next 12-month period ending December 31, 2010 are immaterial.

**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. The derivatives employed as hedging instruments are structured to minimize ineffectiveness.

For cash flow hedges, the fair value gains or losses are recorded in OCI and are reclassified into earnings at the same time the hedged transactions affect earnings.

At December 31, 2009, Southern Company had a total of \$976 million notional amount of interest rate derivatives outstanding with net fair value losses of \$3 million as follows:

	<b>Notional Amount</b>	<b>Variable Rate Received</b>	<b>Weighted Average Fixed Rate Paid</b>	<b>Hedge Maturity Date</b>	<b>Fair Value Gain (Loss) December 31, 2009</b>
	<i>(in millions)</i>				<i>(in millions)</i>
<b>Cash flow hedges of existing debt</b>					
	\$ 576	SIFMA* Index 1-month	2.69%	February 2010	\$ (4)
	300	LIBOR	2.43%	April 2010	(2)
<b>Cash flow hedges on forecasted debt</b>					
	100	3-month LIBOR	3.79%	April 2020	3

Total	\$	976	\$	(3)
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\* Securities  
 Industry and  
 Financial  
 Markets  
 Association  
 Municipal Swap  
 Index (SIFMA)

For the year ended December 31, 2009, the Company had realized net losses of \$19 million upon termination of certain interest rate derivatives at the same time the related debt was issued. The effective portion of these losses has been deferred in OCI and is being amortized to interest expense over the life of the original interest rate derivative, reflecting the period in which the forecasted hedged transaction affects earnings.

The estimated pre-tax losses that will be reclassified from OCI to interest expense for the next 12-month period ending December 31, 2010 is \$25 million. The Company has deferred gains and losses that are expected to be amortized into earnings through 2037.

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report****Derivative Financial Statement Presentation and Amounts**

At December 31, 2009 and 2008, the fair value of energy-related derivatives and interest rate derivatives was reflected in the balance sheets as follows:

Derivative Category	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	2009 (in millions)	2008 (in millions)	Balance Sheet Location	2009 (in millions)	2008 (in millions)
<b>Derivatives designated as hedging instruments for regulatory purposes</b>						
Energy-related derivatives:	Other current assets	\$ 1	\$ 10	Liabilities from risk management activities	\$ 111	\$ 215
	Other deferred charges and assets	1		Other deferred credits and liabilities	66	83
<b>Total derivatives designated as hedging instruments for regulatory purposes</b>		<b>\$ 2</b>	<b>\$ 10</b>		<b>\$ 177</b>	<b>\$ 298</b>
<b>Derivatives designated as hedging instruments in cash flow hedges</b>						
Energy-related derivatives:	Other current assets	\$ 3	\$	Liabilities from risk management activities	\$ 5	\$ 1
Interest rate derivatives:	Other current assets	3		Liabilities from risk management activities	6	37
	Other deferred charges and assets			Other deferred credits and liabilities		3
<b>Total derivatives designated as hedging instruments in cash flow hedges</b>		<b>\$ 6</b>	<b>\$</b>		<b>\$ 11</b>	<b>\$ 41</b>
<b>Derivatives not designated as hedging instruments</b>						
Energy-related derivatives:	Other current assets	\$ 2	\$ 12	Liabilities from risk management activities	\$ 3	\$ 8
<b>Total</b>		<b>\$ 10</b>	<b>\$ 22</b>		<b>\$ 191</b>	<b>\$ 347</b>

All derivative instruments are measured at fair value. See Note 10 for additional information.

At December 31, 2009 and 2008, 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 sheets were as follows:

Derivative Category	Unrealized Losses			Unrealized Gains		
	Balance Sheet Location	2009	2008	Balance Sheet Location	2009	2008
		<i>(in millions)</i>			<i>(in millions)</i>	
Energy-related derivatives:	Other regulatory assets, current	\$ (111)	\$ (215)	Other regulatory liabilities, current	\$ 1	\$ 10
	Other regulatory assets, deferred	(66)	(83)	Other regulatory liabilities, deferred	1	
<b>Total energy-related derivative gains (losses)</b>		<b>\$ (177)</b>	<b>\$ (298)</b>		<b>\$ 2</b>	<b>\$ 10</b>

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For the years ended December 31, 2009, 2008, and 2007, 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 Hedging Relationships	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)			Statements of Income Location	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Amount		
	2009	2008	2007		2009	2008	2007
Derivative Category	<i>(in millions)</i>				<i>(in millions)</i>		
Energy-related derivatives	\$(2)	\$ (1)	\$(2)	Fuel	\$	\$	\$
Interest rate derivatives	(5)	(47)	(7)	Interest expense	(46)	(19)	(15)
Total	\$(7)	\$(48)	\$(9)		\$(46)	\$ (19)	\$ (15)

There was no material ineffectiveness recorded in earnings for any period presented.

For the years ended December 31, 2009, 2008, and 2007, 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	Derivative Category	Statements of Income Location	Unrealized Gain (Loss) Recognized in Income Amount		
			2009	2008	2007
	Energy-related derivatives:			<i>(in millions)</i>	
		Wholesale revenues	\$ 5	\$(2)	\$
		Fuel	(6)	5	
		Purchased power	(4)	(2)	
		Other income (expense), net			30*
	Total		\$(5)	\$ 1	\$30

\* Includes a \$27 million unrealized gain related to derivatives in place to reduce exposure to a phase-out of certain income tax credits related to synthetic fuel production in 2007.

**Contingent Features**

The 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 derivatives that could require collateral, but not accelerated payment, in the event of various credit rating changes of certain Southern Company subsidiaries. At December 31, 2009, the fair value of derivative liabilities with contingent features was \$33 million.

At December 31, 2009, the Company had no collateral posted with their derivative counterparties. The maximum potential collateral requirement arising from the credit-risk-related contingent features, at a rating below BBB- and/or Baa3, is \$33 million. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Included in these amounts are certain agreements that could require collateral in the event that one or more Southern Company system power pool participants has a credit rating change to below investment grade.

Currently, the Company has investment grade credit ratings from the major rating agencies with respect to its debt.

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**Table of Contents****NOTES (continued)****Southern Company and Subsidiary Companies 2009 Annual Report****12. 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. Southern Power's revenues from sales to the traditional operating companies were \$544 million, \$638 million, and \$547 million in 2009, 2008, and 2007, 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 and leveraged lease projects. Also included are investments in synthetic fuels for 2007. In addition, see Note 1 under Related Party Transactions for information regarding revenues from services for synthetic fuel production that are included in the cost of fuel purchased by Alabama Power and Georgia Power. All other intersegment revenues are not material. Financial data for business segments and products and services are as follows:

	Electric Utilities						Consolidated
	Traditional Operating Companies	Southern Power	Eliminations	Total	All Other	Eliminations	
	<i>(in millions)</i>						
<b>2009</b>							
Operating revenues	\$15,304	\$ 947	\$ (609)	\$15,642	\$ 165	\$ (64)	\$15,743
Depreciation and amortization	1,378	98		1,476	27		1,503
Interest income	21			21	3	(1)	23
Interest expense	749	85		834	71		905
Income taxes	902	86		988	(92)		896
Segment net income (loss)*	1,679	156		1,835	(193)	1	1,643
Total assets	48,403	3,043	(143)	51,303	1,223	(480)	52,046
Gross property additions	4,568	331		4,899	14		4,913
<b>2008</b>							
Operating revenues	\$16,521	\$1,314	\$ (835)	\$17,000	\$ 182	\$ (55)	\$17,127
Depreciation and amortization	1,325	89		1,414	29		1,443
Interest income	32	1		33			33
Interest expense	689	83		772	94		866
Income taxes	944	93		1,037	(122)		915
Segment net income (loss)*	1,703	144		1,847	(104)	(1)	1,742
Total assets	44,794	2,813	(139)	47,468	1,407	(528)	48,347
Gross property additions	4,058	50		4,108	14		4,122
<b>2007</b>							
Operating revenues	\$14,851	\$ 972	\$ (683)	\$15,140	\$ 380	\$ (167)	\$15,353
Depreciation and amortization	1,141	74		1,215	30		1,245
Interest income	31	1		32	14	(1)	45
Interest expense	685	79		764	122		886
Income taxes	866	84		950	(115)		835
Segment net income (loss)*	1,582	132		1,714	22	(2)	1,734
Total assets	41,812	2,769	(122)	44,459	1,767	(437)	45,789

Gross property additions	3,465	184	(4)	3,645	13	3,658
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\* After dividends  
on preferred and  
preference stock  
of subsidiaries

### Products and Services

Year	Retail	Electric Utilities Revenues		Total
		Wholesale	Other	
		<i>(in millions)</i>		
<b>2009</b>	<b>\$13,307</b>	<b>\$1,802</b>	<b>\$533</b>	<b>\$15,642</b>
2008	14,055	2,400	545	17,000
2007	12,639	1,988	513	15,140

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**13. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

Summarized quarterly financial data for 2009 and 2008 are as follows:

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