

SOUTHERN POWER CO
Form 10-Q
May 07, 2009

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

FORM 10-Q
o QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2009
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

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

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

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

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 March 31, 2009
The Southern Company	Par Value \$5 Per Share	782,433,682
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.

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Term	Meaning
2007 Retail Rate Plan	Georgia Power's retail rate plan for the years 2008 through 2010
Alabama Power	Alabama Power Company
Bcf	Billion cubic feet
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
Georgia Power	Georgia Power Company
Gulf Power	Gulf Power Company
IGCC	Integrated coal gasification combined cycle
IIC	Intercompany Interchange Contract
IRC	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
SFAS No. 157	FASB Statement No. 157, Fair Value Measurement
Southern Company	The Southern Company
Southern Company system	Southern Company, the traditional operating companies, Southern Power, and other subsidiaries

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DEFINITIONS

(continued)

Term	Meaning
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

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q contains forward-looking statements. Forward-looking statements include, among other things, statements concerning the strategic goals for the wholesale business, retail sales growth, customer growth, storm damage cost recovery and repairs, fuel cost recovery and other rate actions, environmental regulations and expenditures, earnings growth, dividend payout ratios, 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, 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, believes, estimates, projects, predicts, potential, or continue or 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;

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.

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**THE SOUTHERN COMPANY AND
SUBSIDIARY COMPANIES**

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

	For the Three Months Ended March 31,	
	2009	2008
	<i>(in thousands)</i>	
Operating Revenues:		
Retail revenues	\$ 3,064,659	\$ 3,005,614
Wholesale revenues	451,414	513,662
Other electric revenues	122,798	130,190
Other revenues	27,436	33,444
 Total operating revenues	 3,666,307	 3,682,910
Operating Expenses:		
Fuel	1,406,267	1,451,943
Purchased power	107,644	92,904
Other operations and maintenance	871,081	896,817
MC Asset Recovery litigation settlement	202,000	
Depreciation and amortization	389,758	343,885
Taxes other than income taxes	199,880	189,272
 Total operating expenses	 3,176,630	 2,974,821
 Operating Income	 489,677	 708,089
Other Income and (Expense):		
Allowance for equity funds used during construction	42,612	40,585
Interest income	6,908	9,805
Equity in income (losses) of unconsolidated subsidiaries	(976)	328
Leveraged lease income (losses)	9,441	10,925
Interest expense, net of amounts capitalized	(225,727)	(217,109)
Other income (expense), net	(12,850)	914
 Total other income and (expense)	 (180,592)	 (154,552)
 Earnings Before Income Taxes	 309,085	 553,537
Income taxes	167,169	178,138
 Consolidated Net Income	 141,916	 375,399
Dividends on Preferred and Preference Stock of Subsidiaries	16,195	16,195
 Consolidated Net Income After Dividends on Preferred and Preference Stock of Subsidiaries	 \$ 125,721	 \$ 359,204
 Common Stock Data:		
Earnings per share		
Basic	\$ 0.16	\$ 0.47

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Diluted	\$	0.16	\$	0.47
Average number of shares of common stock outstanding (in thousands)				
Basic		779,858		766,150
Diluted		781,645		770,322
Cash dividends paid per share of common stock	\$	0.4200	\$	0.4025

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

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

	For the Three Months Ended March 31,	
	2009	2008
	<i>(in thousands)</i>	
Operating Activities:		
Consolidated net income	\$ 141,916	\$ 375,399
Adjustments to reconcile consolidated net income to net cash provided from operating activities		
Depreciation and amortization	456,833	407,689
Deferred income taxes and investment tax credits	(30,386)	(2,342)
Deferred revenues	(10,732)	33,446
Allowance for equity funds used during construction	(42,612)	(40,585)
Equity in income (losses) of unconsolidated subsidiaries	976	(328)
Leveraged lease income (losses)	(9,441)	(10,925)
Pension, postretirement, and other employee benefits	7,974	30,916
Stock option expense	16,955	13,427
Derivative fair value adjustments	659	14,380
Hedge settlements	(16,167)	27,180
MC Asset Recovery litigation settlement	202,000	
Other, net	6,915	(6,372)
Changes in certain current assets and liabilities		
Receivables	292,162	188,538
Fossil fuel stock	(160,992)	(53,305)
Materials and supplies	(12,648)	(22,762)
Other current assets	(67,717)	(61,320)
Accounts payable	80,995	(114,636)
Accrued taxes	(185,215)	13,865
Accrued compensation	(319,715)	(265,386)
Other current liabilities	49,371	10,212
Net cash provided from operating activities	401,131	537,091
Investing Activities:		
Property additions	(1,136,212)	(1,012,907)
Investment in restricted cash from pollution control revenue bonds	(49,348)	(145)
Distribution of restricted cash from pollution control revenue bonds	23,079	35,716
Nuclear decommissioning trust fund purchases	(379,332)	(160,752)
Nuclear decommissioning trust fund sales	381,280	153,872
Investment in unconsolidated subsidiaries	(1,800)	(2,780)
Cost of removal, net of salvage	(30,231)	(25,581)
Other	70,534	17,336
Net cash used for investing activities	(1,122,030)	(995,241)
Financing Activities:		
Increase (decrease) in notes payable, net	121,274	(100,215)

Proceeds		
Long-term debt	1,255,925	930,000
Common stock	151,379	132,107
Redemptions		
Long-term debt	(193,417)	(4,653)
Preferred and preference stock		(125,000)
Payment of common stock dividends	(326,780)	(307,960)
Payment of dividends on preferred and preference stock of subsidiaries	(16,265)	(17,060)
Other	(15,618)	(770)
Net cash provided from financing activities	976,498	506,449
Net Change in Cash and Cash Equivalents	255,599	48,299
Cash and Cash Equivalents at Beginning of Period	416,581	200,550
Cash and Cash Equivalents at End of Period	\$ 672,180	\$ 248,849

Supplemental Cash Flow Information:

Cash paid during the period for		
Interest (net of \$18,298 and \$21,800 capitalized for 2009 and 2008, respectively)	\$ 178,560	\$ 197,570
Income taxes (net of refunds)	\$ 172,517	\$ 3,719

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

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

	At March 31, 2009	At December 31, 2008
	<i>(in thousands)</i>	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 672,180	\$ 416,581
Restricted cash and cash equivalents	131,609	102,537
Receivables		
Customer accounts receivable	996,427	1,053,674
Unbilled revenues	287,126	320,439
Under recovered regulatory clause revenues	677,665	646,318
Other accounts and notes receivable	353,119	301,028
Accumulated provision for uncollectible accounts	(26,308)	(26,326)
Fossil fuel stock, at average cost	1,175,688	1,018,314
Materials and supplies, at average cost	768,777	756,746
Vacation pay	134,581	140,283
Prepaid expenses	337,898	301,570
Other regulatory assets	378,662	275,424
Other	61,324	51,044
Total current assets	5,948,748	5,357,632
Property, Plant, and Equipment:		
In service	51,127,521	50,618,219
Less accumulated depreciation	18,517,683	18,285,800
	32,609,838	32,332,419
Nuclear fuel, at amortized cost	547,981	510,274
Construction work in progress	3,609,909	3,035,795
Total property, plant, and equipment	36,767,728	35,878,488
Other Property and Investments:		
Nuclear decommissioning trusts, at fair value	809,181	864,396
Leveraged leases	906,805	897,338
Other	223,069	226,757
Total other property and investments	1,939,055	1,988,491
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	989,180	972,781
Unamortized debt issuance expense	215,783	207,763
Unamortized loss on reacquired debt	265,711	270,919
Deferred under recovered regulatory clause revenues	366,045	606,483
Other regulatory assets	2,670,820	2,636,217
Other	394,044	428,432

Total deferred charges and other assets	4,901,583	5,122,595
Total Assets	\$ 49,557,114	\$ 48,347,206

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

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

Liabilities and Stockholders Equity	At March 31, 2009	At December 31, 2008
	<i>(in thousands)</i>	
Current Liabilities:		
Securities due within one year	\$ 686,441	\$ 616,415
Notes payable	1,074,711	953,437
Accounts payable	1,639,403	1,249,694
Customer deposits	312,993	302,495
Accrued taxes		
Income taxes	221,875	195,922
Unrecognized tax benefits	143,858	131,641
Other	183,549	396,206
Accrued interest	225,139	195,500
Accrued vacation pay	169,121	178,519
Accrued compensation	131,092	446,718
Liabilities from risk management activities	354,349	260,977
Other	315,766	298,711
Total current liabilities	5,458,297	5,226,235
Long-term Debt	17,805,963	16,816,438
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	6,064,938	6,080,104
Deferred credits related to income taxes	254,883	259,156
Accumulated deferred investment tax credits	449,263	455,398
Employee benefit obligations	2,056,981	2,057,424
Asset retirement obligations	1,199,752	1,182,769
Other cost of removal obligations	1,333,078	1,320,558
Other regulatory liabilities	251,438	261,970
Other	347,950	329,534
Total deferred credits and other liabilities	11,958,283	11,946,913
Total Liabilities	35,222,543	33,989,586
Redeemable Preferred Stock of Subsidiaries	374,496	374,496
Stockholders Equity:		
Common Stockholders Equity:		
Common stock, par value \$5 per share		
Authorized 1 billion shares		
Issued March 31, 2009: 782,865,285 Shares;		
December 31, 2008: 777,615,751 Shares		
Treasury March 31, 2009: 431,603 Shares;		

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December 31, 2008: 423,477 Shares		
Par value	3,914,294	3,888,041
Paid-in capital	2,036,731	1,892,802
Treasury, at cost	(12,949)	(12,279)
Retained earnings	7,411,087	7,611,977
Accumulated other comprehensive loss	(96,455)	(104,784)
Total Common Stockholders Equity	13,252,708	13,275,757
Preferred and Preference Stock of Subsidiaries	707,367	707,367
Total Stockholders Equity	13,960,075	13,983,124
Total Liabilities and Stockholders Equity	\$ 49,557,114	\$ 48,347,206

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

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

	For the Three Months Ended March 31,	
	2009	2008
	<i>(in thousands)</i>	
Consolidated Net Income	\$ 141,916	\$ 375,399
Other comprehensive income (loss):		
Qualifying hedges:		
Changes in fair value, net of tax of \$762 and \$(13,988), respectively	1,147	(22,251)
Reclassification adjustment for amounts included in net income, net of tax of \$3,833 and \$1,778, respectively	6,098	2,775
Marketable securities:		
Change in fair value, net of tax of \$91 and \$(2,137), respectively	734	(3,101)
Pension and other post retirement benefit plans:		
Reclassification adjustment for amounts included in net income, net of tax of \$222 and \$259, respectively	350	411
Total other comprehensive income (loss)	8,329	(22,166)
Dividends on preferred and preference stock of subsidiaries	(16,195)	(16,195)
Comprehensive Income	\$ 134,050	\$ 337,038

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

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

First Quarter 2009 vs. First Quarter 2008

<i>(change in millions)</i>	<i>(% change)</i>
\$(233.5)	(65.0)

Southern Company's first quarter 2009 net income after dividends on preferred and preference stock of subsidiaries was \$125.7 million (\$0.16 per share) compared to \$359.2 million (\$0.47 per share) for the first quarter 2008. The decrease for the first quarter 2009 when compared to the same period in 2008 was primarily the result of a litigation settlement agreement with MC Asset Recovery, LLC (MC Asset Recovery); a decrease in contributions from market-response rates to large commercial and industrial customers; and higher depreciation and amortization. The decrease for the first quarter 2009 was partially offset by an increase in customer charges at Alabama Power, increased environmental compliance cost recovery revenues at Georgia Power, and lower other operations and maintenance expenses.

Retail Revenues

First Quarter 2009 vs. First Quarter 2008

<i>(change in millions)</i>	<i>(% change)</i>
\$59.0	2.0

In the first quarter 2009, retail revenues were \$3.06 billion compared to \$3.01 billion for the same period in 2008. Details of the change to retail revenues follow:

	First Quarter 2009	
	<i>(in</i>	<i>(%</i>
	<i>millions)</i>	<i>change)</i>
Retail—prior year	\$3,005.6	
Estimated change in		

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Rates and pricing	78.4	2.6
Sales growth (decline)	(56.8)	(1.9)
Weather	(4.0)	(0.1)
Fuel and other cost recovery	41.5	1.4
Retail current year	\$3,064.7	2.0%

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

Revenues associated with changes in rates and pricing increased in the first quarter 2009 when compared to the same period in 2008 primarily as a result of an increase in customer charges at Alabama Power and increased environmental compliance cost recovery revenues at Georgia Power in accordance with its 2007 Retail Rate Plan, partially offset by a decrease in contributions from market-response rates to large commercial and industrial customers.

Revenues attributable to changes in sales growth declined in the first quarter 2009 when compared to the same period in 2008 due to a 6.3% decrease in weather-adjusted retail KWH sales mainly due to recessionary economic conditions. For the first quarter 2009, weather-adjusted residential KWH sales decreased 0.4%, weather-adjusted commercial KWH sales decreased 1.3%, and weather-adjusted industrial KWH sales decreased 16.9%. Reduced demand in the primary and fabricated metal sectors, as well as in the chemicals, textiles, and transportation sectors, contributed to the decrease in weather-adjusted industrial KWH sales in the first quarter 2009 when compared to the same period in 2008.

Revenues resulting from changes in weather were not material in the first quarter 2009 when compared to the same period in 2008 due to near normal weather in both periods.

Fuel and other cost recovery revenues increased \$41.5 million in the first quarter 2009 when compared to the same period 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.

Wholesale Revenues

First Quarter 2009 vs. First Quarter 2008

<i>(change in millions)</i>	<i>(% change)</i>
\$(62.3)	(12.1)

In the first quarter 2009, wholesale revenues were \$451.4 million compared to \$513.7 million for the same period in 2008. Wholesale fuel revenues, which are generally offset by wholesale fuel expenses and do not affect net income, decreased \$81.7 million in the first quarter 2009 when compared to the same period in 2008. Excluding wholesale fuel revenues, wholesale revenues increased \$19.4 million in the first quarter 2009 when compared to the same period in 2008. The increase for the first quarter 2009 was primarily the result of additional revenues associated with Plant Franklin Unit 3 at Southern Power, renegotiated wholesale contracts, and changes in mark-to-market positions on sales of uncontracted generating capacity. Decreases in energy revenues and fewer short-term opportunity sales due to lower energy prices partially offset the first quarter 2009 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

First Quarter 2009 vs. First Quarter 2008

<i>(change in millions)</i>	<i>(% change)</i>
\$(7.4)	(5.7)

In the first quarter 2009, other electric revenues were \$122.8 million compared to \$130.2 million for the same period in 2008. The decrease for the first quarter 2009 when compared to the same period in 2008 was primarily the result of a \$9.5 million decrease in co-generation revenues due to lower natural gas prices and a \$6.5 million decrease in transmission revenues. The decrease for the first quarter 2009 was partially offset by an increase in revenues from other energy services of \$3.3 million, an increase in customer fees of \$2.5 million,

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and an increase in outdoor lighting revenues of \$1.3 million. Revenues from co-generation and other energy services are generally offset by related expenses and do not affect net income.

Other Revenues

First Quarter 2009 vs. First Quarter 2008

<i>(change in millions)</i>	<i>(% change)</i>
\$(6.0)	(18.0)

In the first quarter 2009, other revenues were \$27.4 million compared to \$33.4 million for the same period in 2008. The decrease for the first quarter 2009 when compared to the same period in 2008 was primarily the result of a \$5.7 million decrease in revenues at SouthernLINC Wireless related to lower average revenue per subscriber and fewer subscribers due to increased competition in the industry.

Fuel and Purchased Power Expenses

	First Quarter 2009 vs. First Quarter 2008
	<i>(change in millions)</i> <i>(% change)</i>
Fuel	\$ (45.7) (3.1)
Purchased power	14.7 15.9
Total fuel and purchased power expenses	\$ (31.0)

Fuel and purchased power expenses for the first quarter 2009 were \$1.51 billion compared to \$1.54 billion for the same period in 2008. The decrease for the first quarter 2009 when compared to the same period in 2008 was primarily the result of a \$139.0 million net decrease related to total KWHs generated and purchased, partially offset by a \$108.0 million net increase in the average cost of fuel and purchased power, primarily related to a 27.9% increase in the cost of coal per net KWH generated.

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.

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

	First Quarter 2009	First Quarter 2008	Percent Change
Average Cost	<i>(cents per net KWH)</i>		
Fuel	3.40	3.07	10.8
Purchased power	5.09	6.35	(19.8)

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

First Quarter 2009 vs. First Quarter 2008

(change in millions)

\$(25.7)

(% change)

(2.9)

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In the first quarter 2009, other operations and maintenance expenses were \$871.1 million compared to \$896.8 million for the same period in 2008. The decrease for the first quarter 2009 when compared to the same period in 2008 was primarily the result of a \$25.3 million decrease in fossil and hydro expenses mainly due to fewer scheduled and unplanned outages; a \$13.3 million decrease in transmission and distribution expenses mainly due to lower maintenance expenses; a \$7.1 million decrease in expenses primarily related to lower advertising, litigation, and property insurance costs; and a \$4.5 million decrease in expenses primarily related to lower sales volume at SouthernLINC Wireless. The decrease for the first quarter 2009 was partially offset by a \$27.1 million increase in administration and general expenses largely related to the voluntary attrition program at Georgia Power under which 579 employees elected to resign their positions effective March 31, 2009. The related charge will be largely offset by lower salary costs for the remainder of the year and 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

First Quarter 2009 vs. First Quarter 2008

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

N/M Not Meaningful

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

Depreciation and Amortization

First Quarter 2009 vs. First Quarter 2008

<i>(change in millions)</i>	<i>(% change)</i>
\$45.9	13.3

In the first quarter 2009, depreciation and amortization was \$389.8 million compared to \$343.9 million for the same period in 2008. The increase for the first quarter 2009 when compared to the same period in 2008 was primarily the result of an increase in plant in service related to environmental and transmission projects at Alabama Power and environmental, transmission, and distribution projects at Georgia Power. An increase in depreciation rates at Southern Power also contributed to the first quarter 2009 increase, as well as the completion of Southern Power's Plant Franklin Unit 3 in June 2008.

Taxes Other Than Income Taxes

First Quarter 2009 vs. First Quarter 2008

<i>(change in millions)</i>	<i>(% change)</i>
\$10.6	5.6

In the first quarter 2009, taxes other than income taxes were \$199.9 million compared to \$189.3 million for the same period in 2008. The increase for the first quarter 2009 when compared to the same period in 2008 was primarily the result of increases in franchise fees and municipal gross receipt taxes associated with increases in revenues from retail energy sales. Higher ad valorem taxes at Georgia Power also contributed to the first quarter 2009 increase.

Other Income (Expense), Net

First Quarter 2009 vs. First Quarter 2008

(change in millions)
\$(13.8)

(% change)
N/M

N/M Not Meaningful

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In the first quarter 2009, other income (expense), net was \$(12.9) million compared to \$0.9 million for the same period in 2008. The decrease for the first quarter 2009 when compared to the same period in 2008 was primarily the result of the 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

First Quarter 2009 vs. First Quarter 2008

<i>(change in millions)</i>	<i>(% change)</i>
\$(10.9)	(6.2)

In the first quarter 2009, income taxes were \$167.2 million compared to \$178.1 million for the same period in 2008. The decrease for the first quarter 2009 when compared to the same period in 2008 was primarily the result of lower pre-tax earnings, partially offset by a decrease in the IRC Section 199 production activities deduction. See Note (H) to the Condensed Financial Statements under **Effective Tax Rate** herein for details regarding the impact of the MC Asset Recovery litigation settlement 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 all prudently incurred costs during a time of increasing costs. Other major factors include profitability of the competitive wholesale supply business and federal regulatory policy, which may impact Southern Company's level of participation in this market. Future earnings for the electricity business in the near term will depend, in part, upon maintaining energy sales which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities and other wholesale customers, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in the service area. In addition, the level of future earnings for the wholesale supply business also depends on numerous factors including creditworthiness of customers, total generating capacity available in the Southeast, and the successful remarketing of capacity as current contracts expire. Recent recessionary conditions have negatively impacted sales growth 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.

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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. The ultimate outcome of these matters cannot be determined at this time; however, mandatory restrictions on 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. Implementation of the energy auction in accordance with the MBR tariff order is expected to adequately mitigate going forward any presumption of market power that Southern Company may have in the Southern

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Company retail service territory. 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 \$1.0 billion at March 31, 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. New fuel rates are expected to become effective January 1, 2010. The ultimate outcome of this matter cannot now be determined.

Income Tax Matters

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 is currently assessing 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 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.

On April 6, 2009, Mississippi Power received an accounting order from the Mississippi PSC directing Mississippi Power to continue to charge all Kemper IGCC generation resources planning, evaluation, and

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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 selected generation resource until the Mississippi PSC makes findings and determination as to the recovery of Mississippi Power's prudent expenditures.

As of March 31, 2009, Mississippi Power had spent a total of \$50.7 million associated with Mississippi Power's generation resource planning, evaluation, and screening activities, including regulatory filings costs. Costs incurred during the first quarter 2009 totaled \$8.4 million as compared to \$7.2 million during the first quarter 2008. Of the total \$50.7 million, \$46.2 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 have been filed by intervenors in this proceeding, most of which are procedural in nature and seek to stay or delay the timely and orderly administration of the docket. In addition to these procedural motions, a motion has been filed by the Attorney General for the State of Mississippi which questions whether the Mississippi PSC has authority to approve the gasification portion of the Kemper IGCC. All of these motions were heard by the Mississippi PSC on May 5, 2009.

The ultimate outcome of these matters cannot now be determined.

Nuclear

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Construction Projects - Nuclear of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under Nuclear in Item 8 of the Form 10-K 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.

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.

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.

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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.

FINANCIAL CONDITION AND LIQUIDITY

Overview

Southern Company's financial condition remained stable at March 31, 2009. Throughout the recent turmoil in the financial markets, Southern Company has maintained adequate access to capital without drawing on any of its committed bank credit arrangements used to support its commercial paper programs and variable rate pollution control revenue bonds. Southern Company and the other registrants have continued to issue commercial paper at reasonable rates. 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. Of the \$215 million of facilities expiring in the first quarter 2009, \$160 million of them were replaced or renewed. In addition, Gulf Power entered into a \$20 million facility and Mississippi Power increased an existing facility by \$10 million. Subsequent to March 31, 2009, Georgia Power, Gulf Power, and Mississippi Power entered into new credit arrangements resulting in a net increase of \$425 million, \$75 million, and \$40 million, respectively. These additional facilities all expire in 2010. Total committed credit fees at Southern Company and its subsidiaries average less than 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 the 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 have continued to decline in value during the first quarter 2009. Southern Company expects that the earliest that cash may have to be contributed to the pension trust fund is 2011 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.

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Net cash provided from operating activities totaled \$401 million for the first quarter 2009, a decrease of \$136 million from the same period in 2008. Significant changes in operating cash flow for the first quarter 2009 as compared to the prior period include increases in the use of funds for federal tax and property tax payments of \$199 million and fuel purchases of \$108 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 \$1.12 billion for the first quarter 2009, an increase of \$127 million over the prior period, primarily due to property additions to utility plant. For the first quarter 2009, net cash provided from financing activities totaled \$976 million compared to \$506 million for the first quarter 2008. The \$470 million increase is primarily due to higher levels of short-term borrowings and the issuance of new long-term debt.

Significant balance sheet changes for the first quarter 2009 include an increase of \$256 million in cash and cash equivalents primarily due to an increase in temporary cash investments and an increase of \$889 million in total property, plant, and equipment for the installation of equipment to comply with environmental standards, 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 \$990 million used primarily for construction expenditures and general corporate purposes.

The market price of Southern Company's common stock at March 31, 2009 was \$30.62 per share (based on the closing price as reported on the New York Stock Exchange) and the book value was \$16.94 per share, representing a market-to-book ratio of 181%, compared to \$37.00, \$17.08, and 217%, respectively, at the end of 2008. The dividend for the first quarter 2009 was \$0.42 per share compared to \$0.4025 per share in the first quarter 2008. In April 2009, the quarterly dividend payable in June 2009 was increased to \$0.4375 per share.

Capital Requirements and Contractual Obligations

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Southern Company in Item 7 of the Form 10-K for a description of Southern Company's capital requirements for its construction program and other funding requirements associated with scheduled maturities of long-term debt, as well as the related interest, preferred and preference stock dividends, leases, trust funding requirements, other purchase commitments, unrecognized tax benefits and interest, and derivative obligations. Approximately \$686 million will be required through March 31, 2010 for maturities of long-term debt. The construction programs are subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in environmental statutes and regulations; changes in nuclear plants to meet new regulatory requirements; changes in FERC rules and regulations; PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; 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.

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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 March 31, 2009, Southern Company and its subsidiaries had approximately \$672 million of cash and cash equivalents and approximately \$4.2 billion of unused credit arrangements with banks, of which \$775 million expire in 2009, \$160 million expire in 2010, \$25 million expire in 2011, and \$3.2 billion expire in 2012. Approximately \$94 million of the credit facilities expiring in 2009 and 2010 allow for the execution of term loans for an additional two-year period, and \$504 million contain provisions allowing one-year term loans. At March 31, 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. See Note 6 to the financial statements of Southern Company under Bank Credit Arrangements in Item 8 of the Form 10-K and Note (F) to the Condensed Financial Statements under Bank Credit Arrangements herein for additional information. The traditional operating companies may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of each of the traditional operating companies. At March 31, 2009, the Southern Company system had outstanding commercial paper of \$915.6 million and short-term bank notes of \$150 million. Management believes that the need for working capital can be adequately met by utilizing commercial paper programs, lines of credit, and cash.

Off-Balance Sheet Financing Arrangements

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY

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

Credit Rating Risk

Southern Company does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change of certain subsidiaries to BBB and Baa2, or BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, energy price risk management, and construction of new generation. At March 31, 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 \$403 million. At March 31, 2009, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately \$1.9 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.

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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, the registrants 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.

The changes in fair value of energy-related derivative contracts for the three months ended March 31, 2009 were as follows:

	First Quarter 2009 Changes Fair Value (in millions)
Contracts outstanding at the beginning of the period, assets (liabilities), net	\$ (285)
Contracts realized or settled	60
Current period changes ^(a)	(198)
Contracts outstanding at the end of the period, assets (liabilities), net	\$ (423)

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

The decrease in the fair value positions of the energy-related derivative contracts for the three months ended March 31, 2009 was \$138 million, substantially all of which is due to natural gas positions. This change is attributable to both the volume and prices of natural gas. At March 31, 2009, Southern Company had a net hedge volume of 172.6 Bcf (includes location basis of 2 Bcf) with a weighted average contract cost approximately \$2.53 per mmBtu above market prices, compared to 148.8 Bcf at December 31, 2008 with a weighted average contract cost approximately \$1.97 per mmBtu above market prices. The majority of the natural gas hedges are recovered through the traditional operating companies' fuel cost recovery clauses.

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THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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At March 31, 2009, the fair value of energy-related derivative contracts by hedge designation was reflected in the financial statements as follows:

	March 31, 2009
	<i>(in millions)</i>
Regulatory hedges	\$ (427)
Cash flow hedges	1
Not designated	3
 Total fair value	 \$ (423)

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

Total net unrealized pre-tax losses recognized in the statements of income for the three months ended March 31, 2009 for energy-related derivative contracts that are not hedges were \$1 million. For the three months ended March 31, 2008, the total net unrealized losses recognized in the statements of income were \$14 million. See Note (F) to the Condensed Financial Statements herein for further details of these losses.

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

	March 31, 2009			
	Fair Value Measurements			
	Total	Maturity		
	Fair Value	Year 1	Years 2&3	Years 4&5
		<i>(in millions)</i>		
Level 1	\$	\$	\$	\$
Level 2	(423)	(319)	(99)	(5)
Level 3				
 Fair value of contracts outstanding at end of period	 \$(423)	 \$(319)	 \$(99)	 \$(5)

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 (F) to the Condensed Financial Statements herein.

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

Financing Activities

In the first three months of 2009, Southern Company's subsidiaries issued \$1.1 billion of senior notes, and Southern Company issued \$151 million of common stock through the Southern Investment Plan and employee and director stock plans. The proceeds were primarily used to fund ongoing construction projects and to repay short-term and long-term indebtedness. Alabama Power issued \$500 million of Series 2009A 6.00% Senior Notes due March 1, 2039. Alabama Power used the proceeds to repay short-term indebtedness and for other general corporate purposes, including Alabama Power's continuous construction program. Georgia Power issued \$500 million of Series 2009A 5.95% Senior Notes due February 1, 2039. Georgia Power used the proceeds to repay \$150 million aggregate principal amount of its Series U Floating Rate Senior Notes at maturity, 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. Mississippi Power issued \$125 million of Series 2009A 5.55% Senior Notes due March 1, 2019. Mississippi Power used the proceeds to repay at maturity Mississippi Power's \$40 million aggregate principal amount of Series F Floating Rate Senior Notes due March 9, 2009, to repay a portion of short-term indebtedness, and for general corporate purposes, including Mississippi Power's continuous construction program. Gulf Power also incurred obligations related to the issuance of pollution control revenue bonds totaling approximately \$130 million. Gulf Power is using the proceeds for acquisition, construction, installation, and equipping of certain solid waste disposal facilities located at Plant Crist. See Southern Company's Condensed Consolidated Statements of Cash Flows herein for further details regarding financing activities during the first three months of 2009.

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

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PART I

Item 3. Quantitative And Qualitative Disclosures About Market Risk.

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Market Price Risk herein for each registrant and 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 (F) to the Condensed Financial Statements herein for information relating to derivative instruments.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

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

(b) Changes in internal controls.

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

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ALABAMA POWER COMPANY

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ALABAMA POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended March 31,	
	2009	2008
	<i>(in thousands)</i>	
Operating Revenues:		
Retail revenues	\$ 1,058,137	\$ 1,034,254
Wholesale revenues		
Non-affiliates	158,695	170,040
Affiliates	84,352	83,692
Other revenues	38,582	48,693
Total operating revenues	1,339,766	1,336,679
Operating Expenses:		
Fuel	483,233	453,149
Purchased power		
Non-affiliates	15,544	11,219
Affiliates	41,560	88,707
Other operations and maintenance	276,859	309,550
Depreciation and amortization	143,416	124,637
Taxes other than income taxes	80,281	75,771
Total operating expenses	1,040,893	1,063,033
Operating Income	298,873	273,646
Other Income and (Expense):		
Allowance for equity funds used during construction	16,725	11,304
Interest income	4,122	4,642
Interest expense, net of amounts capitalized	(72,207)	(68,976)
Other income (expense), net	(6,372)	(7,222)
Total other income and (expense)	(57,732)	(60,252)
Earnings Before Income Taxes	241,141	213,394
Income taxes	85,009	73,428
Net Income	156,132	139,966
Dividends on Preferred and Preference Stock	9,866	9,866
Net Income After Dividends on Preferred and Preference Stock	\$ 146,266	\$ 130,100

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

For the Three Months
 Ended March 31,
 2009 2008

	<i>(in thousands)</i>	
Net Income After Dividends on Preferred and Preference Stock	\$ 146,266	\$ 130,100
Other comprehensive income (loss):		
Qualifying hedges:		
Changes in fair value, net of tax of \$(886) and \$(2,211), respectively	(1,457)	(3,637)
Reclassification adjustment for amounts included in net income, net of tax of \$1,061 and \$185, respectively	1,745	305
Total other comprehensive income (loss)	288	(3,332)
COMPREHENSIVE INCOME	\$ 146,554	\$ 126,768

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

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ALABAMA POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Three Months Ended March 31,	
	2009	2008
	<i>(in thousands)</i>	
Operating Activities:		
Net income	\$ 156,132	\$ 139,966
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization	164,488	146,208
Deferred income taxes and investment tax credits, net	(25,795)	4,513
Allowance for equity funds used during construction	(16,725)	(11,304)
Pension, postretirement, and other employee benefits	(4,933)	(3,995)
Stock option expense	2,851	2,178
Tax benefit of stock options	24	347
Other, net	8,834	9,223
Changes in certain current assets and liabilities		
Receivables	173,032	62,227
Fossil fuel stock	(11,654)	(34,750)
Materials and supplies	(6,775)	(7,751)
Other current assets	(73,518)	(63,757)
Accounts payable	(136,678)	(124,727)
Accrued taxes	123,746	79,338
Accrued compensation	(64,030)	(64,851)
Other current liabilities	7,928	9,357
Net cash provided from operating activities	296,927	142,222
Investing Activities:		
Property additions	(337,984)	(349,683)
Investment in restricted cash from pollution control revenue bonds	(160)	(145)
Distribution of restricted cash from pollution control revenue bonds	13,774	19,622
Nuclear decommissioning trust fund purchases	(60,600)	(46,941)
Nuclear decommissioning trust fund sales	60,600	46,941
Cost of removal, net of salvage	(5,109)	(8,863)
Other	3,025	13,453
Net cash used for investing activities	(326,454)	(325,616)
Financing Activities:		
Decrease in notes payable, net	(24,995)	
Proceeds		
Common stock issued to parent		150,000
Capital contributions	6,682	6,016
Gross excess tax benefit of stock options	47	607
Senior notes	500,000	300,000
Redemptions		
Preferred stock		(125,000)

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Payment of preferred and preference stock dividends	(9,868)	(11,275)
Payment of common stock dividends	(130,700)	(122,825)
Other	(5,869)	(1,684)
Net cash provided from financing activities	335,297	195,839
Net Change in Cash and Cash Equivalents	305,770	12,445
Cash and Cash Equivalents at Beginning of Period	28,181	73,616
Cash and Cash Equivalents at End of Period	\$ 333,951	\$ 86,061

Supplemental Cash Flow Information:

Cash paid during the period for		
Interest (net of \$6,992 and \$5,130 capitalized for 2009 and 2008, respectively)	\$ 54,875	\$ 63,324
Income taxes (net of refunds)	\$ (640)	\$ 1,550

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

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ALABAMA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

	At March 31, 2009	At December 31, 2008
	<i>(in thousands)</i>	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 333,951	\$ 28,181
Restricted cash and cash equivalents	66,466	80,079
Receivables		
Customer accounts receivable	343,870	350,410
Unbilled revenues	89,450	98,921
Under recovered regulatory clause revenues	204,804	153,899
Other accounts and notes receivable	29,649	44,645
Affiliated companies	60,765	70,612
Accumulated provision for uncollectible accounts	(9,161)	(8,882)
Fossil fuel stock, at average cost	330,134	322,089
Materials and supplies, at average cost	312,416	305,880
Vacation pay	52,701	52,577
Prepaid expenses	130,271	88,219
Other regulatory assets	105,654	74,825
Other	12,772	12,915
Total current assets	2,063,742	1,674,370
Property, Plant, and Equipment:		
In service	17,789,435	17,635,129
Less accumulated provision for depreciation	6,346,622	6,259,720
	11,442,813	11,375,409
Nuclear fuel, at amortized cost	255,818	231,862
Construction work in progress	1,243,412	1,092,516
Total property, plant, and equipment	12,942,043	12,699,787
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	51,745	50,912
Nuclear decommissioning trusts, at fair value	376,606	403,966
Other	63,496	62,782
Total other property and investments	491,847	517,660
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	369,991	362,596
Prepaid pension costs	176,613	166,334
Deferred under recovered regulatory clause revenues		180,874
Other regulatory assets	761,831	732,367
Other	206,178	202,018

Total deferred charges and other assets	1,514,613	1,644,189
Total Assets	\$ 17,012,245	\$ 16,536,006

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

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ALABAMA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder's Equity	At March 31, 2009	At December 31, 2008
	<i>(in thousands)</i>	
Current Liabilities:		
Securities due within one year	\$ 250,040	\$ 250,079
Notes payable		24,995
Accounts payable		
Affiliated	140,190	178,708
Other	272,427	358,176
Customer deposits	81,730	77,205
Accrued taxes		
Income taxes	143,306	18,299
Other	49,447	30,372
Accrued interest	67,393	56,375
Accrued vacation pay	44,217	44,217
Accrued compensation	26,973	91,856
Liabilities from risk management activities	116,330	83,873
Other	43,075	53,777
Total current liabilities	1,235,128	1,267,932
Long-term Debt	6,103,870	5,604,791
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	2,192,025	2,243,117
Deferred credits related to income taxes	90,806	90,083
Accumulated deferred investment tax credits	170,653	172,638
Employee benefit obligations	399,844	396,923
Asset retirement obligations	468,632	461,284
Other cost of removal obligations	655,389	634,792
Other regulatory liabilities	79,371	79,151
Other	51,638	45,858
Total deferred credits and other liabilities	4,108,358	4,123,846
Total Liabilities	11,447,356	10,996,569
Preferred and Preference Stock	685,127	685,127
Common Stockholder's Equity:		
Common stock, par value \$40 per share		
Authorized - 40,000,000 shares		
Outstanding - 25,475,000 shares	1,019,000	1,019,000
Paid-in capital	2,101,062	2,091,462
Retained earnings	1,769,361	1,753,797

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Accumulated other comprehensive loss	(9,661)	(9,949)
Total common stockholder's equity	4,879,762	4,854,310
Total Liabilities and Stockholder's Equity	\$ 17,012,245	\$ 16,536,006

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

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

	First Quarter 2009 vs. First Quarter 2008
<i>(change in millions)</i>	<i>(% change)</i>
\$16.2	12.4

Alabama Power's financial performance remained stable in the first quarter 2009 despite the continued challenges of a recessionary economy. Alabama Power's net income after dividends on preferred and preference stock for the first quarter 2009 was \$146.3 million compared to \$130.1 million for the same period in 2008. The increase was primarily due to the corrective rate package providing for adjustments associated with customer charges to certain existing rate structures effective in January 2009, and a decrease in other operations and maintenance expenses related to steam power associated with fewer scheduled outages. The increase was partially offset by a decline in sales growth and increases in income taxes and depreciation and amortization resulting from additional plant in service.

Retail Revenues

	First Quarter 2009 vs. First Quarter 2008
<i>(change in millions)</i>	<i>(% change)</i>
\$23.9	2.3

In the first quarter 2009, retail revenues were \$1.06 billion compared to \$1.03 billion for the same period in 2008.

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ALABAMA POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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Details of the change to retail revenues are as follows:

	First Quarter 2009	
	<i>(in millions)</i>	<i>(% change)</i>
Retail prior year	\$1,034.3	
Estimated change in		
Rates and pricing	49.6	4.8
Sales growth (decline)	(32.4)	(3.1)
Weather	(0.7)	(0.1)
Fuel and other cost recovery	7.3	0.7
Retail current year	\$1,058.1	2.3%

Revenues associated with changes in rates and pricing increased in the first quarter 2009 when compared to the same period 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 growth declined due to a recessionary economy in the first quarter 2009 when compared to the same period in 2008. Weather-adjusted residential KWH energy sales decreased 2.6% driven by a decline in customer demand related to customer energy efficiency efforts in addition to a recessionary economy. Industrial KWH energy sales decreased 21.6% due to a broad decline in demand across all industrial segments. Weather-adjusted commercial KWH energy sales decreased 2.5% due to a decline in customer demand. Revenues resulting from changes in weather were relatively flat in the first quarter 2009 when compared to the same period in 2008.

Fuel and other cost recovery revenues increased in the first quarter 2009 when compared to the same period in 2008 due to increases 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

First Quarter 2009 vs. First Quarter 2008	
<i>(change in millions)</i>	<i>(% change)</i>
\$(11.3)	(6.7)

Wholesale revenues from non-affiliates will vary depending on the market cost of available energy compared to the cost of Alabama Power and Southern Company system-owned generation, demand for energy within the Southern Company service territory, and availability of Southern Company system generation. In the first quarter 2009, wholesale revenues from non-affiliates were \$158.7 million compared to \$170.0 million for the same period in 2008. This decrease was primarily due to a 7.8% reduction in price.

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

Other Revenues

First Quarter 2009 vs. First Quarter 2008	
<i>(change in millions)</i>	<i>(% change)</i>
\$(10.1)	(20.8)

In the first quarter 2009, other revenues were \$38.6 million compared to \$48.7 million for the same period in 2008. This decrease was primarily due to a decrease of \$9.5 million in revenues from gas-fueled co-generation steam facilities resulting from lower gas prices.

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

Fuel and Purchased Power Expenses

	First Quarter 2009 vs. First Quarter 2008	
	<i>(change in millions)</i>	<i>(% change)</i>
Fuel	\$ 30.1	6.6
Purchased power – non-affiliates	4.3	38.6
Purchased power – affiliates	(47.1)	(53.1)
Total fuel and purchased power expenses	\$(12.7)	

In the first quarter 2009, total fuel and purchased power expenses were \$540.4 million compared to \$553.1 million for the same period in 2008. This decrease was primarily due to a \$68.8 million decrease in total KWHs generated and purchased, partially offset by a \$56.1 million increase in the cost of energy 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.

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

	First Quarter 2009	First Quarter 2008	Percent Change
	<i>(cents per net KWH)</i>		
Average Cost	2.92	2.60	12.3
Fuel	6.14	5.67	8.3
Purchased power			

In the first quarter 2009, fuel expense was \$483.3 million compared to \$453.2 million for the same period in 2008. The increase was due to a 12.3% increase in the average cost of fuel per KWH generated, primarily due to the price of fuels. The average cost of coal per KWH generated increased 33.3% primarily as a result of increases in commodity and transportation costs. The average cost of natural gas per KWH generated decreased 25.1% primarily as a result of decreases in commodity prices.

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

Non-Affiliates

In the first quarter 2009, purchased power expense from non-affiliates was \$15.5 million compared to \$11.2 million for the same period in 2008. This increase was primarily related to a 37.8% volume increase in KWHs purchased from available 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 first quarter 2009, purchased power expense from affiliates was \$41.6 million compared to \$88.7 million for the same period in 2008. This decrease was primarily related to a 57.5% decrease in the amount of energy purchased because of the availability of lower-priced market energy alternatives, partially offset by a 10.4% increase in price.

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

Other Operations and Maintenance Expenses

First Quarter 2009 vs. First Quarter 2008	
<i>(change in millions)</i>	<i>(% change)</i>
\$(32.7)	(10.6)

In the first quarter 2009, other operations and maintenance expenses were \$276.8 million compared to \$309.5 million for the same period in 2008. This decrease was primarily a result of a \$35.9 million decrease in steam power expense associated with fewer scheduled outages, primarily offset by a \$5.0 million increase in nuclear production expense related to operations and scheduled outage cost.

Depreciation and Amortization

First Quarter 2009 vs. First Quarter 2008	
<i>(change in millions)</i>	<i>(% change)</i>
\$18.8	15.1

For the first quarter 2009, depreciation and amortization was \$143.4 million compared to \$124.6 million for the same period in 2008. This increase was the result of an increase in plant in service due to additions to property, plant, and equipment primarily related to steam power, environmental mandates, and transmission 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.

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

Allowance for Equity Funds Used During Construction

<i>(change in millions)</i>	First Quarter 2009 vs. First Quarter 2008	<i>(% change)</i>
\$5.4		48.0

For the first quarter 2009, allowance for equity funds used during construction (AFUDC) was \$16.7 million compared to \$11.3 million for the same period in 2008. This increase was primarily due to increases in the amount of construction work in progress at generating facilities related to environmental mandates.

Income Taxes

<i>(change in millions)</i>	First Quarter 2009 vs. First Quarter 2008	<i>(% change)</i>
\$11.6		15.8

For the first quarter 2009, income taxes were \$85.0 million compared to \$73.4 million for the same period in 2008. This increase was 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 and a decrease in expense related to tax contingencies.

FUTURE EARNINGS POTENTIAL

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

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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 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. 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

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the energy auction in 30 days. Southern Company commenced the energy auction on April 23, 2009. Implementation of the energy auction in accordance with the MBR tariff order is expected to adequately mitigate going forward any presumption of market power that Southern Company may have in the Southern Company retail service territory. 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 March 31, 2009 totaled \$189.0 million as compared to \$305.8 million at December 31, 2008. These under recovered fuel costs at March 31, 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.

Rate ECR revenues, as recorded on the financial statements, are adjusted for differences in actual recoverable costs and amounts billed in current regulated rates.

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 March 31, 2009, Alabama Power had accumulated a balance of \$37.1 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.

Income Tax Matters

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. Alabama

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Power is currently assessing 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 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.

FINANCIAL CONDITION AND LIQUIDITY

Overview

Alabama Power's financial condition remained stable at March 31, 2009. Throughout the recent 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 has continued to issue commercial paper at reasonable rates. 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

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facilities are replaced or renewed. Total committed credit fees 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 the financial turmoil cannot be determined at this time. Alabama 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.

Alabama Power's investments in pension and nuclear decommissioning trust funds have continued to decline in value during the first quarter 2009. Alabama Power expects that the earliest that cash may have to be contributed to the pension trust fund is 2011 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. 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 \$296.9 million for the first three months of 2009, compared to \$142.2 million for the corresponding period in 2008. Significant changes in operating cash flow for the first three months of 2009 include a lower receivables balance from increased collections and lower cash outflows for fossil fuel inventory as compared to the first three months of 2008. Net cash used for investing activities totaled \$326.5 million primarily due to gross property additions to utility plant of \$338.0 million in the first three months of 2009. These additions were primarily related to construction of transmission and distribution facilities, replacement of steam generation equipment, purchases of nuclear fuel, and construction related to environmental mandates. Net cash provided from financing activities totaled \$335.3 million for the first three months of 2009, compared to \$195.8 million for the corresponding period in 2008. The \$139.5 million increase is primarily due to greater issuances of securities and no redemption of securities in the first three months of 2009 as compared to the first three months of 2008. Fluctuations in cash flow from financing activities vary from year-to-year based on capital needs and securities redeemed.

Significant balance sheet changes for the first quarter 2009 include an increase of \$305.8 million in cash and cash equivalents primarily due to an increase in temporary cash investments, an increase of \$154.3 million in gross plant primarily due to increases in transmission and distribution