

ALABAMA POWER CO  
Form 10-Q  
August 06, 2010

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

**FORM 10-Q**  
**o QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended June 30, 2010**  
**OR**  
**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

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



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

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

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

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

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

<b>Registrant</b>	<b>Description of Common Stock</b>	<b>Shares Outstanding at June 30, 2010</b>
<b>The Southern Company</b>	<b>Par Value \$5 Per Share</b>	<b>830,705,693</b>
<b>Alabama Power Company</b>	<b>Par Value \$40 Per Share</b>	<b>30,537,500</b>
<b>Georgia Power Company</b>	<b>Without Par Value</b>	<b>9,261,500</b>
<b>Gulf Power Company</b>	<b>Without Par Value</b>	<b>3,642,717</b>
<b>Mississippi Power Company</b>	<b>Without Par Value</b>	<b>1,121,000</b>
<b>Southern Power Company</b>	<b>Par Value \$0.01 Per Share</b>	<b>1,000</b>

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

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**June 30, 2010**

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





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**DEFINITIONS**

(continued)

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

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

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

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

the impact of recent and future federal and state regulatory change, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry, implementation of the Energy Policy Act of 2005, environmental laws including regulation of water quality, coal combustion byproducts, and emissions of sulfur, nitrogen, carbon, soot, particulate matter, hazardous air pollutants, including mercury, and other substances, financial reform legislation, and also changes in tax and other laws and regulations to which Southern Company and its subsidiaries are subject, as well as changes in application of existing laws and regulations;

current and future litigation, regulatory investigations, proceedings, or inquiries, including the pending EPA civil actions against certain Southern Company subsidiaries, FERC matters, IRS audits, and Mirant matters;

the effects, extent, and timing of the entry of additional competition in the markets in which Southern Company's subsidiaries operate;

variations in demand for electricity, including those relating to weather, the general economy and recovery from the recent recession, population and business growth (and declines), and the effects of energy conservation measures;

available sources and costs of fuels;

effects of inflation;

ability to control costs and avoid cost overruns during the development and construction of facilities;

investment performance of Southern Company's employee benefit plans and nuclear decommissioning trusts;

advances in technology;

state and federal rate regulations and the impact of pending and future rate cases and negotiations, including rate actions relating to fuel and other cost recovery mechanisms;

regulatory approvals and actions related to the potential Plant Vogtle expansion, including Georgia PSC and NRC approvals and potential DOE loan guarantees;

the performance of projects undertaken by the non-utility businesses and the success of efforts to invest in and develop new opportunities;

internal restructuring or other restructuring options that may be pursued;

potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed or beneficial to Southern Company or its subsidiaries;

the ability of counterparties of Southern Company and its subsidiaries to make payments as and when due and to perform as required;

the ability to obtain new short- and long-term contracts with wholesale customers;

the direct or indirect effect on Southern Company's business resulting from terrorist incidents and the threat of terrorist incidents;

interest rate fluctuations and financial market conditions and the results of financing efforts, including Southern Company's and its subsidiaries' credit ratings;

the ability of Southern Company and its subsidiaries to obtain additional generating capacity at competitive prices;

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

the direct or indirect effects on Southern Company's business resulting from incidents affecting the U.S. electric grid or operation of generating resources;

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

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

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

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**THE SOUTHERN COMPANY  
AND SUBSIDIARY COMPANIES**

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

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

**Common Stock Data:**

Earnings per share (EPS) -

Basic EPS	\$ 0.62	\$ 0.61	\$ 1.22	\$ 0.77
Diluted EPS	\$ 0.61	\$ 0.60	\$ 1.21	\$ 0.77

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

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

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

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

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



Increase in notes payable, net	<b>244,037</b>	148,090
Proceeds		
Long-term debt issuances	<b>1,146,000</b>	1,785,474
Common stock issuances	<b>341,447</b>	539,088
Redemptions		
Long-term debt	<b>(754,304)</b>	(199,929)
Payment of common stock dividends	<b>(735,009)</b>	(670,226)
Payment of dividends on preferred and preference stock of subsidiaries	<b>(32,394)</b>	(32,465)
Other financing activities	<b>(12,643)</b>	(19,327)
Net cash provided from financing activities	<b>197,134</b>	1,550,705
<b>Net Change in Cash and Cash Equivalents</b>	<b>(423,444)</b>	365,260
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>689,722</b>	416,581
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 266,278</b>	\$ 781,841

**Supplemental Cash Flow Information:**

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

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

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

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

Total deferred charges and other assets	<b>5,263,726</b>	4,978,769
<b>Total Assets</b>	<b>\$ 53,374,490</b>	\$ 52,045,866

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

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

<b>Liabilities and Stockholders Equity</b>	<b>At June 30, 2010</b>	<b>At December 31, 2009</b>
	<i>(in thousands)</i>	
<b>Current Liabilities:</b>		
Securities due within one year	\$ 1,514,465	\$ 1,112,705
Notes payable	881,638	639,199
Accounts payable	1,282,523	1,329,448
Customer deposits	335,625	330,582
Accrued taxes		
Accrued income taxes	25,664	13,005
Unrecognized tax benefits	168,400	165,645
Other accrued taxes	319,321	398,384
Accrued interest	220,153	218,188
Accrued vacation pay	181,150	183,911
Accrued compensation	222,301	247,950
Liabilities from risk management activities	124,154	124,648
Other regulatory liabilities, current	297,328	528,147
Other current liabilities	362,728	292,016
<b>Total current liabilities</b>	<b>5,935,450</b>	<b>5,583,828</b>
<b>Long-term Debt</b>	<b>18,134,554</b>	<b>18,131,244</b>
<b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	6,725,211	6,454,822
Deferred credits related to income taxes	241,669	248,232
Accumulated deferred investment tax credits	457,809	447,650
Employee benefit obligations	2,287,633	2,304,344
Asset retirement obligations	1,233,019	1,201,343
Other cost of removal obligations	1,119,382	1,091,425
Other regulatory liabilities, deferred	233,355	277,932
Other deferred credits and liabilities	391,623	345,888
<b>Total deferred credits and other liabilities</b>	<b>12,689,701</b>	<b>12,371,636</b>
<b>Total Liabilities</b>	<b>36,759,705</b>	<b>36,086,708</b>
<b>Redeemable Preferred Stock of Subsidiaries</b>	<b>374,496</b>	<b>374,496</b>
<b>Stockholders Equity:</b>		
<b>Common Stockholders Equity:</b>		
Common stock, par value \$5 per share		
Authorized 1 billion shares		
Issued June 30, 2010: 831,147,821 Shares		
December 31, 2009: 820,151,801 Shares		

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Treasury June 30, 2010: 442,128 Shares

December 31, 2009: 505,116 Shares

Par value	<b>4,155,676</b>	4,100,742
Paid-in capital	<b>3,310,322</b>	2,994,245
Treasury, at cost	<b>(14,923)</b>	(14,797)
Retained earnings	<b>8,156,346</b>	7,884,922
Accumulated other comprehensive loss	<b>(74,460)</b>	(87,778)
<b>Total Common Stockholders Equity</b>	<b>15,532,961</b>	14,877,334
<b>Preferred and Preference Stock of Subsidiaries</b>	<b>707,328</b>	707,328
<b>Total Stockholders Equity</b>	<b>16,240,289</b>	15,584,662
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 53,374,490</b>	\$ 52,045,866

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	<b>2010</b>	2009	<b>2010</b>	2009
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Consolidated Net Income</b>	<b>\$ 526,389</b>	\$ 494,808	<b>\$ 1,037,092</b>	\$ 636,724
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of \$(1,267), \$(1,744), \$(481), and \$(982), respectively	<b>(1,982)</b>	(2,811)	<b>(781)</b>	(1,664)
Reclassification adjustment for amounts included in net income, net of tax of \$3,124, \$4,630, \$6,676, and \$8,463, respectively	<b>4,928</b>	7,370	<b>10,574</b>	13,468
Marketable securities:				
Change in fair value, net of tax of \$472, \$1,204, \$1,616, and \$1,295, respectively	<b>770</b>	2,935	<b>2,796</b>	3,669
Pension and other post retirement benefit plans:				
Reclassification adjustment for amounts included in net income, net of tax of \$230, \$221, \$460, and \$443, respectively	<b>364</b>	349	<b>729</b>	699
<b>Total other comprehensive income (loss)</b>	<b>4,080</b>	7,843	<b>13,318</b>	16,172
Dividends on preferred and preference stock of subsidiaries	<b>(16,195)</b>	(16,195)	<b>(32,390)</b>	(32,390)
<b>Comprehensive Income</b>	<b>\$ 514,274</b>	\$ 486,456	<b>\$ 1,018,020</b>	\$ 620,506

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

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**THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
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**SECOND QUARTER 2010 vs. SECOND QUARTER 2009**  
**AND**  
**YEAR-TO-DATE 2010 vs. YEAR-TO-DATE 2009**

**OVERVIEW**

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

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

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

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

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

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





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

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

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

Details of the change to retail revenues are as follows:

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

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

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

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

Fuel and other cost recovery revenues increased \$135.7 million in the second quarter 2010 and \$315.9 million for year-to-date 2010 when compared to the corresponding periods in 2009. Electric rates for the traditional operating companies include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these provisions, fuel revenues generally equal fuel expenses, including the fuel

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

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**Wholesale Revenues**

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

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

**Other Electric Revenues**

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

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

**Other Revenues**

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

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

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For year-to-date 2010, other revenues were \$41.9 million compared to \$53.4 million for the corresponding period in 2009. The decrease was primarily the result of a \$10.7 million decrease in revenues at SouthernLINC Wireless related to lower average revenue per subscriber and fewer subscribers due to increased competition in the industry.

**Fuel and Purchased Power Expenses**

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

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

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

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

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

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

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

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

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**Other Operations and Maintenance Expenses**

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

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

For year-to-date 2010, other operations and maintenance expenses were \$1.83 billion compared to \$1.70 billion for the corresponding period in 2009. The increase was primarily the result of a \$70.0 million increase in fossil, hydro, and nuclear expenses, a \$40.1 million increase in commodity and labor costs, a \$28.7 million increase in transmission and distribution expenses, and a \$19.1 million increase in affiliated service companies' expenses. The increase was partially offset by a \$29.4 million charge in the first quarter 2009 in connection with a voluntary attrition plan at Georgia Power.

**MC Asset Recovery Litigation Settlement**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
		\$(202.0)	N/M

N/M Not Meaningful

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

**Depreciation and Amortization**

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

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

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

See Note 3 to the financial statements of Southern Company in Item 8 of the Form 10-K under Retail Regulatory Matters Georgia Power Cost of Removal for additional information on the amortization of the other cost of removal regulatory liability.

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**Taxes Other Than Income Taxes**

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

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

**Allowance for Funds Used During Construction**

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

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

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

**Leveraged Lease Income**

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

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

**Gain on Disposition of Lease Termination**

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

N/M Not Meaningful



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

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

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

N/M Not Meaningful

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

**Interest Expense, Net of Amounts Capitalized**

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

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

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

**Income Taxes**

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

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

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

See FUTURE EARNINGS POTENTIAL Income Tax Matters Georgia State Income Tax Credits and Note (B) to the Condensed Financial Statements under Income Tax Matters Georgia State Income Tax Credits and Note (G) to the Condensed Financial Statements under Effective Tax Rate and Unrecognized Tax Benefits herein for additional

information.

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**FUTURE EARNINGS POTENTIAL**

The results of operations discussed above are not necessarily indicative of Southern Company's future earnings potential. The level of Southern Company's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Southern Company's primary business of selling electricity. These factors include the traditional operating companies' ability to maintain a constructive regulatory environment that continues to allow for the recovery of all prudently incurred costs during a time of increasing costs. Other major factors include profitability of the competitive wholesale supply business and federal regulatory policy, which may impact Southern Company's level of participation in this market. Future earnings for the electricity business in the near term will depend, in part, upon maintaining energy sales which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities and other wholesale customers, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in the service area. In addition, the level of future earnings for the wholesale supply business also depends on numerous factors including creditworthiness of customers, total generating capacity available in the Southeast, future acquisitions and construction of generating facilities, and the successful remarketing of capacity as current contracts expire. Recessionary conditions have impacted sales for the traditional operating companies and have negatively impacted wholesale capacity revenues at Southern Power. The timing and extent of the economic recovery will impact growth and may impact future earnings. For additional information relating to these issues, see RISK FACTORS in Item 1A and MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL of Southern Company in Item 7 of the Form 10-K.

**Environmental Matters**

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

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

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters - Carbon Dioxide Litigation - New York Case of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under Environmental Matters - Carbon Dioxide Litigation - New York Case in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation. The U.S. Court of Appeals for the Second Circuit denied the defendants' petition for rehearing en banc on March 5, 2010 and granted the defendants request to stay the mandate to allow the defendants to file a petition for writ of certiorari with the U.S. Supreme Court on March 16, 2010. On August 2, 2010, the defendants filed a petition for writ of certiorari with the U.S. Supreme Court. The ultimate outcome of these matters cannot be determined at this time.

***Other Litigation***

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters - Carbon Dioxide Litigation - Other Litigation of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under Environmental Matters - Carbon Dioxide Litigation - Other Litigation in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation related to Hurricane Katrina. On May 28, 2010, the U.S. Court of Appeals for the Fifth Circuit dismissed the plaintiffs' appeal of the case based on procedural grounds relating to the loss of a quorum by the full court on reconsideration, reinstating the district court decision in favor of the defendants. The plaintiffs have until August 26, 2010 to file a petition for writ of certiorari with the U.S. Supreme Court. The ultimate outcome of this matter cannot be determined at this time.

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***Air Quality***

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

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Air Quality of Southern Company in Item 7 of the Form 10-K for information regarding proposed sulfur dioxide (SO<sub>2</sub>) regulations. On June 2, 2010, the EPA issued its final revisions to the National Ambient Air Quality Standard for SO<sub>2</sub>, including the establishment of a new short-term standard. The ultimate impact of the revised standard will depend on additional regulatory action, state implementation, and the outcome of any legal challenges, and cannot be determined at this time.

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

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Air Quality of Southern Company in Item 7 of the Form 10-K for information regarding the Clean Air Interstate Rule (CAIR). On August 2, 2010, the EPA published a proposed rule to replace CAIR, which was overturned by the U.S. Court of Appeals for the D.C. Circuit in 2008 but left in place pending the promulgation of a replacement rule. This proposed rule, referred to as the Transport Rule, would require 31 eastern states and the District of Columbia (D.C.) to reduce power plant emissions of SO<sub>2</sub> and nitrogen oxides (NO<sub>x</sub>) that contribute to downwind states' nonattainment of federal ozone and/or fine particulate matter ambient air quality standards. To address fine particulate matter standards, the proposed Transport Rule would require D.C. and 27 eastern states, including Alabama, Florida, and Georgia, to reduce annual emissions of SO<sub>2</sub> and NO<sub>x</sub> from power plants. To address ozone standards, the proposed Transport Rule would also require D.C. and 25 states, including each of the states in Southern Company's service territory, to achieve additional reductions in NO<sub>x</sub> emissions from power plants during the ozone season. The proposed Transport Rule contains a preferred option that would allow limited interstate trading of emissions allowances; however, the EPA also requests comment on two alternative approaches that would not allow interstate trading of emissions allowances. The EPA states that it also intends to develop a second phase of the Transport Rule next year to address the more stringent ozone air quality standards as they are finalized. The EPA expects to finalize the Transport Rule in late spring of 2011 and to set the initial compliance deadline starting in 2012. The impact of this proposed regulation and potential future regulation will depend on its final form, state implementation, and the outcome of any legal challenges, and cannot be determined at this time. These regulations could result in significant additional compliance and operational costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

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***Coal Combustion Byproducts***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Coal Combustion Byproducts of Southern Company in Item 7 of the Form 10-K for information regarding potential additional regulation of coal combustion byproducts. On June 21, 2010, the EPA published a rulemaking proposal which requested comments on two potential regulatory options for management and disposal of coal combustion byproducts: regulation as a solid waste or regulation as a hazardous waste. Adoption of either option could require closure of or significant change to existing storage units and construction of lined landfills, as well as additional waste management and groundwater monitoring requirements. Under both options, the EPA proposes to exempt the beneficial reuse of coal combustion byproducts from regulation; however, the final regulation could significantly alter the options available for beneficial reuse. The outcome of these proposed regulations will depend on their final form and the outcome of any legal challenges, and cannot be determined at this time. However, additional regulation of coal combustion byproducts could have a significant impact on the management, beneficial use, and disposal of such byproducts. These changes could result in significant additional compliance and operational costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

***Global Climate Issues***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Global Climate Issues of Southern Company in Item 7 of the Form 10-K for information regarding the potential for legislation and regulation addressing greenhouse gas and other emissions. On April 1, 2010, the EPA issued a final rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that, once this rule becomes effective on January 2, 2011, carbon dioxide and other greenhouse gases will become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. On May 13, 2010, the EPA issued a final rule governing how these programs would be applied to stationary sources, including power plants. This rule establishes two phases for applying PSD and Title V requirements to greenhouse gas emissions sources. The first phase, beginning on January 2, 2011, will apply to sources and projects that would already be covered under PSD or Title V, whereas the second phase, beginning July 1, 2011, will apply to sources and projects that would not otherwise trigger those programs but for their greenhouse gas emissions. The ultimate outcome of these final rules cannot be determined at this time and will depend on the outcome of any legal challenges.

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

The traditional operating companies each have established fuel cost recovery rates approved by their respective state PSCs. In recent years, the traditional operating companies have experienced volatility in pricing of fuel commodities with higher than expected pricing for coal and uranium and volatile price swings in natural gas. These higher fuel costs have resulted in total under recovered fuel costs included in the balance sheets of Georgia Power and Gulf Power of approximately \$669 million at June 30, 2010. Alabama Power and Mississippi Power collected all previously under recovered fuel costs and, as of June 30, 2010, had a total over recovered fuel balance of approximately \$133 million. At December 31, 2009, total under recovered fuel costs included in the balance sheets of Georgia Power and Gulf Power were approximately \$667 million and Alabama Power and Mississippi Power had a total over recovered fuel balance of \$229 million. Fuel cost recovery revenues are adjusted for differences in actual recoverable fuel costs and amounts billed in current regulated rates. Accordingly, changes to the billing factors will have no significant effect on Southern Company's revenues or net income but will affect cash flow. The traditional operating companies continuously monitor the under or over recovered fuel cost balances. See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE



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**EARNINGS POTENTIAL** PSC Matters Fuel Cost Recovery of Southern Company in Item 7 and Note 3 to the financial statements under Retail Regulatory Matters Alabama Power Fuel Cost Recovery and Retail Regulatory Matters Georgia Power Fuel Cost Recovery in Item 8 of the Form 10-K for additional information.

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

***Retail Rate Matters***

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

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

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

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



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

- § Creation of a new Certified Capacity Cost Recovery (CCCR) tariff to recover costs related to new capacity additions certified by the Georgia PSC and updated through applicable project construction monitoring reports and hearings.
- § Continuation and enhancement of the ECCR and DSM-Residential tariffs from the 2007 Retail Rate Plan and creation of a DSM-Commercial tariff to recover environmental capital and operating costs resulting from governmental mandates and DSM costs approved and certified by the Georgia PSC.
- § Implementation of an annual review of the MFF tariff to adjust for changes in relative gross receipts between customers served inside and outside municipal boundaries.

These proposed enhancements would become effective in 2012 with revenue requirements for each tariff updated through separate compliance filings based on Georgia Power's budget for the upcoming year. Based on Georgia Power's 2010 budget, earnings are currently projected to be slightly below the proposed ROE band in 2012 and within the band in 2013. However, updated budgets and revenue forecasts may eliminate, increase, or decrease the need for an ACR tariff adjustment in either year. In addition, Georgia Power currently estimates the ECCR tariff would increase by \$120 million in 2012 and would decrease by \$12 million in 2013. The CCCR tariff would begin recovering the costs of Plant McDonough Units 4, 5, and 6 with increases of \$99 million in February 2012, \$77 million in June 2012, and \$76 million in February 2013. The DSM tariffs would increase by \$17 million in 2012 and \$18 million in 2013 to reflect the terms of the stipulated agreement in Georgia Power's 2010 DSM Certification proceeding. Amounts recovered under the MFF tariff are based on amounts recovered under all other tariffs. Georgia Power expects the Georgia PSC to issue a final order in this matter during December 2010. The final outcome of this matter cannot now be determined.

**Legislation**

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

***Healthcare Reform***

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

material impact on the financial statements of

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Southern Company. Southern Company is in the process of assessing the extent to which the legislation may affect its future health care and related employee benefit plan costs. Any future impact on the financial statements of Southern Company cannot be determined at this time.

***Stimulus Funding***

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

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

Georgia Power's 2005 through 2008 income tax filings for the State of Georgia include state income tax credits for increased activity through Georgia ports. Georgia Power had also filed similar claims for the years 2002 through 2004. The Georgia Department of Revenue has not responded to these claims. In July 2007, Georgia Power filed a complaint in the Superior Court of Fulton County to recover the credits claimed for the years 2002 through 2004. On March 22, 2010, the Superior Court of Fulton County ruled in favor of Georgia Power's motion for summary judgment. On April 30, 2010, the Georgia Department of Revenue filed its notice of appeal with the Georgia Court of Appeals. An unrecognized tax benefit has been recorded related to these credits. If Georgia Power prevails, no material impact on net income is expected as a significant portion of any tax benefit is expected to be returned to Georgia Power's retail customers. If Georgia Power is not successful, payment of the related state tax could have a significant, and possibly material, negative effect on Southern Company's cash flow. See Note 5 to the financial statements of Southern Company under "Unrecognized Tax Benefits" in Item 8 of the Form 10-K and Note (G) to the Condensed Financial Statements herein for additional information. The ultimate outcome of this matter cannot now be determined.

**Construction Projects**

The subsidiary companies of Southern Company are engaged in continuous construction programs to accommodate existing and estimated future loads on their respective systems. Southern Company intends to continue its strategy of developing and constructing new generating facilities, including units at Southern Power, proposed new nuclear units, and a proposed IGCC facility, as well as adding environmental control equipment and expanding the transmission and distribution systems. For the traditional operating companies, major generation construction projects are subject to state PSC approvals in order to be included in retail rates. While Southern Power generally constructs and acquires generation assets covered by long-term PPAs, any uncontracted capacity could negatively affect future earnings. See Note 7 to the financial statements of Southern Company under "Construction Program" in Item 8 of the Form 10-K for estimated construction expenditures for the next three years. In addition, see Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters - Georgia Power Nuclear Construction and Retail Regulatory Matters - Integrated Coal Gasification Combined Cycle" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Retail Regulatory Matters - Nuclear Construction and Retail Regulatory Matters - Integrated Coal Gasification Combined Cycle" herein for additional information.

**Other Matters**

Southern Company and its subsidiaries are involved in various other matters being litigated, regulatory matters, and certain tax-related issues that could affect future earnings. In addition, Southern Company and its subsidiaries are subject to certain claims and legal actions arising in the ordinary course of business. The business activities of Southern Company's subsidiaries are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental

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requirements such as opacity and air and water quality standards, has increased generally throughout the United States. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against Southern Company and its subsidiaries cannot be predicted at this time; however, for current proceedings not specifically reported herein or in Note 3 to the financial statements of Southern Company in Item 8 of the Form 10-K, management does not anticipate that the liabilities, if any, arising from such current proceedings would have a material adverse effect on Southern Company's financial statements.

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

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

**ACCOUNTING POLICIES**

**Application of Critical Accounting Policies and Estimates**

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

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

**FINANCIAL CONDITION AND LIQUIDITY**

**Overview**

Southern Company's financial condition remained stable at June 30, 2010. Southern Company intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See Sources of Capital and Financing Activities herein for additional information. Net cash provided from operating activities totaled \$1.4 billion for the first six months of 2010, an increase of \$795.3 million from the corresponding period in 2009. Significant changes in operating cash flow for the first six months of 2010 compared to the corresponding period in 2009 include an increase in net income as previously discussed and a reduction in fossil fuel stock. Net cash used for investing activities totaled \$2.0 billion for the first six months of 2010, an increase of \$230.5 million from the corresponding period in 2009. The increase was due to proceeds received on sales of property in 2009. Net cash provided from financing activities totaled \$197.1 million for the first six months of 2010, a decrease of \$1.4 billion from the corresponding period in 2009, primarily due to fewer issuances of securities in the first six months of 2010. Fluctuations in cash flow from financing activities vary from year to year based on capital needs and the maturity or redemption of securities.

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Significant balance sheet changes for the first six months of 2010 include a decrease in cash and cash equivalents of \$423.4 million and an increase of \$1.4 billion in total property, plant, and equipment for the installation of equipment to comply with environmental standards and construction of generation, transmission, and distribution facilities. Other significant changes include an increase in equity of \$655.6 million.

The market price of Southern Company's common stock at June 30, 2010 was \$33.28 per share (based on the closing price as reported on the New York Stock Exchange) and the book value was \$18.70 per share, representing a market-to-book ratio of 178%, compared to \$33.32, \$18.15, and 184%, respectively, at the end of 2009. The dividend for the second quarter 2010 was \$0.455 per share compared to \$0.4375 per share in the second quarter 2009.

**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, scheduled maturities of long-term debt, interest, preferred and preference stock dividends, leases, trust funding requirements, other purchase commitments, unrecognized tax benefits and interest, and derivative obligations. Approximately \$1.51 billion will be required through June 30, 2011 to fund 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 generating plants to meet new regulatory requirements; changes in FERC rules and regulations; PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

**Sources of Capital**

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

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

On June 18, 2010, Georgia Power reached an agreement with the DOE to accept terms for a conditional commitment for federal loan guarantees that would apply to future Georgia Power borrowings related to two additional nuclear units on the site of Plant Vogtle (Plant Vogtle Units 3 and 4). Any borrowings guaranteed by the DOE would be full recourse to Georgia Power and secured by a first priority lien on Georgia Power's 45.7% undivided ownership interest in Plant Vogtle Units 3 and 4. Total guaranteed borrowings would not exceed 70% of eligible project costs, or approximately \$3.4 billion, and are expected to be funded by the Federal Financing Bank. Final approval and issuance of loan guarantees by the DOE are subject to receipt of the combined construction and operating license for Plant Vogtle Units 3 and 4 from the NRC, negotiation of definitive agreements, completion of due diligence by the DOE, receipt of any necessary regulatory approvals, and satisfaction of other conditions. There can be no assurance that the DOE will issue loan guarantees for Georgia Power.

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In addition, Mississippi Power has applied to the DOE for federal loan guarantees to finance a portion of the eligible construction costs of the Kemper IGCC. Mississippi Power is in advanced due diligence with the DOE but has yet to begin discussions with the DOE regarding the terms and conditions of any loan guarantee. There can be no assurance the DOE will issue federal loan guarantees to Mississippi Power.

Southern Company's current liabilities frequently exceed current assets because of the continued use of short-term debt as a funding source to meet cash needs as well as scheduled maturities of long-term debt. To meet short-term cash needs and contingencies, Southern Company has substantial cash flow from operating activities and access to capital markets, including commercial paper programs (which are backed by bank credit facilities), to meet liquidity needs. At June 30, 2010, Southern Company and its subsidiaries had approximately \$266 million of cash and cash equivalents and approximately \$4.8 billion of unused committed credit arrangements with banks. Of the unused credit arrangements, \$519 million expire in 2010, \$1.0 billion expire in 2011, and \$3.2 billion expire in 2012. Of the credit arrangements expiring in 2010 and 2011, \$81 million contain provisions allowing two-year term loans executable at expiration and \$907 million contain provisions allowing one-year term loans executable at expiration. At June 30, 2010, approximately \$1.8 billion of the credit facilities were dedicated to providing liquidity support to the traditional operating companies' variable rate pollution control revenue bonds. Subsequent to June 30, 2010, Alabama Power renewed a \$200 million credit agreement which contains a provision allowing a one-year term loan executable at expiration and extended the expiration date to 2011. In addition, subsequent to June 30, 2010, Georgia Power renewed a \$40 million credit agreement which contains a provision allowing a two-year term loan executable at expiration and extended the expiration date to 2011. In addition, subsequent to June 30, 2010, Gulf Power increased its existing lines of credit by \$15 million with an expiration of 2011. See Note 6 to the financial statements of Southern Company under Bank Credit Arrangements in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under Bank Credit Arrangements herein for additional information. The traditional operating companies may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of each of the traditional operating companies. At June 30, 2010, the Southern Company system had approximately \$879 million of commercial paper borrowings outstanding. Management believes that the need for working capital can be adequately met by utilizing commercial paper programs, lines of credit, and cash.

**Off-Balance Sheet Financing Arrangements**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY

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

**Credit Rating Risk**

Southern Company does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change of certain subsidiaries to BBB and Baa2, or BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, energy price risk management, and construction of new generation. At June 30, 2010, the maximum potential collateral requirements under these contracts at a BBB and Baa2 rating were approximately \$9 million and at a BBB- and/or Baa3 rating were approximately \$469 million. At June 30, 2010, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately \$2.6 billion. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or

cash. Additionally, any credit rating downgrade could impact Southern Company's ability to access capital markets, particularly the short-term debt market.

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

On June 17, 2010, Moody's placed the issuer and long-term debt ratings of Southern Company (A3 senior unsecured), Georgia Power (A2 senior unsecured), Gulf Power (A2 senior unsecured), and Mississippi Power (A1 senior unsecured) on review for a possible downgrade. Moody's also placed the P-1 short-term rating of Southern Company and a financing subsidiary that issues commercial paper for the benefit of Southern Company subsidiaries on review for a possible downgrade. In addition, Moody's placed the preferred stock and variable rate demand obligation ratings of Georgia Power (Baa1 and VMIG1), Gulf Power (Baa1 and VMIG1), and Mississippi Power (A3 and VMIG1) on review for a possible downgrade. Moody's announced that it did not expect the review to result in more than a one notch downgrade of any of these ratings. The ultimate outcome of this matter cannot be determined at this time.

**Market Price Risk**

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

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

The changes in fair value of energy-related derivative contracts for the three and six months ended June 30, 2010 were as follows:

	<b>Second Quarter 2010 Changes</b>	<b>Year-to-Date 2010 Changes</b>
	Fair Value (in millions)	
Contracts outstanding at the beginning of the period, assets (liabilities), net	\$(272)	\$ (178)
Contracts realized or settled	67	111
Current period changes <sup>(a)</sup>	3	(135)
Contracts outstanding at the end of the period, assets (liabilities), net	\$(202)	\$ (202)



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

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

The change in the fair value positions of the energy-related derivative contracts for the three and six months ended June 30, 2010 was an increase of \$70 million and a decrease of \$24 million, respectively, substantially all of which is due to natural gas positions. The change is attributable to both the volume and prices of natural gas. At June 30, 2010, Southern Company had a net hedge volume of 134 million mmBtu with a weighted average contract cost of approximately \$1.56 per mmBtu above market prices, compared to 141 million mmBtu (includes location basis of 2 million mmBtu) at March 31, 2010 with a weighted average contract cost of approximately \$2.05 per mmBtu above market prices and compared to 145 million mmBtu at December 31, 2009 with a weighted average contract cost of approximately \$1.23 per mmBtu above market prices. The majority of the natural gas hedges are recovered through the traditional operating companies' fuel cost recovery clauses.

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

<b>Asset (Liability) Derivatives</b>	<b>June 30, 2010</b>	<b>December 31, 2009</b>
		<i>(in millions)</i>
Regulatory hedges	\$(201)	\$ (175)
Cash flow hedges	(1)	(2)
Not designated		(1)
<b>Total fair value</b>	<b>\$(202)</b>	<b>\$ (178)</b>

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

Total net unrealized pre-tax gains (losses) recognized in income for the three and six months ended June 30, 2010 were \$2 million and \$1 million, respectively. For the three months ended June 30, 2009, the total net unrealized gains (losses) recognized in income were immaterial. For the six months ended June 30, 2009, the total net unrealized gains (losses) recognized in income were \$(1) million.

The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at June 30, 2010 are as follows:

	<b>June 30, 2010</b>			
	Total	<b>Fair Value Measurements</b>		
		Fair Value	Year 1	Maturity Years 2&3
Level 1	\$	\$	\$	\$
Level 2	(202)	(116)	(85)	(1)
Level 3				
		<i>(in millions)</i>		
Fair value of contracts outstanding at end of period	\$(202)	\$(116)	\$(85)	\$(1)

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

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

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

**Financing Activities**

In the first six months of 2010, Georgia Power issued \$350 million aggregate principal amount of Series 2010A Floating Rate Senior Notes due March 15, 2013. The proceeds were used to repay at maturity \$250 million aggregate principal amount of Series 2008A Floating Rate Senior Notes due March 17, 2010, to repay a portion of its outstanding short-term indebtedness, and for general corporate purposes, including Georgia Power's continuous construction program. Georgia Power also issued \$600 million aggregate principal amount of Series 2010B 5.40% Senior Notes due June 1, 2040. The net proceeds from the sale of the Series 2010B Senior Notes were used for the redemption of all of the \$200 million aggregate principal amount of Georgia Power's Series R 6.00% Senior Notes due October 15, 2033 and all of the \$150 million aggregate principal amount of Georgia Power's Series O 5.90% Senior Notes due April 15, 2033, to repay a portion of its outstanding short-term indebtedness, and for general corporate purposes, including Georgia Power's continuous construction program. Southern Company issued approximately \$277 million of common stock through the Southern Investment Plan and employee and director stock plans. In addition, during the three months ended June 30, 2010, Southern Company issued 2 million shares of common stock through at-the-market issuances pursuant to sales agency agreements related to Southern Company's continuous equity offering program and received cash proceeds of \$69 million, net of \$0.6 million in fees and commissions. The proceeds were primarily used to fund ongoing construction projects, to repay short-term and long-term indebtedness, and for general corporate purposes.

In the first six months of 2010, Gulf Power issued \$175 million aggregate principal amount of Series 2010A 4.75% Senior Notes due April 5, 2020. The proceeds were used to repay at maturity \$140 million aggregate principal amount of its Series 2009A Floating Rate Senior Notes due June 28, 2010, to repay a portion of its outstanding short-term indebtedness, and for general corporate purposes, including Gulf Power's continuous construction program. In June 2010, Gulf Power incurred obligations in connection with the issuance of \$21 million aggregate principal amount of the Development Authority of Monroe County, Georgia Pollution Control Revenue Bonds (Gulf Power Plant Scherer Project), First Series 2010. The proceeds were used to fund pollution control and environmental improvement facilities at Plant Scherer.

See Southern Company's Condensed Consolidated Statements of Cash Flows herein for further details regarding financing activities during the first six months of 2010.

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

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**PART I**

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

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

**Item 4. Controls and Procedures.**

(a) Evaluation of disclosure controls and procedures.

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

(b) Changes in internal controls.

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

A new wholesale contract billing system was implemented in the second quarter 2010 for Georgia Power, Gulf Power, and Southern Power for specific wholesale contracts. This system replaces individual billing applications that were used to bill wholesale contracts. A new fuel procurement system was implemented in May 2010 for Alabama Power, Georgia Power, Gulf Power, and Mississippi Power.

The implementation of these systems provides additional operational and internal control benefits including system security and the automation of previously manual controls. These process improvement initiatives were not in response to an identified internal control deficiency.

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

(a) Evaluation of disclosure controls and procedures.

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

(b) Changes in internal controls.

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

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In May 2010, Gulf Power implemented new general ledger, supply chain, and work management systems. A new wholesale contract billing system was implemented in the second quarter 2010 for Georgia Power, Gulf Power, and Southern Power for specific wholesale contracts. This system replaces individual billing applications that were used to bill wholesale contracts. A new fuel procurement system was implemented in May 2010 for Alabama Power, Georgia Power, Gulf Power, and Mississippi Power.

The implementation of these systems provides additional operational and internal control benefits including system security and the automation of previously manual controls. These process improvement initiatives were not in response to an identified internal control deficiency.

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**ALABAMA POWER COMPANY**

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Operating Revenues:</b>				
Retail revenues	\$ 1,221,865	\$ 1,119,606	\$ 2,397,874	\$ 2,177,743
Wholesale revenues, non-affiliates	137,517	153,912	309,341	312,607
Wholesale revenues, affiliates	52,322	52,493	150,656	136,845
Other revenues	50,543	40,505	99,521	79,087
<b>Total operating revenues</b>	<b>1,462,247</b>	1,366,516	<b>2,957,392</b>	2,706,282
<b>Operating Expenses:</b>				
Fuel	466,033	447,486	955,076	930,719
Purchased power, non-affiliates	12,718	26,123	30,601	41,667
Purchased power, affiliates	52,049	56,570	103,692	98,130
Other operations and maintenance	308,825	278,298	619,598	555,157
Depreciation and amortization	152,294	126,487	297,577	269,903
Taxes other than income taxes	81,458	82,039	163,331	162,320
<b>Total operating expenses</b>	<b>1,073,377</b>	1,017,003	<b>2,169,875</b>	2,057,896
<b>Operating Income</b>	<b>388,870</b>	349,513	<b>787,517</b>	648,386
<b>Other Income and (Expense):</b>				
Allowance for equity funds used during construction	7,136	19,153	20,374	35,878
Interest income	3,976	4,148	8,014	8,270
Interest expense, net of amounts capitalized	(76,132)	(76,768)	(150,694)	(148,975)
Other income (expense), net	(5,189)	(4,491)	(11,690)	(10,863)
<b>Total other income and (expense)</b>	<b>(70,209)</b>	(57,958)	<b>(133,996)</b>	(115,690)
<b>Earnings Before Income Taxes</b>	<b>318,661</b>	291,555	<b>653,521</b>	532,696
Income taxes	118,884	105,357	241,130	190,366
<b>Net Income</b>	<b>199,777</b>	186,198	<b>412,391</b>	342,330
<b>Dividends on Preferred and Preference Stock</b>	<b>9,866</b>	9,866	<b>19,732</b>	19,732
<b>Net Income After Dividends on Preferred and Preference Stock</b>	<b>\$ 189,911</b>	\$ 176,332	<b>\$ 392,659</b>	\$ 322,598

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

For the Three Months Ended June 30,		For the Six Months Ended June 30,	
2010	2009	2010	2009



	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Net Income After Dividends on Preferred and Preference Stock</b>	<b>\$ 189,911</b>	\$ 176,332	<b>\$ 392,659</b>	\$ 322,598
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of \$(39), \$(700), \$(10), and \$(1,586), respectively	<b>(63)</b>	(1,152)	<b>(17)</b>	(2,609)
Reclassification adjustment for amounts included in net income, net of tax of \$(67), \$1,178, \$543, and \$2,239, respectively	<b>(111)</b>	1,938	<b>892</b>	3,683
<b>Total other comprehensive income (loss)</b>	<b>(174)</b>	786	<b>875</b>	1,074
<b>Comprehensive Income</b>	<b>\$ 189,737</b>	\$ 177,118	<b>\$ 393,534</b>	\$ 323,672

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 Six Months Ended June 30,	
	<b>2010</b>	2009
	<i>(in thousands)</i>	
<b>Operating Activities:</b>		
Net income	\$ 412,391	\$ 342,330
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization, total	342,542	311,868
Deferred income taxes	123,648	5,182
Allowance for equity funds used during construction	(20,374)	(35,878)
Pension, postretirement, and other employee benefits	(16,596)	(16,568)
Stock based compensation expense	3,614	3,168
Other, net	(26,671)	680
Changes in certain current assets and liabilities		
-Receivables	(48,514)	206,523
-Fossil fuel stock	15,211	(59,418)
-Materials and supplies	(7,805)	(9,094)
-Other current assets	(48,541)	(62,618)
-Accounts payable	(88,154)	(133,138)
-Accrued taxes	(44,836)	25,199
-Accrued compensation	(21,023)	(56,429)
-Other current liabilities	(77,168)	18,302
Net cash provided from operating activities	497,724	540,109
<b>Investing Activities:</b>		
Property additions	(483,493)	(641,598)
Distribution of restricted cash from pollution control revenue bonds	5,241	32,758
Nuclear decommissioning trust fund purchases	(84,057)	(124,057)
Nuclear decommissioning trust fund sales	84,057	124,057
Cost of removal, net of salvage	(15,708)	(13,004)
Change in construction payables	(27,552)	17,575
Other investing activities	(25,020)	(19,448)
Net cash used for investing activities	(546,532)	(623,717)
<b>Financing Activities:</b>		
Increase (decrease) in notes payable, net	59,997	(24,995)
Proceeds		
Capital contributions from parent company	10,821	11,510
Pollution control revenue bonds		53,000
Senior notes issuances		500,000
Payment of preferred and preference stock dividends	(19,727)	(19,740)
Payment of common stock dividends	(271,350)	(261,400)
Other financing activities	1,028	(6,033)

Net cash provided from (used for) financing activities	<b>(219,231)</b>	252,342
<b>Net Change in Cash and Cash Equivalents</b>	<b>(268,039)</b>	168,734
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>368,016</b>	28,181
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 99,977</b>	\$ 196,915

**Supplemental Cash Flow Information:**

Cash paid during the period for

Interest (net of \$7,941 and \$15,005 capitalized for 2010 and 2009, respectively) **\$ 125,212** \$ 122,624Income taxes (net of refunds) **\$ 204,060** \$ 203,248

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

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

<b>Assets</b>	<b>At June 30, 2010</b>	<b>At December 31, 2009</b>
	<i>(in thousands)</i>	
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 99,977	\$ 368,016
Restricted cash and cash equivalents	31,471	36,711
Receivables		
Customer accounts receivable	366,455	322,292
Unbilled revenues	166,593	134,875
Under recovered regulatory clause revenues	3,773	37,338
Other accounts and notes receivable	37,068	33,522
Affiliated companies	65,042	61,508
Accumulated provision for uncollectible accounts	(12,121)	(9,551)
Fossil fuel stock, at average cost	387,625	394,511
Materials and supplies, at average cost	333,856	326,074
Vacation pay	54,255	53,607
Prepaid expenses	188,453	111,320
Other regulatory assets, current	31,971	34,347
Other current assets	6,076	6,203
<b>Total current assets</b>	<b>1,760,494</b>	<b>1,910,773</b>
<b>Property, Plant, and Equipment:</b>		
In service	19,668,405	18,574,229
Less accumulated provision for depreciation	6,752,418	6,558,864
<b>Plant in service, net of depreciation</b>	<b>12,915,987</b>	<b>12,015,365</b>
Nuclear fuel, at amortized cost	303,851	253,308
Construction work in progress	511,864	1,256,311
<b>Total property, plant, and equipment</b>	<b>13,731,702</b>	<b>13,524,984</b>
<b>Other Property and Investments:</b>		
Equity investments in unconsolidated subsidiaries	61,257	59,628
Nuclear decommissioning trusts, at fair value	475,516	489,795
Miscellaneous property and investments	70,028	69,749
<b>Total other property and investments</b>	<b>606,801</b>	<b>619,172</b>
<b>Deferred Charges and Other Assets:</b>		
Deferred charges related to income taxes	412,681	387,447
Prepaid pension costs	150,777	132,643
Other regulatory assets, deferred	752,469	750,492
Other deferred charges and assets	224,551	198,582

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Total deferred charges and other assets	<b>1,540,478</b>	1,469,164
<b>Total Assets</b>	<b>\$ 17,639,475</b>	\$ 17,524,093

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

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

	At June 30, 2010	At December 31, 2009
	<i>(in thousands)</i>	
<b>Liabilities and Stockholders Equity</b>		
<b>Current Liabilities:</b>		
Securities due within one year	\$ 300,000	\$ 100,000
Notes payable	59,997	
Accounts payable		
Affiliated	208,729	194,675
Other	197,549	328,400
Customer deposits	86,716	86,975
Accrued taxes		
Accrued income taxes	1,686	14,789
Other accrued taxes	75,017	31,918
Accrued interest	66,757	65,455
Accrued vacation pay	44,415	44,751
Accrued compensation	52,176	71,286
Liabilities from risk management activities	32,097	37,844
Over recovered regulatory clause revenues	103,103	181,565
Other current liabilities	53,495	40,020
Total current liabilities	1,281,737	1,197,678
<b>Long-term Debt</b>	<b>5,882,547</b>	<b>6,082,489</b>
<b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	2,400,633	2,293,468
Deferred credits related to income taxes	86,888	88,705
Accumulated deferred investment tax credits	160,751	164,713
Employee benefit obligations	386,697	387,936
Asset retirement obligations	504,017	491,007
Other cost of removal obligations	690,982	668,151
Other regulatory liabilities, deferred	127,646	169,224
Deferred over recovered regulatory clause revenues	16,874	22,060
Other deferred credits and liabilities	41,088	37,113
Total deferred credits and other liabilities	4,415,576	4,322,377
<b>Total Liabilities</b>	<b>11,579,860</b>	<b>11,602,544</b>
<b>Redeemable Preferred Stock</b>	<b>341,715</b>	<b>341,715</b>
<b>Preference Stock</b>	<b>343,373</b>	<b>343,373</b>
<b>Common Stockholders Equity:</b>		
Common stock, par value \$40 per share		

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Authorized - 40,000,000 shares		
Outstanding - 30,537,500 shares	<b>1,221,500</b>	1,221,500
Paid-in capital	<b>2,135,696</b>	2,119,818
Retained earnings	<b>2,021,839</b>	1,900,526
Accumulated other comprehensive loss	<b>(4,508)</b>	(5,383)
Total common stockholder's equity	<b>5,374,527</b>	5,236,461
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$ 17,639,475</b>	\$ 17,524,093

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

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**ALABAMA POWER COMPANY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**SECOND QUARTER 2010 vs. SECOND QUARTER 2009**  
**AND**  
**YEAR-TO-DATE 2010 vs. YEAR-TO-DATE 2009**

**OVERVIEW**

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

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

**RESULTS OF OPERATIONS***Net Income*

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$13.6	7.7	\$70.1	21.7

Alabama Power's net income after dividends on preferred and preference stock for the second quarter 2010 was \$189.9 million compared to \$176.3 million for the corresponding period in 2009. Alabama Power's net income after dividends on preferred and preference stock for year-to-date 2010 was \$392.7 million compared to \$322.6 million for the corresponding period in 2009. The increases when compared to the corresponding periods in 2009 were primarily due to increases in rates under Rate Stabilization and Equalization Plan (Rate RSE) and Rate Certificated New Plant for environmental costs (Rate CNP Environmental) that took effect January 2010, warmer weather in the second quarter 2010 as well as significantly colder weather in the first quarter 2010, and increases in industrial sales. The increases in revenues were partially offset by increases in operations and maintenance expenses and depreciation and amortization and a reduction in AFUDC equity.

The increases in rates under Rate RSE and Rate CNP Environmental were offset by decreases in Rate ECR and the costs associated with the expiration of a PPA certificated by the Alabama PSC, resulting in an overall annual reduction in Alabama Power's retail customer billing rates in 2010. See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Retail Rate Adjustments of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Retail Regulatory Matters in Item 8 of the Form 10-K for additional information.



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

**Retail Revenues**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$102.3	9.2	\$220.1	10.1

In the second quarter 2010, retail revenues were \$1.22 billion compared to \$1.12 billion for the corresponding period in 2009. For year-to-date 2010, retail revenues were \$2.40 billion compared to \$2.18 billion for the corresponding period in 2009.

Details of the change to retail revenues are as follows:

	<b>Second Quarter 2010</b>		<b>Year-to-Date 2010</b>	
	<i>(in millions)</i>	<i>(% change)</i>	<i>(in millions)</i>	<i>(% change)</i>
Retail prior year	\$1,119.6		\$2,177.7	
Estimated change in				
Rates and pricing	66.4	5.9	128.3	5.9
Sales growth (decline)	6.4	0.6	8.1	0.4
Weather	23.0	2.1	81.1	3.7
Fuel and other cost recovery	6.5	0.6	2.7	0.1
Retail current year	\$1,221.9	9.2%	\$2,397.9	10.1%

Revenues associated with changes in rates and pricing increased in the second quarter and year-to-date 2010 when compared to the corresponding periods in 2009 primarily due to Rate RSE and Rate CNP Environmental increases effective January 2010.

Revenues attributable to changes in sales increased in the second quarter 2010 when compared to the corresponding period in 2009. Industrial KWH energy sales increased 18.4% due to an increase in demand primarily in the chemicals and primary metals sectors. Weather-adjusted residential KWH energy sales increased 1.4% driven by an increase in demand. Weather-adjusted commercial KWH energy sales decreased 3.0% due to a decline in the number of customers and demand.

Revenues attributable to changes in sales increased year-to-date 2010 when compared to the corresponding period in 2009. Industrial KWH energy sales increased 14.4% due to an increase in demand primarily in the chemicals and primary metals sectors. Weather-adjusted residential KWH energy sales increased 2.0% driven by an increase in demand. Weather-adjusted commercial KWH energy sales decreased 2.0% driven by a decline in the number of customers.

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

Fuel and other cost recovery revenues increased in the second quarter and year-to-date 2010 when compared to the corresponding periods in 2009 primarily due to increases in fuel costs associated with increased generation. These increases were offset primarily by a decrease in costs associated with the expiration of a PPA certificated by the Alabama PSC and a reduction in the Rate Natural Disaster Reserve (NDR) customer billing rate as a result of achieving the target reserve balance. Electric rates include provisions to recognize the full recovery of fuel costs,

purchased power costs, PPAs certificated by the Alabama PSC, and costs associated with the NDR. Under these provisions, fuel and other cost recovery revenues generally equal fuel and other cost recovery expenses and do not impact net income.

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

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

**Wholesale Revenues Non-Affiliates**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(16.4)	(10.7)	\$(3.3)	(1.0)

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

In the second quarter 2010, wholesale revenues from non-affiliates were \$137.5 million compared to \$153.9 million for the corresponding period in 2009. This decrease was primarily due to 25.2% decrease in KWH sales, partially offset by a 19.5% increase in the price of energy. In May 2010, the long-term unit power sales contracts expired and the unit power sales capacity revenues ceased, resulting in a \$23.0 million revenue reduction. Beginning in June 2010, such capacity subject to the unit power sales contracts became available for retail service. See MANAGEMENT'S DISCUSSION AND ANALYSIS RESULTS OF OPERATIONS Operating Revenues of Alabama Power in Item 7 of the Form 10-K for additional information.

For year-to-date 2010, the decrease in wholesale revenues from non-affiliates when compared to the corresponding period in 2009 was not material.

**Wholesale Revenues Affiliates**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(0.2)	(0.3)	\$13.9	10.1

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

In the second quarter 2010, the decrease in wholesale revenues from affiliates when compared to the corresponding period in 2009 was not material.

For year-to-date 2010, wholesale revenues from affiliates were \$150.7 million compared to \$136.8 million for the corresponding period in 2009. The increase was primarily due to a 6.2% increase in price and a 3.7% increase in KWH sales.

**Other Revenues**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$10.0	24.8	\$20.4	25.8

In the second quarter 2010, other revenues were \$50.5 million compared to \$40.5 million for the corresponding period in 2009. This increase was due to a \$4.9 million increase in revenues from gas-fueled co-generation steam facilities as a

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result of greater sales volume; a \$3.1 million increase in transmission sales; and a \$1.1 million increase in customer charges related to reconnection fees.

For year-to-date 2010, other revenues were \$99.5 million compared to \$79.1 million for the corresponding period in 2009. This increase was due to a \$7.7 million increase in revenues from gas-fueled co-generation steam facilities as a result of greater sales volume; a \$4.5 million increase in transmission sales; a \$1.7 million increase in customer charges related to reconnection and late fees; a \$1.2 million increase in pole attachment rentals; and a \$1.1 million increase in miscellaneous service revenues.

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

**Fuel and Purchased Power Expenses**

	Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel*	\$ 18.6	4.1	\$ 24.4	2.6
Purchased power – non-affiliates	(13.5)	(51.3)	(11.1)	(26.6)
Purchased power – affiliates	(4.5)	(8.0)	5.6	5.7
Total fuel and purchased power expenses	\$ 0.6		\$ 18.9	

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

In the second quarter and year-to-date 2010, the increase in total fuel and purchased power expenses, when compared to the corresponding periods in 2009, was not material.

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:

	Second Quarter 2010	Second Quarter 2009	Percent Change	Year-to-Date 2010	Year-to-Date 2009	Percent Change
	(cents per net KWH)			(cents per net KWH)		
Average Cost	2.82	2.78	1.4	2.81	2.85	(1.4)
Fuel	6.19	6.01	3.0	6.65	6.06	9.7
Purchased power						

In the second quarter and year-to-date 2010, the increase in fuel expense, when compared to the corresponding periods in 2009, was not material.

**Non-Affiliates**

In the second quarter 2010, purchased power expense from non-affiliates was \$12.7 million compared to \$26.2 million for the corresponding period in 2009. This decrease was primarily related to a 53.3% decrease in the amount of energy purchased.



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For year-to-date 2010, purchased power expense from non-affiliates was \$30.6 million compared to \$41.7 million for the corresponding period in 2009. This decrease was related to a 38.2% decrease in the amount of energy purchased, partially offset by an 18.9% increase in the average cost per KWH.

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

**Affiliates**

In the second quarter 2010, the decrease in purchased power expense from affiliates when compared to the corresponding period in 2009 was not material. For year-to-date 2010, the increase in purchased power expense from affiliates when compared to the corresponding period in 2009 was not material.

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

**Other Operations and Maintenance Expenses**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$30.5	11.0	\$64.4	11.6

In the second quarter 2010, other operations and maintenance expenses were \$308.8 million compared to \$278.3 million for the corresponding period in 2009. Steam production expenses increased \$11.0 million due to environmental mandates (which are offset by revenues associated with Rate CNP Environmental) and maintenance costs related to increases in labor. Administrative and general expenses increased \$10.5 million related to increases in affiliated service companies' expenses and the injuries and damages reserve. Nuclear production expenses increased \$4.7 million due to maintenance costs related to increases in labor.

For year-to-date 2010, other operations and maintenance expenses were \$619.6 million compared to \$555.2 million for the corresponding period in 2009. Steam production expenses increased \$36.1 million due to scheduled outage costs, environmental mandates (which are offset by revenues associated with Rate CNP Environmental), and maintenance costs related to increases in labor and materials expenses. Administrative and general expenses increased \$22.7 million due to increases in affiliated service companies' expenses, the injuries and damages reserve, property insurance expenses, and labor, partially offset by a reduction in employee medical and other benefit-related expenses. Nuclear production expenses increased \$4.0 million due to maintenance costs related to increases in labor.

**Depreciation and Amortization**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$25.8	20.4	\$27.7	10.3

In the second quarter 2010, depreciation and amortization was \$152.3 million compared to \$126.5 million for the corresponding period in 2009. This increase was due to additions of property, plant, and equipment primarily related to steam power, environmental mandates (which are offset by revenues associated with Rate CNP Environmental), and transmission projects.

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For year-to-date 2010, depreciation and amortization was \$297.6 million compared to \$269.9 million for the corresponding period in 2009. This increase was due to additions of property, plant, and equipment primarily related to environmental mandates (which are offset by revenues associated with Rate CNP Environmental), distribution, and transmission projects.

**Allowance for Funds Used During Construction**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(12.0)	(62.7)	\$(15.4)	(43.2)

In the second quarter 2010, AFUDC equity was \$7.1 million compared to \$19.1 million for the corresponding period in 2009. For year-to-date 2010, AFUDC equity was \$20.4 million compared to \$35.8 million for the corresponding period in 2009. These decreases were due to the completion of construction projects related to environmental mandates at generating facilities, partially offset by increases in nuclear facility and general plant projects.

**Income Taxes**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$13.5	12.8	\$50.8	26.7

In the second quarter 2010, income taxes were \$118.9 million compared to \$105.4 million for the corresponding period in 2009. For year-to-date 2010, income taxes were \$241.1 million compared to \$190.3 million for the corresponding period in 2009. These increases were primarily due to higher pre-tax earnings and a reduction of the tax benefits associated with a decrease in AFUDC equity.

**FUTURE EARNINGS POTENTIAL**

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

**Environmental Matters**

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





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***Carbon Dioxide Litigation***

*New York Case*

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation New York Case of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Environmental Matters Carbon Dioxide Litigation New York Case in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation. The U.S. Court of Appeals for the Second Circuit denied the defendants' petition for rehearing en banc on March 5, 2010 and granted the defendants' request to stay the mandate to allow the defendants to file a petition for writ of certiorari with the U.S. Supreme Court on March 16, 2010. On August 2, 2010, the defendants filed a petition for writ of certiorari with the U.S. Supreme Court. The ultimate outcome of these matters cannot be determined at this time.

*Other Litigation*

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation Other Litigation of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Environmental Matters Carbon Dioxide Litigation Other Litigation in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation related to Hurricane Katrina. On May 28, 2010, the U.S. Court of Appeals for the Fifth Circuit dismissed the plaintiffs' appeal of the case based on procedural grounds relating to the loss of a quorum by the full court on reconsideration, reinstating the district court decision in favor of the defendants. The plaintiffs have until August 26, 2010 to file a petition for writ of certiorari with the U.S. Supreme Court. The ultimate outcome of this matter cannot be determined at this time.

***Air Quality***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Air Quality of Alabama Power in Item 7 of the Form 10-K for information regarding proposed sulfur dioxide (SO<sub>2</sub>) regulations. On June 2, 2010, the EPA issued its final revisions to the National Ambient Air Quality Standard for SO<sub>2</sub>, including the establishment of a new short-term standard. The ultimate impact of the revised standard will depend on additional regulatory action, state implementation, and the outcome of any legal challenges, and cannot be determined at this time.

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

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Air Quality of Alabama Power in Item 7 of the Form 10-K for information regarding the Clean Air Interstate Rule (CAIR). On August 2, 2010, the EPA published a proposed rule to replace CAIR, which was overturned by the U.S. Court of Appeals for the D.C. Circuit in 2008 but left in place pending the promulgation of a replacement rule. This proposed rule, referred to as the Transport Rule, would require 31 eastern states and the District of Columbia (D.C.) to reduce power plant emissions of SO<sub>2</sub> and nitrogen oxides (NO<sub>x</sub>) that contribute to downwind states' nonattainment of federal ozone and/or fine particulate matter ambient air quality standards. To address fine particulate matter standards, the proposed Transport Rule would require D.C. and 27 eastern states, including Alabama, to reduce annual emissions of SO<sub>2</sub> and NO<sub>x</sub> from power plants. To address ozone standards,

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the proposed Transport Rule would also require D.C. and 25 states, including Alabama, to achieve additional reductions in NO<sub>x</sub> emissions from power plants during the ozone season. The proposed Transport Rule contains a preferred option that would allow limited interstate trading of emissions allowances; however, the EPA also requests comment on two alternative approaches that would not allow interstate trading of emissions allowances. The EPA states that it also intends to develop a second phase of the Transport Rule next year to address the more stringent ozone air quality standards as they are finalized. The EPA expects to finalize the Transport Rule in late spring of 2011 and to set the initial compliance deadline starting in 2012. The impact of this proposed regulation and potential future regulation will depend on its final form, state implementation, and the outcome of any legal challenges, and cannot be determined at this time.

These regulations could result in significant additional compliance and operational costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

***Coal Combustion Byproducts***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Coal Combustion Byproducts of Alabama Power in Item 7 of the Form 10-K for information regarding potential additional regulation of coal combustion byproducts. On June 21, 2010, the EPA published a rulemaking proposal which requested comments on two potential regulatory options for management and disposal of coal combustion byproducts: regulation as a solid waste or regulation as a hazardous waste. Adoption of either option could require closure of or significant change to existing storage units and construction of lined landfills, as well as additional waste management and groundwater monitoring requirements. Under both options, the EPA proposes to exempt the beneficial reuse of coal combustion byproducts from regulation; however, the final regulation could significantly alter the options available for beneficial reuse. The outcome of these proposed regulations will depend on their final form and the outcome of any legal challenges, and cannot be determined at this time. However, additional regulation of coal combustion byproducts could have a significant impact on Alabama Power's management, beneficial use, and disposal of such byproducts. These changes could result in significant additional compliance and operational costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

***Global Climate Issues***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Global Climate Issues of Alabama Power in Item 7 of the Form 10-K for information regarding the potential for legislation and regulation addressing greenhouse gas and other emissions. On April 1, 2010, the EPA issued a final rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that, once this rule becomes effective on January 2, 2011, carbon dioxide and other greenhouse gases will become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. On May 13, 2010, the EPA issued a final rule governing how these programs would be applied to stationary sources, including power plants. This rule establishes two phases for applying PSD and Title V requirements to greenhouse gas emissions sources. The first phase, beginning on January 2, 2011, will apply to sources and projects that would already be covered under PSD or Title V, whereas the second phase, beginning July 1, 2011, will apply to sources and projects that would not otherwise trigger those programs but for their greenhouse gas emissions. The ultimate outcome of these final rules cannot be determined at this time and will depend on the outcome of any legal challenges.

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**FERC and Alabama PSC Matters**

***Retail Fuel Cost Recovery***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Fuel Cost Recovery of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Retail Regulatory Matters Fuel Cost Recovery in Item 8 of the Form 10-K for information regarding Alabama Power's fuel cost recovery. Alabama Power's over recovered fuel costs as of June 30, 2010 totaled \$98.8 million as compared to \$199.6 million at December 31, 2009. These over recovered fuel costs at June 30, 2010 are included in over recovered regulatory clause revenues and deferred over recovered regulatory clause revenues on Alabama Power's Condensed Balance Sheets herein. The current and deferred classifications are based on estimates which include such factors as weather, generation availability, energy demand, and the price of energy. A change in any of these factors could have a material impact on the timing of any return of the over recovered fuel costs.

***Natural Disaster Cost Recovery***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Natural Disaster Reserve of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Retail Regulatory Matters Natural Disaster Reserve in Item 8 of the Form 10-K for information regarding natural disaster cost recovery. At June 30, 2010, Alabama Power had an accumulated balance of \$77.3 million in the target reserve for future storms, which is included in the Condensed Balance Sheets herein under other regulatory liabilities, deferred.

***Hydro Relicensing***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL FERC Matters of Alabama Power in Item 7 of the Form 10-K for information regarding Alabama Power's applications to the FERC for new licenses for certain of its hydroelectric projects. On March 31, 2010, the FERC issued a new 30-year license for the Lewis Smith and Bankhead developments on the Warrior River. The new license authorizes Alabama Power to continue operating these facilities in a manner consistent with past operations. On April 30, 2010, a stakeholders group filed a request for rehearing of the FERC order issuing the new license. On May 27, 2010, the FERC granted the rehearing request for the limited purpose of allowing the FERC additional time to consider the substantive issues raised in the request. The rules of the FERC provide that if a request for rehearing is not acted upon within 30 days, it is deemed denied. The ultimate outcome of this matter cannot be determined at this time.

**Legislation**

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

***Healthcare Reform***

On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law and, on March 30, 2010, the Health Care and Education Reconciliation Act of 2010 (HCERA and, together with PPACA, the Acts), which makes various amendments to certain aspects of the PPACA, was signed into law. The Acts effectively change the tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide prescription drug benefits that are at least actuarially equivalent to the corresponding benefits provided under Medicare Part D. The federal subsidy paid to employers was introduced as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MPDIMA). Since the 2006 tax year, Alabama Power has been receiving the federal subsidy related to certain

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

***Stimulus Funding***

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

On May 12, 2010, Alabama Power signed an agreement with the DOE formally accepting a \$6 million grant under the ARRA. This funding will be used for hydro generation upgrades. The total upgrade project is expected to cost \$30 million and Alabama Power plans to spend \$24 million on the project.

**Other Matters**

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

The extent of coastal contamination resulting from the oil spill that began in April 2010 in the Gulf of Mexico has potential impacts on certain steam plant operations as well as potential significant economic impacts on the affected areas within Alabama Power's service territory. The ultimate impact of this matter cannot be determined at this time. See the Notes to the Condensed Financial Statements herein for discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

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**ACCOUNTING POLICIES**

**Application of Critical Accounting Policies and Estimates**

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

**FINANCIAL CONDITION AND LIQUIDITY**

**Overview**

Alabama Power's financial condition remained stable at June 30, 2010. Alabama Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See Sources of Capital and Financing Activities herein for additional information. Net cash provided from operating activities totaled \$497.7 million for the first six months of 2010, compared to \$540.1 million for the corresponding period in 2009. The \$42.4 million decrease in cash provided from operating activities was primarily due to less cash collections of regulatory clause revenues when compared to the prior year, partially offset by increases in net income and deferred income taxes. Net cash used for investing activities totaled \$546.5 million in the first six months of 2010 primarily due to gross property additions related to steam generation equipment and construction payables. Net cash used for financing activities totaled \$219.2 million for the first six months of 2010, compared to \$252.3 million provided in the corresponding period in 2009. The \$471.5 million decrease is primarily due to fewer issuances of securities and an increase in notes payable. Fluctuations in cash flow from financing activities vary from year to year based on capital needs and the maturity or redemption of securities. Significant balance sheet changes for the first six months of 2010 include increases of \$206.7 million in total property, plant, and equipment primarily due to increases in environmental-related equipment and nuclear fuel; \$107.2 million in accumulated deferred income taxes; \$77.1 million in prepaid expenses; \$44.2 million in customer accounts receivable; \$31.7 million in unbilled revenues; and \$26.0 million in other deferred charges and assets.

**Capital Requirements and Contractual Obligations**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Alabama Power in Item 7 of the Form 10-K for a description of Alabama Power's capital requirements for its construction program, scheduled maturities of long-term debt, interest, derivative obligations, preferred and preference stock dividends, leases, purchase commitments, and trust funding requirements. Approximately \$300 million will be required through June 30, 2011 to fund maturities of long-term debt. The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in environmental statutes and regulations; changes in generating plants to meet new regulatory

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requirements; changes in FERC rules and regulations; Alabama PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

**Sources of Capital**

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

Alabama Power's current liabilities sometimes exceed current assets because of Alabama Power's debt due within one year and the periodic use of short-term debt as a funding source primarily to meet scheduled maturities of long-term debt, as well as cash needs, which can fluctuate significantly due to the seasonality of the business. To meet short-term cash needs and contingencies, Alabama Power had at June 30, 2010 cash and cash equivalents of approximately \$100 million and unused committed credit arrangements with banks of approximately \$1.3 billion. Of the unused credit arrangements, \$333 million expire in 2010, \$173 million expire in 2011, and \$765 million expire in 2012. Of the credit arrangements that expire in 2010, \$333 million contain provisions allowing for one-year term loans executable at expiration. Alabama Power expects to renew its credit arrangements, as needed, prior to expiration. The credit arrangements provide liquidity support to Alabama Power's commercial paper borrowings and \$744 million are dedicated to funding purchase obligations related to variable rate pollution control revenue bonds. Subsequent to June 30, 2010, Alabama Power renewed a \$200 million credit agreement which contains a provision allowing a one-year term loan executable at expiration and extended the expiration date to 2011. See Note 6 to the financial statements of Alabama Power under Bank Credit Arrangements in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under Bank Credit Arrangements herein for additional information. Alabama Power may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of Alabama Power and other Southern Company subsidiaries. At June 30, 2010, Alabama Power had \$60 million of commercial paper borrowings outstanding. Management believes that the need for working capital can be adequately met by utilizing commercial paper programs, lines of credit, and cash.

**Credit Rating Risk**

Alabama Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- and/or Baa3 or below. These contracts are primarily for physical electricity purchases, fuel purchases, fuel transportation and storage, and energy price risk management. At June 30, 2010, the maximum potential collateral requirements under these contracts at a BBB- and/or Baa3 rating were approximately \$2 million. At June 30, 2010, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately \$336 million. Included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Alabama Power's ability to access capital markets, particularly the short-term debt market.

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

applicable to the collateral requirements described above.



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

**Market Price Risk**

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

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

The changes in fair value of energy-related derivative contracts, the majority of which are composed of regulatory hedges, for the three and six months ended June 30, 2010 were as follows:

	<b>Second Quarter 2010 Changes</b>	<b>Year-to-Date 2010 Changes</b>
	Fair Value (in millions)	
Contracts outstanding at the beginning of the period, assets (liabilities), net	\$(67)	\$ (44)
Contracts realized or settled	20	34
Current period changes <sup>(a)</sup>	2	(35)
Contracts outstanding at the end of the period, assets (liabilities), net	\$(45)	\$ (45)

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

The change in the fair value positions of the energy-related derivative contracts for the three months and six months ended June 30, 2010 was an increase of \$22 million and a decrease of \$1 million, respectively, substantially all of which is due to natural gas positions. The change is attributable to both the volume and prices of natural gas. At June 30, 2010, Alabama Power had a net hedge volume of 31 million mmBtu with a weighted average contract cost of approximately \$1.47 per mmBtu above market prices, compared to 32 million mmBtu at March 31, 2010 with a weighted average contract cost of approximately \$2.07 per mmBtu above market prices and 36 million mmBtu at December 31, 2009 with a weighted average contract cost of approximately \$1.22 per mmBtu above market prices. The majority of the natural gas hedges are recovered through the fuel cost recovery clause.

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

Unrealized pre-tax gains and losses recognized in income for the three and six months ended June 30, 2010 and 2009 for energy-related derivative contracts that are not hedges were not material.

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The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at June 30, 2010 are as follows:

	<b>June 30, 2010</b>			
	Total Fair Value	<b>Fair Value Measurements</b>		
		Year 1	Maturity Years 2&3	Years 4&5
	<i>(in millions)</i>			
Level 1	\$	\$	\$	\$
Level 2	(45)	(32)	(13)	
Level 3				
Fair value of contracts outstanding at end of period	\$(45)	\$(32)	\$(13)	\$

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

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

**Financing Activities**

Alabama Power did not issue or redeem any securities during the six months ended June 30, 2010.

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

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**GEORGIA POWER COMPANY**

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Operating Revenues:</b>				
Retail revenues	\$ 1,826,411	\$ 1,682,225	\$ 3,617,985	\$ 3,274,620
Wholesale revenues, non-affiliates	88,605	96,570	198,229	192,556
Wholesale revenues, affiliates	11,863	29,623	26,274	44,833
Other revenues	72,626	65,896	141,182	128,146
<b>Total operating revenues</b>	<b>1,999,505</b>	1,874,314	<b>3,983,670</b>	3,640,155
<b>Operating Expenses:</b>				
Fuel	757,380	652,889	1,514,881	1,253,379
Purchased power, non-affiliates	83,843	70,817	165,541	132,770
Purchased power, affiliates	132,061	172,418	293,998	369,641
Other operations and maintenance	399,972	353,562	789,253	744,055
Depreciation and amortization	130,046	175,080	244,228	342,191
Taxes other than income taxes	85,166	81,008	165,640	157,256
<b>Total operating expenses</b>	<b>1,588,468</b>	1,505,774	<b>3,173,541</b>	2,999,292
<b>Operating Income</b>	<b>411,037</b>	368,540	<b>810,129</b>	640,863
<b>Other Income and (Expense):</b>				
Allowance for equity funds used during construction	35,923	22,313	70,655	43,067
Interest income	382	(197)	795	1,033
Interest expense, net of amounts capitalized	(87,333)	(99,425)	(180,322)	(197,815)
Other income (expense), net	(1,665)	2,531	(7,213)	(4,189)
<b>Total other income and (expense)</b>	<b>(52,693)</b>	(74,778)	<b>(116,085)</b>	(157,904)
<b>Earnings Before Income Taxes</b>	<b>358,344</b>	293,762	<b>694,044</b>	482,959
Income taxes	115,810	99,682	209,182	162,310
<b>Net Income</b>	<b>242,534</b>	194,080	<b>484,862</b>	320,649
<b>Dividends on Preferred and Preference Stock</b>	<b>4,346</b>	4,346	<b>8,691</b>	8,691
<b>Net Income After Dividends on Preferred and Preference Stock</b>	<b>\$ 238,188</b>	\$ 189,734	<b>\$ 476,171</b>	\$ 311,958

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009

	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Net Income After Dividends on Preferred and Preference Stock</b>	<b>\$ 238,188</b>	\$ 189,734	<b>\$ 476,171</b>	\$ 311,958
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of \$(11), \$(905), \$(6), and \$275, respectively	<b>(17)</b>	(1,435)	<b>(9)</b>	435
Reclassification adjustment for amounts included in net income, net of tax of \$1,959, \$2,427, \$3,757, and \$4,170, respectively	<b>3,105</b>	3,848	<b>5,956</b>	6,611
<b>Total other comprehensive income (loss)</b>	<b>3,088</b>	2,413	<b>5,947</b>	7,046
<b>Comprehensive Income</b>	<b>\$ 241,276</b>	\$ 192,147	<b>\$ 482,118</b>	\$ 319,004

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

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

	For the Six Months Ended June 30,	
	2010	2009
	<i>(in thousands)</i>	
<b>Operating Activities:</b>		
Net income	\$ 484,862	\$ 320,649
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization, total	325,760	402,086
Deferred income taxes	85,220	54,721
Deferred revenues	(42,679)	(20,929)
Deferred expenses	17,653	20,523
Allowance for equity funds used during construction	(70,655)	(43,067)
Pension, postretirement, and other employee benefits	(10,197)	(11,543)
Hedge settlements		(16,167)
Insurance cash surrender value		23,041
Other, net	(26,623)	19,094
Changes in certain current assets and liabilities		
-Receivables	(146,893)	(126,080)
-Fossil fuel stock	59,474	(222,837)
-Prepaid income taxes	12,115	(20,298)
-Other current assets	(9,879)	(14,914)
-Accounts payable	80,057	120,228
-Accrued taxes	(104,101)	(74,291)
-Accrued compensation	13,061	(103,764)
-Other current liabilities	26,458	31,345
Net cash provided from operating activities	693,633	337,797
<b>Investing Activities:</b>		
Property additions	(1,112,468)	(1,208,114)
Distribution of restricted cash from pollution control revenue bonds		15,566
Nuclear decommissioning trust fund purchases	(431,844)	(699,359)
Nuclear decommissioning trust fund sales	404,504	664,633
Nuclear decommissioning trust securities lending collateral	23,878	31,264
Cost of removal, net of salvage	(29,769)	(33,041)
Change in construction payables, net of joint owner portion	22,584	103,558
Other investing activities	4,667	12,646
Net cash used for investing activities	(1,118,448)	(1,112,847)
<b>Financing Activities:</b>		
Increase (decrease) in notes payable, net	(8,033)	114,439
Proceeds		
Capital contributions from parent company	569,709	602,968
Senior notes issuances	950,000	500,000

Other long-term debt issuances		750
Redemptions		
Senior notes	(601,400)	(151,928)
Other long-term debt	(2,500)	
Payment of preferred and preference stock dividends	(8,700)	(8,758)
Payment of common stock dividends	(410,000)	(369,450)
Other financing activities	(13,964)	(7,963)
Net cash provided from financing activities	475,112	680,058
<b>Net Change in Cash and Cash Equivalents</b>	<b>50,297</b>	<b>(94,992)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>14,309</b>	<b>132,739</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 64,606</b>	<b>\$ 37,747</b>

**Supplemental Cash Flow Information:**

Cash paid during the period for		
Interest (net of \$26,404 and \$18,986 capitalized for 2010 and 2009, respectively)	\$ 172,335	\$ 167,890
Income taxes (net of refunds)	\$ 95,814	\$ 79,141

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

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

<b>Assets</b>	<b>At June 30, 2010</b>	<b>At December 31, 2009</b>
	<i>(in thousands)</i>	
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 64,606	\$ 14,309
Receivables		
Customer accounts receivable	596,015	486,885
Unbilled revenues	224,951	172,035
Under recovered regulatory clause revenues	177,265	291,837
Joint owner accounts receivable	137,400	146,932
Other accounts and notes receivable	61,281	62,758
Affiliated companies	32,906	11,775
Accumulated provision for uncollectible accounts	(10,130)	(9,856)
Fossil fuel stock, at average cost	666,792	726,266
Materials and supplies, at average cost	362,247	362,803
Vacation pay	74,291	74,566
Prepaid income taxes	108,523	132,668
Other regulatory assets, current	80,500	76,634
Other current assets	49,415	62,651
<b>Total current assets</b>	<b>2,626,062</b>	<b>2,612,263</b>
<b>Property, Plant, and Equipment:</b>		
In service	25,931,241	25,120,034
Less accumulated provision for depreciation	9,731,877	9,493,068
<b>Plant in service, net of depreciation</b>	<b>16,199,364</b>	<b>15,626,966</b>
Nuclear fuel, at amortized cost	373,327	339,810
Construction work in progress	2,732,607	2,521,091
<b>Total property, plant, and equipment</b>	<b>19,305,298</b>	<b>18,487,867</b>
<b>Other Property and Investments:</b>		
Equity investments in unconsolidated subsidiaries	67,666	66,106
Nuclear decommissioning trusts, at fair value	579,520	580,322
Miscellaneous property and investments	38,225	38,516
<b>Total other property and investments</b>	<b>685,411</b>	<b>684,944</b>
<b>Deferred Charges and Other Assets:</b>		
Deferred charges related to income taxes	692,440	608,851
Deferred under recovered regulatory clause revenues	479,896	373,245
Other regulatory assets, deferred	1,385,830	1,321,904
Other deferred charges and assets	197,930	205,492



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Total deferred charges and other assets	<b>2,756,096</b>	2,509,492
<b>Total Assets</b>	<b>\$ 25,372,867</b>	\$ 24,294,566

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

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

<b>Liabilities and Stockholder's Equity</b>	<b>At June 30, 2010</b>	<b>At December 31, 2009</b>
	<i>(in thousands)</i>	
<b>Current Liabilities:</b>		
Securities due within one year	\$ 403,898	\$ 253,882
Notes payable	315,925	323,958
Accounts payable		
Affiliated	303,599	238,599
Other	659,546	602,003
Customer deposits	202,327	200,103
Accrued taxes		
Accrued income taxes	30,533	548
Unrecognized tax benefits	167,618	164,863
Other accrued taxes	171,328	290,174
Accrued interest	88,719	89,228
Accrued vacation pay	55,098	57,662
Accrued compensation	58,593	42,756
Liabilities from risk management activities	52,390	49,788
Other cost of removal obligations, current	108,000	216,000
Other regulatory liabilities, current	52,838	99,807
Other current liabilities	137,394	84,319
<b>Total current liabilities</b>	<b>2,807,806</b>	<b>2,713,690</b>
<b>Long-term Debt</b>	<b>7,971,643</b>	<b>7,782,340</b>
<b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	3,527,777	3,389,907
Deferred credits related to income taxes	131,218	133,683
Accumulated deferred investment tax credits	235,876	242,496
Employee benefit obligations	914,733	923,177
Asset retirement obligations	694,213	676,705
Other cost of removal obligations	119,709	124,662
Other deferred credits and liabilities	153,752	139,024
<b>Total deferred credits and other liabilities</b>	<b>5,777,278</b>	<b>5,629,654</b>
<b>Total Liabilities</b>	<b>16,556,727</b>	<b>16,125,684</b>
<b>Preferred Stock</b>	<b>44,991</b>	<b>44,991</b>
<b>Preference Stock</b>	<b>220,966</b>	<b>220,966</b>
<b>Common Stockholder's Equity:</b>		
Common stock, without par value		

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Authorized - 20,000,000 shares		
Outstanding - 9,261,500 shares	<b>398,473</b>	398,473
Paid-in capital	<b>5,167,490</b>	4,592,350
Retained earnings	<b>2,999,105</b>	2,932,934
Accumulated other comprehensive loss	<b>(14,885)</b>	(20,832)
Total common stockholder's equity	<b>8,550,183</b>	7,902,925
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$ 25,372,867</b>	\$ 24,294,566

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

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**GEORGIA POWER COMPANY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
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**SECOND QUARTER 2010 vs. SECOND QUARTER 2009**  
**AND**  
**YEAR-TO-DATE 2010 vs. YEAR-TO-DATE 2009**

**OVERVIEW**

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

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

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

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

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$48.5	25.5	\$164.2	52.6

Georgia Power's net income after dividends on preferred and preference stock for the second quarter 2010 was \$238.2 million compared to \$189.7 million for the corresponding period in 2009. Georgia Power's year-to-date 2010 net income after dividends on preferred and preference stock was \$476.2 million compared to \$312.0 million for the corresponding period in 2009. These increases were due primarily to higher residential base revenues resulting from warmer weather in the second quarter 2010 and significantly colder weather in the first quarter 2010, and the amortization of the regulatory liability related to other cost of removal obligations that began in July 2009 as authorized by the Georgia PSC. These increases were partially offset by increases in operation and maintenance expenses.

**Retail Revenues**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$144.2	8.6	\$343.4	10.5

In the second quarter 2010, retail revenues were \$1.8 billion compared to \$1.7 billion for the corresponding period in 2009. For year-to-date 2010, retail revenues were \$3.6 billion compared to \$3.3 billion for the corresponding period in 2009.

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Details of the change to retail revenues are as follows:

	<b>Second Quarter</b>		<b>Year-to-Date</b>	
	<b>2010</b>		<b>2010</b>	
	<i>(in millions)</i>	<i>(% change)</i>	<i>(in millions)</i>	<i>(% change)</i>
Retail prior year	\$1,682.2		\$3,274.6	
Estimated change in				
Rates and pricing	(25.2)	(1.5)	(27.7)	(0.8)
Sales growth (decline)	26.1	1.6	40.1	1.2
Weather	29.6	1.8	77.6	2.4
Fuel cost recovery	113.7	6.8	253.4	7.7
Retail current year	\$1,826.4	8.7%	\$3,618.0	10.5%

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

Revenues attributable to changes in sales increased in the second quarter and year-to-date 2010 when compared to the corresponding periods in 2009. Weather-adjusted residential KWH sales increased 2.0%, weather-adjusted commercial KWH sales decreased 0.1%, and weather-adjusted industrial KWH sales increased 10.4% in the second quarter 2010 when compared to the corresponding period in 2009. Weather-adjusted residential KWH sales increased 1.6%, weather-adjusted commercial KWH sales increased 0.4%, and weather-adjusted industrial KWH sales increased 7.5% year-to-date 2010 when compared to the corresponding period in 2009.

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

Fuel revenues and costs are allocated between retail and wholesale jurisdictions. Retail fuel cost recovery revenues increased \$113.7 million in the second quarter 2010 and \$253.4 million for year-to-date 2010 when compared to the corresponding periods in 2009 due to the increase in the fuel cost recovery rate effective April 1, 2010. See Note (B) to the Condensed Financial Statements under "Retail Regulatory Matters - Fuel Cost Recovery" herein for additional information.

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

**Wholesale Revenues - Non-Affiliates**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(8.0)	(8.2)	\$5.6	2.9

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

In the second quarter 2010, wholesale revenues from non-affiliates were \$88.6 million compared to \$96.6 million in the corresponding period in 2009. This decrease was due to a 23.9% decrease in KWH sales due to lower demand because the market cost of available energy was lower than the cost of Georgia Power-owned generation.

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For year-to-date 2010, wholesale revenues from non-affiliates were \$198.2 million compared to \$192.6 million in the corresponding period in 2009. This increase was due to higher capacity revenues of \$7.9 million related to increased contributions from the environmental control component of market-based wholesale rates, partially offset by an 8.9% decrease in KWH sales due to lower demand because the market cost of available energy was lower than the cost of Georgia Power-owned generation.

**Wholesale Revenues - Affiliates**

Second Quarter 2010 vs. Second Quarter 2009	Year-to-Date 2010 vs. Year-to-Date 2009
(change in millions)	(change in millions)
(\$17.7)	\$(18.5)
(% change)	(% change)
(60.0)	(41.4)

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

In the second quarter 2010, wholesale revenues from affiliates were \$11.9 million compared to \$29.6 million for the corresponding period in 2009. For year-to-date 2010, wholesale revenues from affiliates were \$26.3 million compared to \$44.8 million for the corresponding period in 2009. These decreases were due to a 54.9% decrease and a 37.7% decrease in KWH sales due to lower demand in the second quarter 2010 and year-to-date 2010, respectively, because the market cost of available energy was lower than the cost of Georgia Power-owned generation.

**Other Revenues**

Second Quarter 2010 vs. Second Quarter 2009	Year-to-Date 2010 vs. Year-to-Date 2009
(change in millions)	(change in millions)
\$6.7	\$13.1
(% change)	(% change)
10.2	10.2

In the second quarter 2010, other revenues were \$72.6 million compared to \$65.9 million for the corresponding period in 2009. This increase was primarily due to a \$3.4 million increase in transmission revenues due to the increased usage of Georgia Power's transmission system by non-affiliated companies and an increase of \$1.3 million in outdoor lighting revenues.

For year-to-date 2010, other revenues were \$141.2 million compared to \$128.1 million for the corresponding period in 2009. This increase was due to a \$6.3 million increase in transmission revenues due to the increased usage of Georgia Power's transmission system by non-affiliated companies, an increase of \$1.8 million in pole attachment and equipment rental revenue, and an increase of \$1.4 million in outdoor lighting revenues.

**Fuel and Purchased Power Expenses**

	Second Quarter 2010	Year-to-Date 2010
	vs.	vs.
	Second Quarter 2009	Year-to-Date 2009
	(change in	(change in
	millions)	millions)
	(%)	(%)
	change)	change)
Fuel*	\$104.5	\$261.5
Purchased power - non-affiliates	13.0	32.7
Purchased power - affiliates	(40.3)	(75.6)
Total fuel and purchased power expenses	\$ 77.2	\$218.6

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



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In the second quarter 2010, total fuel and purchased power expenses were \$973.3 million compared to \$896.1 million in the corresponding period in 2009. This increase was primarily due to a \$79.4 million increase in the average cost of fuel and purchased power.

For year-to-date 2010, total fuel and purchased power expenses were \$2.0 billion compared to \$1.8 billion in the corresponding period in 2009. This increase was due to a \$179.5 million increase in the average cost of fossil and nuclear fuel and \$39.1 million related to higher KWHs generated primarily due to higher customer demand as a result of significantly colder weather in the first quarter 2010 and warmer weather in the second quarter 2010.

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

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

	Second Quarter 2010 <i>(cents per net KWH)</i>	Second Quarter 2009	Percent Change	Year-to-Date 2010 <i>(cents per net KWH)</i>	Year-to-Date 2009	Percent Change
Average Cost						
Fuel	3.75	3.40	10.3	3.76	3.32	13.3
Purchased power	5.96	5.63	5.9	6.16	5.99	2.8

In the second quarter 2010, fuel expense was \$757.4 million compared to \$652.9 million in the corresponding period in 2009. This increase was due to a 10.3% increase in the average cost of fuel per KWH and a 9.5% increase of KWHs generated as a result of higher KWH demand.

For year-to-date 2010, fuel expense was \$1.5 billion compared to \$1.3 billion in the corresponding period in 2009. This increase was due to a 13.3% increase in the average cost of fuel per KWH and a 9.9% increase of KWHs generated as a result of higher KWH demand.

*Non-Affiliates*

In the second quarter 2010, purchased power expense from non-affiliates was \$83.8 million compared to \$70.8 million in the corresponding period in 2009. This increase was due to a 41.3% increase in the average cost per KWH purchased reflecting additional tolling agreements associated with PPAs that went into effect in June 2009, partially offset by an 8.8% decrease in the volume of KWHs purchased.

For year-to-date 2010, purchased power expense from non-affiliates was \$165.5 million compared to \$132.8 million in the corresponding period in 2009. This increase was due to a 40.5% increase in the average cost per KWH purchased reflecting additional tolling agreements associated with PPAs that went into effect in June 2009, partially offset by a 4.8% decrease in the volume of KWHs purchased.

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

*Affiliates*

In the second quarter 2010, purchased power expense from affiliates was \$132.1 million compared to \$172.4 million in the corresponding period in 2009. This decrease was due to a 5.6% decrease in the average cost per KWH purchased following the expiration of a PPA in December 2009 and a 20.5% decrease in the volume of KWHs purchased.

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For year-to-date 2010, purchased power expense from affiliates was \$294.0 million compared to \$369.6 million in the corresponding period in 2009. This decrease was due to a 7.7% decrease in the average cost per KWH purchased and a 12.4% decrease in the volume of KWHs purchased following the expiration of a PPA in December 2009.

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

**Other Operations and Maintenance Expenses**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$46.4	13.1	\$45.2	6.1

In the second quarter 2010, other operations and maintenance expenses were \$400.0 million compared to \$353.6 million in the corresponding period in 2009. This increase was due to increases of \$29.0 million in power generation, \$14.6 million in transmission and distribution, and \$5.9 million in customer accounting, service, and sales primarily due to cost containment efforts as a result of the economic conditions in 2009.

For year-to-date 2010, other operations and maintenance expenses were \$789.3 million compared to \$744.1 million in the corresponding period in 2009. This increase was due to increases of \$45.8 million in power generation and \$20.1 million in transmission and distribution due to cost containment efforts as a result of the economic conditions in 2009, partially offset by a decrease of \$21.4 million in administrative and general expenses primarily due to a charge in the first quarter 2009 in connection with a voluntary attrition plan under which 579 employees elected to resign their positions effective March 31, 2009.

**Depreciation and Amortization**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(45.0)	(25.7)	\$(98.0)	(28.6)

In the second quarter 2010, depreciation and amortization was \$130.1 million compared to \$175.1 million in the corresponding period in 2009. This decrease was due to the amortization of \$54 million of the regulatory liability related to the other cost of removal obligations as authorized by the Georgia PSC, partially offset by depreciation on additional plant in service related to transmission, distribution, and environmental projects.

For year-to-date 2010, depreciation and amortization was \$244.2 million compared to \$342.2 million in the corresponding period in 2009. This decrease was due to the amortization of \$114.3 million of the regulatory liability related to the other cost of removal obligations as authorized by the Georgia PSC, partially offset by depreciation on additional plant in service related to transmission, distribution, and environmental projects.

See Note 3 to the financial statements of Georgia Power under **Retail Regulatory Matters** **Rate Plans** in Item 8 of the Form 10-K and **FUTURE EARNINGS POTENTIAL** **Georgia PSC Matters** **Rate Plans** herein for additional information on the amortization of the other cost of removal regulatory liability, which became effective in July 2009.

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**Taxes Other Than Income Taxes**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$4.2	5.1	\$8.3	5.3

In the second quarter 2010, taxes other than income taxes were \$85.2 million compared to \$81.0 million in the corresponding period in 2009. For year-to-date 2010, taxes other than income taxes were \$165.6 million compared to \$157.3 million in the corresponding period in 2009. These increases were due to higher municipal franchise fees resulting from increased retail revenues in the second quarter and year-to-date 2010.

**Allowance for Funds Used During Construction**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$13.6	61.0	\$27.6	64.1

In the second quarter 2010, AFUDC equity was \$35.9 million compared to \$22.3 million in the corresponding period in 2009. For year-to-date 2010, AFUDC equity was \$70.7 million compared to \$43.1 million in the corresponding period in 2009. These increases were due to the increase in construction work in progress balances related to three new combined cycle units at Plant McDonough, two new nuclear generating units at Plant Vogtle, and ongoing environmental and transmission projects.

**Income Taxes**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$16.1	16.2	\$46.9	28.9

In the second quarter 2010, income taxes were \$115.8 million compared to \$99.7 million in the corresponding period in 2009. This increase was due to higher pre-tax earnings, partially offset by increased state investment tax credits and non-taxable AFUDC equity.

For year-to-date 2010, income taxes were \$209.2 million compared to \$162.3 million in the corresponding period in 2009. This increase was due to higher pre-tax earnings, partially offset by a decrease in uncertain tax positions related to state income tax credits that remain subject to litigation and an increase in non-taxable AFUDC equity and state investment tax credits.

See FUTURE EARNINGS POTENTIAL – Income Tax Matters herein and Notes 3 and 5 to the financial statements of Georgia Power under Income Tax Matters and Unrecognized Tax Benefits, respectively, in Item 8 of the Form 10-K, and Note (B) to the Condensed Financial Statements under Income Tax Matters – Georgia State Income Tax Credits and Note (G) to the Condensed Financial Statements under Effective Tax Rate and Unrecognized Tax Benefits herein for additional information.

**FUTURE EARNINGS POTENTIAL**

The results of operations discussed above are not necessarily indicative of Georgia Power's future earnings potential. The level of Georgia Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Georgia Power's business of selling electricity. These factors include Georgia Power's ability to maintain a constructive regulatory environment that continues to allow for the recovery of all prudently incurred costs during a time



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of increasing costs. Future earnings in the near term will depend, in part, upon maintaining energy sales which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in Georgia Power's service area. Recessionary conditions have impacted sales; the timing and extent of the economic recovery will impact growth and may impact future earnings. For additional information relating to these issues, see RISK FACTORS in Item 1A and MANAGEMENT'S DISCUSSION AND ANALYSIS—FUTURE EARNINGS POTENTIAL of Georgia Power in Item 7 of the Form 10-K.

**Environmental Matters**

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

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

See MANAGEMENT'S DISCUSSION AND ANALYSIS—FUTURE EARNINGS POTENTIAL—Environmental Matters—Carbon Dioxide Litigation—New York Case of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under Environmental Matters—Carbon Dioxide Litigation—New York Case in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation. The U.S. Court of Appeals for the Second Circuit denied the defendants' petition for rehearing en banc on March 5, 2010 and granted the defendants request to stay the mandate to allow the defendants to file a petition for writ of certiorari with the U.S. Supreme Court on March 16, 2010. On August 2, 2010, the defendants filed a petition for writ of certiorari with the U.S. Supreme Court. The ultimate outcome of these matters cannot be determined at this time.

***Other Litigation***

See MANAGEMENT'S DISCUSSION AND ANALYSIS—FUTURE EARNINGS POTENTIAL—Environmental Matters—Carbon Dioxide Litigation—Other Litigation of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under Environmental Matters—Carbon Dioxide Litigation—Other Litigation in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation related to Hurricane Katrina. On May 28, 2010, the U.S. Court of Appeals for the Fifth Circuit dismissed the plaintiffs' appeal of the case based on procedural grounds relating to the loss of a quorum by the full court on reconsideration, reinstating the district court decision in favor of the defendants. The plaintiffs have until August 26, 2010 to file a petition for writ of certiorari with the U.S. Supreme Court. The ultimate outcome of this matter cannot be determined at this time.

***Air Quality***

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

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See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Air Quality of Georgia Power in Item 7 of the Form 10-K for information regarding proposed sulfur dioxide (SO<sub>2</sub>) regulations. On June 2, 2010, the EPA issued its final revisions to the National Ambient Air Quality Standard for SO<sub>2</sub>, including the establishment of a new short-term standard. The ultimate impact of the revised standard will depend on additional regulatory action, state implementation, and the outcome of any legal challenges, and cannot be determined at this time.

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

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Air Quality of Georgia Power in Item 7 of the Form 10-K for information regarding the Clean Air Interstate Rule (CAIR). On August 2, 2010, the EPA published a proposed rule to replace CAIR, which was overturned by the U.S. Court of Appeals for the D.C. Circuit in 2008 but left in place pending the promulgation of a replacement rule. This proposed rule, referred to as the Transport Rule, would require 31 eastern states and the District of Columbia (D.C.) to reduce power plant emissions of SO<sub>2</sub> and nitrogen oxides (NO<sub>x</sub>) that contribute to downwind states' nonattainment of federal ozone and/or fine particulate matter ambient air quality standards. To address fine particulate matter standards, the proposed Transport Rule would require D.C. and 27 eastern states, including Georgia, to reduce annual emissions of SO<sub>2</sub> and NO<sub>x</sub> from power plants. To address ozone standards, the proposed Transport Rule would also require D.C. and 25 states, including Georgia, to achieve additional reductions in NO<sub>x</sub> emissions from power plants during the ozone season. The proposed Transport Rule contains a preferred option that would allow limited interstate trading of emissions allowances; however, the EPA also requests comment on two alternative approaches that would not allow interstate trading of emissions allowances. The EPA states that it also intends to develop a second phase of the Transport Rule next year to address the more stringent ozone air quality standards as they are finalized. The EPA expects to finalize the Transport Rule in late spring of 2011 and to set the initial compliance deadline starting in 2012. The impact of this proposed regulation and potential future regulation will depend on its final form, state implementation, and the outcome of any legal challenges, and cannot be determined at this time.

These regulations could result in significant additional compliance and operational costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

***Coal Combustion Byproducts***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Coal Combustion Byproducts of Georgia Power in Item 7 of the Form 10-K for information regarding potential additional regulation of coal combustion byproducts. On June 21, 2010, the EPA published a rulemaking proposal which requested comments on two potential regulatory options for management and disposal of coal combustion byproducts: regulation as a solid waste or regulation as a hazardous waste. Adoption of either option could require closure of or significant change to existing storage units and construction of lined landfills, as well as additional waste management and groundwater monitoring requirements. Under both options, the EPA proposes to exempt the beneficial reuse of coal combustion byproducts from regulation; however, the final regulation could significantly alter the options available for beneficial reuse. The outcome of these proposed regulations will depend on their final form and the outcome of any legal challenges, and cannot be determined at this time. However, additional



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regulation of coal combustion byproducts could have a significant impact on Georgia Power's management, beneficial use, and disposal of such byproducts. These changes could result in significant additional compliance and operational costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

***Global Climate Issues***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Global Climate Issues of Georgia Power in Item 7 of the Form 10-K for information regarding the potential for legislation and regulation addressing greenhouse gas and other emissions. On April 1, 2010, the EPA issued a final rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that, once this rule becomes effective on January 2, 2011, carbon dioxide and other greenhouse gases will become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. On May 13, 2010, the EPA issued a final rule governing how these programs would be applied to stationary sources, including power plants. This rule establishes two phases for applying PSD and Title V requirements to greenhouse gas emissions sources. The first phase, beginning on January 2, 2011, will apply to sources and projects that would already be covered under PSD or Title V, whereas the second phase, beginning July 1, 2011, will apply to sources and projects that would not otherwise trigger those programs but for their greenhouse gas emissions. The ultimate outcome of these final rules cannot be determined at this time and will depend on the outcome of any legal challenges.

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

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Fuel Cost Recovery of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under Retail Regulatory Matters Fuel Cost Recovery in Item 8 of the Form 10-K for information regarding Georgia Power's fuel cost recovery. As of June 30, 2010, Georgia Power had a total under recovered fuel cost balance of approximately \$657.2 million compared to \$665.1 million at December 31, 2009. Fuel cost recovery revenues, as recorded on the financial statements, are adjusted for differences in actual recoverable fuel costs and amounts billed in current regulated rates. Accordingly, any changes in the billing factor will not have a significant effect on Georgia Power's revenues or net income, but will affect cash flow.

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

***Rate Plans***

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



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

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

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

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

- § Creation of a new Certified Capacity Cost Recovery (CCCR) tariff to recover costs related to new capacity additions certified by the Georgia PSC and updated through applicable project construction monitoring reports and hearings.
- § Continuation and enhancement of the ECCR and DSM-Residential tariffs from the 2007 Retail Rate Plan and creation of a DSM-Commercial tariff to recover environmental capital and operating costs resulting from governmental mandates and DSM costs approved and certified by the Georgia PSC.

§

Implementation of an annual review of the MFF tariff to adjust for changes in relative gross receipts between customers served inside and outside municipal boundaries.

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These proposed enhancements would become effective in 2012 with revenue requirements for each tariff updated through separate compliance filings based on Georgia Power's budget for the upcoming year. Based on Georgia Power's 2010 budget, earnings are currently projected to be slightly below the proposed ROE band in 2012 and within the band in 2013. However, updated budgets and revenue forecasts may eliminate, increase or decrease the need for an ACR tariff adjustment in either year. In addition, Georgia Power currently estimates the ECCR tariff would increase by \$120 million in 2012 and would decrease by \$12 million in 2013. The CCCR tariff would begin recovering the costs of Plant McDonough Units 4, 5, and 6 with increases of \$99 million in February 2012, \$77 million in June 2012, and \$76 million in February 2013. The DSM tariffs would increase by \$17 million in 2012 and \$18 million in 2013 to reflect the terms of the stipulated agreement in Georgia Power's 2010 DSM Certification proceeding. Amounts recovered under the MFF tariff are based on amounts recovered under all other tariffs.

Georgia Power expects the Georgia PSC to issue a final order in this matter during December 2010. The final outcome of this matter cannot now be determined.

**Legislation**

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

***Healthcare Reform***

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

***Stimulus Funding***

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

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**Income Tax Matters**

***Georgia State Income Tax Credits***

Georgia Power's 2005 through 2008 income tax filings for the State of Georgia include state income tax credits for increased activity through Georgia ports. Georgia Power had also filed similar claims for the years 2002 through 2004. The Georgia Department of Revenue has not responded to these claims. In July 2007, Georgia Power filed a complaint in the Superior Court of Fulton County to recover the credits claimed for the years 2002 through 2004. On March 22, 2010, the Superior Court of Fulton County ruled in favor of Georgia Power's motion for summary judgment. On April 30, 2010, the Georgia Department of Revenue filed its notice of appeal with the Georgia Court of Appeals. An unrecognized tax benefit has been recorded related to these credits. If Georgia Power prevails, no material impact on net income is expected as a significant portion of any tax benefit is expected to be returned to retail customers. If Georgia Power is not successful, payment of the related state tax could have a significant, and possibly material, negative effect on Georgia Power's cash flow. See Note 5 to the financial statements of Georgia Power under *Unrecognized Tax Benefits* in Item 8 of the Form 10-K and Note (G) to the Condensed Financial Statements herein for additional information. The ultimate outcome of this matter cannot now be determined.

**Construction**

***Nuclear***

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Construction Nuclear of Georgia Power in Item 7 of the Form 10-K for information regarding construction of two additional nuclear units on the site of Plant Vogtle (Plant Vogtle Units 3 and 4).

In June 2009, the Southern Alliance for Clean Energy (SACE) filed a petition in the Superior Court of Fulton County, Georgia seeking review of the Georgia PSC's certification order and challenging the constitutionality of the Georgia Nuclear Financing Act. On May 5, 2010, the court dismissed as premature the plaintiffs' claim challenging the Georgia Nuclear Energy Financing Act. The dismissal of the claim related to the Georgia Nuclear Energy Financing Act is subject to appeal and the plaintiffs are expected to re-file this claim in the future. In addition, on May 5, 2010, the court issued an order remanding the Georgia PSC's certification order for inclusion of further findings of fact and conclusions of law by the Georgia PSC. In compliance with the court's order, the Georgia PSC issued its order on remand to include further findings of fact and conclusions of law on June 23, 2010. On July 5, 2010, the SACE and the Fulton County Taxpayers Foundation, Inc. filed separation motions with the Georgia PSC for reconsideration of the order on remand.

In August 2009 and June 2010, the NRC issued letters to Westinghouse revising the review schedules needed to certify the AP1000 standard design for new reactors in response to concerns related to the availability of adequate information and the shield building design. The shield building protects the containment and provides structural support to the containment cooling water supply. Georgia Power is continuing to work with Westinghouse and the NRC to resolve these concerns. Any possible delays in the AP1000 design certification schedule, including those addressed by the NRC in their letters, are not currently expected to affect the projected commercial operation dates for Plant Vogtle Units 3 and 4.

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

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

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***Other Construction***

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

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

***Other Matters***

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

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

**ACCOUNTING POLICIES**

***Application of Critical Accounting Policies and Estimates***

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

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**FINANCIAL CONDITION AND LIQUIDITY**

**Overview**

Georgia Power's financial condition remained stable at June 30, 2010. Georgia Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See Sources of Capital and Financing Activities herein for additional information.

Net cash provided from operating activities totaled \$693.6 million for the first six months of 2010, compared to \$337.8 million for the corresponding period in 2009. The \$355.8 million increase in cash provided from operating activities in the first six months of 2010 is primarily due to a \$164.2 million increase in net income and fuel inventory reductions in 2010. Net cash used for investing activities totaled \$1.1 billion primarily due to gross property additions to utility plant in the first six months of 2010. Net cash provided from financing activities totaled \$475.1 million for the first six months of 2010, compared to \$680.1 million for the corresponding period in 2009. The \$205.0 million decrease is primarily due to higher issuance of short-term debt in 2009 and higher common stock dividends in 2010. Fluctuations in cash flow from financing activities vary from year to year based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for the first six months of 2010 include an increase of \$817.4 million in total property, plant, and equipment, an increase of \$189.3 million in long-term debt to replace short-term debt and provide funds for Georgia Power's continuous construction program, and an increase in paid in capital of \$575.1 million reflecting equity contributions from Southern Company.

**Capital Requirements and Contractual Obligations**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Georgia Power in Item 7 of the Form 10-K for a description of Georgia Power's capital requirements for its construction program, scheduled maturities of long-term debt, interest, derivative obligations, preferred and preference stock dividends, leases, purchase commitments, trust funding requirements, and unrecognized tax benefits. Approximately \$403.9 million will be required through June 30, 2011 to fund maturities of long-term debt. The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in environmental statutes and regulations; changes in generating plants to meet new regulatory requirements; changes in FERC rules and regulations; Georgia PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

**Sources of Capital**

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

On June 18, 2010, Georgia Power reached an agreement with the DOE to accept terms for a conditional commitment for federal loan guarantees that would apply to future Georgia Power borrowings related to Plant Vogtle Units 3 and 4. Any borrowings guaranteed by the DOE would be full recourse to Georgia Power and secured by a first priority lien on Georgia Power's 45.7% undivided ownership interest in Plant Vogtle Units 3 and 4. Total guaranteed borrowings would

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not exceed 70% of eligible project costs, or approximately \$3.4 billion, and are expected to be funded by the Federal Financing Bank. Final approval and issuance of loan guarantees by the DOE are subject to receipt of the combined construction and operating license for Plant Vogtle Units 3 and 4 from the NRC, negotiation of definitive agreements, completion of due diligence by the DOE, receipt of any necessary regulatory approvals, and satisfaction of other conditions. There can be no assurance that the DOE will issue loan guarantees for Georgia Power.

Georgia Power's current liabilities frequently exceed current assets because of the continued use of short-term debt as a funding source to meet scheduled maturities of long-term debt, as well as cash needs, which can fluctuate significantly due to the seasonality of the business. To meet short-term cash needs and contingencies, Georgia Power had at June 30, 2010 cash and cash equivalents of approximately \$64.6 million and unused committed credit arrangements with banks of approximately \$1.7 billion. Of the unused credit arrangements, \$40.0 million expire in 2010, \$555.0 million expire in 2011, and \$1.1 billion expire in 2012. Of the credit arrangements that expire in 2010 and 2011, \$40.0 million contain provisions allowing two-year term loans executable at expiration and \$220.0 million contain provisions allowing one-year term loans executable at expiration. Georgia Power expects to renew its credit arrangements, as needed, prior to expiration. The credit arrangements provide liquidity support to Georgia Power's commercial paper program and approximately \$901 million are dedicated to funding purchase obligations related to variable rate pollution control revenue bonds. Subsequent to June 30, 2010, Georgia Power renewed a \$40 million credit agreement which contains a provision allowing a two-year term loan executable at expiration and extended the expiration date to 2011. See Note 6 to the financial statements of Georgia Power under Bank Credit Arrangements in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under Bank Credit Arrangements herein for additional information. Georgia Power may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of Georgia Power and other Southern Company subsidiaries. At June 30, 2010, Georgia Power had approximately \$313 million of commercial paper borrowings outstanding. Management believes that the need for working capital can be adequately met by utilizing commercial paper programs, lines of credit, and cash.

**Credit Rating Risk**

Georgia Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, energy price risk management, and construction of new generation. At June 30, 2010, the maximum potential collateral requirements under these contracts at a BBB- and/or Baa3 rating were approximately \$29 million. At June 30, 2010, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately \$1.5 billion. Included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Georgia Power's ability to access capital markets, particularly the short-term debt market.

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

On June 17, 2010, Moody's placed the issuer and long-term debt ratings of Georgia Power (A2 senior unsecured) on review for a possible downgrade. Moody's also placed the P-1 short-term rating of a Southern Company financing subsidiary that issues commercial paper for the benefit of Georgia Power and other Southern Company subsidiaries on review for a possible downgrade. In addition, Moody's placed the preferred stock and variable rate demand obligation





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ratings of Georgia Power (Baa1 and VMIG1) on review for a possible downgrade. Moody's announced that it did not expect the review to result in more than a one notch downgrade of any of these ratings. The ultimate outcome of this matter cannot be determined at this time.

**Market Price Risk**

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

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

The changes in fair value of energy-related derivative contracts, the majority of which are composed of regulatory hedges, for the three and six months ended June 30, 2010 were as follows:

	<b>Second Quarter 2010 Changes</b>	<b>Year-to-Date 2010 Changes</b>
	Fair Value	
	<i>(in millions)</i>	
Contracts outstanding at the beginning of the period, assets (liabilities), net	\$(125)	\$ (75)
Contracts realized or settled	31	50
Current period changes <sup>(a)</sup>	1	(68)
Contracts outstanding at the end of the period, assets (liabilities), net	\$ (93)	\$ (93)

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

The change in the fair value positions of the energy-related derivative contracts for the three and six months ended June 30, 2010 was an increase of \$32 million and a decrease of \$18 million, respectively, substantially all of which is due to natural gas positions. The change is attributable to both the volume and prices of natural gas. At June 30, 2010, Georgia Power had a net hedge volume of 67 million mmBtu with a weighted average contract cost of approximately \$1.40 per mmBtu above market prices, compared to 68 million mmBtu at March 31, 2010 with a weighted average

contract cost of approximately \$1.85 per mmBtu above market prices and compared to 65 million mmBtu at December 31, 2009 with a weighted average contract cost of approximately \$1.16 per mmBtu above market prices. The natural gas hedges are recovered through the fuel cost recovery mechanism.

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

Unrealized pre-tax gains and losses recognized in income for the three and six months ended June 30, 2010 and 2009 for energy-related derivative contracts that are not hedges were not material.

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The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at June 30, 2010 are as follows:

	<b>June 30, 2010</b>			
	Total Fair Value	<b>Fair Value Measurements</b>		
		Year 1	Maturity Years 2&3	Years 4&5
	<i>(in millions)</i>			
Level 1	\$	\$	\$	\$
Level 2	(93)	(52)	(41)	
Level 3				
Fair value of contracts outstanding at end of period	\$(93)	\$(52)	\$(41)	\$

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

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

**Financing Activities**

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

In the second quarter 2010, Georgia Power issued \$600 million aggregate principal amount of Series 2010B 5.40% Senior Notes due June 1, 2040. The net proceeds from the sale of the Series 2010B Senior Notes were used for the redemption of all of \$200 million aggregate principal amount of Georgia Power's Series R 6.00% Senior Notes due October 15, 2033 and all of \$150 million aggregate principal amount of Georgia Power's Series O 5.90% Senior Notes due April 15, 2033, to repay a portion of its outstanding short-term indebtedness, and for general corporate purposes, including Georgia Power's continuous construction program.

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Operating Revenues:</b>				
Retail revenues	\$ 320,109	\$ 290,050	\$ 624,859	\$ 528,441
Wholesale revenues, non-affiliates	26,916	22,700	54,830	44,666
Wholesale revenues, affiliates	40,873	10,727	50,391	16,087
Other revenues	15,273	17,618	29,803	36,185
<b>Total operating revenues</b>	<b>403,171</b>	<b>341,095</b>	<b>759,883</b>	<b>625,379</b>
<b>Operating Expenses:</b>				
Fuel	195,452	156,195	348,164	271,748
Purchased power, non-affiliates	14,409	6,051	21,844	10,489
Purchased power, affiliates	11,030	13,240	31,443	28,621
Other operations and maintenance	64,606	64,983	135,024	137,474
Depreciation and amortization	28,548	23,317	56,619	46,376
Taxes other than income taxes	24,060	22,989	49,293	45,437
<b>Total operating expenses</b>	<b>338,105</b>	<b>286,775</b>	<b>642,387</b>	<b>540,145</b>
<b>Operating Income</b>	<b>65,066</b>	<b>54,320</b>	<b>117,496</b>	<b>85,234</b>
<b>Other Income and (Expense):</b>				
Allowance for equity funds used during construction	1,695	5,707	3,080	10,525
Interest income	39	85	56	294
Interest expense, net of amounts capitalized	(13,137)	(9,907)	(24,522)	(19,739)
Other income (expense), net	(351)	(487)	(884)	(1,103)
<b>Total other income and (expense)</b>	<b>(11,754)</b>	<b>(4,602)</b>	<b>(22,270)</b>	<b>(10,023)</b>
<b>Earnings Before Income Taxes</b>	<b>53,312</b>	<b>49,718</b>	<b>95,226</b>	<b>75,211</b>
Income taxes	19,445	15,899	34,508	23,299
<b>Net Income</b>	<b>33,867</b>	<b>33,819</b>	<b>60,718</b>	<b>51,912</b>
<b>Dividends on Preference Stock</b>	<b>1,550</b>	<b>1,550</b>	<b>3,101</b>	<b>3,101</b>
<b>Net Income After Dividends on Preference Stock</b>	<b>\$ 32,317</b>	<b>\$ 32,269</b>	<b>\$ 57,617</b>	<b>\$ 48,811</b>

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Net Income After Dividends on Preference Stock</b>	<b>\$ 32,317</b>	<b>\$ 32,269</b>	<b>\$ 57,617</b>	<b>\$ 48,811</b>

Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of \$412, \$-, \$(542), and \$-, respectively	<b>655</b>		<b>(863)</b>	
Reclassification adjustment for amounts included in net income, net of tax of \$91, \$104, \$196, and \$209, respectively	<b>146</b>	167	<b>312</b>	334
<b>Total other comprehensive income (loss)</b>	<b>801</b>	167	<b>(551)</b>	334
<b>Comprehensive Income</b>	<b>\$ 33,118</b>	\$ 32,436	<b>\$ 57,066</b>	\$ 49,145

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

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

	For the Six Months Ended June 30,	
	<b>2010</b>	2009
	<i>(in thousands)</i>	
<b>Operating Activities:</b>		
Net income	\$ 60,718	\$ 51,912
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization, total	59,786	48,831
Deferred income taxes	6,192	(10,224)
Allowance for equity funds used during construction	(3,080)	(10,525)
Pension, postretirement, and other employee benefits	1,487	(597)
Stock based compensation expense	813	637
Hedge settlements	1,530	
Other, net	(421)	(1,759)
Changes in certain current assets and liabilities		
-Receivables	(61,159)	(3,606)
-Fossil fuel stock	(5,088)	(50,999)
-Materials and supplies	457	(459)
-Prepaid income taxes	1,579	416
-Property damage cost recovery	22	10,816
-Other current assets	1,324	1,319
-Accounts payable	21,861	(1,002)
-Accrued taxes	26,345	13,591
-Accrued compensation	(157)	(9,347)
-Other current liabilities	11,193	10,640
Net cash provided from operating activities	<b>123,402</b>	49,644
<b>Investing Activities:</b>		
Property additions	(137,133)	(240,336)
Investment in restricted cash from pollution control revenue bonds		(49,188)
Distribution of restricted cash from pollution control revenue bonds	6,161	11,417
Cost of removal, net of salvage	(8,241)	(5,439)
Construction payables	(18,694)	9,661
Payments pursuant to long-term service agreements	(2,294)	(3,514)
Other investing activities	(187)	139
Net cash used for investing activities	<b>(160,388)</b>	(277,260)
<b>Financing Activities:</b>		
Decrease in notes payable, net	(2,692)	(73,944)
Proceeds		
Common stock issued to parent	50,000	135,000
Capital contributions from parent company	2,167	1,897
Pollution control revenue bonds	21,000	130,400
Senior notes	175,000	140,000

Redemptions		
Senior notes	(140,305)	(722)
Payment of preference stock dividends	(3,101)	(3,101)
Payment of common stock dividends	(52,150)	(44,650)
Other financing activities	(2,105)	(1,547)
Net cash provided from financing activities	47,814	283,333
<b>Net Change in Cash and Cash Equivalents</b>	<b>10,828</b>	<b>55,717</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>8,677</b>	<b>3,443</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 19,505</b>	<b>\$ 59,160</b>

**Supplemental Cash Flow Information:**

Cash paid during the period for		
Interest (net of \$1,228 and \$4,195 capitalized for 2010 and 2009, respectively)	\$ 19,542	\$ 19,502
Income taxes (net of refunds)	\$ 12,463	\$ 25,642

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



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

	At June 30, 2010	At December 31, 2009
	<i>(in thousands)</i>	
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 19,505	\$ 8,677
Restricted cash and cash equivalents	185	6,347
Receivables		
Customer accounts receivable	86,031	64,257
Unbilled revenues	71,966	60,414
Under recovered regulatory clause revenues	12,961	4,285
Other accounts and notes receivable	10,763	4,107
Affiliated companies	18,175	7,503
Accumulated provision for uncollectible accounts	(1,983)	(1,913)
Fossil fuel stock, at average cost	187,898	183,619
Materials and supplies, at average cost	43,113	38,478
Other regulatory assets, current	19,167	19,172
Prepaid expenses	12,423	44,760
Other current assets	971	3,634
Total current assets	481,175	443,340
<b>Property, Plant, and Equipment:</b>		
In service	3,537,498	3,430,503
Less accumulated provision for depreciation	1,024,948	1,009,807
Plant in service, net of depreciation	2,512,550	2,420,696
Construction work in progress	182,235	159,499
Total property, plant, and equipment	2,694,785	2,580,195
<b>Other Property and Investments</b>	16,112	15,923
<b>Deferred Charges and Other Assets:</b>		
Deferred charges related to income taxes	44,523	39,018
Other regulatory assets, deferred	212,385	190,971
Other deferred charges and assets	26,741	24,160
Total deferred charges and other assets	283,649	254,149
<b>Total Assets</b>	<b>\$ 3,475,721</b>	<b>\$ 3,293,607</b>

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

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

	At June 30, 2010	At December 31, 2009
<i>(in thousands)</i>		
<b>Liabilities and Stockholders Equity</b>		
<b>Current Liabilities:</b>		
Securities due within one year	\$ 110,000	\$ 140,000
Notes payable	86,041	90,331
Accounts payable		
Affiliated	71,971	47,421
Other	62,045	80,184
Customer deposits	34,730	32,361
Accrued taxes		
Accrued income taxes	15,911	1,955
Other accrued taxes	19,521	7,297
Accrued interest	11,111	10,222
Accrued compensation	9,180	9,337
Other regulatory liabilities, current	27,311	22,416
Liabilities from risk management activities	9,506	9,442
Other current liabilities	16,947	20,092
Total current liabilities	474,274	471,058
<b>Long-term Debt</b>	<b>1,063,618</b>	978,914
<b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	307,752	297,405
Accumulated deferred investment tax credits	8,881	9,652
Employee benefit obligations	109,924	109,271
Other cost of removal obligations	194,244	191,248
Other regulatory liabilities, deferred	41,622	41,399
Other deferred credits and liabilities	115,065	92,370
Total deferred credits and other liabilities	777,488	741,345
<b>Total Liabilities</b>	<b>2,315,380</b>	2,191,317
<b>Preference Stock</b>	<b>97,998</b>	97,998
<b>Common Stockholders Equity:</b>		
Common stock, without par value		
Authorized - 20,000,000 shares		
Outstanding - June 30, 2010: 3,642,717 shares		
- December 31, 2009: 3,142,717 shares	303,060	253,060
Paid-in capital	537,712	534,577
Retained earnings	224,584	219,117
Accumulated other comprehensive loss	(3,013)	(2,462)

Total common stockholder s equity	<b>1,062,343</b>	1,004,292
<b>Total Liabilities and Stockholder s Equity</b>	<b>\$ 3,475,721</b>	<b>\$ 3,293,607</b>

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

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

**OVERVIEW**

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

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

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$-	N/M	\$8.8	18.0

## N/M-Not Meaningful

Gulf Power's net income after dividends on preference stock for the second quarter 2010 was \$32.3 million compared to \$32.3 million for the corresponding period in 2009. Gulf Power's net income after dividends on preference stock for year-to-date 2010 was \$57.6 million compared to \$48.8 million for the corresponding period in 2009. The increase was primarily due to significantly colder weather in the first quarter 2010, partially offset by a decline in sales.

**Retail Revenues**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$30.0	10.4	\$96.5	18.2

In the second quarter 2010, retail revenues were \$320.1 million compared to \$290.1 million for the corresponding period in 2009. For year-to-date 2010, retail revenues were \$624.9 million compared to \$528.4 million for the corresponding period in 2009.

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Details of the change to retail revenues are as follows:

	<b>Second Quarter</b>		<b>Year-to-Date</b>	
	<b>2010</b>		<b>2010</b>	
	<i>(in</i>	<i>(%</i>	<i>(in</i>	<i>(%</i>
	<i>millions)</i>	<i>change)</i>	<i>millions)</i>	<i>change)</i>
Retail prior year	\$290.1		\$528.4	
Estimated change in				
Rates and pricing	16.2	5.6	33.8	6.4
Sales growth (decline)	(0.7)	(0.2)	(3.6)	(0.7)
Weather	(1.0)	(0.3)	11.9	2.2
Fuel and other cost recovery	15.5	5.3	54.4	10.3
Retail current year	\$320.1	10.4%	\$624.9	18.2%

Revenues associated with changes in rates and pricing increased in the second quarter and year-to-date 2010 when compared to the corresponding periods in 2009 primarily due to revenues associated with higher projected environmental compliance costs in 2010.

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

Revenues attributable to changes in sales decreased in the second quarter 2010 when compared to the corresponding period in 2009. KWH energy sales to industrial customers decreased 4.5% due to decreased customer demand.

Weather-adjusted KWH energy sales to residential and commercial customers remained relatively flat.

Revenues attributable to changes in sales decreased for year-to-date 2010 when compared to the corresponding period in 2009. KWH energy sales to industrial customers and weather-adjusted KWH energy sales to commercial customers decreased 3.7% and 1.4%, respectively, due to decreased customer demand. Weather-adjusted KWH energy sales to residential customers remained relatively flat.

Revenues attributable to changes in weather decreased in the second quarter 2010 when compared to the corresponding period in 2009 due to less favorable weather in the second quarter 2010.

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

Fuel and other cost recovery revenues increased in the second quarter and year-to-date 2010 when compared to the corresponding periods for 2009 primarily due to higher fuel and purchased power expenses in the second quarter of 2010. Fuel and other cost recovery revenues include fuel expenses, the energy component of purchased power costs, purchased power capacity costs, and revenues related to the recovery of storm damage restoration costs.

Annually, Gulf Power petitions the Florida PSC for recovery of projected fuel and purchased power costs including any true-up amount from prior periods, and approved rates are implemented each January. The recovery provisions generally equal the related expenses and have no material effect on net income. See FUTURE EARNINGS POTENTIAL Florida PSC Matters Retail Fuel Cost Recovery herein and MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Fuel Cost Recovery of Gulf Power in Item 7 and Note 1 to the financial statements of Gulf Power under Revenues and Property Damage Reserve and Note 3 to the financial statements of Gulf Power under Retail Regulatory Matters Fuel Cost Recovery in Item 8 of the Form 10-K

for additional information.

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**Wholesale Revenues - Non-Affiliates**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$4.2	18.6	\$10.1	22.8

Wholesale revenues from non-affiliates will vary depending on the market cost of available energy compared to the cost of Gulf Power and Southern Company system-owned generation, demand for energy within the Southern Company service territory, and availability of Southern Company system generation. Wholesale revenues from non-affiliates are predominantly unit power sales under long-term contracts to other Florida and Georgia utilities. Revenues from these contracts have both capacity and energy components. Capacity revenues reflect the recovery of fixed costs and a return on investment under the contracts. Energy is generally sold at variable cost. In the second quarter 2010, wholesale revenues from non-affiliates were \$26.9 million compared to \$22.7 million for the corresponding period in 2009. The increase was primarily due to increased energy revenues related to an 8.4% increase in KWH sales to serve customer demand and a 6.8% increase in price related to energy rates. For year-to-date 2010, wholesale revenues from non-affiliates were \$54.8 million compared to \$44.7 million for the corresponding period in 2009. The increase was primarily due to increased energy revenues related to a 13.9% increase in KWH sales to serve weather-related increases in customer demand and a 10.5% increase in price related to energy rates.

**Wholesale Revenues - Affiliates**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$30.2	281.0	\$34.3	213.2

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

In the second quarter 2010, wholesale revenues from affiliates were \$40.9 million compared to \$10.7 million for the corresponding period in 2009. The increase was primarily due to increased energy revenues related to a 233.6% increase in KWH sales to serve customer demand and a 14.2% increase in price related to energy rates. For year-to-date 2010, wholesale revenues from affiliates were \$50.4 million compared to \$16.1 million for the corresponding period in 2009. The increase was primarily due to increased energy revenues related to a 171.7% increase in KWH sales to serve customer demand and a 15.3% increase in price related to energy rates.

**Other Revenues**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(2.3)	(13.3)	\$(6.4)	(17.6)

In the second quarter 2010, other revenues were \$15.3 million compared to \$17.6 million for the corresponding period in 2009. The decrease was primarily due to a \$2.5 million decrease in revenues from other energy services.





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For year-to-date 2010, other revenues were \$29.8 million compared to \$36.2 million for the corresponding period in 2009. The decrease was primarily due to a \$7.7 million decrease in revenues from other energy services, partially offset by higher franchise fees of \$1.4 million.

The decreased revenues from other energy services did not have a material impact on net income since they were generally offset by associated expenses. Franchise fees have no impact on net income.

***Fuel and Purchased Power Expenses***

	Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
	<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
Fuel*	\$39.2	25.1	\$76.4	28.1
Purchased power - non-affiliates	8.4	138.1	11.4	108.3
Purchased power - affiliates	(2.2)	(16.7)	2.8	9.9
Total fuel and purchased power expenses	\$45.4		\$90.6	

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

In the second quarter 2010, total fuel and purchased power expenses were \$220.9 million compared to \$175.5 million for the corresponding period in 2009. The net increase in fuel and purchased power expenses was due to a \$58.4 million increase related to total KWHs generated and purchased, partially offset by a \$13.0 million decrease in the average cost of purchased power.

For year-to-date 2010, total fuel and purchased power expenses were \$401.4 million compared to \$310.8 million for the corresponding period in 2009. The net increase in fuel and purchased power expenses was due to a \$72.3 million increase related to total KWHs generated and purchased and an \$18.3 million increase as a result of an increase in the average cost of fuel.

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

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

Average Cost	Second Quarter 2010 <i>(cents per net KWH)</i>	Second Quarter 2009 <i>(cents per net KWH)</i>	Percent Change	Year-to-Date 2010 <i>(cents per net KWH)</i>	Year-to-Date 2009 <i>(cents per net KWH)</i>	Percent Change
Fuel	4.93	4.45	10.79	5.01	4.39	14.12
Purchased power	4.37	6.71	(34.87)	4.77	5.87	(18.74)

In the second quarter 2010, fuel expense was \$195.4 million compared to \$156.2 million for the corresponding period in 2009. The increase was primarily due to a 15.1% increase in the average cost of coal, partially offset by a 2.7% decrease in KWHs generated.

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For year-to-date 2010, fuel expense was \$348.1 million compared to \$271.7 million for the corresponding period in 2009. The increase was primarily due to a 19.8% increase in the average cost of coal, a 6.5% increase in the average cost of natural gas prices, and a 1.2% increase in KWHs generated as a result of increased demand.

*Non-Affiliates*

In the second quarter 2010, purchased power expense from non-affiliates was \$14.4 million compared to \$6.0 million for the corresponding period in 2009. The increase was primarily due to a 942.1% increase in the volume of KWHs purchased, which was primarily due to a PPA which began in the third quarter 2009, partially offset by a 44.1% decrease in the average cost per KWH purchased.

For year-to-date 2010, purchased power expense from non-affiliates was \$21.9 million compared to \$10.5 million for the corresponding period in 2009. The increase was primarily due to a 510.3% increase in the volume of KWHs purchased, which was primarily due to a PPA which began in the third quarter 2009, partially offset by a 20.7% decrease in the average cost per KWH purchased.

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

*Affiliates*

In the second quarter 2010, purchased power expense from affiliates was \$11.0 million compared to \$13.2 million for the corresponding period in 2009. The decrease was primarily due to a 26.8% decrease in average cost per KWH purchased, partially offset by a 15.3% increase in the volume of KWHs purchased from lower-priced Power Pool resources.

For year-to-date 2010, purchased power expense from affiliates was \$31.4 million compared to \$28.6 million for the corresponding period in 2009. The increase was primarily due to a 37.3% increase in the volume of KWHs purchased, partially offset by a 19.2% decrease in the average cost per KWH purchased from lower-priced Power Pool resources. Energy purchases from affiliates will vary depending on demand and the availability and cost of generating resources at each company within the Southern Company system. These purchases are made in accordance with the IIC or other contractual agreements, as approved by the FERC.

***Other Operations and Maintenance Expenses***

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(0.4)	(0.6)	\$(2.5)	(1.8)

In the second quarter 2010, other operations and maintenance expenses were \$64.6 million compared to \$65.0 million for the corresponding period in 2009. For year-to-date 2010, other operations and maintenance expenses were \$135.0 million compared to \$137.5 million for the corresponding period in 2009. These decreases were primarily due to decreases in storm recovery costs and expenses from other energy services. The decreases were partially offset by increases in maintenance expenses, labor, and benefits expenses.

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**Depreciation and Amortization**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$5.2	22.4	\$10.2	22.1

In the second quarter 2010, depreciation and amortization was \$28.5 million compared to \$23.3 million for the corresponding period in 2009.

For year-to-date 2010, depreciation and amortization was \$56.6 million compared to \$46.4 million for the corresponding period in 2009. These increases were primarily due to the addition of an environmental control project at Plant Crist in December 2009 and other net additions to generation and distribution facilities.

**Taxes Other Than Income Taxes**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$1.1	4.7	\$3.9	8.5

In the second quarter 2010, taxes other than income taxes were \$24.1 million compared to \$23.0 million for the corresponding period in 2009. For year-to-date 2010, taxes other than income taxes were \$49.3 million compared to \$45.4 million for the corresponding period in 2009. These increases were primarily due to increases in property taxes, gross receipt taxes, and franchise fees. Gross receipt taxes and franchise fees have no impact on net income.

**Allowance for Funds Used During Construction**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(4.0)	(70.3)	\$(7.4)	(70.7)

In the second quarter 2010, AFUDC equity was \$1.7 million compared to \$5.7 million for the corresponding period in 2009. For year-to-date 2010, AFUDC equity was \$3.1 million compared to \$10.5 million for the corresponding period in 2009. These decreases were primarily due to an environmental control project at Plant Crist being placed into service in December 2009.

**Interest Expense, Net of Amounts Capitalized**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$3.2	32.6	\$4.7	24.2

In the second quarter 2010, interest expense, net of amounts capitalized was \$13.1 million compared to \$9.9 million for the corresponding period in 2009. For year-to-date 2010, interest expense, net of amounts capitalized was \$24.5 million compared to \$19.8 million for the corresponding period in 2009. These increases were primarily due to the change in capitalization of the AFUDC debt related to an environmental control project at Plant Crist being placed into service in December 2009 and to an increase in long-term debt levels resulting from the issuance of additional

senior notes in the first quarter 2010 to fund general corporate purposes, including Gulf Power's continuous construction program.

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**Income Taxes**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$3.5	22.3	\$11.2	48.1

In the second quarter 2010, income taxes were \$19.4 million compared to \$15.9 million for the corresponding period in 2009. For year-to-date 2010, income taxes were \$34.5 million compared to \$23.3 million for the corresponding period in 2009. These increases were primarily due to higher pre-tax earnings.

**FUTURE EARNINGS POTENTIAL**

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

**Environmental Matters**

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

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

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation New York Case of Gulf Power in Item 7 and Note 3 to the financial statements of Gulf Power under Environmental Matters Carbon Dioxide Litigation New York Case in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation. The U.S. Court of Appeals for the Second Circuit denied the defendants' petition for rehearing en banc on March 5, 2010 and granted the defendants' request to stay the mandate to allow the defendants to file a petition for writ of certiorari with the U.S. Supreme Court on March 16, 2010. On August 2, 2010, the defendants filed a petition for writ of certiorari with the U.S. Supreme Court. The ultimate outcome of these matters cannot be determined at this time.

*Other Litigation*

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation Other Litigation of Gulf Power in Item 7 and Note 3 to the financial statements of Gulf Power under Environmental Matters Carbon Dioxide Litigation Other Litigation in Item 8 of the Form 10-K

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

***Air Quality***

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters - Environmental Statutes and Regulations - Air Quality of Gulf Power in Item 7 of the Form 10-K for information regarding proposed sulfur dioxide (SO<sub>2</sub>) regulations. On June 2, 2010, the EPA issued its final revisions to the National Ambient Air Quality Standard for SO<sub>2</sub>, including the establishment of a new short-term standard. The ultimate impact of the revised standard will depend on additional regulatory action, state implementation, and the outcome of any legal challenges, and cannot be determined at this time.

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

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters - Environmental Statutes and Regulations - Air Quality of Gulf Power in Item 7 of the Form 10-K for information regarding the Clean Air Interstate Rule (CAIR). On August 2, 2010, the EPA published a proposed rule to replace CAIR, which was overturned by the U.S. Court of Appeals for the D.C. Circuit in 2008 but left in place pending the promulgation of a replacement rule. This proposed rule, referred to as the Transport Rule, would require 31 eastern states and the District of Columbia (D.C.) to reduce power plant emissions of SO<sub>2</sub> and nitrogen oxides (NO<sub>x</sub>) that contribute to downwind states' nonattainment of federal ozone and/or fine particulate matter ambient air quality standards. To address fine particulate matter standards, the proposed Transport Rule would require D.C. and 27 eastern states, including Florida and Georgia, to reduce annual emissions of SO<sub>2</sub> and NO<sub>x</sub> from power plants. To address ozone standards, the proposed Transport Rule would also require D.C. and 25 states, including Florida, Georgia, and Mississippi, to achieve additional reductions in NO<sub>x</sub> emissions from power plants during the ozone season. The proposed Transport Rule contains a preferred option that would allow limited interstate trading of emissions allowances; however, the EPA also requests comment on two alternative approaches that would not allow interstate trading of emissions allowances. The EPA states that it also intends to develop a second phase of the Transport Rule next year to address the more stringent ozone air quality standards as they are finalized. The EPA expects to finalize the Transport Rule in late spring of 2011 and to set the initial compliance deadline starting in 2012. The impact of this proposed regulation and potential future regulation will depend on its final form, state implementation, and the outcome of any legal challenges, and cannot be determined at this time.

These regulations could result in significant additional compliance and operational costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

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***Coal Combustion Byproducts***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Coal Combustion Byproducts of Gulf Power in Item 7 of the Form 10-K for information regarding potential additional regulation of coal combustion byproducts. On June 21, 2010, the EPA published a rulemaking proposal which requested comments on two potential regulatory options for management and disposal of coal combustion byproducts: regulation as a solid waste or regulation as a hazardous waste. Adoption of either option could require closure of or significant change to existing storage units and construction of lined landfills, as well as additional waste management and groundwater monitoring requirements. Under both options, the EPA proposes to exempt the beneficial reuse of coal combustion byproducts from regulation; however, the final regulation could significantly alter the options available for beneficial reuse. The outcome of these proposed regulations will depend on their final form and the outcome of any legal challenges, and cannot be determined at this time. However, additional regulation of coal combustion byproducts could have a significant impact on Gulf Power's management, beneficial use, and disposal of such byproducts. These changes could result in significant additional compliance and operational costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

***Global Climate Issues***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Global Climate Issues of Gulf Power in Item 7 of the Form 10-K for information regarding the potential for legislation and regulation addressing greenhouse gas and other emissions. On April 1, 2010, the EPA issued a final rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that, once this rule becomes effective on January 2, 2011, carbon dioxide and other greenhouse gases will become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. On May 13, 2010, the EPA issued a final rule governing how these programs would be applied to stationary sources, including power plants. This rule establishes two phases for applying PSD and Title V requirements to greenhouse gas emissions sources. The first phase, beginning on January 2, 2011, will apply to sources and projects that would already be covered under PSD or Title V, whereas the second phase, beginning July 1, 2011, will apply to sources and projects that would not otherwise trigger those programs but for their greenhouse gas emissions. The ultimate outcome of these final rules cannot be determined at this time and will depend on the outcome of any legal challenges.

***Florida PSC Matters******Retail Fuel Cost Recovery***

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

Under recovered fuel costs at June 30, 2010 totaled \$11.2 million, compared to \$2.4 million at December 31, 2009. This amount is included in under recovered regulatory clause revenues on Gulf Power's Condensed Balance Sheets herein. Fuel cost recovery revenues, as recorded on the financial statements, are adjusted for differences in actual recoverable costs and amounts billed in current regulated rates. Accordingly, any changes in the billing factor will not have a



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significant effect on Gulf Power's revenues or net income, but will affect cash flow. See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - PSC Matters - Fuel Cost Recovery of Gulf Power in Item 7 and Notes 1 and 3 to the financial statements of Gulf Power under Revenues and Retail Regulatory Matters - Fuel Cost Recovery, respectively, in Item 8 of the Form 10-K for additional information.

***Environmental Compliance Recovery***

On July 22, 2010, Mississippi Power filed a request for a certificate of public convenience and necessity to construct a flue gas desulfurization system on Plant Daniel Units 1 and 2. These units are jointly owned by Mississippi Power and Gulf Power, with 50% ownership, respectively. The estimated total cost of the project is approximately \$600 million and is scheduled for completion in the fourth quarter 2014. Gulf Power's portion of the cost, if approved by the Florida PSC, is expected to be recovered through its environmental compliance recovery clause. Hearings on the certificate request are expected to be held with the Mississippi PSC by late 2010. The final outcome of this matter cannot now be determined.

***Legislation***

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

***Healthcare Reform***

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

***Stimulus Funding***

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

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**Other Matters**

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

The extent of coastal contamination resulting from the oil spill that began in April 2010 in the Gulf of Mexico has potential impacts on certain steam plant operations as well as potential significant economic impacts on the affected areas within Gulf Power's service territory. The ultimate impact of this matter cannot be determined at this time. See the Notes to the Condensed Financial Statements herein for discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

**ACCOUNTING POLICIES**

**Application of Critical Accounting Policies and Estimates**

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

**FINANCIAL CONDITION AND LIQUIDITY**

**Overview**

Gulf Power's financial condition remained stable at June 30, 2010. Gulf Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See Sources of Capital and Financing Activities herein for additional information. Net cash provided from operating activities totaled \$123.4 million for the first six months of 2010 compared to \$49.6 million for the corresponding period in 2009. The \$73.8 million increase in cash provided from operating activities was primarily due to an increase in cash from fossil fuel stock resulting from an increase in generation and a decrease in cash payments related to fuel inventory as well as increases in deferred income taxes, and affiliated payables. The increase was partially offset by a decrease in collections attributable to regulatory fuel clause revenues. Net cash used for

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investing activities totaled \$160.4 million in the first six months of 2010 compared to \$277.3 million for the corresponding period in 2009. The \$116.9 million decrease was primarily due to a \$109.2 million decrease in gross property additions. Net cash provided from financing activities totaled \$47.8 million for the first six months of 2010, compared to \$283.3 million for the corresponding period in 2009. The \$235.5 million decrease was primarily due to the redemption of senior notes in 2010 and the higher issuance of pollution control bonds in 2009. Fluctuations in cash flow from financing activities vary from year to year based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for the first six months of 2010 include a net increase of \$114.6 million in property, plant, and equipment, primarily related to environmental control projects; the issuance of common stock to Southern Company for \$50 million; a decrease of \$32.3 million in prepaid expenses, primarily due to a planned inspection under a long-term service agreement, and a decrease in PPA deferred capacity expense due to seasonality; a net decrease of \$30.0 million in securities due within one year; and an increase in other regulatory assets, deferred and other deferred credits and liabilities of \$21.4 million and \$22.7 million, respectively, primarily due to an increase in PPA deferred capacity expense.

**Capital Requirements and Contractual Obligations**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Gulf Power in Item 7 of the Form 10-K for a description of Gulf Power's capital requirements for its construction program, scheduled maturities of long-term debt, interest, derivative obligations, preference stock dividends, leases, purchase commitments, and trust funding requirements.

Approximately \$110 million will be required through June 30, 2011 to fund maturities of long-term debt. The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; storm impacts; changes in environmental statutes and regulations; changes in generating plants to meet new regulatory requirements; changes in FERC rules and regulations; Florida PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

**Sources of Capital**

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

Gulf Power's current liabilities frequently exceed current assets because of the continued use of short-term debt as a funding source to meet scheduled maturities of long-term debt, as well as cash needs, which can fluctuate significantly due to the seasonality of the business. To meet short-term cash needs and contingencies, Gulf Power had at June 30, 2010 cash and cash equivalents of approximately \$19.5 million and unused committed credit arrangements with banks of \$220 million. Of the unused credit arrangements, \$80 million expire in 2010 and \$155 million expire in 2011. Of these credit arrangements, \$205 million contain provisions allowing one-year term loans executable at expiration. Subsequent to June 30, 2010, Gulf Power increased its existing lines of credit by \$15 million with an expiration of 2011. Gulf Power expects to renew its credit arrangements, as needed, prior to expiration. The credit arrangements provide liquidity support to Gulf Power's commercial paper borrowings and \$69 million are dedicated to funding purchase obligations related to variable rate pollution control revenue bonds. All of these facilities contain provisions allowing one-year term loans executable at expiration. See Note 6 to the financial statements of Gulf Power under

Bank Credit Arrangements



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in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under Bank Credit Arrangements herein for additional information. Gulf Power may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of Gulf Power and other Southern Company subsidiaries. At June 30, 2010, Gulf Power had approximately \$86 million of commercial paper borrowings outstanding. Management believes that the need for working capital can be adequately met by utilizing the commercial paper program, lines of credit, and cash.

**Credit Rating Risk**

Gulf Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel transportation and storage, and energy price risk management. At June 30, 2010, the maximum potential collateral requirements under these contracts at a BBB- and/or Baa3 rating were approximately \$127 million. At June 30, 2010, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately \$566 million. Included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Gulf Power's ability to access capital markets, particularly the short-term debt market.

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

On June 17, 2010, Moody's placed the issuer and long-term debt ratings of Gulf Power (A2 senior unsecured) on review for a possible downgrade. Moody's also placed the P-1 short-term rating of a Southern Company financing subsidiary that issues commercial paper for the benefit of Gulf Power and other Southern Company subsidiaries on review for a possible downgrade. In addition, Moody's placed the preferred stock and variable rate demand obligation ratings of Gulf Power (Baa1 and VMIG1) on review for a possible downgrade. Moody's announced that it did not expect the review to result in more than a one notch downgrade of any of these ratings. The ultimate outcome of this matter cannot be determined at this time.

**Market Price Risk**

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

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

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The changes in fair value of energy-related derivative contracts, the majority of which are composed of regulatory hedges, for the three and six months ended June 30, 2010 were as follows:

	<b>Second Quarter 2010 Changes</b>	<b>Year-to-Date 2010 Changes</b>
	Fair Value (in millions)	
Contracts outstanding at the beginning of the period, assets (liabilities), net	\$(21)	\$ (14)
Contracts realized or settled	6	10
Current period changes <sup>(a)</sup>		(11)
Contracts outstanding at the end of the period, assets (liabilities), net	\$(15)	\$ (15)

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

The change in the fair value positions of the energy-related derivative contracts for the three and six months ended June 30, 2010 was an increase of \$6 million and a decrease of \$1 million, respectively, substantially all of which is due to natural gas positions. The change is attributable to both the volume and prices of natural gas. At June 30, 2010, Gulf Power had a net hedge volume of 9 million mmBtu with a weighted average contract cost of approximately \$1.61 per mmBtu above market prices, compared to 10 million mmBtu at March 31, 2010 with a weighted average contract cost of approximately \$2.09 per mmBtu above market prices and compared to 11 million mmBtu at December 31, 2009 with a weighted average contract cost of approximately \$1.29 per mmBtu above market prices. Natural gas hedges are recovered through the fuel cost recovery clause.

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

Unrealized pre-tax gains and losses recognized in income for the three and six months ended June 30, 2010 and 2009 for energy-related derivative contracts that are not hedges were not material.

The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at June 30, 2010 are as follows:

<b>June 30, 2010</b>			
<b>Fair Value Measurements</b>			
Total Fair Value	Maturity Years	Years 2&3	Years 4&5
Year 1			

	<i>(in millions)</i>			
Level 1	\$	\$	\$	\$
Level 2	(15)	(10)	(5)	
Level 3				
Fair value of contracts outstanding at end of period	\$(15)	\$(10)	\$ (5)	\$

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

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

**Financing Activities**

In the first six months of 2010, Gulf Power issued to Southern Company 500,000 shares of common stock, without par value, and realized proceeds of \$50 million. The proceeds were used to repay a portion of Gulf Power's short-term debt and for other general corporate purposes. Gulf Power issued \$175 million aggregate principal amount of Series 2010A 4.75% Senior Notes due April 15, 2020. The proceeds were used to repay at maturity \$140 million aggregate principal amount of Series 2009A Floating Rate Senior Notes due June 28, 2010, to repay a portion of its outstanding short-term debt, and for general corporate purposes, including Gulf Power's continuous construction program. Gulf Power settled \$100 million of interest rate hedges related to the Series 2010A Senior Note issuance at a gain of approximately \$1.5 million. The gain will be amortized to interest expense over 10 years.

In June 2010, Gulf Power incurred obligations in connection with the issuance of \$21 million aggregate principal amount of the Development Authority of Monroe County (Georgia) Pollution Control Revenue Bonds (Gulf Power Plant Scherer Project), First Series 2010. The proceeds were used to fund pollution control and environmental improvement facilities at Plant Scherer.

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



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**MISSISSIPPI POWER COMPANY**

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Operating Revenues:</b>				
Retail revenues	\$ 203,094	\$ 201,132	\$ 389,681	\$ 376,867
Wholesale revenues, non-affiliates	66,201	73,693	145,090	153,847
Wholesale revenues, affiliates	3,936	7,963	18,611	17,381
Other revenues	3,590	3,893	7,077	7,309
<b>Total operating revenues</b>	<b>276,821</b>	286,681	<b>560,459</b>	555,404
<b>Operating Expenses:</b>				
Fuel	103,575	125,832	234,372	245,797
Purchased power, non-affiliates	1,498	2,873	5,119	5,708
Purchased power, affiliates	34,490	21,595	49,211	43,400
Other operations and maintenance	71,764	61,601	139,102	121,362
Depreciation and amortization	18,786	17,660	37,461	35,675
Taxes other than income taxes	17,173	16,221	35,633	31,145
<b>Total operating expenses</b>	<b>247,286</b>	245,782	<b>500,898</b>	483,087
<b>Operating Income</b>	<b>29,535</b>	40,899	<b>59,561</b>	72,317
<b>Other Income and (Expense):</b>				
Interest income	40	163	73	795
Interest expense, net of amounts capitalized	(5,946)	(6,254)	(12,125)	(11,016)
Other income (expense), net	1,152	1,136	2,701	2,765
<b>Total other income and (expense)</b>	<b>(4,754)</b>	(4,955)	<b>(9,351)</b>	(7,456)
<b>Earnings Before Income Taxes</b>	<b>24,781</b>	35,944	<b>50,210</b>	64,861
Income taxes	9,129	13,578	18,872	24,091
<b>Net Income</b>	<b>15,652</b>	22,366	<b>31,338</b>	40,770
<b>Dividends on Preferred Stock</b>	<b>433</b>	433	<b>866</b>	866
<b>Net Income After Dividends on Preferred Stock</b>	<b>\$ 15,219</b>	\$ 21,933	<b>\$ 30,472</b>	\$ 39,904

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Net Income After Dividends on Preferred Stock</b>	<b>\$ 15,219</b>	\$ 21,933	<b>\$ 30,472</b>	\$ 39,904
Other comprehensive income (loss):				

Qualifying hedges:

Changes in fair value, net of tax of \$(8), \$(139), \$4, and \$27, respectively

(14) (224) 6 44

**Comprehensive Income**

**\$ 15,205** \$ 21,709 **\$ 30,478** \$ 39,948

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

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

	For the Six Months Ended June 30,	
	<b>2010</b>	2009
	<i>(in thousands)</i>	
<b>Operating Activities:</b>		
Net income	\$ 31,338	\$ 40,770
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization, total	40,362	39,202
Deferred income taxes	(7,593)	(11,019)
Pension, postretirement, and other employee benefits	3,638	2,852
Stock based compensation expense	917	747
Generation construction screening costs	(50,554)	(14,049)
Other, net	(1,150)	2,092
Changes in certain current assets and liabilities		
-Receivables	(8,183)	(20,557)
-Under recovered regulatory clause revenues		33,831
-Fossil fuel stock	(3,557)	(44,024)
-Materials and supplies	(4,167)	(1,464)
-Prepaid income taxes		(446)
-Other current assets	(8,330)	(12,644)
-Other accounts payable	6,462	(14,103)
-Accrued taxes	(3,576)	(14,243)
-Accrued compensation	(4,452)	(12,990)
-Over recovered regulatory clause revenues	2,106	
-Other current liabilities	1,591	2,260
Net cash used for operating activities	(5,148)	(23,785)
<b>Investing Activities:</b>		
Property additions	(55,263)	(50,943)
Cost of removal, net of salvage	(5,749)	(7,287)
Construction payables	8,781	(4,709)
Other investing activities	(6,227)	(1,412)
Net cash used for investing activities	(58,458)	(64,351)
<b>Financing Activities:</b>		
Increase in notes payable, net	38,993	20,501
Proceeds		
Capital contributions from parent company	1,696	2,101
Senior notes issuances		125,000
Redemptions		
Capital leases	(652)	
Senior notes		(40,000)
Payment of preferred stock dividends	(866)	(866)
Payment of common stock dividends	(34,300)	(34,250)

Other financing activities	<b>(8)</b>	(1,720)
Net cash provided from financing activities	<b>4,863</b>	70,766
<b>Net Change in Cash and Cash Equivalents</b>	<b>(58,743)</b>	<b>(17,370)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>65,025</b>	22,413
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 6,282</b>	<b>\$ 5,043</b>

**Supplemental Cash Flow Information:**

Cash paid during the period for

Interest (net of \$167 and \$117 capitalized for 2010 and 2009, respectively) **\$ 11,022** \$ 8,873Income taxes (net of refunds) **\$ 9,233** \$ 27,149

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

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

<b>Assets</b>	<b>At June 30, 2010</b>	<b>At December 31, 2009</b>
	<i>(in thousands)</i>	
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 6,282	\$ 65,025
Receivables		
Customer accounts receivable	39,329	36,766
Unbilled revenues	32,487	27,168
Other accounts and notes receivable	6,454	11,337
Affiliated companies	18,399	13,215
Accumulated provision for uncollectible accounts	(735)	(940)
Fossil fuel stock, at average cost	130,794	127,237
Materials and supplies, at average cost	31,960	27,793
Other regulatory assets, current	60,475	53,273
Prepaid income taxes	33,020	32,237
Other current assets	15,884	12,625
<b>Total current assets</b>	<b>374,349</b>	<b>405,736</b>
<b>Property, Plant, and Equipment:</b>		
In service	2,346,147	2,316,494
Less accumulated provision for depreciation	967,537	950,373
Plant in service, net of depreciation	1,378,610	1,366,121
Construction work in progress	184,302	48,219
<b>Total property, plant, and equipment</b>	<b>1,562,912</b>	<b>1,414,340</b>
<b>Other Property and Investments</b>	<b>6,413</b>	<b>7,018</b>
<b>Deferred Charges and Other Assets:</b>		
Deferred charges related to income taxes	13,778	8,536
Other regulatory assets, deferred	151,580	209,100
Other deferred charges and assets	24,378	27,951
<b>Total deferred charges and other assets</b>	<b>189,736</b>	<b>245,587</b>
<b>Total Assets</b>	<b>\$ 2,133,410</b>	<b>\$ 2,072,681</b>

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

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

	At June 30, 2010	At December 31, 2009
<i>(in thousands)</i>		
<b>Liabilities and Stockholders Equity</b>		
<b>Current Liabilities:</b>		
Securities due within one year	\$ 81,382	\$ 1,330
Notes payable	38,993	
Accounts payable		
Affiliated	59,056	49,209
Other	43,901	38,662
Customer deposits	11,852	11,143
Accrued taxes		
Accrued income taxes	27,463	10,590
Other accrued taxes	29,101	49,547
Accrued interest	5,764	5,739
Accrued compensation	9,333	13,785
Other regulatory liabilities, current	5,750	7,610
Over recovered regulatory clause liabilities	50,702	48,596
Liabilities from risk management activities	22,521	19,454
Other current liabilities	24,689	21,142
Total current liabilities	410,507	276,807
<b>Long-term Debt</b>	412,859	493,480
<b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	222,009	223,066
Deferred credits related to income taxes	12,470	13,937
Accumulated deferred investment tax credits	12,231	12,825
Employee benefit obligations	164,222	161,778
Other cost of removal obligations	104,096	97,820
Other regulatory liabilities, deferred	55,916	54,576
Other deferred credits and liabilities	48,787	47,090
Total deferred credits and other liabilities	619,731	611,092
<b>Total Liabilities</b>	1,443,097	1,381,379
<b>Redeemable Preferred Stock</b>	32,780	32,780
<b>Common Stockholders Equity:</b>		
Common stock, without par value		
Authorized - 1,130,000 shares		
Outstanding - 1,121,000 shares	37,691	37,691
Paid-in capital	328,395	325,562
Retained earnings	291,441	295,269

Accumulated other comprehensive income (loss)	<b>6</b>	
Total common stockholder's equity	<b>657,533</b>	658,522
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$ 2,133,410</b>	<b>\$ 2,072,681</b>

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**SECOND QUARTER 2010 vs. SECOND QUARTER 2009**  
**AND**  
**YEAR-TO-DATE 2010 vs. YEAR-TO-DATE 2009**

**OVERVIEW**

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

On June 3, 2010, the Mississippi PSC issued a certification of public convenience and necessity authorizing the acquisition, construction, and operation of a new electric generating plant located in Kemper County, Mississippi, which is scheduled to be placed into service in 2014.

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

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

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(6.7)	(30.6)	\$(9.4)	(23.6)

Mississippi Power's net income after dividends on preferred stock for the second quarter 2010 was \$15.2 million compared to \$21.9 million for the corresponding period in 2009. The decrease in net income after dividends on preferred stock for the second quarter 2010 was primarily due to a decrease in wholesale energy revenue from non-affiliate customers served outside Mississippi Power's service territory and increases in operations and maintenance expenses and depreciation. The decrease in net income after dividends on preferred stock for the second quarter 2010 was partially offset by an increase in territorial base revenue primarily resulting from warmer weather in the second quarter 2010 compared to the second quarter 2009.

Mississippi Power's net income after dividends on preferred stock for year-to-date 2010 was \$30.5 million compared to \$39.9 million for the corresponding period in 2009. The decrease in net income after dividends on preferred stock for year-to-date 2010 was primarily due to a decrease in wholesale energy revenue from non-affiliate customers served outside Mississippi Power's service territory and increases in operations and maintenance expenses, interest expense, net of amounts capitalized, and depreciation expense. The decrease in net income after dividends on preferred stock for year-to-date 2010 was partially offset by an increase in territorial base revenue primarily resulting from warmer weather in the second quarter 2010 and significantly colder weather in the first quarter 2010 compared to

year-to-date 2009.

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**Retail Revenues**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$2.0	1.0	\$12.8	3.4

In the second quarter 2010, retail revenues were \$203.1 million compared to \$201.1 million for the corresponding period in 2009. For year-to-date 2010, retail revenues were \$389.7 million compared to \$376.9 million for the corresponding period in 2009.

Details of the change to retail revenues are as follows:

	<b>Second Quarter 2010</b>		<b>Year-to-Date 2010</b>	
	<i>(in millions)</i>	<i>(% change)</i>	<i>(in millions)</i>	<i>(% change)</i>
Retail prior year	\$201.1		\$376.9	
Estimated change in				
Rates and pricing	0.5	0.2	0.2	0.1
Sales growth (decline)	(0.8)	(0.4)	(2.0)	(0.5)
Weather	2.3	1.2	9.3	2.4
Fuel and other cost recovery			5.3	1.4
Retail current year	203.1	1.0	389.7	3.4

Revenues associated with changes in rates and pricing increased in the second quarter 2010 when compared to the corresponding period in 2009 primarily due to an increase of \$0.5 million related to the ECO Plan rate.

Revenues associated with changes in rates and pricing increased year-to-date 2010 when compared to the corresponding period in 2009 primarily due to an increase of \$1.0 million related to the ECO Plan rate, partially offset by a decrease of \$0.8 million related to System Restoration Rider (SRR) revenues pursuant to an order from the Mississippi PSC.

For additional information on SRR, see MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - PSC Matters - System Restoration Rider of Mississippi Power in Item 7 of the Form 10-K.

Revenues attributable to changes in sales decreased in the second quarter 2010 when compared to the corresponding period in 2009 primarily due to a decline in residential and commercial customers. Weather-adjusted KWH energy sales to residential and commercial customers decreased 1.6% and 4.2%, respectively, primarily due to the declining number of residential and commercial customers in Mississippi Power's service territory. KWH energy sales to industrial customers increased 4.8% as a result of increased production for several large industrial customers due to improving economic conditions.

Revenues attributable to changes in sales decreased for year-to-date 2010 when compared to the corresponding period in 2009 primarily due to a decline in residential and commercial customers. Weather-adjusted KWH energy sales to residential customers increased 1.6% primarily due to an increase in customer usage. Weather-adjusted KWH energy sales to commercial customers decreased 5.4% primarily due to the declining number of commercial customers in Mississippi Power's service territory. KWH energy sales to industrial customers increased 6.0% as a result of increased production for several large industrial customers due to improving economic conditions.

Revenues attributable to changes in weather increased in the second quarter and year-to-date 2010 due to warmer weather in the second quarter 2010 and significantly colder weather in the first quarter 2010 when compared to the corresponding periods in 2009.

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Fuel and other cost recovery revenues had no significant change in the second quarter 2010 when compared to the corresponding period in 2009. Fuel and other cost recovery revenues increased year-to-date 2010 when compared to the corresponding period in 2009 primarily as a result of higher recoverable fuel costs and an increase in revenues related to ad valorem taxes. Recoverable fuel costs include fuel and purchased power expenses reduced by the fuel portion of wholesale revenues from energy sold to customers outside Mississippi Power's service territory. Electric rates include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these provisions, fuel revenues generally equal fuel expenses, including the fuel component of purchased power costs, and do not affect net income.

**Wholesale Revenues - Non-Affiliates**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(7.5)	(10.2)	\$(8.7)	(5.7)

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

In the second quarter 2010, wholesale revenues from non-affiliates were \$66.2 million compared to \$73.7 million for the corresponding period in 2009. The decrease was due to decreased revenues from customers outside Mississippi Power's service territory of \$7.8 million, partially offset by a \$0.3 million increase in revenues from customers inside Mississippi Power's service territory. The \$7.8 million decrease in revenues from customers outside Mississippi Power's service territory was primarily due to a \$9.0 million decrease in sales volume, partially offset by a \$1.1 million increase associated with higher prices, resulting from the higher marginal cost of fuel, and a \$0.1 million increase in capacity revenues. The \$0.3 million increase in revenues from customers inside Mississippi Power's service territory was primarily due to a \$0.1 million increase in fuel revenues, and a \$0.2 million increase in wholesale base revenues resulting from warmer weather in the second quarter 2010 when compared to the corresponding period in 2009. For year-to-date 2010, wholesale revenues from non-affiliates were \$145.1 million compared to \$153.8 million for the corresponding period in 2009. The decrease was due to decreased revenues from customers outside Mississippi Power's service territory of \$16.2 million, partially offset by a \$7.5 million increase in revenues from customers inside Mississippi Power's service territory. The \$16.2 million decrease in revenues from customers outside Mississippi Power's service territory was primarily due to an \$18.7 million decrease in sales volume, partially offset by a \$2.3 million increase associated with higher prices, resulting from the higher marginal cost of fuel, and a \$0.2 million increase in capacity revenues. The \$7.5 million increase in revenues from customers inside Mississippi Power's service territory was primarily due to a \$4.3 million increase in fuel revenues and a \$3.2 million increase in wholesale base revenues resulting from warmer weather in the second quarter 2010 and significantly colder weather in the first quarter 2010 when compared to the corresponding period in 2009.

**Wholesale Revenues - Affiliates**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(4.1)	(50.6)	\$1.2	7.1

Wholesale revenues from affiliates will vary depending on demand and the availability and cost of generating resources at each company within the Southern Company system. These affiliate sales are made in accordance with

the IIC, as approved by the FERC. These transactions do not have a significant impact on earnings since the energy is generally sold at marginal cost.

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In the second quarter 2010, wholesale revenues from affiliates were \$3.9 million compared to \$8.0 million for the corresponding period in 2009. The decrease was primarily due to a \$4.2 million decrease in energy revenues, of which \$4.7 million was associated with decreased sales volume, partially offset by an increase of \$0.5 million associated with higher prices. Capacity revenues increased \$0.1 million.

For year-to-date 2010, wholesale revenues from affiliates were \$18.6 million compared to \$17.4 million for the corresponding period in 2009. The increase was primarily due to a \$0.7 million increase in energy revenues, of which \$1.2 million was associated with higher prices, partially offset by a decrease of \$0.5 million associated with decreased sales volume. Capacity revenues increased \$0.5 million.

**Fuel and Purchased Power Expenses**

	Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
	<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
Fuel	\$(22.2)	(17.7)	\$(11.4)	(4.6)
Purchased power – non-affiliates	(1.4)	(47.9)	(0.6)	(10.3)
Purchased power – affiliates	12.9	59.7	5.8	13.4
Total fuel and purchased power expenses	\$(10.7)		\$ (6.2)	

In the second quarter 2010, total fuel and purchased power expenses were \$139.6 million compared to \$150.3 million for the corresponding period in 2009. The decrease was primarily due to a \$17.4 million decrease related to the total KWHs generated and purchased, partially offset by a \$6.7 million increase in the cost of fuel and purchased power.

For year-to-date 2010, total fuel and purchased power expenses were \$288.7 million compared to \$294.9 million for the corresponding period in 2009. The decrease was primarily due to a \$5.8 million decrease related to the total KWHs generated and purchased and a \$0.4 million decrease in the cost of fuel and purchased power.

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

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

	Second Quarter 2010	Second Quarter 2009	Percent Change	Year-to-Date 2010	Year-to-Date 2009	Percent Change
	<i>(cents per net KWH)</i>			<i>(cents per net KWH)</i>		
Average Cost	4.39	4.21	4.3	4.30	4.32	(0.5)
Fuel	3.60	3.36	7.0	3.65	3.62	0.9
Purchased power						

In the second quarter 2010, fuel expense was \$103.6 million compared to \$125.8 million for the corresponding period in 2009. The decrease was primarily due to a 21.1% decrease in generation from Mississippi Power facilities resulting from outages and purchased power available at lower costs, partially offset by a 4.3% increase in the price of fuel resulting from higher natural gas prices.

For year-to-date 2010, fuel expense was \$234.4 million compared to \$245.8 million for the corresponding period in 2009. The decrease was primarily due to a 4.3% decrease in generation from Mississippi Power facilities resulting from outages and a 0.5% decrease in the price of fuel resulting from lower coal prices.





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*Non-Affiliates*

In the second quarter 2010, purchased power expense from non-affiliates was \$1.5 million compared to \$2.9 million for the corresponding period in 2009. The decrease was primarily the result of an 81.7% decrease in KWH volume purchased, partially offset by a 185.0% increase in the average cost of purchased power per KWH. The decrease in KWH volume was the result of higher cost opportunity purchases, while the increase in prices was due to a higher marginal cost of fuel.

For year-to-date 2010, purchased power expense from non-affiliates was \$5.1 million compared to \$5.7 million for the corresponding period in 2009. The decrease was primarily the result of a 67.8% decrease in KWH volume purchased, partially offset by a 178.0% increase in the average cost of purchased power per KWH. The decrease in KWH volume purchased was a result of higher cost opportunity purchases, while the increase in prices was due to a higher marginal cost of fuel.

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

*Affiliates*

In the second quarter 2010, purchased power expense from affiliates was \$34.5 million compared to \$21.6 million for the corresponding period in 2009. The increase was primarily due to an 82.1% increase in KWH volume purchased, partially offset by a 12.3% decrease in the average cost of purchased power per KWH.

For year-to-date 2010, purchased power expense from affiliates was \$49.2 million compared to \$43.4 million for the corresponding period in 2009. The increase was primarily due to a 40.5% increase in KWH volume purchased, partially offset by a 19.3% decrease in the average cost of purchased power per KWH.

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

***Other Operations and Maintenance Expenses***

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$10.2	16.5	\$17.7	14.6

In the second quarter 2010, other operations and maintenance expenses were \$71.8 million compared to \$61.6 million for the corresponding period in 2009. The increase was primarily due to a \$7.0 million increase in planned generation maintenance expenses for several major outages, a \$1.2 million increase in routine generation expenses, and a \$1.0 million increase in distribution maintenance expenses.

For year-to-date 2010, other operations and maintenance expenses were \$139.1 million compared to \$121.4 million for the corresponding period in 2009. The increase was primarily due to an \$8.9 million increase in generation planned maintenance expenses for several major outages, a \$1.6 million increase in routine generation expenses, a \$1.2 million increase in environmental expenses, a \$2.4 million increase in transmission and distribution maintenance expenses related to substation and overhead line maintenance and vegetation management, and a \$2.4 million increase in administrative and general expenses.

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**Depreciation and Amortization**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$1.1	6.4	\$1.8	5.0

In the second quarter 2010, depreciation and amortization was \$18.8 million compared to \$17.7 million for the corresponding period in 2009. The increase is primarily due to a \$0.6 million increase in ECO Plan amortization from the prior year and a \$0.5 million increase in depreciation resulting from an increase in plant in service.

For year-to-date 2010, depreciation and amortization was \$37.5 million compared to \$35.7 million for the corresponding period in 2009. The increase is primarily due to a \$0.6 million increase in ECO Plan amortization from the prior year and a \$1.2 million increase in depreciation resulting from an increase in plant in service.

**Taxes Other Than Income Taxes**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$1.0	5.9	\$4.5	14.4

In the second quarter 2010, taxes other than income taxes were \$17.2 million compared to \$16.2 million for the corresponding period in 2009. The increase was primarily due to a \$0.7 million increase in ad valorem taxes and a \$0.2 million increase in payroll taxes.

For year-to-date 2010, taxes other than income taxes were \$35.6 million compared to \$31.1 million for the corresponding period in 2009. The increase was primarily due to a \$4.0 million increase in ad valorem taxes, a \$0.3 million increase in payroll taxes, and a \$0.2 million increase in franchise taxes.

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

**Interest Expense, Net of Amounts Capitalized**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(0.4)	(4.9)	\$1.1	10.1

In the second quarter 2010, interest expense, net of amounts capitalized was \$5.9 million compared to \$6.3 million for the corresponding period in 2009. The decrease was primarily due to a \$0.2 million increase in AFUDC debt expense primarily associated with the Kemper IGCC project and a \$0.1 million decrease related to lower commitment fees and lower interest rates associated with long-term debt.

For year-to-date 2010, interest expense, net of amounts capitalized was \$12.1 million compared to \$11.0 million for the corresponding period in 2009. The increase was primarily due to a \$0.9 million increase in interest expense associated with the issuance of new long-term debt in March 2009 and a \$0.3 million increase in interest expense related to a regulatory recovery mechanism for fuel and energy cost hedging.

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



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**Income Taxes**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(4.5)	(32.8)	\$(5.2)	(21.7)

In the second quarter 2010, income taxes were \$9.1 million compared to \$13.6 million for the corresponding period in 2009. For year-to-date 2010, income taxes were \$18.9 million compared to \$24.1 million for the corresponding period in 2009. These decreases were primarily due to lower pre-tax earnings.

**FUTURE EARNINGS POTENTIAL**

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

**Environmental Matters**

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

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

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters - Carbon Dioxide Litigation - New York Case of Mississippi Power in Item 7 and Note 3 to the financial statements of Mississippi Power under Environmental Matters - Carbon Dioxide Litigation - New York Case in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation. The U.S. Court of Appeals for the Second Circuit denied the defendants' petition for rehearing en banc on March 5, 2010 and granted the defendants request to stay the mandate to allow the defendants to file a petition for writ of certiorari with the U.S. Supreme Court on March 16, 2010. On August 2, 2010, the defendants filed a petition for writ of certiorari with the U.S. Supreme Court. The ultimate outcome of these matters cannot be determined at this time.

*Other Litigation*

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters - Carbon Dioxide Litigation - Other Litigation of Mississippi Power in Item 7 and Note 3 to the financial statements of Mississippi Power under Environmental Matters - Carbon Dioxide Litigation - Other Litigation in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation related to Hurricane Katrina.

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

***Air Quality***

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters - Environmental Statutes and Regulations - Air Quality of Mississippi Power in Item 7 of the Form 10-K for information regarding proposed sulfur dioxide (SO<sub>2</sub>) regulations. On June 2, 2010, the EPA issued its final revisions to the National Ambient Air Quality Standard for SO<sub>2</sub>, including the establishment of a new short-term standard. The ultimate impact of the revised standard will depend on additional regulatory action, state implementation, and the outcome of any legal challenges, and cannot be determined at this time.

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

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters - Environmental Statutes and Regulations - Air Quality of Mississippi Power in Item 7 of the Form 10-K for information regarding the Clean Air Interstate Rule (CAIR). On August 2, 2010, the EPA published a proposed rule to replace CAIR, which was overturned by the U.S. Court of Appeals for the D.C. Circuit in 2008 but left in place pending the promulgation of a replacement rule. This proposed rule, referred to as the Transport Rule, would require 31 eastern states and the District of Columbia (D.C.) to reduce power plant emissions of SO<sub>2</sub> and nitrogen oxides (NO<sub>x</sub>) that contribute to downwind states' nonattainment of federal ozone and/or fine particulate matter ambient air quality standards. To address fine particulate matter standards, the proposed Transport Rule would require D.C. and 27 eastern states, including Alabama, to reduce annual emissions of SO<sub>2</sub> and NO<sub>x</sub> from power plants. To address ozone standards, the proposed Transport Rule would also require D.C. and 25 states, including Alabama and Mississippi, to achieve additional reductions in NO<sub>x</sub> emissions from power plants during the ozone season. The proposed Transport Rule contains a preferred option that would allow limited interstate trading of emissions allowances; however, the EPA also requests comment on two alternative approaches that would not allow interstate trading of emissions allowances. The EPA states that it also intends to develop a second phase of the Transport Rule next year to address the more stringent ozone air quality standards as they are finalized. The EPA expects to finalize the Transport Rule in late spring of 2011 and to set the initial compliance deadline starting in 2012. The impact of this proposed regulation and potential future regulation will depend on its final form, state implementation, and the outcome of any legal challenges, and cannot be determined at this time.

These regulations could result in significant additional compliance and operational costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

***Coal Combustion Byproducts***

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters - Environmental Statutes and Regulations - Coal Combustion Byproducts of Mississippi Power in Item 7 of the Form 10-K for information regarding potential additional regulation of coal combustion byproducts. On June 21, 2010, the EPA published a rulemaking proposal which requested comments on two potential regulatory options for management



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and disposal of coal combustion byproducts: regulation as a solid waste or regulation as a hazardous waste. Adoption of either option could require closure of or significant change to existing storage units and construction of lined landfills, as well as additional waste management and groundwater monitoring requirements. Under both options, the EPA proposes to exempt the beneficial reuse of coal combustion byproducts from regulation; however, the final regulation could significantly alter the options available for beneficial reuse. The outcome of these proposed regulations will depend on their final form and the outcome of any legal challenges, and cannot be determined at this time. However, additional regulation of coal combustion byproducts could have a significant impact on Mississippi Power's management, beneficial use, and disposal of such byproducts. These changes could result in significant additional compliance and operational costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

***Global Climate Issues***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Global Climate Issues of Mississippi Power in Item 7 of the Form 10-K for information regarding the potential for legislation and regulation addressing greenhouse gas and other emissions. On April 1, 2010, the EPA issued a final rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that, once this rule becomes effective on January 2, 2011, carbon dioxide and other greenhouse gases will become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. On May 13, 2010, the EPA issued a final rule governing how these programs would be applied to stationary sources, including power plants. This rule establishes two phases for applying PSD and Title V requirements to greenhouse gas emissions sources. The first phase, beginning on January 2, 2011, will apply to sources and projects that would already be covered under PSD or Title V, whereas the second phase, beginning July 1, 2011, will apply to sources and projects that would not otherwise trigger those programs but for their greenhouse gas emissions. The ultimate outcome of these final rules cannot be determined at this time and will depend on the outcome of any legal challenges.

**FERC and Mississippi PSC Matters*****Retail Regulatory Matters******Performance Evaluation Plan***

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

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

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

***System Restoration Rider***

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

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

*Environmental Compliance Overview Plan*

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

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

On July 22, 2010, Mississippi Power filed a request for a certificate of public convenience and necessity to construct a flue gas desulfurization system on Plant Daniel Units 1 and 2. These units are jointly owned by Mississippi Power and Gulf Power, with 50% ownership, respectively. The estimated total cost of the project is approximately \$600 million and is scheduled for completion in the fourth quarter 2014. Mississippi Power's portion of the cost, if approved by the Mississippi PSC, is expected to be recovered through its ECO Plan. Hearings on the certificate request are expected to be held with the Mississippi PSC by late 2010. The final outcome of this matter cannot now be determined.

*Fuel Cost Recovery*

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - PSC Matters - Fuel Cost Recovery of Mississippi Power in Item 7 of the Form 10-K for information regarding Mississippi Power's fuel cost recovery. Mississippi Power establishes an annual retail fuel cost recovery factor that is approved by the Mississippi PSC. Mississippi Power is required to file for an adjustment to the retail fuel cost recovery factor annually; such filing occurred in November 2009. The Mississippi PSC approved the retail fuel cost recovery factor on December 15, 2009 with the new rates effective January 2010. The retail fuel cost recovery factor will result in an annual decrease in an amount equal to 11.3% of total 2009 retail revenues. As of June 30, 2010, the amount of over recovered retail fuel costs included in the balance sheet was \$33.9 million compared to \$29.4 million at December 31, 2009. Mississippi Power also has a wholesale Municipal and Rural Associations (MRA) and a Market Based (MB) fuel cost recovery factor. Effective January 1, 2010, the wholesale MRA fuel rate decreased, resulting in an annual decrease in an amount equal to 20.9% of total 2009 MRA revenue. Effective February 1, 2010, the wholesale MB fuel rate decreased, resulting in an annual decrease in an amount equal to 16.9% of total 2009 MB revenue. As of June 30, 2010, the amount of over recovered wholesale MRA and MB fuel costs included in the balance sheet was \$13.8 million and \$3.0 million, respectively, compared to \$16.8 million and \$2.4 million, respectively, at December 31, 2009. Mississippi Power's operating revenues are adjusted for differences in actual recoverable fuel cost and amounts billed in accordance with the currently approved cost recovery rate. Accordingly, this decrease to the billing factor will not have a significant effect on Mississippi Power's revenues or net income, but will decrease annual cash flow.



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*Depreciation Study*

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

**Integrated Coal Gasification Combined Cycle**

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

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

In addition to the Internal Revenue Code Section 48A Phase I tax credits of \$133 million certified by the IRS in May 2009, Mississippi Power filed an application in November 2009 with the DOE and in December 2009 with the IRS for certain tax credits available to projects using advanced coal technologies under the Energy Improvement and Extension Act of 2008. The DOE subsequently certified the Kemper IGCC, and on April 30, 2010, the IRS allocated \$279 million of Phase II tax credits under Section 48A of the Internal Revenue Code to Mississippi Power. The utilization of these credits is dependent upon meeting the IRS certification requirements and completing the Kemper IGCC in a timely manner. Mississippi Power has secured all environmental reviews and permits necessary to commence construction of the Kemper IGCC and has entered into a binding contract for the steam turbine generator, completing two milestone requirements for these credits.

On April 29, 2010, the Mississippi PSC issued an order finding that Mississippi Power's application to acquire, construct, and operate the Kemper IGCC did not satisfy the requirement of public convenience and necessity in the form that the project and the related cost recovery were originally proposed by Mississippi Power. The April 2010 order also approved recovery of \$46 million of \$50.5 million in prudent pre-construction costs incurred through March 2009. The remaining \$4.5 million is associated with overhead costs and variable pay of SCS, which were recommended for exclusion from pre-construction costs by a consultant hired by the Mississippi Public Utilities Staff. An additional \$3.5 million has been incurred for costs of this type since March 2009. The remaining \$4.5 million, as well as additional pre-construction amounts incurred during the generation screening and evaluation process through May 2010, will be reviewed and addressed in a future proceeding.

On May 10, 2010, Mississippi Power filed a motion in response to the April 29, 2010 order of the Mississippi PSC relating to the Kemper IGCC, or in the alternative, for alteration or rehearing of such order.

On May 26, 2010, the Mississippi PSC issued an order revising its findings from the April 29, 2010 order. Among other things, the Mississippi PSC's May 26, 2010 order (1) approved the alternate construction cost cap of up to \$2.88 billion (and any amounts that fall within specified exemptions from the cost cap; such exemptions include the costs of the lignite mine and equipment), subject to determinations by the Mississippi PSC that such costs in excess of \$2.4 billion are prudent and required by the public convenience and necessity; (2) provided for the establishment of operational cost and revenue parameters based upon assumptions in Mississippi Power's proposal; and (3) approved financing cost recovery on construction work in progress (CWIP) balances under the State of Mississippi Baseload Act of 2008 (Baseload Act), which provides for the accrual of allowance for funds used during construction in 2010 and

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2011 and recovery of financing costs on 100% of CWIP in 2012, 2013, and through May 1, 2014 (provided that the amount of CWIP allowed is (i) reduced by the amount of government construction cost incentives received by Mississippi Power in excess of \$296 million to the extent that such amount increases cash flow for the pertinent regulatory period and (ii) justified by a showing that such CWIP allowance will benefit customers over the life of the plant). The Mississippi PSC order established periodic prudence reviews during the annual CWIP review process. More frequent prudence determinations may be requested at a later time. On May 27, 2010, Mississippi Power filed a motion with the Mississippi PSC accepting the conditions contained in the order. On June 3, 2010, the Mississippi PSC issued the final certificate order which granted Mississippi Power's motion and issued a certificate of public convenience and necessity authorizing acquisition, construction, and operation of the Kemper IGCC.

In conjunction with the Kemper IGCC, Mississippi Power will own the lignite mine and equipment and will acquire mineral reserves located at the plant site in Kemper County. On May 27, 2010, Mississippi Power executed a 40-year management fee contract with Liberty Fuels Company, LLC, a subsidiary of The North American Coal Corporation, which will develop, construct, and manage the mining operations. The agreement is effective June 1, 2010 through the end of the mine reclamation.

On June 17, 2010, the Sierra Club filed an appeal of the Mississippi PSC's June 3, 2010 decision to grant a certificate of public convenience and necessity for the Kemper IGCC with the Chancery Court of Harrison County, Mississippi (Chancery Court). Subsequently, on July 6, 2010, the Sierra Club also filed an appeal directly with the Mississippi Supreme Court. On July 20, 2010, the Chancery Court issued a stay of the proceeding pending the resolution of the jurisdictional issues raised in a motion filed by Mississippi Power on July 16, 2010 to confirm jurisdiction in the Mississippi Supreme Court.

On July 27, 2010, Mississippi Power and South Mississippi Electric Power Association (SMEPA) entered into an Asset Purchase Agreement whereby SMEPA will purchase an undivided 17.5% interest in the Kemper IGCC project. The closing of this transaction is conditioned upon execution of a joint ownership and operating agreement, receipt of all construction permits, appropriate regulatory approvals, financing, and other conditions.

As of June 30, 2010, Mississippi Power had spent a total of \$142.4 million on the Kemper IGCC, including regulatory filing costs. Of this total, \$129.1 million was included in CWIP, \$11.3 million was recorded in other regulatory assets, \$0.8 million was recorded in other deferred charges and assets, and \$1.3 million was expensed. Upon receipt of the issuance of the final certificate order in May 2010, construction screening costs including regulatory filing costs totaled \$129.0 million. As of May 31, 2010, construction related screening costs of \$116.2 million were reclassified to CWIP while the non-capital related costs of \$11.2 million and \$0.6 million were classified in other regulatory assets and other deferred charges, respectively, and \$1.0 million was previously expensed. Costs incurred for the six months ended June 30, 2010 totaled \$68.9 million compared to \$14.1 million for the six months ended June 30, 2009.

The ultimate outcome of these matters cannot now be determined.

**Legislation**

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

***Healthcare Reform***

On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law and, on March 30, 2010, the Health Care and Education Reconciliation Act of 2010 (HCERA and, together with PPACA, the Acts), which makes various amendments to certain aspects of the PPACA, was signed into law. The Acts effectively change the tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide prescription drug benefits that

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

***Stimulus Funding***

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

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

***Other Matters***

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

The extent of coastal contamination resulting from the oil spill that began in April 2010 in the Gulf of Mexico has potential impacts on certain steam plant operations as well as potential significant economic impacts on the affected areas within Mississippi Power's service territory. The ultimate impact of this matter cannot be determined at this time. See the Notes to the Condensed Financial Statements herein for discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

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**ACCOUNTING POLICIES**

**Application of Critical Accounting Policies and Estimates**

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

**FINANCIAL CONDITION AND LIQUIDITY**

**Overview**

Mississippi Power's financial condition remained stable at June 30, 2010. Mississippi Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See Sources of Capital and Financing Activities herein for additional information. Net cash used for operating activities totaled \$5.1 million for the first six months of 2010, compared to \$23.8 million for the corresponding period in 2009. The \$18.7 million decrease in cash used for operating activities was primarily due to an increase in cash from fossil fuel stock of \$40.5 million primarily resulting from an a decrease in cash payments related to fuel inventory, and an increase in accounts payable of \$20.6 million primarily due to timing of cash payments. These increases in cash were partially offset by an increase in spending related to the Kemper IGCC generation construction screening costs of \$36.5 million and a decrease in cash related to lower fuel rates effective in the first quarter 2010. Net cash used for investing activities totaled \$58.5 million for the first six months of 2010, compared to \$64.4 million for the corresponding period in 2009. The \$5.9 million decrease in net cash used for investing activities was primarily due to an increase in construction payables. Net cash provided from financing activities totaled \$4.9 million for the first six months of 2010, compared to net cash provided from financing activities of \$70.8 million for the corresponding period in 2009. The \$65.9 million decrease in net cash provided from financing activities was primarily due to the issuance of \$125 million in senior notes in the first quarter 2009, partially offset by the repayment of \$40 million of senior notes and an increase of \$18.5 million in notes payable in the second quarter 2010. Fluctuations in cash flow from financing activities vary from year to year based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for the first six months of 2010 include a decrease in cash and cash equivalents of \$58.7 million. Total property, plant, and equipment increased by \$148.6 million primarily due to the increase in CWIP related to the Kemper IGCC. The capital expenditures of \$116.2 million associated with the Kemper IGCC generation screening costs as of May 31, 2010 were reclassified from other regulatory assets, deferred to CWIP upon the Mississippi PSC's issuance of the final certificate order for the project. Securities due within one year increased by \$80.1 million primarily due to the reclassification of a long term bank loan maturing in March 2011. Notes payable increased by \$39.0 million primarily due to an increase in commercial paper borrowings. Accrued income taxes increased by \$16.9 million primarily due to the tax accrual for 2010. Other accrued taxes decreased by \$20.4 million primarily due to property tax payments of \$42.8 million in the first quarter 2010, partially offset by a \$23.3 million property tax accrual for 2010.

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**Capital Requirements and Contractual Obligations**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Mississippi Power in Item 7 of the Form 10-K for a description of Mississippi Power's capital requirements for its construction program, scheduled maturities of long-term debt, interest, lease obligations, purchase commitments, derivative obligations, preferred stock dividends, and trust funding requirements. Approximately \$81.4 million will be required through June 30, 2011 to fund maturities of long-term debt. The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; storm impacts; changes in environmental statutes and regulations; changes in generating plants to meet new regulatory requirements; changes in FERC rules and regulations; Mississippi PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

**Sources of Capital**

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

In addition, Mississippi Power has applied to the DOE for federal loan guarantees to finance a portion of the eligible construction costs of the Kemper IGCC. Mississippi Power is in advanced due diligence with the DOE but has yet to begin discussions with the DOE regarding the terms and conditions of any loan guarantee. There can be no assurance the DOE will issue federal loan guarantees to Mississippi Power.

Mississippi Power's current liabilities sometimes exceed current assets because of the continued use of short-term debt as a funding source to meet scheduled maturities of long-term debt, as well as cash needs, which can fluctuate significantly due to the seasonality of the business. To meet short-term cash needs and contingencies, Mississippi Power had at June 30, 2010 cash and cash equivalents of \$6.3 million and unused committed credit arrangements with banks of \$161.0 million. Of the unused credit arrangements, \$56.0 million expire in 2010 and \$105.0 million expire in 2011. Of these credit arrangements, \$41.0 million contain provisions allowing two-year term loans executable at expiration and \$65.0 million contain provisions allowing one-year term loans executable at expiration. Mississippi Power expects to renew its credit arrangements, as needed, prior to expiration. The credit arrangements provide liquidity support to Mississippi Power's commercial paper program and \$41.0 million are dedicated to funding purchase obligations related to variable rate pollution control revenue bonds. See Note 6 to the financial statements of Mississippi Power under Bank Credit Arrangements in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under Bank Credit Arrangements herein for additional information. Mississippi Power may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of Mississippi Power and other Southern Company subsidiaries. At June 30, 2010, Mississippi Power had \$39.0 million of commercial paper borrowings outstanding. Management believes that the need for working capital can be adequately met by utilizing commercial paper, lines of credit, and cash.

**Off-Balance Sheet Financing Arrangements**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY

Off-Balance Sheet Financing Arrangements of Mississippi Power in Item 7 and Note 7 to the financial statements of Mississippi Power under Operating Leases in Item 8 of the Form 10-K for information related to Mississippi Power's

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lease of a combined cycle generating facility at Plant Daniel. In April 2010, Mississippi Power was required to notify the lessor, Juniper Capital L.P., if it intended to terminate the lease at the end of the initial term expiring in October 2011. Mississippi Power chose not to give notice to terminate the lease. Mississippi Power has the option to purchase the units or renew the lease. Mississippi Power will have to provide notice of its intent to either renew the lease or purchase the facility by July 2011. The ultimate outcome of this matter cannot be determined at this time.

**Credit Rating Risk**

Mississippi Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- and/or Baa3 or below. These contracts are for physical electricity sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management. At June 30, 2010, the maximum potential collateral requirements under these contracts at a BBB- and/or Baa3 rating were approximately \$2 million. At June 30, 2010, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately \$371 million. Included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Mississippi Power's ability to access capital markets, particularly the short-term debt market.

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

On June 17, 2010, Moody's placed the issuer and long-term debt ratings of Mississippi Power (A1 senior unsecured) on review for a possible downgrade. Moody's also placed the P-1 short-term rating of a Southern Company financing subsidiary that issues commercial paper for the benefit of Mississippi Power and other Southern Company subsidiaries on review for a possible downgrade. In addition, Moody's placed the preferred stock and variable rate demand obligation ratings of Mississippi Power (A3 and VMIG1) on review for a possible downgrade. Moody's announced that it did not expect the review to result in more than a one notch downgrade of any of these ratings. The ultimate outcome of this matter cannot be determined at this time.

**Market Price Risk**

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

In the second quarter 2010, Mississippi Power entered into foreign currency derivatives to hedge exposure to changes in foreign currency exchange rates arising from purchases of equipment denominated in a currency other than U.S. dollars. Mississippi Power had no material change in market risk exposure as a result of entering into these contracts. Due to cost-based rate regulation, Mississippi Power continues to have limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. To mitigate residual risks relative to movements in electricity prices, Mississippi Power enters into physical fixed-price contracts for the purchase and sale of electricity through the

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wholesale electricity market. Mississippi Power continues to manage retail fuel-hedging programs implemented per the guidelines of the Mississippi PSC and wholesale fuel-hedging programs under agreements with wholesale customers. As such, Mississippi Power had no material change in market risk exposure for the second quarter 2010 when compared with the December 31, 2009 reporting period.

The changes in fair value of energy-related derivative contracts, the majority of which are composed of regulatory hedges, for the three and six months ended June 30, 2010 were as follows:

	<b>Second Quarter 2010 Changes</b>	<b>Year-to-Date 2010 Changes</b>
	Fair Value (in millions)	
Contracts outstanding at the beginning of the period, assets (liabilities), net	\$(59)	\$ (42)
Contracts realized or settled	11	17
Current period changes <sup>(a)</sup>		(23)
Contracts outstanding at the end of the period, assets (liabilities), net	\$(48)	\$ (48)

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

The change in the fair value positions of the energy-related derivative contracts for the three and six months ended June 30, 2010 was an increase of \$11 million and a decrease of \$6 million, respectively, substantially all of which is due to natural gas positions. The change is attributable to the price of natural gas. At June 30, 2010, Mississippi Power had a net hedge volume of 22 million mmBtu with a weighted average contract cost of approximately \$2.24 per mmBtu above market prices, compared to 23 million mmBtu at March 31, 2010 with a weighted average contract cost of approximately \$2.62 per mmBtu above market prices and compared to 23 million mmBtu at December 31, 2009 with a weighted average contract cost of approximately \$1.83 per mmBtu above market prices. The majority of the natural gas hedges are recovered through the energy cost management clause.

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

Unrealized pre-tax gains and losses recognized in income for the three and six months ended June 30, 2010 and 2009 for energy-related derivative contracts that are not hedges were not material.

The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at June 30, 2010 are as follows:

	<b>June 30, 2010</b>			
	<b>Fair Value Measurements</b>			
	Total Fair Value	Year 1	Maturity Years 2&3	Years 4&5
	(in millions)			
Level 1	\$	\$	\$	\$
Level 2	(48)	(23)	(25)	

Level 3

Fair value of contracts outstanding at end of period	\$ (48)	\$ (23)	\$ (25)	\$
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Mississippi Power uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are actively quoted, and thus fall into Level 2. See Note (C) to the Condensed Financial Statements herein for further discussion on fair value measurements.



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

**Financing Activities**

Mississippi Power did not issue or redeem any securities during the six months ended June 30, 2010.

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

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**SOUTHERN POWER COMPANY  
AND SUBSIDIARY COMPANIES**

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Operating Revenues:</b>				
Wholesale revenues, non-affiliates	\$ 153,989	\$ 90,877	\$ 307,326	\$ 185,489
Wholesale revenues, affiliates	92,784	137,718	194,541	273,002
Other revenues	1,703	2,003	3,097	3,624
<b>Total operating revenues</b>	<b>248,476</b>	230,598	<b>504,964</b>	462,115
<b>Operating Expenses:</b>				
Fuel	76,678	51,731	174,192	117,512
Purchased power, non-affiliates	15,622	24,778	34,164	46,260
Purchased power, affiliates	25,009	13,860	48,420	29,062
Other operations and maintenance	38,007	34,966	76,885	67,939
Depreciation and amortization	28,892	27,198	58,001	51,537
Taxes other than income taxes	5,137	4,789	10,243	9,548
<b>Total operating expenses</b>	<b>189,345</b>	157,322	<b>401,905</b>	321,858
<b>Operating Income</b>	<b>59,131</b>	73,276	<b>103,059</b>	140,257
<b>Other Income and (Expense):</b>				
Interest expense, net of amounts capitalized	(19,553)	(21,592)	(39,607)	(43,151)
Other income (expense), net	(108)	(23)	311	(234)
<b>Total other income and (expense)</b>	<b>(19,661)</b>	(21,615)	<b>(39,296)</b>	(43,385)
<b>Earnings Before Income Taxes</b>	<b>39,470</b>	51,661	<b>63,763</b>	96,872
Income taxes	9,766	20,607	19,249	37,902
<b>Net Income</b>	<b>\$ 29,704</b>	\$ 31,054	<b>\$ 44,514</b>	\$ 58,970

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Net Income</b>	<b>\$ 29,704</b>	\$ 31,054	<b>\$ 44,514</b>	\$ 58,970
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of \$(1,303), \$-, \$410, and \$302, respectively	(2,036)		641	466
Reclassification adjustment for amounts included in net income, net of tax of \$990, \$931, \$1,993, and \$1,866,	1,546	1,435	3,113	2,875

respectively

<b>Total other comprehensive income (loss)</b>	<b>(490)</b>	1,435	<b>3,754</b>	3,341
<b>Comprehensive Income</b>	<b>\$ 29,214</b>	\$ 32,489	<b>\$ 48,268</b>	\$ 62,311

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

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

	For the Six Months Ended June 30,	
	2010	2009
	<i>(in thousands)</i>	
<b>Operating Activities:</b>		
Net income	\$ 44,514	\$ 58,970
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization, total	64,467	57,610
Deferred income taxes	18,173	24,442
Convertible investment tax credits received	22,150	
Deferred revenues	(23,439)	(21,070)
Mark-to-market adjustments	(1,233)	991
Accumulated billings on construction contract	401	24,565
Accumulated costs on construction contract	(20)	(31,113)
Other, net	3,126	3,834
Changes in certain current assets and liabilities		
-Receivables	(49,768)	(50,026)
-Fossil fuel stock	6,176	1,389
-Materials and supplies	3,950	(1,826)
-Prepaid income taxes	(10,683)	5,510
-Other current assets	1,739	1,493
-Accounts payable	1,920	(15,940)
-Accrued taxes	7,815	8,642
-Accrued interest	12	27
-Other current liabilities	326	(158)
Net cash provided from operating activities	89,626	67,340
<b>Investing Activities:</b>		
Property additions	(129,312)	(7,835)
Sale of property		52
Change in construction payables	19,138	(1,624)
Payments pursuant to long-term service agreements	(15,988)	(15,450)
Other investing activities	(249)	(184)
Net cash used for investing activities	(126,411)	(25,041)
<b>Financing Activities:</b>		
Increase in notes payable, net	85,972	
Proceeds Capital contributions	1,626	1,680
Payment of common stock dividends	(53,550)	(53,050)
Net cash provided from (used for) financing activities	34,048	(51,370)
<b>Net Change in Cash and Cash Equivalents</b>	<b>(2,737)</b>	<b>(9,071)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>7,152</b>	<b>37,894</b>

<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 4,415</b>	<b>\$ 28,823</b>
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**Supplemental Cash Flow Information:**

Cash paid during the period for		
Interest (net of \$4,370 and \$163 capitalized for 2010 and 2009, respectively)	<b>\$ 33,274</b>	<b>\$ 37,508</b>
Income taxes (net of refunds)	<b>\$ (10,536)</b>	<b>\$ 7,725</b>

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

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

	At June 30, 2010	At December 31, 2009
	<i>(in thousands)</i>	
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 4,415	\$ 7,152
Receivables		
Customer accounts receivable	83,044	28,873
Other accounts receivable	2,996	2,064
Affiliated companies	35,874	38,561
Fossil fuel stock, at average cost	10,111	15,351
Materials and supplies, at average cost	27,657	31,607
Prepaid service agreements current	18,805	44,090
Prepaid income taxes	15,891	5,177
Other prepaid expenses	1,437	3,176
Assets from risk management activities	6,357	4,901
Other current assets	4,400	6,754
 Total current assets	 210,987	 187,706
<b>Property, Plant, and Equipment:</b>		
In service	3,030,908	2,994,463
Less accumulated provision for depreciation	480,637	439,457
 Plant in service, net of depreciation	 2,550,271	 2,555,006
Construction work in progress	271,461	153,982
 Total property, plant, and equipment	 2,821,732	 2,708,988
<b>Other Property and Investments:</b>		
Goodwill	1,835	1,794
Other intangible assets, net of amortization of \$302 and \$17 at June 30, 2010 and December 31, 2009, respectively	48,818	49,102
 Total other property and investments	 50,653	 50,896
<b>Deferred Charges and Other Assets:</b>		
Prepaid long-term service agreements	70,682	74,513
Other deferred charges and assets affiliated	3,408	3,540
Other deferred charges and assets non-affiliated	15,793	17,410
 Total deferred charges and other assets	 89,883	 95,463
 <b>Total Assets</b>	 <b>\$ 3,173,255</b>	 <b>\$ 3,043,053</b>

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





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

	At June 30, 2010	At December 31, 2009
<b>Liabilities and Stockholder's Equity</b>	<i>(in thousands)</i>	
<b>Current Liabilities:</b>		
Notes payable	\$ 204,920	\$ 118,948
Accounts payable		
Affiliated	72,223	58,493
Other	30,848	31,128
Accrued taxes		
Accrued income taxes	1,820	1,449
Other accrued taxes	10,607	2,576
Accrued interest	29,935	29,923
Liabilities from risk management activities	6,865	8,119
Other current liabilities	325	323
Total current liabilities	357,543	250,959
<b>Long-term Debt</b>	<b>1,297,734</b>	1,297,607
<b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	258,315	238,293
Deferred convertible investment tax credits	38,950	16,800
Deferred capacity revenues - affiliated	13,200	36,369
Other deferred credits and liabilities - affiliated	5,133	5,651
Other deferred credits and liabilities - non-affiliated	10,914	2,252
Total deferred credits and other liabilities	326,512	299,365
<b>Total Liabilities</b>	<b>1,981,789</b>	1,847,931
<b>Common Stockholder's Equity:</b>		
Common stock, par value \$.01 per share		
Authorized - 1,000,000 shares		
Outstanding - 1,000 shares		
Paid-in capital	866,087	864,462
Retained earnings	343,026	352,061
Accumulated other comprehensive loss	(17,647)	(21,401)
Total common stockholder's equity	1,191,466	1,195,122
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$ 3,173,255</b>	\$ 3,043,053

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

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

**OVERVIEW**

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

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

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

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(1.4)	(4.3)	\$(14.5)	(24.5)

Southern Power's net income for the second quarter 2010 was \$29.7 million compared to \$31.1 million for the corresponding period in 2009. This decrease was primarily due to lower revenues associated with the expiration of PPAs covering Plant Wansley Units 6 and 7 in December 2009 and higher operations and maintenance expenses. These decreases were partially offset by higher revenues on energy sales that were not covered by PPAs, lower interest expense, and higher tax benefits associated with the construction of Plant Nacogdoches.

Southern Power's net income for year-to-date 2010 was \$44.5 million compared to \$59.0 million for the corresponding period in 2009. This decrease was primarily due to lower revenues associated with the expiration of PPAs covering Plant Wansley Units 6 and 7 in December 2009, higher operations and maintenance expenses, and higher depreciation and amortization. These decreases were partially offset by higher revenues on energy sales that were not covered by PPAs, lower interest expense, and higher tax benefits associated with the construction of Plant Nacogdoches.

**Wholesale Revenues - Non-Affiliates**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$63.1	69.4	\$121.8	65.7

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

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Wholesale energy sales to non-affiliates for the second quarter 2010 were \$154.0 million compared to \$90.9 million for the corresponding period in 2009. The increase was mainly due to \$52.1 million of energy and capacity revenues under new PPAs that began in January and June 2010 and \$25.0 million of energy sales that were not covered by PPAs as a result of more favorable weather in the second quarter 2010 compared to the corresponding period in 2009. These increases were partially offset by a \$13.8 million decrease in power sales under the IIC.

Wholesale energy sales to non-affiliates for year-to-date 2010 were \$307.3 million compared to \$185.5 million for the corresponding period in 2009. The increase was mainly due to \$73.8 million of energy and capacity revenues under new PPAs that began in January and June 2010, \$5.6 million of energy sales under requirements contracts, and \$60.3 million of energy sales that were not covered by PPAs due to more favorable weather year-to-date 2010 compared to the corresponding period in 2009. These increases were partially offset by a \$16.8 million decrease in power sales under the IIC.

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

**Wholesale Revenues - Affiliates**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(44.9)	(32.6)	\$(78.5)	(28.7)

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

Wholesale revenues from affiliates for the second quarter 2010 were \$92.8 million compared to \$137.7 million for the corresponding period in 2009. The decrease was primarily the result of \$55.7 million of lower energy and capacity revenues associated with the expiration of PPAs covering Plant Wansley Units 6 and 7 in December 2009. These decreases were partially offset by increased energy revenues of \$14.2 million related to increased power sales under the IIC.

Wholesale revenues from affiliates for year-to-date 2010 were \$194.5 million compared to \$273.0 million for the corresponding period in 2009. The decrease was primarily the result of \$113.7 million of lower energy and capacity revenues associated with the expiration of PPAs covering Plant Wansley Units 6 and 7 in December 2009. These decreases were partially offset by increased energy revenues of \$35.1 million related to increased power sales under the IIC.

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

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**Fuel and Purchased Power Expenses**

	Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
	<i>(change in</i>	<i>(% change)</i>	<i>(change in</i>	<i>(% change)</i>
	<i>millions)</i>		<i>millions)</i>	
Fuel	\$25.0	48.2	\$ 56.7	48.2
Purchased power - non-affiliates	(9.2)	(37.0)	(12.1)	(26.1)
Purchased power - affiliates	11.1	80.4	19.4	66.6
<b>Total fuel and purchased power expenses</b>	<b>\$26.9</b>		<b>\$ 64.0</b>	

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

In the second quarter 2010, total fuel and purchased power expenses were \$117.3 million compared to \$90.4 million for the corresponding period in 2009. Fuel and purchased power expenses increased \$20.1 million due to a 23.3% increase in the average cost of natural gas and a 16.0% increase in the average cost of purchased power. Additionally, fuel and purchased power expenses increased \$6.8 million due to an increase in KWHs generated and purchased. For year-to-date 2010, total fuel and purchased power expenses were \$256.8 million compared to \$192.8 million for the corresponding period in 2009. Fuel and purchased power expenses increased \$37.8 million due to a 12.4% increase in the average cost of natural gas and a 28.3% increase in the average cost of purchased power. Additionally, fuel and purchased power expenses increased \$26.2 million due to an increase in KWHs generated and purchased. In the second quarter 2010, fuel expense was \$76.7 million compared to \$51.7 million for the corresponding period in 2009. Fuel expense increased \$14.5 million due to a 23.3% increase in the average cost of natural gas and \$10.5 million due to an increase in KWHs generated.

For year-to-date 2010, fuel expense was \$174.2 million compared to \$117.5 million for the corresponding period in 2009. Fuel expense increased \$19.5 million due to a 12.4% increase in the average cost of natural gas and \$37.2 million due to an increase in KWHs generated.

In the second quarter 2010, purchased power expense was \$40.6 million compared to \$38.6 million for the corresponding period in 2009. Purchased power expenses increased \$5.6 million due to an increase in the average cost of purchased power, partially offset by a \$3.6 million decrease due to fewer KWHs purchased.

For year-to-date 2010, purchased power expense was \$82.6 million compared to \$75.3 million for the corresponding period in 2009. Purchased power expenses increased \$18.2 million due to an increase in the average cost of purchased power, partially offset by a \$10.9 million decrease due to fewer KWHs purchased.

**Other Operations and Maintenance Expenses**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$3.0	8.7	\$9.0	13.2

In the second quarter 2010, other operations and maintenance expenses were \$38.0 million compared to \$35.0 million for the corresponding period in 2009. This increase was primarily related to additional expense associated with employee benefits.

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For year-to-date 2010, other operations and maintenance expenses were \$76.9 million compared to \$67.9 million for the corresponding period in 2009. This increase was primarily due to \$4.1 million of additional expense associated with the passage of healthcare legislation in March 2010, \$3.3 million related to generating plant outages and maintenance, and \$1.2 million related to salaries and wages, primarily payroll taxes.

See FUTURE EARNINGS POTENTIAL - Legislation herein for additional information.

**Depreciation and Amortization**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$1.7	6.2	\$6.5	12.5

In the second quarter 2010, depreciation and amortization was \$28.9 million compared to \$27.2 million for the corresponding period in 2009. The increase was primarily related to \$1.5 million associated with the acquisition of West Georgia Generating Company LLC (West Georgia) and the divestiture of DeSoto County Generating Company LLC (DeSoto) which resulted in an increase in property, plant, and equipment of approximately \$120.2 million. The increase was also due to \$0.7 million of equipment retirements and \$0.4 million related to other increases in property, plant, and equipment. These increases were partially offset by a \$1.0 million decrease related to changes in depreciation rates.

For year-to-date 2010, depreciation and amortization was \$58.0 million compared to \$51.5 million for the corresponding period in 2009. The increase was primarily related to \$3.2 million associated with the West Georgia/DeSoto acquisition/divestiture described above, \$4.8 million of equipment retirements, and \$0.7 million related to other increases in property, plant, and equipment. These increases were partially offset by a \$2.2 million decrease related to changes in depreciation rates.

See Note 1 to the financial statements of Southern Power under Depreciation and Note 2 to the financial statements of Southern Power under West Georgia Generating Company, LLC Acquisition and DeSoto County Generating Company, LLC Divestiture in Item 8 of the Form 10-K for additional information.

**Interest Expense, Net of Amounts Capitalized**

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(2.0)	(9.4)	\$(3.6)	(8.2)

In the second quarter 2010, interest expense, net of amounts capitalized was \$19.6 million compared to \$21.6 million for the corresponding period in 2009. This decrease was primarily related to \$2.4 million of additional capitalized interest associated with the construction of the Cleveland County combustion turbine units and the Nacogdoches biomass plant, partially offset by \$0.2 million associated with an increase in interest expense on commercial paper and \$0.2 million associated with interest rate swaps on senior notes.

For year-to-date 2010, interest expense, net of amounts capitalized was \$39.6 million compared to \$43.2 million for the corresponding period in 2009. This decrease was primarily related to \$4.2 million of additional capitalized interest associated with the construction of the Cleveland County combustion turbine units and the Nacogdoches biomass plant, partially offset by \$0.3 million associated with an increase in interest expense on commercial paper and \$0.4 million associated with interest rate swaps on senior notes.

See FUTURE EARNINGS POTENTIAL - Construction Projects herein for additional information.



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***Income Taxes***

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
<i>(change in millions)</i>	<i>(% change)</i>	<i>(change in millions)</i>	<i>(% change)</i>
\$(10.8)	(52.6)	\$(18.7)	(49.2)

In the second quarter 2010, income taxes were \$9.8 million compared to \$20.6 million for the corresponding period in 2009. The decrease was primarily due to \$5.0 million associated with lower pre-tax earnings and \$2.9 million of tax benefits associated with the construction of Plant Nacogdoches.

For year-to-date 2010, income taxes were \$19.2 million compared to \$37.9 million for the corresponding period in 2009. The decrease was primarily due to \$13.1 million associated with lower pre-tax earnings and \$5.1 million of tax benefits associated with the construction of Plant Nacogdoches.

See Note 1 to the financial statements of Southern Power under **Convertible Investment Tax Credits** in Item 8 of the Form 10-K and Note (G) to the Condensed Financial Statements under **Effective Tax Rate** herein for additional information.

**FUTURE EARNINGS POTENTIAL**

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

**Environmental Matters**

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

***Air Quality***

On January 22, 2010, the EPA finalized revisions to the National Ambient Air Quality Standard for Nitrogen Dioxide (NO<sub>2</sub>) by setting a new one-hour standard that became effective on April 12, 2010. The impact of this regulation will depend on additional regulatory action, state implementation, and the outcome of any legal challenges, and cannot be determined at this time. Although none of the areas in which Southern Power operates generating assets are expected to





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be designated as nonattainment for the standard, based on current ambient air quality monitoring data, the new NO<sub>2</sub> standard could result in significant additional compliance and operational costs for units that require new source permitting.

***Carbon Dioxide Litigation******Other Litigation***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation Other Litigation of Southern Power in Item 7 and Note 3 to the financial statements of Southern Power under Carbon Dioxide Litigation Other Litigation in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation related to Hurricane Katrina. On May 28, 2010, the U.S. Court of Appeals for the Fifth Circuit dismissed the plaintiffs' appeal of the case based on procedural grounds relating to the loss of a quorum by the full court on reconsideration, reinstating the district court decision in favor of the defendants. The plaintiffs have until August 26, 2010 to file a petition for writ of certiorari with the U.S. Supreme Court. The ultimate outcome of this matter cannot be determined at this time.

***Environmental Statutes and Regulations***

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

***Global Climate Issues***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Global Climate Issues of Southern Power in Item 7 of the Form 10-K for information regarding the potential for legislation and regulation addressing greenhouse gas and other emissions. On April 1, 2010, the EPA issued a final rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that, once this rule becomes effective on January 2, 2011, carbon dioxide and other greenhouse gases will become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. On May 13, 2010, the EPA issued a final rule governing how these programs would be applied to stationary sources, including power plants. This rule establishes two phases for applying PSD and Title V requirements to greenhouse gas emissions sources. The first phase, beginning on January 2, 2011, will apply to sources and projects that would already be covered under PSD or Title V, whereas the second phase, beginning July 1, 2011, will apply to sources and projects that would not otherwise trigger those programs but for their greenhouse gas emissions. The ultimate outcome of these final rules cannot be determined at this time and will depend on the outcome of any legal challenges.

***Legislation***

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Legislation of Southern Power in Item 7 of the Form 10-K for additional information. On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law and, on March 30, 2010, the Health Care and Education

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Reconciliation Act of 2010 (HCERA and, together with PPACA, the Acts), which makes various amendments to certain aspects of the PPACA, was signed into law. The Acts effectively change the tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide prescription drug benefits that are at least actuarially equivalent to the corresponding benefits provided under Medicare Part D. The federal subsidy paid to employers was introduced as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MPDIMA). Since the 2006 tax year, Southern Company has been receiving the federal subsidy related to certain retiree prescription drug plans that were determined to be actuarially equivalent to the benefit provided under Medicare Part D. Under the MPDIMA, the federal subsidy does not reduce an employer's income tax deduction for the costs of providing such prescription drug plans nor is it subject to income tax individually. Under the Acts, beginning in 2013, an employer's income tax deduction for the costs of providing Medicare Part D-equivalent prescription drug benefits to retirees will be reduced by the amount of the federal subsidy. Under GAAP, any impact from a change in tax law must be recognized in the period enacted regardless of the effective date. Southern Power incurred a non-cash write-off of approximately \$4 million to expense for the six months ended June 30, 2010. Southern Company is in the process of assessing the extent to which the legislation may affect its future health care and related employee benefit plan costs. Any future impact on the financial statements of Southern Power cannot be determined at this time.

**Construction Projects*****Cleveland County Units 1-4***

In December 2008, Southern Power announced that it would build an electric generating plant in Cleveland County, North Carolina. The plant will consist of four combustion turbine natural gas generating units with a total capacity of 720 MWs. The units are expected to go into commercial operation in 2012. Costs incurred through June 30, 2010 were \$103.1 million. The total estimated construction cost is expected to be between \$350 million and \$400 million.

***Nacogdoches***

On October 8, 2009, Southern Power acquired all of the outstanding membership interests of Nacogdoches Power LLC from American Renewables LLC, the original developer of the project. Nacogdoches is constructing a biomass generating plant in Sacul, Texas with an estimated capacity of 100 MWs. The generating plant will be fueled from wood waste. Construction commenced in 2009 and the plant is expected to begin commercial operation in 2012. Costs incurred through June 30, 2010 were \$167.7 million. The total estimated cost of the project is expected to be between \$475 million and \$500 million.

**Other Matters**

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

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

**ACCOUNTING POLICIES**

**Application of Critical Accounting Policies and Estimates**

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

**FINANCIAL CONDITION AND LIQUIDITY**

**Overview**

Southern Power's financial condition remained stable at June 30, 2010. Southern Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements as needed to meet future capital and liquidity needs. See Sources of Capital herein for additional information on lines of credit.

Net cash provided from operating activities totaled \$89.6 million for the first six months of 2010, compared to \$67.3 million for the corresponding period in 2009. The \$22.3 million increase was mainly due to an increase in accounts payable associated with an increase in the volume of fuel purchased and an increase in convertible investment tax credits. Net cash used for investing activities totaled \$126.4 million for the first six months of 2010, compared to \$25.0 million for the corresponding period in 2009. The \$101.4 million increase was primarily due to an increase in construction work in progress related to construction activities at Cleveland County and Nacogdoches. Net cash provided from financing activities totaled \$34.0 million for the first six months of 2010, compared to \$51.4 million cash used for financing activities for the corresponding period in 2009. The increase was primarily due to an increase in short-term borrowings in 2010. Fluctuations in cash flow from financing activities vary from year to year based on capital needs and the maturity or redemption of securities.

Significant asset changes in the balance sheet for the first six months of 2010 include an increase in customer accounts receivable due to seasonality and new PPAs that began in June 2010, and an increase in construction work in progress due to Cleveland County and Nacogdoches construction activities.

Significant liability and stockholder's equity changes in the balance sheet for the first six months of 2010 include an increase in notes payable mainly related to Cleveland County and Nacogdoches construction activities.

**Capital Requirements and Contractual Obligations**

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Southern Power in Item 7 of the Form 10-K for a description of Southern Power's capital requirements for its construction program, scheduled maturities of long-term debt, interest, leases, derivative obligations, purchase commitments, and long-term service agreements. The construction program is subject to

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periodic review and revision; these amounts include estimates for potential plant acquisitions and new construction as well as ongoing capital improvements. Planned expenditures for plant acquisitions may vary due to market opportunities and Southern Power's ability to execute its growth strategy. Actual construction costs may vary from these estimates because of changes in factors such as: business conditions; environmental statutes and regulations; new regulatory requirements for generating plants; FERC rules and regulations; load projections; legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital.

**Sources of Capital**

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

Southern Power's current liabilities frequently exceed current assets due to the use of short-term indebtedness as a funding source to meet cash needs which can fluctuate significantly due to the seasonality of the business. To meet liquidity and capital resource requirements, Southern Power had at June 30, 2010 cash and cash equivalents of approximately \$4.4 million and committed credit arrangements with banks of \$400 million, all of which expire in 2012. Proceeds from these credit arrangements may be used for working capital and general corporate purposes as well as liquidity support for Southern Power's commercial paper program. See Note 6 to the financial statements of Southern Power under Bank Credit Arrangements in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under Bank Credit Arrangements herein for additional information. Southern Power's commercial paper program is used to finance acquisition and construction costs related to electric generating facilities and for general corporate purposes. At June 30, 2010, Southern Power had \$204.9 million of commercial paper borrowings outstanding. Management believes that the need for working capital can be adequately met by utilizing commercial paper programs, lines of credit, and cash.

**Credit Rating Risk**

Southern Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB and Baa2, or BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel transportation and storage, and energy price risk management. At June 30, 2010, the maximum potential collateral requirements under these contracts at a BBB and Baa2 rating were approximately \$9 million and at a BBB- and/or Baa3 rating were approximately \$340 million. At June 30, 2010, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately \$1.1 billion. Included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Southern Power's ability to access capital markets, particularly the short-term debt market. In addition, through the acquisition of Plant Rowan, Southern Power assumed PPAs with Duke Energy and North Carolina Municipal Power Agency No. 1 (NCMPA1) that could require collateral, but not accelerated payment, in the event of a downgrade of Southern Power's credit. The Duke Energy PPA defines the downgrade to be below BBB- or Baa3. The NCMPA1 PPA requires credit assurances without stating a specific credit rating. The amount of collateral required would depend upon actual losses, if any, resulting from a credit downgrade for both PPAs.

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**Market Price Risk**

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

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

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

The changes in fair value of energy-related derivative contracts for the three and six months ended June 30, 2010 were as follows:

	<b>Second Quarter 2010 Changes</b>	<b>Year-to-Date 2010 Changes</b>
	Fair Value (in millions)	
Contracts outstanding at the beginning of the period, assets (liabilities), net	\$ 0.1	\$ (3.5)
Contracts realized or settled		0.5
Current period changes <sup>(a)</sup>	(1.3)	1.8
Contracts outstanding at the end of the period, assets (liabilities), net	\$(1.2)	\$ (1.2)

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

The changes in the fair value positions of the energy-related derivative contracts for the three and six months ended June 30, 2010 were a decrease of \$1.3 million and an increase of \$2.3 million, respectively, which is due to both power and natural gas positions. This change is attributable to both the volume and prices of power and natural gas as follows:

	<b>June 30, 2010</b>	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>Power (net sold)</b>			
MWHs (in millions)	0.7	1.3	2.7

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Weighted average contract cost per MWH above (below) market prices ( <i>in dollars</i> )	\$6.77	\$ 9.03	\$ (0.36)
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**Natural gas (net purchase)**

Commodity million mmBtu	5.6	6.4	8.3
Location basis million mmBtu		1.2	2.0

Commodity Weighted average contract cost per mmBtu above (below) market prices ( <i>in dollars</i> )	\$1.31	\$ 2.41	\$ 0.29
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Location basis Weighted average contract cost per mmBtu above (below) market prices ( <i>in dollars</i> )	\$	\$(0.03)	\$ (0.04)
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The fair value of energy-related derivative contracts by hedge designation reflected in the financial statements as assets (liabilities) consists of the following:

<b>Asset (Liability) Derivatives</b>	<b>June 30, 2010</b>	<b>December 31, 2009</b>
		<i>(in millions)</i>
Cash flow hedges	\$(1.4)	\$ (2.5)
Not designated	0.2	(1.0)
Total fair value	\$(1.2)	\$ (3.5)

Gains and losses on energy-related derivatives used by Southern Power to hedge anticipated purchases and sales are initially deferred in OCI before being recognized in income in the same period as the hedged transaction. Gains and losses on energy-related derivative contracts that are not designated as hedges are recognized in the statements of income as incurred.

Total net unrealized pre-tax gains recognized in income for the three and six months ended June 30, 2010 for energy-related derivative contracts that are not hedges were \$2.0 million and \$1.2 million, respectively, and will continue to be marked to market until the settlement date. For the three months ended June 30, 2009, the total net unrealized pre-tax gains (losses) recognized in the statements of income were immaterial. For the six months ended June 30, 2009, the total net unrealized pre-tax losses recognized in the statements of income were \$1.0 million.

The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at June 30, 2010 are as follows:

	<b>June 30, 2010</b>			
	<b>Fair Value Measurements</b>			
	Total	Maturity		
	Fair Value	Year 1	Years 2&3	Years 4&5
		<i>(in millions)</i>		
Level 1	\$	\$	\$	\$
Level 2	(1.2)	(0.5)	(0.8)	0.1
Level 3				
Fair value of contracts outstanding at end of period	\$(1.2)	\$(0.5)	\$(0.8)	\$ 0.1

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

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

**Financing Activities**

Southern Power did not issue or redeem any long-term securities during the six months ended June 30, 2010.



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FINANCIAL STATEMENTS BY REGISTRANT**

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

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MISSISSIPPI POWER COMPANY**

**SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS:**

**(A) INTRODUCTION**

The condensed quarterly financial statements of each registrant included herein have been prepared by such registrant, without audit, pursuant to the rules and regulations of the SEC. The Condensed Balance Sheets as of December 31, 2009 have been derived from the audited financial statements of each registrant. In the opinion of each registrant's management, the information regarding such registrant furnished herein reflects all adjustments, which, except as otherwise disclosed, are of a normal recurring nature, necessary to present fairly the results of operations for the periods ended June 30, 2010 and 2009. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although each registrant believes that the disclosures regarding such registrant are adequate to make the information presented not misleading. Disclosures which would substantially duplicate the disclosures in the Form 10-K and details which have not changed significantly in amount or composition since the filing of the Form 10-K are generally omitted from this Quarterly Report on Form 10-Q. Therefore, these Condensed Financial Statements should be read in conjunction with the financial statements and the notes thereto included in the Form 10-K. Due to the seasonal variations in the demand for energy, operating results for the periods presented are not necessarily indicative of the operating results to be expected for the full year.

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

**Affiliate Transactions**

In January 2010, Gulf Power purchased turbine rotor assembly parts owned by Georgia Power and Southern Power for approximately \$4 million and \$6 million, respectively. In June 2010, Mississippi Power purchased a turbine rotor assembly part from Gulf Power for approximately \$6 million. These affiliate transactions were in accordance with FERC and state PSC rules and guidelines.

**Variable Interest Entities**

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

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

**(B) CONTINGENCIES AND REGULATORY MATTERS**

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

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

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

**Mirant Matters**

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

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

Under the terms of the separation agreements entered into in connection with the spin-off, Mirant agreed to indemnify Southern Company for certain costs. As a result of Mirant's bankruptcy, Southern Company sought reimbursement as an unsecured creditor in Mirant's Chapter 11 proceeding. If Southern Company's claims for indemnification with respect to these costs are allowed, then Mirant's indemnity obligations to Southern Company would constitute unsecured claims against Mirant entitled to stock in Reorganized Mirant. As a result of the \$202 million settlement in March 2009 of another suit related to Mirant (MC Asset Recovery litigation), the maximum amount Southern Company can assert by proof of claim in the Mirant bankruptcy is capped at \$9.5 million. See Note 5 to the financial statements of Southern Company under *Effective Tax Rate* in Item 8 of the Form 10-K for more information regarding the MC Asset Recovery litigation settlement. By settlement agreement, dated as of July 7, 2010, substantially all the claims filed by Southern Company against Mirant have been resolved. Pursuant to the agreement, Southern Company will be given allowed unsecured claims against Mirant in the aggregate amount of approximately \$8.8 million, which claims will be treated pursuant to the terms of the Mirant plan of reorganization. The parties also released each other from any other claims arising from events or conduct prior to the effective date of Mirant's plan of reorganization, with certain limited exceptions. Mirant has requested bankruptcy court approval of the settlement and the matter is scheduled to be heard on August 26, 2010. The final outcome of this matter cannot now be determined.

**Environmental Matters**

*New Source Review Actions*

In November 1999, the EPA brought a civil action in the U.S. District Court for the Northern District of Georgia against certain Southern Company subsidiaries, including Alabama Power and Georgia Power, alleging that these subsidiaries had violated the NSR provisions of the Clean Air Act and related state laws at certain coal-fired generating facilities. After Alabama Power was dismissed from the original action, the EPA filed a separate action in January 2001 against Alabama Power in the U.S. District Court for the Northern District of Alabama. In these lawsuits, the EPA alleges that NSR violations occurred at eight coal-fired generating facilities operated by Alabama Power and Georgia Power, including

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

facilities co-owned by Mississippi Power and Gulf Power. The civil actions request penalties and injunctive relief, including an order requiring installation of the best available control technology at the affected units. The EPA concurrently issued notices of violation to Gulf Power and Mississippi Power relating to Gulf Power's Plant Crist and Mississippi Power's Plant Watson. In early 2000, the EPA filed a motion to amend its complaint to add Gulf Power and Mississippi Power as defendants based on the allegations in the notices of violation. However, in March 2001, the court denied the motion based on lack of jurisdiction, and the EPA has not re-filed. The original action, now solely against Georgia Power, has been administratively closed since the spring of 2001, and the case has not been reopened.

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

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

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

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

*Kivalina Case*

In February 2008, the Native Village of Kivalina and the City of Kivalina filed a suit in the U.S. District Court for the Northern District of California against several electric utilities (including Southern Company), several oil companies, and a coal company. The plaintiffs are the governing bodies of an Inupiat village in Alaska. The plaintiffs contend that the village is being destroyed by erosion allegedly caused by global warming that the plaintiffs attribute to emissions of greenhouse gases by the defendants. The plaintiffs assert claims for public and private nuisance and contend that some of

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

the defendants have acted in concert and are therefore jointly and severally liable for the plaintiffs' damages. The suit seeks damages for lost property values and for the cost of relocating the village, which is alleged to be \$95 million to \$400 million. Southern Company believes that these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. In September 2009, the U.S. District Court for the Northern District of California granted the defendants' motions to dismiss the case based on lack of jurisdiction and ruled the claims were barred by the political question doctrine and by the plaintiffs' failure to establish the standard for determining that the defendants' conduct caused the injury alleged. In November 2009, the plaintiffs filed an appeal with the U.S. Court of Appeals for the Ninth Circuit challenging the district court's order dismissing the case. The ultimate outcome of this matter cannot be determined at this time.

*Other Litigation*

Common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas emissions have become more frequent, and courts have recently determined that private parties and states have standing to bring such claims. For example, in October 2009, the U.S. Court of Appeals for the Fifth Circuit reversed the U.S. District Court for the Southern District of Mississippi's dismissal of private party claims against certain oil, coal, chemical, and utility companies alleging damages as a result of Hurricane Katrina. In reversing the dismissal, the U.S. Court of Appeals for the Fifth Circuit held that plaintiffs have standing to assert their nuisance, trespass, and negligence claims and none of these claims are barred by the political question doctrine. On May 28, 2010, however, the U.S. Court of Appeals for the Fifth Circuit dismissed the plaintiffs' appeal of the case based on procedural grounds relating to the loss of a quorum by the full court on reconsideration, reinstating the district court decision in favor of the defendants. The plaintiffs have until August 26, 2010 to file a petition for writ of certiorari with the U.S. Supreme Court. Southern Company is not currently a party to this litigation, but the traditional operating companies and Southern Power were named as defendants in an amended complaint which was rendered moot in August 2007 by the U.S. District Court for the Southern District of Mississippi when such court dismissed the original matter. The ultimate outcome of this matter cannot be determined at this time.

**Environmental Remediation**

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

Georgia Power's environmental remediation liability as of June 30, 2010 was \$14.1 million. Georgia Power has been designated or identified as a potentially responsible party (PRP) at sites governed by the Georgia Hazardous Site Response Act and/or by the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), including a large site in Brunswick, Georgia on the CERCLA National Priorities List (NPL). The parties have completed the removal of wastes from the Brunswick site as ordered by the EPA. Additional claims for recovery of natural resource damages at this site or for the assessment and potential cleanup of other sites on the Georgia Hazardous Sites Inventory and CERCLA NPL are anticipated; however, they are not expected to have a material impact on Georgia Power's financial statements.

By letter dated September 30, 2008, the EPA advised Georgia Power that it has been designated as a PRP at the Ward Transformer Superfund site located in Raleigh, North Carolina. Numerous other entities have also received notices from the EPA. Georgia Power, along with other named PRPs, is negotiating with the EPA to



address cleanup of the site and reimbursement for past expenditures related to work performed at the site. In addition, in April 2009, two PRPs filed separate actions in the U.S. District Court for the Eastern District of North Carolina against numerous other PRPs, including Georgia Power, seeking contribution from the defendants for expenses incurred by the plaintiffs related to work performed at a portion of the site. The ultimate outcome of these matters will depend upon further environmental assessment and the ultimate number of PRPs and cannot be determined at this time; however, it is not expected to have a material impact on Georgia Power's financial statements.

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

Gulf Power's environmental remediation liability includes estimated costs of environmental remediation projects of approximately \$63.1 million as of June 30, 2010. These estimated costs relate to site closure criteria by the Florida Department of Environmental Protection (FDEP) for potential impacts to soil and groundwater from herbicide applications at Gulf Power substations. The schedule for completion of the remediation projects will be subject to FDEP approval. The projects have been approved by the Florida PSC for recovery through Gulf Power's environmental cost recovery clause; therefore, there was no impact on net income as a result of these estimates.

In 2003, the Texas Commission on Environmental Quality (TCEQ) designated Mississippi Power as a PRP at a site in Texas. The site was owned by an electric transformer company that handled Mississippi Power's transformers as well as those of many other entities. The site owner is bankrupt and the State of Texas has entered into an agreement with Mississippi Power and several other utilities to investigate and remediate the site. Amounts expensed related to this work were not material. Hundreds of entities have received notices from the TCEQ requesting their participation in the anticipated site remediation. The final impact of this matter on Mississippi Power will depend upon further environmental assessment and the ultimate number of PRPs. The remediation expenses incurred by Mississippi Power are expected to be recovered through the ECO Plan.

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

**FERC Matters*****Market-Based Rate Authority***

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

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

In December 2009, Southern Company and the FERC trial staff reached an agreement in principle that would resolve the proceeding in its entirety. The agreement does not reflect any finding or suggestion that any subsidiary of Southern Company possesses or has exercised any market power. The agreement likewise does not require Southern Company to make any refunds related to sales during the 15-month refund period. The agreement does provide for the traditional operating companies and Southern Power to donate a total of \$1.7 million to nonprofit organizations in the states in which they operate for the purpose of offsetting the electricity bills of low-income retail customers. The joint offer of settlement was filed on March 2, 2010. On July 13, 2010, the FERC issued an order approving the filed settlement, finding it to be fair, reasonable, and in the public interest. There is a 30-day period within which a rehearing request may be filed. If the 30-day period expires and no rehearing request has been filed, then the payment shall be made within 15 days after the order becomes final and non-appealable.

***Intercompany Interchange Contract***

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

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

with the formation of Southern Power, the FERC authorized Southern Power's inclusion in the IIC in 2000. The FERC also previously approved Southern Company's code of conduct.

In October 2006, the FERC issued an order accepting a settlement resolving the proceeding subject to Southern Company's agreement to accept certain modifications to the settlement's terms. Southern Company notified the FERC that it accepted the modifications. The modifications largely involve functional separation and information restrictions related to marketing activities conducted on behalf of Southern Power. In November 2006, Southern Company filed with the FERC a compliance plan in connection with the order. In April 2007, the FERC approved, with certain modifications, the plan submitted by Southern Company. Implementation of the plan did not have a material impact on Southern Company's or the traditional operating companies' financial statements. In November 2007, Southern Company notified the FERC that the plan had been implemented. In December 2008, the FERC division of audits issued for public comment its final audit report pertaining to compliance implementation and related matters. No comments were submitted challenging the audit report's findings of Southern Company's compliance. The proceeding remains open pending a decision from the FERC regarding the audit report.

**Right of Way Litigation**

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

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

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

**Nuclear Fuel Disposal Cost Litigation**

See Note 3 to the financial statements of Southern Company, Alabama Power, and Georgia Power under Nuclear Fuel Disposal Costs in Item 8 of the Form 10-K for information regarding the litigation brought by

Alabama Power and Georgia Power against the government for breach of contracts related to the disposal of spent nuclear fuel. In July 2007, the U.S. Court of Federal Claims awarded Georgia Power approximately \$30 million, based on its ownership interests, and awarded Alabama Power approximately \$17 million, representing substantially all of the direct costs of the expansion of spent nuclear fuel storage facilities at Plants Farley, Hatch, and Vogtle from 1998 through 2004. In November 2007, the government's motion for reconsideration was denied. In January 2008, the government filed an appeal and, in February 2008, filed a motion to stay the appeal, which the U.S. Court of Appeals for the Federal Circuit granted in April 2008. On May 5, 2010, the U.S. Court of Appeals for the Federal Circuit lifted the stay.

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

In April 2008, a second claim against the government was filed for damages incurred after December 31, 2004 (the court-mandated cut-off in the original claim), due to the government's alleged continuing breach of contract. In October 2008, the U.S. Court of Appeals for the Federal Circuit denied a similar request by the government to stay this proceeding. The complaint does not contain any specific dollar amount for recovery of damages. Damages will continue to accumulate until the issue is resolved or the storage is provided. No amounts have been recognized in the financial statements as of June 30, 2010 for either claim. The final outcome of these matters cannot be determined at this time, but no material impact on net income is expected as any damage amounts collected from the government are expected to be returned to customers.

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

Georgia Power's 2005 through 2008 income tax filings for the State of Georgia include state income tax credits for increased activity through Georgia ports. Georgia Power had also filed similar claims for the years 2002 through 2004. The Georgia Department of Revenue has not responded to these claims. In July 2007, Georgia Power filed a complaint in the Superior Court of Fulton County to recover the credits claimed for the years 2002 through 2004. On March 22, 2010, the Superior Court of Fulton County ruled in favor of Georgia Power's motion for summary judgment. On April 30, 2010, the Georgia Department of Revenue filed its notice of appeal with the Georgia Court of Appeals. An unrecognized tax benefit has been recorded related to these credits. If Georgia Power prevails, no material impact on Southern Company's or Georgia Power's net income is expected, as a significant portion of any tax benefit is expected to be returned to Georgia Power's retail customers. If Georgia Power is not successful, payment of the related state tax could have a significant, and possibly material, negative effect on Georgia Power's and Southern Company's cash flow. See Note 5 to the financial statements of Southern Company and Georgia Power in Item 8 of the Form 10-K under "Unrecognized Tax Benefits" and Note (G) herein for additional information. The ultimate outcome of this matter cannot now be determined.

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

See Note 3 to the financial statements of Georgia Power under "Retail Regulatory Matters - Rate Plans" and of Southern Company under "Retail Regulatory Matters - Georgia Power - Retail Rate Plans" and "Cost of Removal" in Item 8 of the Form 10-K for information regarding the 2007 Retail Rate Plan.

On August 27, 2009, the Georgia PSC approved an accounting order that would allow Georgia Power to amortize up to \$324 million of its regulatory liability related to other cost of removal obligations. Under the terms of the accounting order, Georgia Power was entitled to amortize up to one-third of the regulatory liability (\$108 million) in 2009, limited to the amount needed to earn no more than a 9.75% retail return on equity (ROE). In addition, Georgia Power may amortize up to two-thirds of the regulatory liability (\$216 million) in 2010, limited to the amount needed to earn no more than a 10.15% retail ROE. Through June 30, 2010, Georgia Power had amortized \$155.3 million of the regulatory liability.

In accordance with the 2007 Retail Rate Plan, Georgia Power filed a base rate case with the Georgia PSC on July 1, 2010. The filing includes a requested rate increase totaling \$615 million, or 8.2% of retail revenues, to be effective January 1, 2011, based on a proposed retail ROE of 11.95%. The requested increase will be recovered through Georgia Power's existing base rate tariffs as follows: \$451 million, or 6.0%, through the traditional base rate tariffs; \$115 million, or 1.5%, through the Environmental Compliance Cost Recovery (ECCR) tariff;

\$32 million through the Demand Side Management (DSM) tariffs; and \$17 million through the Municipal Franchise Fee (MFF) tariff. The majority of the increase in retail revenues is being requested to cover the costs of environmental compliance and continued investment in new generation, transmission, and distribution facilities to support growth and ensure reliability. The remainder of the increase includes recovery of higher operation, maintenance, and other investment costs to meet the current and future demand for electricity.

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

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

Continuation of a plus or minus 100 basis point range for ROE.

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

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

Creation of a new Certified Capacity Cost Recovery (CCCR) tariff to recover costs related to new capacity additions certified by the Georgia PSC and updated through applicable project construction monitoring reports and hearings.

Continuation and enhancement of the ECCR and DSM-Residential tariffs from the 2007 Retail Rate Plan and creation of a DSM-Commercial tariff to recover environmental capital and operating costs resulting from governmental mandates and DSM costs approved and certified by the Georgia PSC.

Implementation of an annual review of the MFF tariff to adjust for changes in relative gross receipts between customers served inside and outside municipal boundaries.

These proposed enhancements would become effective in 2012 with revenue requirements for each tariff updated through separate compliance filings based on Georgia Power's budget for the upcoming year. Based on Georgia Power's 2010 budget, earnings are currently projected to be slightly below the proposed ROE band in 2012 and within the band in 2013. However, updated budgets and revenue forecasts may eliminate, increase, or decrease the need for an ACR tariff adjustment in either year. In addition, Georgia Power currently estimates the ECCR tariff would increase by \$120 million in 2012 and would decrease by \$12 million in 2013. The CCCR tariff would begin recovering the costs of Plant McDonough Units 4, 5, and 6 with increases of \$99 million in February 2012, \$77 million in June 2012, and \$76 million in February 2013. The DSM tariffs would increase by \$17 million in 2012 and \$18 million in 2013 to reflect the terms of the stipulated agreement in Georgia Power's 2010 DSM Certification proceeding. Amounts recovered under the MFF tariff are based on amounts recovered under all other tariffs.

Georgia Power expects the Georgia PSC to issue a final order in this matter during December 2010. The final outcome of this matter cannot now be determined.

***Fuel Cost Recovery***



See Note 3 to the financial statements of Southern Company under Retail Regulatory Matters Georgia Power Fuel Cost Recovery and of Georgia Power under Retail Regulatory Matters Fuel Cost Recovery in Item 8 of the Form 10-K for additional information on Georgia Power's fuel cost recovery.

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

***Nuclear Construction***

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

In June 2009, the Southern Alliance for Clean Energy (SACE) filed a petition in the Superior Court of Fulton County, Georgia seeking review of the Georgia PSC's certification order and challenging the constitutionality of the Georgia Nuclear Financing Act. On May 5, 2010, the court dismissed as premature the plaintiffs' claim challenging the Georgia Nuclear Energy Financing Act. The dismissal of the claim related to the Georgia Nuclear Energy Financing Act is subject to appeal and the plaintiffs are expected to re-file this claim in the future. In addition, on May 5, 2010, the court issued an order remanding the Georgia PSC's certification order for inclusion of further findings of fact and conclusions of law by the Georgia PSC. In compliance with the court's order, the Georgia PSC issued its order on remand to include further findings of fact and conclusions of law on June 23, 2010. On July 5, 2010, the SACE and the Fulton County Taxpayers Foundation, Inc. filed separation motions with the Georgia PSC for reconsideration of the order on remand.

In August 2009 and June 2010, the NRC issued letters to Westinghouse revising the review schedules needed to certify the AP1000 standard design for new reactors and expressing concerns related to the availability of adequate information and the shield building design. The shield building protects the containment and provides structural support to the containment cooling water supply. Georgia Power is continuing to work with Westinghouse and the NRC to resolve these concerns. Any possible delays in the AP1000 design certification schedule, including those addressed by the NRC in their letters, are not currently expected to affect the projected commercial operation dates for Plant Vogtle Units 3 and 4.

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

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

***Other Construction***

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

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

***Integrated Coal Gasification Combined Cycle***

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

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

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

In addition to the Internal Revenue Code Section 48A Phase I tax credits of \$133 million certified by the IRS in May 2009, Mississippi Power filed an application in November 2009 with the DOE and in December 2009 with the IRS for certain tax credits available to projects using advanced coal technologies under the Energy Improvement and Extension Act of 2008. The DOE subsequently certified the Kemper IGCC, and on April 30, 2010, the IRS allocated \$279 million of Phase II tax credits under Section 48A of the Internal Revenue Code to Mississippi Power. The utilization of these credits is dependent upon meeting the IRS certification requirements and completing the Kemper IGCC in a timely manner. Mississippi Power has secured all environmental reviews and permits necessary to commence construction of the Kemper IGCC and has entered into a binding contract for the steam turbine generator, completing two milestone requirements for these credits.

On April 29, 2010, the Mississippi PSC issued an order finding that Mississippi Power's application to acquire, construct, and operate the Kemper IGCC did not satisfy the requirement of public convenience and necessity in the form that the project and the related cost recovery were originally proposed by Mississippi Power. The April 2010 order also approved recovery of \$46 million of \$50.5 million in prudent pre-construction costs incurred through March 2009. The remaining \$4.5 million is associated with overhead costs and variable pay of SCS, which were recommended for exclusion from pre-construction costs by a consultant hired by the Mississippi Public Utilities Staff. An additional \$3.5 million has been incurred for costs of this type since March 2009. The remaining \$4.5 million, as well as additional pre-construction amounts incurred during the generation screening and evaluation process through May 2010, will be reviewed and addressed in a future proceeding.

On May 10, 2010, Mississippi Power filed a motion in response to the April 29, 2010 order of the Mississippi PSC relating to the Kemper IGCC, or in the alternative, for alteration or rehearing of such order.

On May 26, 2010, the Mississippi PSC issued an order revising its findings from the April 29, 2010 order. Among other things, the Mississippi PSC's May 26, 2010 order (1) approved the alternate construction cost cap of up to \$2.88 billion (and any amounts that fall within specified exemptions from the cost cap; such exemptions include the costs of the lignite mine and equipment), subject to determinations by the Mississippi PSC that such costs in excess of \$2.4 billion are prudent and required by the public convenience and necessity; (2) provided for the establishment of operational cost and revenue parameters based upon assumptions in Mississippi Power's proposal; and (3) approved financing cost recovery on construction work in progress (CWIP) balances under the State of Mississippi Baseload Act of 2008 (Baseload Act), which provides for the accrual of allowance for funds used during construction in 2010 and 2011 and recovery of financing costs on 100% of CWIP in 2012, 2013, and through May 1, 2014 (provided that the amount of CWIP allowed is (i) reduced by the amount of government construction cost incentives received by Mississippi Power in excess of \$296 million to the extent that such amount increases cash flow for the pertinent regulatory period and (ii) justified by a showing that such CWIP allowance will benefit customers over the life of the plant). The Mississippi PSC order established periodic prudence reviews during the annual CWIP review process. More frequent prudence determinations may be requested at a later time. On May 27, 2010, Mississippi Power filed a motion with the Mississippi PSC accepting the conditions contained in the order. On June 3, 2010, the Mississippi PSC issued the final certificate order which granted Mississippi Power's motion and issued a certificate of public convenience and necessity authorizing acquisition, construction, and operation of the Kemper IGCC.

In conjunction with the Kemper IGCC, Mississippi Power will own the lignite mine and equipment and will acquire mineral reserves located at the plant site in Kemper County. On May 27, 2010, Mississippi Power executed a 40-year management fee contract with Liberty Fuels Company, LLC, a subsidiary of The North American Coal Corporation, which will develop, construct, and manage the mining operations. The agreement is effective June 1, 2010 through the end of the mine reclamation.

On June 17, 2010, the Sierra Club filed an appeal of the Mississippi PSC's June 3, 2010 decision to grant a certificate of public convenience and necessity for the Kemper IGCC with the Chancery Court of Harrison County, Mississippi (Chancery Court). Subsequently, on July 6, 2010, the Sierra Club also filed an appeal directly with the Mississippi

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Supreme Court. On July 20, 2010, the Chancery Court issued a stay of the proceeding pending the resolution of the jurisdictional issues raised in a motion filed by Mississippi Power on July 16, 2010 to confirm jurisdiction in the Mississippi Supreme Court.

On July 27, 2010, Mississippi Power and South Mississippi Electric Power Association (SMEPA) entered into an Asset Purchase Agreement whereby SMEPA will purchase an undivided 17.5% interest in the Kemper IGCC project. The closing of this transaction is conditioned upon execution of a joint ownership and operating agreement, receipt of all construction permits, appropriate regulatory approvals, financing, and other conditions.

As of June 30, 2010, Mississippi Power had spent a total of \$142.4 million on the Kemper IGCC, including regulatory filing costs. Of this total, \$129.1 million was included in CWIP, \$11.3 million was recorded in other regulatory assets, \$0.8 million was recorded in other deferred charges and assets, and \$1.3 million was expensed. Upon receipt of the issuance of the final certificate order in May 2010, construction screening costs including regulatory filing costs totaled \$129.0 million. As of May 31, 2010, construction related screening costs of \$116.2 million were reclassified to CWIP while the non-capital related costs of \$11.2 million and \$0.6 million were classified in other regulatory assets and other deferred charges, respectively, and \$1.0 million was previously expensed. Costs incurred for the six months ended June 30, 2010 totaled \$68.9 million compared to \$14.1 million for the six months ended June 30, 2009.

The ultimate outcome of these matters cannot now be determined.

**(C) FAIR VALUE MEASUREMENTS**

As of June 30, 2010, assets and liabilities measured at fair value on a recurring basis during the period, together with the level of the fair value hierarchy in which they fall, are as follows:

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>As of June 30, 2010:</b>				
<b>Southern Company</b>				
Assets:				
Energy-related derivatives	\$	\$ 7	\$	\$ 7
Interest rate derivatives		8		8
Nuclear decommissioning trusts <sup>(a)(b)</sup>	677	384		1,061
Cash equivalents and restricted cash	142			142
Other investments	24	48	19	91
Total	\$843	\$ 447	\$ 19	\$1,309
Liabilities:				
Energy-related derivatives	\$	\$ 209	\$	\$ 209
Interest rate derivatives		1		1

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Total	\$	\$ 210	\$	\$ 210
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**Alabama Power**

Assets:

Nuclear decommissioning trusts:<sup>(a)</sup>

Domestic equity	\$272	\$ 50	\$	\$ 322
U.S. Treasury and government agency securities	17	7		24
Corporate bonds		80		80
Mortgage and asset backed securities		36		36
Other		12		12
Cash equivalents and restricted cash	32			32

Total	\$321	\$ 185	\$	\$ 506
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Liabilities:

Energy-related derivatives	\$	\$ 45	\$	\$ 45
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**Table of Contents****NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>As of June 30, 2010:</b>				
<b>Georgia Power</b>				
Assets:				
Nuclear decommissioning trusts: <sup>(a)</sup>				
Domestic equity	\$ 388	\$ 1	\$	\$ 389
U.S. Treasury and government agency securities		24		24
Municipal bonds		37		37
Corporate bonds		78		78
Mortgage and asset backed securities		41		41
Other		18		18
Cash equivalents	52			52
Total	\$ 440	\$ 199	\$	\$ 639
Liabilities:				
Energy-related derivatives	\$	\$ 93	\$	\$ 93
<b>Gulf Power</b>				
Assets:				
Cash equivalents and restricted cash	\$ 12	\$	\$	\$ 12
Liabilities:				
Energy-related derivatives	\$	\$ 15	\$	\$ 15
<b>Mississippi Power</b>				
Liabilities:				
Energy-related derivatives	\$	\$ 48	\$	\$ 48
<b>Southern Power</b>				
Assets:				
Energy-related derivatives	\$	\$ 7	\$	\$ 7
Liabilities:				
Energy-related derivatives	\$	\$ 8	\$	\$ 8



- (a) Excludes receivables related to investment income, pending investment sales, and payables related to pending investment purchases.
- (b) For additional detail, see the nuclear decommissioning trusts sections for Alabama Power and Georgia Power in this table.

***Valuation Methodologies***

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

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

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

before interest and income taxes, or earnings adjusted for certain cash changes. These multiples are based on comparable multiples for publicly traded companies or other relevant prior transactions.

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

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

As of June 30, 2010, the fair value measurements of investments calculated at net asset value per share (or its equivalent), as well as the nature and risks of those investments, are as follows:

<b>As of June 30, 2010:</b>	<b>Fair Value</b> <i>(in millions)</i>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
<b>Southern Company</b>				
Nuclear decommissioning trusts:				
Corporate bonds commingled funds	\$ 38	None	Daily	1 to 3 days
Other commingled funds	18	None	Daily	Not applicable
Trust owned life insurance	76	None	Daily	15 days
Cash equivalents and restricted cash:				
Money market funds	142	None	Daily	Not applicable
Other:				
Deferred compensation money market funds	3	None	Daily	Not applicable
 <b>Alabama Power</b>				
Nuclear decommissioning trusts:				
Trust owned life insurance	\$ 76	None	Daily	15 days
Cash equivalents and restricted cash:				
Money market funds	32	None	Daily	Not applicable
 <b>Georgia Power</b>				
Nuclear decommissioning trusts:				
Corporate bonds commingled funds	\$ 38	None	Daily	1 to 3 days
Other commingled funds	18	None	Daily	Not applicable
Cash equivalents:				
Money market funds	52	None	Daily	Not applicable

**Gulf Power**

Cash equivalents and restricted cash:

Money market funds	\$ 12	None	Daily	Not applicable
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The commingled funds in the nuclear decommissioning trusts invest primarily in a diversified portfolio of investment high grade money market instruments, including, but not limited to, commercial paper, notes, repurchase agreements, and other evidences of indebtedness with a maturity not exceeding 13 months from the date of purchase. The commingled funds will, however, maintain a dollar-weighted average portfolio maturity of 90 days or less. The assets may be longer term investment grade fixed income obligations having a maximum five-year final maturity with put features or floating rates with a reset rate date of 13 months or less. The primary objective for the commingled funds is a high level of current income consistent with stability of principal and liquidity.

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

Southern Company, Alabama Power, and Georgia Power account for investment securities held in the nuclear decommissioning trust funds at fair value. For the three months and six months ended June 30, 2010, the reduction in fair value of the funds, which includes reinvested interest and dividends, is recorded in the regulatory liability and was \$36 million and \$16 million, respectively, for Alabama Power, \$50 million and \$26 million, respectively, for Georgia Power, and \$86 million and \$42 million, respectively, for Southern Company.

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

Changes in the fair value measurement of the Level 3 items using significant unobservable inputs for Southern Company at June 30, 2010 are as follows:

	Three Months Ended June 30, 2010	<b>Level 3 Other</b> Six Months Ended June 30, 2010 <i>(in millions)</i>
Beginning balance	\$ 19	\$ 35
Total gains (losses) realized/unrealized:		
Included in OCI		4
Transfers out of Level 3		(20)
Ending balance at June 30, 2010	\$ 19	\$ 19

Transfers in and out of the levels of fair value hierarchy are recognized as of the end of the reporting period. At March 31, 2010, the value of one of the investments was reclassified from Level 3 to Level 1 because the

securities began trading on the public market. The reclassification is reflected in the table above as a transfer out of Level 3 at its fair value.

At June 30, 2010, other financial instruments for which the carrying amount did not equal fair value were as follows:

	<b>Carrying Amount</b>	<b>Fair Value</b>
	<i>(in millions)</i>	
<b>Long-term debt:</b>		
Southern Company	\$ 19,548	\$ 20,641
Alabama Power	\$ 6,183	\$ 6,607
Georgia Power	\$ 8,315	\$ 8,719
Gulf Power	\$ 1,174	\$ 1,232
Mississippi Power	\$ 491	\$ 521
Southern Power	\$ 1,298	\$ 1,417

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

**Table of Contents****NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)****(D) STOCKHOLDERS EQUITY****Earnings per Share**

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

Shares used to compute diluted earnings per share are as follows:

	<b>Three Months Ended June 30, 2010</b>	Three Months Ended June 30, 2009	<b>Six Months Ended June 30, 2010</b>	Six Months Ended June 30, 2009
		<i>(in thousands)</i>		
As reported shares	<b>828,363</b>	790,748	<b>825,444</b>	785,303
Effect of options	<b>4,259</b>	1,320	<b>3,308</b>	1,562
Diluted shares	<b>832,622</b>	792,068	<b>828,752</b>	786,865

There were 20 million and 37.8 million stock options that were not included in the diluted earnings per share calculation for the three and six months ended June 30, 2010 and 2009, respectively, because they were anti-dilutive. Assuming an average stock price of \$38.01 (the highest exercise price of the anti-dilutive options outstanding), the effect of options would have increased by 2 million and 3.5 million shares for the three months ended June 30, 2010 and 2009, respectively, and 2 million and 3.1 million shares for the six months ended June 30, 2010 and 2009, respectively.

**Changes in Stockholders Equity**

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

	<b>Number of Common Shares Issued Treasury</b>		<b>Common Stockholders Equity</b>	<b>Preferred and Preference Stock of Subsidiaries</b>	<b>Total Stockholders Equity</b>
	<i>(in thousands)</i>			<i>(in millions)</i>	
<b>Balance at December 31, 2009</b>	820,152	(505)	\$ 14,878	\$ 707	\$ 15,585
Net income after dividends on preferred and preference stock			1,005		1,005
Other comprehensive income (loss)			13		13
Stock issued	10,996		371		371
Cash dividends on common stock			(735)		(735)
Other		63	1		1
<b>Balance at June 30, 2010</b>	831,148	(442)	\$ 15,533	\$ 707	\$ 16,240

<b>Balance at December 31, 2008</b>	777,616	(424)	\$ 13,276	\$ 707	\$ 13,983
Net income after dividends on preferred and preference stock			604		604
Other comprehensive income (loss)			16		16
Stock issued	18,894		559		559
Cash dividends on common stock			(670)		(670)
Other		(34)	(1)		(1)
<b>Balance at June 30, 2009</b>	796,510	(458)	\$ 13,784	\$ 707	\$ 14,491

**Table of Contents****NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)****(E) FINANCING****Bank Credit Arrangements**

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

The following table outlines the credit arrangements by company as of June 30, 2010:

Company	Total	Unused	Executable Term-Loans		Expires			
			One Year	Two Years	2010	2011	2012	
			<i>(in millions)</i>					
Southern Company	\$ 950	\$ 950	\$	\$	\$	\$	\$ 950	
Alabama Power	1,271	1,271	372		333	173	765	
Georgia Power	1,715	1,703	220	40	40	555	1,120	
Gulf Power	220	220	190		80	140		
Mississippi Power	161	161	65	41	56	105		
Southern Power	400	400					400	
Other	60	60	60		10	50		
Total	\$4,777	\$4,765	\$907	\$81	\$519	\$1,023	\$3,235	

Subsequent to June 30, 2010, Alabama Power renewed a \$200 million credit agreement which contains a provision allowing a one-year term loan executable at expiration and extended the expiration date to 2011.

Subsequent to June 30, 2010, Georgia Power renewed a \$40 million credit agreement which contains a provision allowing a two-year term loan executable at expiration and extended the expiration date to 2011.

Subsequent to June 30, 2010, Gulf Power increased its existing lines of credit by \$15 million with an expiration of 2011.

**(F) RETIREMENT BENEFITS**

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

See Note 2 to the financial statements of Southern Company, Alabama Power, Georgia Power, Gulf Power, and Mississippi Power in Item 8 of the Form 10-K.



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

Components of the net periodic benefit costs for the three and six months ended June 30, 2010 and 2009 are as follows:

<b>PENSION PLANS</b>	<b>Southern Company</b>	<b>Alabama Power</b>	<b>Georgia Power</b>	<b>Gulf Power</b>	<b>Mississippi Power</b>
			<i>(in millions)</i>		
<b>Three Months Ended June 30, 2010</b>					
Service cost	\$ 43	\$ 11	\$ 13	\$ 2	\$ 2
Interest cost	97	24	37	4	5
Expected return on plan assets	(137)	(42)	(55)	(6)	(6)
Net amortization	10	2	3		
Net cost (income)	\$ 13	\$ (5)	\$ (2)	\$	\$ 1
<b>Six Months Ended June 30, 2010</b>					
Service cost	\$ 86	\$ 21	\$ 27	\$ 4	\$ 4
Interest cost	195	48	73	8	9
Expected return on plan assets	(275)	(84)	(110)	(12)	(11)
Net amortization	21	5	7	1	1
Net cost (income)	\$ 27	\$ (10)	\$ (3)	\$ 1	\$ 3
<b>Three Months Ended June 30, 2009</b>					
Service cost	\$ 37	\$ 9	\$ 12	\$ 1	\$ 1
Interest cost	97	24	36	5	5
Expected return on plan assets	(136)	(41)	(54)	(6)	(5)
Net amortization	11	2	4		1
Net cost (income)	\$ 9	\$ (6)	\$ (2)	\$	\$ 2
<b>Six Months Ended June 30, 2009</b>					
Service cost	\$ 73	\$ 17	\$ 24	\$ 3	\$ 3
Interest cost	194	48	73	9	9
Expected return on plan assets	(271)	(82)	(108)	(12)	(10)
Net amortization	21	5	8		1
Net cost (income)	\$ 17	\$ (12)	\$ (3)	\$	\$ 3

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

<b>POSTRETIREMENT BENEFITS</b>	<b>Southern Company</b>	<b>Alabama Power</b>	<b>Georgia Power</b> <i>(in millions)</i>	<b>Gulf Power</b>	<b>Mississippi Power</b>
<b>Three Months Ended June 30, 2010</b>					
Service cost	\$ 7	\$ 1	\$ 2	\$ 1	\$ 1
Interest cost	25	7	11	1	1
Expected return on plan assets	(16)	(6)	(7)	(1)	(1)
Net amortization	5	1	3		
Net cost (income)	\$ 21	\$ 3	\$ 9	\$ 1	\$ 1
<b>Six Months Ended June 30, 2010</b>					
Service cost	\$ 13	\$ 3	\$ 4	\$ 1	\$ 1
Interest cost	50	13	22	2	2
Expected return on plan assets	(32)	(12)	(15)	(1)	(1)
Net amortization	10	3	6		
Net cost (income)	\$ 41	\$ 7	\$ 17	\$ 2	\$ 2
<b>Three Months Ended June 30, 2009</b>					
Service cost	\$ 6	\$ 1	\$ 3	\$ 1	\$
Interest cost	29	8	12	2	2
Expected return on plan assets	(15)	(6)	(7)	(1)	(1)
Net amortization	7	2	3		
Net cost (income)	\$ 27	\$ 5	\$ 11	\$ 2	\$ 1
<b>Six Months Ended June 30, 2009</b>					
Service cost	\$ 13	\$ 3	\$ 5	\$ 1	\$ 1
Interest cost	57	15	25	3	3
Expected return on plan assets	(30)	(12)	(15)	(1)	(1)
Net amortization	14	4	7		
Net cost (income)	\$ 54	\$ 10	\$ 22	\$ 3	\$ 3

**(G) EFFECTIVE TAX RATE AND UNRECOGNIZED TAX BENEFITS****Effective Tax Rate**

Southern Company's effective tax rate was 31.8% for the six months ended June 30, 2010, as compared to 38.2% for the corresponding period in 2009. Southern Company's effective tax rate is lower than the statutory rate primarily due to its employee stock plans dividend deduction and AFUDC equity, which is not taxable. See Note 5 to the financial statements of each registrant in Item 8 of the Form 10-K for information on the effective income tax rate. Southern Company's effective tax rate decreased for the six months ended June 30, 2010 as compared to June 30, 2009 due to the \$202 million charge for the MC Asset Recovery settlement, which

occurred in the first quarter 2009. Southern Company is currently evaluating potential recovery of the settlement payment through various means including insurance, claims in U.S. Bankruptcy Court, and other avenues. The degree to which any recovery is realized will determine, in part, the final income tax treatment of the settlement payment. Additionally, Georgia Power's effective tax rate decreased for the six months ended June 30, 2010 compared to June 30, 2009 from 33.6% to 30.1% primarily due to the recognition of additional Georgia state tax credits and additional AFUDC equity. Southern Power's effective tax rate decreased for the six months ended June 30, 2010 compared to June 30, 2009 from 39.1% to 30.2% primarily due to tax benefits associated with the construction of its biomass facility.

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

Changes during 2010 for unrecognized tax benefits are as follows:

	<b>Southern Company</b>	<b>Alabama Power</b>	<b>Georgia Power</b>	<b>Gulf Power</b>	<b>Mississippi Power</b>	<b>Southern Power</b>
			<i>(in millions)</i>			
Unrecognized tax benefits as of December 31, 2009	\$ 199	\$ 6	\$ 181	\$ 2	\$ 3	\$
Tax positions from current periods	23		22			
Tax positions from prior periods	(27)		(23)			
Reductions due to settlements						
Reductions due to expired statute of limitations						
Balance as of June 30, 2010	\$ 195	\$ 6	\$ 180	\$ 2	\$ 3	\$

All of the unrecognized tax benefits as of June 30, 2010 and December 31, 2009 would impact the effective tax rate of Southern Company and its subsidiaries if recognized. The tax positions increase from current periods relates primarily to the Georgia state tax credits litigation and other miscellaneous uncertain tax positions. The tax positions decrease from prior periods relates primarily to the Georgia state tax credits litigation. See Note (B) under Income Tax Matters Georgia State Income Tax Credits herein for additional information.

Accrued interest for unrecognized tax benefits was as follows:

	<b>Georgia Power</b>	<b>Other Registrants</b>	<b>Southern Company</b>
		<i>(in millions)</i>	
Interest accrued as of December 31, 2009	\$ 20	\$ 1	\$ 21
Interest reclassified due to settlements			
Interest accrued during the period	2		2
Balance as of June 30, 2010	\$ 22	\$ 1	\$ 23

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

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

**(H) DERIVATIVES**

Southern Company, the traditional operating companies, and Southern Power are exposed to market risks, primarily commodity price risk and interest rate risk and occasionally foreign currency risk. To manage the

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

**Table of Contents****NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)****Energy-Related Derivatives**

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

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

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

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

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

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

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

At June 30, 2010, the net volume of energy-related derivative contracts for power and natural gas positions for the registrants, together with the longest hedge date over which the respective entity is hedging its exposure to the variability in future cash flows for forecasted transactions and the longest date for derivatives not designated as hedges, were as follows:

	<b>Net Sold MWH</b>	<b>Power Longest Hedge Date</b>	<b>Longest Non-Hedge Date</b>	<b>Net Purchased mmBtu (in millions)</b>	<b>Gas Longest Hedge Date</b>	<b>Longest Non-Hedge Date</b>
<b>As of June 30, 2010:</b>						

	<i>(in millions)</i>					
Southern Company	0.7	2010	2010	134	2014	2014
Alabama Power				31	2014	
Georgia Power				67	2014	
Gulf Power				9	2014	
Mississippi Power				22	2014	
Southern Power	0.7	2010	2010	5	2012	2014

In addition to the volumes discussed in the table above, the traditional operating companies and Southern Power enter into physical natural gas supply contracts that provide the option to sell back excess gas due to operational constraints. The expected volume of natural gas subject to such a feature is 7 million mmBtu for Southern Company and 6 million mmBtu for Georgia Power and less than 1 million mmBtu for each of the other registrants.

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

For the next 12-month period ending June 30, 2011, Southern Company and Southern Power expect to reclassify \$4 million in gains from OCI to revenue and \$4 million in losses from OCI to fuel expense with respect to cash flow hedges. Such amounts are immaterial for all other registrants.

**Interest Rate Derivatives**

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

For cash flow hedges, the derivatives' fair value gains or losses are recorded in OCI and are reclassified into earnings at the same time the hedged transactions affect earnings. For fair value hedges, the derivatives' fair value gains or losses and hedged items' fair value gains or losses are both recorded directly to earnings, providing an offset with any difference representing ineffectiveness.

At June 30, 2010, the following interest rate derivatives were outstanding:

	Notional Amount (in millions)	Interest Rate Received	Interest Rate Paid	Hedge Maturity Date	Fair Value Gain (Loss) June 30, 2010 (in millions)
<b>Cash flow hedges of existing debt</b>					
Southern Company	\$ 300	3-month LIBOR + 0.40% spread	1.24%*	October 2011	\$ (1)
<b>Fair value hedges of existing debt</b>					
Southern Company	350	4.15%	3-month LIBOR + 1.96%* spread	May 2014	8
Total	\$ 650				\$ 7

\* Weighted  
Average

The following table reflects the estimated pre-tax gains (losses) that will be reclassified from OCI to interest expense for the next 12-month period ending June 30, 2011, together with the longest date that total deferred gains and losses are expected to be amortized into earnings.

**Estimated Gain  
(Loss) to**



<b>Registrant</b>	<b>be Reclassified for the 12 Months Ending June 30, 2011 <i>(in millions)</i></b>	<b>Total Deferred Gains (Losses) Amortized Through</b>
Southern Company	\$ (19)	2037
Alabama Power	1	2035
Georgia Power	(7)	2037
Gulf Power	(1)	2020
Southern Power	(11)	2016

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

Southern Company and certain subsidiaries may enter into foreign currency derivatives to hedge exposure to changes in foreign currency exchange rates arising from purchases of equipment denominated in a currency other than U.S. dollars. Derivatives related to a firm commitment in a foreign currency transaction are accounted for as a fair value hedge where the derivatives' fair value gains or losses and hedged items' fair value gains or losses are both recorded directly to earnings. The derivatives employed as hedging instruments are structured to minimize ineffectiveness. At June 30, 2010, the following foreign currency derivatives were outstanding:

	<b>Notional Amount (in millions)</b>	<b>Forward Rate</b>	<b>Hedge Maturity Date</b>	<b>Fair Value Gain (Loss) June 30, 2010 (in millions)</b>
<b>Fair value hedges of firm commitments</b>				
Mississippi Power	EUR38.6	1.227*	Various through June 2012	\$
* Weighted Average				

**Derivative Financial Statement Presentation and Amounts**

At June 30, 2010, the fair value of energy-related derivatives and interest rate derivatives was reflected in the balance sheets as follows:

**Asset Derivatives at June 30, 2010**

<b>Derivative Category and Balance Sheet Location</b>	<b>Fair Value</b>					
	<b>Southern Company</b>	<b>Alabama Power</b>	<b>Georgia Power</b>	<b>Gulf Power</b>	<b>Mississippi Power</b>	<b>Southern Power</b>
	<i>(in millions)</i>					
<b>Derivatives designated as hedging instruments in cash flow and fair value hedges</b>						
Energy-related derivatives:						
Other current assets*	\$ 4	\$	\$	\$	\$	\$
Assets from risk management activities						4
Interest rate derivatives:						
Other current assets	5					
Other deferred charges and assets	3					
<b>Total derivatives designated as hedging instruments in cash flow and fair value hedges</b>	<b>\$12</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 4</b>
<b>Derivatives not designated as hedging instruments</b>						

Energy-related derivatives:						
Other current assets*	\$ 3	\$	\$	\$	\$	\$
Assets from risk management activities						3
<b>Total derivatives not designated as hedging instruments</b>	<b>\$ 3</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 3</b>
<b>Total asset derivatives</b>	<b>\$15</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 7</b>

\* Southern Company includes Assets from risk management activities in Other current assets where applicable.

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

## Liability Derivatives at June 30, 2010

Derivative Category and Balance Sheet Location	Southern Company	Alabama Power	Fair Value			Mississippi Power	Southern Power
			Georgia Power	Gulf Power	(in millions)		
<b>Derivatives designated as hedging instruments for regulatory purposes</b>							
Energy-related derivatives:							
Liabilities from risk management activities	\$ 116	\$ 32	\$ 52	\$ 10	\$ 22		
Other deferred credits and liabilities	85	13	41	5	26		
<b>Total derivatives designated as hedging instruments for regulatory purposes</b>	<b>\$ 201</b>	<b>\$ 45</b>	<b>\$ 93</b>	<b>\$ 15</b>	<b>\$ 48</b>		<b>N/A</b>
<b>Derivatives designated as hedging instruments in cash flow and fair value hedges</b>							
Energy-related derivatives:							
Liabilities from risk management activities	\$ 5	\$	\$	\$	\$	\$	\$ 5
Other deferred charges and assets	1						1
Interest rate derivatives:							
Liabilities from risk management activities	1						
<b>Total derivatives designated as hedging instruments in cash flow and fair value hedges</b>	<b>\$ 7</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 6</b>
<b>Derivatives not designated as hedging instruments</b>							
Energy-related derivatives:							
Liabilities from risk management activities	\$ 2	\$	\$	\$	\$	\$	\$ 2
<b>Total liability derivatives</b>	<b>\$ 210</b>	<b>\$ 45</b>	<b>\$ 93</b>	<b>\$ 15</b>	<b>\$ 48</b>	<b>\$</b>	<b>\$ 8</b>

All derivative instruments are measured at fair value. See Note (C) herein for additional information.

At June 30, 2010, the pre-tax effect of unrealized derivative gains (losses) arising from energy-related derivative instruments designated as regulatory hedging instruments and deferred on the balance sheet were as follows:

**Regulatory Hedge Unrealized Gain (Loss) Recognized on the Balance Sheet**

<b>Derivative Category and Balance Sheet Location</b>	<b>Southern Company</b>	<b>Alabama Power</b>	<b>Georgia Power</b>	<b>Gulf Power</b>	<b>Mississippi Power</b>
			<i>(in millions)</i>		
Energy-related derivatives:					
Other regulatory assets, current	\$ (116)	\$ (32)	\$ (52)	\$ (10)	\$ (22)
Other regulatory assets, deferred	(85)	(13)	(41)	(5)	(26)
<b>Total energy-related derivative gains (losses)</b>	<b>\$ (201)</b>	<b>\$ (45)</b>	<b>\$ (93)</b>	<b>\$ (15)</b>	<b>\$ (48)</b>

For the three months and six months ended June 30, 2010, the pre-tax gains from interest rate derivatives designated as fair value hedging instruments on Southern Company's statements of income was \$9 million and \$8 million, respectively. These amounts were offset with changes in the fair value of the hedged debt.

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

For the three months ended June 30, 2010 and June 30, 2009, the pre-tax effect of energy-related derivatives and interest rate derivatives designated as cash flow hedging instruments on the statements of income were as follows:

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
	2010	2009	Statements of Income Location	Amount
	<i>(in millions)</i>			<i>(in millions)</i>
<b>Southern Company</b>				
Energy-related derivatives	\$ (4)	\$	Fuel	\$
Interest rate derivatives	1	(4)	Interest expense	(8) (12)
Total	\$ (3)	\$ (4)		\$ (8) \$ (12)
<b>Alabama Power</b>				
Interest rate derivatives	\$	\$ (2)	Interest expense	\$ 1 \$ (3)
<b>Georgia Power</b>				
Interest rate derivatives	\$	\$ (2)	Interest expense	\$ (5) \$ (6)
<b>Gulf Power</b>				
Interest rate derivatives	\$ 1	\$	Interest expense	\$
<b>Southern Power</b>				
Energy-related derivatives	\$ (3)	\$	Fuel	\$
Interest rate derivatives			Interest expense	(2) (3)
Total	\$ (3)	\$		\$ (2) \$ (3)

For the six months ended June 30, 2010 and June 30, 2009, the pre-tax effect of energy-related derivatives and interest rate derivatives designated as cash flow hedging instruments on the statements of income were as follows:

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
	2010	2009	Statements of Income Location	Amount
	<i>(in millions)</i>			<i>(in millions)</i>
<b>Southern Company</b>				
Energy-related derivatives	\$ 1	\$ 1	Fuel	\$
Interest rate derivatives	(2)	(3)	Interest expense	(17) (22)

Total	\$ (1)	\$ (2)		\$ (17)	\$ (22)
<b>Alabama Power</b>					
Interest rate derivatives	\$	\$ (4)	Interest expense	\$ (1)	\$ (6)
<b>Georgia Power</b>					
Interest rate derivatives	\$	\$ 1	Interest expense	\$ (10)	\$ (11)
<b>Gulf Power</b>					
Interest rate derivatives	\$ (1)	\$	Interest expense	\$ (1)	\$ (1)
<b>Southern Power</b>					
Energy-related derivatives	\$ 1	\$ 1	Fuel	\$	\$
Interest rate derivatives			Interest expense	(5)	(5)
Total	\$ 1	\$ 1		\$ (5)	\$ (5)

There was no material ineffectiveness recorded in earnings for any registrant for any period presented.

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

For the three months ended June 30, 2010 and June 30, 2009, the pre-tax effect of energy-related derivatives not designated as hedging instruments on the statements of income were as follows:

**Derivatives not Designated  
as Hedging Instruments**

	Unrealized Gain (Loss) Recognized in Income Statements of Income Location	Amount	
		2010	2009
<i>(in millions)</i>			
<b>Southern Company</b>			
Energy-related derivatives	Wholesale revenues	\$	\$ 1
	Fuel	1	1
	Purchased power	1	(2)
Total		\$ 2	\$
<b>Southern Power</b>			
Energy-related derivatives	Wholesale revenues	\$	\$ 1
	Fuel	1	1
	Purchased power	1	(2)
Total		\$ 2	\$

For the six months ended June 30, 2010 and June 30, 2009, the pre-tax effect of energy-related derivatives not designated as hedging instruments on the statements of income were as follows:

**Derivatives not Designated  
as Hedging Instruments**

	Unrealized Gain (Loss) Recognized in Income Statements of Income Location	Amount	
		2010	2009
<i>(in millions)</i>			
<b>Southern Company</b>			
Energy-related derivatives	Wholesale revenues	\$ 1	\$ 5
	Fuel		(3)
	Purchased power		(3)
Total		\$ 1	\$ (1)
<b>Southern Power</b>			
Energy-related derivatives	Wholesale revenues	\$ 1	\$ 5
	Fuel		(3)
	Purchased power		(3)
Total		\$ 1	\$ (1)

**Contingent Features**

The registrants do not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain derivatives that could require



collateral, but not accelerated payment, in the event of various credit rating changes of certain Southern Company subsidiaries. At June 30, 2010, the fair value of derivative liabilities with contingent features, by registrant, is as follows:

	<b>Southern Company</b>	<b>Alabama Power</b>	<b>Georgia Power</b>	<b>Gulf Power</b>	<b>Mississippi Power</b>	<b>Southern Power</b>
				<i>(in millions)</i>		
Derivative liabilities	\$43	\$7	\$25	\$2	\$5	\$4

At June 30, 2010, the registrants had no collateral posted with their derivative counterparties; however, because of the joint and several liability features underlying these derivatives, the maximum potential collateral requirements arising from the credit-risk-related contingent features, at a rating below BBB- and/or Baa3, is \$43 million for each registrant.

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

Currently, each of the registrants has investment grade credit ratings from the major rating agencies with respect to debt, preferred securities, preferred stock, and/or preference stock. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. For the traditional operating companies and Southern Power, included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participants has a credit rating change to below investment grade.

**(I) SEGMENT AND RELATED INFORMATION**

Southern Company's reportable business segments are the sale of electricity in the Southeast by the four traditional operating companies and Southern Power. Revenues from sales by Southern Power to the traditional operating companies were \$93 million and \$195 million for the three months and six months ended June 30, 2010, respectively, and \$138 million and \$273 million for the three months and six months ended June 30, 2009, respectively. The All Other column includes parent Southern Company, which does not allocate operating expenses to business segments. Also, this category includes segments below the quantitative threshold for separate disclosure. These segments include investments in telecommunications, renewable energy projects, and leveraged lease projects. All other intersegment revenues are not material. Financial data for business segments and products and services are as follows:

	<b>Electric Utilities</b>						
	<b>Traditional Operating Companies</b>	<b>Southern Power</b>	<b>Eliminations</b>	<b>Total</b>	<b>All Other</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<i>(in millions)</i>						
<b>Three Months Ended June 30, 2010:</b>							
Operating revenues	\$ 4,056	\$ 249	\$ (118)	\$ 4,187	\$ 41	\$ (20)	\$ 4,208
Segment net income (loss)*	475	30		505	5		510
<b>Six Months Ended June 30, 2010:</b>							
Operating revenues	\$ 8,061	\$ 505	\$ (243)	\$ 8,323	\$ 82	\$ (40)	\$ 8,365
Segment net income (loss)*	956	45		1,001	5	(1)	1,005
Total assets at June 30, 2010	\$49,792	\$3,173	\$ (130)	\$52,835	\$1,076	\$ (537)	\$53,374
<b>Three Months Ended June 30, 2009:</b>							
Operating revenues	\$ 3,781	\$ 230	\$ (152)	\$ 3,859	\$ 43	\$ (17)	\$ 3,885
Segment net income (loss)*	421	31		452	25	1	478
<b>Six Months Ended June 30, 2009:</b>							
Operating revenues	\$ 7,338	\$ 462	\$ (302)	\$ 7,498	\$ 87	\$ (34)	\$ 7,551
Segment net income (loss)*	723	59		782	(180)	2	604
	\$48,403	\$3,043	\$ (143)	\$51,303	\$1,223	\$ (480)	\$52,046

Total assets at  
December 31, 2009

\* After dividends  
on preferred and  
preference stock  
of subsidiaries

**Products and Services**

Period	Retail	Electric Utilities	Revenues	Total
		Wholesale	Other	
		<i>(in millions)</i>		
Three Months Ended June 30, 2010	\$3,571	\$ 473	\$143	\$4,187
Three Months Ended June 30, 2009	3,293	438	128	3,859
Six Months Ended June 30, 2010	\$7,030	\$1,015	\$278	\$8,323
Six Months Ended June 30, 2009	6,358	889	251	7,498

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

See the Notes to the Condensed Financial Statements herein for information regarding certain legal and administrative proceedings in which the registrants are involved.

**Item 1A. Risk Factors.**

See RISK FACTORS in Item 1A of the Form 10-K for a discussion of the risk factors of the registrants. There have been no material changes to these risk factors from those previously disclosed in the Form 10-K.

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**Item 6. Exhibits.**

**(4) Instruments Describing Rights of Security Holders, Including Indentures**

**Georgia Power**

- (c)1 - Forty-First Supplemental Indenture to Senior Note Indenture dated as of June 3, 2010, providing for the issuance of the Series 2010B 5.40% Senior Notes due June 1, 2040. (Designated in Form 8-K dated May 24, 2010, File No. 1-6468, as Exhibit 4.2.)

**(10) Material Contracts**

**Alabama Power**

- (b)1 - Summary of Non-Employee Director Compensation Arrangements.

**Gulf Power**

- (d)1 - Summary of Non-Employee Director Compensation Arrangements.

**(24) Power of Attorney and Resolutions**

**Southern Company**

- (a)1 - Power of Attorney and resolution. (Designated in the Form 10-K for the year ended December 31, 2009, File No. 1-3526 as Exhibit 24(a) and incorporated herein by reference.)

**Alabama Power**

- (b)1 - Power of Attorney and resolution. (Designated in the Form 10-K for the year ended December 31, 2009, File No. 1-3164 as Exhibit 24(b) and incorporated herein by reference.)

**Georgia Power**

- (c)1 - Power of Attorney and resolution. (Designated in the Form 10-K for the year ended December 31, 2009, File No. 1-6468 as Exhibit 24(c) and incorporated herein by reference.)

**Gulf Power**

- (d)1 - Power of Attorney and resolution. (Designated in the Form 10-K for the year ended December 31, 2009, File No. 0-2429 as Exhibit 24(d) and incorporated herein by reference.)

**Mississippi Power**

- (e)1 - Power of Attorney and resolution. (Designated in the Form 10-K for the year ended December 31, 2009, File No. 001-11229 as Exhibit 24(e) and incorporated herein by reference.)

**Southern Power**

- (f)1 - Power of Attorney and resolution. (Designated in the Form 10-K for the year ended December 31, 2009, File No. 333-98553 as Exhibit 24(f) and incorporated herein by reference.)
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**(31) Section 302 Certifications**

**Southern Company**

- (a)1 - Certificate of Southern Company's Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
- (a)2 - Certificate of Southern Company's Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

**Alabama Power**

- (b)1 - Certificate of Alabama Power's Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
- (b)2 - Certificate of Alabama Power's Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

**Georgia Power**

- (c)1 - Certificate of Georgia Power's Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
- (c)2 - Certificate of Georgia Power's Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

**Gulf Power**

- (d)1 - Certificate of Gulf Power's Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
- (d)2 - Certificate of Gulf Power's Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

**Mississippi Power**

- (e)1 - Certificate of Mississippi Power's Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
- (e)2 - Certificate of Mississippi Power's Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

**Southern Power**

- (f)1 - Certificate of Southern Power's Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
- (f)2 -

Certificate of Southern Power's Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.



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**(32) Section 906 Certifications**

**Southern Company**

- (a) - Certificate of Southern Company's Chief Executive Officer and Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.

**Alabama Power**

- (b) - Certificate of Alabama Power's Chief Executive Officer and Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.

**Georgia Power**

- (c) - Certificate of Georgia Power's Chief Executive Officer and Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.

**Gulf Power**

- (d) - Certificate of Gulf Power's Chief Executive Officer and Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.

**Mississippi Power**

- (e) - Certificate of Mississippi Power's Chief Executive Officer and Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.

**Southern Power**

- (f) - Certificate of Southern Power's Chief Executive Officer and Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.

**(101) XBRL Related Documents**

**Southern Company**

INS	XBRL Instance Document
SCH	XBRL Taxonomy Extension Schema Document
CAL	XBRL Taxonomy Calculation Linkbase Document
DEF	XBRL Definition Linkbase Document
LAB	XBRL Taxonomy Label Linkbase Document
PRE	XBRL Taxonomy Presentation Linkbase Document

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**THE SOUTHERN COMPANY  
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

THE SOUTHERN COMPANY

By *David M. Ratcliffe*  
*Chairman and Chief Executive Officer*  
*(Principal Executive Officer)*

By *W. Paul Bowers*  
*Executive Vice President and Chief Financial Officer*  
*(Principal Financial Officer)*

By */s/ Melissa K. Caen*  
  
*(Melissa K. Caen, Attorney-in-fact)*

Date: August 6, 2010

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**ALABAMA POWER COMPANY  
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

ALABAMA POWER COMPANY

By *Charles D. McCrary*  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

By *Art P. Beattie*  
*Executive Vice President, Chief Financial Officer, and Treasurer*  
*(Principal Financial Officer)*

By */s/ Melissa K. Caen*  
  
*(Melissa K. Caen, Attorney-in-fact)*

Date: August 6, 2010

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**GEORGIA POWER COMPANY  
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

GEORGIA POWER COMPANY

By *Michael D. Garrett*  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

By *Ronnie R. Labrato*  
*Executive Vice President, Chief Financial Officer, and Treasurer*  
*(Principal Financial Officer)*

By */s/ Melissa K. Caen*  
*(Melissa K. Caen, Attorney-in-fact)*

Date: August 6, 2010

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**GULF POWER COMPANY  
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

GULF POWER COMPANY

By *Susan N. Story*  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

By *Philip C. Raymond*  
*Vice President and Chief Financial Officer*  
*(Principal Financial Officer)*

By */s/ Melissa K. Caen*  
  
*(Melissa K. Caen, Attorney-in-fact)*

Date: August 6, 2010

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**MISSISSIPPI POWER COMPANY  
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

MISSISSIPPI POWER COMPANY

By *Anthony J. Topazi*  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

By *Frances Turnage*  
*Vice President, Treasurer, and Chief Financial Officer*  
*(Principal Financial Officer)*

By */s/ Melissa K. Caen*  
  
*(Melissa K. Caen, Attorney-in-fact)*

Date: August 6, 2010

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**SOUTHERN POWER COMPANY  
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

SOUTHERN POWER COMPANY

By *Ronnie L. Bates*  
*Chief Executive Officer*  
*(Principal Executive Officer)*

By *Michael W. Southern*  
*Senior Vice President, Treasurer, and Chief Financial Officer*  
*(Principal Financial Officer)*

By */s/ Melissa K. Caen*  
  
*(Melissa K. Caen, Attorney-in-fact)*

Date: August 6, 2010