

ALABAMA POWER CO  
Form 10-Q  
August 06, 2009

**Table of Contents**

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

**FORM 10-Q**  
**Quarterly Report Pursuant to Section 13 or 15(d)**  
**of the Securities Exchange Act of 1934**  
**For the quarterly period ended June 30, 2009**  
**OR**  
**Transition Report Pursuant to Section 13 or 15(d)**  
**of the Securities Exchange Act of 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

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



**Table of Contents**

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 ☐

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):

Registrant	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Smaller Reporting Company
The Southern Company	X			
Alabama Power Company			X	
Georgia Power Company			X	
Gulf Power Company			X	
Mississippi Power Company			X	
Southern Power Company			X	

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

Registrant	Description of Common Stock	Shares Outstanding at June 30, 2009
The Southern Company	Par Value \$5 Per Share	796,051,643
Alabama Power Company	Par Value \$40 Per Share	25,475,000
Georgia Power Company	Without Par Value	9,261,500
Gulf Power Company	Without Par Value	3,142,717
Mississippi Power Company	Without Par Value	1,121,000
Southern Power Company	Par Value \$0.01 Per Share	1,000

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

**INDEX TO QUARTERLY REPORT ON FORM 10-Q**  
**June 30, 2009**

<u>DEFINITIONS</u>	Page Number
<u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION</u>	5 7

**PART I FINANCIAL INFORMATION**

Item 1.	Financial Statements (Unaudited)	
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	
	<u>The Southern Company and Subsidiary Companies</u>	
	<u>Condensed Consolidated Statements of Income</u>	9
	<u>Condensed Consolidated Statements of Cash Flows</u>	10
	<u>Condensed Consolidated Balance Sheets</u>	11
	<u>Condensed Consolidated Statements of Comprehensive Income</u>	13
	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
	<u>Alabama Power Company</u>	
	<u>Condensed Statements of Income</u>	34
	<u>Condensed Statements of Comprehensive Income</u>	34
	<u>Condensed Statements of Cash Flows</u>	35
	<u>Condensed Balance Sheets</u>	36
	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
	<u>Georgia Power Company</u>	
	<u>Condensed Statements of Income</u>	54
	<u>Condensed Statements of Comprehensive Income</u>	54
	<u>Condensed Statements of Cash Flows</u>	55
	<u>Condensed Balance Sheets</u>	56
	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	58
	<u>Gulf Power Company</u>	
	<u>Condensed Statements of Income</u>	73
	<u>Condensed Statements of Comprehensive Income</u>	73
	<u>Condensed Statements of Cash Flows</u>	74
	<u>Condensed Balance Sheets</u>	75
	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	77
	<u>Mississippi Power Company</u>	
	<u>Condensed Statements of Income</u>	93
	<u>Condensed Statements of Comprehensive Income</u>	93
	<u>Condensed Statements of Cash Flows</u>	94
	<u>Condensed Balance Sheets</u>	95
	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	97
	<u>Southern Power Company and Subsidiary Companies</u>	

Edgar Filing: ALABAMA POWER CO - Form 10-Q

	<u>Condensed Consolidated Statements of Income</u>	115
	<u>Condensed Consolidated Statements of Comprehensive Income</u>	115
	<u>Condensed Consolidated Statements of Cash Flows</u>	116
	<u>Condensed Consolidated Balance Sheets</u>	117
	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	119
	<u>Notes to the Condensed Financial Statements</u>	132
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	32
<u>Item 4.</u>	<u>Controls and Procedures</u>	32
<u>Item</u>		
<u>4T.</u>	<u>Controls and Procedures</u>	32

**Table of Contents**

**INDEX TO QUARTERLY REPORT ON FORM 10-Q**  
**June 30, 2009**

	Page Number
<b><u>PART II OTHER INFORMATION</u></b>	
<u>Item 1.</u> <u>Legal Proceedings</u>	162
<u>Item</u>	
<u>1A.</u> <u>Risk Factors</u>	162
Item 2.      Unregistered Sales of Equity Securities and Use of Proceeds	Inapplicable
Item 3.      Defaults Upon Senior Securities	Inapplicable
<u>Item 4.</u> <u>Submission of Matters to a Vote of Security Holders</u>	162
Item 5.      Other Information	Inapplicable
<u>Item 6.</u> <u>Exhibits</u>	166
<u>Signatures</u>	170

**Table of Contents**

**DEFINITIONS**

<b>Term</b>	<b>Meaning</b>
2007 Retail Rate Plan	Georgia Power's retail rate plan for the years 2008 through 2010
Alabama Power	Alabama Power Company
Clean Air Act	Clean Air Act Amendments of 1990
DOE	U.S. Department of Energy
Duke Energy	Duke Energy Corporation
ECO Plan	Mississippi Power's Environmental Compliance Overview Plan
EPA	U.S. Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Form 10-K	Combined Annual Report on Form 10-K of Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power for the year ended December 31, 2008 and, with respect to Southern Company, the subsequently revised audited financial statements included in the Current Report on Form 8-K filed May 8, 2009
Georgia Power	Georgia Power Company
Gulf Power	Gulf Power Company
IGCC	Integrated coal gasification combined cycle
IIC	Intercompany Interchange Contract
Internal Revenue Code	Internal Revenue Code of 1986, as amended
IRS	Internal Revenue Service
KWH	Kilowatt-hour
LIBOR	London Interbank Offered Rate
Mirant	Mirant Corporation
Mississippi Power	Mississippi Power Company
mmBtu	Million British thermal unit
MW	Megawatt
MWH	Megawatt-hour
NRC	Nuclear Regulatory Commission
NSR	New Source Review
OCI	Other Comprehensive Income
PEP	Performance Evaluation Plan
Power Pool	The operating arrangement whereby the integrated generating resources of the traditional operating companies and Southern Power are subject to joint commitment and dispatch in order to serve their combined load obligations
PPA	Power Purchase Agreement
PSC	Public Service Commission
Rate ECR registrants	Alabama Power's energy cost recovery rate mechanism Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power
SCS	Southern Company Services, Inc.
SEC	Securities and Exchange Commission
Southern Company	The Southern Company
Southern Company system	Southern Company, the traditional operating companies, Southern Power, and other subsidiaries

**Table of Contents**

**DEFINITIONS**

(continued)

<b>Term</b>	<b>Meaning</b>
SouthernLINC Wireless	Southern Communications Services, Inc.
Southern Nuclear	Southern Nuclear Operating Company, Inc.
Southern Power	Southern Power Company
traditional operating companies	Alabama Power, Georgia Power, Gulf Power, and Mississippi Power
wholesale revenues	revenues generated from sales for resale

**Table of Contents**

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

This Quarterly Report on Form 10-Q contains forward-looking statements. Forward-looking statements include, among other things, statements concerning the strategic goals for the wholesale business, retail sales, customer growth, storm damage cost recovery and repairs, fuel cost recovery and other rate actions, environmental regulations and expenditures, retail return on equity projections, access to sources of capital, projections for postretirement benefit and nuclear decommissioning trust contributions, financing activities, 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, unrecognized tax benefits related to leveraged lease transactions, impact of the American Recovery and Reinvestment Act of 2009, 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, or particulate matter 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, 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;

- 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 storm restoration cost recovery and including Georgia Power's pending accounting order request;

- regulatory approvals related to the potential Plant Vogtle expansion, including Georgia PSC and NRC approvals;

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 neighboring utilities and other 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 an avian or other influenza, or other similar occurrences;

the direct or indirect effects on Southern Company's business resulting from incidents similar to the August 2003 power outage in the Northeast;

the effect of accounting pronouncements issued periodically by standard setting bodies; and

other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed by the registrants from time to time with the SEC.

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

**Table of Contents**

**THE SOUTHERN COMPANY AND  
SUBSIDIARY COMPANIES**

8

---

Table of Contents

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Operating Revenues:</b>				
Retail revenues	\$ 3,293,012	\$ 3,449,878	\$ 6,357,671	\$ 6,455,492
Wholesale revenues	437,750	591,802	889,164	1,105,464
Other electric revenues	128,403	141,162	251,201	271,352
Other revenues	25,999	32,345	53,435	65,789
Total operating revenues	3,885,164	4,215,187	7,551,471	7,898,097
<b>Operating Expenses:</b>				
Fuel	1,449,138	1,622,074	2,855,405	3,074,017
Purchased power	133,188	197,260	240,832	290,164
Other operations and maintenance	831,214	914,998	1,702,295	1,811,815
MC Asset Recovery litigation settlement			202,000	
Depreciation and amortization	377,341	358,745	767,099	702,630
Taxes other than income taxes	208,089	198,042	407,969	387,314
Total operating expenses	2,998,970	3,291,119	6,175,600	6,265,940
<b>Operating Income</b>	<b>886,194</b>	<b>924,068</b>	<b>1,375,871</b>	<b>1,632,157</b>
<b>Other Income and (Expense):</b>				
Allowance for equity funds used during construction	47,500	35,486	90,112	76,071
Interest income	4,870	1,188	11,778	10,993
Equity in income (losses) of unconsolidated subsidiaries	680	1,097	(296)	1,425
Leveraged lease income (losses)	8,676	(70,879)	18,117	(59,954)
Gain on disposition of lease termination	26,300		26,300	
Loss on extinguishment of debt	(17,184)		(17,184)	
Interest expense, net of amounts capitalized	(232,830)	(228,948)	(458,557)	(446,057)
Other income (expense), net	(3,681)	(4,483)	(16,531)	(3,569)
Total other income and (expense)	(165,669)	(266,539)	(346,261)	(421,091)
<b>Earnings Before Income Taxes</b>	<b>720,525</b>	<b>657,529</b>	<b>1,029,610</b>	<b>1,211,066</b>
Income taxes	225,717	224,952	392,886	403,090
<b>Consolidated Net Income</b>	<b>494,808</b>	<b>432,577</b>	<b>636,724</b>	<b>807,976</b>
<b>Dividends on Preferred and Preference Stock of Subsidiaries</b>	<b>16,195</b>	<b>16,195</b>	<b>32,390</b>	<b>32,390</b>
<b>Consolidated Net Income After Dividends on Preferred and Preference Stock of</b>	<b>\$ 478,613</b>	<b>\$ 416,382</b>	<b>\$ 604,334</b>	<b>\$ 775,586</b>

**Subsidiaries****Common Stock Data:**

## Earnings per share (EPS)

Basic EPS	\$	<b>0.61</b>	\$	0.54	\$	<b>0.77</b>	\$	1.01
-----------	----	-------------	----	------	----	-------------	----	------

Diluted EPS	\$	<b>0.60</b>	\$	0.54	\$	<b>0.77</b>	\$	1.00
-------------	----	-------------	----	------	----	-------------	----	------

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

Basic	<b>790,748</b>	769,122	<b>785,303</b>	767,636
-------	----------------	---------	----------------	---------

Diluted	<b>792,068</b>	773,140	<b>786,865</b>	771,727
---------	----------------	---------	----------------	---------

Cash dividends paid per share of common stock	\$	<b>0.4375</b>	\$	0.4200	\$	<b>0.8575</b>	\$	0.8225
---	----	---------------	----	--------	----	---------------	----	--------

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

**Table of Contents**

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

	For the Six Months Ended June 30,	
	2009	2008
	<i>(in thousands)</i>	
<b>Operating Activities:</b>		
Consolidated net income	\$ 636,724	\$ 807,976
Adjustments to reconcile consolidated net income to net cash provided from operating activities		
Depreciation and amortization, total	895,354	831,790
Deferred income taxes and investment tax credits	(13,807)	(79,033)
Deferred revenues	(26,295)	57,768
Allowance for equity funds used during construction	(90,112)	(76,071)
Equity in income (losses) of unconsolidated subsidiaries	296	(1,425)
Leveraged lease income (losses)	(18,117)	59,954
Gain on disposition of lease termination	(26,300)	
Loss on extinguishment of debt	17,184	
Pension, postretirement, and other employee benefits	(10,939)	24,596
Stock option expense	18,956	15,734
Hedge settlements	(16,167)	17,289
Other, net	27,948	(3,969)
Changes in certain current assets and liabilities		
-Receivables	74,770	(317,403)
-Fossil fuel stock	(375,888)	(121,823)
-Materials and supplies	(20,079)	(28,609)
-Other current assets	(96,394)	(54,536)
-Accounts payable	14,711	161,703
-Accrued taxes	(140,308)	181,105
-Accrued compensation	(298,670)	(185,500)
-Other current liabilities	66,748	121,337
Net cash provided from operating activities	619,615	1,410,883
<b>Investing Activities:</b>		
Property additions	(2,192,959)	(1,983,177)
Investment in restricted cash from pollution control revenue bonds	(49,478)	(161)
Distribution of restricted cash from pollution control revenue bonds	59,741	32,908
Nuclear decommissioning trust fund purchases	(823,416)	(405,999)
Nuclear decommissioning trust fund sales	788,690	399,119
Proceeds from property sales	339,903	5,495
Cost of removal, net of salvage	(63,705)	(40,757)
Change in construction payables	128,101	3,174
Other investing activities	8,063	(34,547)
Net cash used for investing activities	(1,805,060)	(2,023,945)

**Financing Activities:**

Edgar Filing: ALABAMA POWER CO - Form 10-Q

Increase (decrease) in notes payable, net	<b>148,090</b>	(151,513)
Proceeds		
Long-term debt issuances	<b>1,785,474</b>	1,684,935
Common stock issuances	<b>539,088</b>	235,454
Redemptions		
Long-term debt	<b>(199,929)</b>	(361,263)
Redeemable preferred stock		(125,000)
Payment of common stock dividends	<b>(670,226)</b>	(630,594)
Payment of dividends on preferred and preference stock of subsidiaries	<b>(32,465)</b>	(33,273)
Other financing activities	<b>(19,327)</b>	(12,267)
Net cash provided from financing activities	<b>1,550,705</b>	606,479
<b>Net Change in Cash and Cash Equivalents</b>	<b>365,260</b>	(6,583)
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>416,581</b>	200,550
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 781,841</b>	<b>\$ 193,967</b>

**Supplemental Cash Flow Information:**

Cash paid during the period for

Interest (net of \$38,594 and \$39,434 capitalized for 2009 and 2008, respectively)

**\$ 386,729**      \$ 389,466

Income taxes (net of refunds)

**\$ 468,278**      \$ 280,902

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

**Table of Contents**

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

<b>Assets</b>	<b>At June 30, 2009</b>	<b>At December 31, 2008</b>
	<i>(in thousands)</i>	
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 781,841	\$ 416,581
Restricted cash and cash equivalents	96,540	102,537
Receivables		
Customer accounts receivable	1,149,309	1,053,674
Unbilled revenues	453,022	320,439
Under recovered regulatory clause revenues	547,927	646,318
Other accounts and notes receivable	335,712	301,028
Accumulated provision for uncollectible accounts	(27,273)	(26,326)
Fossil fuel stock, at average cost	1,387,738	1,018,314
Materials and supplies, at average cost	773,721	756,746
Vacation pay	134,958	140,283
Prepaid expenses	364,463	301,570
Other regulatory assets, current	322,790	275,424
Other current assets	68,622	51,044
<b>Total current assets</b>	<b>6,389,370</b>	<b>5,357,632</b>
<b>Property, Plant, and Equipment:</b>		
In service	51,880,917	50,618,219
Less accumulated depreciation	18,739,799	18,285,800
<b>Plant in service, net of depreciation</b>	<b>33,141,118</b>	<b>32,332,419</b>
Nuclear fuel, at amortized cost	546,217	510,274
Construction work in progress	3,810,611	3,035,795
<b>Total property, plant, and equipment</b>	<b>37,497,946</b>	<b>35,878,488</b>
<b>Other Property and Investments:</b>		
Nuclear decommissioning trusts, at fair value	940,499	864,396
Leveraged leases	599,569	897,338
Miscellaneous property and investments	227,196	226,757
<b>Total other property and investments</b>	<b>1,767,264</b>	<b>1,988,491</b>
<b>Deferred Charges and Other Assets:</b>		
Deferred charges related to income taxes	1,010,624	972,781
Unamortized debt issuance expense	215,437	207,763
Unamortized loss on reacquired debt	260,614	270,919
Deferred under recovered regulatory clause revenues	364,728	606,483
Other regulatory assets, deferred	2,553,505	2,636,217
Other deferred charges and assets	357,561	428,432

Total deferred charges and other assets	<b>4,762,469</b>	5,122,595
<b>Total Assets</b>	<b>\$ 50,417,049</b>	\$ 48,347,206

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

11

---

**Table of Contents**

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

<b>Liabilities and Stockholders Equity</b>	<b>At June 30, 2009</b>	<b>At December 31, 2008</b>
	<i>(in thousands)</i>	
<b>Current Liabilities:</b>		
Securities due within one year	\$ 1,095,586	\$ 616,415
Notes payable	1,093,217	953,437
Accounts payable	1,419,534	1,249,694
Customer deposits	319,842	302,495
Accrued taxes		
Accrued income taxes	95,345	195,922
Unrecognized tax benefits	150,344	131,641
Other accrued taxes	301,852	396,206
Accrued interest	222,382	195,500
Accrued vacation pay	168,273	178,519
Accrued compensation	162,969	446,718
Liabilities from risk management activities	267,977	260,977
Other current liabilities	365,441	298,711
 Total current liabilities	 5,662,762	 5,226,235
 <b>Long-term Debt</b>	 17,921,409	 16,816,438
 <b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	6,151,050	6,080,104
Deferred credits related to income taxes	261,840	259,156
Accumulated deferred investment tax credits	443,128	455,398
Employee benefit obligations	2,029,596	2,057,424
Asset retirement obligations	1,217,956	1,182,769
Other cost of removal obligations	1,327,726	1,320,558
Other regulatory liabilities, deferred	217,020	261,970
Other deferred credits and liabilities	319,029	329,534
 Total deferred credits and other liabilities	 11,967,345	 11,946,913
 <b>Total Liabilities</b>	 35,551,516	 33,989,586
 <b>Redeemable Preferred Stock of Subsidiaries</b>	 374,496	 374,496
 <b>Stockholders Equity:</b>		
<b>Common Stockholders Equity:</b>		
Common stock, par value \$5 per share		
Authorized 1 billion shares		
Issued June 30, 2009: 796,509,669 Shares;		
December 31, 2008: 777,615,751 Shares		
Treasury June 30, 2009: 458,026 Shares;		

Edgar Filing: ALABAMA POWER CO - Form 10-Q

December 31, 2008: 423,477 Shares		
Par value	<b>3,982,521</b>	3,888,041
Paid-in capital	<b>2,356,636</b>	1,892,802
Treasury, at cost	<b>(13,299)</b>	(12,279)
Retained earnings	<b>7,546,424</b>	7,611,977
Accumulated other comprehensive loss	<b>(88,612)</b>	(104,784)
<b>Total Common Stockholders Equity</b>	<b>13,783,670</b>	13,275,757
<b>Preferred and Preference Stock of Subsidiaries</b>	<b>707,367</b>	707,367
<b>Total Stockholders Equity</b>	<b>14,491,037</b>	13,983,124
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 50,417,049</b>	\$ 48,347,206

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

Table of Contents

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	<b>2009</b>	2008	<b>2009</b>	2008
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Consolidated Net Income</b>	<b>\$ 494,808</b>	\$ 432,577	<b>\$ 636,724</b>	\$ 807,976
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of \$(1,744), \$2,571, \$(982), and \$(11,417), respectively	<b>(2,811)</b>	4,338	<b>(1,664)</b>	(17,913)
Reclassification adjustment for amounts included in net income, net of tax of \$4,630, \$2,371, \$8,463, and \$4,149, respectively	<b>7,370</b>	3,733	<b>13,468</b>	6,508
Marketable securities:				
Change in fair value, net of tax of \$1,204, \$(319), \$1,295, and \$(2,456), respectively	<b>2,935</b>	(925)	<b>3,669</b>	(4,026)
Pension and other post retirement benefit plans:				
Reclassification adjustment for amounts included in net income, net of tax of \$221, \$277, \$443, and \$536, respectively	<b>349</b>	471	<b>699</b>	882
<b>Total other comprehensive income (loss)</b>	<b>7,843</b>	7,617	<b>16,172</b>	(14,549)
Dividends on preferred and preference stock of subsidiaries	<b>(16,195)</b>	(16,195)	<b>(32,390)</b>	(32,390)
<b>Comprehensive Income</b>	<b>\$ 486,456</b>	\$ 423,999	<b>\$ 620,506</b>	\$ 761,037

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

**Table of Contents**

**THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**SECOND QUARTER 2009 vs. SECOND QUARTER 2008**  
**AND**  
**YEAR-TO-DATE 2009 vs. YEAR-TO-DATE 2008**

**OVERVIEW**

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

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

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

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$62.2	14.9	\$(171.3)	(22.1)

Southern Company's second quarter 2009 net income after dividends on preferred and preference stock of subsidiaries was \$478.6 million (\$0.61 per share) compared to \$416.4 million (\$0.54 per share) for the second quarter 2008. The increase for the second quarter 2009 when compared to the corresponding period in 2008 was primarily the result of an increase in customer charges at Alabama Power, increased recognition of environmental compliance cost recovery revenues at Georgia Power, lower operations and maintenance expenses, a 2008 charge related to tax treatment of leveraged lease investments, and a gain on the early termination of two international leveraged lease investments. The increase for the second quarter 2009 was partially offset by a decrease in revenues from lower KWH sales, a decrease in revenues from market-response rates to large commercial and industrial customers, and higher depreciation and amortization.

Southern Company's year-to-date 2009 net income after dividends on preferred and preference stock of subsidiaries was \$604.3 million (\$0.77 per share) compared to \$775.6 million (\$1.01 per share) for year-to-date 2008. The decrease for year-to-date 2009 when compared to the corresponding period in 2008 was primarily the result of a litigation settlement with MC Asset Recovery, LLC (MC Asset Recovery), a decrease in revenues from lower KWH sales, a decrease in revenues from market-response rates to large commercial and industrial customers, and higher depreciation and amortization. The decrease for year-to-date 2009 was partially offset by an increase in customer charges at Alabama Power, increased recognition of environmental compliance cost recovery revenues at Georgia Power, lower operations and maintenance expenses, a 2008 charge related to tax treatment of leveraged lease investments, and a gain on the early termination of two international leveraged lease investments.

**Table of Contents**

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

***Retail Revenues***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(156.9)	(4.5)	\$(97.8)	(1.5)

In the second quarter 2009, retail revenues were \$3.29 billion compared to \$3.45 billion for the corresponding period in 2008.

For year-to-date 2009, retail revenues were \$6.36 billion compared to \$6.46 billion for the corresponding period in 2008.

Details of the change to retail revenues are as follows:

	Second Quarter 2009		Year-to-Date 2009	
	<i>(in millions)</i>	<i>(% change)</i>	<i>(in millions)</i>	<i>(% change)</i>
Retail prior year	\$3,449.9		\$6,455.5	
Estimated change in				
Rates and pricing	7.7	0.2	85.7	1.3
Sales growth (decline)	(82.6)	(2.4)	(139.1)	(2.2)
Weather	8.3	0.3	4.4	0.1
Fuel and other cost recovery	(90.3)	(2.6)	(48.8)	(0.7)
Retail current year	\$3,293.0	(4.5)%	\$6,357.7	(1.5)%

Revenues associated with changes in rates and pricing increased in the second quarter and for year-to-date 2009 when compared to the corresponding periods in 2008 primarily as a result of an increase in customer charges at Alabama Power and increased recognition of environmental compliance cost recovery 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.

Revenues attributable to changes in sales declined in the second quarter and for year-to-date 2009 when compared to the corresponding periods in 2008 due to decreases in weather-adjusted retail KWH sales of 6.8% and 6.5%, respectively, resulting primarily from recessionary economic conditions. For the second quarter 2009, weather-adjusted residential KWH sales decreased 1.6%, weather-adjusted commercial KWH sales decreased 0.5%, and weather-adjusted industrial KWH sales decreased 17.7%. For year-to-date 2009, weather-adjusted residential KWH sales decreased 1.0%, weather-adjusted commercial KWH sales decreased 0.9%, and weather-adjusted industrial KWH sales decreased 17.3%. Reduced demand in the primary metals and chemical sectors contributed to the decreases in weather-adjusted industrial KWH sales in the second quarter and for year-to-date 2009 when compared to the corresponding periods in 2008. Reduced demand in the stone, clay, and glass sector also contributed to the second quarter 2009 decrease in weather-adjusted industrial KWH sales.

Revenues resulting from changes in weather increased in the second quarter 2009 and for year-to-date 2009 as a result of more favorable weather when compared to the corresponding periods in 2008.

Fuel and other cost recovery revenues decreased \$90.3 million in the second quarter 2009 and \$48.8 million for year-to-date 2009 when compared to the corresponding periods in 2008. Electric rates for the traditional operating companies include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these provisions, fuel revenues generally equal fuel expenses, including the fuel

component of purchased power costs, and do not affect net income.

**Table of Contents**

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

***Wholesale Revenues***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(154.0)	(26.0)	\$(216.3)	(19.6)

In the second quarter 2009, wholesale revenues were \$437.8 million compared to \$591.8 million for the corresponding period in 2008. Wholesale fuel revenues, which are generally offset by wholesale fuel expenses and do not affect net income, decreased \$143.3 million in the second quarter 2009 when compared to the corresponding period in 2008. Excluding wholesale fuel revenues, wholesale revenues decreased \$10.7 million in the second quarter 2009 when compared to the corresponding period in 2008. The decrease was primarily the result of fewer short-term opportunity sales due to lower energy prices, partially offset by additional revenues associated with Plant Franklin Unit 3 at Southern Power which went into service in June 2008.

For year-to-date 2009, wholesale revenues were \$889.2 million compared to \$1.11 billion for the corresponding period in 2008. Wholesale fuel revenues, which are generally offset by wholesale fuel expenses and do not affect net income, decreased \$225.2 million for year-to-date 2009 when compared to the corresponding period in 2008. Excluding wholesale fuel revenues, wholesale revenues increased \$8.9 million for year-to-date 2009 when compared to the corresponding period in 2008. The increase was primarily the result of additional revenues associated with Plant Franklin Unit 3 at Southern Power, returns on new and existing wholesale contracts, and changes in mark-to-market positions on sales of uncontracted generating capacity. Fewer short-term opportunity sales due to lower energy prices partially offset this increase.

Short-term opportunity sales are made at market-based rates that generally provide a margin above Southern Company's variable cost to produce the energy.

***Other Electric Revenues***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(12.8)	(9.0)	\$(20.2)	(7.4)

In the second quarter 2009, other electric revenues were \$128.4 million compared to \$141.2 million for the corresponding period in 2008. The decrease was primarily the result of a \$15.3 million decrease in co-generation revenues due to lower gas prices and a decline in sales volume, partially offset by a \$4.4 million increase in transmission revenues.

For year-to-date 2009, other electric revenues were \$251.2 million compared to \$271.4 million for the corresponding period in 2008. The decrease was the result of a \$21.6 million decrease in co-generation revenues due to lower gas prices and a decline in sales volume.

Revenues from co-generation are generally offset by related expenses and do not affect net income.

**Table of Contents**

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

***Other Revenues***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$ (6.3)	(19.6)	\$ (12.4)	(18.8)

In the second quarter 2009, other revenues were \$26.0 million compared to \$32.3 million for the corresponding period in 2008. The decrease was primarily the result of a \$6.4 million decrease in revenues at SouthernLINC Wireless related to lower average revenue per subscriber and fewer subscribers as a result of increased competition in the industry when compared to the corresponding period in 2008.

For year-to-date 2009, other revenues were \$53.4 million compared to \$65.8 million for the corresponding period in 2008. The decrease was primarily the result of a \$12.1 million decrease in revenues at SouthernLINC Wireless related to lower average revenue per subscriber and fewer subscribers as a result of increased competition in the industry when compared to the corresponding period in 2008.

***Fuel and Purchased Power Expenses***

	Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
	<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
Fuel	\$ (172.9)	(10.7)	\$ (218.6)	(7.1)
Purchased power	(64.1)	(32.5)	(49.3)	(17.0)
Total fuel and purchased power expenses	\$ (237.0)		\$ (267.9)	

Fuel and purchased power expenses for the second quarter 2009 were \$1.58 billion compared to \$1.82 billion for the corresponding period in 2008. The decrease was primarily the result of a \$204.3 million net decrease related to total KWHs generated and purchased and a \$32.7 million net decrease in the average cost of fuel and purchased power when compared to the corresponding period in 2008. The net decrease in the average cost of fuel and purchased power for the second quarter 2009 resulted from lower fossil fuel prices when compared to the corresponding period in 2008. For year-to-date 2009, fuel and purchased power expenses were \$3.10 billion compared to \$3.36 billion for the corresponding period in 2008. The decrease was primarily the result of a \$326.3 million net decrease related to total KWHs generated and purchased, partially offset by a \$58.4 million net increase in the average cost of fuel and purchased power, primarily related to a 23.7% increase in the cost of coal per net KWH generated, when compared to the corresponding period in 2008.

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

**Table of Contents**

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

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

Average Cost	Second Quarter 2009 <i>(cents per net KWH)</i>	Second Quarter 2008 <i>(cents per net KWH)</i>	Percent Change	Year-to-Date 2009 <i>(cents per net KWH)</i>	Year-to-Date 2008 <i>(cents per net KWH)</i>	Percent Change
Fuel	3.29	3.29		3.34	3.18	5.0
Purchased power	7.79	9.61	(18.9)	6.31	8.28	(23.8)

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

***Other Operations and Maintenance Expenses***

Second Quarter 2009 vs. Second Quarter 2008  
*(change in millions)*                      *(% change)*  
 \$(83.8)                                      (9.2)

Year-to-Date 2009 vs. Year-to-Date 2008  
*(change in millions)*                      *(% change)*  
 \$(109.5)                                      (6.0)

In the second quarter 2009, other operations and maintenance expenses were \$831.2 million compared to \$915.0 million for the corresponding period in 2008. The decrease was primarily the result of a \$28.2 million decrease in fossil and hydro expenses mainly due to less planned spending on outages and maintenance; a \$27.2 million decrease in transmission and distribution expenses mainly due to lower maintenance expenses; a \$10.8 million decrease in administrative and general expenses primarily related to employee medical expenses; a \$5.8 million decrease in expenses related to lower advertising, litigation, and property insurance costs; a \$5.5 million decrease in expenses primarily related to lower sales volume at SouthernLINC Wireless; and a \$5.3 million decrease in expenses related to customer service and sales.

For year-to-date 2009, other operations and maintenance expenses were \$1.70 billion compared to \$1.81 billion for the corresponding period in 2008. The decrease was primarily the result of a \$53.2 million decrease in fossil and hydro expenses mainly due to less planned spending on outages and maintenance; a \$41.2 million decrease in transmission and distribution expenses mainly due to lower maintenance and metering expenses; a \$13.1 million decrease in expenses related to lower advertising, litigation, and property insurance costs; a \$10.1 million decrease in expenses primarily related to lower sales volume at SouthernLINC Wireless; and a \$6.9 million decrease in expenses related to customer service and sales. This decrease was partially offset by a \$16.3 million increase in administration and general expenses largely related to the \$29.4 million charge in the first quarter 2009 in connection with a voluntary attrition program at Georgia Power under which 579 employees elected to resign their positions effective March 31, 2009. In the second quarter 2009, approximately one-third of the \$29.4 million charge was offset by lower salary and employee benefits costs, and the other two-thirds will be offset during the remainder of the year. This charge is not expected to have a material impact on Southern Company's financial statements for the year ending December 31, 2009.

***MC Asset Recovery Litigation Settlement***

Second Quarter 2009 vs. Second Quarter 2008  
*(change in millions)*                      *(% change)*

Year-to-Date 2009 vs. Year-to-Date 2008  
*(change in millions)*                      *(% change)*  
 \$202.0                                      N/M

N/M Not Meaningful

In the first quarter 2009, Southern Company entered into a litigation settlement agreement with MC Asset Recovery which resulted in a charge of \$202.0 million. See Note (B) to the Condensed Financial Statements under Mirant Matters MC Asset Recovery Litigation herein for additional information.

**Table of Contents**

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

***Depreciation and Amortization***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$18.6	5.2	\$64.5	9.2

In the second quarter 2009, depreciation and amortization was \$377.3 million compared to \$358.7 million for the corresponding period in 2008. The increase was primarily the result of an increase in plant in service related to environmental, transmission, and distribution projects at Georgia Power; an increase in depreciation rates at Southern Power; and the completion of Southern Power's Plant Franklin Unit 3 in June 2008.

For year-to-date 2009, depreciation and amortization was \$767.1 million compared to \$702.6 million for the corresponding period in 2008. The increase was primarily the result of an increase in plant in service related to environmental, transmission, and distribution projects at Alabama Power and Georgia Power; an increase in depreciation rates at Southern Power; and the completion of Southern Power's Plant Franklin Unit 3 in June 2008.

***Taxes Other Than Income Taxes***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$10.1	5.1	\$20.7	5.3

In the second quarter 2009, taxes other than income taxes were \$208.1 million compared to \$198.0 million for the corresponding period in 2008.

For year-to-date 2009, taxes other than income taxes were \$408.0 million compared to \$387.3 million for the corresponding period in 2008.

The second quarter and year-to-date 2009 increases were primarily the result of increases in state and municipal public utility license tax bases at Alabama Power, higher ad valorem taxes at Georgia Power, and increases in franchise fees at Gulf Power. Increases in franchise fees are associated with increases in revenues from retail energy sales.

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

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$12.0	33.9	\$14.0	18.5

In the second quarter 2009, allowance for equity funds used during construction (AFUDC) was \$47.5 million compared to \$35.5 million for the corresponding period in 2008.

For year-to-date 2009, AFUDC was \$90.1 million compared to \$76.1 million for the corresponding period in 2008.

The second quarter and year-to-date 2009 increases were primarily the result of additional investments in environmental projects mainly at Alabama Power and Gulf Power.

**Table of Contents**

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

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

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$79.6	112.2	\$78.1	130.2

In the second quarter 2009, leveraged lease income (losses) was \$8.7 million compared to \$(70.9) million for the corresponding period in 2008.

For year-to-date 2009, leveraged lease income (losses) was \$18.1 million compared to \$(60.0) million for the corresponding period in 2008.

Southern Company has several leveraged lease investments in 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 second quarter and year-to-date 2009 increases were primarily the result of the 2008 application of certain accounting standards related to leveraged leases, including a second quarter 2008 after tax charge of \$51.2 million. See Note (B) to the Condensed Financial Statements under Income Tax Matters Leveraged Leases herein for additional information.

***Gain on Disposition of Lease Termination***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$26.3	N/M	\$26.3	N/M

N/M Not Meaningful

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

***Loss on Extinguishment of Debt***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$17.2	N/M	\$17.2	N/M

N/M Not Meaningful

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

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

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$3.9	1.7	\$12.5	2.8

In the second quarter 2009, interest expense, net of amounts capitalized was \$232.8 million compared to \$228.9 million for the corresponding period in 2008. The increase when compared to the corresponding period in 2008 was not material.

**Table of Contents**

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

For year-to-date 2009, interest expense, net of amounts capitalized was \$458.6 million compared to \$446.1 million for the corresponding period in 2008. The increase was primarily due to a \$53.0 million increase associated with \$2.46 billion in additional debt outstanding at June 30, 2009 compared to June 30, 2008. See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Financing Activities of Southern Company in Item 7 of the Form 10-K and herein for additional information. Partially offsetting this increase was \$30.2 million related to lower average interest rates on existing variable rate debt and an \$11.2 million decrease related to other interest charges.

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

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$0.8	17.9	\$(12.9)	N/M

N/M Not Meaningful

In the second quarter 2009, other income (expense), net was \$(3.7) million compared to \$(4.5) million for the corresponding period in 2008. The decrease in expense when compared to the corresponding period in 2008 is not material.

For year-to-date 2009, other income (expense), net was \$(16.5) million compared to \$(3.6) million for the corresponding period in 2008. The increase in expense was primarily the result of the first quarter 2008 recognition of a \$6.4 million fee received for participating in an asset auction and a \$6.0 million gain on the sale of an undeveloped tract of land to the Orlando Utilities Commission.

***Income Taxes***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$0.7	0.3	\$(10.2)	(2.5)

In the second quarter 2009, income taxes were \$225.7 million compared to \$225.0 million for the corresponding period in 2008. The increase was the result of taxes on higher pre-tax earnings, largely offset by lower tax expenses associated with the early termination of one of the international leveraged lease investments and the extinguishment of the associated debt discussed previously under Gain on Disposition of Lease Termination and Loss on Extinguishment of Debt. See Note (G) to the Condensed Financial Statements under Effective Tax Rate herein for details regarding the impact of the early lease termination on the effective tax rate.

For year-to-date 2009, income taxes were \$392.9 million compared to \$403.1 million for the corresponding period in 2008. The decrease was primarily the result of lower tax expenses associated with the early termination of one of the international leveraged lease investments and the extinguishment of the associated debt discussed previously under Gain on Disposition of Lease Termination and Loss on Extinguishment of Debt. See Note (G) to the Condensed Financial Statements under Effective Tax Rate herein for details regarding the impact of the MC Asset Recovery litigation settlement and the early lease termination on the effective tax rate.

**FUTURE EARNINGS POTENTIAL**

The results of operations discussed above are not necessarily indicative of Southern Company's future earnings potential. The level of Southern Company's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Southern Company's primary business of selling electricity. These factors include the traditional operating companies' ability to maintain a constructive regulatory environment that continues to allow for the recovery of prudently incurred costs during a time of increasing costs. Other major factors include profitability of the competitive wholesale supply business and federal regulatory policy, which may impact Southern Company's level

of participation in this market. Future earnings for the electricity

**Table of Contents**

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

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, and the successful remarketing of capacity as current contracts expire. Recent recessionary conditions have negatively impacted sales for the traditional operating companies and have negatively impacted wholesale capacity revenues at Southern Power. The current economic recession is expected to continue to have a negative impact on energy sales, particularly to industrial customers. The timing and extent of the economic recovery will impact future earnings. For additional information relating to these issues, see RISK FACTORS in Item 1A and MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL of Southern Company in Item 7 of the Form 10-K.

**Environmental Matters**

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

***Water Quality***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Water Quality of Southern Company in Item 7 of the Form 10-K for additional information regarding the EPA's regulation of cooling water intake structures. On April 1, 2009, the U.S. Supreme Court reversed the U.S. Court of Appeals for the Second Circuit's decision with respect to the rule's use of cost-benefit analysis and held that the EPA could consider costs in arriving at its standards and in providing variances from those standards for existing power plant cooling water intake structures. Other aspects of the court's decision were not appealed and remain unaffected by the U.S. Supreme Court's ruling. 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 subsequent legal proceedings, further rulemaking by the EPA, the results of studies and analyses performed as part of the rule's implementation, and the actual requirements established by state regulatory agencies and, therefore, cannot be determined at this time.

***Global Climate Issues***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Global Climate Issues of Southern Company in Item 7 of the Form 10-K for information regarding the potential for legislation and regulation addressing greenhouse gas emissions. On April 17, 2009, the EPA released a proposed finding that certain greenhouse gas emissions from new motor vehicles endanger public health and welfare due to climate change. The ultimate outcome of the proposed endangerment finding cannot be determined at this time and will depend on additional regulatory action and potential legal challenges. However, regulatory decisions that may follow from such a finding could have implications for both new and existing stationary sources, such as power plants. In addition, federal legislative proposals that would impose mandatory requirements related to greenhouse gas emissions, renewable energy standards, and energy efficiency 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 and is expected to now be considered by the Senate. The ultimate outcome of these matters cannot be determined at this time; however, mandatory restrictions on



**Table of Contents**

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

Southern Company's greenhouse gas emissions, or requirements relating to renewable energy or energy efficiency, 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.

**FERC and State PSC Matters**

***Market-Based Rate Authority***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL FERC Matters Market-Based Rate Authority of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under FERC Matters Market-Based Rate Authority in Item 8 of the Form 10-K for information regarding market-based rate authority. In October 2008, Southern Company filed with the FERC a revised market-based rate (MBR) tariff and a new cost-based rate (CBR) tariff. The revised MBR tariff provides for a must offer energy auction whereby Southern Company offers all of its available energy for sale in a day-ahead auction and an hour-ahead auction with reserve prices not to exceed the CBR tariff price, after considering Southern Company's native load requirements, reliability obligations, and sales commitments to third parties. All sales under the energy auction would be at market clearing prices established under the auction rules. The new CBR tariff provides for a cost-based price for wholesale sales of less than a year. On March 5, 2009, the FERC accepted Southern Company's CBR tariff for filing. On March 25, 2009, the FERC accepted Southern Company's compliance filing related to the MBR tariff and directed Southern Company to commence the energy auction in 30 days. Southern Company commenced the energy auction on April 23, 2009. The FERC has determined that implementation of the energy auction in accordance with the MBR tariff order adequately mitigates going forward any presumption of market power that Southern Company may have in the Southern Company retail service territory and adjacent market areas. The original generation dominance proceeding initiated by the FERC in December 2004 remains pending before the FERC. The ultimate outcome of this matter cannot be determined at this time.

***Retail Fuel Cost Recovery***

The traditional operating companies each have established fuel cost recovery rates approved by their respective state PSCs. Over the past several years, the traditional operating companies have experienced higher than expected fuel costs for coal, natural gas, and uranium. These higher fuel costs have resulted in under recovered fuel costs included in the balance sheets of approximately \$882 million at June 30, 2009 as compared to \$1.2 billion at December 31, 2008. Operating revenues are adjusted for differences in actual recoverable fuel costs and amounts billed in current regulated rates. Accordingly, changes to the billing factors will have no significant effect on Southern Company's revenues or net income but will affect cash flow. The traditional operating companies continuously monitor the under recovered fuel cost balance in light of these higher fuel costs. See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Fuel Cost Recovery of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under Alabama Power Retail Regulatory Matters, Georgia Power Retail Regulatory Matters, and Gulf Power Retail Regulatory Matters in Item 8 of the Form 10-K for additional information.

On March 10, 2009, the Georgia PSC granted Georgia Power's request to delay its fuel case filing until September 4, 2009. The extension was requested as a result of difficulty in establishing a forward-looking fuel rate due to volatile coal and gas prices, uncertain sales forecasts, and a continuing decline in the State of Georgia's economy. The ultimate outcome of this matter cannot now be determined.

**Table of Contents**

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

***Retail Rate Matters***

Under the 2007 Retail Rate Plan, Georgia Power's earnings are evaluated against a retail return on equity (ROE) range of 10.25% to 12.25%. In connection with the 2007 Retail Rate Plan, the Georgia PSC ordered that Georgia Power file its next general base rate case by July 1, 2010; however, the 2007 Retail Rate Plan provides that Georgia Power may file for a general base rate increase in the event 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. Despite stringent efforts to reduce expenses, current projections indicate Georgia Power's retail ROE will be less than 10.25% in both 2009 and 2010. 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 approximately \$324 million of its regulatory liability related to other cost of removal obligations. Under Georgia Power's proposal, the regulatory liability would be amortized ratably over the 18-month period from July 1, 2009 through December 31, 2010 as a reduction to operating expenses. Even if the Georgia PSC approves the accounting order request as filed, Georgia Power currently expects its retail ROE will remain below the 10.25% low end of its allowed retail ROE range in 2009 and 2010. The accounting order request is subject to the review and approval of the Georgia PSC. The ultimate outcome of this matter cannot be determined at this time.

***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 estimates the cash flow reduction to 2009 tax payments as a result of the bonus depreciation provisions of the ARRA to be between approximately \$225 million and \$275 million. Southern Company and its subsidiaries have also filed an application under the ARRA for a grant of approximately \$360 million to be used primarily for the advanced metering infrastructure program and other transmission and distribution automation and modernization projects. Southern Company continues to assess the other financial implications of the ARRA. The ultimate impact cannot be determined at this time.

***Construction Projects***

***Integrated Coal Gasification Combined Cycle***

See MANAGEMENT'S DISCUSSION AND ANALYSIS—FUTURE EARNINGS POTENTIAL—Construction Projects—Integrated Coal Gasification Combined Cycle of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under Integrated Coal Gasification Combined Cycle in Item 8 of the Form 10-K for information regarding the Kemper IGCC.

On May 11, 2009, Mississippi Power received notification from the IRS formally certifying the Internal Revenue Code Section 48A tax credits of \$133 million to Mississippi Power. The utilization of these credits is dependent upon meeting the certification requirements for the Kemper IGCC, including an in-service date no later than May 2014.

On April 6, 2009, the Governor of the State of Mississippi signed into law a bill that will provide an ad valorem tax exemption for a portion of the assessed value of all property utilized in certain electric generating facilities with integrated gasification process facilities. This tax exemption, which may not exceed 50% of the total value of the project, is for projects with a capital investment from private sources of \$1 billion or more. Mississippi

**Table of Contents**

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

Power expects the Kemper IGCC to be a qualifying project under the law and the gasification portion of the Kemper IGCC to be exempt from ad valorem taxation.

On April 6, 2009, Mississippi Power received an accounting order from the Mississippi PSC directing Mississippi Power to continue to charge all generation resource planning, evaluation, and screening costs to regulatory assets including those costs associated with activities to obtain a certificate of public convenience and necessity and costs necessary and prudent to preserve the availability, economic viability, and/or required schedule of the Kemper IGCC generation resource planning, evaluation, and screening activities until the Mississippi PSC makes findings and determination as to the recovery of Mississippi Power's prudent expenditures. The Mississippi PSC's determination of prudence for Mississippi Power's pre-construction costs is scheduled to occur by May 2010. As of June 30, 2009, Mississippi Power had spent a total of \$56.4 million associated with Mississippi Power's generation resource planning, evaluation, and screening activities, including regulatory filing costs. Costs incurred for the six months ended June 30, 2009 totaled \$14.1 million as compared to \$13.0 million for the six months ended June 30, 2008. Of the total \$56.4 million, \$51.9 million was deferred in other regulatory assets, \$3.7 million was related to land purchases capitalized, and \$0.8 million was previously expensed.

Several motions were filed by intervenors, most of which were procedural in nature and sought to stay or delay the timely and orderly administration of the docket. In addition to these procedural motions, a motion was filed by the Attorney General for the State of Mississippi which questioned whether the Mississippi PSC had authority to approve the gasification portion of the Kemper IGCC. On June 5, 2009, all of these motions were denied by the Mississippi PSC.

On June 5, 2009, the Mississippi PSC issued an order initiating an evaluation of the Kemper IGCC and establishing a two-phase procedural schedule. During Phase I, the Mississippi PSC will determine if a need exists for new generating resources. Hearings for Phase I are scheduled for October 2009 with a decision in November 2009. If it is determined a need exists in Phase I, the appropriate resource to fill the need as well as the cost recovery of that resource through application of the State of Mississippi's Baseload Act of 2008 will be determined during Phase II. Hearings regarding Phase II issues are scheduled for February 2010 with a decision by May 2010. See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - PSC Matters - Mississippi Base Load Construction Legislation of Southern Company in Item 7 of the Form 10-K for information regarding the Baseload Act of 2008. The ultimate outcome of these matters cannot now be determined.

***Nuclear***

See Note (B) to the Condensed Financial Statements under Construction Projects - Nuclear herein for information regarding the potential expansion of Plant Vogtle.

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 and to recover financing costs during the construction period beginning in 2011, which is expected to reduce the in-service cost to approximately \$4.5 billion.

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 January 1, 2011.

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. The ultimate outcome of this matter cannot be determined at this time.

**Table of Contents**

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

**Nuclear Relicensing**

The NRC operating licenses for Plant Vogtle Units 1 and 2 were scheduled to expire in January 2027 and February 2029, respectively. In June 2007, Georgia Power filed an application with the NRC to extend the licenses for Plant Vogtle Units 1 and 2 for an additional 20 years. On June 3, 2009, the NRC approved the extension of the licenses as requested.

**Other Matters**

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

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

**ACCOUNTING POLICIES**

**Application of Critical Accounting Policies and Estimates**

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

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

**New Accounting Standards**

***Variable Interest Entities***

In June 2009, the FASB 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 is required to adopt this new guidance effective January 1, 2010 and is evaluating the impact, if any, it will have on its financial statements.

**Table of Contents**

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

**FINANCIAL CONDITION AND LIQUIDITY**

**Overview**

Southern Company's financial condition remained stable at June 30, 2009. Throughout the turmoil in the financial markets, Southern Company and its subsidiaries have maintained adequate access to capital without drawing on any committed bank credit arrangements used to support 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  $\frac{1}{4}$  of 1% per year. Southern Company's interest cost for short-term debt has decreased as market short-term interest rates have declined from 2008 levels. The ultimate impact on future financing costs as a result of financial turmoil cannot be determined at this time. Southern Company experienced no material counterparty credit losses as a result of the turmoil in the financial markets. See *Sources of Capital and Financing Activities* herein for additional information.

Southern Company's investments in pension and nuclear decommissioning trust funds stabilized during the second quarter 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 interpretations of and decisions related to federal legislation passed during 2008 as well as other 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.

For the first six months of 2009, net cash provided from operating activities totaled \$620 million, a decrease of \$791 million from the corresponding period in 2008. Significant changes in operating cash flow for the first six months of 2009 as compared to the corresponding period in 2008 include a reduction to net income as previously discussed and increased outflows of funds used for federal tax and property tax payments of \$321 million and fuel purchases of \$254 million. These uses of funds were partially offset by increased cash inflows as a result of higher fuel rates included in customer billings. Net cash used for investing activities totaled \$1.8 billion for the first six months of 2009 as compared to \$2.0 billion for the corresponding period in 2008. While the cash outflows in each of these periods were primarily related to property additions to utility plant, the decrease in the current period as compared to the corresponding period in 2008 was primarily due to approximately \$340 million in cash received from the early termination of two leveraged lease investments. For the first six months of 2009, net cash provided from financing activities totaled \$1.6 billion as compared to \$606 million for the corresponding period in 2008 primarily due to higher levels of short-term borrowings, the issuance of new long-term debt, and common stock issuances. Significant balance sheet changes for the first six months of 2009 include an increase of \$365 million in cash and cash equivalents primarily due to cash received from the early termination of two leveraged lease investments; an increase of \$1.6 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; and purchases of nuclear fuel. Other significant changes include an increase in long-term debt, excluding amounts due within one year, of \$1.1 billion used primarily for construction expenditures and general corporate purposes.

The market price of Southern Company's common stock at June 30, 2009 was \$31.16 per share (based on the closing price as reported on the New York Stock Exchange) and the book value was \$17.32 per share, representing a market-to-book ratio of 180%, compared to \$37.00, \$17.08, and 217%, respectively, at the end of 2008. The dividend for the second quarter 2009 was \$0.4375 per share compared to \$0.42 per share in the second quarter 2008.

**Table of Contents**

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

**Capital Requirements and Contractual Obligations**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Southern Company in Item 7 of the Form 10-K for a description of Southern Company's capital requirements for its construction programs and other funding requirements associated with scheduled maturities of long-term debt, as well as the related interest, preferred and preference stock dividends, leases, trust funding requirements, other purchase commitments, unrecognized tax benefits and interest, and derivative obligations. Approximately \$1.1 billion will be required through June 30, 2010 to fund maturities and announced redemptions of long-term debt. The construction programs are subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in environmental statutes and regulations; changes in nuclear plants to meet new regulatory requirements; changes in FERC rules and regulations; PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

**Sources of Capital**

Southern Company intends to meet its future capital needs through internal cash flow and external security issuances. Equity capital can be provided from any combination of Southern Company's stock plans, private placements, or public offerings. The amount and timing of additional equity capital to be raised in 2009, 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 amount, type, and timing of any financings, if needed, will depend upon prevailing market conditions, regulatory approval, and other factors. See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Sources of Capital of Southern Company in Item 7 of the Form 10-K for additional information.

Southern Company's current liabilities frequently exceed current assets because of the continued use of short-term debt as a funding source to meet cash needs as well as scheduled maturities of long-term debt. To meet short-term cash needs and contingencies, Southern Company has substantial cash flow from operating activities and access to capital markets, including commercial paper programs (which are backed by bank credit facilities), to meet liquidity needs. At June 30, 2009, Southern Company and its subsidiaries had approximately \$782 million of cash and cash equivalents and approximately \$4.7 billion of unused credit arrangements with banks, of which \$484 million expire in 2009, \$965 million expire in 2010, \$25 million expire in 2011, and \$3.2 billion expire in 2012. Approximately \$44 million of the credit facilities expiring in 2009 and 2010 allow for the execution of term loans for an additional two-year period, and \$501 million contain provisions allowing one-year term loans. At June 30, 2009, approximately \$1.3 billion of the credit facilities were dedicated to providing liquidity support to the traditional operating companies variable rate pollution control revenue bonds and such credit facilities also serve as liquidity support for the commercial paper programs. Subsequent to June 30, 2009, financings at Georgia Power increased the total amount of variable rate pollution control bonds requiring liquidity support to \$1.5 billion. See Note 6 to the financial statements of Southern Company under Bank Credit Arrangements in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under Bank Credit Arrangements herein for additional information. The traditional operating companies may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of each of the traditional operating companies. At June 30, 2009, the Southern Company system had outstanding commercial paper of \$1.1 billion. Management believes that the

**Table of Contents**

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

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

**Off-Balance Sheet Financing Arrangements**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY

Off-Balance Sheet Financing Arrangements of Southern Company in Item 7 and Note 7 to the financial statements of Southern Company under Operating Leases in Item 8 of the Form 10-K for information related to Mississippi Power's lease of a combined cycle generating facility at Plant Daniel.

**Credit Rating Risk**

Southern Company does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change of certain subsidiaries to BBB and Baa2, or BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, energy price risk management, and construction of new generation. At June 30, 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 \$413 million. At June 30, 2009, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately \$2.0 billion. In addition, certain nuclear fuel agreements could require collateral of up to \$251 million in the event of a rating change to below investment grade for Southern Company. 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.

**Market Price Risk**

Southern Company's market risk exposure relative to interest rate changes has not changed materially compared with the December 31, 2008 reporting period. Since a significant portion of outstanding indebtedness is at fixed rates, Southern Company is not aware of any facts or circumstances that would significantly affect exposures on existing indebtedness in the near term. However, the impact on future financing costs cannot now be determined. Due to cost-based rate regulation, the traditional operating companies continue to have limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. In addition, Southern Power's exposure to market volatility in commodity fuel prices and prices of electricity is limited because its long-term sales contracts shift substantially all fuel cost responsibility to the purchaser. However, during 2009, Southern Power is exposed to market volatility in energy-related commodity prices as a result of sales of uncontracted generating capacity. The traditional operating companies continue to manage fuel-hedging programs implemented per the guidelines of their respective state PSCs. To mitigate residual risks relative to movements in electricity prices, the traditional operating companies enter into physical fixed-price contracts for the purchase and sale of electricity through the wholesale electricity market. To mitigate residual risks relative to movements in gas prices, Southern Company's subsidiaries may enter into fixed-price contracts for natural gas purchases; however, a significant portion of contracts are priced at market. As such, the traditional operating companies have no material change in market risk exposure when compared with the December 31, 2008 reporting period.

**Table of Contents**

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

The changes in fair value of energy-related derivative contracts for the three and six months ended June 30, 2009 were as follows:

	<b>Second Quarter 2009 Changes</b>	<b>Year-to-Date 2009 Changes</b>
	Fair Value (in millions)	
Contracts outstanding at the beginning of the period, assets (liabilities), net	\$(423)	\$ (285)
Contracts realized or settled	127	187
Current period changes <sup>(a)</sup>	(6)	(204)
Contracts outstanding at the end of the period, assets (liabilities), net	\$(302)	\$ (302)

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

The changes in the fair value positions of the energy-related derivative contracts for the three months and six months ended June 30, 2009 were an increase of \$121 million and a decrease of \$17 million, respectively, substantially all of which is due to natural gas positions. These changes are attributable to both the volume and prices of natural gas. At June 30, 2009, Southern Company had a net hedge volume of 173 million mmBtu (includes location basis of 2 million mmBtu) with a weighted average contract cost approximately \$1.78 per mmBtu above market prices, compared to 173 million mmBtu (includes location basis of 2 million mmBtu) at March 31, 2009 with a weighted average contract cost approximately \$2.53 per mmBtu above market prices and compared to 149 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 hedge settlements are recovered through the traditional operating companies' fuel cost recovery clauses. At June 30, 2009 and December 31, 2008, the fair value of energy-related derivative contracts by hedge designation was reflected in the financial statements as follows:

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
	(in millions)	
Regulatory hedges	\$(305)	\$ (288)
Cash flow hedges		(1)
Not designated	3	4
Total fair value	\$(302)	\$ (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 to hedge anticipated purchases and sales and are initially deferred in OCI before being recognized in income in the same period as the hedged transaction. Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred.

Total net unrealized pre-tax losses recognized in the statements of income for the six months ended June 30, 2009 for energy-related derivative contracts that are not hedges were \$(1) million and were not material for the three months ended June 30, 2009. For the three and six months ended June 30, 2008, the total net unrealized gains (losses) recognized in the statements of income were \$7 million and \$(7) million, respectively. See Note (E) to the Condensed Financial Statements herein for further details of these gains (losses).

**Table of Contents**

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

The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at June 30, 2009 are as follows:

	<b>June 30, 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	(302)	(234)	(66)	(2)
Level 3				
Fair value of contracts outstanding at end of period	\$(302)	\$(234)	\$(66)	\$ (2)

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

For additional information, see MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Market Price Risk of Southern Company in Item 7 and Notes 1 and 6 to the financial statements of Southern Company under Financial Instruments in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements herein.

**Financing Activities**

In the first six months of 2009, Southern Company issued \$350 million of Series 2009A 4.15% Senior Notes due May 15, 2014, and its subsidiaries issued \$1.3 billion of senior notes and incurred obligations of \$183 million related to the issuance of pollution control revenue bonds. Southern Company also issued 14 million shares of common stock for \$399 million through the Southern Investment Plan and employee and director stock plans. In addition, during the three months ended June 30, 2009, Southern Company issued 5 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 \$140 million, net of \$1.4 million in fees and commissions. The proceeds were primarily used to fund ongoing construction projects, to repay short-term and long-term indebtedness, and for general corporate purposes.

Subsequent to June 30, 2009, Georgia Power incurred obligations in connection with the issuance of \$154.3 million of variable rate pollution control revenue bonds. The proceeds of the bonds were used to retire \$154.3 million of fixed rate pollution control revenue bonds. Also, subsequent to June 30, 2009, Georgia Power issued a notice to redeem on August 21, 2009 its \$55 million of Series D 5.50% Senior Insured Quarterly Notes due November 15, 2017.

Subsequent to June 30, 2009, Gulf Power entered into a forward starting interest rate swap to mitigate exposure to interest rate changes related to anticipated debt issuances. The notional amount of the swap is \$50 million, and the swap has been designated as a cash flow hedge.

Subsequent to June 30, 2009, Southern Company used a portion of the cash received from the early termination of two leveraged lease investments to extinguish \$252.7 million of debt which included all debt related to leveraged lease investments and to pay make-whole redemption premiums of \$17.2 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.



**Table of Contents**

**PART I**

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

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Market Price Risk herein for each registrant and Notes 1 and 6 to the financial statements of Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power under Financial Instruments in Item 8 of the Form 10-K. Also, see Note (E) to the Condensed Financial Statements herein for information relating to derivative instruments.

**Item 4. Controls and Procedures.**

(a) Evaluation of disclosure controls and procedures.

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

(b) Changes in internal controls.

There have been no changes in Southern Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the second quarter 2009 that have materially affected or are reasonably likely to materially affect Southern Company's internal control over financial reporting.

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

(a) Evaluation of disclosure controls and procedures.

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

(b) Changes in internal controls.

There have been no changes in Alabama Power's, Georgia Power's, Gulf Power's, Mississippi Power's, or Southern Power's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the second quarter 2009 that have materially affected or are reasonably likely to materially affect Alabama Power's, Georgia Power's, Gulf Power's, Mississippi Power's, or Southern Power's internal control over financial reporting.

**Table of Contents**

**ALABAMA POWER COMPANY**

33

---

Table of Contents

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Operating Revenues:</b>				
Retail revenues	\$ 1,119,606	\$ 1,147,786	\$ 2,177,743	\$ 2,182,040
Wholesale revenues, non-affiliates	153,912	169,971	312,607	340,011
Wholesale revenues, affiliates	52,493	96,421	136,845	180,113
Other revenues	40,505	55,635	79,087	104,328
Total operating revenues	1,366,516	1,469,813	2,706,282	2,806,492
<b>Operating Expenses:</b>				
Fuel	447,486	523,348	930,719	976,497
Purchased power, non-affiliates	26,123	38,450	41,667	49,669
Purchased power, affiliates	56,570	75,789	98,130	164,496
Other operations and maintenance	278,298	306,543	555,157	616,093
Depreciation and amortization	126,487	130,630	269,903	255,267
Taxes other than income taxes	82,039	75,614	162,320	151,385
Total operating expenses	1,017,003	1,150,374	2,057,896	2,213,407
<b>Operating Income</b>	<b>349,513</b>	<b>319,439</b>	<b>648,386</b>	<b>593,085</b>
<b>Other Income and (Expense):</b>				
Allowance for equity funds used during construction	19,153	9,235	35,878	20,539
Interest income	4,148	4,258	8,270	8,900
Interest expense, net of amounts capitalized	(76,768)	(69,646)	(148,975)	(138,622)
Other income (expense), net	(4,491)	(6,707)	(10,863)	(13,929)
Total other income and (expense)	(57,958)	(62,860)	(115,690)	(123,112)
<b>Earnings Before Income Taxes</b>	<b>291,555</b>	<b>256,579</b>	<b>532,696</b>	<b>469,973</b>
Income taxes	105,357	93,798	190,366	167,226
<b>Net Income</b>	<b>186,198</b>	<b>162,781</b>	<b>342,330</b>	<b>302,747</b>
<b>Dividends on Preferred and Preference Stock</b>	<b>9,866</b>	<b>9,866</b>	<b>19,732</b>	<b>19,732</b>
<b>Net Income After Dividends on Preferred and Preference Stock</b>	<b>\$ 176,332</b>	<b>\$ 152,915</b>	<b>\$ 322,598</b>	<b>\$ 283,015</b>

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

	For the Three Months Ended June 30,	For the Six Months Ended June 30,
	2009	2008

	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Net Income After Dividends on Preferred and Preference Stock</b>	<b>\$ 176,332</b>	<b>\$ 152,915</b>	<b>\$ 322,598</b>	<b>\$ 283,015</b>
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of \$(700), \$1,171, \$(1,586), and \$(1,039), respectively	<b>(1,152)</b>	1,927	<b>(2,609)</b>	(1,710)
Reclassification adjustment for amounts included in net income, net of tax of \$1,178, \$443, \$2,239, and \$628, respectively	<b>1,938</b>	728	<b>3,683</b>	1,033
<b>Total other comprehensive income (loss)</b>	<b>786</b>	2,655	<b>1,074</b>	(677)
<b>Comprehensive Income</b>	<b>\$ 177,118</b>	<b>\$ 155,570</b>	<b>\$ 323,672</b>	<b>\$ 282,338</b>

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

**Table of Contents**

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

	For the Six Months Ended June 30,	
	2009	2008
	<i>(in thousands)</i>	
<b>Operating Activities:</b>		
Net income	\$ 342,330	\$ 302,747
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization, total	311,868	297,792
Deferred income taxes and investment tax credits, net	5,182	20,648
Allowance for equity funds used during construction	(35,878)	(20,539)
Pension, postretirement, and other employee benefits	(16,568)	(12,958)
Stock option expense	3,168	2,520
Tax benefit of stock options	42	460
Other, net	638	14,499
Changes in certain current assets and liabilities		
-Receivables	206,523	34,056
-Fossil fuel stock	(59,418)	(21,879)
-Materials and supplies	(9,094)	(6,887)
-Other current assets	(62,618)	(42,632)
-Accounts payable	(133,138)	(68,407)
-Accrued taxes	25,199	64,490
-Accrued compensation	(56,429)	(47,094)
-Other current liabilities	18,302	26,481
Net cash provided from operating activities	540,109	543,297
<b>Investing Activities:</b>		
Property additions	(641,598)	(714,878)
Investment in restricted cash from pollution control revenue bonds	(290)	(161)
Distribution of restricted cash from pollution control revenue bonds	32,758	19,687
Nuclear decommissioning trust fund purchases	(124,057)	(180,522)
Nuclear decommissioning trust fund sales	124,057	180,522
Cost of removal, net of salvage	(13,004)	(18,157)
Other investing activities	(1,583)	(11,489)
Net cash used for investing activities	(623,717)	(724,998)
<b>Financing Activities:</b>		
Increase (decrease) in notes payable, net	(24,995)	24,980
Proceeds		
Common stock issued to parent		150,000
Capital contributions from parent company	11,510	12,178
Gross excess tax benefit of stock options	81	858
Pollution control revenue bonds	53,000	
Senior notes issuances	500,000	600,000
Redemptions		

Preferred stock		(125,000)
Senior notes		(250,000)
Payment of preferred and preference stock dividends	(19,740)	(21,142)
Payment of common stock dividends	(261,400)	(245,650)
Other financing activities	(6,114)	(5,523)
Net cash provided from financing activities	252,342	140,701
<b>Net Change in Cash and Cash Equivalents</b>	<b>168,734</b>	<b>(41,000)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>28,181</b>	<b>73,616</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 196,915</b>	<b>\$ 32,616</b>

**Supplemental Cash Flow Information:**

Cash paid during the period for		
Interest (net of \$15,005 and \$9,322 capitalized for 2009 and 2008, respectively)	\$ 122,624	\$ 126,502
Income taxes (net of refunds)	\$ 203,248	\$ 124,050

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

**Table of Contents**

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

<b>Assets</b>	<b>At June 30, 2009</b>	<b>At December 31, 2008</b>
	<i>(in thousands)</i>	
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 196,915	\$ 28,181
Restricted cash and cash equivalents	47,611	80,079
Receivables		
Customer accounts receivable	375,523	350,410
Unbilled revenues	137,895	98,921
Under recovered regulatory clause revenues	125,583	153,899
Other accounts and notes receivable	34,923	44,645
Affiliated companies	21,122	70,612
Accumulated provision for uncollectible accounts	(9,125)	(8,882)
Fossil fuel stock, at average cost	375,978	322,089
Materials and supplies, at average cost	313,297	305,880
Vacation pay	52,825	52,577
Prepaid expenses	146,665	88,219
Other regulatory assets, current	78,371	74,825
Other current assets	17,451	12,915
<b>Total current assets</b>	<b>1,915,034</b>	<b>1,674,370</b>
<b>Property, Plant, and Equipment:</b>		
In service	17,897,911	17,635,129
Less accumulated provision for depreciation	6,429,812	6,259,720
<b>Plant in service, net of depreciation</b>	<b>11,468,099</b>	<b>11,375,409</b>
Nuclear fuel, at amortized cost	244,057	231,862
Construction work in progress	1,419,838	1,092,516
<b>Total property, plant, and equipment</b>	<b>13,131,994</b>	<b>12,699,787</b>
<b>Other Property and Investments:</b>		
Equity investments in unconsolidated subsidiaries	57,071	50,912
Nuclear decommissioning trusts, at fair value	420,053	403,966
Miscellaneous property and investments	65,735	62,782
<b>Total other property and investments</b>	<b>542,859</b>	<b>517,660</b>
<b>Deferred Charges and Other Assets:</b>		
Deferred charges related to income taxes	380,116	362,596
Prepaid pension costs	186,893	166,334
Deferred under recovered regulatory clause revenues		180,874
Other regulatory assets, deferred	710,265	732,367
Other deferred charges and assets	198,258	202,018

Total deferred charges and other assets	<b>1,475,532</b>	1,644,189
<b>Total Assets</b>	<b>\$ 17,065,419</b>	\$ 16,536,006

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

36

---

**Table of Contents**

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

	At June 30, 2009	At December 31, 2008
	<i>(in thousands)</i>	
<b>Liabilities and Stockholder's Equity</b>		
<b>Current Liabilities:</b>		
Securities due within one year	\$ 250,000	\$ 250,079
Notes payable		24,995
Accounts payable		
Affiliated	169,684	178,708
Other	252,902	358,176
Customer deposits	84,880	77,205
Accrued taxes		
Accrued income taxes	35,767	18,299
Other accrued taxes	73,653	30,372
Accrued interest	69,044	56,375
Accrued vacation pay	44,217	44,217
Accrued compensation	43,219	91,856
Liabilities from risk management activities	87,888	83,873
Other current liabilities	45,075	53,777
 Total current liabilities	 1,156,329	 1,267,932
 <b>Long-term Debt</b>	 6,156,915	 5,604,791
 <b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	2,248,530	2,243,117
Deferred credits related to income taxes	89,884	90,083
Accumulated deferred investment tax credits	168,668	172,638
Employee benefit obligations	396,440	396,923
Asset retirement obligations	476,038	461,284
Other cost of removal obligations	657,939	634,792
Other regulatory liabilities, deferred	57,749	79,151
Other deferred credits and liabilities	40,428	45,857
 Total deferred credits and other liabilities	 4,135,676	 4,123,845
 <b>Total Liabilities</b>	 11,448,920	 10,996,568
 <b>Redeemable Preferred Stock</b>	 341,716	 341,716
 <b>Preference Stock</b>	 343,412	 343,412
 <b>Common Stockholder's Equity:</b>		
Common stock, par value \$40 per share		
Authorized - 40,000,000 shares		
Outstanding - 25,475,000 shares	1,019,000	1,019,000

Edgar Filing: ALABAMA POWER CO - Form 10-Q

Paid-in capital	<b>2,106,259</b>	2,091,462
Retained earnings	<b>1,814,987</b>	1,753,797
Accumulated other comprehensive loss	<b>(8,875)</b>	(9,949)
Total common stockholder's equity	<b>4,931,371</b>	4,854,310
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$ 17,065,419</b>	\$ 16,536,006

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

37

---

**Table of Contents**

**ALABAMA POWER COMPANY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**SECOND QUARTER 2009 vs. SECOND QUARTER 2008**  
**AND**  
**YEAR-TO-DATE 2009 vs. YEAR-TO-DATE 2008**

**OVERVIEW**

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

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

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

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$23.4	15.3	\$39.6	14.0

Alabama Power's financial performance remained stable in the second quarter 2009 despite the continued challenges of a recessionary economy. Alabama Power's net income after dividends on preferred and preference stock for the second quarter 2009 was \$176.3 million compared to \$152.9 million for the corresponding period in 2008. The increase was primarily due to the corrective rate package providing for adjustments associated with customer charges effective in January 2009 and a decrease in other operations and maintenance expenses primarily due to a reduction in transmission and distribution, steam power, and administrative and general expenses. The increase was partially offset by a decrease in retail revenues attributable to a decline in KWH sales and an increase in interest expense, net of amounts capitalized.

Alabama Power's net income after dividends on preferred and preference stock for year-to-date 2009 was \$322.6 million compared to \$283.0 million for the corresponding period in 2008. The increase was primarily due to the corrective rate package providing for adjustments associated with customer charges effective in January 2009 and a decrease in other operations and maintenance expenses primarily related to steam power. The increase was partially offset by a decrease in retail revenues attributable to a decline in KWH sales, increases in income taxes, and an increase in depreciation related to property, plant, and equipment associated with environmental mandates and transmission and distribution projects.

**Table of Contents**

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

***Retail Revenues***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(28.2)	(2.5)	\$(4.3)	(0.2)

In the second quarter 2009, retail revenues were \$1.12 billion compared to \$1.15 billion for the corresponding period in 2008. For year-to-date 2009, retail revenues were \$2.18 billion compared to \$2.18 billion for the corresponding period in 2008.

Details of the change to retail revenues are as follows:

	Second Quarter 2009		Year-to-Date 2009	
	<i>(in millions)</i>	<i>(% change)</i>	<i>(in millions)</i>	<i>(% change)</i>
Retail prior year	\$1,147.8		\$2,182.0	
Estimated change in				
Rates and pricing	40.8	3.5	90.4	4.1
Sales growth (decline)	(40.5)	(3.5)	(72.8)	(3.3)
Weather	3.4	0.3	2.7	0.1
Fuel and other cost recovery	(31.9)	(2.8)	(24.6)	(1.1)
Retail current year	\$1,119.6	(2.5)%	\$2,177.7	(0.2)%

Revenues associated with changes in rates and pricing increased in the second quarter 2009 and year-to-date 2009 when compared to the corresponding periods in 2008 primarily due to the corrective rate package increase effective January 2009, which mainly provided for adjustments associated with customer charges to certain existing rate structures. See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Retail Rate Adjustments of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Retail Regulatory Matters in Item 8 of the Form 10-K for additional information.

Revenues attributable to changes in sales declined in the second quarter 2009 when compared to the corresponding period in 2008 due to a recessionary economy. Additionally, based on a change in the historical trend in the timing of customers' meter readings, Alabama Power changed the estimate related to the meter read date assumption used in the unbilled revenue calculation. This change in estimate resulted in a one-time increase in revenue of \$13.4 million and a 1.8% increase in retail KWH energy sales for the quarter. Industrial KWH energy sales decreased 24.3% due to a decline in demand across all industrial segments. Weather-adjusted residential KWH energy sales decreased 1.9% driven by a decline in customer demand related to customer energy efficiency efforts in addition to a recessionary economy. Weather-adjusted commercial KWH energy sales decreased 1.0% due to a decline in customer demand. For year-to-date 2009, revenues attributable to changes in sales declined due to a recessionary economy when compared to the corresponding period in 2008. Industrial KWH energy sales decreased 23.0% due to a decline in demand across all industrial segments. Weather-adjusted residential KWH energy sales decreased 2.3% driven by a decline in customer demand related to customer energy efficiency efforts in addition to a recessionary economy. Weather-adjusted commercial KWH energy sales decreased 1.7% due to a decline in customer demand.

**Table of Contents**

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

Revenues resulting from changes in weather were relatively insignificant in the second quarter and year-to-date 2009 when compared to the corresponding periods in 2008.

Fuel and other cost recovery revenues decreased in the second quarter and year-to-date 2009 when compared to the corresponding periods in 2008 primarily due to decreases in fuel costs. Electric rates include provisions to recognize the full recovery of fuel costs, purchased power costs, PPAs certificated by the Alabama PSC, and costs associated with the natural disaster reserve. Under these provisions, fuel and other cost recovery revenues generally equal fuel and other cost recovery expenses and do not impact net income.

***Wholesale Revenues    Non-Affiliates***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$ (16.1)	(9.4)	\$ (27.4)	(8.1)

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

In the second quarter 2009, wholesale revenues from non-affiliates were \$153.9 million compared to \$170.0 million for the corresponding period in 2008. This decrease was due to a 7.0% decrease in KWH sales and a 2.6% reduction in price.

For year-to-date 2009, wholesale revenues from non-affiliates were \$312.6 million compared to \$340.0 million for the corresponding period in 2008. This decrease was due to a 5.1% reduction in price and a 3.1% decrease in KWH sales.

***Wholesale Revenues    Affiliates***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$ (43.9)	(45.6)	\$ (43.3)	(24.0)

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

In the second quarter 2009, wholesale revenues from affiliates were \$52.5 million compared to \$96.4 million for the corresponding period in 2008. This decrease was primarily due to a 43.2% decrease in fuel prices.

For year-to-date 2009, wholesale revenues from affiliates were \$136.8 million compared to \$180.1 million for the corresponding period in 2008. This decrease was due to a 34.3% decrease in fuel prices, partially offset by a 15.7% increase in KWH sales.

**Table of Contents**

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

***Other Revenues***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$ (15.1)	(27.2)	\$ (25.2)	(24.2)

In the second quarter 2009, other revenues were \$40.5 million compared to \$55.6 million for the corresponding period in 2008. This decrease was primarily due to a \$17.2 million decrease in revenues from gas-fueled co-generation steam facilities resulting from lower gas prices and a decline in sales volume.

For year-to-date 2009, other revenues were \$79.1 million compared to \$104.3 million for the corresponding period in 2008. This decrease was primarily due to a \$26.6 million decrease in revenues from gas-fueled co-generation steam facilities resulting from lower gas prices and a decline in sales volume.

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

***Fuel and Purchased Power Expenses***

	Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
	<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
Fuel	\$ (75.9)	(14.5)	\$ (45.8)	(4.7)
Purchased power non-affiliates	(12.3)	(32.1)	(8.0)	(16.1)
Purchased power affiliates	(19.2)	(25.4)	(66.4)	(40.3)
Total fuel and purchased power expenses	\$ (107.4)		\$ (120.2)	

In the second quarter 2009, total fuel and purchased power expenses were \$530.2 million compared to \$637.6 million for the corresponding period in 2008. This decrease was primarily due to a \$71.8 million decrease in total KWHs generated and purchased and a \$35.6 million decrease in the cost of energy primarily resulting from a decrease in the average cost of natural gas.

For year-to-date 2009, total fuel and purchased power expenses were \$1.07 billion compared to \$1.19 billion for the corresponding period in 2008. This decrease was primarily due to a \$151.6 million decrease in total KWHs generated and purchased, partially offset by a \$31.4 million increase in the cost of energy primarily resulting from an increase in the average cost of coal.

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

**Table of Contents**

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

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

	Second Quarter 2009 <i>(cents per net KWH)</i>	Second Quarter 2008 <i>(cents per net KWH)</i>	Percent Change	Year-to-Date 2009 <i>(cents per net KWH)</i>	Year-to-Date 2008 <i>(cents per net KWH)</i>	Percent Change
Average Cost						
Fuel	2.78	2.72	2.2	2.85	2.66	7.1
Purchased power	6.01	8.61	(30.2)	6.06	6.97	(13.1)

In the second quarter 2009, fuel expense was \$447.4 million compared to \$523.3 million for the corresponding period in 2008. The total decline in fuel expense was driven by a decrease in generation and lower natural gas prices. The decrease was primarily related to a 21.0% decrease in KWHs generated by coal and a 49.8% decrease in the average cost of KWHs generated by natural gas, resulting in a change in the fuel mix.

For year-to-date 2009, fuel expense was \$930.6 million compared to \$976.4 million for the corresponding period in 2008. Total fuel expense decreased due to a 38.3% decrease in the average cost of KWHs generated by natural gas and an 8.9% decrease in total KWHs generated. These decreases were partially offset by a 22.9% increase in the average cost of KWHs generated by coal.

*Non-Affiliates*

In the second quarter 2009, purchased power expense from non-affiliates was \$26.2 million compared to \$38.5 million for the corresponding period in 2008. This decrease was primarily related to a 21.0% decrease in price.

For year-to-date 2009, purchased power expense from non-affiliates was \$41.7 million compared to \$49.7 million for the corresponding period in 2008. This decrease was primarily related to a 22.2% decrease in price, partially offset by a 7.8% volume increase in the KWHs purchased due to the availability of lower-priced market energy alternatives.

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

*Affiliates*

In the second quarter 2009, purchased power expense from affiliates was \$56.6 million compared to \$75.8 million for the corresponding period in 2008. This decrease was primarily related to a 26.9% decrease in price.

For year-to-date 2009, purchased power expense from affiliates was \$98.1 million compared to \$164.5 million for the corresponding period in 2008. This decrease was primarily related to a 33.2% decrease in the amount of energy purchased and a 10.8% decrease in price.

**Table of Contents**

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

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

***Other Operations and Maintenance Expenses***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(28.2)	(9.2)	\$(60.9)	(9.9)

In the second quarter 2009, other operations and maintenance expenses were \$278.3 million compared to \$306.5 million for the corresponding period in 2008. This decrease was primarily a result of a \$10.9 million decrease in transmission and distribution expenses related to a reduction in overhead line clearing costs, an \$8.6 million decrease in steam power expense associated with fewer scheduled outages, and a \$7.2 million decrease in administrative and general expenses primarily related to a reduction in employee medical and other expenses. For year-to-date 2009, other operations and maintenance expenses were \$555.2 million compared to \$616.1 million for the corresponding period in 2008. This decrease was primarily a result of a \$44.5 million decrease in steam power expense associated with fewer scheduled outages and a \$15.0 million decrease in transmission and distribution expenses related to a reduction in overhead line clearing.

***Depreciation and Amortization***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(4.1)	(3.2)	\$14.6	5.7

In the second quarter 2009, depreciation and amortization was \$126.5 million compared to \$130.6 million for the corresponding period in 2008. This change was the result of an increase in property, plant, and equipment primarily related to environmental mandates and transmission and distribution projects. This was offset by an adjustment to depreciation of \$8.4 million, resulting from the offer of settlement to the FERC discussed below.

On June 25, 2009, Alabama Power submitted an offer of settlement and stipulation to the FERC relating to the 2008 depreciation study that was filed in October 2008. The settlement offer withdraws the requests for authorization to use updated depreciation rates. In lieu of the new rates, Alabama Power will use those depreciation rates employed prior and up to January 1, 2009 that were previously approved by the FERC. The settlement offer is pending FERC approval.

For year-to-date 2009, depreciation and amortization was \$269.9 million compared to \$255.3 million for the corresponding period in 2008. This change was the result of an increase in property, plant, and equipment primarily related to environmental mandates and transmission and distribution projects.

See MANAGEMENT'S DISCUSSION AND ANALYSIS - RESULTS OF OPERATIONS - Depreciation and Amortization of Alabama Power in Item 7 of the Form 10-K for additional information.

**Table of Contents**

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

***Taxes Other than Income Taxes***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$6.4	8.5	\$10.9	7.2

In the second quarter 2009, taxes other than income taxes were \$82.0 million compared to \$75.6 million in the corresponding period in 2008. For year-to-date 2009, taxes other than income taxes were \$162.3 million compared to \$151.4 million for the corresponding period in 2008. These increases were primarily due to increases in state and municipal public utility license tax bases.

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

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$9.9	107.4	\$15.3	74.7

In the second quarter 2009, allowance for equity funds used during construction (AFUDC) was \$19.1 million compared to \$9.2 million for the corresponding period in 2008. For year-to-date 2009, AFUDC was \$35.8 million compared to \$20.5 million for the corresponding period in 2008. These increases were primarily due to increases in the amount of construction work in progress at generating facilities related to environmental mandates.

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

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$7.1	10.2	\$10.4	7.5

In the second quarter 2009, interest expense, net of amounts capitalized was \$76.7 million compared to \$69.6 million for the corresponding period in 2008. For year-to-date 2009, interest expense, net of amounts capitalized was \$149.0 million compared to \$138.6 million for the corresponding period in 2008. These increases were primarily due to the issuance of additional long-term debt. See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Financing Activities of Alabama Power in Item 7 of the Form 10-K and FINANCIAL CONDITION AND LIQUIDITY Financing Activities herein for additional information.

***Income Taxes***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$11.6	12.3	\$23.1	13.8

In the second quarter 2009, income taxes were \$105.4 million compared to \$93.8 million for the corresponding period in 2008. For year-to-date 2009, income taxes were \$190.3 million compared to \$167.2 million for the corresponding period in 2008. These increases were primarily due to higher pre-tax income and a decrease in the tax benefit from the production activities deduction, partially offset by the increase in non-taxable AFUDC.

**Table of Contents**

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

**FUTURE EARNINGS POTENTIAL**

The results of operations discussed above are not necessarily indicative of Alabama Power's future earnings potential. The level of Alabama Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Alabama Power's primary business of selling electricity. These factors include Alabama Power's ability to maintain a constructive regulatory environment that continues to allow for the recovery of prudently incurred costs during a time of increasing costs. Future earnings in the near term will depend, in part, upon maintaining energy sales, which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in Alabama Power's service area. Recent recessionary conditions have negatively impacted sales and are expected to continue to have a negative impact, particularly to industrial customers. The timing and extent of the economic recovery will impact future earnings.

For additional information relating to these issues, see RISK FACTORS in Item 1A and MANAGEMENT'S DISCUSSION AND ANALYSIS—FUTURE EARNINGS POTENTIAL of Alabama Power in Item 7 of the Form 10-K.

**Environmental Matters**

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

***Water Quality***

See MANAGEMENT'S DISCUSSION AND ANALYSIS—FUTURE EARNINGS POTENTIAL—Environmental Matters—Environmental Statutes and Regulations—Water Quality of Alabama Power in Item 7 of the Form 10-K for additional information regarding the EPA's regulation of cooling water intake structures. On April 1, 2009, the U.S. Supreme Court reversed the U.S. Court of Appeals for the Second Circuit's decision with respect to the rule's use of cost-benefit analysis and held that the EPA could consider costs in arriving at its standards and in providing variances from those standards for existing power plant cooling water intake structures. Other aspects of the court's decision were not appealed and remain unaffected by the U.S. Supreme Court's ruling. 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 subsequent legal proceedings, further rulemaking by the EPA, the results of studies and analyses performed as part of the rule's implementation, and the actual requirements established by state regulatory agencies and, therefore, cannot be determined at this time.

***Global Climate Issues***

See MANAGEMENT'S DISCUSSION AND ANALYSIS—FUTURE EARNINGS POTENTIAL—Environmental Matters—Global Climate Issues of Alabama Power in Item 7 of the Form 10-K for information regarding the potential for legislation and regulation addressing greenhouse gas emissions. On April 17, 2009, the EPA released a proposed finding that certain greenhouse gas emissions from new motor vehicles endanger public health and welfare due to climate change. The ultimate outcome of the proposed endangerment finding cannot be determined at this time and will depend on additional regulatory action and potential legal challenges. However, regulatory decisions that may follow from such a finding could have implications for both new and existing stationary sources, such as power plants. In addition, federal legislative

**Table of Contents**

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

proposals that would impose mandatory requirements related to greenhouse gas emissions, renewable energy standards, and energy efficiency 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 program, and other measures, was passed by the House of Representatives and is expected to now be considered by the Senate. The ultimate outcome of these matters cannot be determined at this time; however, mandatory restrictions on Alabama Power's greenhouse gas emissions, or requirements relating to renewable energy or energy efficiency, 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.

**FERC and Alabama PSC Matters**

***Market-Based Rate Authority***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL FERC Matters Market-Based Rate Authority of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under FERC Matters Market-Based Rate Authority in Item 8 of the Form 10-K for information regarding market-based rate authority. In October 2008, Southern Company filed with the FERC a revised market-based rate (MBR) tariff and a new cost-based rate (CBR) tariff. The revised MBR tariff provides for a must offer energy auction whereby Southern Company offers all of its available energy for sale in a day-ahead auction and an hour-ahead auction with reserve prices not to exceed the CBR tariff price, after considering Southern Company's native load requirements, reliability obligations, and sales commitments to third parties. All sales under the energy auction would be at market clearing prices established under the auction rules. The new CBR tariff provides for a cost-based price for wholesale sales of less than a year. On March 5, 2009, the FERC accepted Southern Company's CBR tariff for filing. On March 25, 2009, the FERC accepted Southern Company's compliance filing related to the MBR tariff and directed Southern Company to commence the energy auction in 30 days. Southern Company commenced the energy auction on April 23, 2009. The FERC has determined that implementation of the energy auction in accordance with the MBR tariff order adequately mitigates going forward any presumption of market power that Southern Company may have in the Southern Company retail service territory and adjacent market areas. The original generation dominance proceeding initiated by the FERC in December 2004 remains pending before the FERC. The ultimate outcome of this matter cannot be determined at this time.

***Retail Fuel Cost Recovery***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Retail Fuel Cost Recovery of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Retail Regulatory Matters Fuel Cost Recovery in Item 8 of the Form 10-K for information regarding Alabama Power's fuel cost recovery. Alabama Power's under recovered fuel costs as of June 30, 2009 totaled \$102.1 million as compared to \$305.8 million at December 31, 2008. These under recovered fuel costs at June 30, 2009 are included in under recovered regulatory clause revenues on Alabama Power's Condensed Balance Sheets herein. This classification is based on an estimate which includes such factors as weather, generation availability, energy demand, and the price of energy. A change in any of these factors could have a material impact on the timing of the recovery of the under recovered fuel costs.

**Table of Contents**

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

On June 2, 2009, the Alabama PSC approved a decrease in Alabama Power's Rate ECR factor from 3.983 cents per KWH to 3.733 cents per KWH for billings beginning June 9, 2009 through October 8, 2010, which will have no significant effect on Alabama Power's revenues or net income, but will decrease annual cash flow. Thereafter, the Rate ECR factor will 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 differences in actual recoverable fuel costs and amounts billed in current regulated rates. Alabama Power will be allowed to continue to include a carrying charge associated with the under recovered fuel costs in the fuel expense calculation. In the event the Rate ECR factor results in an over recovered position, Alabama Power will accrue interest on any such over recovered balance at the same rate used to derive the carrying cost.

***Natural Disaster Cost Recovery***

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - PSC Matters - Natural Disaster Cost Recovery of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Retail Regulatory Matters - Natural Disaster Cost Recovery in Item 8 of the Form 10-K for information regarding natural disaster cost recovery. At June 30, 2009, Alabama Power had accumulated a balance of \$30.6 million in the target reserve for future storms, which is included in the Condensed Balance Sheets herein under Other Regulatory Liabilities.

***Steam Service***

On February 5, 2009, the Alabama PSC granted a Certificate of Abandonment of Steam Service in the downtown area of the City of Birmingham. The order allows Alabama Power to discontinue steam service by the earlier of three years from May 14, 2008 or when it has no remaining steam service customers. Currently, Alabama Power has contractual obligations to provide steam service until 2013. Impacts related to the abandonment of steam service are recognized in operating income and are not material to the earnings of Alabama Power.

***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 Alabama Power. Alabama Power estimates the cash flow reduction to 2009 tax payments as a result of the bonus depreciation provisions of the ARRA to be between approximately \$75 million and \$90 million. Southern Company and its subsidiaries have also filed an application under the ARRA for a grant, of which approximately \$120 million relates to Alabama Power, to be used primarily for the advanced metering infrastructure program and other transmission and distribution automation and modernization projects. Alabama Power continues to assess the other financial implications of the ARRA. The ultimate impact cannot be determined at this time.

***Other Matters***

Alabama Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Alabama Power is subject to certain claims and legal actions arising in the ordinary course of business. Alabama Power's business activities are subject to extensive governmental regulation related to public health and the environment. 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

**Table of Contents**

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

States. In particular, personal injury claims for damages caused by alleged exposure to hazardous materials have become more frequent. The ultimate outcome of such pending or potential litigation against Alabama Power cannot be predicted at this time; however, for current proceedings not specifically reported herein or in Note 3 to the financial statements of Alabama Power in Item 8 of the Form 10-K, management does not anticipate that the liabilities, if any, arising from such current proceedings would have a material adverse effect on Alabama Power's financial statements. See the Notes to the Condensed Financial Statements herein for discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

**ACCOUNTING POLICIES**

**Application of Critical Accounting Policies and Estimates**

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

**New Accounting Standards**

***Variable Interest Entities***

In June 2009, the FASB 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. Alabama Power is required to adopt this new guidance effective January 1, 2010 and is evaluating the impact, if any, it will have on its financial statements.

**FINANCIAL CONDITION AND LIQUIDITY**

**Overview**

Alabama Power's financial condition remained stable at June 30, 2009. Throughout the turmoil in the financial markets, Alabama Power 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. Alabama Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. Market rates for committed credit have increased, and Alabama Power has been and expects to continue to be subject to higher costs as its existing facilities are replaced or renewed. Total committed credit fees currently average less than  $\frac{1}{4}$  of 1% per year for Alabama Power. Alabama Power's interest cost for short-term debt has decreased as market short-term interest rates have declined from 2008 levels. The ultimate impact on future financing costs as a result of financial turmoil cannot be determined at this time. Alabama Power experienced no material

**Table of Contents**

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

counterparty credit losses as a result of the turmoil in the financial markets. See Sources of Capital and Financing Activities herein for additional information.

Alabama Power's investments in pension and nuclear decommissioning trust funds stabilized during the second quarter 2009. Alabama Power expects that the earliest that cash may have to be contributed to the pension trust fund is 2012. The projections of the amount vary significantly depending on interpretations of and decisions related to federal legislation passed during 2008 as well as other key variables including future trust fund performance and cannot be determined at this time. Alabama Power does not expect any changes to the funding obligations to the nuclear decommissioning trust at this time.

Net cash provided from operating activities totaled \$540.1 million for the first six months of 2009, compared to \$543.3 million for the corresponding period in 2008. Changes in operating cash flow were not material. Net cash used for investing activities totaled \$623.7 million compared to \$725.0 million for the corresponding period in 2008. The \$101.3 million decrease was primarily due to a decline in gross property additions related to nuclear refueling outages. Net cash provided from financing activities totaled \$252.3 million for the first six months of 2009, compared to \$140.7 million for the corresponding period in 2008. The \$111.6 million increase was primarily due to no redemptions or maturities offset by fewer issuances of securities in the first six months of 2009 as compared to the first six months of 2008. Fluctuations in cash flow from financing activities vary from year-to-year based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for the first six months of 2009 include an increase of \$168.7 million in cash and cash equivalents and an increase of \$262.8 million in gross plant primarily due to increases in transmission and distribution projects. Long-term debt increased \$552.1 million.

**Capital Requirements and Contractual Obligations**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Alabama Power in Item 7 of the Form 10-K for a description of Alabama Power's capital requirements for its construction program, scheduled maturities of long-term debt, as well as the related interest, derivative obligations, preferred and preference stock dividends, leases, purchase commitments, and trust funding requirements. Approximately \$250 million will be required through June 30, 2010 for maturities of long-term debt. The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in environmental statutes and regulations; changes in nuclear plants to meet new regulatory requirements; changes in FERC rules and regulations; Alabama PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

**Sources of Capital**

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

**Table of Contents**

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

Alabama Power's current liabilities sometimes exceed current assets because of Alabama Power's debt due within one year and the periodic use of short-term debt as a funding source primarily to meet scheduled maturities of long-term debt as well as cash needs which can fluctuate significantly due to the seasonality of the business. To meet short-term cash needs and contingencies, Alabama Power had at June 30, 2009 cash and cash equivalents of approximately \$196.9 million, unused committed lines of credit of approximately \$1.3 billion, and commercial paper programs. The credit facilities provide liquidity support to Alabama Power's commercial paper borrowings and \$582 million are dedicated to funding purchase obligations related to variable rate pollution control revenue bonds. Of the unused credit facilities, \$325 million will expire in 2009, \$145 million will expire in 2010, \$25 million will expire in 2011, and \$765 million will expire in 2012. Of the facilities that expire in 2009 and 2010, \$361 million allow for one-year term loans. Alabama Power expects to renew its credit facilities, as needed, prior to expiration. See Note 6 to the financial statements of Alabama Power under "Bank Credit Arrangements" in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under "Bank Credit Arrangements" herein for additional information. Alabama Power may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of Alabama Power and other Southern Company subsidiaries. At June 30, 2009, Alabama Power had no commercial paper outstanding and no outstanding borrowings under its committed lines of credit. Management believes that the need for working capital can be adequately met by utilizing commercial paper programs, lines of credit, and cash.

**Credit Rating Risk**

Alabama Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- and/or Baa3 or below. These contracts are primarily for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management. At June 30, 2009, the maximum potential collateral requirements under these contracts at a BBB- and/or Baa3 rating were approximately \$16 million. At June 30, 2009, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately \$175 million. Included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participants has a credit rating change to below investment grade. In addition, certain nuclear fuel agreements could require collateral of up to \$64 million in the event of a rating change to below investment grade for Southern Company. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Alabama Power's ability to access capital markets, particularly the short-term debt market.

**Market Price Risk**

Alabama Power's market risk exposure relative to interest rate changes has not changed materially compared with the December 31, 2008 reporting period. Since a significant portion of outstanding indebtedness is at fixed rates, Alabama Power is not aware of any facts or circumstances that would significantly affect exposures on existing indebtedness in the near term. However, the impact on future financing costs cannot now be determined.

Due to cost-based rate regulation, Alabama Power continues to have limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. To mitigate residual risks relative to movements in electricity prices, Alabama Power enters into physical fixed-price contracts for the purchase and sale of electricity through the wholesale electricity market. Alabama Power continues to manage a retail fuel-hedging program implemented per the guidelines of the Alabama PSC. As such, Alabama Power has no material change in market risk exposure when compared with the December 31, 2008 reporting period.

**Table of Contents**

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

The changes in fair value of energy-related derivative contracts for the three and six months ended June 30, 2009 were as follows:

	<b>Second Quarter 2009 Changes</b>	<b>Year-to-Date 2009 Changes</b>
	Fair Value (in millions)	
Contracts outstanding at the beginning of the period, assets (liabilities), net	\$(130.2)	\$ (91.9)
Contracts realized or settled	40.6	63.9
Current period changes <sup>(a)</sup>	(1.9)	(63.5)
Contracts outstanding at the end of the period, assets (liabilities), net	\$ (91.5)	\$ (91.5)

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

The increases in the fair value positions of the energy-related derivative contracts for the three months and six months ended June 30, 2009 were \$39 million and \$0.4 million, respectively, substantially all of which is due to natural gas positions. These changes are attributable to both the volume and prices of natural gas. At June 30, 2009, Alabama Power had a net hedge volume of 49 million mmBtu with a weighted average contract cost approximately \$1.89 per mmBtu above market prices, compared to 49 million mmBtu at March 31, 2009 with a weighted average contract cost approximately \$2.70 per mmBtu above market prices and compared to 45 million mmBtu at December 31, 2008 with a weighted average contract cost approximately \$2.12 per mmBtu above market prices. The majority of the natural gas hedge settlements are recovered through the fuel cost recovery clause.

At June 30, 2009 and December 31, 2008, the fair value of energy-related derivative contracts by hedge designation was reflected in the financial statements as follows:

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
	(in millions)	
Regulatory hedges	\$(91.5)	\$(91.9)
Cash flow hedges		
Not designated		
Total fair value	\$(91.5)	\$(91.9)

Energy-related derivative contracts which are designated as regulatory hedges relate to Alabama Power's fuel hedging program where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as they are recovered through the fuel cost recovery clauses. Certain other gains and losses on energy-related derivatives, designated as cash flow hedges, are initially deferred in OCI before being recognized in income in the same period as the hedged transaction. Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred.

Unrealized pre-tax gains and losses recognized in income for the three months and six months ended June 30, 2009 and 2008 for energy-related derivative contracts that are not hedges were not material.

**Table of Contents**

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

The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at June 30, 2009 are as follows:

	<b>June 30, 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	(91.5)	(77.0)	(14.6)	0.1
Level 3				
Fair value of contracts outstanding at end of period	\$(91.5)	\$(77.0)	\$(14.6)	\$ 0.1

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

For additional information, see MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Market Price Risk of Alabama Power in Item 7 and Notes 1 and 6 to the financial statements of Alabama Power under Financial Instruments in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements herein.

**Financing Activities**

In March 2009, Alabama Power issued \$500 million of Series 2009A 6.00% Senior Notes due March 1, 2039. The proceeds were used to repay short-term indebtedness and for other general corporate purposes, including Alabama Power's continuous construction program.

In June 2009, Alabama Power incurred obligations related to the issuance of \$53 million of The Industrial Development Board of the City of Mobile Pollution Control Revenue Bonds (Alabama Power Barry Plant Project), First Series 2009. The proceeds were used to fund pollution control and environmental improvement facilities at Plant Barry.

Subsequent to June 30, 2009, Alabama Power issued 3,375,000 shares of common stock to Southern Company at \$40 a share (\$135 million aggregate purchase price). The proceeds were used for general corporate purposes.

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

**Table of Contents**

**GEORGIA POWER COMPANY**

53

---

Table of Contents

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Operating Revenues:</b>				
Retail revenues	\$ 1,682,225	\$ 1,830,753	\$ 3,274,620	\$ 3,405,760
Wholesale revenues, non-affiliates	96,570	142,276	192,556	294,968
Wholesale revenues, affiliates	29,623	72,164	44,833	146,074
Other revenues	65,896	65,969	128,146	129,207
Total operating revenues	1,874,314	2,111,162	3,640,155	3,976,009
<b>Operating Expenses:</b>				
Fuel	652,889	683,299	1,253,379	1,321,222
Purchased power, non-affiliates	70,817	107,723	132,770	165,754
Purchased power, affiliates	172,418	247,842	369,641	500,777
Other operations and maintenance	353,562	391,781	744,055	760,596
Depreciation and amortization	175,080	159,204	342,191	309,812
Taxes other than income taxes	81,008	79,485	157,256	150,771
Total operating expenses	1,505,774	1,669,334	2,999,292	3,208,932
<b>Operating Income</b>	<b>368,540</b>	<b>441,828</b>	<b>640,863</b>	<b>767,077</b>
<b>Other Income and (Expense):</b>				
Allowance for equity funds used during construction	22,313	23,981	43,067	51,738
Interest income	(197)	1,050	1,033	1,837
Interest expense, net of amounts capitalized	(99,425)	(83,727)	(197,815)	(170,065)
Other income (expense), net	2,531	1,371	(4,189)	(1,922)
Total other income and (expense)	(74,778)	(57,325)	(157,904)	(118,412)
<b>Earnings Before Income Taxes</b>	<b>293,762</b>	<b>384,503</b>	<b>482,959</b>	<b>648,665</b>
Income taxes	99,682	132,279	162,310	216,080
<b>Net Income</b>	<b>194,080</b>	<b>252,224</b>	<b>320,649</b>	<b>432,585</b>
<b>Dividends on Preferred and Preference Stock</b>	<b>4,346</b>	<b>4,346</b>	<b>8,691</b>	<b>8,691</b>
<b>Net Income After Dividends on Preferred and Preference Stock</b>	<b>\$ 189,734</b>	<b>\$ 247,878</b>	<b>\$ 311,958</b>	<b>\$ 423,894</b>

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008

	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Net Income After Dividends on Preferred and Preference Stock</b>	<b>\$ 189,734</b>	<b>\$ 247,878</b>	<b>\$ 311,958</b>	<b>\$ 423,894</b>
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of \$(905), \$6,027, \$275, and \$(16), respectively	<b>(1,435)</b>	9,556	<b>435</b>	(24)
Reclassification adjustment for amounts included in net income, net of tax of \$2,427, \$489, \$4,170, and \$695, respectively	<b>3,848</b>	774	<b>6,611</b>	1,101
<b>Total other comprehensive income (loss)</b>	<b>2,413</b>	10,330	<b>7,046</b>	1,077
<b>Comprehensive Income</b>	<b>\$ 192,147</b>	<b>\$ 258,208</b>	<b>\$ 319,004</b>	<b>\$ 424,971</b>

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

**Table of Contents**

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

	For the Six Months Ended June 30,	
	2009	2008
	<i>(in thousands)</i>	
<b>Operating Activities:</b>		
Net income	\$ 320,649	\$ 432,585
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization, total	402,086	367,910
Deferred income taxes and investment tax credits	54,721	29,175
Deferred revenues	(20,929)	60,875
Deferred expenses	20,523	27,059
Allowance for equity funds used during construction	(43,067)	(51,738)
Pension, postretirement, and other employee benefits	(11,543)	6,304
Hedge settlements	(16,167)	(20,486)
Other, net	42,135	(25,801)
Changes in certain current assets and liabilities		
-Receivables	(126,080)	(193,372)
-Fossil fuel stock	(222,837)	(40,214)
-Prepaid income taxes	(20,298)	4,302
-Other current assets	(14,914)	(14,874)
-Accounts payable	120,228	102,384
-Accrued taxes	(74,291)	(12,300)
-Accrued compensation	(103,764)	(49,119)
-Other current liabilities	31,345	54,941
Net cash provided from operating activities	337,797	677,631
<b>Investing Activities:</b>		
Property additions	(1,208,114)	(992,317)
Distribution of restricted cash from pollution control revenue bonds	15,566	13,221
Nuclear decommissioning trust fund purchases	(699,359)	(225,477)
Nuclear decommissioning trust fund sales	664,633	218,597
Cost of removal, net of salvage	(33,041)	(15,957)
Change in construction payables, net of joint owner portion	103,558	7,200
Other investing activities	43,910	(16,754)
Net cash used for investing activities	(1,112,847)	(1,011,487)
<b>Financing Activities:</b>		
Increase (decrease) in notes payable, net	114,439	(347,612)
Proceeds		
Capital contributions from parent company	602,968	251,262
Pollution control revenue bonds issuances		94,935
Senior notes issuances	500,000	500,000
Other long-term debt issuances	750	300,000

Redemptions		
Pollution control revenue bonds		(41,935)
Senior notes	(151,928)	(45,812)
Payment of preferred and preference stock dividends	(8,758)	(8,309)
Payment of common stock dividends	(369,450)	(360,600)
Other financing activities	(7,963)	(8,430)
Net cash provided from financing activities	680,058	333,499
<b>Net Change in Cash and Cash Equivalents</b>	<b>(94,992)</b>	<b>(357)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>132,739</b>	<b>15,392</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 37,747</b>	<b>\$ 15,035</b>

**Supplemental Cash Flow Information:**

Cash paid during the period for

Interest (net of \$18,986 and \$21,619 capitalized for 2009 and 2008, respectively)

\$ 167,890 \$ 154,225

Income taxes (net of refunds)

\$ 79,141 \$ 130,091

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

**Table of Contents**

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

<b>Assets</b>	<b>At June 30, 2009</b>	<b>At December 31, 2008</b>
	<i>(in thousands)</i>	
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 37,747	\$ 132,739
Restricted cash and cash equivalents	11,081	22,381
Receivables		
Customer accounts receivable	575,753	554,219
Unbilled revenues	212,550	147,978
Under recovered regulatory clause revenues	346,608	338,780
Joint owner accounts receivable	146,544	43,858
Other accounts and notes receivable	44,913	54,041
Affiliated companies	15,784	13,091
Accumulated provision for uncollectible accounts	(11,679)	(10,732)
Fossil fuel stock, at average cost	707,594	484,757
Materials and supplies, at average cost	362,530	356,537
Vacation pay	65,644	71,217
Prepaid income taxes	86,285	65,987
Other regulatory assets, current	151,044	118,961
Other current assets	52,240	63,464
<b>Total current assets</b>	<b>2,804,638</b>	<b>2,457,278</b>
<b>Property, Plant, and Equipment:</b>		
In service	24,779,503	23,975,262
Less accumulated provision for depreciation	9,301,959	9,101,474
 Plant in service, net of depreciation	 15,477,544	 14,873,788
Nuclear fuel, at amortized cost	302,160	278,412
Construction work in progress	1,759,917	1,434,989
<b>Total property, plant, and equipment</b>	<b>17,539,621</b>	<b>16,587,189</b>
<b>Other Property and Investments:</b>		
Equity investments in unconsolidated subsidiaries	63,450	57,163
Nuclear decommissioning trusts, at fair value	520,445	460,430
Miscellaneous property and investments	37,058	40,945
<b>Total other property and investments</b>	<b>620,953</b>	<b>558,538</b>
<b>Deferred Charges and Other Assets:</b>		
Deferred charges related to income taxes	586,370	572,528
Deferred under recovered regulatory clause revenues	364,728	425,609
Other regulatory assets, deferred	1,361,027	1,449,352
Other deferred charges and assets	204,552	265,174

Total deferred charges and other assets	<b>2,516,677</b>	2,712,663
<b>Total Assets</b>	<b>\$ 23,481,889</b>	\$ 22,315,668

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

56

---

Table of Contents

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

	At June 30, 2009	At December 31, 2008
	<i>(in thousands)</i>	
<b>Liabilities and Stockholder's Equity</b>		
<b>Current Liabilities:</b>		
Securities due within one year	\$ 435,372	\$ 280,443
Notes payable	471,533	357,095
Accounts payable		
Affiliated	240,279	260,545
Other	678,495	422,485
Customer deposits	193,851	186,919
Accrued taxes		
Accrued income taxes	78,877	70,916
Unrecognized tax benefits	148,686	128,712
Other accrued taxes	155,370	278,172
Accrued interest	91,215	79,432
Accrued vacation pay	49,248	57,643
Accrued compensation	38,556	135,191
Liabilities from risk management activities	109,522	113,432
Other current liabilities	207,789	136,176
Total current liabilities	2,898,793	2,507,161
<b>Long-term Debt</b>	7,196,675	7,006,275
<b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	3,161,017	3,064,580
Deferred credits related to income taxes	134,470	140,933
Accumulated deferred investment tax credits	249,357	256,218
Employee benefit obligations	870,699	882,965
Asset retirement obligations	706,933	688,019
Other cost of removal obligations	378,462	396,947
Other regulatory liabilities, deferred	75,293	115,865
Other deferred credits and liabilities	108,498	111,505
Total deferred credits and other liabilities	5,684,729	5,657,032
<b>Total Liabilities</b>	15,780,197	15,170,468
<b>Preferred Stock</b>	44,991	44,991
<b>Preference Stock</b>	220,966	220,966
<b>Common Stockholder's Equity:</b>		
Common stock, without par value		
Authorized - 20,000,000 shares		

Edgar Filing: ALABAMA POWER CO - Form 10-Q

Outstanding - 9,261,500 shares	<b>398,473</b>	398,473
Paid-in capital	<b>4,262,668</b>	3,655,731
Retained earnings	<b>2,800,298</b>	2,857,789
Accumulated other comprehensive loss	<b>(25,704)</b>	(32,750)
Total common stockholder's equity	<b>7,435,735</b>	6,879,243
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$ 23,481,889</b>	\$ 22,315,668

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

**Table of Contents**

**GEORGIA POWER COMPANY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**SECOND QUARTER 2009 vs. SECOND QUARTER 2008**  
**AND**  
**YEAR-TO-DATE 2009 vs. YEAR-TO-DATE 2008**

**OVERVIEW**

Georgia Power operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located within the State of Georgia and to wholesale customers in the Southeast. Many factors affect the opportunities, challenges, and risks of Georgia Power's business of selling electricity. These factors include the ability to maintain a constructive regulatory environment, to maintain energy sales in the midst of the current economic downturn, and to effectively manage and secure timely recovery of rising costs. These costs include those related to projected long-term demand growth, increasingly stringent environmental standards, capital expenditures, and fuel prices. Appropriately balancing the need to recover these increasing costs with customer prices will continue to challenge Georgia Power for the foreseeable future. Georgia Power is required to file a general rate case by July 1, 2010, which will determine whether the 2007 Retail Rate Plan should be continued, modified, or discontinued. On June 29, 2009, Georgia Power filed a request with the Georgia PSC for an accounting order that would allow Georgia Power to amortize approximately \$324 million of its regulatory liability related to other cost of removal obligations in lieu of filing a request for a base rate increase. See MANAGEMENT'S DISCUSSION AND ANALYSIS—FUTURE EARNINGS POTENTIAL—Retail Rate Matters herein for additional information.

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

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

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(58.2)	(23.5)	\$(111.9)	(26.4)

Georgia Power's second quarter 2009 net income after dividends on preferred and preference stock was \$189.7 million compared to \$247.9 million for the corresponding period in 2008. Georgia Power's year-to-date 2009 net income after dividends on preferred and preference stock was \$312.0 million compared to \$423.9 million for the corresponding period in 2008. These decreases were primarily due to lower industrial base revenues resulting from the recessionary economy. Also contributing to the year-to-date decrease was a charge in the first quarter 2009 in connection with a voluntary attrition plan under which 579 employees resigned from their positions effective March 31, 2009.

***Retail Revenues***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(148.5)	(8.1)	\$(131.1)	(3.9)

In the second quarter 2009, retail revenues were \$1.68 billion compared to \$1.83 billion for the corresponding period in 2008. For year-to-date 2009, retail revenues were \$3.27 billion compared to \$3.41 billion for the corresponding period in 2008.

**Table of Contents**

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

Details of the change to retail revenues are as follows:

	Second Quarter 2009		Year-to-Date 2009	
	(in millions)	(% change)	(in millions)	(% change)
Retail prior year	\$1,830.8		\$3,405.8	
Estimated change in				
Rates and pricing	(42.1)	(2.3)	(22.5)	(0.7)
Sales growth (decline)	(42.4)	(2.3)	(60.4)	(1.8)
Weather	5.1	0.3	4.5	0.1
Fuel cost recovery	(69.2)	(3.8)	(52.8)	(1.5)
Retail current year	\$1,682.2	(8.1)%	\$3,274.6	(3.9)%

Revenues associated with changes in rates and pricing decreased in the second quarter and year-to-date 2009 when compared to the corresponding periods in 2008 due to decreased revenues from market-response rates to large commercial and industrial customers of \$78.6 million and \$105.2 million for the second quarter and year-to-date 2009, respectively, partially offset by increased recognition of environmental compliance cost recovery revenues of \$36.7 million and \$83.0 million for the second quarter and year-to-date 2009, respectively, in accordance with the 2007 Retail Rate Plan.

Revenues attributable to changes in sales declined in the second quarter and year-to-date 2009 when compared to the corresponding periods in 2008. These decreases were primarily due to the recessionary economy, partially offset by a 0.3% increase in retail customers. Weather-adjusted residential KWH sales decreased 1.1%, weather-adjusted commercial KWH sales decreased 0.8%, and weather-adjusted industrial KWH sales decreased 14.6% for the second quarter 2009 when compared to the corresponding period in 2008. Weather-adjusted residential KWH sales increased 0.1%, weather-adjusted commercial KWH sales decreased 0.7%, and weather-adjusted industrial KWH sales decreased 14.3% year-to-date 2009 when compared to the corresponding period in 2008. Weather-adjusted industrial KWH sales decreased due to a broad decline in demand across all industrial segments for the second quarter and year-to-date 2009.

Revenues attributable to changes in weather for the second quarter and year-to-date 2009 when compared to the corresponding periods in 2008 were not material.

Fuel revenues and costs are allocated between retail and wholesale jurisdictions. Retail fuel cost recovery revenues decreased by \$69.2 million in the second quarter 2009 and by \$52.8 million year-to-date 2009 when compared to the corresponding periods in 2008 due to decreased KWH sales and fuel and purchased power expenses. Electric rates include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these provisions, fuel revenues generally equal fuel expenses, including the fuel component of purchased power costs, and do not impact net income.

**Wholesale Revenues Non-Affiliates**

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
(change in millions)	(% change)	(change in millions)	(% change)
\$(45.7)	(32.1)	\$(102.4)	(34.7)

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

Company service territory, and the availability of Southern Company system generation.

Table of Contents

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

In the second quarter 2009, wholesale revenues from non-affiliates were \$96.6 million compared to \$142.3 million for the corresponding period in 2008. For year-to-date 2009, wholesale revenues from non-affiliates were \$192.6 million compared to \$295.0 million for the corresponding period in 2008. These decreases were due to a 44.7% decrease and a 49.2% decrease in KWH sales for the second quarter and year-to-date 2009, respectively, due to lower demand primarily caused by the recessionary economy.

***Wholesale Revenues - Affiliates***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$ (42.6)	(59.0)	\$ (101.3)	(69.3)

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

In the second quarter 2009, wholesale revenues from affiliates were \$29.6 million compared to \$72.2 million for the corresponding period in 2008. For year-to-date 2009, wholesale revenues from affiliates were \$44.8 million compared to \$146.1 million for the corresponding period in 2008. These decreases were due to a 19.6% decrease and a 58.7% decrease in KWH sales in the second quarter and year-to-date 2009, respectively, due to lower demand primarily caused by the recessionary economy.

***Fuel and Purchased Power Expenses***

	Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
	<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
Fuel	\$ (30.4)	(4.5)	\$ (67.8)	(5.1)
Purchased power - non-affiliates	(36.9)	(34.3)	(33.0)	(19.9)
Purchased power - affiliates	(75.4)	(30.4)	(131.2)	(26.2)
Total fuel and purchased power expenses	\$ (142.7)		\$ (232.0)	

In the second quarter 2009, total fuel and purchased power expenses were \$896.1 million compared to \$1.04 billion for the corresponding period in 2008. The decrease was due to an \$82.6 million decrease related to fewer KWHs generated and purchased and a \$60.1 million decrease in the average cost of purchased power, partially offset by an increase in the average cost of fuel.

For year-to-date 2009, total fuel and purchased power expenses were \$1.76 billion compared to \$1.99 billion for the corresponding period in 2008. The decrease was due to a \$190.3 million decrease related to fewer KWHs generated and purchased and a \$41.7 million decrease in the average cost of purchased power, partially offset by an increase in the average cost of fuel.

Table of Contents

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

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

	Second Quarter	Second Quarter	Percent	Year-to-Date	Year-to-Date	Percent
Average Cost	2009	2008	Change	2009	2008	Change
	<i>(cents per net KWH)</i>			<i>(cents per net KWH)</i>		
Fuel	3.40	3.03	12.2	3.32	2.94	12.9
Purchased power	6.41	8.90	(28.0)	6.41	8.07	(20.6)

In the second quarter 2009, fuel expense was \$652.9 million compared to \$683.3 million for the corresponding period in 2008. For year-to-date 2009, fuel expense was \$1.25 billion compared to \$1.32 billion for the corresponding period in 2008. These decreases were due to lower natural gas prices and decreases of 14.3% and 16.2% in KWHs generated in the second quarter and year-to-date 2009, respectively, as a result of lower KWH demand. These decreases were partially offset by increases of 22.6% and 25.5% in the average cost of coal per KWH generated in the second quarter and year-to-date 2009, respectively.

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

#### *Non-Affiliates*

In the second quarter 2009, purchased power from non-affiliates was \$70.8 million compared to \$107.7 million for the corresponding period in 2008. For year-to-date 2009, purchased power from non-affiliates was \$132.8 million compared to \$165.8 million for the corresponding period in 2008. These decreases were due to 44.9% and 38.4% decreases in the average cost per KWH purchased in the second quarter and year-to-date 2009, respectively, over the corresponding periods in 2008. These decreases were partially offset by a 24.6% increase and a 33.1% increase in the volume of KWHs purchased from available lower-priced market energy alternatives in the second quarter and year-to-date 2009, respectively, over the corresponding periods in 2008.

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

#### *Affiliates*

In the second quarter 2009, purchased power from affiliates was \$172.4 million compared to \$247.8 million for the corresponding period in 2008. For year-to-date 2009, purchased power from affiliates was \$369.6 million compared to \$500.8 million for the corresponding period in 2008. These decreases were primarily due to 21.6% and 15.4% decreases in the average cost per KWH purchased for the second quarter and year-to-date 2009, respectively. These decreases were partially offset by a 20.5% increase and a 5.0% increase in the volume of KWHs purchased in the second quarter and year-to-date 2009, respectively.

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

**Table of Contents**

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

***Other Operations and Maintenance Expenses***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(38.2)	(9.8)	\$(16.5)	(2.2)

In the second quarter 2009, other operations and maintenance expenses were \$353.6 million compared to \$391.8 million for the corresponding period in 2008. The decrease was due to a \$19.1 million decrease in power generation, a \$13.9 million decrease in transmission and distribution, and a decrease of \$7.1 million in customer accounting, service, and sales costs all of which are related to cost containment activities in an effort to offset the effects of the recessionary economy.

For year-to-date 2009, other operations and maintenance expenses were \$744.1 million compared to \$760.6 million for the corresponding period in 2008. The decrease was due to a \$20.1 million decrease in power generation, an \$18.3 million decrease in transmission and distribution, and a \$13.3 million decrease in customer accounting, service, and sales costs primarily due to the cost containment activities described above, partially offset by a \$4.5 million increase in uncollectible accounts and a \$29.4 million charge in the first quarter 2009 in connection with a voluntary attrition plan under which 579 employees elected to resign their positions effective March 31, 2009. In the second quarter 2009, approximately one-third of the \$29.4 million charge was offset by lower salary and employee benefits costs, and the other two-thirds will be offset during the remainder of the year. This charge is not expected to have a material impact on Georgia Power's financial statements for the year ending December 31, 2009.

***Depreciation and Amortization***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$15.9	10.0	\$32.4	10.5

In the second quarter 2009, depreciation and amortization was \$175.1 million compared to \$159.2 million for the corresponding period in 2008. For year-to-date 2009, depreciation and amortization was \$342.2 million compared to \$309.8 million for the corresponding period in 2008. These increases were primarily due to additional plant in service related to transmission, distribution, and environmental projects.

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

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(1.7)	(7.0)	\$(8.6)	(16.8)

In the second quarter 2009, allowance for equity funds used during construction (AFUDC) when compared to the corresponding period in 2008 was not material.

For year-to-date 2009, AFUDC was \$43.1 million compared to \$51.7 million for the corresponding period in 2008. The decrease was due to a decrease in the average construction work in progress balances for year-to-date 2009 compared to the corresponding period in 2008 as a result of projects completed in 2008.

**Table of Contents**

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

***Interest Expense, Net of Amount Capitalized***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$15.7	18.7	\$27.7	16.3

In the second quarter 2009, interest expense, net of amounts capitalized was \$99.4 million compared with \$83.7 million for the corresponding period in 2008. For year-to-date 2009, interest expense, net of amounts capitalized was \$197.8 million compared to \$170.1 million for the corresponding period in 2008. These increases were primarily due to an increase in long-term debt levels resulting from the issuance of additional senior notes in the last 12 months, partially offset by lower average interest rates on existing variable rate debt.

***Income Taxes***

Second Quarter 2009 vs. Second Quarter 2008		Year-to-Date 2009 vs. Year-to-Date 2008	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(32.6)	(24.6)	\$(53.8)	(24.9)

In the second quarter 2009, income taxes were \$99.7 million compared with \$132.3 million for the corresponding period in 2008. For year-to-date 2009, income taxes were \$162.3 million compared with \$216.1 million for the corresponding period in 2008. The decreases were primarily due to lower pre-tax net income.

**FUTURE EARNINGS POTENTIAL**

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

**Environmental Matters**

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

**Water Quality**

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters - Environmental Statutes and Regulations - Water Quality of Georgia Power in Item 7 of the Form 10-K for additional information regarding the EPA's regulation of cooling water intake structures. On April 1, 2009, the U.S. Supreme Court reversed the U.S. Court of Appeals for the Second Circuit's decision

**Table of Contents**

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

with respect to the rule's use of cost-benefit analysis and held that the EPA could consider costs in arriving at its standards and in providing variances from those standards for existing power plant cooling water intake structures. Other aspects of the court's decision were not appealed and remain unaffected by the U.S. Supreme Court's ruling. 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 subsequent legal proceedings, further rulemaking by the EPA, the results of studies and analyses performed as part of the rule's implementation, and the actual requirements established by state regulatory agencies and, therefore, cannot be determined at this time.

***Global Climate Issues***

See MANAGEMENT'S DISCUSSION AND ANALYSIS—FUTURE EARNINGS POTENTIAL—Environmental Matters—Global Climate Issues of Georgia Power in Item 7 of the Form 10-K for information regarding the potential for legislation and regulation addressing greenhouse gas emissions. On April 17, 2009, the EPA released a proposed finding that certain greenhouse gas emissions from new motor vehicles endanger public health and welfare due to climate change. The ultimate outcome of the proposed endangerment finding cannot be determined at this time and will depend on additional regulatory action and potential legal challenges. However, regulatory decisions that may follow from such a finding could have implications for both new and existing stationary sources, such as power plants. In addition, federal legislative proposals that would impose mandatory requirements related to greenhouse gas emissions, renewable energy standards, and energy efficiency 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 and is expected to now be considered by the Senate. The ultimate outcome of these matters cannot be determined at this time; however, mandatory restrictions on Georgia Power's greenhouse gas emissions, or requirements relating to renewable energy or energy efficiency, 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.

**FERC and Georgia PSC Matters*****Market-Based Rate Authority***

See MANAGEMENT'S DISCUSSION AND ANALYSIS—FUTURE EARNINGS POTENTIAL—FERC Matters—Market-Based Rate Authority of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under FERC Matters—Market-Based Rate Authority in Item 8 of the Form 10-K for information regarding market-based rate authority. In October 2008, Southern Company filed with the FERC a revised market-based rate (MBR) tariff and a new cost-based rate (CBR) tariff. The revised MBR tariff provides for a must offer energy auction whereby Southern Company offers all of its available energy for sale in a day-ahead auction and an hour-ahead auction with reserve prices not to exceed the CBR tariff price, after considering Southern Company's native load requirements, reliability obligations, and sales commitments to third parties. All sales under the energy auction would be at market clearing prices established under the auction rules. The new CBR tariff provides for a cost-based price for wholesale sales of less than a year. On March 5, 2009, the FERC accepted Southern Company's CBR tariff for filing. On March 25, 2009, the FERC accepted Southern Company's compliance filing related to the MBR tariff and directed Southern Company to commence the energy auction in 30 days. Southern Company commenced the energy auction on April 23, 2009. The FERC has determined that implementation of the energy auction in accordance with the MBR tariff order adequately mitigates going forward any presumption of market power that Southern Company may have in the Southern Company retail service territory and adjacent market areas. The original generation dominance

**Table of Contents**

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

proceeding initiated by the FERC in December 2004 remains pending before the FERC. The ultimate outcome of this matter cannot be determined at this time.

***Retail Fuel Cost Recovery***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Fuel Cost Recovery of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under Retail Regulatory Matters Fuel Cost Recovery in Item 8 of the Form 10-K for additional information. In May 2008, the Georgia PSC approved an additional increase of approximately \$222 million effective June 2008. On March 10, 2009, the Georgia PSC granted Georgia Power's request to delay its fuel case filing until September 4, 2009. The extension was requested as a result of difficulty in establishing a forward-looking fuel rate due to volatile coal and gas prices, uncertain sales forecasts, and a continuing decline in the State of Georgia's economy. As of June 30, 2009, Georgia Power had a total under recovered fuel cost balance of approximately \$711 million compared to \$764 million at December 31, 2008. The ultimate outcome of this matter cannot be determined at this time.

Fuel cost recovery revenues as recorded on the financial statements are adjusted for differences in actual recoverable fuel costs and amounts billed in current regulated rates. Accordingly, any changes in the billing factor will not have a significant effect on Georgia Power's revenues or net income, but will affect cash flow.

***Retail Rate Matters***

Under the 2007 Retail Rate Plan, Georgia Power's earnings are evaluated against a retail return on equity (ROE) range of 10.25% to 12.25%. In connection with the 2007 Retail Rate Plan, the Georgia PSC ordered that Georgia Power file its next general base rate case by July 1, 2010; however, the 2007 Retail Rate Plan provides that Georgia Power may file for a general base rate increase in the event 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. Despite stringent efforts to reduce expenses, current projections indicate Georgia Power's retail ROE will be less than 10.25% in both 2009 and 2010. 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 approximately \$324 million of its regulatory liability related to other cost of removal obligations. Under Georgia Power's proposal, the regulatory liability would be amortized ratably over the 18-month period from July 1, 2009 through December 31, 2010 as a reduction to operating expenses. Even if the Georgia PSC approves the accounting order request as filed, Georgia Power currently expects its retail ROE will remain below the 10.25% low end of its allowed retail ROE range in 2009 and 2010. The accounting order request is subject to the review and approval of the Georgia PSC. The ultimate outcome of this matter cannot be determined at this time.

***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 Georgia Power. Georgia Power estimates the cash flow reduction to 2009 tax payments as a result of the bonus depreciation provisions of the ARRA to be between approximately \$120 million and \$150 million. Southern Company and its subsidiaries have also filed an application under the ARRA for a grant, of which approximately \$140 million relates to Georgia Power, to be used primarily for the advanced metering

**Table of Contents**

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

infrastructure program and other transmission and distribution automation and modernization projects. Georgia Power continues to assess the other financial implications of the ARRA. The ultimate impact cannot be determined at this time.

**Construction**

***Nuclear***

See Note (B) to the Condensed Financial Statements under Construction Projects Nuclear herein for information regarding the potential expansion of Plant Vogtle.

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 and to recover financing costs during the construction period beginning in 2011, which is expected to reduce the in-service cost to approximately \$4.5 billion.

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 January 1, 2011.

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. The ultimate outcome of this matter cannot be determined at this time.

***Other***

On March 17, 2009, the Georgia PSC approved Georgia Power's request to convert Plant Mitchell from coal-fueled to wood biomass-fueled at an in-service cost of approximately \$103 million. The conversion is expected to be completed in 2012. The Georgia PSC also approved Georgia Power's plan to install additional environmental controls at Plants Branch and Yates.

**Nuclear Relicensing**

The NRC operating licenses for Plant Vogtle Units 1 and 2 were scheduled to expire in January 2027 and February 2029, respectively. In June 2007, Georgia Power filed an application with the NRC to extend the licenses for Plant Vogtle Units 1 and 2 for an additional 20 years. On June 3, 2009, the NRC approved the extension of the licenses as requested.

**Other Matters**

Georgia Power is involved in various other matters being litigated, regulatory matters, and certain tax-related issues that could affect future earnings. In addition, Georgia Power is subject to certain claims and legal actions arising in the ordinary course of business. Georgia Power's business activities are subject to extensive governmental regulation related to public health and the environment. 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 claims for damages caused by alleged exposure to hazardous materials have become more frequent. The ultimate outcome of such pending or potential litigation against Georgia Power cannot be predicted at this time; however, for current proceedings not specifically reported herein or in Note 3 to the financial statements of Georgia Power in Item 8 of the Form 10-K, management does not anticipate that the liabilities, if any, arising from such current proceedings would have a material adverse effect on Georgia Power's financial statements.

**Table of Contents**

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

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

**ACCOUNTING POLICIES**

**Application of Critical Accounting Policies and Estimates**

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

**New Accounting Standards**

***Variable Interest Entities***

In June 2009, the FASB 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. Georgia Power is required to adopt this new guidance effective January 1, 2010 and is evaluating the impact, if any, it will have on its financial statements.

**FINANCIAL CONDITION AND LIQUIDITY**

**Overview**

Georgia Power's financial condition remained stable at June 30, 2009. Throughout the turmoil in the financial markets, Georgia Power has maintained adequate access to capital without drawing on any of its committed bank credit arrangements used to support its commercial paper borrowings and variable rate pollution control revenue bonds. Georgia Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. Market rates for committed credit have increased, and Georgia Power has been and expects to continue to be subject to higher costs as its existing facilities are replaced or renewed. Total committed credit fees at Georgia Power currently average less than  $\frac{3}{8}$  of 1% per year. Georgia Power's interest cost for short-term debt has decreased as market short-term interest rates have declined from 2008 levels. The ultimate impact on future financing costs as a result of financial turmoil cannot be determined at this time. Georgia Power experienced no material counterparty credit losses as a result of the turmoil in the financial markets. See Sources of Capital and Financing Activities herein for additional information.

**Table of Contents**

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

Georgia Power's investments in pension and nuclear decommissioning trust funds stabilized during the second quarter 2009. Georgia Power 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 interpretations of and decisions related to federal legislation passed during 2008 as well as other key variables including future trust fund performance and cannot be determined at this time. Georgia Power does not expect any changes to funding obligations to the nuclear decommissioning trusts prior to 2011.

Net cash provided from operating activities totaled \$337.8 million for the first six months of 2009, compared to \$677.6 million for the corresponding period in 2008. The \$339.8 million decrease in cash provided from operating activities in the first six months of 2009 was primarily due to the \$112 million decrease in net income and an increase of \$182 million in fuel and materials inventory additions. Net cash used for investing activities totaled \$1.1 billion for the first six months of 2009, compared to \$1.0 billion for the corresponding period in 2008, primarily due to gross property additions to utility plant. Net cash provided from financing activities totaled \$680.1 million for the first six months of 2009, compared to \$333.5 million for the corresponding period in 2008. The \$346.6 million increase was primarily due to higher capital contributions from Southern Company.

Significant balance sheet changes for the first six months of 2009 include an increase of \$1.0 billion in total property, plant, and equipment.

**Capital Requirements and Contractual Obligations**

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FINANCIAL CONDITION AND LIQUIDITY - Capital Requirements and Contractual Obligations of Georgia Power in Item 7 of the Form 10-K for a description of Georgia Power's capital requirements for its construction program, scheduled maturities of long-term debt, as well as related interest, derivative obligations, preferred and preference stock dividends, leases, purchase commitments, trust funding requirements, and unrecognized tax benefits. Approximately \$435 million will be required through June 30, 2010 to fund maturities and announced redemptions of long-term debt. The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in environmental statutes and regulations; changes in nuclear plants to meet new regulatory requirements; changes in FERC rules and regulations; Georgia PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

**Sources of Capital**

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

Georgia Power's current liabilities frequently exceed current assets because of the continued use of short-term debt as a funding source to meet scheduled maturities of long-term debt as well as cash needs which can fluctuate significantly due to the seasonality of the business. To meet short-term cash needs and contingencies, Georgia Power had at June 30, 2009 approximately \$37.7 million of cash and cash equivalents and approximately \$1.7 billion of unused credit arrangements with banks. See Note 6 to the financial statements of

**Table of Contents**

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

Georgia Power under Bank Credit Arrangements in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under Bank Credit Arrangements herein for additional information. Of the unused credit arrangements in place at June 30, 2009, \$555 million expire in 2010 and \$1.1 billion expire in 2012. Subsequent to June 30, 2009, Georgia Power entered into a new \$40 million credit arrangement. The agreement expires in 2010 and contains a two-year term loan executable at expiration. Georgia Power expects to renew its credit facilities, as needed, prior to expiration.

Credit arrangements provide liquidity support to Georgia Power's purchase obligations related to variable rate pollution control revenue bonds and commercial paper borrowings. At June 30, 2009, Georgia Power had \$636.3 million of variable rate pollution control revenue bonds. Subsequent to June 30, 2009, Georgia Power incurred an additional \$154.3 million of obligations related to variable rate pollution control revenue bonds and converted another \$20.8 million from a fixed rate mode to a variable rate mode, increasing the total outstanding variable rate pollution control bonds to \$811.4 million. Georgia Power may meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of Georgia Power and other Southern Company subsidiaries. At June 30, 2009, Georgia Power had approximately \$471 million of commercial paper outstanding. Management believes that the need for working capital can be adequately met by utilizing commercial paper programs, lines of credit, and cash.

**Credit Rating Risk**

Georgia Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, energy price risk management, and construction of new generation. At June 30, 2009, the maximum potential collateral requirements under these contracts at a BBB- and/or Baa3 rating were approximately \$39 million. At June 30, 2009, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately \$1.1 billion. Included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participants has a credit rating change to below investment grade. In addition, certain nuclear fuel agreements could require collateral of up to \$187 million in the event of a rating change to below investment grade for Southern Company. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Georgia Power's ability to access capital markets, particularly the short-term debt market.

**Market Price Risk**

Georgia Power's market risk exposure relative to interest rate changes has not changed materially compared with the December 31, 2008 reporting period. Since a significant portion of outstanding indebtedness is at fixed rates, Georgia Power is not aware of any facts or circumstances that would significantly affect exposures on existing indebtedness in the near term. However, the impact on future financing costs cannot now be determined.

Due to cost-based rate regulation, Georgia Power continues to have limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. To mitigate residual risks relative to movements in electricity prices, Georgia Power enters into physical fixed-price contracts for the purchase and sale of electricity through the wholesale electricity market. Georgia Power continues to manage a fuel-hedging program implemented per the guidelines of the Georgia PSC. As such, Georgia Power has no material change in market risk exposure when compared with the December 31, 2008 reporting period.

**Table of Contents**

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

The changes in fair value of energy-related derivative contracts for the three and six months ended June 30, 2009 were as follows:

	<b>Second Quarter 2009 Changes</b>	<b>Year-to-Date 2009 Changes</b>
	Fair Value (in millions)	
Contracts outstanding at the beginning of the period, assets (liabilities), net	\$(176.6)	\$(113.2)
Contracts realized or settled	54.3	74.1
Current period changes <sup>(a)</sup>	(3.1)	(86.3)
Contracts outstanding at the end of the period, assets (liabilities), net	\$(125.4)	\$(125.4)

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

The changes in the fair value positions of the energy-related derivative contracts for the three months and six months ended June 30, 2009 were an increase of \$51 million and a decrease of \$12 million, respectively, substantially all of which is due to natural gas positions. These changes are attributable to both the volume and prices of natural gas. At June 30, 2009, Georgia Power had a net hedge volume of 75 million mmBtu with a weighted average contract cost approximately \$1.69 per mmBtu above market prices, compared to 72 million mmBtu at March 31, 2009 with a weighted average contract cost approximately \$2.53 per mmBtu above market prices and compared to 59 million mmBtu at December 31, 2008 with a weighted average contract cost approximately \$1.96 per mmBtu above market prices. The natural gas hedge settlements are recovered through the fuel cost recovery mechanism. At June 30, 2009 and December 31, 2008, the fair value of energy-related derivative contracts by hedge designation was reflected in the financial statements as follows:

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
	(in millions)	
Regulatory hedges	\$(125.4)	\$(113.2)
Not designated		
Total fair value	\$(125.4)	\$(113.2)

Energy-related derivative contracts which are designated as regulatory hedges relate to Georgia Power's fuel hedging program where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as they are recovered through the fuel cost recovery mechanism. 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.

Unrealized pre-tax gains and losses recognized in income for the three and six months ended June 30, 2009 and 2008 for energy-related derivative contracts that are not hedges were not material.

**Table of Contents**

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

The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at June 30, 2009 are as follows:

	<b>June 30, 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	(125.4)	(100.6)	(25.1)	0.3
Level 3				
Fair value of contracts outstanding at end of period	\$(125.4)	\$(100.6)	\$(25.1)	\$ 0.3

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

For additional information, see MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Market Price Risk of Georgia Power in Item 7 and Notes 1 and 6 to the financial statements of Georgia Power under Financial Instruments in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements herein.

**Financing Activities**

During the first quarter 2009, Georgia Power issued \$500 million of Series 2009A 5.95% Senior Notes due February 1, 2039. The proceeds were used to repay at maturity \$150 million aggregate principal amount of Series U Floating Rate Senior Notes due February 7, 2009, to repay a portion of short-term indebtedness, and for general corporate purposes, including Georgia Power's continuous construction program. Georgia Power settled \$100 million of hedges related to the Series 2009A issuance at a loss of approximately \$16 million, and this loss will be amortized to interest expense, in earnings, together with a previously settled loss of approximately \$2 million, over 10 years. Subsequent to June 30, 2009, Georgia Power incurred obligations in connection with the issuance of \$154.3 million of variable rate pollution control revenue bonds. The proceeds of the bonds were used to retire \$154.3 million of fixed rate pollution control revenue bonds.

Subsequent to June 30, 2009, Georgia Power issued a notice to redeem on August 21, 2009 its \$55 million of Series D 5.50% Senior Insured Quarterly Notes due November 15, 2017.

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

**Table of Contents**

**GULF POWER COMPANY**

72

---

Table of Contents

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Operating Revenues:</b>				
Retail revenues	\$ 290,050	\$ 284,218	\$ 528,441	\$ 512,182
Wholesale revenues, non-affiliates	22,700	25,052	44,666	50,708
Wholesale revenues, affiliates	10,727	26,524	16,087	69,464
Other revenues	17,618	14,073	36,185	29,048
Total operating revenues	341,095	349,867	625,379	661,402
<b>Operating Expenses:</b>				
Fuel	156,195	165,999	271,748	316,126
Purchased power, non-affiliates	6,051	6,086	10,489	9,212
Purchased power, affiliates	13,240	16,685	28,621	25,428
Other operations and maintenance	64,983	65,774	137,474	132,205
Depreciation and amortization	23,317	22,206	46,376	43,910
Taxes other than income taxes	22,989	20,803	45,437	41,499
Total operating expenses	286,775	297,553	540,145	568,380
<b>Operating Income</b>	<b>54,320</b>	<b>52,314</b>	<b>85,234</b>	<b>93,022</b>
<b>Other Income and (Expense):</b>				
Allowance for equity funds used during construction	5,707	2,040	10,525	3,523
Interest income	85	709	294	1,418
Interest expense, net of amounts capitalized	(9,907)	(10,678)	(19,739)	(21,674)
Other income (expense), net	(487)	(344)	(1,103)	(1,010)
Total other income and (expense)	(4,602)	(8,273)	(10,023)	(17,743)
<b>Earnings Before Income Taxes</b>	<b>49,718</b>	<b>44,041</b>	<b>75,211</b>	<b>75,279</b>
Income taxes	15,899	15,499	23,299	25,656
<b>Net Income</b>	<b>33,819</b>	<b>28,542</b>	<b>51,912</b>	<b>49,623</b>
<b>Dividends on Preference Stock</b>	<b>1,550</b>	<b>1,550</b>	<b>3,101</b>	<b>3,101</b>
<b>Net Income After Dividends on Preference Stock</b>	<b>\$ 32,269</b>	<b>\$ 26,992</b>	<b>\$ 48,811</b>	<b>\$ 46,522</b>

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

	For the Three Months Ended June 30,	For the Six Months Ended June 30,
--	--	--------------------------------------

Edgar Filing: ALABAMA POWER CO - Form 10-Q

	<b>2009</b>	2008	<b>2009</b>	2008
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Net Income After Dividends on Preference Stock</b>	<b>\$ 32,269</b>	\$ 26,992	<b>\$ 48,811</b>	\$ 46,522
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of \$-, \$403, \$-, and \$(1,077), respectively		643		(1,715)
Reclassification adjustment for amounts included in net income, net of tax of \$104, \$103, \$209, and \$157, respectively	<b>167</b>	162	<b>334</b>	249
<b>Total other comprehensive income (loss)</b>	<b>167</b>	805	<b>334</b>	(1,466)
<b>Comprehensive Income</b>	<b>\$ 32,436</b>	\$ 27,797	<b>\$ 49,145</b>	\$ 45,056

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

**Table of Contents**

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

	For the Six Months Ended June 30,	
	2009	2008
	<i>(in thousands)</i>	
<b>Operating Activities:</b>		
Net income	\$ 51,912	\$ 49,623
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization, total	48,831	46,438
Deferred income taxes	(10,224)	9,215
Allowance for equity funds used during construction	(10,525)	(3,523)
Pension, postretirement, and other employee benefits	(597)	554
Stock option expense	637	537
Tax benefit of stock options	3	109
Hedge settlements		(5,220)
Other, net	(1,762)	(60)
Changes in certain current assets and liabilities		
-Receivables	(3,606)	(27,073)
-Fossil fuel stock	(50,999)	(26,432)
-Materials and supplies	(459)	6,669
-Prepaid income taxes	416	
-Property damage cost recovery	10,816	12,463
-Other current assets	1,319	1,339
-Accounts payable	(1,002)	6,419
-Accrued taxes	13,591	4,433
-Accrued compensation	(9,347)	(6,952)
-Other current liabilities	10,640	2,838
Net cash provided from operating activities	49,644	71,377
<b>Investing Activities:</b>		
Property additions	(240,336)	(149,760)
Investment in restricted cash from pollution control revenue bonds	(49,188)	
Distribution of restricted cash from pollution control revenue bonds	11,417	
Cost of removal, net of salvage	(5,439)	(4,519)
Construction payables	9,661	5,754
Other investing activities	(3,375)	(2,885)
Net cash used for investing activities	(277,260)	(151,410)
<b>Financing Activities:</b>		
Decrease in notes payable, net	(73,944)	(40,801)
Proceeds		
Common stock issued to parent	135,000	
Capital contributions from parent company	1,897	73,060
Gross excess tax benefit of stock options	9	212
Pollution control revenue bonds	130,400	

Senior notes	<b>140,000</b>	
Other long-term debt issuances		110,000
Redemptions		
Senior notes	<b>(722)</b>	(651)
Payment of preference stock dividends	<b>(3,101)</b>	(2,956)
Payment of common stock dividends	<b>(44,650)</b>	(40,850)
Other financing activities	<b>(1,556)</b>	(2,141)
Net cash provided from financing activities	<b>283,333</b>	95,873
<b>Net Change in Cash and Cash Equivalents</b>	<b>55,717</b>	15,840
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>3,443</b>	5,348
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 59,160</b>	<b>\$ 21,188</b>

**Supplemental Cash Flow Information:**

Cash paid during the period for		
Interest (net of \$4,195 and \$1,404 capitalized for 2009 and 2008, respectively)	<b>\$ 19,502</b>	\$ 19,831
Income taxes (net of refunds)	<b>\$ 25,642</b>	\$ 17,744

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

Table of Contents

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

	At June 30, 2009	At December 31, 2008
	<i>(in thousands)</i>	
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 59,160	\$ 3,443
Restricted cash and cash equivalents	37,771	
Receivables		
Customer accounts receivable	91,578	69,531
Unbilled revenues	71,132	48,742
Under recovered regulatory clause revenues	54,573	98,644
Other accounts and notes receivable	5,943	7,201
Affiliated companies	4,205	8,516
Accumulated provision for uncollectible accounts	(2,120)	(2,188)
Fossil fuel stock, at average cost	159,084	108,129
Materials and supplies, at average cost	37,295	36,836
Other regulatory assets, current	37,791	38,908
Other current assets	25,320	25,655
Total current assets	581,732	443,417
<b>Property, Plant, and Equipment:</b>		
In service	2,872,680	2,785,561
Less accumulated provision for depreciation	993,670	971,464
Plant in service, net of depreciation	1,879,010	1,814,097
Construction work in progress	540,019	391,987
Total property, plant, and equipment	2,419,029	2,206,084
<b>Other Property and Investments</b>	15,779	15,918
<b>Deferred Charges and Other Assets:</b>		
Deferred charges related to income taxes	31,556	24,220
Other regulatory assets, deferred	172,345	170,836
Other deferred charges and assets	24,569	18,550
Total deferred charges and other assets	228,470	213,606
<b>Total Assets</b>	<b>\$ 3,245,010</b>	<b>\$ 2,879,025</b>

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

Table of Contents

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

	At June 30, 2009	At December 31, 2008
	<i>(in thousands)</i>	
<b>Liabilities and Stockholder's Equity</b>		
<b>Current Liabilities:</b>		
Securities due within one year	\$ 140,000	\$
Notes payable	65,986	148,239
Accounts payable		
Affiliated	58,777	50,304
Other	93,742	90,381
Customer deposits	30,571	28,017
Accrued taxes		
Accrued income taxes	23,610	39,983
Other accrued taxes	18,064	11,855
Accrued interest	9,363	8,959
Accrued compensation	6,319	15,667
Other regulatory liabilities, current	17,799	4,602
Liabilities from risk management activities	23,734	26,928
Other current liabilities	21,254	29,047
 Total current liabilities	 509,219	 453,982
 <b>Long-term Debt</b>	 979,177	 849,265
 <b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	275,861	254,354
Accumulated deferred investment tax credits	10,454	11,255