ALABAMA POWER CO
Form 10-Q
August 05, 2011

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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, 2011
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 35203 (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
001-31737	**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

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, 2011**
The Southern Company	**Par Value $5 Per Share**	**857,652,680**
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**	**4,142,717**
Mississippi Power Company	**Without Par Value**	**1,121,000**
Southern Power Company	**Par Value $0.01 Per Share**	**1,000**

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

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June 30, 2011

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INDEX TO QUARTERLY REPORT ON FORM 10-Q
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DEFINITIONS

Term	Meaning
2007 Retail Rate Plan	Georgia Power s retail rate plan for the years 2008 through 2010
2010 ARP	Alternate Rate Plan approved by the Georgia PSC for Georgia Power which became effective January 1, 2011 and will continue through December 31, 2013
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
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, 2010
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
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
KWH	Kilowatt-hour
LIBOR	London Interbank Offered Rate
Mirant	Mirant Corporation
Mississippi Power	Mississippi Power Company
mmBtu	Million British thermal unit
MW	Megawatt
MWH	Megawatt-hour
NCCR tariff	Georgia Power s Nuclear Construction Cost Recovery tariff, which became effective January 1, 2011, in accordance with the Georgia Nuclear Energy Financing Act
NDR	Alabama Power s natural disaster reserve
NRC	Nuclear Regulatory Commission
NSR	New Source Review
OCI	Other Comprehensive Income
PEP	Mississippi Power s Performance Evaluation Plan
Plant Vogtle Units 3 and 4	Two new nuclear generating units under construction at Plant Vogtle
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 CNP Environmental	Alabama Power s rate certificated new plant environmental

Rate ECR	Alabama Power s energy cost recovery rate mechanism
registrants	Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power
SCR	Selective catalytic reduction
SCS	Southern Company Services, Inc.

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Term	Meaning
SEC	Securities and Exchange Commission
Southern Company	The Southern Company
Southern Company system	Southern Company, the traditional operating companies, Southern Power, and other subsidiaries
SouthernLINC Wireless	Southern Communications Services, Inc.
Southern Nuclear	Southern Nuclear Operating Company, Inc.
Southern Power	Southern Power Company
traditional operating companies	Alabama Power, Georgia Power, Gulf Power, and Mississippi Power
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, current and proposed environmental regulations and related estimated expenditures, future earnings, access to sources of capital, financing activities, start and completion of construction projects, plans and estimated costs for new generation resources, impact of the Small Business Jobs and Credit Act of 2010, impact of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, estimated sales and purchases under new power sale and purchase agreements, storm damage cost recovery and repairs, and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as may, will, could, should, expects, plans, anticipates, estimates, projects, predicts, potential, or continue or the negative of these terms or other similar terminology. T 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 changes, 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, and IRS audits;
- 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 trust funds;
- 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 Plant Vogtle expansion, including Georgia PSC and NRC approvals and potential DOE loan guarantees;
- regulatory approvals and actions related to the Kemper IGCC, including Mississippi PSC 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, including cyber intrusion;
- interest rate fluctuations and financial market conditions and the results of financing efforts, including Southern Company s and its subsidiaries credit ratings;

the impacts of any potential U.S. credit rating downgrade or other sovereign financial issues, including impacts on interest rates, access to capital markets, impacts on currency exchange rates, counterparty performance, and the economy in general, as well as potential impacts on the availability or benefits of proposed DOE loan guarantees;
the ability of Southern Company and its subsidiaries to obtain additional generating capacity at competitive prices;
catastrophic events such as fires, earthquakes, explosions, floods, hurricanes, droughts, pandemic health events such as influenzas, or other similar occurrences;
the direct or indirect effects on Southern Company s business resulting from incidents affecting the U.S. electric grid or operation of generating resources;

the effect of accounting pronouncements issued periodically by standard setting bodies; and
other factors discussed elsewhere herein and in other reports filed by the registrants from time to time with the SEC.

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

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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,	
	2011	2010	**2011**	2010
	(in millions)		*(in millions)*	
Operating Revenues:				
Retail revenues	**$ 3,842**	$ 3,571	**$ 7,238**	$ 7,030
Wholesale revenues	**507**	473	**956**	1,015
Other electric revenues	**154**	143	**303**	278
Other revenues	**18**	21	**36**	42
Total operating revenues	**4,521**	4,208	**8,533**	8,365
Operating Expenses:				
Fuel	**1,673**	1,629	**3,149**	3,274
Purchased power	**145**	128	**245**	255
Other operations and maintenance	**910**	919	**1,854**	1,827
Depreciation and amortization	**430**	367	**848**	710
Taxes other than income taxes	**227**	214	**447**	426
Total operating expenses	**3,385**	3,257	**6,543**	6,492
Operating Income	**1,136**	951	**1,990**	1,873
Other Income and (Expense):				
Allowance for equity funds used during construction	**36**	46	**71**	95
Interest expense, net of amounts capitalized	**(199)**	(219)	**(421)**	(441)
Other income (expense), net	**(4)**	(5)	**(2)**	(7)
Total other income and (expense)	**(167)**	(178)	**(352)**	(353)
Earnings Before Income Taxes	**969**	773	**1,638**	1,520
Income taxes	**349**	247	**580**	483
Consolidated Net Income	**620**	526	**1,058**	1,037
Dividends on Preferred and Preference Stock of Subsidiaries	**16**	16	**32**	32
Consolidated Net Income After Dividends on Preferred and Preference Stock of Subsidiaries	**$ 604**	$ 510	**$ 1,026**	$ 1,005
Common Stock Data:				
Earnings per share (EPS) -				
Basic EPS	**$ 0.71**	$ 0.62	**$ 1.20**	$ 1.22
Diluted EPS	**$ 0.70**	$ 0.61	**$ 1.20**	$ 1.21
Average number of shares of common stock outstanding (in millions)				
Basic	**855**	828	**851**	825

Diluted	**862**	833	**858**	829
Cash dividends paid per share of common stock	**$ 0.4725**	$ 0.4550	**$ 0.9275**	$ 0.8925

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,	
	2011	2010
	(in millions)	
Operating Activities:		
Consolidated net income	**$ 1,058**	$ 1,037
Adjustments to reconcile consolidated net income to net cash provided from operating activities		
Depreciation and amortization, total	**1,011**	868
Deferred income taxes	**427**	215
Deferred revenues	**(6)**	(47)
Allowance for equity funds used during construction	**(71)**	(95)
Pension, postretirement, and other employee benefits	**(38)**	(1)
Stock based compensation expense	**27**	24
Generation construction screening costs		(51)
Other, net	**1**	(63)
Changes in certain current assets and liabilities		
-Receivables	**(156)**	(255)
-Fossil fuel stock	**81**	72
-Other current assets	**(106)**	(95)
-Accounts payable	**58**	(52)
-Accrued taxes	**300**	(80)
-Accrued compensation	**(193)**	(34)
-Other current liabilities	**(4)**	(28)
Net cash provided from operating activities	**2,389**	1,415
Investing Activities:		
Property additions	**(2,126)**	(1,936)
Investment in restricted cash	**(3)**	
Distribution of restricted cash	**61**	11
Nuclear decommissioning trust fund purchases	**(1,405)**	(516)
Nuclear decommissioning trust fund sales	**1,401**	489
Proceeds from property sales	**17**	
Cost of removal, net of salvage	**(68)**	(60)
Change in construction payables	**37**	13
Other investing activities	**22**	(37)
Net cash used for investing activities	**(2,064)**	(2,036)
Financing Activities:		
Increase (decrease) in notes payable, net	**(440)**	244
Proceeds		
Long-term debt issuances	**1,950**	1,146
Common stock issuances	**482**	341
Redemptions		

Long-term debt	**(1,504)**	(754)
Payment of common stock dividends	**(787)**	(735)
Payment of dividends on preferred and preference stock of subsidiaries	**(32)**	(32)
Other financing activities	**(4)**	(13)
Net cash provided from (used for) financing activities	**(335)**	197
Net Change in Cash and Cash Equivalents	**(10)**	(424)
Cash and Cash Equivalents at Beginning of Period	**447**	690
Cash and Cash Equivalents at End of Period	**$ 437**	$ 266
Supplemental Cash Flow Information:		
Cash paid during the period for		
Interest (net of $35 and $40 capitalized for 2011 and 2010, respectively)	**$ 419**	$ 387
Income taxes (net of refunds)	**(355)**	285
Noncash transactions accrued property additions at end of period	**407**	356

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, 2011	At December 31, 2010
	(in millions)	
Current Assets:		
Cash and cash equivalents	**$ 437**	$ 447
Restricted cash and cash equivalents	**13**	68
Receivables		
Customer accounts receivable	**1,275**	1,140
Unbilled revenues	**518**	420
Under recovered regulatory clause revenues	**222**	209
Other accounts and notes receivable	**254**	285
Accumulated provision for uncollectible accounts	**(26)**	(25)
Fossil fuel stock, at average cost	**1,226**	1,308
Materials and supplies, at average cost	**841**	827
Vacation pay	**150**	151
Prepaid expenses	**360**	784
Other regulatory assets, current	**181**	210
Other current assets	**51**	59
Total current assets	**5,502**	5,883
Property, Plant, and Equipment:		
In service	**57,817**	56,731
Less accumulated depreciation	**20,657**	20,174
Plant in service, net of depreciation	**37,160**	36,557
Other utility plant, net	**66**	
Nuclear fuel, at amortized cost	**752**	670
Construction work in progress	**5,301**	4,775
Total property, plant, and equipment	**43,279**	42,002
Other Property and Investments:		
Nuclear decommissioning trusts, at fair value	**1,321**	1,370
Leveraged leases	**635**	624
Miscellaneous property and investments	**276**	277
Total other property and investments	**2,232**	2,271
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**1,349**	1,280
Prepaid pension costs	**121**	88
Unamortized debt issuance expense	**168**	178
Unamortized loss on reacquired debt	**278**	274
Deferred under recovered regulatory clause revenues	**156**	218

Other regulatory assets, deferred	**2,459**	2,402
Other deferred charges and assets	**479**	436
Total deferred charges and other assets	**5,010**	4,876
Total Assets	**$ 56,023**	$ 55,032

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, 2011	At December 31, 2010
	(in millions)	
Current Liabilities:		
Securities due within one year	**$ 1,354**	$ 1,301
Notes payable	**857**	1,297
Accounts payable	**1,423**	1,275
Customer deposits	**337**	332
Accrued taxes		
Accrued income taxes	**13**	8
Unrecognized tax benefits	**69**	187
Other accrued taxes	**331**	440
Accrued interest	**232**	225
Accrued vacation pay	**191**	194
Accrued compensation	**263**	438
Liabilities from risk management activities	**108**	152
Other regulatory liabilities, current	**81**	88
Other current liabilities	**440**	535
Total current liabilities	**5,699**	6,472
Long-term Debt	**18,554**	18,154
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**8,107**	7,554
Deferred credits related to income taxes	**226**	235
Accumulated deferred investment tax credits	**551**	509
Employee benefit obligations	**1,563**	1,580
Asset retirement obligations	**1,300**	1,257
Other cost of removal obligations	**1,159**	1,158
Other regulatory liabilities, deferred	**344**	312
Other deferred credits and liabilities	**456**	517
Total deferred credits and other liabilities	**13,706**	13,122
Total Liabilities	**37,959**	37,748
Redeemable Preferred Stock of Subsidiaries	**375**	375
Stockholders Equity:		
Common Stockholders Equity:		
Common stock, par value $5 per share		
Authorized 1.5 billion shares		
Issued June 30, 2011: 858 million shares		
December 31, 2010: 844 million shares		

Treasury June 30, 2011: 0.5 million shares December 31, 2010: 0.5 million shares			
Par value	**4,291**		4,219
Paid-in capital	**4,163**		3,702
Treasury, at cost	**(15)**		(15)
Retained earnings	**8,605**		8,366
Accumulated other comprehensive loss	**(62)**		(70)
Total Common Stockholders Equity	**16,982**		16,202
Preferred and Preference Stock of Subsidiaries	**707**		707
Total Stockholders Equity	**17,689**		16,909
Total Liabilities and Stockholders Equity	**$ 56,023**	$	55,032

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,	
	2011	2010	**2011**	2010
	(in millions)		*(in millions)*	
Consolidated Net Income	**$ 620**	$ 526	**$ 1,058**	$ 1,037
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $-,$(1), $2, and $-, respectively		(2)	**3**	(1)
Reclassification adjustment for amounts included in net income, net of tax of $1, $3, $3, and $6, respectively		5	**3**	11
Marketable securities:				
Change in fair value, net of tax of $2, $1, $1 and $1, respectively	**3**	1	**2**	3
Pension and other post retirement benefit plans:				
Reclassification adjustment for amounts included in net income, net of tax of $(1), $-, $1, and $-, respectively	**1**	1		1
Total other comprehensive income (loss)	**4**	5	**8**	14
Dividends on preferred and preference stock of subsidiaries	**(16)**	(16)	**(32)**	(32)
Comprehensive Income	**$ 608**	$ 515	**$ 1,034**	$ 1,019

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

THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
MANAGEMENT S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
SECOND QUARTER 2011 vs. SECOND QUARTER 2010
AND
YEAR-TO-DATE 2011 vs. YEAR-TO-DATE 2010

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 and telecommunications. 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 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$94	18.2	$21	2.1

Southern Company s second quarter 2011 net income after dividends on preferred and preference stock of subsidiaries was $604 million ($0.71 per share) compared to $510 million ($0.62 per share) for the second quarter 2010. The net income increase for the second quarter 2011 when compared to the corresponding period in 2010 was primarily the result of increases in retail base revenues at Georgia Power as authorized under the 2010 ARP and the NCCR tariff, increases in revenues associated with new PPAs at Southern Power, and increases in sales primarily in the industrial sector. The net income increase for the second quarter 2011 was partially offset by a decrease in the amortization of the regulatory liability related to other cost of removal obligations at Georgia Power.

Southern Company s year-to-date 2011 net income after dividends on preferred and preference stock of subsidiaries was $1.03 billion ($1.20 per share) compared to $1.00 billion ($1.22 per share) for year-to-date 2010. The net income increase for year-to-date 2011 when compared to the corresponding period in 2010 was primarily the result of increases in retail base revenues at Georgia Power as authorized under the 2010 ARP and the NCCR tariff and increases in revenues associated with new PPAs at Southern Power. The net income increase for year-to-date 2011 was partially offset by a decrease in the amortization of the regulatory liability related to other cost of removal obligations at Georgia Power, decreases in revenues in the first quarter 2011 due to significantly colder weather in the first quarter 2010, a decrease in wholesale revenues primarily at Alabama Power, and an increase in depreciation on additional plant in service related to environmental, transmission, and distribution projects.

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

Retail Revenues

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$271	7.6	$208	2.9

In the second quarter 2011, retail revenues were $3.84 billion compared to $3.57 billion for the corresponding period in 2010. For year-to-date 2011, retail revenues were $7.24 billion compared to $7.03 billion for the corresponding period in 2010.

Details of the change to retail revenues follow:

	Second Quarter 2011		**Year-to-Date 2011**	
	(in millions)	*(% change)*	*(in millions)*	*(% change)*
Retail prior year	$3,571		$7,030	
Estimated change in				
Rates and pricing	199	5.6	365	5.2
Sales growth (decline)	22	0.6	16	0.2
Weather	13	0.4	(77)	(1.1)
Fuel and other cost recovery	37	1.0	(96)	(1.4)
Retail current year	$3,842	7.6%	$7,238	2.9%

Revenues associated with changes in rates and pricing increased in the second quarter and year-to-date 2011 when compared to the corresponding periods in 2010 primarily due to increases in Georgia Power s retail base revenues as authorized under the 2010 ARP and the NCCR tariff, which both became effective January 1, 2011. Also contributing to these increases were revenues associated with Alabama Power s Rate CNP Environmental due to completion of construction projects related to environmental mandates, although there was no increase in the Rate CNP Environmental billing factors in 2011.

Revenues attributable to changes in sales increased in the second quarter and year-to-date 2011 when compared to the corresponding periods in 2010 due to increases in weather-adjusted retail KWH sales of 1.5% and 1.5%, respectively. For the second quarter 2011, weather-adjusted residential KWH sales increased 1.2%, weather-adjusted commercial KWH sales remained flat, and weather-adjusted industrial KWH sales increased 3.5%. For year-to-date 2011, weather-adjusted residential KWH sales increased 0.1%, weather-adjusted commercial KWH sales decreased 0.4%, and weather-adjusted industrial KWH sales increased 4.9%. Increased demand in the petroleum, primary metals, and pipelines sectors were the main contributors to the increases in weather-adjusted industrial KWH sales for the second quarter and year-to-date 2011.

Revenues resulting from changes in weather increased in the second quarter 2011 due to slightly more favorable weather when compared to the corresponding period in 2010. For year-to-date 2011, revenues resulting from changes in weather decreased when compared to the corresponding period in 2010 due to significantly colder weather in the first quarter 2010.

Fuel and other cost recovery revenues increased $37 million in the second quarter 2011 and decreased $96 million for year-to-date 2011 when compared to the corresponding periods in 2010. 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.

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

Wholesale Revenues

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$34	7.2	$(59)	(5.8)

Wholesale revenues consist of PPAs with investor-owned utilities and electric cooperatives, unit power sales contracts, and short-term opportunity sales. Wholesale revenues from PPAs and unit power sales contracts have both capacity and energy components. Capacity revenues reflect the recovery of fixed costs and a return on investment. Energy revenues will vary depending on fuel prices, the market prices of wholesale energy compared to the Southern Company system-owned generation, demand for energy within the Southern Company service territory, and the availability of the Southern Company system generation. Increases and decreases in energy 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. Short-term opportunity sales are made at market-based rates that generally provide a margin above the variable cost to produce the energy.

In the second quarter 2011, wholesale revenues were $507 million compared to $473 million for the corresponding period in 2010, reflecting a $38 million increase in energy revenues and a $4 million decrease in capacity revenues. The increase was primarily due to higher energy and capacity revenues under new PPAs at Southern Power that began in June, July, and December 2010 and January 2011. The increase was partially offset by a decrease in wholesale revenues at Alabama Power due to the expiration of long-term unit power sales contracts in May 2010 and the capacity subject to those contracts being made available for retail service starting in June 2010.

For year-to-date 2011, wholesale revenues were $956 million compared to $1.02 billion for the corresponding period in 2010, reflecting a $33 million decrease in energy revenues and a $26 million decrease in capacity revenues. This decrease was primarily related to a decrease in wholesale revenues at Alabama Power due to the expiration of long-term unit power sales contracts in May 2010 and the capacity subject to those contracts being made available for retail service starting in June 2010. The decrease was partially offset by higher energy and capacity revenues under new PPAs at Southern Power that began in June, July, and December 2010 and January 2011.

Other Electric Revenues

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$11	8.2	$25	9.3

In the second quarter 2011, other electric revenues were $154 million compared to $143 million for the corresponding period in 2010. For year-to-date 2011, other electric revenues were $303 million compared to $278 million for the corresponding period in 2010. The second quarter and year-to-date 2011 increases were primarily the result of an increase in transmission revenues at Georgia Power.

Other Revenues

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(3)	(13.1)	$(6)	(14.8)

In the second quarter 2011, other revenues were $18 million compared to $21 million for the corresponding period in 2010. For year-to-date 2011, other revenues were $36 million compared to $42 million for the corresponding period in 2010. The second quarter and year-to-date 2011 decreases were primarily the result of a 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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Fuel and Purchased Power Expenses

	Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
	(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
Fuel*	$44	2.7	$(125)	(3.8)
Purchased power	17	12.6	(10)	(4.0)
Total fuel and purchased power expenses	$61		$(135)	

* 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 2011 were $1.82 billion compared to $1.76 billion for the corresponding period in 2010. The increase was primarily the result of a $67 million increase in the average cost of fuel and purchased power, partially offset by a $6 million net decrease related to total KWHs generated and purchased. The increase in the average cost of fuel and purchased power resulted primarily from a 4.6% increase in the average cost of coal per KWH generated, partially offset by a 3.6% decrease in the average cost of natural gas per KWH generated.

For year-to-date 2011, fuel and purchased power expenses were $3.39 billion compared to $3.53 billion for the corresponding period in 2010. The decrease was primarily the result of a $126 million decrease related to total KWHs generated and purchased and a $9 million net decrease related to the average cost of fuel and purchased power. The decrease in the total KWHs generated and purchased resulted primarily from lower customer demand. The net decrease in the average cost of fuel and purchased power resulted primarily from a 12.8% decrease in the average cost of natural gas per KWH generated, partially offset by a 3.4% increase in the average cost of coal per KWH generated.

Fuel expenses at the traditional operating companies are generally offset by fuel revenues and do not have a significant effect on 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 the Southern Company system s cost of generation and purchased power are as follows:

Average Cost	Second Quarter 2011	Second Quarter 2010	Percent Change	Year-to-Date 2011	Year-to-Date 2010	Percent Change
	(cents per net KWH)			*(cents per net KWH)*		
Fuel	3.56	3.50	1.7	3.48	3.55	(2.0)
Purchased power	7.51	5.91	27.1	8.07	6.50	24.2

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

Other Operations and Maintenance Expenses

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(9)	(1.0)	$27	1.5

In the second quarter 2011, other operations and maintenance expenses were $910 million compared to $919 million for the corresponding period in 2010. The decrease was primarily the result of decreases in transmission and distribution expenses due to reductions in overhead line costs at Alabama Power due to storm restoration efforts. The decrease was partially offset by increases in scheduled outage, commodity, and maintenance costs.

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For year-to-date 2011, other operations and maintenance expenses were $1.85 billion compared to $1.83 billion for the corresponding period in 2010. The increase was primarily the result of a $21 million increase in scheduled outage and maintenance costs, a $26 million increase in commodity and labor costs, and a $6 million increase in customer service related costs. The increase was partially offset by a $22 million decrease in administrative and general costs and a $6 million decrease in transmission and distribution costs.

In August 2010, the Alabama PSC approved a change to Alabama Power s nuclear maintenance outage accounting process associated with routine refueling activities. As a result, Alabama Power will not recognize any nuclear maintenance outage expenses in 2011, reducing nuclear production expense by approximately $50 million as compared to 2010. See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Alabama Power Nuclear Outage Accounting Order of Southern Company in Item 7 of the Form 10-K for additional information.

Depreciation and Amortization

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$63	17.1	$138	19.4

In the second quarter 2011, depreciation and amortization was $430 million compared to $367 million for the corresponding period in 2010. The increase was primarily the result of a $46 million decrease in the amortization of the regulatory liability related to other cost of removal obligations at Georgia Power as authorized by the Georgia PSC and additional depreciation on plant in service related to environmental, transmission, and distribution projects.

For year-to-date 2011, depreciation and amortization was $848 million compared to $710 million for the corresponding period in 2010. The increase was primarily the result of a $97 million decrease in the amortization of the regulatory liability related to other cost of removal obligations at Georgia Power as authorized by the Georgia PSC and additional depreciation on 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 Retail Rate Plans for additional information on the other cost of removal regulatory liability.

Taxes Other Than Income Taxes

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$13	5.8	$21	4.9

In the second quarter 2011, taxes other than income taxes were $227 million compared to $214 million for the corresponding period in 2010. For year-to-date 2011, taxes other than income taxes were $447 million compared to $426 million for the corresponding period in 2010. The second quarter and year-to-date 2011 increases were primarily the result of increases in property taxes, payroll taxes, and franchise fees.

Allowance for Equity Funds Used During Construction

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(10)	(20.5)	$(24)	(24.8)

In the second quarter 2011, AFUDC equity was $36 million compared to $46 million for the corresponding period in 2010. The decrease was primarily due to the inclusion of Georgia Power s Plant Vogtle Units 3 and 4 construction work in progress in rate base effective January 1, 2011 which reduced the amount of AFUDC capitalized. This decrease was partially offset by construction work in progress related to Mississippi Power s Kemper IGCC which began construction in June 2010.

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For year-to-date 2011, AFUDC equity was $71 million compared to $95 million for the corresponding period in 2010. The decrease was primarily due to the inclusion of Georgia Power s Plant Vogtle Units 3 and 4 construction work in progress in rate base effective January 1, 2011 which reduced the amount of AFUDC capitalized and the completion of environmental construction projects at Alabama Power. This decrease was partially offset by construction work in progress related to Mississippi Power s Kemper IGCC which began construction in June 2010.

See Note 3 to the financial statements of Southern Company in Item 8 of the Form 10-K under Retail Regulatory Matters Georgia Power Nuclear Construction and Note (B) to the Condensed Financial Statements under State PSC Matters Georgia Power Nuclear Construction herein for additional information.

Interest Expense, Net of Amounts Capitalized

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(20)	(8.8)	$(20)	(4.5)

In the second quarter 2011, interest expense, net of amounts capitalized was $199 million compared to $219 million for the corresponding period in 2010. For year-to-date 2011, interest expense, net of amounts capitalized was $421 million compared to $441 million for the corresponding period in 2010. These decreases were primarily due to a reduction of $23 million in interest expense at Georgia Power related to the settlement of litigation with the Georgia Department of Revenue (DOR). See Note (B) to the Condensed Financial Statements under Income Tax Matters Georgia State Income Tax Credits herein for additional information.

Income Taxes

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$102	40.9	$97	20.0

In the second quarter 2011, income taxes were $349 million compared to $247 million for the corresponding period in 2010. This increase was primarily due to higher pre-tax earnings, an increase in Alabama state income taxes due to a decrease in the state income tax deduction for federal income taxes paid, a reduction in AFUDC equity, which is non-taxable, and a decrease in the Internal Revenue Code Section 199 production activities deduction.

For year-to-date 2011, income taxes were $580 million compared to $483 million for the corresponding period in 2010. This increase was primarily due to higher pre-tax earnings, a decrease in the first quarter 2010 in uncertain tax positions at Georgia Power related to state income tax credits, an increase in Alabama state income taxes due to a decrease in the state income tax deduction for federal income taxes paid, a reduction in AFUDC equity, which is non-taxable, and a decrease in the Internal Revenue Code Section 199 production activities deduction.

See Notes (B) and (G) to the Condensed Financial Statements under Income Tax Matters Georgia State Income Tax Credits and Unrecognized Tax Benefits, respectively, herein for additional information.

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 timely recovery of prudently incurred costs during a time of increasing costs. Other major factors include profitability of the competitive wholesale supply business and federal regulatory policy. 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,

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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 available generating capacity, future acquisitions and construction of generating facilities, and the successful remarketing of capacity as current contracts expire. Changes in economic conditions impact sales for the traditional operating companies and Southern Power, and the pace of the economic recovery remains uncertain. 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. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively impact results of operations, cash flows, and financial condition. 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. Southern Company has completed a preliminary assessment of the EPA s proposed Utility Maximum Achievable Control Technology (MACT), water quality, and coal combustion byproduct rules. See Air Quality and Water Quality below for additional information regarding the proposed Utility MACT and water quality rules. 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 additional information regarding the proposed coal combustion byproducts rule. Although its analysis is preliminary, Southern Company estimates that the aggregate capital costs to the traditional operating companies for compliance with these rules could range from $13 billion to $18 billion through 2020 if adopted as proposed. Included in this amount is $686 million of estimated expenditures included in the 2011-2013 base level capital budgets of Southern Company s subsidiaries described herein in anticipation of these rules. See FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations herein for additional information. These costs may arise from existing unit retirements, installation of additional environmental controls, the addition of new generating resources, and changing fuel sources for certain existing units. Southern Company s preliminary analysis further indicates that the short timeframe for compliance with these rules could significantly impact electric system reliability and cause an increase in costs of materials and services. The ultimate outcome of these matters will depend on the final form of the proposed rules and the outcome of any legal challenges to the rules and cannot be determined at this time.

New Source Review Actions

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters New Source Review Actions of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under Environmental Matters New Source Review Actions in Item 8 of the Form 10-K for additional information regarding civil actions brought by the EPA against certain Southern Company subsidiaries. The EPA s action against Alabama Power alleged that Alabama Power violated the NSR provisions of the Clean Air Act and related state laws with respect to certain of its coal-fired generating facilities. On March 14, 2011, the U.S. District Court for the Northern District of Alabama granted Alabama Power s motion for summary judgment on all remaining claims and dismissed the case with prejudice. The EPA has appealed the decision to the U.S. Court of Appeals for the Eleventh Circuit. The ultimate outcome of this matter cannot be determined at this time.

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Carbon Dioxide Litigation

New York Case

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation New York Case of Southern Company in Item 7 and Note 3 of 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. On June 20, 2011, the U.S. Supreme Court held that the plaintiffs federal common law claims against Southern Company and four other electric utilities were displaced by the Clean Air Act and EPA regulations addressing greenhouse gas emissions and remanded the case for consideration of whether federal law may also preempt the remaining state law claims. The ultimate outcome of this matter cannot be determined at this time.

Kivalina Case

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation Kivalina Case of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under Environmental Matters Carbon Dioxide Litigation Kivalina Case in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation. The U.S. Court of Appeals for the Ninth Circuit stayed this case on February 23, 2011, pending the decision of the U.S. Supreme Court in the New York case discussed above. The plaintiffs have moved to lift the stay. The ultimate outcome of this matter 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 of 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. On May 27, 2011, a class action complaint alleging damages as a result of Hurricane Katrina was filed in the U.S. District Court for the Southern District of Mississippi by the same plaintiffs who brought a previous common law nuisance case involving substantially similar allegations. The earlier case was ultimately dismissed by the trial and appellate courts on procedural grounds. The current litigation was filed against numerous chemical, coal, oil, and utility companies (including Alabama Power, Georgia Power, Gulf Power, and Southern Power) and includes many of the same defendants that were involved in the earlier case. Southern Company believes these claims are without merit. 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 Southern Company in Item 7 of the Form 10-K for additional information regarding regulation of air quality.

On May 3, 2011, the EPA published a proposed rule, called Utility MACT, which would impose stringent emission limits on coal- and oil-fired electric utility steam generating units (EGUs). The proposed rule establishes numeric emission limits for acid gases, mercury, and total particulate matter. Meeting the proposed limits would likely require additional emission control equipment such as scrubbers, SCRs, baghouses, and other control measures at many coal-fired EGUs. Pursuant to a court-approved consent decree, the EPA must issue a final rule by November 16, 2011. Compliance for existing sources would be required three years after the effective date of the final rule. In the proposed rule, the EPA discussed the possibility of a one-year compliance extension which could be granted by the EPA or the states on a case-by-case basis if necessary. If finalized as proposed, compliance with this rule would require significant capital expenditures and compliance costs at many of the facilities of Southern Company s

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subsidiaries which could impact unit retirement and replacement decisions. In addition, results of operations, cash flows, and financial condition could be impacted if the costs are not recovered through regulated rates. Further, there is uncertainty regarding the ability of the electric utility industry to achieve compliance with the requirements of the proposed rule within the proposed compliance period, and the limited compliance period could negatively impact electric system reliability. The outcome of this rulemaking will depend on the final rule and the outcome of any legal challenges and cannot be determined at this time.

In April 2010, the EPA proposed an Industrial Boiler MACT rule that would establish emissions limits for various hazardous air pollutants typically emitted from industrial boilers, including biomass boilers and start-up boilers. The EPA published the final rules on March 21, 2011 and, at the same time, issued a notice of intent to reconsider the final rules to allow for additional public review and comment. The EPA has announced plans to propose a revised rule by October 31, 2011 and to finalize the rule by April 30, 2012. Georgia Power has delayed the decision to convert Plant Mitchell Unit 3 to biomass until there is greater clarity regarding these and other proposed and recently adopted regulations. The impact of these regulations will depend on their final form and the outcome of any legal challenges and cannot be determined at this time.

In October 2008, the EPA approved a revision to Alabama s State Implementation Plan (SIP) requirements related to opacity which granted some flexibility to affected sources while requiring compliance with Alabama s very strict opacity limits through use of continuous opacity monitoring system data. On April 6, 2011, the EPA attempted to rescind its previous approval of the Alabama SIP revision. On April 8, 2011, Alabama Power filed an appeal of that decision with the U.S. Court of Appeals for the Eleventh Circuit and requested the court to stay the effectiveness of the EPA s attempted rescission pending judicial review. The EPA s decision became effective May 6, 2011 and the court denied Alabama Power s requested stay on May 12, 2011. Unless the court resolves Alabama Power s appeal in its favor, the EPA s rescission will continue to impact Alabama Power. The EPA s rescission has impacted unit availability and increased maintenance and compliance costs. The final outcome of this matter cannot be determined at this time.

On June 23, 2011, the EPA published its determination that the 20-county area within metropolitan Atlanta had achieved attainment with the current eight-hour ozone air quality standard. However, a revised eight-hour ozone standard requiring even lower concentrations of ozone in ambient air is expected to be finalized in late summer 2011.

On July 6, 2011, the EPA signed the final Cross State Air Pollution Rule (CSAPR) requiring reductions of sulfur dioxide and nitrogen oxide emissions from power plants in 27 states located in the eastern half of the U.S. The CSAPR addresses interstate emissions of sulfur dioxide and nitrogen oxides that interfere with downwind states ability to meet or maintain national ambient air quality standards for ozone and/or particulate matter. The CSAPR takes effect quickly, with the first phase of compliance beginning January 1, 2012. The CSAPR replaces the 2005 Clean Air Interstate Rule. Each of the states within Southern Company s service area is impacted by the CSAPR s summer ozone season nitrogen oxide allowance trading program, and the States of Alabama and Georgia are affected by the annual sulfur dioxide and nitrogen oxide allowance trading programs for particulate matter. The CSAPR establishes unique emissions budgets for each state, and the impact on each of the traditional operating companies will vary. The operating companies may need to purchase allowances to demonstrate compliance with the CSAPR. Unit availability may also be impacted. The ultimate outcome will depend on the outcome of any legal challenges and cannot be determined at this time.

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On March 22, 2011, the Board of the Georgia Department of Natural Resources began consideration of modifications to the Georgia Multi-Pollutant Rule, which is designed to reduce emissions of mercury, sulfur dioxide, and nitrogen oxides statewide. On June 29, 2011, the modifications were approved and the compliance dates for certain of Georgia Power s coal-fired generating units were changed as follows:

Branch 1	December 31, 2013
Branch 2	October 1, 2013
Branch 3	October 1, 2015
Branch 4	December 31, 2015

See State PSC Matters Georgia Power Retail Regulatory Matters 2011 Integrated Resource Plan Update herein for additional information.

Water Quality

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Water Quality of Southern Company in Item 7 of the Form 10-K for additional information regarding regulation of water quality. On April 20, 2011, the EPA published a rule that establishes standards for reducing impacts to fish and other aquatic life caused by cooling water intake structures at existing power plants and manufacturing facilities. The rule also addresses cooling water intake structures for new units at existing facilities. The rule focuses on reducing adverse impacts to fish and other aquatic life due to impingement (when fish and other aquatic life are trapped by water flow velocity against a facility s cooling water intake structure screens) and entrainment (when aquatic organisms are drawn through a facility s cooling water system after entering through the cooling water intake structure). Affected cooling water intake structures would have to comply with national impingement standards (for intake velocity or alternatively numeric impingement reduction standards) and entrainment reduction requirements (determined on a case-by-case basis). The rule s proposed impingement standards could require changes to cooling water intake structures at many of Southern Company affiliates existing generating facilities, including facilities with closed-cycle re-circulating cooling systems (cooling towers). To address the rule s entrainment standards, facilities with once-through cooling systems may have to install cooling towers. New units constructed at existing plants would have to meet the national impingement standards and install closed-cycle cooling or the equivalent to meet the entrainment mandate. The EPA has agreed in a settlement agreement to issue a final rule by July 27, 2012. If finalized as proposed, some of the facilities of Southern Company s subsidiaries may be subject to significant additional capital expenditures and compliance costs that could affect future unit retirement and replacement decisions. Also, results of operations, cash flows, and financial condition could be significantly impacted if such costs are not recovered through regulated rates. The ultimate outcome of this rulemaking will depend on the final rule and the outcome of any legal challenges and cannot be determined at this time.

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 previous 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 Alabama Power, Georgia Power, and Gulf Power of approximately $375 million at June 30, 2011. Mississippi Power collected all previously under recovered fuel costs and, as of June 30, 2011, had a total over recovered fuel balance of approximately $48 million. At December 31, 2010, total under recovered fuel costs included in the balance sheets of Alabama Power, Georgia Power, and Gulf Power were approximately $420 million and Mississippi Power had a total over recovered fuel balance of $55 million. Fuel cost recovery revenues are adjusted for differences in actual recoverable fuel costs and amounts billed in current regulated rates. Accordingly, changing the billing factor has no significant effect on Southern Company s revenues or net income, but does impact annual cash flow. The traditional operating companies continuously monitor the under or over recovered fuel cost balances.

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On May 24, 2011, the Georgia PSC approved Georgia Power s request to decrease fuel rates by 0.61%. The decrease will reduce Georgia Power s annual billings by approximately $43 million effective June 1, 2011. Fuel cost recovery revenues as recorded on the financial statements are adjusted for differences in actual recoverable fuel costs and amounts billed in current regulated rates.

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Fuel Cost Recovery of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under Retail Regulatory Matters Alabama Power Fuel Cost Recovery and Retail Regulatory Matters Georgia Power Fue Cost Recovery in Item 8 of the Form 10-K for additional information.

Alabama Power Retail Regulatory Matters

Retail Rate Adjustments

See BUSINESS Rate Matters Rate Structure and Cost Recovery Plans of Southern Company in Item 1, MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Alabama Power Rate RSE and PSC Matters Alabama Power Natural Disaster Reserve of Southern Company in Item 7 of the Form 10-K for information regarding the rate structure of Alabama Power. On July 12, 2011, the Alabama PSC issued an order to eliminate a tax-related adjustment under Alabama Power s rate structure effective with October 2011 billings. Alabama Power anticipates the elimination of this adjustment will result in additional revenues of approximately $30 million for the remainder of 2011 and is expected to have an annual effect of approximately $150 million beginning in 2012.

In accordance with the order, Alabama Power will make additional accruals to the NDR in the fourth quarter 2011 of an amount equal to such additional 2011 revenues from the elimination of the tax-related adjustment, to replenish the NDR, which was impacted as a result of operations and maintenance expenses incurred in connection with the April 2011 storms in Alabama. Alabama Power expects that these additional revenues will preclude the need for a rate adjustment under Rate Stabilization and Equalization (Rate RSE). Accordingly, Alabama Power agreed to a moratorium on any increase in 2012 under Rate RSE.

Natural Disaster Reserve

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Alabama Power Natural Disaster Reserve of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under Retail Regulatory Matters Alabama Power Natural Disaster Reserve in Item 8 of the Form 10-K.

On April 27, 2011, storms swept through the central part of Alabama causing significant damage in parts of the service territory of Alabama Power. Over 400,000 of Alabama Power s 1.4 million customers were without electrical service immediately after the storms, resulting from significant damage to Alabama Power s transmission and distribution facilities. In addition, during the first six months of 2011, multiple storms caused varying degrees of damage to Alabama Power s facilities. The estimated cost of repairing the damage to facilities and restoring electrical service to customers, as a result of these storms, is between $40 million and $55 million for operations and maintenance expenses and between $135 million and $165 million for capital-related expenditures. Alabama Power maintains a reserve for operations and maintenance expenses to cover the cost of damages from major storms to Alabama Power s transmission and distribution facilities.

At June 30, 2011, the NDR had an accumulated balance of $90 million, which is included in the Condensed Balance Sheets herein under other regulatory liabilities, deferred. The accruals are reflected as operations and maintenance expenses in the Condensed Statements of Income herein.

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In accordance with the order discussed above that was issued by the Alabama PSC on July 12, 2011 to eliminate a tax-related adjustment under Alabama Power s rate structure, Alabama Power will make additional accruals to the NDR in the fourth quarter 2011 of an amount equal to such additional 2011 revenues, which are expected to be approximately $30 million.

Georgia Power Retail Regulatory Matters

2011 Integrated Resource Plan Update

See Environmental Matters Air Quality and Water Quality herein and BUSINESS Rate Matters Integrated Reso Planning of Southern Company in Item 1, MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Air Quality, Water Quality, and Coal Combustion Byproducts of Southern Company in Item 7, and Note 3 to the financial statements of Southern Company under Retail Regulatory Matters Rate Plans in Item 8 of the Form 10-K for additional information regarding potential rules and regulations being developed by the EPA, including the Utility MACT rule for coal- and oil-fired EGUs, revisions to effluent guidelines for steam electric power plants, and additional regulation of coal combustion byproducts; the State of Georgia s Multi-Pollutant Rule; Georgia Power s analysis of the potential costs and benefits of installing the required controls on its fossil generating units in light of these regulations; and the 2010 ARP.

On August 4, 2011, Georgia Power filed an update to its IRP (2011 IRP Update). The filing includes Georgia Power s application to decertify Plant Branch Units 1 and 2 as of December 31, 2013 and October 1, 2013, the compliance dates for the respective units under the Georgia Multi-Pollutant Rule. However, as a result of the considerable uncertainty regarding pending state and federal environmental regulations, Georgia Power is continuing to defer decisions to add controls, switch fuel, or retire its remaining fossil generating units where environmental controls have not yet been installed, representing approximately 2,600 MWs of capacity. Georgia Power expects to update its economic analysis of these units once the Utility MACT rule is finalized. Georgia Power currently expects that certain units, representing approximately 600 MWs of capacity, are more likely than others to switch fuel or be controlled in time to comply with the Utility MACT rule. However, even if the updated economic analysis shows more positive benefits associated with adding controls or switching fuel for more units, it is unlikely that all of the required controls could be completed by 2015, the expected effective date of the Utility MACT rule. As a result, Georgia Power currently cannot rely on the availability of approximately 2,000 MWs of capacity in 2015. As such, the 2011 IRP Update also includes Georgia Power s application requesting that the Georgia PSC certify the purchase of a total of 1,562 MWs of capacity beginning in 2015, from four PPAs selected through the 2015 request for proposal process. Under the terms of the 2010 ARP, any costs associated with changes to Georgia Power s approved environmental operating or capital budgets resulting from new or revised environmental regulations through 2013 that are approved by the Georgia PSC in connection with an updated IRP will be deferred as a regulatory asset to be recovered over a time period deemed appropriate by the Georgia PSC. In connection with the retirement decision, Georgia Power reclassified the retail portion of the net carrying value of Plant Branch Units 1 and 2 from plant in service, net of depreciation, to other utility plant, net. Georgia Power is continuing to depreciate these units using the current composite straight-line rates previously approved by the Georgia PSC and upon actual retirement has requested that the Georgia PSC approve the continued deferral and amortization of the units remaining net carrying value. As a result of this regulatory treatment, the de-certification of Plant Branch Units 1 and 2 is not expected to have a significant impact on Southern Company s financial statements.

The Georgia PSC is expected to vote on these requests in March 2012. The ultimate outcome of these matters cannot be determined at this time.

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Storm Damage Recovery

During April 2011, severe storms in Georgia caused significant damage to Georgia Power s distribution and transmission facilities. Georgia Power defers and recovers certain costs related to damages from major storms as mandated by the Georgia PSC. As of June 30, 2011, the balance in the regulatory asset related to storm damage was $43 million. As a result of this regulatory treatment, the costs related to the storms are not expected to have a material impact on Southern Company s financial statements. See Note 1 to the financial statements of Southern Company under Storm Damage Reserves in Item 8 of the Form 10-K for additional information.

Gulf Power Retail Regulatory Matters

Retail Base Rate Case

On July 8, 2011, Gulf Power filed a petition with the Florida PSC requesting an increase in retail rates to the extent necessary to generate additional gross annual revenues in the amount of $93.5 million. The requested increase is expected to provide a reasonable opportunity for Gulf Power to earn a retail rate of return on common equity of 11.7%. The Florida PSC is expected to make a decision on this matter in the first quarter 2012.

Additionally, Gulf Power has requested interim relief to increase retail rates to the extent necessary to generate additional gross revenues in the amount of $38.5 million, to be operative during the interim period before the effective date of the requested rate increase. Gulf Power has requested that the Florida PSC act within 60 days to authorize Gulf Power to begin collecting these revenues as soon as possible.

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

Income Tax Matters

Georgia State Income Tax Credits

Georgia Power s 2005 through 2009 income tax filings for the State of Georgia included state income tax credits for increased activity through Georgia ports. Georgia Power also filed similar claims for the years 2002 through 2004. 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 June 10, 2011, Georgia Power and the Georgia DOR agreed to a settlement resolving the claims. As a result, Georgia Power recorded additional tax benefits of approximately $64 million and, in accordance with the 2010 ARP, also recorded a related regulatory liability of approximately $62 million. In addition, Georgia Power recorded a reduction of approximately $23 million in related interest expense. See Notes 3 and 5 to the financial statements of Southern Company in Item 8 of the Form 10-K under Income Tax Matters and Unrecognized Tax Benefits, respectively, for additional information.

Bonus Depreciation

In September 2010, the Small Business Jobs and Credit Act of 2010 (SBJCA) was signed into law. The SBJCA includes an extension of the 50% bonus depreciation for certain property acquired and placed in service in 2010 (and for certain long-term construction projects to be placed in service in 2011). Additionally, in December 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Tax Relief Act) was signed into law. Major tax incentives in the Tax Relief Act include 100% bonus depreciation for property placed in service after September 8, 2010 and through 2011 (and for certain long-term construction projects to be placed in service in 2012) and 50% bonus depreciation for property placed in service in 2012 (and for certain long-term construction projects to be placed in service in 2013), which will have a positive impact on the future cash flows of Southern Company. On March 29, 2011, the IRS issued additional guidance and safe harbors relating to the 50% and 100% bonus depreciation rules. The guidance creates questions about how the rules should be applied. Based on recent discussions with the IRS, Southern Company estimates the potential increased cash flow for 2011 to be between approximately $400 million and $600 million. The ultimate outcome of this matter cannot be determined at this time.

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Construction Program

The subsidiary companies of Southern Company are engaged in continuous construction programs to accommodate existing and estimated future loads on their respective systems. Southern Company intends to continue its strategy of developing and constructing new generating facilities, including natural gas, biomass, and potentially solar units at Southern Power, natural gas and new nuclear units at Georgia Power, and the Kemper IGCC facility at Mississippi Power, 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, Retail Regulatory Matters Georgia Power Other Construction, and Retail Regulatory Matters Mississippi Power Integrated Coal Gasification Combined Cycle in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under State PSC Matters Georgia Power Nuclear Construction and State PSC Matters Mississippi Power Integrated Coal Gasification Combined Cycle herein for additional information.

On March 11, 2011, a major earthquake and tsunami struck Japan and caused substantial damage to the nuclear generating units at the Fukushima Daiichi generating plant. While the Southern Company system will continue to monitor this situation, it has not identified any immediate impact to the licensing and construction of Plant Vogtle Units 3 and 4 or the operation of the existing nuclear generating units of Alabama Power and Georgia Power.

The events in Japan have created uncertainties that may affect transportation, price of fuels, availability of equipment from Japanese manufacturers, and future costs for operating nuclear plants. Specifically, the NRC plans to perform additional operational and safety reviews of nuclear facilities in the U.S., which could potentially impact future operations and capital requirements. As a first step in this review, on July 12, 2011, a special NRC task force issued a report with initial recommendations for enhancing nuclear reactor safety in the U.S., including potential changes in emergency planning, onsite backup generation, and spent fuel pools for existing reactors. The final form and resulting impact of any changes to safety requirements for existing nuclear reactors will be dependent on further review and action by the NRC and cannot be determined at this time. The task force report supported completion of the certification of the AP1000 reactor design being used at Plant Vogtle Units 3 and 4, noting that the design has many of the features necessary to address the task force s recommendations.

See RISK FACTORS of Southern Company in Item 1A of the Form 10-K for a discussion of certain risks associated with the licensing, construction, and operation of nuclear generating units, including potential impacts that could result from a major incident at a nuclear facility anywhere in the world. The ultimate outcome of these events cannot be determined at this time.

Investments in Leveraged Leases

Southern Company has several leveraged lease agreements, with terms ranging up to 45 years, which relate to international and domestic energy generation, distribution, and transportation assets. Southern Company receives federal income tax deductions for depreciation and amortization, as well as interest on long-term debt related to these investments. Southern Company reviews all important lease assumptions at least annually, or more frequently if events or changes in circumstances indicate that a change in assumptions has occurred or may occur. These assumptions include the effective tax rate, the residual value, the credit quality of the lessees, and the timing of expected tax cash flows. See Note 1 to the financial statements of Southern Company under Leveraged Leases in Item 8 of the Form 10-K for additional information.

The recent financial and operational performance of one of Southern Company s lessees and the associated generation assets has raised potential concerns on the part of Southern Company as to the credit quality of the lessee and the residual value of the asset. Southern Company will continue to monitor the performance of the underlying assets and to evaluate the ability of the lessee to continue to make the required lease payments. While there are strategic options that Southern Company may pursue to recover its investment in the leveraged lease, the potential impairment loss that would be incurred if there is an abandonment of the project is expected to be approximately $80 million on an after-tax basis. The ultimate outcome of this matter cannot be determined at this time.

Other Matters

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

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Company in Item 8 of the Form 10-K, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Southern Company s financial statements.

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

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

Southern Company prepares its consolidated financial statements in accordance with GAAP. 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, 2011. 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 $2.39 billion for the first six months of 2011, an increase of $974 million from the corresponding period in 2010. Significant changes in operating cash flow for the first six months of 2011 as compared to the corresponding period in 2010 include an increase in net income as previously discussed. Also contributing to the increase was an increase in deferred income taxes related to bonus depreciation and an increase in accrued income taxes primarily due to the timing of tax payments. Net cash used for investing activities totaled $2.06 billion for the first six months of 2011, an increase of $28 million from the corresponding period in 2010. The increase was primarily due to increased property additions. Net cash used for financing activities totaled $335 million for the first six months of 2011, compared to $197 million provided in the corresponding period in 2010. This change was primarily due to a decrease in notes payable and redemptions of long-term debt, partially offset by long-term debt issuances. 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 2011 include a decrease in prepaid expenses of $424 million due to a reduction of prepaid income taxes and an increase of $1.28 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 a decrease in notes payable of $440 million and an increase in equity of $780 million.

The market price of Southern Company s common stock at June 30, 2011 was $40.38 per share (based on the closing price as reported on the New York Stock Exchange) and the book value was $19.80 per share, representing a market-to-book ratio of 203.9%, compared to $38.23, $19.21, and 199.0%, respectively, at the end of 2010. The dividend for the second quarter 2011 was $0.4725 per share compared to $0.455 per share in the second quarter 2010.

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Capital Requirements and Contractual Obligations

See MANAGEMENT S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Southern Company in Item 7 of the Form 10-K for a description of Southern Company s capital requirements for the construction programs of its subsidiaries and other funding requirements associated with scheduled maturities of long-term debt, as well as the related interest, preferred and preference stock dividends, leases, trust funding requirements, other purchase commitments, unrecognized tax benefits and interest, and derivative obligations. Approximately $1.35 billion will be required through June 30, 2012 for maturities and announced redemptions of long-term debt.

The construction programs of Southern Company s subsidiaries are estimated to include a base level investment of $4.9 billion, $5.1 billion, and $4.5 billion for 2011, 2012, and 2013, respectively. Included in these estimated amounts are environmental expenditures to comply with existing statutes and regulations of $341 million, $427 million, and $452 million for 2011, 2012, and 2013, respectively. In addition, Southern Company estimates that potential incremental investments to comply with anticipated new environmental regulations could range from $74 million to $289 million for 2011, $191 million to $670 million for 2012, and $476 million to $1.9 billion for 2013. If the EPA s proposed Utility MACT rule is finalized as proposed, Southern Company estimates the potential investments in 2011 through 2013 for new environmental regulations will be closer to the upper end of the ranges set forth above. 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, including unit retirements and replacements, 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; storm impacts; 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 2011, as well as in subsequent years, will be contingent on Southern Company s investment opportunities.

Except as described below with respect to potential DOE loan guarantees, the traditional operating companies and Southern Power plan to obtain the funds required for construction and other purposes from sources similar to those used in the past, which were primarily from operating cash flows, security issuances, term loans, short-term borrowings, and equity contributions from Southern Company. However, the amount, type, and timing of any 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.

In June 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 the construction of 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 the lesser of 70% of eligible project costs or approximately $3.46 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 licenses 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. There can be no assurance that the DOE will issue federal loan guarantees for 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.

At June 30, 2011, Southern Company and its subsidiaries had approximately $437 million of cash and cash equivalents and approximately $5.18 billion of unused committed credit arrangements with banks, of which $764 million expire in 2011, $245 million expire in 2012, $370 million expire in 2014, and $3.80 billion expire in 2016. Of the credit arrangements expiring in 2011 and 2012, $41 million contain provisions allowing two-year term loans executable at expiration and $572 million contain provisions allowing one-year term loans executable at expiration. Subsequent to June 30, 2011, $498 million of credit arrangements expiring in 2011 were replaced or extended with $492 million of credit arrangements, of which $22 million expire in 2012, $60 million expire in 2013, and $410 million expire in 2014. At June 30, 2011, approximately $1.43 billion of the credit facilities were dedicated to providing liquidity support to the traditional operating companies variable rate pollution control revenue bonds. See Note 6 to the financial statements of Southern Company under Bank Credit Arrangements in Item 8 of the Form 10-K and Note (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, 2011, the Southern Company system had approximately $852 million of short-term borrowings outstanding, comprised of commercial paper and bank borrowings, with a weighted average interest rate of 0.3% per annum. During the second quarter 2011, Southern Company had an average of $960 million of short-term borrowings outstanding with a weighted average interest rate of 0.3% per annum and the maximum amount outstanding was $1.32 billion. 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 relating to Mississippi Power s lease of a combined cycle generating facility at Plant Daniel (Facility).

Mississippi Power was required to provide notice of its intent to either renew the lease or purchase the Facility by July 22, 2011. On July 20, 2011, Mississippi Power provided notice to the lessor of its intent to purchase the Facility. Mississippi Power s right to purchase the Facility was approved by the Mississippi PSC in its order dated January 7, 1998, as amended on February 19, 1999, which granted Mississippi Power a Certificate of Public Convenience and Necessity for the Facility. Mississippi Power expects to acquire the Facility in October 2011.

In conjunction with the purchase of the Facility, Mississippi Power will make a cash payment of approximately $84 million. Mississippi Power also intends to assume debt obligations of the lessor related to the Facility, which mature in 2021 and have a face value of $270 million and a fixed stated interest rate of 7.13%. Accounting rules require that the Facility be reflected on Southern Company s financial statements at the time of the purchase at the fair value of the consideration rendered. Accordingly, any assumed debt will be recorded at fair market value at the time of the purchase of the Facility in October 2011. Based on interest rates as of July 20, 2011, the fair value of the debt assumed would have been approximately $350 million. Mississippi Power intends to maintain its traditional capital structure by adding equity to support the additional debt.

In connection with the purchase of the Facility, on July 25, 2011, Mississippi Power filed a request for an accounting order from the Mississippi PSC. If the accounting order is approved as requested, the revenue requirements under the

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purchase option will equal those otherwise required under operating lease accounting treatment for the extended lease term, with any differences deferred as a regulatory asset over the 10-year period ending October 2021. At the conclusion of the proposed deferral period in 2021, the unamortized deferral balance will be amortized into rates over the remaining life of the Facility. 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, 2011, 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 $586 million. At June 30, 2011, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately $2.76 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.

Market Price Risk

Southern Company is exposed to market risks, primarily commodity price risk and interest rate risk. Southern Company may also occasionally have limited exposure to foreign currency exchange rates. To manage the volatility attributable to these exposures, Southern Company nets the exposures, where possible, to take advantage of natural offsets and enters into various derivative transactions for the remaining exposures pursuant to Southern Company s policies in areas such as counterparty exposure and risk management practices. Southern Company s policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques including, but not limited to, market valuation, value at risk, stress testing, and sensitivity analysis.

Due to cost-based rate regulation and other various cost recovery mechanisms, the traditional operating companies continue to have limited exposure to market volatility in interest rates, foreign currency, commodity fuel prices, and prices of electricity. In addition, Southern Power s exposure to market volatility in commodity fuel prices and prices of electricity is limited because its long-term sales contracts shift substantially all fuel cost responsibility to the purchaser. However, Southern Power has been and may continue to be exposed to market volatility in energy-related commodity prices as a result of sales of uncontracted generating capacity. To mitigate residual risks relative to movements in electricity prices, the traditional operating companies enter into physical fixed-price contracts or heat-rate contracts for the purchase and sale of electricity through the wholesale electricity market. The traditional operating companies continue to manage fuel-hedging programs implemented per the guidelines of their respective state PSCs. Southern Company had no material change in market risk exposure for the second quarter 2011 when compared with the December 31, 2010 reporting period.

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The changes in fair value of energy-related derivative contracts, the majority of which are composed of regulatory hedges, for the three and six months ended June 30, 2011 were as follows:

	Second Quarter 2011 Changes	**Year-to-Date 2011 Changes**
	Fair Value *(in millions)*	
Contracts outstanding at the beginning of the period, assets (liabilities), net	$(158)	$ (196)
Contracts realized or settled	48	86
Current period changes[(a)]	(26)	(26)
Contracts outstanding at the end of the period, assets (liabilities), net	$(136)	$ (136)

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

The change in the fair value positions of the energy-related derivative contracts for the three and six months ended June 30, 2011 was an increase of $22 million and an increase of $60 million, respectively, substantially all of which is due to natural gas positions. The change is attributable to both the volume of mmBtu and prices of natural gas. At June 30, 2011, Southern Company had a net hedge volume of 154 million mmBtu with a weighted average contract cost approximately $0.97 per mmBtu above market prices, compared to 154 million mmBtu at March 31, 2011 with a weighted average contract cost approximately $1.09 per mmBtu above market prices and compared to 149 million mmBtu at December 31, 2010 with a weighted average contract cost approximately $1.35 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, 2011**	**December 31, 2010**
	(in millions)	
Regulatory hedges	$(133)	$ (193)
Cash flow hedges		(1)
Not designated	(3)	(2)
Total fair value	$(136)	$ (196)

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

Total net unrealized pre-tax gains (losses) recognized in income were $(1) million for each of the three and six months ended June 30, 2011 and will continue to be marked to market until the settlement date. For the three and six months ended June 30, 2010, the total net unrealized pre-tax gains recognized in the statements of income were $2 million and $1 million, respectively.

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Southern Company uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are market observable, and thus fall into Level 2. See Note (C) to the Condensed Financial Statements herein for further discussion on fair value measurements. The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at June 30, 2011 were as follows:

	June 30, 2011 Fair Value Measurements			
	Total	Maturity		
	Fair Value	Year 1	Years 2&3	Years 4&5
	(in millions)			
Level 1	$	$	$	$
Level 2	(136)	(104)	(32)	
Level 3				
Fair value of contracts outstanding at end of period	$(136)	$(104)	$(32)	$

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) enacted in July 2010 could impact the use of over-the-counter derivatives by Southern Company. Regulations to implement the Dodd-Frank Act could impose additional requirements on the use of over-the-counter derivatives, such as margin and reporting requirements, which could affect both the use and cost of over-the-counter derivatives. The impact, if any, cannot be determined until regulations are finalized.

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

During the first six months of 2011, Southern Company issued approximately 14 million shares of common stock for $482 million through the Southern Investment Plan and employee and director stock plans. The proceeds were primarily used for general corporate purposes, including the investment by Southern Company in its subsidiaries, and to repay short-term indebtedness. While Southern Company continues to issue additional equity through its employee and director equity compensation plans, Southern Company is not currently issuing additional shares of common stock through the Southern Investment Plan or its employee savings plan. All sales under the Southern Investment Plan and the employee savings plan are currently being funded with shares acquired on the open market by the independent plan administrators.

In December 2010, the Development Authority of Floyd County issued $53 million aggregate principal amount of Pollution Control Revenue Bonds (Georgia Power Company Plant Hammond Project), First Series 2010 for the benefit of Georgia Power. These bonds were purchased and held by Georgia Power. In January 2011, Georgia Power remarketed these bonds to investors.

In January 2011, Georgia Power s $100 million aggregate principal amount of Series S 4.0% Senior Notes due January 15, 2011 matured.

In January 2011, Georgia Power issued $300 million aggregate principal amount of Series 2011A Floating Rate Senior Notes due January 15, 2013. The proceeds were used to repay short-term debt and for general corporate purposes, including Georgia Power s continuous construction program.

In February 2011, Alabama Power s $200 million Series HH 5.10% Senior Notes due February 1, 2011 matured.

In February 2011, Mississippi Power redeemed a $50 million series of revenue bonds issued in December 2010.

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In March 2011, Alabama Power issued $250 million aggregate principal amount of Series 2011A 5.50% Senior Notes due March 15, 2041. The proceeds were used for general corporate purposes, including Alabama Power s continuous construction program. Alabama Power settled $200 million of interest rate hedges related to the Series 2011A 5.50% Senior Note issuance at a gain of approximately $4 million. The gain will be amortized to interest expense, in earnings, over 10 years.

In March 2011, Georgia Power s $300 million variable rate bank term loan due on March 4, 2011 matured and was partially replaced by two one-year $125 million aggregate principal amount variable rate bank loans that bear interest based on one-month LIBOR.

In March 2011, Mississippi Power s $80 million long-term bank note with a variable interest rate based on one-month LIBOR matured.

In April 2011, Georgia Power issued $250 million aggregate principal amount of Series 2011B 3.0% Senior Notes due April 15, 2016. The proceeds were used to repay short-term debt and for general corporate purposes, including Georgia Power s continuous construction program.

In April 2011, Georgia Power purchased and held $113.5 million of pollution control revenue bonds. On June 1, 2011, the bonds were re-marketed to investors.

In April 2011, Mississippi Power entered into a one-year $75 million aggregate principal amount long-term floating rate bank loan that bears interest based on one-month LIBOR. The proceeds were used to repay short-term debt and for general corporate purposes, including Mississippi Power s continuous construction program.

In May 2011, Alabama Power issued $200 million aggregate principal amount of Series 2011B 3.950% Senior Notes due June 1, 2021 and $250 million aggregate principal amount of Series 2011C 5.200% Senior Notes due June 1, 2041. The net proceeds were used by Alabama Power for the redemption of $100 million aggregate principal amount of the Series GG 5 7/8% Senior Notes due February 1, 2046, $200 million aggregate principal amount of the Series II 5.875% Senior Notes due March 15, 2046, and $150 million aggregate principal amount of the Series JJ 6.375% Senior Notes due June 15, 2046.

In May 2011, Gulf Power issued $125 million aggregate principal amount of Series 2011A 5.75% Senior Notes due June 1, 2051. The net proceeds from the sale of the Series 2011A Senior Notes were used to repay a $110 million bank note, to repay a portion of Gulf Power s outstanding short-term indebtedness, and for general corporate purposes, including Gulf Power s continuous construction program.

Subsequent to June 30, 2011, Georgia Power redeemed $67 million of pollution control revenue bonds.

Subsequent to June 30, 2011, approximately $8 million of Georgia Power s pollution control revenue bonds matured.

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, Note 10 to the financial statements of Gulf Power and Mississippi Power, and Note 9 to the financial statements of 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, 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 Southern Company s, 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 2011 that have materially affected or are reasonably likely to materially affect Southern Company s, Alabama Power s, Georgia Power s, Gulf Power s, Mississippi Power s, or Southern Power s internal control over financial reporting.

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ALABAMA POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	**2011**	2010
	(in millions)		*(in millions)*	
Operating Revenues:				
Retail revenues	**$ 1,244**	$ 1,222	**$ 2,370**	$ 2,398
Wholesale revenues, non-affiliates	**70**	137	**138**	309
Wholesale revenues, affiliates	**75**	53	**150**	151
Other revenues	**51**	50	**102**	99
Total operating revenues	**1,440**	1,462	**2,760**	2,957
Operating Expenses:				
Fuel	**428**	466	**823**	955
Purchased power, non-affiliates	**17**	13	**28**	31
Purchased power, affiliates	**57**	52	**103**	104
Other operations and maintenance	**290**	308	**587**	618
Depreciation and amortization	**159**	153	**316**	298
Taxes other than income taxes	**85**	81	**170**	163
Total operating expenses	**1,036**	1,073	**2,027**	2,169
Operating Income	**404**	389	**733**	788
Other Income and (Expense):				
Allowance for equity funds used during construction	**6**	7	**11**	20
Interest income	**5**	4	**9**	8
Interest expense, net of amounts capitalized	**(77)**	(76)	**(151)**	(151)
Other income (expense), net	**(7)**	(5)	**(13)**	(11)
Total other income and (expense)	**(73)**	(70)	**(144)**	(134)
Earnings Before Income Taxes	**331**	319	**589**	654
Income taxes	**131**	119	**227**	241
Net Income	**200**	200	**362**	413
Dividends on Preferred and Preference Stock	**10**	10	**20**	20
Net Income After Dividends on Preferred and Preference Stock	**$ 190**	$ 190	**$ 342**	$ 393

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	**2011**	2010
	(in millions)		*(in millions)*	

Net Income After Dividends on Preferred and Preference Stock	**$ 190**	$ 190	**$ 342**	$ 393
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $(1), $-, $1, and $-, respectively	**1**		**3**	
Reclassification adjustment for amounts included in net income, net of tax of $(1), $-, $(1), and $1, respectively	**(2)**	(1)	**(2)**	
Total other comprehensive income (loss)	**(1)**	(1)	**1**	
Comprehensive Income	**$ 189**	$ 189	**$ 343**	$ 393

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,	
	2011	2010
	(in millions)	
Operating Activities:		
Net income	**$ 362**	$ 413
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization, total	**373**	343
Deferred income taxes	**174**	124
Allowance for equity funds used during construction	**(11)**	(20)
Pension, postretirement, and other employee benefits	**(24)**	(17)
Stock based compensation expense	**4**	4
Other, net	**(3)**	(27)
Changes in certain current assets and liabilities		
-Receivables	**(57)**	(49)
-Fossil fuel stock	**13**	15
-Materials and supplies	**(5)**	(8)
-Other current assets	**(66)**	(49)
-Accounts payable	**(77)**	(88)
-Accrued taxes	**193**	(45)
-Accrued compensation	**(52)**	(21)
-Other current liabilities	**(5)**	(77)
Net cash provided from operating activities	**819**	498
Investing Activities:		
Property additions	**(485)**	(483)
Distribution of restricted cash from pollution control revenue bonds	**11**	5
Nuclear decommissioning trust fund purchases	**(252)**	(84)
Nuclear decommissioning trust fund sales	**252**	84
Cost of removal, net of salvage	**(47)**	(16)
Change in construction payables	**(14)**	(28)
Other investing activities	**(22)**	(25)
Net cash used for investing activities	**(557)**	(547)
Financing Activities:		
Increase in notes payable, net		60
Proceeds		
Capital contributions from parent company	**5**	11
Senior notes issuances	**700**	
Redemptions		
Senior notes	**(650)**	
Payment of preferred and preference stock dividends	**(20)**	(20)
Payment of common stock dividends	**(277)**	(271)
Other financing activities	**(12)**	1

Net cash used for financing activities	**(254)**	(219)
Net Change in Cash and Cash Equivalents	**8**	(268)
Cash and Cash Equivalents at Beginning of Period	**154**	368
Cash and Cash Equivalents at End of Period	**$ 162**	$ 100
Supplemental Cash Flow Information:		
Cash paid during the period for		
Interest (net of $5 and $8 capitalized for 2011 and 2010, respectively)	**$ 141**	$ 125
Income taxes (net of refunds)	**(100)**	204
Noncash transactions accrued property additions at end of period	**14**	46

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, 2011	At December 31, 2010
	(in millions)	
Current Assets:		
Cash and cash equivalents	**$ 162**	$ 154
Restricted cash and cash equivalents	**7**	18
Receivables		
Customer accounts receivable	**376**	362
Unbilled revenues	**164**	153
Under recovered regulatory clause revenues	**14**	5
Other accounts and notes receivable	**42**	35
Affiliated companies	**56**	57
Accumulated provision for uncollectible accounts	**(10)**	(10)
Fossil fuel stock, at average cost	**378**	391
Materials and supplies, at average cost	**344**	346
Vacation pay	**56**	55
Prepaid expenses	**128**	208
Other regulatory assets, current	**28**	38
Other current assets	**10**	10
Total current assets	**1,755**	1,822
Property, Plant, and Equipment:		
In service	**20,394**	19,966
Less accumulated provision for depreciation	**7,127**	6,931
Plant in service, net of depreciation	**13,267**	13,035
Nuclear fuel, at amortized cost	**329**	283
Construction work in progress	**443**	547
Total property, plant, and equipment	**14,039**	13,865
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	**62**	64
Nuclear decommissioning trusts, at fair value	**570**	552
Miscellaneous property and investments	**74**	71
Total other property and investments	**706**	687
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**529**	488
Prepaid pension costs	**277**	257
Deferred under recovered regulatory clause revenues	**21**	4
Other regulatory assets, deferred	**685**	675
Other deferred charges and assets	**218**	196

Total deferred charges and other assets	**1,730**		1,620
Total Assets	**$ 18,230**	$	17,994

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, 2011	At December 31, 2010
	(in millions)	
Current Liabilities:		
Securities due within one year	$	$ 200
Accounts payable		
Affiliated	**206**	210
Other	**208**	273
Customer deposits	**86**	86
Accrued taxes		
Accrued income taxes	**28**	2
Other accrued taxes	**78**	32
Accrued interest	**68**	63
Accrued vacation pay	**45**	45
Accrued compensation	**57**	99
Liabilities from risk management activities	**20**	31
Over recovered regulatory clause revenues	**12**	22
Other current liabilities	**41**	41
Total current liabilities	**849**	1,104
Long-term Debt	**6,236**	5,987
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**2,968**	2,747
Deferred credits related to income taxes	**81**	85
Accumulated deferred investment tax credits	**153**	157
Employee benefit obligations	**306**	311
Asset retirement obligations	**536**	520
Other cost of removal obligations	**693**	701
Other regulatory liabilities, deferred	**183**	217
Other deferred credits and liabilities	**67**	87
Total deferred credits and other liabilities	**4,987**	4,825
Total Liabilities	**12,072**	11,916
Redeemable Preferred Stock	**342**	342
Preference Stock	**343**	343
Common Stockholder s Equity:		
Common stock, par value $40 per share		
Authorized - 40,000,000 shares		
Outstanding - 30,537,500 shares	**1,222**	1,222

Paid-in capital	**2,169**		2,156
Retained earnings	**2,088**		2,022
Accumulated other comprehensive loss	**(6)**		(7)
Total common stockholder s equity	**5,473**		5,393
Total Liabilities and Stockholder s Equity	**$ 18,230**	$	17,994

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 2011 vs. SECOND QUARTER 2010
AND
YEAR-TO-DATE 2011 vs. YEAR-TO-DATE 2010

OVERVIEW

Alabama Power operates as a vertically integrated utility providing electricity to retail and wholesale 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 and grow energy sales given economic conditions, 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 required costs and capital expenditures 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 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$		$(51)	(13.0)

Alabama Power s net income after dividends on preferred and preference stock for the second quarter 2011 and second quarter 2010 was $190 million. Alabama Power s net income after dividends on preferred and preference stock for year-to-date 2011 was $342 million compared to $393 million for the corresponding period in 2010. For year-to-date 2011, the $51 million decrease when compared to the corresponding period in 2010 was primarily due to reductions in wholesale revenues from sales to non-affiliates, significantly colder weather in the first quarter 2010, an increase in depreciation and amortization, and a reduction in AFUDC equity. The decreases in income were partially offset by a decrease in operations and maintenance expenses and an increase in revenues under Rate CNP Environmental associated with the completion of construction projects related to environmental mandates.

Retail Revenues

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$22	1.8	$(28)	(1.2)

In the second quarter 2011, retail revenues were $1.24 billion compared to $1.22 billion for the corresponding period in 2010. For year-to-date 2011, retail revenues were $2.37 billion compared to $2.40 billion for the corresponding period in 2010.

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

Details of the change to retail revenues are as follows:

	Second Quarter 2011		Year-to-Date 2011	
	(in millions)	*(% change)*	*(in millions)*	*(% change)*
Retail prior year	$1,222		$2,398	
Estimated change in				
Rates and pricing	20	1.6	46	1.9
Sales growth (decline)	7	0.6	5	0.2
Weather	9	0.7	(37)	(1.5)
Fuel and other cost recovery	(14)	(1.1)	(42)	(1.8)
Retail current year	$1,244	1.8%	$2,370	(1.2)%

Revenues associated with changes in rates and pricing increased in the second quarter 2011 and year-to-date 2011, when compared to the corresponding periods in 2010, primarily due to increased revenues associated with Rate CNP Environmental. The increase was due to the completion of construction projects related to environmental mandates, although there was no increase in the Rate CNP Environmental billing factors in 2011.

Revenues attributable to changes in sales increased in the second quarter 2011 when compared to the corresponding period in 2010. Industrial KWH energy sales increased 4.8% due to an increase in demand resulting from changes in production levels primarily in the chemical and primary metals sectors. Weather-adjusted residential KWH energy sales increased 1.1% driven by an increase in demand. Weather-adjusted commercial KWH energy sales decreased 2.5% due to a decline in demand.

Revenues attributable to changes in sales increased year-to-date 2011 when compared to the corresponding period in 2010. Industrial KWH energy sales increased 7.1% due to an increase in demand resulting from changes in production levels primarily in the chemical and primary metals sectors. Weather-adjusted commercial KWH energy sales decreased 1.8% due to a decline in demand. Weather-adjusted residential KWH energy sales decreased 0.9% driven by a slight decline in demand.

Revenues resulting from changes in weather increased in the second quarter 2011 when compared to the corresponding period in 2010. Residential and commercial sales revenues increased 1.2% and 0.8%, respectively, as a result of slightly more favorable weather when compared to the corresponding period in 2010.

Revenues resulting from changes in weather decreased year-to-date 2011 when compared to the corresponding period in 2010. Residential and commercial sales revenues decreased 3.2% and 0.3%, respectively, as a result of significantly colder weather in the first quarter 2010.

Fuel and other cost recovery revenues decreased in the second quarter 2011 and year-to-date 2011, when compared to the corresponding periods in 2010, primarily due to a decrease in fuel costs and a decrease in costs associated with PPAs certificated by the Alabama PSC. 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.

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

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

Wholesale Revenues Non-Affiliates

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(67)	(48.9)	$(171)	(55.3)

Wholesale revenues from non-affiliates will vary depending on the market prices of wholesale 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 2011, wholesale revenues from non-affiliates were $70 million compared to $137 million for the corresponding period in 2010, reflecting a $34 million decrease in revenue from energy sales and a $33 million decrease in capacity revenue. The decrease was primarily due to a 56.0% decrease in KWH sales, partially offset by a 16.5% increase in the price of energy.

For year-to-date 2011, wholesale revenues from non-affiliates were $138 million compared to $309 million for the corresponding period in 2010, reflecting a $92 million decrease in revenue from energy sales and a $79 million decrease in capacity revenue. The decrease was primarily due to a 61.7% decrease in KWH sales, partially offset by a 16.4% 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 $72 million revenue reduction in the second quarter 2011 when compared to the corresponding period in 2010 and a $174 million revenue reduction year-to-date 2011 when compared to the corresponding period in 2010. 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.

Wholesale Revenues Affiliates

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$22	41.5	$(1)	(0.7)

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 2011, wholesale revenues from affiliates were $75 million compared to $53 million for the corresponding period in 2010. The increase was primarily due to a 58.2% increase in KWH sales, partially offset by a 9.4% decrease in price.

For year-to-date 2011, the decrease in wholesale revenues from affiliates when compared to the corresponding period in 2010 was not material.

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

Fuel and Purchased Power Expenses

	Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
	(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
Fuel*	$(38)	(8.2)	$(132)	(13.8)
Purchased power non-affiliates	4	30.8	(3)	(9.7)
Purchased power affiliates	5	9.6	(1)	(1.0)
Total fuel and purchased power expenses	$(29)		$(136)	

* 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 2011, total fuel and purchased power expenses were $502 million compared to $531 million for the corresponding period in 2010. The decrease was due to a $20 million decrease in the cost of fuel and the average cost of purchased power and a $14 million decrease in total KWHs generated. The decreases were partially offset by a $6 million increase in the total KWHs purchased.

For year-to-date 2011, total fuel and purchased power expenses were $954 million compared to $1.09 billion for the corresponding period in 2010. The decrease was primarily due to a $69 million decrease in the cost of fuel and the average cost of purchased power and a $64 million decrease related to lower KWHs generated as a result of significantly colder weather in the first 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 Rate ECR. See FUTURE EARNINGS POTENTIAL 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 2011	Second Quarter 2010	Percent Change	Year-to-Date 2011	Year-to-Date 2010	Percent Change
	(cents per net KWH)			*(cents per net KWH)*		
Fuel *	2.71	2.82	(3.9)	2.67	2.81	(5.0)
Purchased power	6.02	6.19	(2.8)	5.66	6.65	(14.9)

* KWHs generated by hydro are excluded from the average cost of fuel.

In the second quarter 2011, fuel expense was $428 million compared to $466 million for the corresponding period in 2010. The $38 million decrease was due to a 15.7% decrease in KWHs generated by coal and a 6.4% decrease in the average cost of KWHs generated by natural gas, which excludes fuel associated with tolling agreements. The decreases were partially offset by a 35.7% increase in nuclear generation, an 11.3% increase in KWHs generated by natural gas, and a 7.3% increase in the average cost of nuclear fuel.

For year-to-date 2011, fuel expense was $823 million compared to $955 million for the corresponding period in 2010. The $132 million decrease was due to a 15.1% decrease in KWHs generated by coal and a 12.8% decrease in the average cost of KWHs generated by natural gas, which excludes fuel associated with tolling agreements. The decreases were partially offset by a 16.1% increase in the average cost of nuclear fuel and a 14.7% increase in nuclear generation.

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

Non-Affiliates

The increase for second quarter 2011 and the decrease for year-to-date 2011 in purchased power expense from non-affiliates, when compared to the corresponding periods in 2010, were not material.

Energy purchases from non-affiliates will vary depending on the market prices of wholesale 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 2011, purchased power expense from affiliates was $57 million compared to $52 million for the corresponding period in 2010. The increase was related to a 23.3% increase in the amount of energy purchased, partially offset by a 19.2% decrease in the average cost per KWH.

For year-to-date 2011, the decrease in purchased power expense from affiliates, when compared to the corresponding period in 2010, 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, all as approved by the FERC.

Other Operations and Maintenance Expenses

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(18)	(5.8)	$(31)	(5.0)

In the second quarter 2011, other operations and maintenance expenses were $290 million compared to $308 million for the corresponding period in 2010. Distribution and transmission expenses decreased $16 million primarily due to reductions in overhead line costs due to storm restoration efforts. See FUTURE EARNINGS POTENTIAL Alabama PSC Matters Natural Disaster Reserve herein for additional information. Administrative and general expenses decreased $4 million primarily related to decreases in injuries and damages expenses and affiliated service company expenses, partially offset by an increase in labor and other general expenses. Nuclear production expenses decreased $3 million primarily due to a change to the nuclear maintenance outage accounting process associated with the routine refueling activities, as approved by the Alabama PSC in August 2010. As a result, no nuclear maintenance outage expenses will be recognized in 2011, reducing nuclear production expense by approximately $50 million as compared to 2010. See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Nuclear Outage Accounting Order of Alabama Power in Item 7 of the Form 10-K for additional information. In addition, the decrease in nuclear production expenses was partially offset by an increase in operations costs related to increases in labor. Steam production expenses increased $4 million related to scheduled outage costs.

For year-to-date 2011, other operations and maintenance expenses were $587 million compared to $618 million for the corresponding period in 2010. Administrative and general expenses decreased $13 million primarily related to decreases in injuries and damages expenses and affiliated service companies expenses. Distribution and transmission expenses decreased $12 million primarily due to reductions in overhead line costs due to storm restoration efforts. See FUTURE EARNINGS POTENTIAL Alabama PSC Matters Natural Disaster Reserve herein for additional information. Nuclear production expenses decreased $11 million primarily due to a change to the nuclear maintenance outage accounting process, as discussed above, partially offset by an increase in operations costs related to increases in labor. Steam production expenses increased $6 million related to scheduled outage costs and expenses related to environmental mandates (which are offset by revenues associated with Rate CNP Environmental).

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

Depreciation and Amortization

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$6	3.9	$18	6.0

In the second quarter 2011, the increase in depreciation and amortization, when compared to the corresponding period in 2010, was not material.

For year-to-date 2011, depreciation and amortization was $316 million compared to $298 million for the corresponding period in 2010. The increase was due to additions of property, plant, and equipment related to environmental mandates (which are offset by revenues associated with Rate CNP Environmental), distribution, and transmission projects.

Allowance for Equity Funds Used During Construction

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(1)	(14.3)	$(9)	(45.0)

In the second quarter 2011, the decrease in AFUDC equity, when compared to the corresponding period in 2010, was not material.

For year-to-date 2011, AFUDC equity was $11 million compared to $20 million for the corresponding period in 2010. The decrease was primarily due to the completion of construction projects related to environmental mandates at Plants Barry, Gaston, and Miller.

Income Taxes

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$12	10.1	$(14)	(5.8)

In the second quarter 2011, income taxes were $131 million compared to $119 million for the corresponding period in 2010. The increase was primarily due to higher pre-tax earnings, an increase in Alabama state income taxes due to a decrease in the state income tax deduction for federal income taxes paid, and an increase in the tax expense associated with a decrease in the Internal Revenue Code Section 199 production activities deduction.

For year-to-date 2011, income taxes were $227 million compared to $241 million for the corresponding period in 2010. The decrease was primarily due to lower pre-tax earnings and prior year tax return actualization, partially offset by an increase in Alabama state income taxes due to a decrease in the state income tax deduction for federal income taxes paid, an increase in the tax expense associated with a decrease in AFUDC equity, and a decrease in the Internal Revenue Code Section 199 production activities deduction.

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 timely recovery of prudently incurred costs during a time of increasing costs. Future earnings in the near term will depend, in part, upon maintaining energy sales which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities, energy conservation practiced by customers, the price of electricity, the price elasticity of demand,

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and the rate of economic growth or decline in Alabama Power s service area. Changes in economic conditions impact sales for Alabama Power and the pace of the economic recovery remains uncertain. 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. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively impact results of operations, cash flows, and financial condition. 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 has completed a preliminary assessment of the EPA s proposed Utility Maximum Achievable Control Technology (MACT), water quality, and coal combustion byproduct rules. See Air Quality and Water Quality below for additional information regarding the proposed Utility MACT and water quality rules. 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 additional information regarding the proposed coal combustion byproducts rule. Although its analysis is preliminary, Alabama Power estimates that the aggregate capital costs for compliance with these rules could range from $5 billion to $7 billion through 2020 if adopted as proposed. These costs may arise from existing unit retirements, installation of additional environmental controls, the addition of new generating resources, and changing fuel sources for certain existing units. Alabama Power s preliminary analysis further indicates that the short timeframe for compliance with these rules could significantly impact electric system reliability and cause an increase in costs of materials and services. The ultimate outcome of these matters will depend on the final form of the proposed rules and the outcome of any legal challenges to the rules and cannot be determined at this time.

New Source Review Actions

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters New Source Review Actions of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Environmental Matters New Source Review Actions in Item 8 of the Form 10-K for additional information regarding civil actions brought by the EPA against certain Southern Company subsidiaries. The EPA s action against Alabama Power alleged that Alabama Power violated the NSR provisions of the Clean Air Act and related state laws with respect to certain of its coal-fired generating facilities. On March 14, 2011, the U.S. District Court for the Northern District of Alabama granted Alabama Power s motion for summary judgment on all remaining claims and dismissed the case with prejudice. The EPA has appealed the decision to the U.S. Court of Appeals for the Eleventh Circuit. The ultimate outcome of this matter cannot be determined at this time.

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Carbon Dioxide Litigation

New York Case

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation New York Case of Alabama Power in Item 7 and Note 3 of 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. On June 20, 2011, the U.S. Supreme Court held that the plaintiffs federal common law claims against Southern Company and four other electric utilities were displaced by the Clean Air Act and EPA regulations addressing greenhouse gas emissions and remanded the case for consideration of whether federal law may also preempt the remaining state law claims. The ultimate outcome of this matter cannot be determined at this time.

Kivalina Case

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation Kivalina Case of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Environmental Matters Carbon Dioxide Litigation Kivalina Case in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation. The U.S. Court of Appeals for the Ninth Circuit stayed this case on February 23, 2011, pending the decision of the U.S. Supreme Court in the New York case discussed above. The plaintiffs have moved to lift the stay. The ultimate outcome of this matter 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 of 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. On May 27, 2011, a class action complaint alleging damages as a result of Hurricane Katrina was filed in the U.S. District Court for the Southern District of Mississippi by the same plaintiffs who brought a previous common law nuisance case involving substantially similar allegations. The earlier case was ultimately dismissed by the trial and appellate courts on procedural grounds. The current litigation was filed against numerous chemical, coal, oil, and utility companies, including Alabama Power, and includes many of the same defendants that were involved in the earlier case. Alabama Power believes these claims are without merit. 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 additional information regarding regulation of air quality.

On May 3, 2011, the EPA published a proposed rule, called Utility MACT, which would impose stringent emission limits on coal- and oil-fired electric utility steam generating units (EGUs). The proposed rule establishes numeric emission limits for acid gases, mercury, and total particulate matter. Meeting the proposed limits would likely require additional emission control equipment such as scrubbers, SCRs, baghouses, and other control measures at many coal-fired EGUs. Pursuant to a court-approved consent decree, the EPA must issue a final rule by November 16, 2011. Compliance for existing sources would be required three years after the effective date of the final rule. In the proposed rule, the EPA discussed the possibility of a one-year compliance extension which could be granted by the EPA or the states on a case-by-case basis if necessary. If finalized as proposed, compliance with this rule would require significant capital expenditures and compliance costs at many of Alabama Power s facilities which could impact unit retirement and

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replacement decisions. In addition, results of operations, cash flows, and financial condition could be impacted if the costs are not recovered through regulated rates. Further, there is uncertainty regarding the ability of the electric utility industry to achieve compliance with the requirements of the proposed rule within the proposed compliance period, and the limited compliance period could negatively impact electric system reliability. The outcome of this rulemaking will depend on the final rule and the outcome of any legal challenges and cannot be determined at this time.

In October 2008, the EPA approved a revision to Alabama s State Implementation Plan (SIP) requirements related to opacity which granted some flexibility to affected sources while requiring compliance with Alabama s very strict opacity limits through use of continuous opacity monitoring system data. On April 6, 2011, the EPA attempted to rescind its previous approval of the Alabama SIP revision. On April 8, 2011, Alabama Power filed an appeal of that decision with the U.S. Court of Appeals for the Eleventh Circuit and requested the court to stay the effectiveness of the EPA s attempted rescission pending judicial review. The EPA s decision became effective May 6, 2011 and the court denied Alabama Power s requested stay on May 12, 2011. Unless the court resolves Alabama Power s appeal in its favor, the EPA s rescission will continue to impact Alabama Power. The EPA s rescission has impacted unit availability and increased maintenance and compliance costs. The final outcome of this matter cannot be determined at this time.

On July 6, 2011, the EPA signed the final Cross State Air Pollution Rule (CSAPR) requiring reductions of sulfur dioxide and nitrogen oxide emissions from power plants in 27 states located in the eastern half of the U.S. The CSAPR addresses interstate emissions of sulfur dioxide and nitrogen oxides that interfere with downwind states ability to meet or maintain national ambient air quality standards for ozone and/or particulate matter. The CSAPR takes effect quickly, with the first phase of compliance beginning January 1, 2012. The CSAPR replaces the 2005 Clean Air Interstate Rule. The State of Alabama is affected by the CSAPR s summer ozone season nitrogen oxide allowance trading program and by the annual sulfur dioxide and nitrogen oxide allowance trading programs for particulate matter. The CSAPR establishes unique emissions budgets for the State of Alabama, which may impact unit availability. The ultimate outcome will depend on the outcome of any legal challenges and cannot be determined at this time.

Water Quality

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Water Quality of Alabama Power in Item 7 of the Form 10-K for additional information regarding regulation of water quality. On April 20, 2011, the EPA published a rule that establishes standards for reducing impacts to fish and other aquatic life caused by cooling water intake structures at existing power plants and manufacturing facilities. The rule also addresses cooling water intake structures for new units at existing facilities. The rule focuses on reducing adverse impacts to fish and other aquatic life due to impingement (when fish and other aquatic life are trapped by water flow velocity against a facility s cooling water intake structure screens) and entrainment (when aquatic organisms are drawn through a facility s cooling water system after entering through the cooling water intake structure). Affected cooling water intake structures would have to comply with national impingement standards (for intake velocity or alternatively numeric impingement reduction standards) and entrainment reduction requirements (determined on a case-by-case basis). The rule s proposed impingement standards could require changes to cooling water intake structures at many of Alabama Power s existing generating facilities, including facilities with closed-cycle re-circulating cooling systems (cooling towers). To address the rule s entrainment standards, facilities with once-through cooling systems may have to install cooling towers. New units constructed at existing plants would have to meet the national impingement standards and install closed-cycle cooling or the equivalent to meet the entrainment mandate. The EPA has agreed in a settlement agreement to issue a final rule by July 27, 2012. If finalized as proposed, some of Alabama Power s facilities may be subject to significant additional capital expenditures and compliance costs that could affect future unit retirement and replacement decisions. Also, results of operations, cash flows, and financial condition could be significantly impacted if such costs are not recovered through regulated rates. The ultimate outcome of this rulemaking will depend on the final rule and the outcome of any legal challenges and cannot be determined at this time.

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FERC Matters

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL FERC Matters of Alabama Power in Item 7 of the Form 10-K for additional information. On June 8, 2011, Alabama Power filed an application with the FERC to relicense the Martin hydroelectric project located on the Tallapoosa River. The current license will expire in 2013. The ultimate outcome of this matter cannot be determined at this time.

Alabama PSC Matters

Retail Rate Adjustments

See BUSINESS Rate Matters Rate Structure and Cost Recovery Plans of Alabama Power in Item 1 and MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Retail Rate Adjustments and PSC Matters Natural Disaster Reserve of Alabama Power in Item 7 of the Form 10-K for information regarding the rate structure of Alabama Power. On July 12, 2011, the Alabama PSC issued an order to eliminate a tax-related adjustment under Alabama Power s rate structure effective with October 2011 billings. Alabama Power anticipates the elimination of this adjustment will result in additional revenues of approximately $30 million for the remainder of 2011 and is expected to have an annual effect of approximately $150 million beginning in 2012. In accordance with the order, Alabama Power will make additional accruals to the NDR in the fourth quarter 2011 of an amount equal to such additional 2011 revenues from the elimination of the tax-related adjustment, to replenish the NDR, which was impacted as a result of operations and maintenance expenses incurred in connection with the April 2011 storms in Alabama. Alabama Power expects that these additional revenues will preclude the need for a rate adjustment under Rate Stabilization and Equalization (Rate RSE). Accordingly, Alabama Power agreed to a moratorium on any increase in 2012 under Rate RSE.

Natural Disaster Reserve

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 under Retail Regulatory Matters Natural Disaster Reserve in Item 8 of the Form 10-K for additional information.

On April 27, 2011, storms swept through the central part of Alabama causing significant damage in parts of the service territory of Alabama Power. Over 400,000 of Alabama Power s 1.4 million customers were without electrical service immediately after the storms, resulting from significant damage to Alabama Power s transmission and distribution facilities. In addition, during the first six months of 2011, multiple storms caused varying degrees of damage to Alabama Power s facilities. The estimated cost of repairing the damage to facilities and restoring electrical service to customers, as a result of these storms, is between $40 million and $55 million for operations and maintenance expenses and between $135 million and $165 million for capital-related expenditures. Alabama Power maintains a reserve for operations and maintenance expenses to cover the cost of damages from major storms to Alabama Power s transmission and distribution facilities.

At June 30, 2011, the NDR had an accumulated balance of $90 million, which is included in the Condensed Balance Sheets herein under other regulatory liabilities, deferred. The accruals are reflected as operations and maintenance expenses in the Condensed Statements of Income herein.

In accordance with the order discussed above that was issued by the Alabama PSC on July 12, 2011 to eliminate a tax-related adjustment under Alabama Power s rate structure, Alabama Power will make additional accruals to the NDR in the fourth quarter 2011 of an amount equal to such additional 2011 revenues, which are expected to be approximately $30 million.

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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 under recovered fuel costs as of June 30, 2011 totaled $35 million as compared to $4 million at December 31, 2010. These under recovered fuel costs at June 30, 2011 are included in under recovered regulatory clause revenues and deferred under recovered regulatory clause revenues on Alabama Power s Condensed Balance Sheets herein. This classification is based on an estimate which includes such factors as weather, generation availability, energy demand, and the price of energy. A change in any of these factors could have a material impact on the timing of any recovery of the under recovered fuel costs.

Income Tax Matters

Bonus Depreciation

In September 2010, the Small Business Jobs and Credit Act of 2010 (SBJCA) was signed into law. The SBJCA includes an extension of the 50% bonus depreciation for certain property acquired and placed in service in 2010 (and for certain long-term construction projects to be placed in service in 2011). Additionally, in December 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Tax Relief Act) was signed into law. Major tax incentives in the Tax Relief Act include 100% bonus depreciation for property placed in service after September 8, 2010 and through 2011 (and for certain long-term construction projects to be placed in service in 2012) and 50% bonus depreciation for property placed in service in 2012 (and for certain long-term construction projects to be placed in service in 2013), which will have a positive impact on the future cash flows of Alabama Power. On March 29, 2011, the IRS issued additional guidance and safe harbors relating to the 50% and 100% bonus depreciation rules. The guidance creates questions about how the rules should be applied. Based on recent discussions with the IRS, Alabama Power estimates the potential increased cash flow for 2011 to be between approximately $130 million and $200 million. The ultimate outcome of this matter cannot be determined at this time.

Other Matters

Alabama Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Alabama Power is subject to certain claims and legal actions arising in the ordinary course of business. Alabama Power s business activities are subject to extensive governmental regulation related to public health and the environment, 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 U.S. 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 ultimate liabilities, if any, arising from such current proceedings would have a material effect on Alabama Power s financial statements.

The events in Japan have created uncertainties that may affect transportation of materials, price of fuels, availability of equipment from Japanese manufacturers, and future costs for operating nuclear plants. Specifically, the NRC plans to perform additional operational and safety reviews of existing nuclear facilities in the U.S., which could potentially impact future operations and capital requirements. As a first step in this review, on July 12, 2011, a special NRC task force issued a report with initial recommendations for enhancing nuclear reactor safety in the U.S., including potential changes

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in emergency planning, onsite backup generation, and spent fuel pools for existing reactors. The final form and resulting impact of any changes to safety requirements for existing nuclear reactors will be dependent on further review and action by the NRC and cannot be determined at this time.

See RISK FACTORS of Alabama Power in Item 1A of the Form 10-K for a discussion of certain risks associated with the operation of nuclear generating units, including potential impacts that could result from a major incident at a nuclear facility anywhere in the world.

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

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

Alabama Power prepares its financial statements in accordance with GAAP. 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, 2011. 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 $819 million for the first six months of 2011, an increase of $321 million as compared to the first six months of 2010. The increase in cash provided from operating activities was primarily due to accrued taxes and deferred income taxes related to benefits associated with bonus depreciation and other current liabilities. This increase was partially offset by decreases in net income and accrued compensation. Net cash used for investing activities totaled $557 million for the first six months of 2011 primarily due to gross property additions related to steam generation equipment, nuclear fuel, transmission, and distribution expenditures. Net cash used for financing activities totaled $254 million for the first six months of 2011 primarily due to the issuances, redemptions, and a maturity of senior notes and payment of common stock dividends. 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 2011 include increases of $221 million in accumulated deferred income taxes related to additional bonus depreciation and $174 million in property, plant, and equipment associated with routine property additions and nuclear fuel, partially offset by an $80 million decrease in prepaid expenses related to income taxes.

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Capital Requirements and Contractual Obligations

See MANAGEMENT S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Alabama Power in Item 7 of the Form 10-K for a description of Alabama Power s capital requirements for its construction program, scheduled maturities of long-term debt, as well as the related interest, derivative obligations, preferred and preference stock dividends, leases, purchase commitments, and trust funding requirements. There are no requirements through June 30, 2012 for maturities of long-term debt.

The approved construction program of Alabama Power includes a base level investment of $0.9 billion for 2011, $0.9 billion for 2012, and $1.1 billion for 2013. Included in Alabama Power s approved construction program are estimated environmental expenditures to comply with existing statutes and regulations of $47 million, $26 million, and $53 million for 2011, 2012, and 2013, respectively. Alabama Power anticipates that additional expenditures may be required to comply with anticipated statutes and regulations. Such additional expenditures are estimated to be in amounts up to $48 million, $108 million, and $354 million for 2011, 2012, and 2013, respectively. If the EPA s proposed Utility MACT rule is finalized as proposed, Alabama Power estimates that the potential incremental investments for new environmental regulations may exceed these estimates. 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, including unit retirements and replacements, to meet new regulatory requirements; changes in FERC rules and regulations; Alabama PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; storm impacts; 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, unsecured debt, common stock, preferred stock, and preference stock. However, the amount, type, and timing of any future financings, if needed, will depend upon regulatory approval, prevailing market conditions, and other factors. See MANAGEMENT S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Sources of Capital of Alabama Power in Item 7 of the Form 10-K for additional information.

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, 2011 cash and cash equivalents of approximately $162 million and unused committed credit arrangements with banks of approximately $1.27 billion. Of the unused credit arrangements, $393 million expire in 2011, $75 million expire in 2012, and $800 million expire in 2016. Of the credit arrangements that expire in 2011, $368 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 $798 million are dedicated to funding purchase obligations related to variable rate pollution control revenue bonds. Subsequent to June 30, 2011, Alabama Power replaced $238 million of credit arrangements that expire in 2011 by entering into credit arrangements for $22 million, $35 million, and $200 million which will expire in 2012, 2013, and 2014, respectively. 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. During the second quarter 2011, Alabama Power had no 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.

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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 below BBB- and/or Baa3. These contracts are primarily for physical electricity purchases, fuel purchases, fuel transportation and storage, and energy price risk management. At June 30, 2011, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately $319 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.

Market Price Risk

Alabama Power s market risk exposure relative to interest rate changes for the second quarter 2011 has not changed materially compared with the December 31, 2010 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 and other various cost recovery mechanisms, Alabama Power continues to have limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. 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 2011 when compared with the December 31, 2010 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, 2011 were as follows:

	Second Quarter 2011 Changes	**Year-to-Date 2011 Changes**
	Fair Value *(in millions)*	
Contracts outstanding at the beginning of the period, assets (liabilities), net	$(27)	$ (38)
Contracts realized or settled	8	19
Current period changes[(a)]	(5)	(5)
Contracts outstanding at the end of the period, assets (liabilities), net	$(24)	$ (24)

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

The change in the fair value positions of the energy-related derivative contracts for the three and six months ended June 30, 2011 was an increase of $3 million and an increase of $14 million, respectively, substantially all of which is due to natural gas positions. The change is attributable to both the volume of mmBtu and prices of natural gas. At June 30, 2011, Alabama Power had a net hedge volume of 31 million mmBtu with a weighted average contract cost approximately $0.79 per mmBtu above market prices, compared to 31 million mmBtu at March 31, 2011 with a weighted average contract cost approximately $0.90 per mmBtu above market prices and compared to 34 million mmBtu at December 31, 2010 with a weighted average contract cost approximately $1.14 per mmBtu above market prices.

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.

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Unrealized pre-tax gains and losses recognized in income for the three and six months ended June 30, 2011 and 2010 for energy-related derivative contracts that are not hedges were not material.

Alabama Power uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are market observable, and thus fall into Level 2. See Note (C) to the Condensed Financial Statements herein for further discussion on fair value measurements. The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at June 30, 2011 were as follows:

	June 30, 2011 Fair Value Measurements			
	Total Fair Value	Maturity Year 1	Years 2&3	Years 4&5
	(in millions)			
Level 1	$	$	$	$
Level 2	(24)	(20)	(4)	
Level 3				
Fair value of contracts outstanding at end of period	$(24)	$(20)	$ (4)	$

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) enacted in July 2010 could impact the use of over-the-counter derivatives by Alabama Power. Regulations to implement the Dodd-Frank Act could impose additional requirements on the use of over-the-counter derivatives, such as margin and reporting requirements, which could affect both the use and cost of over-the-counter derivatives. The impact, if any, cannot be determined until regulations are finalized.

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

In February 2011, Alabama Power s $200 million Series HH 5.10% Senior Notes due February 1, 2011 matured.

In March 2011, Alabama Power issued $250 million aggregate principal amount of Series 2011A 5.50% Senior Notes due March 15, 2041. The proceeds were used for general corporate purposes, including Alabama Power s continuous construction program. Alabama Power settled $200 million of interest rate hedges related to the Series 2011A 5.50% Senior Note issuance at a gain of approximately $4 million. The gain will be amortized to interest expense, in earnings, over 10 years.

In May 2011, Alabama Power issued $200 million aggregate principal amount of Series 2011B 3.950% Senior Notes due June 1, 2021 and $250 million aggregate principal amount of Series 2011C 5.200% Senior Notes due June 1, 2041. The net proceeds were used by Alabama Power for the redemption of $100 million aggregate principal amount of the Series GG 5 7/8% Senior Notes due February 1, 2046, $200 million aggregate principal amount of the Series II 5.875% Senior Notes due March 15, 2046, and $150 million aggregate principal amount of the Series JJ 6.375% Senior Notes due June 15, 2046.

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,	
	2011	2010	**2011**	2010
	(in millions)		*(in millions)*	
Operating Revenues:				
Retail revenues	**$ 2,070**	$ 1,826	**$ 3,885**	$ 3,618
Wholesale revenues, non-affiliates	**97**	88	**180**	198
Wholesale revenues, affiliates	**16**	12	**27**	26
Other revenues	**82**	74	**162**	142
Total operating revenues	**2,265**	2,000	**4,254**	3,984
Operating Expenses:				
Fuel	**784**	757	**1,461**	1,515
Purchased power, non-affiliates	**96**	84	**170**	166
Purchased power, affiliates	**157**	132	**320**	294
Other operations and maintenance	**419**	400	**841**	789
Depreciation and amortization	**178**	130	**351**	244
Taxes other than income taxes	**94**	86	**181**	166
Total operating expenses	**1,728**	1,589	**3,324**	3,174
Operating Income	**537**	411	**930**	810
Other Income and (Expense):				
Allowance for equity funds used during construction	**22**	36	**47**	71
Interest expense, net of amounts capitalized	**(71)**	(87)	**(167)**	(180)
Other income (expense), net	**(5)**	(1)	**(6)**	(7)
Total other income and (expense)	**(54)**	(52)	**(126)**	(116)
Earnings Before Income Taxes	**483**	359	**804**	694
Income taxes	**169**	116	**280**	209
Net Income	**314**	243	**524**	485
Dividends on Preferred and Preference Stock	**5**	5	**9**	9
Net Income After Dividends on Preferred and Preference Stock	**$ 309**	$ 238	**$ 515**	$ 476

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	**2011**	2010
	(in millions)		*(in millions)*	
	$ 309	$ 238	**$ 515**	$ 476

Net Income After Dividends on Preferred and Preference Stock				
Other comprehensive income (loss):				
Qualifying hedges:				
Reclassification adjustment for amounts included in net income, net of tax of $1, $2, $1, and $4, respectively		3	**1**	**6**
Comprehensive Income	**$ 309**	$ 241	**$ 516**	$ 482

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

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GEORGIA POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Six Months Ended June 30, 2011	2010
	(in millions)	
Operating Activities:		
Net income	**$ 524**	$ 485
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization, total	**426**	326
Deferred income taxes	**189**	85
Deferred revenues	**1**	(43)
Deferred expenses	**33**	18
Allowance for equity funds used during construction	**(47)**	(71)
Pension, postretirement, and other employee benefits	**(21)**	(10)
Stock based compensation expense	**6**	4
Other, net	**(59)**	(29)
Changes in certain current assets and liabilities		
-Receivables	**(100)**	(147)
-Fossil fuel stock	**55**	59
-Materials and supplies	**(9)**	
-Prepaid income taxes	**77**	12
-Other current assets	**(5)**	(10)
-Accounts payable	**60**	80
-Accrued taxes	**(123)**	(104)
-Accrued compensation	**(42)**	13
-Other current liabilities	**46**	26
Net cash provided from operating activities	**1,011**	694
Investing Activities:		
Property additions	**(931)**	(1,112)
Nuclear decommissioning trust fund purchases	**(1,152)**	(432)
Nuclear decommissioning trust fund sales	**1,149**	405
Cost of removal, net of salvage	**(9)**	(30)
Change in construction payables, net of joint owner portion	**34**	23
Other investing activities	**(12)**	28
Net cash used for investing activities	**(921)**	(1,118)
Financing Activities:		
Decrease in notes payable, net	**(253)**	(8)
Proceeds		
Capital contributions from parent company	**183**	570
Pollution control revenue bonds issuances	**250**	
Senior notes issuances	**550**	950
Other long-term debt issuances	**250**	
Redemptions		

Pollution control revenue bonds	**(197)**	
Senior notes	**(101)**	(601)
Other long-term debt	**(300)**	(3)
Payment of preferred and preference stock dividends	**(9)**	(9)
Payment of common stock dividends	**(448)**	(410)
Other financing activities	**(2)**	(14)
Net cash provided from (used for) financing activities	**(77)**	475
Net Change in Cash and Cash Equivalents	**13**	51
Cash and Cash Equivalents at Beginning of Period	**8**	14
Cash and Cash Equivalents at End of Period	**$ 21**	$ 65
Supplemental Cash Flow Information:		
Cash paid during the period for		
Interest (net of $17 and $26 capitalized for 2011 and 2010, respectively)	**$ 177**	$ 172
Income taxes (net of refunds)	**(15)**	96
Noncash transactions accrued property additions at end of period	**299**	256

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)

Assets	At June 30, 2011	At December 31, 2010
	(in millions)	
Current Assets:		
Cash and cash equivalents	**$ 21**	$ 8
Receivables		
Customer accounts receivable	**684**	580
Unbilled revenues	**249**	172
Under recovered regulatory clause revenues	**186**	184
Joint owner accounts receivable	**56**	60
Other accounts and notes receivable	**57**	67
Affiliated companies	**30**	21
Accumulated provision for uncollectible accounts	**(13)**	(11)
Fossil fuel stock, at average cost	**568**	624
Materials and supplies, at average cost	**377**	371
Vacation pay	**77**	78
Prepaid income taxes	**4**	99
Other regulatory assets, current	**97**	105
Other current assets	**52**	80
Total current assets	**2,445**	2,438
Property, Plant, and Equipment:		
In service	**26,837**	26,397
Less accumulated provision for depreciation	**10,137**	9,966
Plant in service, net of depreciation	**16,700**	16,431
Other utility plant, net	**66**	
Nuclear fuel, at amortized cost	**422**	386
Construction work in progress	**3,533**	3,287
Total property, plant, and equipment	**20,721**	20,104
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	**69**	70
Nuclear decommissioning trusts, at fair value	**751**	818
Miscellaneous property and investments	**40**	42
Total other property and investments	**860**	930
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**738**	723
Prepaid pension costs	**112**	91
Deferred under recovered regulatory clause revenues	**135**	214
Other regulatory assets, deferred	**1,240**	1,207

Other deferred charges and assets	**218**		207
Total deferred charges and other assets	**2,443**		2,442
Total Assets	**$ 26,469**	$	25,914

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, 2011	At December 31, 2010
	(in millions)	
Current Liabilities:		
Securities due within one year	**$ 332**	$ 415
Notes payable	**323**	576
Accounts payable		
Affiliated	**295**	243
Other	**651**	574
Customer deposits	**202**	198
Accrued taxes		
Accrued income taxes	**35**	1
Unrecognized tax benefits	**33**	187
Other accrued taxes	**180**	328
Accrued interest	**96**	94
Accrued vacation pay	**56**	58
Accrued compensation	**75**	109
Liabilities from risk management activities	**54**	77
Other cost of removal obligations, current	**31**	31
Nuclear decommissioning trust securities lending collateral	**82**	144
Other current liabilities	**159**	134
Total current liabilities	**2,604**	3,169
Long-term Debt	**8,465**	7,931
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**4,010**	3,718
Deferred credits related to income taxes	**125**	129
Accumulated deferred investment tax credits	**225**	229
Employee benefit obligations	**683**	684
Asset retirement obligations	**731**	705
Other cost of removal obligations	**128**	131
Other deferred credits and liabilities	**228**	211
Total deferred credits and other liabilities	**6,130**	5,807
Total Liabilities	**17,199**	16,907
Preferred Stock	**45**	45
Preference Stock	**221**	221
Common Stockholder s Equity:		
Common stock, without par value		

Authorized - 20,000,000 shares		
Outstanding - 9,261,500 shares	**398**	398
Paid-in capital	**5,486**	5,291
Retained earnings	**3,130**	3,063
Accumulated other comprehensive loss	**(10)**	(11)
Total common stockholder s equity	**9,004**	8,741
Total Liabilities and Stockholder s Equity	**$ 26,469**	$ 25,914

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 2011 vs. SECOND QUARTER 2010
AND
YEAR-TO-DATE 2011 vs. YEAR-TO-DATE 2010

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 and grow energy sales given economic conditions, 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.

On May 24, 2011, the Georgia PSC approved Georgia Power s request to decrease fuel rates by 0.61%. The decrease will reduce Georgia Power s annual billings by approximately $43 million effective June 1, 2011. However, this will have no impact on earnings as fuel cost recovery revenues generally equal energy expenses.

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 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$71	29.8	$39	8.2

Georgia Power s net income after dividends on preferred and preference stock for the second quarter 2011 was $309 million compared to $238 million for the corresponding period in 2010. Georgia Power s year-to-date 2011 net income after dividends on preferred and preference stock was $515 million compared to $476 million for the corresponding period in 2010. These increases were primarily due to increases in retail base revenues as authorized under the 2010 ARP and the NCCR tariff, which both became effective January 1, 2011 and a reduction in interest expense arising from the settlement of litigation with the Georgia Department of Revenue (DOR), partially offset by higher operations and maintenance expenses and income taxes and decreases in the amortization of the regulatory liability related to other cost of removal obligations.

Retail Revenues

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$244	13.4	$267	7.4

In the second quarter 2011, retail revenues were $2.07 billion compared to $1.83 billion for the corresponding period in 2010. For year-to-date 2011, retail revenues were $3.89 billion compared to $3.62 billion for the corresponding period in 2010.

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

Details of the change to retail revenues are as follows:

	Second Quarter 2011		Year-to-Date 2011	
	(in millions)	*(% change)*	*(in millions)*	*(% change)*
Retail prior year	$1,826		$3,618	
Estimated change in				
Rates and pricing	180	9.9	321	8.9
Sales growth (decline)	11	0.6	4	0.1
Weather	3	0.2	(28)	(0.8)
Fuel cost recovery	50	2.7	(30)	(0.8)
Retail current year	$2,070	13.4%	$3,885	7.4%

Revenues associated with changes in rates and pricing increased in the second quarter and year-to-date 2011 when compared to the corresponding periods in 2010 due to increases in retail base revenues as authorized under the 2010 ARP and the NCCR tariff, which both became effective January 1, 2011.

Revenues attributable to changes in sales increased in the second quarter and year-to-date 2011 when compared to the corresponding periods in 2010. Weather-adjusted residential KWH sales increased 1.0%, weather-adjusted commercial KWH sales increased 0.6%, and weather-adjusted industrial KWH sales increased 2.0% in the second quarter 2011 when compared to the corresponding period in 2010. Weather-adjusted residential KWH sales increased 0.4%, weather-adjusted commercial KWH sales decreased 0.6%, and weather-adjusted industrial KWH sales increased 2.7% year-to-date 2011 when compared to the corresponding period in 2010. Increased demand in the primary metals sector was the main contributor to the increases in weather-adjusted industrial KWH sales for the second quarter and year-to-date 2011.

Revenues resulting from changes in weather increased in the second quarter 2011 as a result of slightly more favorable weather when compared to the corresponding period in 2010. Revenues resulting from changes in weather decreased year-to-date 2011 as a result of significantly colder weather in the first quarter 2010.

Fuel revenues and costs are allocated between retail and wholesale jurisdictions. Retail fuel cost recovery revenues increased $50 million in the second quarter 2011 when compared to the corresponding period in 2010 due to higher fuel costs per KWH generated and higher KWHs purchased. Retail fuel cost recovery revenues decreased $30 million for year-to-date 2011 when compared to the corresponding period in 2010 due to the lower cost of purchased power per KWH purchased and lower KWHs generated. 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 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$9	10.2	$(18)	(9.1)

Wholesale revenues from non-affiliates will vary depending on fuel prices, the market prices of wholesale 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.

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

In the second quarter 2011, wholesale revenues from non-affiliates were $97 million compared to $88 million in the corresponding period in 2010, reflecting a $7 million increase in energy revenues and a $2 million increase in capacity revenues. The increase in the second quarter 2011 was primarily due to a 7.5% increase in KWH sales from higher demand due to more favorable weather and increased sales to markets impacted by April storms in the second quarter, partially offset by the effect of the expiration of a long-term unit power sales contract in May 2010.

For year-to-date 2011, wholesale revenues from non-affiliates were $180 million compared to $198 million in the corresponding period in 2010. This decrease was primarily due to a $14 million decrease in energy revenues and a $4 million decrease in capacity revenues. The decrease in year-to-date 2011 was primarily due to a 12.6% decrease in KWH sales from lower demand resulting from significantly colder weather in the first quarter 2010 and the expiration of a long-term unit power sales contract in May 2010.

Other Revenues

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$8	10.8	$20	14.1

In the second quarter 2011, other revenues were $82 million compared to $74 million for the corresponding period in 2010. For year-to-date 2011, other revenues were $162 million compared to $142 million for the corresponding period in 2010. These increases were primarily due to increases in transmission revenues of $7 million and $16 million for the second quarter 2011 and year-to-date 2011, respectively, as compared to the corresponding periods in 2010 as a result of new contracts that replaced the transmission component of a unit power sales contract that expired in May 2010. Transmission revenues also increased due to the increased usage of Georgia Power s transmission system by non-affiliate companies in the second quarter 2011 and year-to-date 2011 when compared to the corresponding periods in 2010.

Fuel and Purchased Power Expenses

	Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
	(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
Fuel*	$27	3.6	$(54)	(3.6)
Purchased power non-affiliates	12	14.3	4	2.4
Purchased power affiliates	25	18.9	26	8.8
Total fuel and purchased power expenses	$64		$(24)	

* 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.

In the second quarter 2011, total fuel and purchased power expenses were $1.04 billion compared to $973 million in the corresponding period in 2010. This increase was primarily due to a 0.9% increase in total KWHs generated and purchased to meet demand and a 2.9% increase in the average cost of fuel and purchased power.

For year-to-date 2011, total fuel and purchased power expenses were $1.95 billion compared to $1.98 billion for the corresponding period in 2010. This decrease was primarily due to a 2.5% decrease in total KWHs generated and purchased primarily due to lower customer demand as a result of significantly colder weather in the first quarter of 2010 and a 1.3% decrease in the average cost of fuel and purchased power.

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

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

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

Average Cost	Second Quarter 2011	Second Quarter 2010	Percent Change	Year-to-Date 2011	Year-to-Date 2010	Percent Change
	(cents per net KWH)			*(cents per net KWH)*		
Fuel	3.97	3.75	5.9	3.85	3.76	2.4
Purchased power	5.79	5.96	(2.9)	5.68	6.16	(7.8)

In the second quarter 2011, fuel expense was $784 million compared to $757 million in the corresponding period in 2010. This increase was due to a 5.9% increase in the average cost of fuel per KWH generated, partially offset by a 5.6% decrease in KWHs generated. The increase in cost and the decrease in KWHs generated are primarily the result of higher coal prices, reflecting increased global demand.

For year-to-date 2011, fuel expense was $1.46 billion compared to $1.52 billion in the corresponding period in 2010. The decrease was primarily due to an 8.3% decrease in KWHs generated, partially offset by a 2.4% increase in the average cost of fuel per KWH generated. The increase in cost and the decrease in KWHs generated are primarily the result of higher coal prices as described above and, to a lesser extent, an increase in the price of nuclear fuel.

Non-Affiliates

In the second quarter 2011, purchased power expense from non-affiliates was $96 million compared to $84 million in the corresponding period in 2010. This increase was due to a 10.7% increase in the volume of KWHs purchased and an 8.6% increase in the average cost per KWH purchased.

For year-to-date 2011, purchased power expense from non-affiliates were not significantly different from the corresponding period in 2010.

Energy purchases from non-affiliates will vary depending on the market prices of wholesale 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 2011, purchased power expense from affiliates was $157 million compared to $132 million in the corresponding period in 2010. This increase was due to a 32.3% increase in the volume of KWHs purchased, primarily as the result of a new PPA that began in June 2010, partially offset by a 5.8% decrease in the average cost per KWH purchased, reflecting lower gas prices.

For year-to-date 2011, purchased power expense from affiliates was $320 million compared to $294 million in the corresponding period in 2010. This increase was due to a 28.0% increase in the volume of KWHs purchased, primarily as the result of a new PPA that began in June 2010, partially offset by a 12.3% decrease in the average cost per KWH purchased, reflecting lower gas prices.

Energy purchases from affiliates will vary depending on the 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, all as approved by the FERC.

GEORGIA POWER COMPANY
MANAGEMENT S DISCUSSION AND ANALYSIS OF
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Other Operations and Maintenance Expenses

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$19	4.8	$52	6.6

In the second quarter 2011, other operations and maintenance expenses were $419 million compared to $400 million in the corresponding period in 2010. This increase was due to a $5 million increase in fossil power generation related to a fossil generation environmental impact research project, a $5 million increase in transmission and distribution primarily due to overhead line maintenance expense, and a $7 million increase in medical and other employee benefits.

For year-to-date 2011, other operations and maintenance expenses were $841 million compared to $789 million in the corresponding period in 2010. This increase was due to an increase of $32 million primarily related to scheduled outages and maintenance for generating units, an $8 million increase in transmission and distribution primarily due to overhead line maintenance, and a $5 million increase in uncollectible account expense.

Depreciation and Amortization

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$48	36.9	$107	43.9

In the second quarter 2011, depreciation and amortization was $178 million compared to $130 million in the corresponding period in 2010. This increase was primarily due to amortization of $8 million in the second quarter 2011 compared to $54 million in the corresponding period in 2010 of the regulatory liability related to other cost of removal obligations as authorized by the Georgia PSC.

For year-to-date 2011, depreciation and amortization was $351 million compared to $244 million in the corresponding period in 2010. This increase was primarily due to amortization of $17 million in year-to-date 2011 compared to $114 million in the corresponding period in 2010 of the regulatory liability related to other cost of removal obligations as authorized by the Georgia PSC.

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

Taxes Other Than Income Taxes

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$8	9.3	$15	9.0

In the second quarter 2011, taxes other than income taxes were $94 million compared to $86 million in the corresponding period in 2010. This increase was due to a $4 million increase in franchise fees related to higher operating revenues and a $2 million increase in property tax in the second quarter 2011 compared to the corresponding period in 2010.

For year-to-date 2011, taxes other than income taxes were $181 million compared to $166 million in the corresponding period in 2010. This increase was due to an $8 million increase in property tax and a $6 million increase in franchise fees related to higher operating revenues.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF
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Allowance for Equity Funds Used During Construction

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(14)	(38.9)	$(24)	(33.8)

In the second quarter 2011, AFUDC equity was $22 million compared to $36 million in the corresponding period in 2010. For year-to-date 2011, AFUDC equity was $47 million compared to $71 million in the corresponding period in 2010. These decreases were primarily due to the inclusion of Plant Vogtle Units 3 and 4 construction work in progress in rate base effective January 1, 2011, which reduced the amount of AFUDC capitalized. See Note 3 to the financial statements of Georgia Power under Construction Nuclear in Item 8 of the Form 10-K, Note (B) to the Condensed Financial Statements herein under State PSC Matters Georgia Power Nuclear Construction, and FUTURE EARNINGS POTENTIAL Construction Nuclear herein for additional information.

Interest Expense, Net of Amounts Capitalized

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(16)	(18.4)	$(13)	(7.2)

In the second quarter 2011, interest expense, net of amounts capitalized was $71 million compared to $87 million in the corresponding period in 2010. For year-to-date 2011, interest expense, net of amounts capitalized was $167 million compared to $180 million in the corresponding period in 2010. These decreases were primarily due to a reduction of $23 million in interest expense related to the settlement of litigation with the Georgia DOR, partially offset by a reduction in interest capitalized due to the inclusion of Plant Vogtle Units 3 and 4 construction work in progress in rate base effective January 1, 2011, as described above. See FUTURE EARNINGS POTENTIAL Income Tax Matters herein, Notes 3 and 5 to the financial statements of Georgia Power under Income Tax Matters and Unrecognized Tax Benefits, respectively, in Item 8 of the Form 10-K, and Note (G) herein for additional information.

Income Taxes

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$53	45.7	$71	34.0

In the second quarter 2011, income taxes were $169 million compared to $116 million in the corresponding period in 2010. The increase in income taxes was primarily due to higher pre-tax earnings and a decrease in non-taxable AFUDC equity, as described previously.

For year-to-date 2011, income taxes were $280 million compared to $209 million in the corresponding period in 2010. The increase in income taxes was primarily due to higher pre-tax earnings, the recognition in the first quarter 2010 of certain state income tax credits, and a decrease in non-taxable AFUDC equity.

FUTURE EARNINGS POTENTIAL

The results of operations discussed above are not necessarily indicative of Georgia Power s future earnings potential. The level of Georgia Power s future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Georgia Power s business of selling electricity. These factors include Georgia Power s ability to maintain a constructive regulatory environment that continues to allow for the timely recovery of prudently incurred costs during a time of increasing costs. Future earnings in the near term will depend, in part, upon maintaining energy sales which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring

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

utilities, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in Georgia Power s service area. Changes in economic conditions impact sales for Georgia Power and the pace of the economic recovery remains uncertain. The timing and extent of the economic recovery will impact growth and may impact future earnings. For additional information relating to these issues, see RISK FACTORS in Item 1A and MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL of Georgia Power in Item 7 of the Form 10-K.

Environmental Matters

Compliance costs related to the Clean Air Act and other environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively impact results of operations, cash flows, and financial condition. See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under Environmental Matters in Item 8 of the Form 10-K for additional information.

Georgia Power has completed a preliminary assessment of the EPA s proposed Utility Maximum Achievable Control Technology (MACT), water quality, and coal combustion byproduct rules. See Air Quality and Water Quality below for additional information regarding the proposed Utility MACT and water quality rules. See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Coal Combustion Byproducts of Georgia Power in Item 7 of the Form 10-K for additional information regarding the proposed coal combustion byproducts rule. Although its analysis is preliminary, Georgia Power estimates that the aggregate capital costs for compliance with these rules could range from $5 billion to $7 billion through 2020 if adopted as proposed. These costs may arise from existing unit retirements, installation of additional environmental controls, the addition of new generating resources, and changing fuel sources for certain existing units. Georgia Power s preliminary analysis further indicates that the short timeframe for compliance with these rules could significantly impact electric system reliability and cause an increase in costs of materials and services. The ultimate outcome of these matters will depend on the final form of the proposed rules and the outcome of any legal challenges to the rules and cannot be determined at this time.

Carbon Dioxide Litigation

New York Case

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation New York Case of Georgia Power in Item 7 and Note 3 of the financial statements of Georgia Power under Environmental Matters Carbon Dioxide Litigation New York Case in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation. On June 20, 2011, the U.S. Supreme Court held that the plaintiffs federal common law claims against Southern Company and four other electric utilities were displaced by the Clean Air Act and EPA regulations addressing greenhouse gas emissions and remanded the case for consideration of whether federal law may also preempt the remaining state law claims. The ultimate outcome of this matter cannot be determined at this time.

Kivalina Case

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation Kivalina Case of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under Environmental Matters Carbon Dioxide Litigation Kivalina Case in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation. The U.S. Court of Appeals for the Ninth Circuit stayed this case on February 23, 2011, pending the decision of the U.S. Supreme Court in the New York case discussed above. The plaintiffs have moved to lift the stay. The ultimate outcome of this matter cannot be determined at this time.

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Other Litigation

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation Other Litigation of Georgia Power in Item 7 and Note 3 of the financial statements of Georgia Power under Environmental Matters Carbon Dioxide Litigation Other Litigation in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation. On May 27, 2011, a class action complaint alleging damages as a result of Hurricane Katrina was filed in the U.S. District Court for the Southern District of Mississippi by the same plaintiffs who brought a previous common law nuisance case involving substantially similar allegations. The earlier case was ultimately dismissed by the trial and appellate courts on procedural grounds. The current litigation was filed against numerous chemical, coal, oil, and utility companies, including Georgia Power, and includes many of the same defendants that were involved in the earlier case. Georgia Power believes these claims are without merit. The ultimate outcome of this matter cannot be determined at this time.

Air Quality

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Air Quality of Georgia Power in Item 7 of the Form 10-K for additional information regarding regulation of air quality.

On May 3, 2011, the EPA published a proposed rule, called Utility MACT, which would impose stringent emission limits on coal- and oil-fired electric utility steam generating units (EGUs). The proposed rule establishes numeric emission limits for acid gases, mercury, and total particulate matter. Meeting the proposed limits would likely require additional emission control equipment such as scrubbers, SCRs, baghouses, and other control measures at many coal-fired EGUs. Pursuant to a court-approved consent decree, the EPA must issue a final rule by November 16, 2011. Compliance for existing sources would be required three years after the effective date of the final rule. In the proposed rule, the EPA discussed the possibility of a one-year compliance extension which could be granted by the EPA or the states on a case-by-case basis if necessary. If finalized as proposed, compliance with this rule would require significant capital expenditures and compliance costs at many of Georgia Power s facilities which could impact unit retirement and replacement decisions. In addition, results of operations, cash flows, and financial condition could be impacted if the costs are not recovered through regulated rates. Further, there is uncertainty regarding the ability of the electric utility industry to achieve compliance with the requirements of the proposed rule within the proposed compliance period, and the limited compliance period could negatively impact electric system reliability. The outcome of this rulemaking will depend on the final rule and the outcome of any legal challenges and cannot be determined at this time.

In April 2010, the EPA proposed an Industrial Boiler MACT rule that would establish emissions limits for various hazardous air pollutants typically emitted from industrial boilers, including biomass boilers and start-up boilers. The EPA published the final rules on March 21, 2011 and, at the same time, issued a notice of intent to reconsider the final rules to allow for additional public review and comment. The EPA has announced plans to propose a revised rule by October 31, 2011 and to finalize the rule by April 30, 2012. Georgia Power has delayed the decision to convert Plant Mitchell Unit 3 to biomass until there is greater clarity regarding these and other proposed and recently adopted regulations. The impact of these regulations will depend on their final form and the outcome of any legal challenges and cannot be determined at this time.

On June 23, 2011, the EPA published its determination that the 20-county area within metropolitan Atlanta had achieved attainment with the current eight-hour ozone air quality standard. However, a revised eight-hour ozone standard requiring even lower concentrations of ozone in ambient air is expected to be finalized in late summer 2011.

On July 6, 2011, the EPA signed the final Cross State Air Pollution Rule (CSAPR) requiring reductions of sulfur dioxide and nitrogen oxide emissions from power plants in 27 states located in the eastern half of the U.S. The CSAPR addresses interstate emissions of sulfur dioxide and nitrogen oxides that interfere with downwind states ability to meet or maintain national ambient air quality

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standards for ozone and/or particulate matter. The CSAPR takes effect quickly, with the first phase of compliance beginning January 1, 2012. The CSAPR replaces the 2005 Clean Air Interstate Rule. The State of Georgia is affected by the CSAPR s summer ozone season nitrogen oxide allowance trading program and by the annual sulfur dioxide and nitrogen oxide allowance trading programs for particulate matter. The CSAPR establishes unique emissions budgets for the State of Georgia. Georgia Power may need to purchase allowances to demonstrate compliance with the CSAPR. Unit availability may also be impacted. The ultimate outcome will depend on the outcome of any legal challenges and cannot be determined at this time.

On March 22, 2011, the Board of the Georgia Department of Natural Resources began consideration of modifications to the Georgia Multi-Pollutant Rule, which is designed to reduce emissions of mercury, sulfur dioxide, and nitrogen oxides statewide. On June 29, 2011, the modifications were approved and the compliance dates for certain of Georgia Power s coal-fired generating units were changed as follows:

Branch 1	December 31, 2013
Branch 2	October 1, 2013
Branch 3	October 1, 2015
Branch 4	December 31, 2015

See Georgia PSC Matters 2011 Integrated Resource Plan Update herein for additional information.

Water Quality

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Water Quality of Georgia Power in Item 7 of the Form 10-K for additional information regarding regulation of water quality. On April 20, 2011, the EPA published a rule that establishes standards for reducing impacts to fish and other aquatic life caused by cooling water intake structures at existing power plants and manufacturing facilities. The rule also addresses cooling water intake structures for new units at existing facilities. The rule focuses on reducing adverse impacts to fish and other aquatic life due to impingement (when fish and other aquatic life are trapped by water flow velocity against a facility s cooling water intake structure screens) and entrainment (when aquatic organisms are drawn through a facility s cooling water system after entering through the cooling water intake structure). Affected cooling water intake structures would have to comply with national impingement standards (for intake velocity or alternatively numeric impingement reduction standards) and entrainment reduction requirements (determined on a case-by-case basis). The rule s proposed impingement standards could require changes to cooling water intake structures at many of Georgia Power s existing generating facilities, including facilities with closed-cycle re-circulating cooling systems (cooling towers). To address the rule s entrainment standards, facilities with once-through cooling systems may have to install cooling towers. New units constructed at existing plants would have to meet the national impingement standards and install closed-cycle cooling or the equivalent to meet the entrainment mandate. The EPA has agreed in a settlement agreement to issue a final rule by July 27, 2012. If finalized as proposed, some of Georgia Power s facilities may be subject to significant additional capital expenditures and compliance costs that could affect future unit retirement and replacement decisions. Also, results of operations, cash flows, and financial condition could be significantly impacted if such costs are not recovered through regulated rates. The ultimate outcome of this rulemaking will depend on the final rule and the outcome of any legal challenges and cannot be determined at this time.

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Georgia PSC Matters

Fuel Cost Recovery

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Fuel Cost Recovery of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under Retail Regulatory Matters Fuel Cost Recovery in Item 8 of the Form 10-K for additional information. As of June 30, 2011, Georgia Power had a total under recovered fuel cost balance of approximately $321 million compared to $398 million at December 31, 2010.

On May 24, 2011, the Georgia PSC approved Georgia Power s request to decrease fuel rates by 0.61%. The decrease will reduce Georgia Power s annual billings by approximately $43 million effective June 1, 2011. Fuel cost recovery revenues as recorded on the financial statements are adjusted for differences in actual recoverable fuel costs and amounts billed in current regulated rates. Accordingly, any changes in the billing factor will not have a significant effect on Georgia Power s revenues or net income, but will affect cash flow.

2011 Integrated Resource Plan Update

See Environmental Matters Air Quality and Water Quality herein and BUSINESS Rate Matters Integrated Reso Planning of Georgia Power in Item 1, MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Air Quality, Water Quality, and Coal Combustion Byproducts of Georgia Power in Item 7, and Note 3 to the financial statements of Georgia Power under Retail Regulatory Matters Rate Plans in Item 8 of the Form 10-K for additional information regarding potential rules and regulations being developed by the EPA, including the Utility MACT rule for coal- and oil-fired EGUs, revisions to effluent guidelines for steam electric power plants, and additional regulation of coal combustion byproducts; the State of Georgia s Multi-Pollutant Rule; Georgia Power s analysis of the potential costs and benefits of installing the required controls on its fossil generating units in light of these regulations; and the 2010 ARP.

On August 4, 2011, Georgia Power filed an update to its IRP (2011 IRP Update). The filing includes Georgia Power s application to decertify Plant Branch Units 1 and 2 as of December 31, 2013 and October 1, 2013, the compliance dates for the respective units under the Georgia Multi-Pollutant Rule. However, as a result of the considerable uncertainty regarding pending state and federal environmental regulations, Georgia Power is continuing to defer decisions to add controls, switch fuel, or retire its remaining fossil generating units where environmental controls have not yet been installed, representing approximately 2,600 MWs of capacity. Georgia Power expects to update its economic analysis of these units once the Utility MACT rule is finalized. Georgia Power currently expects that certain units, representing approximately 600 MWs of capacity, are more likely than others to switch fuel or be controlled in time to comply with the Utility MACT rule. However, even if the updated economic analysis shows more positive benefits associated with adding controls or switching fuel for more units, it is unlikely that all of the required controls could be completed by 2015, the expected effective date of the Utility MACT rule. As a result, Georgia Power currently cannot rely on the availability of approximately 2,000 MWs of capacity in 2015. As such, the 2011 IRP Update also includes Georgia Power s application requesting that the Georgia PSC certify the purchase of a total of 1,562 MWs of capacity beginning in 2015, from four PPAs selected through the 2015 request for proposal process. Under the terms of the 2010 ARP, any costs associated with changes to Georgia Power s approved environmental operating or capital budgets resulting from new or revised environmental regulations through 2013 that are approved by the Georgia PSC in connection with an updated IRP will be deferred as a regulatory asset to be recovered over a time period deemed appropriate by the Georgia PSC. In connection with the retirement decision, Georgia Power reclassified the retail portion of the net carrying value of Plant Branch Units 1 and 2 from plant in service, net of depreciation, to other utility plant, net. Georgia Power is continuing to depreciate these units using the current composite straight-line

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rates previously approved by the Georgia PSC and upon actual retirement has requested that the Georgia PSC approve the continued deferral and amortization of the units remaining net carrying value. As a result of this regulatory treatment, the de-certification of Plant Branch Units 1 and 2 is not expected to have a significant impact on Georgia Power s financial statements.

The Georgia PSC is expected to vote on these requests in March 2012. The ultimate outcome of these matters cannot be determined at this time.

Storm Damage Recovery

During April 2011, severe storms in Georgia caused significant damage to Georgia Power s distribution and transmission facilities. Georgia Power defers and recovers certain costs related to damages from major storms as mandated by the Georgia PSC. As of June 30, 2011, the balance in the regulatory asset related to storm damage was $43 million. As a result of this regulatory treatment, the costs related to the storms are not expected to have a material impact on Georgia Power s financial statements. See Note 1 to the financial statements of Georgia Power under Storm Damage Reserve in Item 8 of the Form 10-K for additional information.

Income Tax Matters

Georgia State Income Tax Credits

Georgia Power s 2005 through 2009 income tax filings for the State of Georgia included state income tax credits for increased activity through Georgia ports. Georgia Power also filed similar claims for the years 2002 through 2004. 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 June 10, 2011, Georgia Power and the Georgia DOR agreed to a settlement resolving the claims. As a result, Georgia Power recorded additional tax benefits of approximately $64 million and, in accordance with the 2010 ARP, also recorded a related regulatory liability of approximately $62 million. In addition, Georgia Power recorded a reduction of approximately $23 million in related interest expense. See Notes 3 and 5 to the financial statements of Georgia Power in Item 8 of the Form 10-K under Income Tax Matters and Unrecognized Tax Benefits, respectively, for additional information.

Bonus Depreciation

In September 2010, the Small Business Jobs and Credit Act of 2010 (SBJCA) was signed into law. The SBJCA includes an extension of the 50% bonus depreciation for certain property acquired and placed in service in 2010 (and for certain long-term construction projects to be placed in service in 2011). Additionally, in December 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Tax Relief Act) was signed into law. Major tax incentives in the Tax Relief Act include 100% bonus depreciation for property placed in service after September 8, 2010 and through 2011 (and for certain long-term construction projects to be placed in service in 2012) and 50% bonus depreciation for property placed in service in 2012 (and for certain long-term construction projects to be placed in service in 2013), which will have a positive impact on the future cash flows of Georgia Power. On March 29, 2011, the IRS issued additional guidance and safe harbors relating to the 50% and 100% bonus depreciation rules. The guidance creates questions about how the rules should be applied. Based on recent discussions with the IRS, Georgia Power estimates the potential increased cash flow for 2011 to be between approximately $225 million and $350 million. The ultimate outcome of this matter cannot be determined at this time.

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Construction

Nuclear

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Construction Nuclear of Georgia Power in Item 7 of the Form 10-K for information regarding the construction of Plant Vogtle Units 3 and 4.

In December 2010, Westinghouse submitted an AP1000 Design Certification Amendment (DCA) to the NRC. On February 10, 2011, the NRC announced that it was seeking public comment on a proposed rule to approve the DCA and amend the certified AP1000 reactor design for use in the U.S. The Advisory Committee on Reactor Safeguards also issued a letter on January 24, 2011 endorsing the issuance of the Construction and Operating Licenses (COLs) for Plant Vogtle Units 3 and 4. In addition, on March 25, 2011, the NRC submitted to the EPA the final environmental impact statement for Plant Vogtle Units 3 and 4. In a letter dated August 2, 2011, the NRC clarified the timeframe for approval of the COLs for Plant Vogtle Units 3 and 4, which continues to allow for issuance of the COLs in late 2011. Georgia Power expects the NRC to approve the DCA in late 2011. However, due to certain administrative procedural requirements, it is possible that the effective date of the DCA and issuance of the COLs could occur in early 2012. In this case, the NRC could approve Georgia Power s request for a second limited work authorization, which would allow Georgia Power to perform additional construction activities related to the nuclear island in fall 2011 and attain commercial operation in 2016 and 2017 for Plant Vogtle Units 3 and 4, respectively.

On February 21, 2011, the Georgia PSC voted to approve Georgia Power s third semi-annual construction monitoring report including total costs of $1.05 billion for Plant Vogtle Units 3 and 4 incurred through June 30, 2010. In connection with its certification of Plant Vogtle Units 3 and 4, the Georgia PSC ordered Georgia Power and the Georgia PSC Public Interest Advocacy Staff to work together to develop a risk sharing or incentive mechanism that would provide some level of protection to ratepayers in the event of significant cost overruns, but also not penalize Georgia Power s earnings if and when overruns are due to mandates from governing agencies. Such discussions have continued since that time and, in May 2011, the Georgia PSC initiated a separate proceeding to address the issue. On July 15, 2011, Georgia Power and the Georgia PSC Public Interest Advocacy Staff reached a settlement agreement. Under the settlement, the proposed risk sharing mechanisms were withdrawn. On August 2, 2011, the Georgia PSC voted to approve the settlement agreement. Georgia Power will continue to file construction monitoring reports by February 28 and August 31 of each year during the construction period.

In December 2010, the Georgia PSC approved the NCCR tariff, which became effective January 1, 2011. The NCCR tariff was established to recover financing costs for nuclear construction projects by including the related construction work in progress accounts in rate base during the construction period in accordance with the Georgia Nuclear Energy Financing Act. With respect to Plant Vogtle Units 3 and 4, this legislation allows Georgia Power to recover projected financing costs of approximately $1.68 billion during the construction period beginning in 2011, which reduces the projected in-service cost to approximately $4.41 billion. Georgia Power is collecting and amortizing to earnings approximately $91 million of financing costs capitalized in 2009 and 2010 over the five-year period ending December 31, 2015, in addition to the ongoing financing costs. At June 30, 2011, approximately $82 million of these 2009 and 2010 costs are included in construction work in progress.

Georgia Power, Oglethorpe Power Corporation, the Municipal Electric Authority of Georgia, and the City of Dalton, Georgia, an incorporated municipality in the State of Georgia acting by and through its Board of Water, Light, and Sinking Fund Commissioners (collectively, Owners), and a consortium consisting of Westinghouse and Stone & Webster, Inc. have established both informal and formal dispute resolution procedures in order to resolve issues that

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commonly arise during the course of constructing a project of this magnitude. Southern Nuclear, on behalf of the Owners, has initiated both formal and informal claims through these procedures, including ongoing claims. During the course of construction activities, issues have materialized that may impact the project budget and schedule, including potential costs associated with compressing the project schedule to meet the projected commercial operation dates. The Owners have successfully used both the informal and formal procedures to resolve disputes and expect to resolve any existing and future disputes through these procedures as well.

On March 11, 2011, a major earthquake and tsunami struck Japan and caused substantial damage to the nuclear generating units at the Fukushima Daiichi generating plant. While Georgia Power will continue to monitor this situation, it has not identified any immediate impact to the licensing and construction of Plant Vogtle Units 3 and 4 or the operation of its existing nuclear generating units.

The events in Japan have created uncertainties that may affect transportation, price of fuels, availability of equipment from Japanese manufacturers, and future costs for operating nuclear plants. Specifically, the NRC plans to perform additional operational and safety reviews of nuclear facilities in the U.S., which could potentially impact future operations and capital requirements. As a first step in this review, on July 12, 2011, a special NRC task force issued a report with initial recommendations for enhancing nuclear reactor safety in the U.S., including potential changes in emergency planning, onsite backup generation, and spent fuel pools for existing reactors. The final form and resulting impact of any changes to safety requirements for existing nuclear reactors will be dependent on further review and action by the NRC and cannot be determined at this time. The task force report supported completion of the certification of the AP1000 reactor design being used at Plant Vogtle Units 3 and 4, noting that the design has many of the features necessary to address the task force s recommendations.

See RISK FACTORS of Georgia Power in Item 1A of the Form 10-K for a discussion of certain risks associated with the licensing, construction, and operation of nuclear generating units, including potential impacts that could result from a major incident at a nuclear facility anywhere in the world.

There are other pending technical and procedural challenges to the construction and licensing of Plant Vogtle Units 3 and 4, including petitions filed at the NRC in response to the events in Japan. Similar additional challenges at the state and federal level are expected as construction proceeds.

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

Other Construction

In May 2010, the Georgia PSC approved Georgia Power s request to extend the construction schedule for Plant McDonough Units 4, 5, and 6 as a result of the short-term reduction in forecasted demand, as well as the requested increase in the certified amount. As a result, the units are expected to be placed into service in January 2012, May 2012, and January 2013, respectively. The Georgia PSC has approved Georgia Power s quarterly construction monitoring reports, including actual project expenditures incurred, through September 30, 2010. Georgia Power will continue to file quarterly construction monitoring reports throughout the construction period.

Other Matters

Georgia Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Georgia Power is subject to certain claims and legal actions arising in the ordinary course of business. Georgia Power s business activities are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as opacity and air and water quality standards, has increased generally throughout the U.S. 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

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emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against Georgia Power cannot be predicted at this time; however, for current proceedings not specifically reported herein or in Note 3 to the financial statements of Georgia Power in Item 8 of the Form 10-K, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Georgia Power s financial statements.

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

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

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

FINANCIAL CONDITION AND LIQUIDITY

Overview

Georgia Power s financial condition remained stable at June 30, 2011. Georgia Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See Sources of Capital and Financing Activities herein for additional information.

Net cash provided from operating activities totaled $1.01 billion for the first six months of 2011, compared to $694 million for the corresponding period in 2010. The $317 million increase in cash provided from operating activities in the first six months of 2011 is primarily due to higher retail operating revenues in 2011. Net cash used for investing activities totaled $921 million primarily due to gross property additions to utility plant in the first six months of 2011. Net cash used for financing activities totaled $77 million for the first six months of 2011, compared to $475 million net cash provided from financing activities for the corresponding period in 2010. The $552 million decrease is primarily due to higher capital contributions from Southern Company in 2010. Fluctuations in cash flow from financing activities vary from year to year based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for the first six months of 2011 include an increase of $617 million in total property, plant, and equipment, an increase of $534 million in long-term debt to replace short-term debt and provide funds for Georgia Power s continuous construction program, and an increase in paid in capital of $195 million reflecting equity contributions from Southern Company.

Capital Requirements and Contractual Obligations

See MANAGEMENT S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Georgia Power in Item 7 of the Form 10-K for a description of Georgia Power s capital requirements for its construction program, scheduled maturities of long-term debt, as well as related interest, derivative obligations, preferred and preference stock dividends, leases, purchase commitments, trust funding requirements, and unrecognized tax benefits. Approximately $332 million will be required through June 30, 2012 to fund maturities and announced redemptions of long-term debt.

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The construction program of Georgia Power is estimated to include a base level investment of $2.1 billion, $2.2 billion, and $2.0 billion for 2011, 2012, and 2013, respectively. Included in these estimated amounts are environmental expenditures to comply with existing statutes and regulations of $73 million, $79 million, and $58 million for 2011, 2012, and 2013, respectively. In addition, Georgia Power estimates that potential incremental investments to comply with anticipated new environmental regulations could range from $69 million to $289 million for 2011, $191 million to $651 million for 2012, and $476 million to $1.4 billion for 2013. If the EPA s proposed Utility MACT rule is finalized as proposed, Georgia Power estimates that the potential incremental investments in 2011 through 2013 for new environmental regulations will be closer to the upper end of the ranges set forth above. 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, including unit retirements and replacements, to meet new regulatory requirements; changes in FERC rules and regulations; Georgia PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; storm impacts; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

In June 2011, Georgia Power entered into four PPAs totaling 1,562 MWs annually, which are subject to certification by the Georgia PSC. See FUTURE EARNINGS POTENTIAL Georgia PSC Matters 2011 Integrated Resource Plan Update herein for additional information. If approved, these PPAs are expected to result in additional obligations of approximately $84 million in 2015, $102 million in 2016, and $1.41 billion thereafter. However, the PPAs include an early termination provision through March 27, 2012 that allows Georgia Power to terminate one or more of the PPAs if Georgia Power does not retire certain coal-fired units as a result of the potential rules and regulations being developed by the EPA. Of the total capacity, 564 MWs will expire in 2027 and 998 MWs in 2030. Three of the PPAs are with Southern Power and are also subject to FERC approval.

Also in June 2011, Georgia Power renewed two rail car leases that contain obligations upon expiration with respect to the residual value of the leased property. These operating leases expire in 2014 and 2018 and Georgia Power s maximum obligation is approximately $11 million and $20 million, respectively. At the termination of the leases, at Georgia Power s option, Georgia Power may either exercise its purchase option or the property can be sold to a third party. Estimated annual commitments for the three-year lease and seven-year lease are approximately $1 million and $2 million, respectively.

Sources of Capital

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

In June 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 borrowings by Georgia Power related to the construction of 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 the lesser of 70% of eligible project costs or approximately $3.46 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 COLs 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. See FUTURE

EARNINGS POTENTIAL Construction Nuclear herein for more information on Plant Vogtle Units 3 and 4.

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Georgia Power s current liabilities frequently exceed current assets because of the continued use of short-term debt as a funding source to meet scheduled maturities of long-term debt, as well as cash needs, which can fluctuate significantly due to the seasonality of the business. To meet short-term cash needs and contingencies, Georgia Power had at June 30, 2011 approximately $21 million of cash and cash equivalents and approximately $1.76 billion of unused committed credit arrangements with banks. As of June 30, 2011, of the unused credit arrangements, $175 million expire in 2011, $100 million expire in 2014, and $1.50 billion expire in 2016. Subsequent to June 30, 2011, all of the credit arrangements expiring in 2011 were replaced by $150 million of credit arrangements expiring in 2014. Georgia Power expects to renew its credit arrangements, as needed, prior to expiration. At June 30, 2011, the credit arrangements were dedicated to providing liquidity support to Georgia Power s commercial paper program and approximately $522 million of purchase obligations related to variable rate pollution control revenue bonds. Subsequent to June 30, 2011, the amount dedicated to purchase obligations related to pollution control revenue bonds was approximately $513 million due to the maturity of approximately $8 million of these bonds .. See Note 6 to the financial statements of Georgia Power under Bank Credit Arrangements in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under Bank Credit Arrangements herein for additional information. Georgia Power may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of Georgia Power and other Southern Company subsidiaries. At June 30, 2011, Georgia Power had approximately $321 million of commercial paper borrowings outstanding with a weighted average interest rate of 0.2% per annum. During the second quarter 2011, Georgia Power had an average of $350 million of commercial paper outstanding with a weighted average interest rate of 0.3% per annum and the maximum amount outstanding was $580 million. Management believes that the need for working capital can be adequately met by utilizing commercial paper programs, lines of credit, and cash.

Credit Rating Risk

Georgia Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, energy price risk management, and construction of new generation. At June 30, 2011, the maximum potential collateral requirements under these contracts at a BBB- and/or Baa3 rating were approximately $68 million. At June 30, 2011, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately $1.48 billion. Included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Georgia Power s ability to access capital markets, particularly the short-term debt market.

Market Price Risk

Georgia Power s market risk exposure relative to interest rate changes for the second quarter 2011 has not changed materially compared with the December 31, 2010 reporting period. Since a significant portion of outstanding indebtedness is at fixed rates, Georgia Power is not aware of any facts or circumstances that would significantly affect exposures on existing indebtedness in the near term. However, the impact on future financing costs cannot now be determined.

Due to cost-based rate regulation and other various cost recovery mechanisms, Georgia Power continues to have limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. Georgia Power continues to manage a fuel-hedging program implemented per the guidelines of the Georgia PSC. As such, Georgia Power had no material change in market risk exposure for the second quarter 2011 relative to fuel and electricity prices when compared with the December 31, 2010 reporting period.

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The changes in fair value of energy-related derivative contracts, the majority of which are composed of regulatory hedges, for the three and six months ended June 30, 2011 were as follows:

	Second Quarter 2011 Changes	**Year-to-Date 2011 Changes**
	Fair Value *(in millions)*	
Contracts outstanding at the beginning of the period, assets (liabilities), net	$(83)	$ (100)
Contracts realized or settled	28	46
Current period changes[(a)]	(12)	(13)
Contracts outstanding at the end of the period, assets (liabilities), net	$(67)	$ (67)

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

The change in the fair value positions of the energy-related derivative contracts for the three and six months ended June 30, 2011 was an increase of $16 million and an increase of $33 million, respectively, substantially all of which is due to natural gas positions. The change is attributable to both the volume of mmBtu and prices of natural gas. At June 30, 2011, Georgia Power had a net hedge volume of 65 million mmBtu with a weighted average contract cost approximately $1.18 per mmBtu above market prices, compared to 65 million mmBtu at March 31, 2011 with a weighted average contract cost approximately $1.38 per mmBtu above market prices and compared to 59 million mmBtu at December 31, 2010 with a weighted average contract cost approximately $1.74 per mmBtu above market prices.

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

Unrealized pre-tax gains and losses recognized in income for the three and six months ended June 30, 2011 and 2010 for energy-related derivative contracts that are not hedges were not material.

Georgia Power uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are market observable, and thus fall into Level 2. See Note (C) to the Condensed Financial Statements herein for further discussion on fair value measurements. The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at June 30, 2011 were as follows:

	June 30, 2011 Fair Value Measurements			
	Total Fair Value	Maturity Year 1	Years 2&3	Years 4&5
	(in millions)			
Level 1	$	$	$	$
Level 2	(67)	(54)	(13)	
Level 3				

Fair value of contracts outstanding at end of period	$ (67)	$ (54)	$ (13)	$

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) enacted in July 2010 could impact the use of over-the-counter derivatives by Georgia Power. Regulations to implement the Dodd-Frank Act could impose additional requirements on the use of over-the-counter derivatives, such as margin and reporting requirements, which could affect both the use and cost of over-the-counter derivatives. The impact, if any, cannot be determined until regulations are finalized.

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

Financing Activities

In December 2010, the Development Authority of Floyd County issued $53 million aggregate principal amount of Pollution Control Revenue Bonds (Georgia Power Company Plant Hammond Project), First Series 2010 for the benefit of Georgia Power. These bonds were purchased and held by Georgia Power. In January 2011, Georgia Power remarketed these bonds to investors.

In January 2011, Georgia Power s $100 million aggregate principal amount of Series S 4.0% Senior Notes due January 15, 2011 matured.

In January 2011, Georgia Power issued $300 million aggregate principal amount of Series 2011A Floating Rate Senior Notes due January 15, 2013. The proceeds were used to repay short-term debt and for general corporate purposes, including Georgia Power s continuous construction program.

In March 2011, Georgia Power s $300 million variable rate bank term loan due on March 4, 2011 matured and was partially replaced by two one-year $125 million aggregate principal amount variable rate bank loans that bear interest based on one-month LIBOR.

In April 2011, Georgia Power issued $250 million aggregate principal amount of Series 2011B 3.0% Senior Notes due April 15, 2016. The proceeds were used to repay short-term debt and for general corporate purposes, including Georgia Power s continuous construction program.

In April 2011, Georgia Power purchased and held $113.5 million of pollution control revenue bonds. On June 1, 2011, the bonds were re-marketed to investors.

Subsequent to June 30, 2011, Georgia Power redeemed $67 million of pollution control revenue bonds.

Subsequent to June 30, 2011, approximately $8 million of Georgia Power s pollution control revenue bonds matured.

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

GULF POWER COMPANY

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GULF POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	**2011**	2010
	(in thousands)		*(in thousands)*	
Operating Revenues:				
Retail revenues	**$ 320,474**	$ 320,109	**$ 595,300**	$ 624,859
Wholesale revenues, non-affiliates	**38,874**	26,916	**69,893**	54,830
Wholesale revenues, affiliates	**22,857**	40,873	**26,992**	50,391
Other revenues	**17,060**	15,273	**31,688**	29,803
Total operating revenues	**399,265**	403,171	**723,873**	759,883
Operating Expenses:				
Fuel	**178,686**	195,452	**310,468**	348,164
Purchased power, non-affiliates	**10,889**	14,409	**17,892**	21,844
Purchased power, affiliates	**12,549**	11,030	**29,167**	31,443
Other operations and maintenance	**72,583**	64,606	**153,092**	135,024
Depreciation and amortization	**32,304**	28,548	**64,060**	56,619
Taxes other than income taxes	**24,867**	24,060	**49,763**	49,293
Total operating expenses	**331,878**	338,105	**624,442**	642,387
Operating Income	**67,387**	65,066	**99,431**	117,496
Other Income and (Expense):				
Allowance for equity funds used during construction	**2,522**	1,695	**4,657**	3,080
Interest income	**20**	39	**34**	56
Interest expense, net of amounts capitalized	**(14,423)**	(13,137)	**(28,052)**	(24,522)
Other income (expense), net	**(447)**	(351)	**(1,010)**	(884)
Total other income and (expense)	**(12,328)**	(11,754)	**(24,371)**	(22,270)
Earnings Before Income Taxes	**55,059**	53,312	**75,060**	95,226
Income taxes	**20,157**	19,445	**26,916**	34,508
Net Income	**34,902**	33,867	**48,144**	60,718
Dividends on Preference Stock	**1,550**	1,550	**3,101**	3,101
Net Income After Dividends on Preference Stock	**$ 33,352**	$ 32,317	**$ 45,043**	$ 57,617

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	**2011**	2010
	(in thousands)		*(in thousands)*	
Net Income After Dividends on Preference Stock	**$ 33,352**	$ 32,317	**$ 45,043**	$ 57,617

Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $-, $412, $-, and $(542), respectively		655		(863)
Reclassification adjustment for amounts included in net income, net of tax of $90, $91, $180, and $196, respectively	**144**	146	**287**	312
Total other comprehensive income (loss)	**144**	801	**287**	(551)
Comprehensive Income	**$ 33,496**	$ 33,118	**$ 45,330**	$ 57,066

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

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GULF POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Six Months Ended June 30,	
	2011	2010
	(in thousands)	
Operating Activities:		
Net income	**$ 48,144**	$ 60,718
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization, total	**67,129**	59,786
Deferred income taxes	**20,411**	6,192
Allowance for equity funds used during construction	**(4,657)**	(3,080)
Pension, postretirement, and other employee benefits	**(993)**	1,487
Stock based compensation expense	**789**	813
Other, net	**(3,496)**	1,108
Changes in certain current assets and liabilities		
-Receivables	**(33,496)**	(61,159)
-Prepayments	**1,373**	1,346
-Fossil fuel stock	**21,458**	(5,088)
-Materials and supplies	**(4,088)**	457
-Prepaid income taxes	**35,287**	1,579
-Property damage cost recovery	**19**	22
-Other current assets	**4**	(21)
-Accounts payable	**(1,710)**	21,861
-Accrued taxes	**28,851**	26,345
-Accrued compensation	**(6,132)**	(157)
-Other current liabilities	**6,301**	11,193
Net cash provided from operating activities	**175,194**	123,402
Investing Activities:		
Property additions	**(168,986)**	(137,133)
Distribution of restricted cash from pollution control revenue bonds		6,161
Cost of removal, net of salvage	**(6,616)**	(8,241)
Change in construction payables	**(31)**	(18,694)
Payments pursuant to long-term service agreements	**(4,162)**	(2,294)
Other investing activities	**222**	(187)
Net cash used for investing activities	**(179,573)**	(160,388)
Financing Activities:		
Increase (decrease) in notes payable, net	**1,392**	(2,692)
Proceeds		
Common stock issued to parent	**50,000**	50,000
Capital contributions from parent company	**1,014**	2,167
Pollution control revenue bonds		21,000
Senior notes	**125,000**	175,000
Redemptions		

Senior notes	**(352)**	(140,305)
Other long-term debt	**(110,000)**	
Payment of preference stock dividends	**(3,101)**	(3,101)
Payment of common stock dividends	**(55,000)**	(52,150)
Other financing activities	**(3,679)**	(2,105)
Net cash provided from financing activities	**5,274**	47,814
Net Change in Cash and Cash Equivalents	**895**	10,828
Cash and Cash Equivalents at Beginning of Period	**16,434**	8,677
Cash and Cash Equivalents at End of Period	**$ 17,329**	$ 19,505
Supplemental Cash Flow Information:		
Cash paid during the period for		
Interest (net of $1,856 and $1,228 capitalized for 2011 and 2010, respectively)	**$ 26,288**	$ 19,542
Income taxes (net of refunds)	**(46,824)**	12,463
Noncash transactions accrued property additions at end of period	**14,924**	26,655

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

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GULF POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At June 30, 2011	At December 31, 2010
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 17,329**	$ 16,434
Receivables		
Customer accounts receivable	**82,953**	74,377
Unbilled revenues	**69,646**	64,697
Under recovered regulatory clause revenues	**21,175**	19,690
Other accounts and notes receivable	**14,924**	9,867
Affiliated companies	**21,332**	7,859
Accumulated provision for uncollectible accounts	**(1,660)**	(2,014)
Fossil fuel stock, at average cost	**145,697**	167,155
Materials and supplies, at average cost	**48,817**	44,729
Other regulatory assets, current	**15,774**	20,278
Prepaid expenses	**19,623**	58,412
Other current assets	**1,589**	3,585
Total current assets	**457,199**	485,069
Property, Plant, and Equipment:		
In service	**3,788,051**	3,634,255
Less accumulated provision for depreciation	**1,097,373**	1,069,006
Plant in service, net of depreciation	**2,690,678**	2,565,249
Construction work in progress	**210,313**	209,808
Total property, plant, and equipment	**2,900,991**	2,775,057
Other Property and Investments	**16,301**	16,352
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**51,070**	46,357
Prepaid pension costs	**8,706**	7,291
Other regulatory assets, deferred	**247,817**	219,877
Other deferred charges and assets	**31,418**	34,936
Total deferred charges and other assets	**339,011**	308,461
Total Assets	**$ 3,713,502**	$ 3,584,939

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

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GULF POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder s Equity	At June 30, 2011	At December 31, 2010
	(in thousands)	
Current Liabilities:		
Securities due within one year	$	$ 110,000
Notes payable	**94,576**	93,183
Accounts payable		
Affiliated	**58,382**	46,342
Other	**55,389**	68,840
Customer deposits	**36,105**	35,600
Accrued taxes		
Accrued income taxes	**23,008**	3,835
Other accrued taxes	**19,292**	7,944
Accrued interest	**13,148**	13,393
Accrued compensation	**8,581**	14,459
Other regulatory liabilities, current	**25,587**	27,060
Liabilities from risk management activities	**5,659**	9,415
Other current liabilities	**21,107**	19,766
Total current liabilities	**360,834**	449,837
Long-term Debt	**1,235,388**	1,114,398
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**414,070**	382,876
Accumulated deferred investment tax credits	**7,434**	8,109
Employee benefit obligations	**75,808**	76,654
Other cost of removal obligations	**208,862**	204,408
Other regulatory liabilities, deferred	**42,637**	42,915
Other deferred credits and liabilities	**152,760**	132,708
Total deferred credits and other liabilities	**901,571**	847,670
Total Liabilities	**2,497,793**	2,411,905
Preference Stock	**97,998**	97,998
Common Stockholder s Equity:		
Common stock, without par value		
Authorized - 20,000,000 shares		
Outstanding - June 30, 2011: 4,142,717 shares		
- December 31, 2010: 3,642,717 shares	**353,060**	303,060
Paid-in capital	**540,721**	538,375
Retained earnings	**226,370**	236,328
Accumulated other comprehensive loss	**(2,440)**	(2,727)

Total common stockholder s equity	**1,117,711**		1,075,036
Total Liabilities and Stockholder s Equity	**$ 3,713,502**	$	3,584,939

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

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GULF POWER COMPANY
MANAGEMENT S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
SECOND QUARTER 2011 vs. SECOND QUARTER 2010
AND
YEAR-TO-DATE 2011 vs. YEAR-TO-DATE 2010

OVERVIEW

Gulf Power operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located in northwest Florida and to wholesale customers in the Southeast. Many factors affect the opportunities, challenges, and risks of Gulf Power s business of selling electricity. These factors include the ability to maintain a constructive regulatory environment, to maintain and grow energy sales given economic conditions, and to effectively manage and secure timely recovery of rising costs. These costs include those related to projected long-term demand growth, increasingly stringent environmental standards, fuel prices, and storm restoration costs. Appropriately balancing required costs and capital expenditures with customer prices will continue to challenge Gulf Power for the foreseeable future.

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

On July 8, 2011, Gulf Power filed a petition with the Florida PSC requesting an increase in retail rates and charges to the extent necessary to generate additional gross annual revenues in the amount of $93.5 million. The requested increase is expected to provide a reasonable opportunity for Gulf Power to earn a retail rate of return on common equity of 11.7%. The Florida PSC is expected to make a decision on this matter in the first quarter 2012. Additionally, Gulf Power has requested interim relief to increase retail rates to the extent necessary to generate additional gross revenues in the amount of $38.5 million, to be operative during the interim period before the effective date of the requested rate increase. Gulf Power has requested that the Florida PSC act within 60 days to authorize Gulf Power to begin collecting these revenues as soon as possible.

RESULTS OF OPERATIONS

Net Income

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$1.1	3.2	$(12.6)	(21.8)

Gulf Power s net income after dividends on preference stock for the second quarter 2011 was $33.4 million compared to $32.3 million for the corresponding period in 2010. The increase was primarily due to sales growth, more favorable weather in the second quarter 2011, and higher wholesale capacity revenues from non-affiliates. These increases were partially offset by an increase in operations and maintenance expenses.

Gulf Power s net income after dividends on preference stock for year-to-date 2011 was $45.0 million compared to $57.6 million for the corresponding period in 2010. The decrease was primarily due to an increase in other operations and maintenance expenses for year-to-date 2011 and significantly colder weather in the first quarter 2010. These decreases were partially offset by an increase in AFUDC equity, which is non-taxable.

Retail Revenues

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$0.4	0.1	$(29.6)	(4.7)

In the second quarter 2011, retail revenues were $320.5 million compared to $320.1 million for the corresponding period in 2010. For year-to-date 2011, retail revenues were $595.3 million compared to $624.9 million for the corresponding period in 2010.

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

	Second Quarter 2011		**Year-to-Date 2011**	
	(in millions)	*(% change)*	*(in millions)*	*(% change)*
Retail prior year	$320.1		$624.9	
Estimated change in				
Rates and pricing	(1.9)	(0.6)	(4.0)	(0.6)
Sales growth (decline)	2.1	0.6	3.4	0.6
Weather	1.5	0.5	(8.0)	(1.3)
Fuel and other cost recovery	(1.3)	(0.4)	(21.0)	(3.4)
Retail current year	$320.5	0.1%	$595.3	(4.7)%

Revenues associated with changes in rates and pricing decreased in the second quarter and year-to-date 2011 when compared to the corresponding periods in 2010 primarily due to lower recoverable costs under Gulf Power s environmental cost recovery clause due to lower coal generation.

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

Revenues attributable to changes in sales increased in the second quarter 2011 when compared to the corresponding period in 2010. Weather-adjusted KWH energy sales to residential and commercial customers increased 2.2% and 1.2%, respectively, due to higher use per customer and an increase in residential and large commercial customers. KWH energy sales to industrial customers increased 8.4% primarily due to the addition of a new large customer and several customers buying more energy to increase production and to perform maintenance on the customers onsite generation facilities.

Revenues attributable to changes in sales increased for year-to-date 2011 when compared to the corresponding period in 2010. Weather-adjusted KWH energy sales to residential and commercial customers increased 2.1% and 1.6%, respectively, due to higher use per customer and an increase in residential and large commercial customers. KWH energy sales to industrial customers increased 8.2% primarily due to the addition of a new large customer and several customers buying more energy to increase production and to perform maintenance on the customers onsite generation facilities.

Revenues attributable to changes in weather increased in the second quarter 2011 when compared to the corresponding period for 2010 due to more favorable weather in the second quarter 2011.

Revenues attributable to changes in weather decreased year-to-date 2011 when compared to the corresponding period for 2010 due to significantly colder weather in the first quarter 2010.

Fuel and other cost recovery revenues decreased in the second quarter and year-to-date 2011 when compared to the corresponding periods in 2010 primarily due to decreases in the KWHs generated and purchased. Fuel and other cost recovery revenues include fuel expenses, the energy component of purchased power costs, and purchased power capacity costs. Annually, Gulf Power petitions the Florida PSC for recovery of projected fuel and purchased power costs including any true-up amount from prior periods, and approved rates are implemented each January. The recovery provisions

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FINANCIAL CONDITION AND RESULTS OF OPERATIONS

generally equal the related expenses and have no material effect on net income. See FUTURE EARNINGS POTENTIAL Florida PSC Matters Fuel Cost Recovery herein and MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Fuel Cost Recovery of Gulf Power in Item 7 and Note 1 to the financial statements of Gulf Power under Revenues and Note 3 to the financial statements of Gulf Power under Retail Regulatory Matters Fuel Cost Recovery in Item 8 of the Form 10-K for additional information.

Wholesale Revenues Non-Affiliates

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$12.0	44.4	$15.1	27.5

Wholesale revenues from non-affiliates will vary depending on fuel prices, the market prices of wholesale energy compared to the cost of Gulf Power and Southern Company system-owned generation, demand for energy within the Southern Company service territory, and availability of Southern Company system generation. Wholesale revenues from non-affiliates are predominantly unit power sales under long-term contracts to other Florida and Georgia utilities. Revenues from these contracts have both capacity and energy components. Capacity revenues reflect the recovery of fixed costs and a return on investment under the contracts. Energy is generally sold at variable cost.

In the second quarter 2011, wholesale revenues from non-affiliates were $38.9 million compared to $26.9 million for the corresponding period in 2010. The increase was primarily due to higher capacity revenues as a result of contracts effective in June 2010 and higher energy revenues related to a 24.3% increase in KWH energy sales and a 4.9% increase in energy rates.

For year-to-date 2011, wholesale revenues from non-affiliates were $69.9 million compared to $54.8 million for the corresponding period in 2010. The increase was primarily due to higher capacity revenues as a result of contracts effective in June 2010.

Wholesale Revenues Affiliates

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$(18.0)	(44.1)	$(23.4)	(46.4)

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 2011, wholesale revenues from affiliates were $22.9 million compared to $40.9 million for the corresponding period in 2010. The decrease was primarily due to decreased energy revenues related to a 52.7% decrease in KWH sales as a result of less Gulf Power generation being utilized to serve system territorial demand. The decrease was partially offset by an 18.3% increase in price related to higher energy rates in the second quarter 2011.

For year-to-date 2011, wholesale revenues from affiliates were $27.0 million compared to $50.4 million for the corresponding period in 2010. The decrease was primarily due to decreased energy revenues related to a 48.9% decrease in KWH sales as a result of less Gulf Power generation being utilized to serve system territorial demand. The decrease was partially offset by a 4.8% increase in price related to higher energy rates for year-to-date 2011.

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GULF POWER COMPANY
MANAGEMENT S DISCUSSION AND ANALYSIS OF
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Fuel and Purchased Power Expenses

	Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
	(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
Fuel*	$(16.8)	(8.6)	(37.6)	(10.8)
Purchased power non-affiliates	(3.5)	(24.4)	(4.0)	(18.1)
Purchased power affiliates	1.5	13.8	(2.2)	(7.2)
Total fuel and purchased power expenses	$(18.8)		$(43.8)	

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

In the second quarter 2011, total fuel and purchased power expenses were $202.1 million compared to $220.9 million for the corresponding period in 2010. The decrease in fuel and purchased power expenses was due to a $20.3 million net decrease related to total KWHs generated and purchased and a $3.4 million decrease in the average cost of fuel, partially offset by a $4.9 million increase in the average cost of purchased power.

For year-to-date 2011, total fuel and purchased power expenses were $357.6 million compared to $401.4 million for the corresponding period in 2010. The net decrease in fuel and purchased power expenses was due to a $32.4 million decrease related to total KWHs generated and purchased and a $15.2 million decrease in the average cost of fuel, partially offset by a $3.8 million increase in the average cost of purchased power.

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

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

Average Cost	Second Quarter 2011	Second Quarter 2010	Percent Change	Year-to-Date 2011	Year-to-Date 2010	Percent Change
	(cents per net KWH)			*(cents per net KWH)*		
Fuel	4.82	4.93	(2.2)	4.76	5.01	(5.0)
Purchased power	4.89	4.37	11.9	5.05	4.77	5.9

In the second quarter 2011, fuel expense was $178.7 million compared to $195.4 million for the corresponding period in 2010. The decrease was primarily due to a 4.5% decrease in KWHs generated as a result of decreased utilization of Gulf Power resources to meet system demand and a 5.8% decrease in the average cost of natural gas per KWH generated.

For year-to-date 2011, fuel expense was $310.5 million compared to $348.1 million for the corresponding period in 2010. The decrease was primarily due to a 3.2% decrease in KWHs generated as a result of decreased system demand and a 20.5% decrease in the average cost of natural gas per KWH generated.

Non-Affiliates

In the second quarter 2011, purchased power expense from non-affiliates was $10.9 million compared to $14.4 million for the corresponding period in 2010. The decrease was primarily due to a 29.1% decrease in the volume of KWHs purchased, partially offset by a 9.0% increase in the average cost per KWH purchased.

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For year-to-date 2011, purchased power expense from non-affiliates was $17.9 million compared to $21.9 million for the corresponding period in 2010. The decrease was primarily due to a 33.6% decrease in the volume of KWHs purchased, partially offset by a 6.9% increase in the average cost per KWH purchased.

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

Affiliates

In the second quarter 2011, purchased power expense from affiliates was $12.5 million compared to $11.0 million for the corresponding period in 2010. The increase was primarily due to an 18.3% increase in average cost per KWH purchased, partially offset by a 1.3% decrease in the volume of KWHs purchased.

For year-to-date 2011, purchased power expense from affiliates was $29.2 million compared to $31.4 million for the corresponding period in 2010. The decrease was primarily due to an 11.0% decrease in the volume of KWHs purchased, partially offset by a 4.9% increase in the average cost per KWH purchased.

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, all as approved by the FERC.

Other Operations and Maintenance Expenses

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$8.0	12.3	$18.1	13.4

In the second quarter 2011, other operations and maintenance expenses were $72.6 million compared to $64.6 million for the corresponding period in 2010. The increase was primarily due to an increase in routine generation expenses and planned outage maintenance at generation facilities.

For year-to-date 2011, other operations and maintenance expenses were $153.1 million compared to $135.0 million for the corresponding period in 2010. The increase was primarily due to planned outage maintenance at generation facilities.

Depreciation and Amortization

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$3.8	13.2	$7.5	13.1

In the second quarter 2011, depreciation and amortization was $32.3 million compared to $28.5 million for the corresponding period in 2010. For year-to-date 2011, depreciation and amortization was $64.1 million compared to $56.6 million for the corresponding period in 2010. The increases were primarily due to the addition of environmental control projects and other net additions to transmission and distribution facilities.

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Taxes Other Than Income Taxes

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$0.8	3.4	$0.5	1.0

In the second quarter 2011, taxes other than income taxes were $24.9 million compared to $24.1 million for the corresponding period in 2010. The increase was primarily due to an increase in gross receipt and franchise taxes, which have no impact on net income. The year-to-date 2011 change in taxes other than income taxes compared to the corresponding period in 2010 was not material.

Allowance for Equity Funds Used During Construction

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$0.8	48.8	$1.6	51.2

In the second quarter 2011, AFUDC equity was $2.5 million compared to $1.7 million for the corresponding period in 2010. For year-to-date 2011, AFUDC equity was $4.7 million compared to $3.1 million for the corresponding period in 2010. The increases were primarily due to construction of environmental control projects at generating facilities.

Interest Expense, Net of Amounts Capitalized

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$1.3	9.8	$3.6	14.4

In the second quarter 2011, interest expense, net of amounts capitalized was $14.4 million compared to $13.1 million for the corresponding period in 2010. For year-to-date 2011, interest expense, net of amounts capitalized was $28.1 million compared to $24.5 million for the corresponding period in 2010. The increases were primarily due to increased long-term debt levels resulting from the issuance of additional senior notes.

Income Taxes

Second Quarter 2011 vs. Second Quarter 2010		Year-to-Date 2011 vs. Year-to-Date 2010	
(change in millions)	*(% change)*	*(change in millions)*	*(% change)*
$0.8	3.7	$(7.6)	(22.0)

In the second quarter 2011, income taxes were $20.2 million compared to $19.4 million for the corresponding period in 2010. The increase was primarily due to higher pre-tax earnings.

For year-to-date 2011, income taxes were $26.9 million compared to $34.5 million for the corresponding period in 2010. The decrease was primarily due to lower pre-tax earnings.

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FUTURE EARNINGS POTENTIAL

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

Environmental Matters

Compliance costs related to the Clean Air Act and other environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively impact results of operations, cash flows, and financial condition. See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters of Gulf Power in Item 7 and Note 3 to the financial statements of Gulf Power under Environmental Matters in Item 8 of the Form 10-K for additional information.

Gulf Power has completed a preliminary assessment of the EPA s proposed Utility Maximum Achievable Control Technology (MACT), water quality, and coal combustion byproduct rules. See Air Quality and Water Quality below for additional information regarding the proposed Utility MACT and water quality rules. See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Coal Combustion Byproducts of Gulf Power in Item 7 of the Form 10-K for additional information regarding the proposed coal combustion byproducts rule. Although its analysis is preliminary, Gulf Power estimates the aggregate capital costs for compliance with these rules to be $1.9 billion through 2020 if adopted as proposed. Included in this amount is $373 million of estimated expenditures included in Gulf Power s 2011-2013 base level capital budget described herein in anticipation of these rules. See FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations herein for additional information. These costs may arise from existing unit retirements, installation of additional environmental controls, the addition of new generating resources, and changing fuel sources for certain existing units. Gulf Power s preliminary analysis further indicates that the short timeframe for compliance with these rules could significantly impact electric system reliability and cause an increase in costs of materials and services. The ultimate outcome of these matters will depend on the final form of the proposed rules and the outcome of any legal challenges to the rules and cannot be determined at this time.

Carbon Dioxide Litigation

New York Case

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation New York Case of Gulf Power in Item 7 and Note 3 of the financial statements of Gulf Power under Environmental Matters Carbon Dioxide Litigation New York Case in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation. On June 20, 2011, the U.S. Supreme Court held that the plaintiffs federal common law claims against Southern Company and four other electric utilities were displaced by the Clean Air Act and EPA regulations addressing greenhouse gas emissions and remanded the case for consideration of whether federal law may also preempt the remaining state law claims. The ultimate outcome of this matter cannot be determined at this time.

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Kivalina Case

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation Kivalina Case of Gulf Power in Item 7 and Note 3 to the financial statements of Gulf Power under Environmental Matters Carbon Dioxide Litigation Kivalina Case in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation. The U.S. Court of Appeals for the Ninth Circuit stayed this case on February 23, 2011, pending the decision of the U.S. Supreme Court in the New York case discussed above. The plaintiffs have moved to lift the stay. The ultimate outcome of this matter cannot be determined at this time.

Other Litigation

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation Other Litigation of Gulf Power in Item 7 and Note 3 of the financial statements of Gulf Power under Environmental Matters Carbon Dioxide Litigation Other Litigation in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation. On May 27, 2011, a class action complaint alleging damages as a result of Hurricane Katrina was filed in the U.S. District Court for the Southern District of Mississippi by the same plaintiffs who brought a previous common law nuisance case involving substantially similar allegations. The earlier case was ultimately dismissed by the trial and appellate courts on procedural grounds. The current litigation was filed against numerous chemical, coal, oil, and utility companies, including Gulf Power, and includes many of the same defendants that were involved in the earlier case. Gulf Power believes these claims are without merit. The ultimate outcome of this matter cannot be determined at this time.

Air Quality

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Air Quality of Gulf Power in Item 7 of the Form 10-K for additional information regarding regulation of air quality.

On May 3, 2011, the EPA published a proposed rule, called Utility MACT, which would impose stringent emission limits on coal- and oil-fired electric utility steam generating units (EGUs). The proposed rule establishes numeric emission limits for acid gases, mercury, and total particulate matter. Meeting the proposed limits would likely require additional emission control equipment such as scrubbers, SCRs, baghouses, and other control measures at many coal-fired EGUs. Pursuant to a court-approved consent decree, the EPA must issue a final rule by November 16, 2011. Compliance for existing sources would be required three years after the effective date of the final rule. In the proposed rule, the EPA discussed the possibility of a one-year compliance extension which could be granted by the EPA or the states on a case-by-case basis if necessary. If finalized as proposed, compliance with this rule would require significant capital expenditures and compliance costs at many of Gulf Power s facilities which could impact unit retirement and replacement decisions. In addition, results of operations, cash flows, and financial condition could be impacted if the costs are not recovered through regulated rates. Further, there is uncertainty regarding the ability of the electric utility industry to achieve compliance with the requirements of the proposed rule within the proposed compliance period, and the limited compliance period could negatively impact electric system reliability. The outcome of this rulemaking will depend on the final rule and the outcome of any legal challenges and cannot be determined at this time.

On July 6, 2011, the EPA signed the final Cross State Air Pollution Rule (CSAPR) requiring reductions of sulfur dioxide and nitrogen oxide emissions from power plants in 27 states located in the eastern half of the U.S. The CSAPR addresses interstate emissions of sulfur dioxide and nitrogen oxides that interfere with downwind states ability to meet or maintain national ambient air quality standards for ozone and/or particulate matter. The CSAPR takes effect quickly, with the first phase of compliance beginning January 1, 2012. The CSAPR replaces the 2005 Clean Air Interstate Rule. The States of Alabama, Florida, Georgia, and Mississippi are impacted by the CSAPR s summer ozone season nitrogen oxide allowance trading program. The States of Alabama and Georgia are affected by the annual sulfur dioxide and nitrogen oxide allowance trading

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programs for particulate matter. The CSAPR establishes unique emissions budgets for the States of Alabama, Florida, Georgia, and Mississippi, which may impact unit availability. The ultimate outcome will depend on the outcome of any legal challenges and cannot be determined at this time.

Water Quality

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Water Quality of Gulf Power in Item 7 of the Form 10-K for additional information regarding regulation of water quality. On April 20, 2011, the EPA published a rule that establishes standards for reducing impacts to fish and other aquatic life caused by cooling water intake structures at existing power plants and manufacturing facilities. The rule also addresses cooling water intake structures for new units at existing facilities. The rule focuses on reducing adverse impacts to fish and other aquatic life due to impingement (when fish and other aquatic life are trapped by water flow velocity against a facility s cooling water intake structure screens) and entrainment (when aquatic organisms are drawn through a facility s cooling water system after entering through the cooling water intake structure). Affected cooling water intake structures would have to comply with national impingement standards (for intake velocity or alternatively numeric impingement reduction standards) and entrainment reduction requirements (determined on a case-by-case basis). The rule s proposed impingement standards could require changes to cooling water intake structures at many of Gulf Power s existing generating facilities, including facilities with closed-cycle re-circulating cooling systems (cooling towers). To address the rule s entrainment standards, facilities with once-through cooling systems may have to install cooling towers. New units constructed at existing plants would have to meet the national impingement standards and install closed-cycle cooling or the equivalent to meet the entrainment mandate. The EPA has agreed in a settlement agreement to issue a final rule by July 27, 2012. If finalized as proposed, some of Gulf Power s facilities may be subject to significant additional capital expenditures and compliance costs that could affect future unit retirement and replacement decisions. Also, results of operations, cash flows, and financial condition could be significantly impacted if such costs are not recovered through regulated rates. The ultimate outcome of this rulemaking will depend on the final rule and the outcome of any legal challenges and cannot be determined at this time.

Florida PSC Matters

Retail Base Rate Case

On July 8, 2011, Gulf Power filed a petition with the Florida PSC requesting an increase in retail rates to the extent necessary to generate additional gross annual revenues in the amount of $93.5 million. The requested increase is expected to provide a reasonable opportunity for Gulf Power to earn a retail rate of return on common equity of 11.7%. The Florida PSC is expected to make a decision on this matter in the first quarter 2012.

Gulf Power has calculated its revenue deficiency based on the projected period January 1, 2012 through December 31, 2012 which serves as the test year. The test year provides the appropriate period of utility operations to be analyzed by the Florida PSC to be able to set reasonable rates for the period the new rates will be in effect. The period January 1, 2012 through December 31, 2012 best represents expected future operations of Gulf Power as the regional economy emerges from the recession. The petition also requests that the Florida PSC approve the projected January 1, 2012 through December 31, 2012 test year and consent to new rate schedules going into operation on a permanent basis as soon as possible.

Additionally, Gulf Power has requested interim relief to increase retail rates to the extent necessary to generate additional gross revenues in the amount of $38.5 million, to be operative during the interim period before the effective date of the requested rate increase. Gulf Power has requested that the Florida PSC act within 60 days to authorize Gulf Power to begin collecting these revenues as soon as possible.

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

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Fuel Cost Recovery

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

Under recovered fuel costs at June 30, 2011 totaled $18.9 million, compared to $17.4 million at December 31, 2010. This amount is included in under recovered regulatory clause revenues on Gulf Power s Condensed Balance Sheets herein. Fuel cost recovery revenues, as recorded on the financial statements, are adjusted for differences in actual recoverable costs and amounts billed in current regulated rates. Accordingly, any change in the billing factor will have no significant effect on Gulf Power s revenues or net income, but will affect cash flow. See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Fuel Cost Recovery of Gulf Power in Item 7 and Notes 1 and 3 to the financial statements of Gulf Power under Revenues and Retail Regulatory Matters Fuel Cost Recovery, respectively, in Item 8 of the Form 10-K for additi