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
þ 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 __________

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

(404) 506-5000

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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 þ No o

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 þ No o (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):

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

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

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

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

INDEX TO QUARTERLY REPORT ON FORM 10-Q
June 30, 2010

INDEX TO QUARTERLY REPORT ON FORM 10-Q
June 30, 2010

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DEFINITIONS

Term	Meaning
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	Alabama Power s energy cost recovery rate mechanism
registrants	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)

Term	Meaning
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, estim 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
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	**2010**	2009
	(in thousands)		*(in thousands)*	
Operating Revenues:				
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
Total operating revenues	**4,207,419**	3,885,164	**8,364,736**	7,551,471
Operating Expenses:				
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
Total operating expenses	**3,256,368**	2,998,970	**6,491,691**	6,175,600
Operating Income	**951,051**	886,194	**1,873,045**	1,375,871
Other Income and (Expense):				
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)
Total other income and (expense)	**(177,160)**	(165,669)	**(352,770)**	(346,261)
Earnings Before Income Taxes	**773,891**	720,525	**1,520,275**	1,029,610
Income taxes	**247,502**	225,717	**483,183**	392,886
Consolidated Net Income	**526,389**	494,808	**1,037,092**	636,724
Dividends on Preferred and Preference Stock of Subsidiaries	**16,195**	16,195	**32,390**	32,390
Consolidated Net Income After Dividends on Preferred and Preference Stock of Subsidiaries	**$ 510,194**	$ 478,613	**$ 1,004,702**	$ 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,	
	2010	2009
	(in thousands)	
Operating Activities:		
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	**1,414,962**	619,615
Investing Activities:		
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	**(2,035,540)**	(1,805,060)
Financing Activities:		

Increase in notes payable, net	**244,037**	148,090
Proceeds		
Long-term debt issuances	**1,146,000**	1,785,474
Common stock issuances	**341,447**	539,088
Redemptions		
Long-term debt	**(754,304)**	(199,929)
Payment of common stock dividends	**(735,009)**	(670,226)
Payment of dividends on preferred and preference stock of subsidiaries	**(32,394)**	(32,465)
Other financing activities	**(12,643)**	(19,327)
Net cash provided from financing activities	**197,134**	1,550,705
Net Change in Cash and Cash Equivalents	**(423,444)**	365,260
Cash and Cash Equivalents at Beginning of Period	**689,722**	416,581
Cash and Cash Equivalents at End of Period	**$ 266,278**	$ 781,841
Supplemental Cash Flow Information:		
Cash paid during the period for		
Interest (net of $40,130 and $38,594 capitalized for 2010 and 2009, respectively)	**$ 387,451**	$ 386,729
Income taxes (net of refunds)	**$ 285,247**	$ 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)

Assets	At June 30, 2010	At December 31, 2009
	(in thousands)	
Current Assets:		
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
Total current assets	**5,524,262**	5,873,457
Property, Plant, and Equipment:		
In service	**55,698,851**	53,587,853
Less accumulated depreciation	**19,647,708**	19,121,271
Plant in service, net of depreciation	**36,051,143**	34,466,582
Nuclear fuel, at amortized cost	**677,178**	593,119
Construction work in progress	**3,902,173**	4,170,596
Total property, plant, and equipment	**40,630,494**	39,230,297
Other Property and Investments:		
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
Total other property and investments	**1,956,008**	1,963,343
Deferred Charges and Other Assets:		
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	**5,263,726**	4,978,769
Total Assets	**$ 53,374,490**	$ 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)

Liabilities and Stockholders Equity	At June 30, 2010	At December 31, 2009
	(in thousands)	
Current Liabilities:		
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
Total current liabilities	**5,935,450**	5,583,828
Long-term Debt	**18,134,554**	18,131,244
Deferred Credits and Other Liabilities:		
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
Total deferred credits and other liabilities	**12,689,701**	12,371,636
Total Liabilities	**36,759,705**	36,086,708
Redeemable Preferred Stock of Subsidiaries	**374,496**	374,496
Stockholders Equity:		
Common Stockholders Equity:		
Common stock, par value $5 per share		
Authorized 1 billion shares		
Issued June 30, 2010: 831,147,821 Shares		
December 31, 2009: 820,151,801 Shares		

Treasury June 30, 2010: 442,128 Shares		
December 31, 2009: 505,116 Shares		
Par value	**4,155,676**	4,100,742
Paid-in capital	**3,310,322**	2,994,245
Treasury, at cost	**(14,923)**	(14,797)
Retained earnings	**8,156,346**	7,884,922
Accumulated other comprehensive loss	**(74,460)**	(87,778)
Total Common Stockholders Equity	**15,532,961**	14,877,334
Preferred and Preference Stock of Subsidiaries	**707,328**	707,328
Total Stockholders Equity	**16,240,289**	15,584,662
Total Liabilities and Stockholders Equity	**$ 53,374,490**	$ 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,	
	2010	2009	**2010**	2009
	(in thousands)		*(in thousands)*	
Consolidated Net Income	**$ 526,389**	$ 494,808	**$ 1,037,092**	$ 636,724
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $(1,267), $(1,744), $(481), and $(982), respectively	**(1,982)**	(2,811)	**(781)**	(1,664)
Reclassification adjustment for amounts included in net income, net of tax of $3,124, $4,630, $6,676, and $8,463, respectively	**4,928**	7,370	**10,574**	13,468
Marketable securities:				
Change in fair value, net of tax of $472, $1,204, $1,616, and $1,295, respectively	**770**	2,935	**2,796**	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 $443, respectively	**364**	349	**729**	699
Total other comprehensive income (loss)	**4,080**	7,843	**13,318**	16,172
Dividends on preferred and preference stock of subsidiaries	**(16,195)**	(16,195)	**(32,390)**	(32,390)
Comprehensive Income	**$ 514,274**	$ 486,456	**$ 1,018,020**	$ 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
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$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.

THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$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:

	Second Quarter 2010		**Year-to-Date 2010**	
	(in millions)	*(% change)*	*(in millions)*	*(% change)*
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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(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	
	(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
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:

Average Cost	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)*		
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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
		$(202.0)	N/M

N/M Not Meaningful

In the first quarter 2009, Southern Company entered into a litigation settlement agreement with MC Asset Recovery which resulted in a charge of $202.0 million 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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(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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Loss on Extinguishment of Debt

Second Quarter 2010 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$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_2) regulations. On June 2, 2010, the EPA issued its final revisions to the National Ambient Air Quality Standard for SO_2, 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_2) 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_2 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_2 and nitrogen oxides (NO_x) 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_2 and NO_x 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_x 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 it 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:

	Second Quarter 2010 Changes	**Year-to-Date 2010 Changes**
	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[(a)]	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 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:

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

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:

	June 30, 2010 Fair Value Measurements			
	Total		Maturity	
	Fair Value	Year 1	Years 2&3	Years 4&5
		(in millions)		
Level 1	$	$	$	$
Level 2	(202)	(116)	(85)	(1)
Level 3				
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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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.

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
	(in thousands)		*(in thousands)*	
Operating Revenues:				
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
Total operating revenues	**1,462,247**	1,366,516	**2,957,392**	2,706,282
Operating Expenses:				
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
Total operating expenses	**1,073,377**	1,017,003	**2,169,875**	2,057,896
Operating Income	**388,870**	349,513	**787,517**	648,386
Other Income and (Expense):				
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)
Total other income and (expense)	**(70,209)**	(57,958)	**(133,996)**	(115,690)
Earnings Before Income Taxes	**318,661**	291,555	**653,521**	532,696
Income taxes	**118,884**	105,357	**241,130**	190,366
Net Income	**199,777**	186,198	**412,391**	342,330
Dividends on Preferred and Preference Stock	**9,866**	9,866	**19,732**	19,732
Net Income After Dividends on Preferred and Preference Stock	**$ 189,911**	$ 176,332	**$ 392,659**	$ 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

	(in thousands)		*(in thousands)*	
Net Income After Dividends on Preferred and Preference Stock	**$ 189,911**	$ 176,332	**$ 392,659**	$ 322,598
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $(39), $(700), $(10), and $(1,586), respectively	**(63)**	(1,152)	**(17)**	(2,609)
Reclassification adjustment for amounts included in net income, net of tax of $(67), $1,178, $543, and $2,239, respectively	**(111)**	1,938	**892**	3,683
Total other comprehensive income (loss)	**(174)**	786	**875**	1,074
Comprehensive Income	**$ 189,737**	$ 177,118	**$ 393,534**	$ 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, 2010	2009
	(in thousands)	
Operating Activities:		
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
Investing Activities:		
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)
Financing Activities:		
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	**(219,231)**	252,342
Net Change in Cash and Cash Equivalents	**(268,039)**	168,734
Cash and Cash Equivalents at Beginning of Period	**368,016**	28,181
Cash and Cash Equivalents at End of Period	**$ 99,977**	$ 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**	$ 122,624
Income 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)

Assets	At June 30, 2010	At December 31, 2009
	(in thousands)	
Current Assets:		
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
Total current assets	**1,760,494**	1,910,773
Property, Plant, and Equipment:		
In service	**19,668,405**	18,574,229
Less accumulated provision for depreciation	**6,752,418**	6,558,864
Plant in service, net of depreciation	**12,915,987**	12,015,365
Nuclear fuel, at amortized cost	**303,851**	253,308
Construction work in progress	**511,864**	1,256,311
Total property, plant, and equipment	**13,731,702**	13,524,984
Other Property and Investments:		
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
Total other property and investments	**606,801**	619,172
Deferred Charges and Other Assets:		
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

Total deferred charges and other assets	**1,540,478**	1,469,164
Total Assets	**$ 17,639,475**	$ 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)

Liabilities and Stockholder s Equity	At June 30, 2010	At December 31, 2009
	(in thousands)	
Current Liabilities:		
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
Long-term Debt	**5,882,547**	6,082,489
Deferred Credits and Other Liabilities:		
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
Total Liabilities	**11,579,860**	11,602,544
Redeemable Preferred Stock	**341,715**	341,715
Preference Stock	**343,373**	343,373
Common Stockholder s Equity:		
Common stock, par value $40 per share		

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

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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$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:

	Second Quarter 2010		**Year-to-Date 2010**	
	(in millions)	*(% change)*	*(in millions)*	*(% change)*
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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$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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ALABAMA POWER COMPANY
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FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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:

Average Cost	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)*		
Fuel	2.82	2.78	1.4	2.81	2.85	(1.4)
Purchased power	6.19	6.01	3.0	6.65	6.06	9.7

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.

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

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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$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.

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

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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$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.

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

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_2) regulations. On June 2, 2010, the EPA issued its final revisions to the National Ambient Air Quality Standard for SO_2, 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_2) 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_2 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_2 and nitrogen oxides (NO_x) 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_2 and NO_x 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_x 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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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:

	Second Quarter 2010 Changes	**Year-to-Date 2010 Changes**
	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[(a)]	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:

	June 30, 2010 Fair Value Measurements			
	Total Fair Value	Maturity Year 1	Years 2&3	Years 4&5
	(in millions)			
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
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	**2010**	2009
	(in thousands)		*(in thousands)*	
Operating Revenues:				
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
Total operating revenues	**1,999,505**	1,874,314	**3,983,670**	3,640,155
Operating Expenses:				
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
Total operating expenses	**1,588,468**	1,505,774	**3,173,541**	2,999,292
Operating Income	**411,037**	368,540	**810,129**	640,863
Other Income and (Expense):				
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)
Total other income and (expense)	**(52,693)**	(74,778)	**(116,085)**	(157,904)
Earnings Before Income Taxes	**358,344**	293,762	**694,044**	482,959
Income taxes	**115,810**	99,682	**209,182**	162,310
Net Income	**242,534**	194,080	**484,862**	320,649
Dividends on Preferred and Preference Stock	**4,346**	4,346	**8,691**	8,691
Net Income After Dividends on Preferred and Preference Stock	**$ 238,188**	$ 189,734	**$ 476,171**	$ 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

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

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

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CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Six Months Ended June 30, 2010	2009
	(in thousands)	
Operating Activities:		
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
Investing Activities:		
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)
Financing Activities:		
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
Net Change in Cash and Cash Equivalents		**50,297**		(94,992)
Cash and Cash Equivalents at Beginning of Period		**14,309**		132,739
Cash and Cash Equivalents at End of Period	**$**	**64,606**	$	37,747
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.

GEORGIA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At June 30, 2010	At December 31, 2009
	(in thousands)	
Current Assets:		
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
Total current assets	**2,626,062**	2,612,263
Property, Plant, and Equipment:		
In service	**25,931,241**	25,120,034
Less accumulated provision for depreciation	**9,731,877**	9,493,068
Plant in service, net of depreciation	**16,199,364**	15,626,966
Nuclear fuel, at amortized cost	**373,327**	339,810
Construction work in progress	**2,732,607**	2,521,091
Total property, plant, and equipment	**19,305,298**	18,487,867
Other Property and Investments:		
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
Total other property and investments	**685,411**	684,944
Deferred Charges and Other Assets:		
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

Total deferred charges and other assets	**2,756,096**		2,509,492
Total Assets	**$ 25,372,867**	$	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)

Liabilities and Stockholder s Equity	At June 30, 2010	At December 31, 2009
	(in thousands)	
Current Liabilities:		
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
Total current liabilities	**2,807,806**	2,713,690
Long-term Debt	**7,971,643**	7,782,340
Deferred Credits and Other Liabilities:		
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
Total deferred credits and other liabilities	**5,777,278**	5,629,654
Total Liabilities	**16,556,727**	16,125,684
Preferred Stock	**44,991**	44,991
Preference Stock	**220,966**	220,966
Common Stockholder s Equity:		
Common stock, without par value		

Authorized - 20,000,000 shares		
Outstanding - 9,261,500 shares	**398,473**	398,473
Paid-in capital	**5,167,490**	4,592,350
Retained earnings	**2,999,105**	2,932,934
Accumulated other comprehensive loss	**(14,885)**	(20,832)
Total common stockholder s equity	**8,550,183**	7,902,925
Total Liabilities and Stockholder s Equity	**$ 25,372,867**	$ 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
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$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.

GEORGIA POWER COMPANY
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Details of the change to retail revenues are as follows:

	Second Quarter 2010		Year-to-Date 2010	
	(in millions)	*(% change)*	*(in millions)*	*(% change)*
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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(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)*	*(change in millions)*	*(% change)*
$(17.7)	(60.0)	$(18.5)	(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)*	*(change in millions)*	*(% change)*
$6.7	10.2	$13.1	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 vs. Second Quarter 2009		Year-to-Date 2010 vs. Year-to-Date 2009	
	(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
Fuel*	$104.5	16.0	$261.5	20.9
Purchased power non-affiliates	13.0	18.4	32.7	24.7
Purchased power affiliates	(40.3)	(23.4)	(75.6)	(20.5)
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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MANAGEMENT S DISCUSSION AND ANALYSIS OF
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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:

Average Cost	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)*		
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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$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	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(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	Y