ALABAMA POWER CO
Form 10-Q
May 07, 2010

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

FORM 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2010
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

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

(404) 506-5000

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

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

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

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

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

Registrant	**Description of Common Stock**	**Shares Outstanding at March 31, 2010**
The Southern Company	**Par Value $5 Per Share**	**824,535,663**
Alabama Power Company	**Par Value $40 Per Share**	**30,537,500**
Georgia Power Company	**Without Par Value**	**9,261,500**
Gulf Power Company	**Without Par Value**	**3,642,717**
Mississippi Power Company	**Without Par Value**	**1,121,000**
Southern Power Company	**Par Value $0.01 Per Share**	**1,000**

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

INDEX TO QUARTERLY REPORT ON FORM 10-Q
March 31, 2010

INDEX TO QUARTERLY REPORT ON FORM 10-Q
March 31, 2010

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DEFINITIONS

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

DEFINITIONS
(continued)

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

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q contains forward-looking statements. Forward-looking statements include, among other things, statements concerning the strategic goals for the wholesale business, retail sales, customer growth, economic recovery, fuel cost recovery and other rate actions, environmental regulations and expenditures, earnings, dividend payout ratios, access to sources of capital, financing activities, start and completion of construction projects, plans and estimated costs for new generation resources, impact of the American Recovery and Reinvestment Act of 2009, impact of recent healthcare legislation, estimated sales and purchases under new power sale and purchase agreements, and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as may, will, could, should, expects, plans, anticipates, believes, estim predicts, potential, or continue or the negative of these terms or other similar terminology. There are various factors that could cause actual results to differ materially from those suggested by the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory change, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry, implementation of the Energy Policy Act of 2005, environmental laws including regulation of water quality, coal combustion byproducts, and emissions of sulfur, nitrogen, carbon, soot, particulate matter, hazardous air pollutants, including mercury, and other substances, and also changes in tax and other laws and regulations to which Southern Company and its subsidiaries are subject, as well as changes in application of existing laws and regulations;
- current and future litigation, regulatory investigations, proceedings, or inquiries, including the pending EPA civil actions against certain Southern Company subsidiaries, FERC matters, IRS audits, and Mirant matters;
- the effects, extent, and timing of the entry of additional competition in the markets in which Southern Company s subsidiaries operate;
- variations in demand for electricity, including those relating to weather, the general economy and recovery from the recent recession, population and business growth (and declines), and the effects of energy conservation measures;
- available sources and costs of fuels;
- effects of inflation;
- ability to control costs and avoid cost overruns during the development and construction of facilities;
- investment performance of Southern Company s employee benefit plans and nuclear decommissioning trusts;
- advances in technology;
- state and federal rate regulations and the impact of pending and future rate cases and negotiations, including rate actions relating to fuel and other cost recovery mechanisms;
- regulatory approvals and actions related to the potential Plant Vogtle expansion, including Georgia PSC and NRC approvals and potential DOE loan guarantees;
- the performance of projects undertaken by the non-utility businesses and the success of efforts to invest in and develop new opportunities;
- internal restructuring or other restructuring options that may be pursued;
- potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed or beneficial to Southern Company or its subsidiaries;
- the ability of counterparties of Southern Company and its subsidiaries to make payments as and when due and to perform as required;
- the ability to obtain new short- and long-term contracts with wholesale customers;
- the direct or indirect effect on Southern Company s business resulting from terrorist incidents and the threat of terrorist incidents;
- interest rate fluctuations and financial market conditions and the results of financing efforts, including Southern Company s and its subsidiaries credit ratings;
- the ability of Southern Company and its subsidiaries to obtain additional generating capacity at competitive prices;
- catastrophic events such as fires, earthquakes, explosions, floods, hurricanes, droughts, pandemic health events such as influenzas, or other similar occurrences;

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

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

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

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

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

	For the Three Months Ended March 31,	
	2010	2009
	(in thousands)	
Operating Revenues:		
Retail revenues	**$ 3,458,920**	$ 3,064,659
Wholesale revenues	**541,587**	451,414
Other electric revenues	**135,435**	122,798
Other revenues	**21,375**	27,436
Total operating revenues	**4,157,317**	3,666,307
Operating Expenses:		
Fuel	**1,645,158**	1,406,267
Purchased power	**126,566**	107,644
Other operations and maintenance	**908,024**	871,081
MC Asset Recovery litigation settlement		202,000
Depreciation and amortization	**343,380**	389,758
Taxes other than income taxes	**212,195**	199,880
Total operating expenses	**3,235,323**	3,176,630
Operating Income	**921,994**	489,677
Other Income and (Expense):		
Allowance for equity funds used during construction	**49,391**	42,612
Interest income	**4,787**	6,908
Leveraged lease income (losses)	**6,131**	9,441
Interest expense, net of amounts capitalized	**(222,482)**	(225,727)
Other income (expense), net	**(13,437)**	(13,826)
Total other income and (expense)	**(175,610)**	(180,592)
Earnings Before Income Taxes	**746,384**	309,085
Income taxes	**235,681**	167,169
Consolidated Net Income	**510,703**	141,916
Dividends on Preferred and Preference Stock of Subsidiaries	**16,195**	16,195
Consolidated Net Income After Dividends on Preferred and Preference Stock of Subsidiaries	**$ 494,508**	$ 125,721
Common Stock Data:		
Earnings per share (EPS) -		
Basic EPS	**$ 0.60**	$ 0.16
Diluted EPS	**$ 0.60**	$ 0.16
Average number of shares of common stock outstanding (in thousands)		

Basic		**822,526**		779,858
Diluted		**824,787**		781,645
Cash dividends paid per share of common stock	**$**	**0.4375**	$	0.4200

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

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

	For the Three Months Ended March 31,	
	2010	2009
	(in thousands)	
Operating Activities:		
Consolidated net income	**$ 510,703**	$ 141,916
Adjustments to reconcile consolidated net income to net cash provided from operating activities		
Depreciation and amortization, total	**421,568**	456,833
Deferred income taxes	**107,374**	(30,386)
Deferred revenues	**(19,846)**	(10,732)
Allowance for equity funds used during construction	**(49,391)**	(42,612)
Leveraged lease income (losses)	**(6,131)**	(9,441)
Pension, postretirement, and other employee benefits	**4,627**	7,974
Stock based compensation expense	**18,973**	16,955
Hedge settlements		(16,167)
MC Asset Recovery litigation settlement		202,000
Other, net	**(48,531)**	8,550
Changes in certain current assets and liabilities		
-Receivables	**43,402**	292,162
-Fossil fuel stock	**133,275**	(160,992)
-Materials and supplies	**696**	(12,648)
-Other current assets	**(94,609)**	(67,717)
-Accounts payable	**(99,951)**	80,995
-Accrued taxes	**(72,598)**	(185,215)
-Accrued compensation	**(112,453)**	(319,715)
-Other current liabilities	**1,852**	49,371
Net cash provided from operating activities	**738,960**	401,131
Investing Activities:		
Property additions	**(1,054,040)**	(1,136,212)
Investment in restricted cash from pollution control revenue bonds	**(1)**	(49,348)
Distribution of restricted cash from pollution control revenue bonds	**7,582**	23,079
Nuclear decommissioning trust fund purchases	**(238,302)**	(379,332)
Nuclear decommissioning trust fund sales	**189,445**	381,280
Cost of removal, net of salvage	**(28,241)**	(30,231)
Change in construction payables	**28,199**	116,003
Other investing activities	**7,170**	(47,269)
Net cash used for investing activities	**(1,088,188)**	(1,122,030)
Financing Activities:		
Increase in notes payable, net	**132,211**	121,274
Proceeds		
Long-term debt issuances	**350,000**	1,255,925

Common stock issuances	**147,345**	151,379
Redemptions		
Long-term debt	**(255,562)**	(193,417)
Payment of common stock dividends	**(359,144)**	(326,780)
Payment of dividends on preferred and preference stock of subsidiaries	**(16,194)**	(16,265)
Other financing activities	**(100)**	(15,618)
Net cash provided from (used for) financing activities	**(1,444)**	976,498
Net Change in Cash and Cash Equivalents	**(350,672)**	255,599
Cash and Cash Equivalents at Beginning of Period	**689,722**	416,581
Cash and Cash Equivalents at End of Period	**$ 339,050**	$ 672,180
Supplemental Cash Flow Information:		
Cash paid during the period for		
Interest (net of $20,828 and $18,298 capitalized for 2010 and 2009, respectively)	**$ 181,934**	$ 178,560
Income taxes (net of refunds)	**$ 5,610**	$ 172,517

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 March 31, 2010	At December 31, 2009
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 339,050**	$ 689,722
Restricted cash and cash equivalents	**35,554**	43,135
Receivables		
Customer accounts receivable	**998,672**	953,222
Unbilled revenues	**337,865**	394,492
Under recovered regulatory clause revenues	**197,565**	333,459
Other accounts and notes receivable	**362,761**	374,670
Accumulated provision for uncollectible accounts	**(26,282)**	(24,568)
Fossil fuel stock, at average cost	**1,313,716**	1,446,984
Materials and supplies, at average cost	**798,024**	793,847
Vacation pay	**145,758**	145,049
Prepaid expenses	**439,414**	508,338
Other regulatory assets, current	**225,164**	166,549
Other current assets	**52,870**	48,558
Total current assets	**5,220,131**	5,873,457
Property, Plant, and Equipment:		
In service	**54,909,016**	53,587,853
Less accumulated depreciation	**19,371,351**	19,121,271
Plant in service, net of depreciation	**35,537,665**	34,466,582
Nuclear fuel, at amortized cost	**679,368**	593,119
Construction work in progress	**3,781,363**	4,170,596
Total property, plant, and equipment	**39,998,396**	39,230,297
Other Property and Investments:		
Nuclear decommissioning trusts, at fair value	**1,167,560**	1,070,117
Leveraged leases	**616,394**	610,252
Miscellaneous property and investments	**284,984**	282,974
Total other property and investments	**2,068,938**	1,963,343
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**1,133,674**	1,047,452
Unamortized debt issuance expense	**205,419**	208,346
Unamortized loss on reacquired debt	**249,785**	254,936
Deferred under recovered regulatory clause revenues	**501,165**	373,245
Other regulatory assets, deferred	**2,788,142**	2,701,910
Other deferred charges and assets	**414,395**	392,880

Total deferred charges and other assets	**5,292,580**	4,978,769
Total Assets	**$ 52,580,045**	$ 52,045,866

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

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

Liabilities and Stockholders Equity	At March 31, 2010	At December 31, 2009
	(in thousands)	
Current Liabilities:		
Securities due within one year	**$ 1,243,596**	$ 1,112,705
Notes payable	**769,967**	639,199
Accounts payable	**1,229,108**	1,329,448
Customer deposits	**337,014**	330,582
Accrued taxes		
Accrued income taxes	**74,508**	13,005
Unrecognized tax benefits	**158,993**	165,645
Other accrued taxes	**200,072**	398,384
Accrued interest	**229,224**	218,188
Accrued vacation pay	**181,051**	183,911
Accrued compensation	**141,409**	247,950
Liabilities from risk management activities	**181,525**	124,648
Other regulatory liabilities, current	**408,816**	528,147
Other current liabilities	**360,620**	292,016
Total current liabilities	**5,515,903**	5,583,828
Long-term Debt	**18,097,952**	18,131,244
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**6,635,337**	6,454,822
Deferred credits related to income taxes	**244,573**	248,232
Accumulated deferred investment tax credits	**451,155**	447,650
Employee benefit obligations	**2,299,778**	2,304,344
Asset retirement obligations	**1,217,546**	1,201,343
Other cost of removal obligations	**1,103,065**	1,091,425
Other regulatory liabilities, deferred	**325,968**	277,932
Other deferred credits and liabilities	**412,097**	345,888
Total deferred credits and other liabilities	**12,689,519**	12,371,636
Total Liabilities	**36,303,374**	36,086,708
Redeemable Preferred Stock of Subsidiaries	**374,496**	374,496
Stockholders Equity:		
Common Stockholders Equity:		
Common stock, par value $5 per share		
Authorized 1 billion shares		
Issued March 31, 2010: 825,023,621 Shares;		
December 31, 2009: 820,151,801 Shares		

Treasury March 31, 2010: 487,958 Shares; December 31, 2009: 505,116 Shares			
Par value	**4,125,133**		4,100,742
Paid-in capital	**3,141,952**		2,994,245
Treasury, at cost	**(15,508)**		(14,797)
Retained earnings	**8,021,810**		7,884,922
Accumulated other comprehensive loss	**(78,540)**		(87,778)
Total Common Stockholders Equity	**15,194,847**		14,877,334
Preferred and Preference Stock of Subsidiaries	**707,328**		707,328
Total Stockholders Equity	**15,902,175**		15,584,662
Total Liabilities and Stockholders Equity	**$ 52,580,045**	$	52,045,866

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

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

	For the Three Months Ended March 31,	
	2010	2009
	(in thousands)	
Consolidated Net Income	**$ 510,703**	$ 141,916
Other comprehensive income (loss):		
Qualifying hedges:		
Changes in fair value, net of tax of $786 and $762, respectively	**1,201**	1,147
Reclassification adjustment for amounts included in net income, net of tax of $3,552 and $3,833, respectively	**5,646**	6,098
Marketable securities:		
Change in fair value, net of tax of $1,144 and $91, respectively	**2,026**	734
Pension and other post retirement benefit plans:		
Reclassification adjustment for amounts included in net income, net of tax of $230 and $222, respectively	**365**	350
Total other comprehensive income (loss)	**9,238**	8,329
Dividends on preferred and preference stock of subsidiaries	**(16,195)**	(16,195)
Comprehensive Income	**$ 503,746**	$ 134,050

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

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THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
MANAGEMENT S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FIRST QUARTER 2010 vs. FIRST QUARTER 2009

OVERVIEW

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

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

RESULTS OF OPERATIONS

Net Income

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$368.8	293.3

Southern Company s first quarter 2010 net income after dividends on preferred and preference stock of subsidiaries was $494.5 million ($0.60 per share) compared to $125.7 million ($0.16 per share) for the first quarter 2009. The increase for the first quarter 2010 when compared to the corresponding period in 2009 was primarily the result of a litigation settlement agreement with MC Asset Recovery, LLC (MC Asset Recovery) in the first quarter 2009; increases in revenues due to significantly colder weather; the amortization of the regulatory liability related to other cost of removal obligations at Georgia Power as authorized by the Georgia PSC; and revenues associated with increases in rates under Alabama Power s Rate Stabilization and Equalization Plan (Rate RSE) and Rate Certificated New Plant for environmental costs (Rate CNP Environmental) that took effect January 2010. The increase for the first quarter 2010 was partially offset by increases in operations and maintenance expenses.

Retail Revenues

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$394.3	12.9

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

In the first quarter 2010, retail revenues were $3.46 billion compared to $3.06 billion for the corresponding period in 2009. Details of the change to retail revenues follow:

	First Quarter 2010	
	(in millions)	*(% change)*
Retail prior year	$3,064.7	
Estimated change in		
Rates and pricing	75.4	2.5
Sales growth (decline)	11.5	0.4
Weather	125.8	4.1
Fuel and other cost recovery	181.5	5.9
Retail current year	$3,458.9	12.9%

Revenues associated with changes in rates and pricing increased in the first quarter 2010 when compared to the corresponding period in 2009 primarily due to Rate RSE and Rate CNP Environmental increases at Alabama Power effective January 2010 and recovery of environmental compliance costs at Gulf Power.

Revenues attributable to changes in sales growth increased in the first quarter 2010 when compared to the corresponding period in 2009 due to a 2.6% increase in weather-adjusted retail KWH sales. This increase was mainly due to a 6.9% increase in weather-adjusted industrial KWH sales and a 1.6% increase in weather-adjusted residential KWH sales, partially offset by a 0.3% decrease in weather-adjusted commercial KWH sales. The increase in weather-adjusted industrial KWH sales was primarily due to increased production activity in the primary metals, transportation, and chemical sectors.

Revenues resulting from changes in weather increased $125.8 million in the first quarter 2010 as a result of significantly colder weather when compared to the corresponding period in 2009.

Fuel and other cost recovery revenues increased $181.5 million in the first quarter 2010 when compared to the corresponding period in 2009. Electric rates for the traditional operating companies include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these provisions, fuel revenues generally equal fuel expenses, including the fuel component of purchased power costs, and do not affect net income.

Wholesale Revenues

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$90.2	20.0

In the first quarter 2010, wholesale revenues were $541.6 million compared to $451.4 million for the corresponding period in 2009. Wholesale fuel revenues, which are generally offset by wholesale fuel expenses and do not affect net income, increased $80.7 million in the first quarter 2010 when compared to the corresponding period in 2009. Excluding wholesale fuel revenues, wholesale revenues increased $9.5 million in the first quarter 2010 when compared to the corresponding period in 2009. The increase in the first quarter 2010 was primarily due to higher energy prices and a 10.1% increase in KWH sales primarily resulting from significantly colder weather when compared to the corresponding period in 2009. Also contributing to the increase were energy and capacity revenues under a new PPA that began in January 2010 at Southern Power.

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

Other Electric Revenues

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$12.6	10.3

In the first quarter 2010, other electric revenues were $135.4 million compared to $122.8 million for the corresponding period in 2009. The increase in the first quarter 2010 when compared to the corresponding period in 2009 was primarily the result of a $5.7 million increase in transmission revenues, a $2.8 million increase in co-generation revenues due to increased sales volume, and a $2.3 million increase in rents from electric property. The increase in the first quarter 2010 was partially offset by a decrease in revenues from other energy services of $5.2 million. Revenues from co-generation and other energy services are generally offset by related expenses and do not affect net income.

Other Revenues

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$(6.0)	(22.1)

In the first quarter 2010, other revenues were $21.4 million compared to $27.4 million for the corresponding period in 2009. The decrease for the first quarter 2010 when compared to the corresponding period in 2009 was primarily the result of a $5.6 million decrease in revenues at SouthernLINC Wireless related to lower average revenue per subscriber and fewer subscribers due to increased competition in the industry.

Fuel and Purchased Power Expenses

	First Quarter 2010 vs. First Quarter 2009	
	(change in millions)	*(% change)*
Fuel*	$238.9	17.0
Purchased power	18.9	17.6
Total fuel and purchased power expenses	$257.8	

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

Fuel and purchased power expenses for the first quarter 2010 were $1.77 billion compared to $1.51 billion for the corresponding period in 2009. The increase for the first quarter 2010 when compared to the corresponding period in 2009 was primarily the result of a $121.6 million net increase related to total KWHs generated and purchased and a $136.2 million increase in the average cost of fuel and purchased power. The increase in the total KWHs generated and purchased resulted primarily from increased generation, and the increase in average cost of fuel and purchased power resulted primarily from higher fossil fuel prices when compared to the corresponding period in 2009.

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

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

Average Cost	First Quarter 2010	First Quarter 2009	Percent Change
	(cents per net KWH)		
Fuel	3.59	3.40	5.6
Purchased power	7.82	5.09	53.6

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

Other Operations and Maintenance Expenses

First Quarter 2010 vs. First Quarter 2009

(change in millions)	*(% change)*
$36.9	4.2

In the first quarter 2010, other operations and maintenance expenses were $908.0 million compared to $871.1 million for the corresponding period in 2009. The increase in the first quarter 2010 when compared to the corresponding period in 2009 was primarily the result of a $22.4 million increase in fossil, hydro, and nuclear expenses mainly due to scheduled outages, an $18.9 million increase in commodity and labor costs, a $17.6 million increase in affiliated service company expenses, and an $8.2 million increase in the injuries and damages reserve. The increase for the first quarter 2010 was partially offset by a $29.4 million charge in the first quarter 2009 in connection with a voluntary attrition plan at Georgia Power.

MC Asset Recovery Litigation Settlement

First Quarter 2010 vs. First Quarter 2009

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

N/M Not Meaningful

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

Depreciation and Amortization

First Quarter 2010 vs. First Quarter 2009

(change in millions)	*(% change)*
$(46.4)	(11.9)

In the first quarter 2010, depreciation and amortization was $343.4 million compared to $389.8 million for the corresponding period in 2009. The decrease for the first quarter 2010 when compared to the corresponding period 2009 was primarily the result of amortization of $60.3 million of the regulatory liability related to other cost of removal obligations as authorized by the Georgia PSC. This decrease for the first quarter 2010 was partially offset by depreciation on additional plant in service related to transmission, distribution, and environmental projects at Georgia Power. See Note 3 to the financial statements of Southern Company in Item 8 of the Form 10-K under Retail Regulatory Matters Georgia Power Cost of Removal for additional information on the other cost of removal regulatory liability.

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Taxes Other Than Income Taxes

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$12.3	6.2

In the first quarter 2010, taxes other than income taxes were $212.2 million compared to $199.9 million for the corresponding period in 2009. The increase for the first quarter 2010 when compared to the corresponding period in 2009 was primarily the result of increases in municipal franchise fees at Georgia Power resulting from increases in retail revenues.

Allowance for Funds Used During Construction

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$6.8	15.9

In the first quarter 2010, AFUDC equity was $49.4 million compared to $42.6 million for the corresponding period in 2009. The increase for the first quarter 2010 when compared to the corresponding period in 2009 was primarily due to the increase in construction work in progress balances related to three new combined cycle generating units and two new nuclear generating units at Georgia Power, as well as ongoing environmental and transmission projects. This increase for the first quarter 2010 was partially offset by decreases in construction work in progress related to the completion of environmental projects at generating facilities at Alabama Power and Gulf Power.

Income Taxes

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$68.5	41.0

In the first quarter 2010, income taxes were $235.7 million compared to $167.2 million for the corresponding period in 2009. The increase for the first quarter 2010 when compared to the corresponding period in 2009 was primarily the result of higher pre-tax earnings, partially offset by a decrease in uncertain tax positions of $16.0 million at Georgia Power related to state income tax credits that remain subject to litigation. See FUTURE EARNINGS POTENTIAL Income Tax Matters Georgia State Income Tax Credits and Note (B) to the Condensed Financial Statements under Income Tax Matters Georgia State Income Tax Credits 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 recovery of all prudently incurred costs during a time of increasing costs. Other major factors include profitability of the competitive wholesale supply business and federal regulatory policy, which may impact Southern Company s level of participation in this market. Future earnings for the electricity business in the near term will depend, in part, upon maintaining energy sales which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities and other wholesale customers, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in the service area. In addition, the level of future earnings for the wholesale supply business also depends on numerous factors including creditworthiness of

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customers, total generating capacity available in the Southeast, future acquisitions and construction of generating facilities, and the successful remarketing of capacity as current contracts expire. Recessionary conditions have impacted sales for the traditional operating companies and have negatively impacted wholesale capacity revenues at Southern Power. The timing and extent of the economic recovery will impact growth and may impact future earnings. For additional information relating to these issues, see RISK FACTORS in Item 1A and MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL of Southern Company in Item 7 of the Form 10-K.

Environmental Matters

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

Carbon Dioxide Litigation

New York Case

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

Other Litigation

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation Other Litigation of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under Environmental Matters Carbon Dioxide Litigation Other Litigation in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation related to Hurricane Katrina. On February 26, 2010, the U.S. Court of Appeals for the Fifth Circuit granted the defendants petition for rehearing en banc. 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 information regarding the Industrial Boiler Maximum Achievable Control Technology regulations. On April 29, 2010, the EPA issued a proposed rule that would establish emissions limits for various hazardous air pollutants typically emitted from industrial boilers, including biomass boilers. The EPA is required to finalize the rules by December 16, 2010. The impact of these proposed regulations will depend on their final form and any legal challenges, and cannot be determined at this time.

Coal Combustion Byproducts

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Coal Combustion Byproducts of Southern Company in Item 7 of the Form 10-K for information regarding potential additional regulation of coal combustion byproducts. On May 4, 2010, the EPA issued a proposal requesting comments on two potential regulatory options for management and disposal

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of coal combustion byproducts, either of which could require conversion of existing storage units to lined landfills with additional waste management and groundwater monitoring requirements. Under both options, the EPA proposes to exempt the beneficial reuse of coal combustion byproducts from regulation. The outcome of these proposed regulations will depend on their final form and any legal challenges, and cannot be determined at this time. However, additional regulation of coal combustion byproducts could have a significant impact on the traditional operating companies management, beneficial use, and disposal of such byproducts and could result in significant additional compliance costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

Global Climate Issues

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Global Climate Issues of Southern Company in Item 7 of the Form 10-K for information regarding the potential for legislation and regulation addressing greenhouse gas and other emissions. On April 1, 2010, the EPA issued a final rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that, once this rule becomes effective on January 2, 2011, carbon dioxide and other greenhouse gases will become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. The EPA also published a proposed rule governing how these programs would be applied to stationary sources, including power plants, in October 2009. The EPA is expected to finalize this proposed rule during 2010. The ultimate outcome of these proposed and final rules cannot be determined at this time and will depend on additional regulatory action and any legal challenges.

State PSC Matters

Retail Fuel Cost Recovery

The traditional operating companies each have established fuel cost recovery rates approved by their respective state PSCs. In recent years, the traditional operating companies have experienced volatility in pricing of fuel commodities with higher than expected pricing for coal and uranium and volatile price swings in natural gas. These higher fuel costs have resulted in total under recovered fuel costs included in the balance sheets of Georgia Power and Gulf Power of approximately $696 million at March 31, 2010. Alabama Power and Mississippi Power collected all previously under recovered fuel costs and, as of March 31, 2010, had a total over recovered fuel balance of $208 million. At December 31, 2009, total under recovered fuel costs included in the balance sheets of Georgia Power and Gulf Power were approximately $667 million and Alabama Power and Mississippi Power had a total over recovered fuel balance of $229 million. Fuel cost recovery revenues are adjusted for differences in actual recoverable fuel costs and amounts billed in current regulated rates. Accordingly, changes to the billing factors will have no significant effect on Southern Company s revenues or net income but will affect cash flow. The traditional operating companies continuously monitor the under or over recovered fuel cost balances. See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Fuel Cost Recovery of Southern Company in Item 7 and Note 3 to the financial statements under Retail Regulatory Matters Alabama Power Fuel Cost Recovery and Retail Regulatory Matters Georgia Power Fuel Cost Recovery in Item 8 of the Form 10-K for additional information.

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

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Legislation

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

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

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

Income Tax Matters

Georgia State Income Tax Credits

Georgia Power s 2005 through 2008 income tax filings for the State of Georgia include state income tax credits for increased activity through Georgia ports. Georgia Power had also filed similar claims for the years 2002 through 2004. The Georgia Department of Revenue has not responded to these claims. In July 2007, Georgia Power filed a complaint in the Superior Court of Fulton County to recover the credits claimed for the years 2002 through 2004. On March 22, 2010, the Superior Court of Fulton County ruled in favor of Georgia Power s motion for summary judgment. On April 30, 2010, the Georgia Department of Revenue filed its notice of appeal with the Georgia Court of Appeals. An unrecognized tax benefit has been recorded related to these credits. If Georgia Power prevails, these claims could have a significant, and possibly material, positive effect on Southern Company s net income. If Georgia Power is not successful, payment of the related state tax could have a significant, and possibly material, negative effect on Southern Company s cash flow. See Note 5 to the financial statements of Southern Company under Unrecognized Tax Benefits in Item 8 of the Form 10-K and Note (G) to the Condensed Financial Statements herein for additional information. The ultimate outcome of this matter cannot now be determined.

Construction Projects

The subsidiary companies of Southern Company are engaged in continuous construction programs to accommodate existing and estimated future loads on their respective systems. Southern Company intends to continue its strategy of developing and constructing new generating facilities, including units at Southern Power, proposed new nuclear units, and a proposed IGCC facility, as well as adding environmental control equipment and expanding the transmission and distribution systems. For the traditional operating companies, major generation construction projects are subject to state

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PSC approvals in order to be included in retail rates. While Southern Power generally constructs and acquires generation assets covered by long-term PPAs, any uncontracted capacity could negatively affect future earnings. See Note 7 to the financial statements of Southern Company under Construction Program in Item 8 of the Form 10-K for estimated construction expenditures for the next three years. In addition, see Note 3 to the financial statements of Southern Company under Retail Regulatory Matters Georgia Power Nuclear Construction and Retail Regulatory Matters Integrated Coal Gasification Combined Cycle in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under Retail Regulatory Matters Nuclear and Retail Regulatory Matters Integrated Coal Gasification Combined Cycle herein for additional information.

Other Matters

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

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

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

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

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

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FINANCIAL CONDITION AND LIQUIDITY

Overview

Southern Company s financial condition remained stable at March 31, 2010. Southern Company intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See Sources of Capital and Financing Activities herein for additional information.

Net cash provided from operating activities totaled $739.0 million for the first quarter 2010, an increase of $337.8 million from the corresponding period in 2009. Significant changes in operating cash flow for the first quarter 2010 as compared to the corresponding period in 2009 include an increase in net income as previously discussed and a reduction in fossil fuel stock. Net cash used for investing activities totaled $1.1 billion for the first quarter 2010. This amount was unchanged from the corresponding period in 2009 and consisted primarily of property, plant, and equipment additions. Net cash used for financing activities totaled $1.4 million for the first quarter 2010, a decrease of $977.9 million from the corresponding period in 2009, primarily due to fewer issuances of securities in the first quarter 2010.

Significant balance sheet changes for the first quarter 2010 include a decrease in cash and cash equivalents of $351 million and an increase of $768 million in total property, plant, and equipment for the installation of equipment to comply with environmental standards and construction of generation, transmission, and distribution facilities. Other significant changes include an increase in equity of $318 million.

The market price of Southern Company s common stock at March 31, 2010 was $33.16 per share (based on the closing price as reported on the New York Stock Exchange) and the book value was $18.43 per share, representing a market-to-book ratio of 180%, compared to $33.32, $18.15, and 184%, respectively, at the end of 2009. The dividend for the first quarter 2010 was $0.4375 per share compared to $0.42 per share in the first quarter 2009. In April 2010, the quarterly dividend payable in June 2010 was increased to $0.455 per share.

Capital Requirements and Contractual Obligations

See MANAGEMENT S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Southern Company in Item 7 of the Form 10-K for a description of Southern Company s capital requirements for its construction program and other funding requirements associated with scheduled maturities of long-term debt, as well as the related interest, preferred and preference stock dividends, leases, trust funding requirements, other purchase commitments, unrecognized tax benefits and interest, and derivative obligations. Approximately $1.24 billion will be required through March 31, 2011 for maturities of long-term debt.

The construction programs are subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in environmental statutes and regulations; changes in nuclear plants to meet new regulatory requirements; changes in FERC rules and regulations; PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

Sources of Capital

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

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However, the amount, type, and timing of any 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 addition, on February 16, 2010, the DOE offered Georgia Power a conditional commitment for federal loan guarantees that would apply to future Georgia Power borrowings related to two additional nuclear units on the site of Plant Vogtle (Plant Vogtle Units 3 and 4). Any borrowings guaranteed by the DOE would be full recourse to Georgia Power and secured by a first priority lien on Georgia Power s 45.7% undivided ownership interest in Plant Vogtle Units 3 and 4. Total guaranteed borrowings would not exceed 70% of eligible project costs, or approximately $3.4 billion, and are expected to be funded by the Federal Financing Bank. Georgia Power has 90 days to accept the conditional commitment. Georgia Power will work with the DOE to finalize loan guarantees. Final approval and issuance of loan guarantees by the DOE are subject to receipt of the combined construction and operating license for Plant Vogtle Units 3 and 4 from the NRC, negotiation of definitive agreements, completion of due diligence by the DOE, receipt of any necessary regulatory approvals, and satisfaction of other conditions. There can be no assurance that the DOE will issue loan guarantees for Georgia Power.

Southern Company s current liabilities frequently exceed current assets because of the continued use of short-term debt as a funding source to meet cash needs as well as scheduled maturities of long-term debt. To meet short-term cash needs and contingencies, Southern Company has substantial cash flow from operating activities and access to capital markets, including commercial paper programs (which are backed by bank credit facilities), to meet liquidity needs.

At March 31, 2010, Southern Company and its subsidiaries had approximately $339 million of cash and cash equivalents and approximately $4.8 billion of unused committed credit arrangements with banks. Of the unused credit arrangements, $1.3 billion expire in 2010, $235 million expire in 2011, and $3.2 billion expire in 2012. Of the credit arrangements expiring in 2010 and 2011, $81 million contain provisions allowing two-year term loans executable at expiration and $692 million contain provisions allowing one-year term loans executable at expiration. At March 31, 2010, approximately $1.8 billion of the credit facilities were dedicated to providing liquidity support to the traditional operating companies variable rate pollution control revenue bonds. Subsequent to March 31, 2010, Georgia Power and Gulf Power renewed credit arrangements totaling $500 million and extended the expiration dates to 2011. Of these facilities, $200 million contain provisions allowing one-year term loans executable at expiration. 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 March 31, 2010, the Southern Company system had approximately $770 million of commercial paper borrowings outstanding. Management believes that the need for working capital can be adequately met by utilizing commercial paper programs, lines of credit, and cash.

Off-Balance Sheet Financing Arrangements

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

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Credit Rating Risk

Southern Company does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change of certain subsidiaries to BBB and Baa2, or BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, energy price risk management, and construction of new generation. At March 31, 2010, the maximum potential collateral requirements under these contracts at a BBB and Baa2 rating were approximately $9 million and at a BBB- and/or Baa3 rating were approximately $453 million. At March 31, 2010, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately $2.3 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.

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

Market Price Risk

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

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

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The changes in fair value of energy-related derivative contracts for the three months ended March 31, 2010 were as follows:

	First Quarter 2010 Changes Fair Value *(in millions)*
Contracts outstanding at the beginning of the period, assets (liabilities), net	$ (178)
Contracts realized or settled	43
Current period changes[(a)]	(137)
Contracts outstanding at the end of the period, assets (liabilities), net	$ (272)

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

The change in the fair value positions of the energy-related derivative contracts for the three months ended March 31, 2010 was a decrease of $94 million, substantially all of which is due to natural gas positions. The change is attributable to both the volume and prices of natural gas. At March 31, 2010, Southern Company had a net hedge volume of 141 million mmBtu (includes location basis of 1.2 million mmBtu) with a weighted average contract cost approximately $2.05 per mmBtu above market prices, compared to 145 million mmBtu at December 31, 2009 with a weighted average contract cost approximately $1.23 per mmBtu above market prices. The majority of the natural gas hedges are recovered through the traditional operating companies fuel cost recovery clauses.

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

Asset (Liability) Derivatives	**March 31, 2010**	**December 31, 2009**
	(in millions)	
Regulatory hedges	$(272)	$ (175)
Cash flow hedges	2	(2)
Not designated	(2)	(1)
Total fair value	$(272)	$ (178)

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

Total net unrealized pre-tax gains (losses) recognized in income for the three months ended March 31, 2010 and 2009 for energy-related derivative contracts that are not hedges were $(1) million and $(1) million, respectively.

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

The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at March 31, 2010 are as follows:

	March 31, 2010 Fair Value Measurements			
	Total	Maturity		
	Fair Value	Year 1	Years 2&3	Years 4&5
	(in millions)			
Level 1	$	$	$	$
Level 2	(272)	(163)	(108)	(1)
Level 3				
Fair value of contracts outstanding at end of period	$(272)	$(163)	$(108)	$ (1)

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

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

Financing Activities

In the first three months of 2010, Georgia Power issued $350 million aggregate principal amount of Series 2010A Floating Rate Senior Notes due March 15, 2013. The proceeds were used to repay at maturity $250 million aggregate principal amount of Series 2008A Floating Rate Senior Notes due March 17, 2010, to repay a portion of its outstanding short-term indebtedness, and for general corporate purposes, including Georgia Power s continuous construction program. Southern Company issued $149 million of common stock through the Southern Investment Plan and employee and director stock plans. The proceeds were primarily used to repay short-term and long-term indebtedness and to fund ongoing construction projects. See Southern Company s Condensed Consolidated Statements of Cash Flows herein for further details regarding financing activities during the first three months of 2010.

Subsequent to March 31, 2010, Gulf Power issued $175 million aggregate principal amount of Series 2010A 4.75% Senior Notes due April 15, 2020. The proceeds will be used to repay at maturity $140 million aggregate principal amount of Series 2009A Floating Rate Senior Notes due June 28, 2010, to repay a portion of its outstanding short-term indebtedness, and for general corporate purposes, including Gulf Power s continuous construction program. Gulf Power settled $100 million of interest rate hedges related to the Series 2010A Senior Note issuance at a gain of approximately $1.5 million. The gain will be amortized to interest expense, in earnings, over 10 years.

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

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PART I

Item 3. Quantitative And Qualitative Disclosures About Market Risk.

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

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

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

(b) Changes in internal controls.

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

Item 4T. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

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

(b) Changes in internal controls.

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

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ALABAMA POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended March 31,	
	2010	2009
	(in thousands)	
Operating Revenues:		
Retail revenues	**$ 1,176,009**	$ 1,058,137
Wholesale revenues, non-affiliates	**171,824**	158,695
Wholesale revenues, affiliates	**98,334**	84,352
Other revenues	**48,978**	38,582
Total operating revenues	**1,495,145**	1,339,766
Operating Expenses:		
Fuel	**489,043**	483,233
Purchased power, non-affiliates	**17,883**	15,544
Purchased power, affiliates	**51,643**	41,560
Other operations and maintenance	**310,773**	276,859
Depreciation and amortization	**145,283**	143,416
Taxes other than income taxes	**81,873**	80,281
Total operating expenses	**1,096,498**	1,040,893
Operating Income	**398,647**	298,873
Other Income and (Expense):		
Allowance for equity funds used during construction	**13,238**	16,725
Interest income	**4,038**	4,122
Interest expense, net of amounts capitalized	**(74,562)**	(72,207)
Other income (expense), net	**(6,501)**	(6,372)
Total other income and (expense)	**(63,787)**	(57,732)
Earnings Before Income Taxes	**334,860**	241,141
Income taxes	**122,246**	85,009
Net Income	**212,614**	156,132
Dividends on Preferred and Preference Stock	**9,866**	9,866
Net Income After Dividends on Preferred and Preference Stock	**$ 202,748**	$ 146,266

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended March 31,	
	2010	2009
	(in thousands)	
Net Income After Dividends on Preferred and Preference Stock	**$ 202,748**	$ 146,266

Other comprehensive income (loss):		
Qualifying hedges:		
Changes in fair value, net of tax of $28 and $(886), respectively	**46**	(1,457)
Reclassification adjustment for amounts included in net income, net of tax of $610 and $1,061, respectively	**1,003**	1,745
Total other comprehensive income (loss)	**1,049**	288
Comprehensive Income	**$ 203,797**	$ 146,554

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

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ALABAMA POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Three Months Ended March 31, 2010	2009
	(in thousands)	
Operating Activities:		
Net income	**$ 212,614**	$ 156,132
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization, total	**168,138**	164,488
Deferred income taxes	**46,926**	(25,795)
Allowance for equity funds used during construction	**(13,238)**	(16,725)
Pension, postretirement, and other employee benefits	**(7,713)**	(4,933)
Stock based compensation expense	**2,930**	2,851
Other, net	**5,975**	8,858
Changes in certain current assets and liabilities		
-Receivables	**10,961**	173,032
-Fossil fuel stock	**13,355**	(11,654)
-Materials and supplies	**(3,033)**	(6,775)
-Other current assets	**(77,543)**	(73,518)
-Accounts payable	**(75,215)**	(136,678)
-Accrued taxes	**69,072**	123,746
-Accrued compensation	**(41,078)**	(64,030)
-Other current liabilities	**(38,405)**	7,928
Net cash provided from operating activities	**273,746**	296,927
Investing Activities:		
Property additions	**(254,694)**	(337,984)
Investment in restricted cash from pollution control revenue bonds	**(1)**	(160)
Distribution of restricted cash from pollution control revenue bonds	**5,241**	13,774
Nuclear decommissioning trust fund purchases	**(39,486)**	(60,600)
Nuclear decommissioning trust fund sales	**39,486**	60,600
Cost of removal, net of salvage	**(5,035)**	(5,109)
Other investing activities	**(43,245)**	3,025
Net cash used for investing activities	**(297,734)**	(326,454)
Financing Activities:		
Decrease in notes payable, net		(24,995)
Proceeds		
Capital contributions from parent company	**5,677**	6,682
Senior notes issuances		500,000
Payment of preferred and preference stock dividends	**(9,863)**	(9,868)
Payment of common stock dividends	**(135,675)**	(130,700)
Other financing activities	**(1,196)**	(5,822)
Net cash provided from (used for) financing activities	**(141,057)**	335,297

Net Change in Cash and Cash Equivalents	**(165,045)**	305,770
Cash and Cash Equivalents at Beginning of Period	**368,016**	28,181
Cash and Cash Equivalents at End of Period	**$ 202,971**	$ 333,951
Supplemental Cash Flow Information:		
Cash paid during the period for		
Interest (net of $5,159 and $6,992 capitalized for 2010 and 2009, respectively)	**$ 58,529**	$ 54,875
Income taxes (net of refunds)	**$ 18,872**	$ (640)

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 March 31, 2010	At December 31, 2009
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 202,971**	$ 368,016
Restricted cash and cash equivalents	**31,471**	36,711
Receivables		
Customer accounts receivable	**353,676**	322,292
Unbilled revenues	**116,784**	134,875
Under recovered regulatory clause revenues	**372**	37,338
Other accounts and notes receivable	**27,158**	33,522
Affiliated companies	**82,479**	61,508
Accumulated provision for uncollectible accounts	**(11,690)**	(9,551)
Fossil fuel stock, at average cost	**381,122**	394,511
Materials and supplies, at average cost	**329,149**	326,074
Vacation pay	**54,591**	53,607
Prepaid expenses	**187,147**	111,320
Other regulatory assets, current	**49,878**	34,347
Other current assets	**6,034**	6,203
Total current assets	**1,811,142**	1,910,773
Property, Plant, and Equipment:		
In service	**19,380,772**	18,574,229
Less accumulated provision for depreciation	**6,652,573**	6,558,864
Plant in service, net of depreciation	**12,728,199**	12,015,365
Nuclear fuel, at amortized cost	**289,139**	253,308
Construction work in progress	**628,855**	1,256,311
Total property, plant, and equipment	**13,646,193**	13,524,984
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	**61,103**	59,628
Nuclear decommissioning trusts, at fair value	**513,629**	489,795
Miscellaneous property and investments	**69,430**	69,749
Total other property and investments	**644,162**	619,172
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**408,602**	387,447
Prepaid pension costs	**141,710**	132,643
Other regulatory assets, deferred	**759,220**	750,492
Other deferred charges and assets	**212,159**	198,582

Total deferred charges and other assets	**1,521,691**		1,469,164
Total Assets	**$ 17,623,188**	$	17,524,093

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

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ALABAMA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder s Equity	At March 31, 2010	At December 31, 2009
	(in thousands)	
Current Liabilities:		
Securities due within one year	**$ 300,386**	$ 100,000
Accounts payable		
Affiliated	**189,679**	194,675
Other	**210,732**	328,400
Customer deposits	**87,263**	86,975
Accrued taxes		
Accrued income taxes	**68,988**	14,789
Other accrued taxes	**51,046**	31,918
Accrued interest	**62,651**	65,455
Accrued vacation pay	**44,751**	44,751
Accrued compensation	**31,131**	71,286
Liabilities from risk management activities	**49,010**	37,844
Over recovered regulatory clause revenues	**142,008**	181,565
Other current liabilities	**43,151**	40,020
Total current liabilities	**1,280,796**	1,197,678
Long-term Debt	**5,883,255**	6,082,489
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**2,359,419**	2,293,468
Deferred credits related to income taxes	**87,796**	88,705
Accumulated deferred investment tax credits	**162,732**	164,713
Employee benefit obligations	**387,708**	387,936
Asset retirement obligations	**496,260**	491,007
Other cost of removal obligations	**682,056**	668,151
Other regulatory liabilities, deferred	**194,894**	169,224
Deferred over recovered regulatory clause revenues	**43,738**	22,060
Other deferred credits and liabilities	**45,445**	37,113
Total deferred credits and other liabilities	**4,460,048**	4,322,377
Total Liabilities	**11,624,099**	11,602,544
Redeemable Preferred Stock	**341,715**	341,715
Preference Stock	**343,373**	343,373
Common Stockholder s Equity:		
Common stock, par value $40 per share		
Authorized - 40,000,000 shares		

Outstanding - 30,537,500 shares	**1,221,500**	1,221,500
Paid-in capital	**2,129,233**	2,119,818
Retained earnings	**1,967,602**	1,900,526
Accumulated other comprehensive loss	**(4,334)**	(5,383)
Total common stockholder s equity	**5,314,001**	5,236,461
Total Liabilities and Stockholder s Equity	**$ 17,623,188**	$ 17,524,093

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

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ALABAMA POWER COMPANY
MANAGEMENT S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FIRST QUARTER 2010 vs. FIRST QUARTER 2009

OVERVIEW

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

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

RESULTS OF OPERATIONS

Net Income

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$56.4	38.6

Alabama Power s net income after dividends on preferred and preference stock for the first quarter 2010 was $202.7 million compared to $146.3 million for the corresponding period in 2009. The increase was primarily due to increases in rates under Rate Stabilization and Equalization Plan (Rate RSE) and Rate Certificated New Plant for environmental costs (Rate CNP Environmental) that took effect January 2010 as well as significantly colder weather. The increases in revenues were partially offset by increases in operations and maintenance expenses.

Even though Rate RSE and Rate CNP have increased, there was an overall annual reduction in Alabama Power s retail customer billings in 2010. See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Retail Rate Adjustments of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Retail Regulatory Matters in Item 8 of the Form 10-K for additional information.

Retail Revenues

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$117.9	11.1

In the first quarter 2010, retail revenues were $1.18 billion compared to $1.06 billion for the corresponding period in 2009.

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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:

	First Quarter 2010	
	(in millions)	*(% change)*
Retail prior year	$1,058.1	
Estimated change in		
Rates and pricing	61.9	5.8
Sales growth (decline)	1.6	0.2
Weather	58.1	5.5
Fuel and other cost recovery	(3.7)	(0.4)
Retail current year	$1,176.0	11.1%

Revenues associated with changes in rates and pricing increased in the first quarter 2010 when compared to the corresponding period in 2009 primarily due to Rate RSE and Rate CNP Environmental increases effective January 2010.

Revenues attributable to changes in sales increased slightly in the first quarter 2010 from the corresponding period in 2009. Industrial KWH energy sales increased 10.5% 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 2.5% due to an increase in customer demand. Weather-adjusted commercial KWH energy sales decreased 0.8% due to a decrease in customer growth.

Revenues resulting from changes in weather increased in the first quarter 2010 when compared to the corresponding period in 2009. In the first quarter 2010, Alabama Power s service territory experienced significantly colder weather. As a result, residential and commercial sales increased 10.6% and 2.5%, respectively.

Fuel and other cost recovery revenues decreased in the first quarter 2010 when compared to the corresponding period in 2009 due to a decrease in costs associated with PPAs certificated by the Alabama PSC and a reduction in Rate Natural Disaster Reserve (NDR) customer billing rate as a result of achieving the target reserve balance. Electric rates include provisions to recognize the full recovery of fuel costs, purchased power costs, PPAs certificated by the Alabama PSC, and costs associated with the NDR. Under these provisions, fuel and other cost recovery revenues generally equal fuel and other cost recovery expenses and do not impact net income.

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

Wholesale Revenues Non-Affiliates

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$13.1	8.3

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

In the first quarter 2010, wholesale revenues from non-affiliates were $171.8 million compared to $158.7 million for the corresponding period in 2009. This increase was primarily due to a 16.5% increase in the price of energy, partially offset by a 7.0% decrease in KWH sales.

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

Wholesale Revenues Affiliates

First Quarter 2010 vs. First Quarter 2009

(change in millions)	*(% change)*
$13.9	16.6

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 first quarter 2010, wholesale revenues from affiliates were $98.3 million compared to $84.4 million for the corresponding period in 2009. This increase was primarily due to a 12.7% increase in KWH sales and a 3.4% increase in price.

Other Revenues

First Quarter 2010 vs. First Quarter 2009

(change in millions)	*(% change)*
$10.4	26.9

In the first quarter 2010, other revenues were $49.0 million compared to $38.6 million for the corresponding period in 2009. This increase was due to a $2.8 million increase in revenues from gas-fueled co-generation steam facilities as a result of greater sales volume; a $1.4 million increase in transmission sales; a $1.3 million adjustment related to the Open Access Transmission Tariff; a $0.9 million increase in customer charges related to late fees; and a $0.8 million increase in pole attachment rentals.

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

Fuel and Purchased Power Expenses

	First Quarter 2010 vs. First Quarter 2009	
	(change in millions)	*(% change)*
Fuel*	$ 5.8	1.2
Purchased power non-affiliates	2.4	15.0
Purchased power affiliates	10.1	24.3
Total fuel and purchased power expenses	$18.3	

* 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 first quarter 2010, total fuel and purchased power expenses were $558.6 million compared to $540.3 million for the corresponding period in 2009. This increase was due to a $28.7 million increase in total KWHs generated and an $11.7 million increase in the average cost of purchased power, partially offset by a $19.6 million decrease in the cost of fuel resulting from a decrease in the average cost of natural gas.

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

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

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

Average Cost	First Quarter 2010	First Quarter 2009	Percent Change
	(cents per net KWH)		
Fuel	2.80	2.92	(4.1)
Purchased power	7.08	6.14	15.3

In the first quarter 2010, fuel expense was $489.0 million compared to $483.2 million for the corresponding period in 2009. The $5.8 million increase was due to a 34.9% increase in KWHs generated by natural gas.

Non-Affiliates

In the first quarter 2010, purchased power expense from non-affiliates was $17.9 million compared to $15.5 million for the corresponding period in 2009. This increase was related to a 54.1% increase in the average cost per KWH, partially offset by a 25.3% decrease in the amount of energy purchased.

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

Affiliates

In the first quarter 2010, purchased power expense from affiliates was $51.6 million compared to $41.5 million for the corresponding period in 2009. This increase was related to a 13.8% increase in the average cost per KWH and a 9.2% increase in the amount of energy 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, as approved by the FERC.

Other Operations and Maintenance Expenses

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$33.9	12.2

In the first quarter 2010, other operations and maintenance expenses were $310.8 million compared to $276.9 million for the corresponding period in 2009. Steam production expenses increased $25.2 million due to scheduled outage costs, environmental mandates (which were offset by revenues associated with Rate CNP Environmental), and maintenance costs related to increases in contract labor and material expenses. Administration and general expenses increased $12.2 million related to an increase in affiliated service company expenses, the injuries and damages reserve, and property insurance expense.

Allowance for Funds Used During Construction

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$(3.5)	(20.8)

In the first quarter 2010, AFUDC equity was $13.2 million compared to $16.7 million for the corresponding period in 2009. This decrease was due to the completion of construction projects related to environmental mandates at generating facilities, partially offset by increases in nuclear facility and general plant projects.

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

Income Taxes

First Quarter 2010 vs. First Quarter 2009

(change in millions)	*(% change)*
$37.2	43.8

For the first quarter 2010, income taxes were $122.2 million compared to $85.0 million for the corresponding period in 2009. This increase was primarily due to higher pre-tax earnings.

FUTURE EARNINGS POTENTIAL

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

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

Environmental Matters

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

Carbon Dioxide Litigation

New York Case

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

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

Other Litigation

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation Other Litigation of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Environmental Matters Carbon Dioxide Litigation Other Litigation in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation related to Hurricane Katrina. On February 26, 2010, the U.S. Court of Appeals for the Fifth Circuit granted the defendants petition for rehearing en banc. The ultimate outcome of this matter cannot be determined at this time.

Coal Combustion Byproducts

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Coal Combustion Byproducts of Alabama Power in Item 7 of the Form 10-K for information regarding potential additional regulation of coal combustion byproducts. On May 4, 2010, the EPA issued a proposal requesting comments on two potential regulatory options for management and disposal of coal combustion byproducts, either of which could require conversion of existing storage units to lined landfills with additional waste management and groundwater monitoring requirements. Under both options, the EPA proposes to exempt the beneficial reuse of coal combustion byproducts from regulation. The outcome of these proposed regulations will depend on their final form and any legal challenges, and cannot be determined at this time. However, additional regulation of coal combustion byproducts could have a significant impact on Alabama Power s management, beneficial use, and disposal of such byproducts and could result in significant additional compliance costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

Global Climate Issues

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Global Climate Issues of Alabama Power in Item 7 of the Form 10-K for information regarding the potential for legislation and regulation addressing greenhouse gas and other emissions. On April 1, 2010, the EPA issued a final rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that, once this rule becomes effective on January 2, 2011, carbon dioxide and other greenhouse gases will become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. The EPA also published a proposed rule governing how these programs would be applied to stationary sources, including power plants, in October 2009. The EPA is expected to finalize this proposed rule during 2010. The ultimate outcome of these proposed and final rules cannot be determined at this time and will depend on additional regulatory action and any legal challenges.

FERC and Alabama PSC Matters

Retail Fuel Cost Recovery

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Fuel Cost Recovery of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Retail Regulatory Matters Fuel Cost Recovery in Item 8 of the Form 10-K for information regarding Alabama Power s fuel cost recovery. Alabama Power s over recovered fuel costs as of March 31, 2010 totaled $172.7 million as compared to $199.6 million at December 31, 2009. These over recovered fuel costs at March 31, 2010 are included in over recovered regulatory clause revenues and deferred over recovered regulatory clause revenues on Alabama Power s Condensed

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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 return of the over recovered fuel costs.

Natural Disaster Cost Recovery

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Natural Disaster Reserve of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Retail Regulatory Matters Natural Disaster Reserve in Item 8 of the Form 10-K for information regarding natural disaster cost recovery. At March 31, 2010, Alabama Power had an accumulated balance of $76.6 million in the target reserve for future storms, which is included in the Condensed Balance Sheets herein under other regulatory liabilities, deferred.

Hydro Relicensing

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL FERC Matters of Alabama Power in Item 7 of the Form 10-K for information regarding Alabama Power s applications to the FERC for new licenses for certain of its hydroelectric projects. On March 31, 2010, the FERC issued a new 30-year license for the Lewis Smith and Bankhead developments on the Warrior River. The new license authorizes Alabama Power to continue operating these facilities in a manner consistent with past operations. On April 30, 2010, a stakeholders group filed a request for rehearing of the FERC order issuing the new license. The ultimate outcome of this matter cannot be determined at this time.

Legislation

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

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

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

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Other Matters

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

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

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

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

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

FINANCIAL CONDITION AND LIQUIDITY

Overview

Alabama Power s financial condition remained stable at March 31, 2010. Alabama Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See Sources of Capital and Financing Activities herein for additional information.

Net cash provided from operating activities totaled $273.7 million for the first three months of 2010, compared to $296.9 million for the corresponding period in 2009. The $23.2 million decrease in cash provided from operating activities was primarily due to less cash collections of regulatory clause revenues when compared to the prior year, partially offset by increases in net income and deferred income taxes. Net cash used for investing activities totaled $297.7 million primarily

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due to gross property additions related to steam generation equipment in the first three months of 2010. Net cash used for financing activities totaled $141.1 million for the first three months of 2010, compared to $335.3 million provided in the corresponding period in 2009. The $476.4 million change is primarily due to fewer issuances of securities. 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 quarter 2010 include an increase of $121.2 million in total property, plant, and equipment primarily due to an increase in environmental-related equipment, an increase of $54.2 million in accrued income taxes, and an increase of $66.0 million in accumulated deferred income taxes.

Capital Requirements and Contractual Obligations

See MANAGEMENT S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Alabama Power in Item 7 of the Form 10-K for a description of Alabama Power s capital requirements for its construction program, scheduled maturities of long-term debt, as well as the related interest, derivative obligations, preferred and preference stock dividends, leases, purchase commitments, and trust funding requirements. Approximately $300 million will be required through March 31, 2011 for maturities of long-term debt. The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in environmental statutes and regulations; changes in nuclear plants to meet new regulatory requirements; changes in FERC rules and regulations; Alabama PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

Sources of Capital

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

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 March 31, 2010 cash and cash equivalents of approximately $203 million and unused committed credit arrangements with banks of approximately $1.3 billion. Of the unused credit arrangements, $481 million expire in 2010, $25 million expire in 2011, and $765 million expire in 2012. Of the credit arrangements that expire in 2010, $372 million contain provisions allowing for one-year term loans executable at expiration. Alabama Power expects to renew its credit arrangements, as needed, prior to expiration. The credit arrangements provide liquidity support to Alabama Power s commercial paper borrowings and $744 million are dedicated to funding purchase obligations related to variable rate pollution control revenue bonds. See Note 6 to the financial statements of Alabama Power under Bank Credit Arrangements in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under Bank Credit Arrangements herein for additional information. Alabama Power may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of Alabama Power and other Southern Company subsidiaries. At March 31, 2010, 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 BBB- and/or Baa3 or below. These contracts are primarily for physical electricity purchases, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management. At March 31, 2010, the maximum potential collateral requirements under these contracts at a BBB- and/or Baa3 rating were approximately $4 million. At March 31, 2010, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately $349 million. Included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Alabama Power s ability to access capital markets, particularly the short-term debt market.

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

Market Price Risk

During the first quarter 2010, Alabama Power had interest rate swaps totaling $576 million expire, which did not materially increase market risk exposure relative to interest rate changes. Since a significant portion of outstanding indebtedness remains at fixed rates, Alabama Power is not aware of any facts or circumstances that would significantly affect exposures on existing indebtedness in the near term. However, the impact on future financing costs cannot now be determined.

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

The changes in fair value of energy-related derivative contracts, the majority of which are composed of regulatory hedges, for the three months ended March 31, 2010 were as follows:

	First Quarter 2010 Changes Fair Value *(in millions)*
Contracts outstanding at the beginning of the period, assets (liabilities), net	$ (44)
Contracts realized or settled	14
Current period changes[(a)]	(37)
Contracts outstanding at the end of the period, assets (liabilities), net	$ (67)

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

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The change in the fair value positions of the energy-related derivative contracts for the three months ended March 31, 2010 was a decrease of $23 million, substantially all of which is due to natural gas positions. The change is attributable to both the volume and prices of natural gas. At March 31, 2010, Alabama Power had a net hedge volume of 32 million mmBtu with a weighted average contract cost approximately $2.07 per mmBtu above market prices, compared to 36 million mmBtu at December 31, 2009 with a weighted average contract cost approximately $1.22 per mmBtu above market prices. The majority of the natural gas hedges are recovered through the fuel cost recovery clause.

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

Unrealized pre-tax gains and losses recognized in income for the three months ended March 31, 2010 and 2009 for energy-related derivative contracts that are not hedges were not material.

The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at March 31, 2010 are as follows:

	March 31, 2010 Fair Value Measurements			
	Total Fair Value	Maturity Year 1	Years 2&3	Years 4&5
	(in millions)			
Level 1	$	$	$	$
Level 2	(67)	(49)	(18)	
Level 3				
Fair value of contracts outstanding at end of period	$(67)	$(49)	$(18)	$

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

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

Financing Activities

Alabama Power did not issue or redeem any securities during the three months ended March 31, 2010.

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

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GEORGIA POWER COMPANY

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GEORGIA POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended March 31,	
	2010	2009
	(in thousands)	
Operating Revenues:		
Retail revenues	**$ 1,791,574**	$ 1,592,395
Wholesale revenues, non-affiliates	**109,624**	95,986
Wholesale revenues, affiliates	**14,411**	15,210
Other revenues	**68,556**	62,250
Total operating revenues	**1,984,165**	1,765,841
Operating Expenses:		
Fuel	**757,501**	600,490
Purchased power, non-affiliates	**81,698**	61,953
Purchased power, affiliates	**161,937**	197,223
Other operations and maintenance	**389,281**	390,493
Depreciation and amortization	**114,182**	167,111
Taxes other than income taxes	**80,474**	76,248
Total operating expenses	**1,585,073**	1,493,518
Operating Income	**399,092**	272,323
Other Income and (Expense):		
Allowance for equity funds used during construction	**34,732**	20,754
Interest income	**413**	1,230
Interest expense, net of amounts capitalized	**(92,989)**	(98,390)
Other income (expense), net	**(5,548)**	(6,720)
Total other income and (expense)	**(63,392)**	(83,126)
Earnings Before Income Taxes	**335,700**	189,197
Income taxes	**93,372**	62,628
Net Income	**242,328**	126,569
Dividends on Preferred and Preference Stock	**4,345**	4,345
Net Income After Dividends on Preferred and Preference Stock	**$ 237,983**	$ 122,224

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended March 31,	
	2010	2009
	(in thousands)	
Net Income After Dividends on Preferred and Preference Stock	**$ 237,983**	$ 122,224

Other comprehensive income (loss):		
Qualifying hedges:		
Changes in fair value, net of tax of $4 and $1,180, respectively	**8**	1,870
Reclassification adjustment for amounts included in net income, net of tax of $1,798 and $1,743, respectively	**2,851**	2,763
Total other comprehensive income (loss)	**2,859**	4,633
Comprehensive Income	**$ 240,842**	$ 126,857

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 Three Months Ended March 31,	
	2010	2009
	(in thousands)	
Operating Activities:		
Net income	**$ 242,328**	$ 126,569
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization, total	**154,145**	199,773
Deferred income taxes	**59,166**	(7,130)
Deferred revenues	**(17,881)**	(7,685)
Deferred expenses	**25,104**	26,387
Allowance for equity funds used during construction	**(34,732)**	(20,754)
Pension, postretirement, and other employee benefits	**(3,819)**	(386)
Stock based compensation expense	**3,213**	3,340
Hedge settlements		(16,167)
Insurance cash surrender value		23,700
Other, net	**(23,584)**	(332)
Changes in certain current assets and liabilities		
-Receivables	**(9,093)**	13,563
-Fossil fuel stock	**80,926**	(112,255)
-Materials and supplies	**1,195**	(5,065)
-Prepaid income taxes	**22,861**	(5,139)
-Other current assets	**(7,675)**	9,627
-Accounts payable	**(16,825)**	174,347
-Accrued taxes	**(184,654)**	(135,100)
-Accrued compensation	**(7,408)**	(96,144)
-Other current liabilities	**43,485**	61,917
Net cash provided from operating activities	**326,752**	233,066
Investing Activities:		
Property additions	**(625,060)**	(640,486)
Distribution of restricted cash from pollution control revenue bonds		9,305
Nuclear decommissioning trust fund purchases	**(198,816)**	(318,732)
Nuclear decommissioning trust fund sales	**149,959**	320,681
Nuclear decommissioning trust securities lending collateral	**45,395**	(5,411)
Cost of removal, net of salvage	**(14,115)**	(16,368)
Change in construction payables, net of joint owner portion	**41,491**	55,767
Other investing activities	**5,072**	19,536
Net cash used for investing activities	**(596,074)**	(575,708)
Financing Activities:		
Decrease in notes payable, net	**(80,879)**	(76,509)
Proceeds		
Capital contributions from parent company	**460,202**	280,016

Senior notes issuances	**350,000**	500,000
Other long-term debt issuances		750
Redemptions		
Senior notes	**(250,420)**	(150,361)
Payment of preferred and preference stock dividends	**(4,348)**	(4,413)
Payment of common stock dividends	**(205,000)**	(184,725)
Other financing activities	**(1,883)**	(7,554)
Net cash provided from financing activities	**267,672**	357,204
Net Change in Cash and Cash Equivalents	**(1,650)**	14,562
Cash and Cash Equivalents at Beginning of Period	**14,309**	132,739
Cash and Cash Equivalents at End of Period	**$ 12,659**	$ 147,301
Supplemental Cash Flow Information:		
Cash paid during the period for		
Interest (net of $13,176 and $9,143 capitalized for 2010 and 2009, respectively)	**$ 62,182**	$ 60,905
Income taxes (net of refunds)	**$ (6,197)**	$ 13,330

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 March 31, 2010	At December 31, 2009
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 12,659**	$ 14,309
Receivables		
Customer accounts receivable	**496,449**	486,885
Unbilled revenues	**149,417**	172,035
Under recovered regulatory clause revenues	**185,899**	291,837
Joint owner accounts receivable	**166,609**	146,932
Other accounts and notes receivable	**47,141**	62,758
Affiliated companies	**17,799**	11,775
Accumulated provision for uncollectible accounts	**(9,835)**	(9,856)
Fossil fuel stock, at average cost	**645,340**	726,266
Materials and supplies, at average cost	**361,347**	362,803
Vacation pay	**74,291**	74,566
Prepaid income taxes	**73,759**	132,668
Other regulatory assets, current	**100,870**	76,634
Other current assets	**42,224**	62,651
Total current assets	**2,363,969**	2,612,263
Property, Plant, and Equipment:		
In service	**25,567,541**	25,120,034
Less accumulated provision for depreciation	**9,607,484**	9,493,068
Plant in service, net of depreciation	**15,960,057**	15,626,966
Nuclear fuel, at amortized cost	**390,228**	339,810
Construction work in progress	**2,619,903**	2,521,091
Total property, plant, and equipment	**18,970,188**	18,487,867
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	**67,452**	66,106
Nuclear decommissioning trusts, at fair value	**653,931**	580,322
Miscellaneous property and investments	**38,397**	38,516
Total other property and investments	**759,780**	684,944
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**664,831**	608,851
Deferred under recovered regulatory clause revenues	**501,165**	373,245
Other regulatory assets, deferred	**1,343,252**	1,321,904
Other deferred charges and assets	**199,561**	205,492

Total deferred charges and other assets	**2,708,809**	2,509,492
Total Assets	**$ 24,802,746**	$ 24,294,566

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

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GEORGIA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder s Equity	At March 31, 2010	At December 31, 2009
	(in thousands)	
Current Liabilities:		
Securities due within one year	**$ 103,819**	$ 253,882
Notes payable	**243,079**	323,958
Accounts payable		
Affiliated	**247,428**	238,599
Other	**629,714**	602,003
Customer deposits	**204,640**	200,103
Accrued taxes		
Accrued income taxes	**26,270**	548
Unrecognized tax benefits	**158,210**	164,863
Other accrued taxes	**99,088**	290,174
Accrued interest	**113,787**	89,228
Accrued vacation pay	**55,098**	57,662
Accrued compensation	**37,344**	42,756
Liabilities from risk management activities	**72,074**	49,788
Other cost of removal obligations, current	**162,000**	216,000
Other regulatory liabilities, current	**74,985**	99,807
Other current liabilities	**148,299**	84,319
Total current liabilities	**2,375,835**	2,713,690
Long-term Debt	**8,029,859**	7,782,340
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**3,464,872**	3,389,907
Deferred credits related to income taxes	**132,419**	133,683
Accumulated deferred investment tax credits	**239,186**	242,496
Employee benefit obligations	**921,235**	923,177
Asset retirement obligations	**686,912**	676,705
Other cost of removal obligations	**118,037**	124,662
Other deferred credits and liabilities	**165,310**	139,024
Total deferred credits and other liabilities	**5,727,971**	5,629,654
Total Liabilities	**16,133,665**	16,125,684
Preferred Stock	**44,991**	44,991
Preference Stock	**220,966**	220,966
Common Stockholder s Equity:		
Common stock, without par value		

Authorized - 20,000,000 shares		
Outstanding - 9,261,500 shares	**398,473**	398,473
Paid-in capital	**5,056,707**	4,592,350
Retained earnings	**2,965,917**	2,932,934
Accumulated other comprehensive loss	**(17,973)**	(20,832)
Total common stockholder s equity	**8,403,124**	7,902,925
Total Liabilities and Stockholder s Equity	**$ 24,802,746**	$ 24,294,566

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

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GEORGIA POWER COMPANY
MANAGEMENT S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FIRST QUARTER 2010 vs. FIRST QUARTER 2009

OVERVIEW

Georgia Power operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located within the State of Georgia and to wholesale customers in the Southeast. Many factors affect the opportunities, challenges, and risks of Georgia Power s business of selling electricity. These factors include the ability to maintain a constructive regulatory environment, to maintain energy sales given the effects of the recession, and to effectively manage and secure timely recovery of rising costs. These costs include those related to projected long-term demand growth, increasingly stringent environmental standards, and fuel prices. Georgia Power is currently constructing two new nuclear and three new combined cycle generating units. Appropriately balancing required costs and capital expenditures with customer prices will continue to challenge Georgia Power for the foreseeable future.

Georgia Power is required to file a general rate case by July 1, 2010, which will determine whether the 2007 Retail Rate Plan should be continued, modified, or discontinued. On March 11, 2010, the Georgia PSC approved Georgia Power s request to increase its fuel cost recovery rate effective April 1, 2010. Georgia Power is required to file its next fuel cost recovery case by March 1, 2011.

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

RESULTS OF OPERATIONS

Net Income

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$115.8	94.7

Georgia Power s net income after dividends on preferred and preference stock for the first quarter 2010 was $238.0 million compared to $122.2 million for the corresponding period in 2009. The increase was primarily due to higher residential base revenues resulting from the significantly colder weather in the first quarter 2010 and the amortization of the regulatory liability related to other cost of removal obligations as authorized by the Georgia PSC.

Retail Revenues

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$199.2	12.5

In the first quarter 2010, retail revenues were $1.8 billion compared to $1.6 billion for the corresponding period in 2009.

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Details of the change to retail revenues are as follows:

	First Quarter 2010	
	(in millions)	*(% change)*
Retail prior year	$1,592.4	
Estimated change in		
Rates and pricing	(2.5)	(0.2)
Sales growth (decline)	13.9	0.9
Weather	48.0	3.0
Fuel cost recovery	139.8	8.8
Retail current year	$1,791.6	12.5%

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

Revenues attributable to changes in sales increased in the first quarter 2010 when compared to the corresponding period in 2009 representing signs of economic recovery in Georgia Power s sales territory. Weather-adjusted residential KWH sales increased 1.2%, weather-adjusted commercial KWH sales increased 0.9%, and weather-adjusted industrial KWH sales increased 4.6% in the first quarter 2010 when compared to the corresponding period in 2009.

Revenues resulting from changes in weather increased in the first quarter 2010 when compared to the corresponding period in 2009 due to 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 by $139.8 million in the first quarter of 2010 when compared to the corresponding period in 2009 due to increased KWH sales and higher fuel costs.

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

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$13.6	14.2

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

In the first quarter 2010, wholesale revenues from non-affiliates were $109.6 million compared to $96.0 million in the corresponding period in 2009. This increase was due to a 6.4% increase in KWH sales due to higher demand primarily resulting from significantly colder weather in the first quarter 2010.

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Other Revenues

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$6.3	10.1

In the first quarter 2010, other revenues were $68.6 million compared to $62.3 million in the corresponding period in 2009. This increase was due to a $2.8 million increase in transmission revenues due to the increased usage of Georgia Power s transmission system by non-affiliated companies and for work performed for the other owners of the integrated transmission system, a $1.3 million increase in pole attachment and equipment rentals revenue, and a $1.5 million increase from customer fees.

Fuel and Purchased Power Expenses

	First Quarter 2010 vs. First Quarter 2009	
	(change in millions)	*(% change)*
Fuel*	$157.0	26.1
Purchased power non-affiliates	19.7	31.9
Purchased power affiliates	(35.3)	(17.9)
Total fuel and purchased power expenses	$141.4	

* 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 first quarter 2010, total fuel and purchased power expenses were $1.0 billion compared to $859.7 million in the corresponding period in 2009. The increase was due to a $44.3 million increase related to higher KWHs generated primarily due to higher customer demand as a result of significantly colder weather and a $97.1 million increase in the average cost of fuel.

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

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

Average Cost	First Quarter 2010	First Quarter 2009	Percent Change
	(cents per net KWH)		
Fuel	3.78	3.23	17.0
Purchased power	6.36	6.40	(0.6)

In the first quarter 2010, fuel expense was $757.5 million compared to $600.5 million in the corresponding period in 2009. This increase was due to a 17.0% increase in the average cost of fuel per KWH generated and a 10.3% increase of KWHs generated as a result of higher KWH demand.

Non-Affiliates

In the first quarter 2010, purchased power expense from non-affiliates was $81.7 million compared to $62.0 million in the corresponding period in 2009. This increase was due to a 39.2% increase in the average cost per KWH purchased reflecting additional tolling agreements associated with PPAs that went into effect in June 2009 and a 0.4% increase in the volume of KWHs purchased.

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

Affiliates

In the first quarter 2010, purchased power expense from affiliates was $161.9 million compared to $197.2 million in the corresponding period in 2009. This decrease was due to a 10.3% decrease in the average cost per KWH purchased following the expiration of a PPA in December 2009 and a 3.9% decrease in the volume of KWHs purchased.
Energy purchases from affiliated companies will vary depending on demand and the availability and cost of generating resources at each company within the Southern Company system. These purchases are made in accordance with the IIC or other contractual agreements, as approved by the FERC.

Other Operations and Maintenance Expenses

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$(1.2)	(0.3)

In the first quarter 2010, other operations and maintenance expenses were $389.3 million compared to $390.5 million in the corresponding period in 2009. This decrease was due to a $29.4 million charge in the first quarter 2009 in connection with a voluntary attrition plan under which 579 employees elected to resign their positions effective March 31, 2009 and a $3.6 million decrease in uncollectible account expense in 2010, partially offset by increases of $16.8 million in power generation, $5.5 million in transmission and distribution, and $7.5 million in other administrative and general expenses due to cost containment in 2009.

Depreciation and Amortization

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$(52.9)	(31.7)

In the first quarter 2010, depreciation and amortization was $114.2 million compared to $167.1 million in the corresponding period in 2009. This decrease was due to the amortization of $60.3 million of the regulatory liability related to other cost of removal obligations as authorized by the Georgia PSC, partially offset by depreciation on additional plant in service related to transmission, distribution, and environmental projects. See Note 3 to the financial statements of Georgia Power under Retail Regulatory Matters Rate Plans in Item 8 of the Form 10-K for additional information on the other cost of removal regulatory liability, which became effective in July 2009.

Taxes Other Than Income Taxes

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$4.3	5.5

In the first quarter 2010, taxes other than income taxes were $80.5 million compared to $76.2 million in the corresponding period in 2009. This increase was due to higher municipal franchise fees resulting from retail revenue increases during the first quarter 2010.

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Allowance for Funds Used During Construction

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$13.9	67.4

In the first quarter 2010, AFUDC equity was $34.7 million compared to $20.8 million in the corresponding period in 2009. This increase was due to the increase in construction work in progress balances related to three new combined cycle generating units at Plant McDonough, two new nuclear generating units at Plant Vogtle, and ongoing environmental and transmission projects.

Income Taxes

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$30.8	49.1

In the first quarter 2010, income taxes were $93.4 million compared to $62.6 million in the corresponding period in 2009. This increase was due to higher pre-tax earnings partially offset by a decrease in uncertain tax positions of $16.0 million related to state income tax credits that remain subject to litigation. See FUTURE EARNINGS POTENTIAL Income Tax Matters herein and Notes 3 and 5 to the financial statements of Georgia Power under Income Tax Matters and Unrecognized Tax Benefits, respectively, in Item 8 of the Form 10-K and Notes (B) and (G) to the Condensed Financial Statements herein under Income Tax Matters Georgia State Income Tax Credits and Unrecognized Tax Benefits, respectively, for additional information.

FUTURE EARNINGS POTENTIAL

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

Environmental Matters

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

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

Other Litigation

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters - Carbon Dioxide Litigation Other Litigation of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under Environmental Matters Carbon Dioxide Litigation - Other Litigation in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation related to Hurricane Katrina. On February 26, 2010, the U.S. Court of Appeals for the Fifth Circuit granted the defendants petition for rehearing en banc. The ultimate outcome of this matter cannot be determined at this time.

Air Quality

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

Coal Combustion Byproducts

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters - Environmental Statutes and Regulations Coal Combustion Byproducts of Georgia Power in Item 7 of the Form 10-K for information regarding potential additional regulation of coal combustion byproducts. On May 4, 2010, the EPA issued a proposal requesting comments on two potential regulatory options for management and disposal of coal combustion byproducts, either of which could require conversion of existing storage units to lined landfills with additional waste management and groundwater monitoring requirements. Under both options, the EPA proposes to exempt the beneficial reuse of coal combustion byproducts from regulation. The outcome of these proposed regulations will depend on their final form and any legal challenges, and cannot be determined at this time. However, additional regulation of coal combustion byproducts could have a significant impact on Georgia Power s management, beneficial use, and disposal of such byproducts and could result in significant additional compliance costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

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Global Climate Issues

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters - Global Climate Issues of Georgia Power in Item 7 of the Form 10-K for information regarding the potential for legislation and regulation addressing greenhouse gas and other emissions. On April 1, 2010, the EPA issued a final rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that, once this rule becomes effective on January 2, 2011, carbon dioxide and other greenhouse gases will become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. The EPA also published a proposed rule governing how these programs would be applied to stationary sources, including power plants, in October 2009. The EPA is expected to finalize this proposed rule during 2010. The ultimate outcome of these proposed and final rules cannot be determined at this time and will depend on additional regulatory action and any legal challenges.

Georgia PSC Matters

Retail Fuel Cost Recovery

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Fuel Cost Recovery of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under Retail Regulatory Matters Fuel Cost Recovery in Item 8 of the Form 10-K for additional information. As of March 31, 2010, Georgia Power had a total under recovered fuel cost balance of approximately $687 million compared to $665 million at December 31, 2009. Fuel cost recovery revenues as recorded on the financial statements are adjusted for differences in actual recoverable fuel costs and amounts billed in current regulated rates. Accordingly, any changes in the billing factor will not have a significant effect on Georgia Power s revenues or net income, but will affect cash flow.

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

Legislation

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

On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law and, on March 30, 2010, the Health Care and Education Reconciliation Act of 2010 (HCERA and, together with PPACA, the Acts), which makes various amendments to certain aspects of the PPACA, was signed into law. The Acts effectively change the tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide prescription drug benefits that are at least actuarially equivalent to the corresponding benefits provided under Medicare Part D. The federal subsidy paid to employers was introduced as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MPDIMA). Since the 2006 tax year, Georgia Power has been receiving the federal subsidy related to certain retiree prescription drug plans that were determined to be actuarially equivalent to the benefit provided under Medicare Part D. Under the MPDIMA, the federal subsidy does not reduce an employer s income tax deduction for the costs of providing such prescription drug plans nor is it subject to income tax individually. Under the Acts, beginning in 2013, an employer s income tax deduction for the costs of providing Medicare Part D-equivalent prescription drug benefits to retirees will be reduced by the amount of the federal subsidy. Under GAAP, any impact from a change in tax law must be recognized in the period enacted regardless of the effective date; however, as a result of state regulatory treatment, this

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change had no material impact on the financial statements of Georgia Power. Southern Company is in the process of assessing the extent to which the legislation may affect its future health care and related employee benefit plan costs. Any future impact on the financial statements of Georgia Power cannot be determined at this time.

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

Income Tax Matters

Georgia State Income Tax Credits

Georgia Power s 2005 through 2008 income tax filings for the State of Georgia include state income tax credits for increased activity through Georgia ports. Georgia Power had also filed similar claims for the years 2002 through 2004. The Georgia Department of Revenue has not responded to these claims. In July 2007, Georgia Power filed a complaint in the Superior Court of Fulton County to recover the credits claimed for the years 2002 through 2004. On March 22, 2010, the Superior Court of Fulton County ruled in favor of Georgia Power s motion for summary judgment. On April 30, 2010, the Georgia Department of Revenue filed its notice of appeal with the Georgia Court of Appeals. An unrecognized tax benefit has been recorded related to these credits. If Georgia Power prevails, these claims could have a significant, and possibly material, positive effect on Georgia Power s net income. If Georgia Power is not successful, payment of the related state tax could have a significant, and possibly material, negative effect on Georgia Power s cash flow. See Note 5 to the financial statements of Georgia Power under Unrecognized Tax Benefits in Item 8 of the Form 10-K and Note (G) to the Condensed Financial Statements herein for additional information. The ultimate outcome of this matter cannot now be determined.

Construction

Nuclear

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

In June 2009, an environmental group filed a petition in the Superior Court of Fulton County, Georgia seeking review of the Georgia PSC s certification order and challenging the constitutionality of the Georgia Nuclear Financing Act. On May 5, 2010, the court dismissed as premature the plaintiffs claim challenging the Georgia Nuclear Energy Financing Act. The dismissal of the claim related to the Georgia Nuclear Energy Financing Act is subject to appeal and the plaintiffs are expected to re-file this claim in the future. In addition, on May 5, 2010, the court issued an order remanding the Georgia PSC s certification order for inclusion of further findings of fact and conclusions of law by the Georgia PSC. A remand for further findings of fact and conclusions of law is a procedural step that does not vacate or otherwise affect the effectiveness of the Georgia PSC s certification order or the ultimate conclusion of the Georgia PSC in certifying the construction of Plant Vogtle Units 3 and 4.

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

There are pending technical and procedural challenges to the construction and licensing of Plant Vogtle Units 3 and 4.

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Similar additional challenges at the state and federal level are expected as construction proceeds.

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

Other Construction

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

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

Other Matters

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

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

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

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ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

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

FINANCIAL CONDITION AND LIQUIDITY

Overview

Georgia Power s financial condition remained stable at March 31, 2010. Georgia Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See Sources of Capital and Financing Activities herein for additional information.

Net cash provided from operating activities totaled $326.8 million for the first three months of 2010, compared to $233.1 million for the corresponding period in 2009. The $93.7 million increase in cash provided from operating activities in the first three months of 2010 is primarily due to a $115.8 million increase in net income. Net cash used for investing activities totaled $596.1 million primarily due to gross property additions to utility plant in the first three months of 2010. Net cash provided from financing activities totaled $267.7 million for the first three months of 2010, compared to $357.2 million for the corresponding period in 2009. The $89.5 million decrease is primarily due to higher issuances of senior notes in the first quarter 2009, partially offset by higher capital contributions from Southern Company in the first quarter 2010.

Significant balance sheet changes for the first three months of 2010 include an increase of $482.3 million in total property, plant, and equipment, an increase of $247.5 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 $464.4 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 $103.8 million will be required through March 31, 2011 to fund maturities of long-term debt. The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in environmental statutes and regulations; changes in nuclear plants to meet new regulatory requirements; changes in FERC rules and regulations; Georgia PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

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Sources of Capital

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

In addition, on February 16, 2010, the DOE offered Georgia Power a conditional commitment for federal loan guarantees that would apply to future Georgia Power borrowings related to two additional nuclear units on the site of Plant Vogtle (Plant Vogtle Units 3 and 4). Any borrowings guaranteed by the DOE would be full recourse to Georgia Power and secured by a first priority lien on Georgia Power s 45.7% undivided ownership interest in Plant Vogtle Units 3 and 4. Total guaranteed borrowings would not exceed 70% of eligible project costs, or approximately $3.4 billion, and are expected to be funded by the Federal Financing Bank. Georgia Power has 90 days to accept the conditional commitment. Georgia Power will work with the DOE to finalize loan guarantees. Final approval and issuance of loan guarantees by the DOE are subject to receipt of the combined construction and operating license for Plant Vogtle Units 3 and 4 from the NRC, negotiation of definitive agreements, completion of due diligence by the DOE, receipt of any necessary regulatory approvals, and satisfaction of other conditions. There can be no assurance that the DOE will issue loan guarantees for Georgia Power.

Georgia Power s current liabilities frequently exceed current assets because of the continued use of short-term debt as a funding source to meet scheduled maturities of long-term debt, as well as cash needs, which can fluctuate significantly due to the seasonality of the business. To meet short-term cash needs and contingencies, Georgia Power had at March 31, 2010 approximately $12.7 million of cash and cash equivalents and approximately $1.7 billion of unused committed credit arrangements with banks. As of March 31, 2010, of the unused credit arrangements, $465 million expire in 2010, $130 million expire in 2011, and $1.1 billion expire in 2012. Of the credit arrangements that expire in 2010 and 2011, $40 million contain provisions allowing two-year term loans executable at expiration and $95 million contain provisions allowing one-year term loans executable at expiration. Georgia Power expects to renew its credit arrangements, as needed, prior to expiration. At March 31, 2010, the credit arrangements were dedicated to providing liquidity support to Georgia Power s commercial paper program and approximately $901 million of purchase obligations related to variable rate pollution control revenue bonds. Subsequent to March 31, 2010, Georgia Power renewed existing credit arrangements totaling $425 million and extended the expiration dates to 2011. Of these facilities, $125 million contain provisions allowing one-year term loans executable at expiration. 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 March 31, 2010, Georgia Power had approximately $243 million of commercial paper borrowings outstanding. Management believes that the need for working capital can be adequately met by utilizing commercial paper programs, lines of credit, and cash.

Credit Rating Risk

Georgia Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, energy price risk management, and construction of new generation. At March 31, 2010, the maximum potential collateral requirements under these contracts at a BBB- and/or Baa3 rating were approximately $29 million. At March 31, 2010, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were

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approximately $1.2 billion. Included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Georgia Power s ability to access capital markets, particularly the short-term debt market.

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

Market Price Risk

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

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

The changes in fair value of energy-related derivative contracts, the majority of which are composed of regulatory hedges, for the three months ended March 31, 2010 were as follows:

	First Quarter 2010 Changes
	Fair Value
	(in millions)
Contracts outstanding at the beginning of the period, assets (liabilities), net	$ (75)
Contracts realized or settled	19
Current period changes[(a)]	(69)
Contracts outstanding at the end of the period, assets (liabilities), net	$ (125)

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

The change in the fair value positions of the energy-related derivative contracts for the three months ended March 31, 2010 was a decrease of $50 million, substantially all of which is due to natural gas positions. The change is attributable to both the volume and prices of natural gas. At March 31, 2010, Georgia Power had a net hedge volume of 68 million mmBtu with a weighted average contract cost approximately $1.85 per mmBtu above market prices, compared to 65 million mmBtu at December 31, 2009 with a weighted average contract cost approximately $1.16 per mmBtu above market prices. The natural gas hedges are recovered through the fuel cost recovery mechanism.

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

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Unrealized pre-tax gains and losses recognized in income for the three months ended March 31, 2010 and 2009 for energy-related derivative contracts that are not hedges were not material.

The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at March 31, 2010 are as follows:

	March 31, 2010 Fair Value Measurements			
	Total	Maturity		
	Fair Value	Year 1	Years 2&3	Years 4&5
	(in millions)			
Level 1	$	$	$	$
Level 2	(125)	(71)	(53)	(1)
Level 3				
Fair value of contracts outstanding at end of period	$(125)	$(71)	$(53)	$ (1)

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

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

Financing Activities

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

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

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GULF POWER COMPANY

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GULF POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended March 31,	
	2010	2009
	(in thousands)	
Operating Revenues:		
Retail revenues	**$ 304,750**	$ 238,391
Wholesale revenues, non-affiliates	**27,914**	21,966
Wholesale revenues, affiliates	**9,518**	5,360
Other revenues	**14,530**	18,567
Total operating revenues	**356,712**	284,284
Operating Expenses:		
Fuel	**152,712**	115,553
Purchased power, non-affiliates	**7,435**	4,438
Purchased power, affiliates	**20,413**	15,381
Other operations and maintenance	**70,418**	72,491
Depreciation and amortization	**28,071**	23,059
Taxes other than income taxes	**25,233**	22,448
Total operating expenses	**304,282**	253,370
Operating Income	**52,430**	30,914
Other Income and (Expense):		
Allowance for equity funds used during construction	**1,385**	4,818
Interest income	**17**	209
Interest expense, net of amounts capitalized	**(11,385)**	(9,832)
Other income (expense), net	**(533)**	(616)
Total other income and (expense)	**(10,516)**	(5,421)
Earnings Before Income Taxes	**41,914**	25,493
Income taxes	**15,063**	7,400
Net Income	**26,851**	18,093
Dividends on Preference Stock	**1,551**	1,551
Net Income After Dividends on Preference Stock	**$ 25,300**	$ 16,542

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended March 31,	
	2010	2009
	(in thousands)	
Net Income After Dividends on Preference Stock	**$ 25,300**	$ 16,542

Other comprehensive income (loss):		
Qualifying hedges:		
Changes in fair value, net of tax of $(953) and $-, respectively	**(1,518)**	
Reclassification adjustment for amounts included in net income, net of tax of $105 and $105, respectively	**166**	167
Total other comprehensive income (loss)	**(1,352)**	167
Comprehensive Income	**$ 23,948**	$ 16,709

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 Three Months Ended March 31,	
	2010	2009
	(in thousands)	
Operating Activities:		
Net income	**$ 26,851**	$ 18,093
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization, total	**29,659**	24,269
Deferred income taxes	**2,917**	(4,022)
Allowance for equity funds used during construction	**(1,385)**	(4,818)
Pension, postretirement, and other employee benefits	**550**	(391)
Stock based compensation expense	**623**	479
Other, net	**(520)**	(5,322)
Changes in certain current assets and liabilities		
-Receivables	**6,150**	32,887
-Fossil fuel stock	**17,419**	(18,231)
-Materials and supplies	**(1,170)**	(205)
-Prepaid income taxes	**4,530**	416
-Property damage cost recovery	**11**	5,428
-Other current assets	**995**	916
-Accounts payable	**(4,443)**	(13,344)
-Accrued taxes	**15,539**	6,361
-Accrued compensation	**(3,462)**	(11,576)
-Other current liabilities	**6,304**	5,761
Net cash provided from operating activities	**100,568**	36,701
Investing Activities:		
Property additions	**(81,225)**	(109,737)
Investment in restricted cash from pollution control revenue bonds		(49,188)
Distribution of restricted cash from pollution control revenue bonds	**2,340**	
Cost of removal, net of salvage	**(5,759)**	(2,330)
Construction payables	**(11,846)**	2,362
Payments pursuant to long-term service agreements	**(699)**	(1,602)
Other investing activities	**(190)**	24
Net cash used for investing activities	**(97,379)**	(160,471)
Financing Activities:		
Decrease in notes payable, net	**(6,599)**	(89,930)
Proceeds		
Common stock issued to parent	**50,000**	135,000
Capital contributions from parent company	**1,128**	1,106
Pollution control revenue bonds		130,400
Redemptions		
Senior notes	**(85)**	

Payment of preference stock dividends	**(1,551)**	(1,551)
Payment of common stock dividends	**(26,075)**	(22,350)
Other financing activities	**605**	(838)
Net cash provided from financing activities	**17,423**	151,837
Net Change in Cash and Cash Equivalents	**20,612**	28,067
Cash and Cash Equivalents at Beginning of Period	**8,677**	3,443
Cash and Cash Equivalents at End of Period	**$ 29,289**	$ 31,510
Supplemental Cash Flow Information:		
Cash paid during the period for		
Interest (net of $552 and $1,920 capitalized for 2010 and 2009, respectively)	**$ 9,461**	$ 8,347
Income taxes (net of refunds)	**$ (4,383)**	$ 3,281

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 March 31, 2010	At December 31, 2009
	(in thousands)	
Current Assets:		
Cash and cash equivalents	$ 29,289	$ 8,677
Restricted cash and cash equivalents	4,006	6,347
Receivables		
Customer accounts receivable	71,847	64,257
Unbilled revenues	46,453	60,414
Under recovered regulatory clause revenues	11,293	4,285
Other accounts and notes receivable	2,105	4,107
Affiliated companies	1,260	7,503
Accumulated provision for uncollectible accounts	(1,867)	(1,913)
Fossil fuel stock, at average cost	166,242	183,619
Materials and supplies, at average cost	44,740	38,478
Other regulatory assets, current	23,710	19,172
Prepaid expenses	10,272	44,760
Other current assets	2,936	3,634
Total current assets	412,286	443,340
Property, Plant, and Equipment:		
In service	3,496,308	3,430,503
Less accumulated provision for depreciation	1,013,665	1,009,807
Plant in service, net of depreciation	2,482,643	2,420,696
Construction work in progress	178,726	159,499
Total property, plant, and equipment	2,661,369	2,580,195
Other Property and Investments	16,115	15,923
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	43,353	39,018
Other regulatory assets, deferred	202,510	190,971
Other deferred charges and assets	22,466	24,160
Total deferred charges and other assets	268,329	254,149
Total Assets	$ 3,358,099	$ 3,293,607

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 March 31, 2010	At December 31, 2009
	(in thousands)	
Current Liabilities:		
Securities due within one year	**$ 140,000**	$ 140,000
Notes payable	**82,289**	90,331
Accounts payable		
Affiliated	**44,423**	47,421
Other	**69,713**	80,184
Customer deposits	**33,539**	32,361
Accrued taxes		
Accrued income taxes	**12,616**	1,955
Other accrued taxes	**12,083**	7,297
Accrued interest	**11,480**	10,222
Accrued compensation	**5,875**	9,337
Other regulatory liabilities, current	**23,654**	22,416
Liabilities from risk management activities	**14,612**	9,442
Other current liabilities	**17,510**	20,092
Total current liabilities	**467,794**	471,058
Long-term Debt	**978,939**	978,914
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**303,854**	297,405
Accumulated deferred investment tax credits	**9,266**	9,652
Employee benefit obligations	**108,794**	109,271
Other cost of removal obligations	**190,936**	191,248
Other regulatory liabilities, deferred	**41,216**	41,399
Other deferred credits and liabilities	**105,223**	92,370
Total deferred credits and other liabilities	**759,289**	741,345
Total Liabilities	**2,206,022**	2,191,317
Preference Stock	**97,998**	97,998
Common Stockholder s Equity:		
Common stock, without par value		
Authorized - 20,000,000 shares		
Outstanding - March 31, 2010: 3,642,717 shares		
- December 31, 2009: 3,142,717 shares	**303,060**	253,060
Paid-in capital	**536,492**	534,577
Retained earnings	**218,341**	219,117
Accumulated other comprehensive loss	**(3,814)**	(2,462)

Total common stockholder s equity	**1,054,079**	1,004,292
Total Liabilities and Stockholder s Equity	**$ 3,358,099**	$ 3,293,607

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
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FIRST QUARTER 2010 vs. FIRST QUARTER 2009

OVERVIEW

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

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

RESULTS OF OPERATIONS

Net Income

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$8.8	52.9

Gulf Power s net income after dividends on preference stock for the first quarter 2010 was $25.3 million compared to $16.5 million for the corresponding period in 2009. The increase was primarily due to significantly colder weather, partially offset by a decline in sales growth.

Retail Revenues

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$66.3	27.9

In the first quarter 2010, retail revenues were $304.7 million compared to $238.4 million for the corresponding period in 2009.

Details of the change to retail revenues are as follows:

	First Quarter 2010	
	(in millions)	*(% change)*
Retail prior year	$238.4	
Estimated change in		
Rates and pricing	16.2	6.8
Sales growth (decline)	(2.9)	(1.2)
Weather	12.8	5.4
Fuel and other cost recovery	40.2	16.9
Retail current year	$304.7	27.9%

GULF POWER COMPANY
MANAGEMENT S DISCUSSION AND ANALYSIS OF
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Revenues associated with changes in rates and pricing increased in the first quarter 2010 when compared to the corresponding period in 2009 primarily due to additions of environmental control projects.

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 declined in the first quarter 2010 when compared to the corresponding period in 2009. Weather-adjusted KWH energy sales to commercial and industrial customers decreased 3.7% and 2.6%, respectively, due to decreased customer demand. Weather-adjusted KWH energy sales to residential customers remained relatively flat.

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

Fuel and other cost recovery revenues increased in the first quarter 2010 when compared to the corresponding period for 2009 primarily due to increased KWH sales. Fuel and other cost recovery revenues include fuel expenses, the energy component of purchased power costs, purchased power capacity costs, and revenues related to the recovery of storm damage restoration costs. Annually, Gulf Power petitions the Florida PSC for recovery of projected fuel and purchased power costs including any true-up amount from prior periods, and approved rates are implemented each January. The recovery provisions generally equal the related expenses and have no material effect on net income. See FUTURE EARNINGS POTENTIAL Florida PSC Matters Retail Fuel Cost Recovery herein and MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Fuel Cost Recovery of Gulf Power in Item 7 and Note 1 to the financial statements of Gulf Power under Revenues and Property Damage Reserve and Note 3 to the financial statements of Gulf Power under Retail Regulatory Matters Fuel Cost Recovery in Item 8 of the Form 10-K for additional information.

Wholesale Revenues Non-Affiliates

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$5.9	27.1

Wholesale revenues from non-affiliates will vary depending on the market cost of available energy compared to the cost of Gulf Power and Southern Company system-owned generation, demand for energy within the Southern Company service territory, and availability of Southern Company system generation. Wholesale revenues from non-affiliates are predominantly unit power sales under long-term contracts to other Florida 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 first quarter 2010, wholesale revenues from non-affiliates were $27.9 million compared to $22.0 million for the corresponding period in 2009. The increase was primarily due to increased energy revenues related to a 19.2% increase in KWH sales to serve weather-related increases in customer demand, and a 14.2% increase in price related to energy rates.

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Wholesale Revenues Affiliates

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$4.2	77.6

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 first quarter 2010, wholesale revenues from affiliates were $9.5 million compared to $5.3 million for the corresponding period in 2009. The increase was primarily due to a 47.9% increase in price related to energy rates and increased energy revenues related to a 20.1% increase in KWH sales to serve weather-related increases in customer demand.

Other Revenues

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$(4.1)	21.7

In the first quarter 2010, other revenues were $14.5 million compared to $18.6 million for the corresponding period in 2009. The decrease was primarily due to decreased revenues from other energy services, partially offset by higher franchise fees. The decreased revenues from other energy services did not have a material impact on net income since they were generally offset by associated expenses. Franchise fees have no impact on net income.

Fuel and Purchased Power Expenses

	First Quarter 2010 vs. First Quarter 2009	
	(change in millions)	*(% change)*
Fuel*	$37.1	32.2
Purchased power non-affiliates	3.0	67.5
Purchased power affiliates	5.1	32.7
Total fuel and purchased power expenses	$45.2	

* 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 first quarter 2010, total fuel and purchased power expenses were $180.6 million compared to $135.4 million for the corresponding period in 2009. The net increase in fuel and purchased power expenses was due to a $26.2 million increase as a result of the average cost of fuel and a $19.0 million increase related to total KWHs generated and purchased.

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

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

Average Cost	First Quarter 2010	First Quarter 2009	Percent Change
	(cents per net KWH)		
Fuel	4.92	4.31	14.15
Purchased power	6.73	5.19	29.67

In the first quarter 2010, fuel expense was $152.7 million compared to $115.6 million for the corresponding period in 2009. The increase was primarily due to 27.2% increase in the average cost of coal and a 10.2% increase in KWHs generated as a result of increased demand, partially offset by a 4.0% decrease in the average cost of natural gas prices.

Non-Affiliates

In the first quarter 2010, purchased power expense from non-affiliates was $7.4 million compared to $4.4 million for the corresponding period in 2009. The increase was primarily due to a 258.3% increase in average cost per KWH purchased, partially offset by a 10.1% decrease in the volume of KWHs purchased. The average cost per KWH purchased increased primarily due to a greater portion of KWHs being purchased from gas-fired generation, which had higher market pricing in the first quarter 2010 due to greater demand for natural gas due to significantly colder weather, and PPAs that began in June 2009.

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

Affiliates

In the first quarter 2010, purchased power expense from affiliates was $20.4 million compared to $15.3 million for the corresponding period in 2009. The increase was primarily due to a 52.1% increase in the volume of KWHs purchased from lower-priced Power Pool resources, partially offset by an 11.8% decrease in 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, as approved by the FERC.

Other Operations and Maintenance Expenses

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$(2.1)	(2.9)

In the first quarter 2010, other operations and maintenance expenses were $70.4 million compared to $72.5 million for the corresponding period in 2009. The decrease was primarily due to decreases in storm recovery costs and expenses from other energy services. These decreases were offset by increased maintenance, labor, and benefits expenses. The decreased expenses from other energy services and the decreased storm recovery costs did not have a material impact on earnings since they were offset by decreased associated revenues.

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Depreciation and Amortization

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$5.0	21.7

In the first quarter 2010, depreciation and amortization was $28.1 million compared to $23.1 million for the corresponding period in 2009. The increase was primarily due to the addition of an environmental control project at Plant Crist being placed into service in December 2009 and other net additions to generation and distribution facilities.

Taxes Other Than Income Taxes

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$2.8	12.4

In the first quarter 2010, taxes other than income taxes were $25.2 million compared to $22.4 million for the corresponding period in 2009. The increase was primarily due to increases in gross receipt taxes and franchise fees, which have no impact on net income.

Allowance for Funds Used During Construction

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$(3.4)	(71.3)

In the first quarter 2010, AFUDC equity was $1.4 million compared to $4.8 million for the corresponding period in 2009. The decrease was primarily due to an environmental control project at Plant Crist being placed into service in December 2009.

Interest Expense, Net of Amounts Capitalized

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$1.6	15.8

In the first quarter 2010, interest expense, net of amounts capitalized was $11.4 million compared to $9.8 million for the corresponding period in 2009. The increase was primarily due to the change in capitalization of the AFUDC debt related to an environmental control project at Plant Crist being placed into service in December 2009.

Income Taxes

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$7.7	103.6

In the first quarter 2010, income taxes were $15.1 million compared to $7.4 million for the corresponding period in 2009. The increase was due to higher pre-tax earnings.

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

Environmental Matters

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

Carbon Dioxide Litigation

New York Case

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

Other Litigation

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation Other Litigation of Gulf Power in Item 7 and Note 3 to the financial statements of Gulf Power under Environmental Matters Carbon Dioxide Litigation Other Litigation in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation related to Hurricane Katrina. On February 26, 2010, the U.S. Court of Appeals for the Fifth Circuit granted the defendants petition for rehearing en banc. The ultimate outcome of this matter cannot be determined at this time.

Coal Combustion Byproducts

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Coal Combustion Byproducts of Gulf Power in Item 7 of the Form 10-K for information regarding potential additional regulation of coal combustion byproducts. On May 4, 2010, the EPA issued a proposal requesting comments on two potential regulatory options for management and disposal of coal combustion

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byproducts, either of which could require conversion of existing storage units to lined landfills with additional waste management and groundwater monitoring requirements. Under both options, the EPA proposes to exempt the beneficial reuse of coal combustion byproducts from regulation. The outcome of these proposed regulations will depend on their final form and any legal challenges, and cannot be determined at this time. However, additional regulation of coal combustion byproducts could have a significant impact on Gulf Power s management, beneficial use, and disposal of such byproducts and could result in significant additional compliance costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

Global Climate Issues

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Global Climate Issues of Gulf Power in Item 7 of the Form 10-K for information regarding the potential for legislation and regulation addressing greenhouse gas and other emissions. On April 1, 2010, the EPA issued a final rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that, once this rule becomes effective on January 2, 2011, carbon dioxide and other greenhouse gases will become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. The EPA also published a proposed rule governing how these programs would be applied to stationary sources, including power plants, in October 2009. The EPA is expected to finalize this proposed rule during 2010. The ultimate outcome of these proposed and final rules cannot be determined at this time and will depend on additional regulatory action and any legal challenges.

Florida PSC Matters

Retail Fuel Cost Recovery

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

Under recovered fuel costs at March 31, 2010 totaled $9.3 million, compared to $2.4 million at December 31, 2009. This amount is included in under recovered regulatory clause revenues on Gulf Power s Condensed Balance Sheets herein. Fuel cost recovery revenues, as recorded on the financial statements, are adjusted for differences in actual recoverable costs and amounts billed in current regulated rates. Accordingly, any change in the billing factor would have no significant effect on Gulf Power s revenues or net income, but would affect cash flow. See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Fuel Cost Recovery of Gulf Power in Item 7 and Notes 1 and 3 to the financial statements of Gulf Power under Revenues and Retail Regulatory Matters Fuel Cost Recovery, respectively, in Item 8 of the Form 10-K for additional information.

GULF POWER COMPANY
MANAGEMENT S DISCUSSION AND ANALYSIS OF
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Legislation

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

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

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

Other Matters

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

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

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

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GULF POWER COMPANY
MANAGEMENT S DISCUSSION AND ANALYSIS OF
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ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

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

FINANCIAL CONDITION AND LIQUIDITY

Overview

Gulf Power s financial condition remained stable at March 31, 2010. Gulf Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See Sources of Capital and Financing Activities herein for additional information.

Net cash provided from operating activities totaled $100.6 million for the first three months of 2010 compared to $36.7 million for the corresponding period in 2009. The $63.9 million increase in cash provided from operating activities was primarily due to a $35.7 million decrease in fossil fuel stock resulting from an increase in generation and a decrease in cash payments related to fuel inventory; a $26.7 million increase in liabilities primarily due to timing; and an $8.8 million increase in net income; partially offset by a $26.7 million decrease in collections attributable to regulatory fuel clause revenues. Net cash used for investing activities totaled $97.4 million in the first three months of 2010 compared to $160.5 million for the corresponding period in 2009. The $63.1 million decrease was primarily due to a $28.5 million decrease in gross property additions and a $49.2 million investment in restricted cash in 2009, partially offset by a $14.2 million increase in construction payables, primarily due to non-affiliate payables. Net cash provided from financing activities totaled $17.4 million for the first three months of 2010, compared to $151.8 million for the corresponding period in 2009. The $134.4 million decrease in cash provided from financing activities was primarily due to higher issuance of common stock in 2009 and issuance of pollution control revenue bonds in 2009.

Significant balance sheet changes for the first quarter 2010 include a net increase of $81.2 million in property, plant, and equipment, primarily related to environmental control projects; the issuance of common stock to Southern Company for $50 million; a decrease of $34.5 million in prepaid expenses, primarily due to a planned inspection under a long-term service agreement and a decrease in PPA deferred capacity expense due to seasonality; and other regulatory assets, deferred, and other deferred credits and liabilities increased by $11.5 million and $12.9 million, respectively, primarily due to an increase in PPA deferred capacity expense.

Capital Requirements and Contractual Obligations

See MANAGEMENT S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Gulf Power in Item 7 of the Form 10-K for a description of Gulf Power s capital requirements for its construction program, maturities of long-term debt, leases, derivative obligations, preference stock dividends, purchase commitments, and trust funding requirements. Approximately $140 million will be required through March 31, 2011 for maturities of long-term debt. The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors

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include: changes in business conditions; changes in load projections; storm impacts; changes in environmental statutes and regulations; changes in FERC rules and regulations; Florida PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

Sources of Capital

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

Gulf Power s current liabilities frequently exceed current assets because of the continued use of short-term debt as a funding source to meet scheduled maturities of long-term debt, as well as cash needs, which can fluctuate significantly due to the seasonality of the business. To meet short-term cash needs and contingencies, Gulf Power had at March 31, 2010 approximately $29.3 million of cash and cash equivalents and $220 million of unused committed credit arrangements with banks. As of March 31, 2010, of the unused credit arrangements, $190 million expire in 2010 and $30 million expire in 2011. Of these credit arrangements, $100 million contain provisions allowing one-year term loans executable at expiration. Gulf Power expects to renew its credit arrangements, as needed, prior to expiration. These credit arrangements provide liquidity support to Gulf Power s commercial paper borrowings and $69 million are dedicated to funding purchase obligations related to variable rate pollution control revenue bonds. Subsequent to March 31, 2010, Gulf Power renewed existing credit arrangements totaling $75 million and extended the expiration dates to 2011. All of these facilities contain provisions allowing one-year term loans executable at expiration. See Note 6 to the financial statements of Gulf Power under Bank Credit Arrangements in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under Bank Credit Arrangements herein for additional information.

Gulf Power may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of Gulf Power and other Southern Company subsidiaries. At March 31, 2010, Gulf Power had $82 million of commercial paper borrowings outstanding. Management believes that the need for working capital can be adequately met by utilizing the commercial paper program, lines of credit, and cash.

Credit Rating Risk

Gulf Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel transportation and storage, and energy price risk management. At March 31, 2010, the maximum potential collateral requirements under these contracts at a BBB- and/or Baa3 rating were approximately $128 million. At March 31, 2010, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately $572 million. Included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Gulf Power s ability to access capital markets, particularly the short-term debt market.

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

Market Price Risk

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

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

The changes in fair value of energy-related derivative contracts, the majority of which are composed of regulatory hedges, for the three months ended March 31, 2010 were as follows:

	First Quarter 2010 Changes
	Fair Value
	(in millions)
Contracts outstanding at the beginning of the period, assets (liabilities), net	$ (14)
Contracts realized or settled	4
Current period changes[(a)]	(11)
Contracts outstanding at the end of the period, assets (liabilities), net	$ (21)

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

The change in the fair value positions of the energy-related derivative contracts for the three months ended March 31, 2010 was a decrease of $7 million, substantially all of which is due to natural gas positions. The change is attributable to both the volume and prices of natural gas. At March 31, 2010, Gulf Power had a net hedge volume of 10 million mmBtu with a weighted average contract cost approximately $2.09 per mmBtu above market prices, compared to 11 million mmBtu at December 31, 2009 with a weighted average contract cost approximately $1.29 per mmBtu above market prices. Natural gas hedges are recovered through the fuel cost recovery clause.

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

Unrealized pre-tax gains and losses recognized in income for the three months ended March 31, 2010 and 2009 for energy-related derivative contracts that are not hedges were not material.

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The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at March 31, 2010 are as follows:

	March 31, 2010 Fair Value Measurements			
	Total Fair Value	Maturity Year 1	Years 2&3	Years 4&5
	(in millions)			
Level 1	$	$	$	$
Level 2	(21)	(14)	(6)	(1)
Level 3				
Fair value of contracts outstanding at end of period	$(21)	$(14)	$ (6)	$ (1)

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

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

Financing Activities

In the first quarter 2010, Gulf Power issued to Southern Company 500,000 shares of common stock, without par value, and realized proceeds of $50 million. The proceeds were used to repay a portion of Gulf Power s short-term debt and for other general corporate purposes.

Subsequent to March 31, 2010, Gulf Power issued $175 million aggregate principal amount of Series 2010A 4.75% Senior Notes due April 15, 2020. The proceeds will be used to repay at maturity $140 million aggregate principal amount of Series 2009A Floating Rate Senior Notes due June 28, 2010, to repay a portion of its outstanding short-term debt, and for general corporate purposes, including Gulf Power s continuous construction program.

Also subsequent to March 31, 2010, Gulf Power settled $100 million of interest rate hedges related to the Series 2010A Senior Note issuance at a gain of approximately $1.5 million. The gain will be amortized to interest expense over 10 years.

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

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MISSISSIPPI POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended March 31,	
	2010	2009
	(in thousands)	
Operating Revenues:		
Retail revenues	**$ 186,587**	$ 175,735
Wholesale revenues, non-affiliates	**78,889**	80,154
Wholesale revenues, affiliates	**14,675**	9,418
Other revenues	**3,487**	3,416
Total operating revenues	**283,638**	268,723
Operating Expenses:		
Fuel	**130,797**	119,965
Purchased power, non-affiliates	**3,621**	2,835
Purchased power, affiliates	**14,721**	21,805
Other operations and maintenance	**67,338**	59,761
Depreciation and amortization	**18,675**	18,015
Taxes other than income taxes	**18,460**	14,924
Total operating expenses	**253,612**	237,305
Operating Income	**30,026**	31,418
Other Income and (Expense):		
Interest income	**33**	632
Interest expense, net of amounts capitalized	**(6,179)**	(4,762)
Other income (expense), net	**1,549**	1,629
Total other income and (expense)	**(4,597)**	(2,501)
Earnings Before Income Taxes	**25,429**	28,917
Income taxes	**9,743**	10,513
Net Income	**15,686**	18,404
Dividends on Preferred Stock	**433**	433
Net Income After Dividends on Preferred Stock	**$ 15,253**	$ 17,971

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended March 31,	
	2010	2009
	(in thousands)	
Net Income After Dividends on Preferred Stock	**$ 15,253**	$ 17,971
Other comprehensive income (loss):		

Qualifying hedges:		
Changes in fair value, net of tax of $12 and $166, respectively	**20**	268
Comprehensive Income	**$ 15,273**	$ 18,239

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

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MISSISSIPPI POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Three Months Ended March 31,	
	2010	2009
	(in thousands)	
Operating Activities:		
Net income	**$ 15,686**	$ 18,404
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization, total	**20,118**	19,479
Deferred income taxes	**(8,080)**	(4,562)
Pension, postretirement, and other employee benefits	**1,822**	1,902
Stock based compensation expense	**757**	657
Generation construction screening costs	**(18,832)**	(8,400)
Other, net	**1,144**	(113)
Changes in certain current assets and liabilities		
-Receivables	**7,715**	19,380
-Under recovered regulatory clause revenues		12,947
-Fossil fuel stock	**17,761**	(20,315)
-Materials and supplies	**(885)**	(379)
-Prepaid income taxes		1,061
-Other current assets	**(8,262)**	(2,592)
-Other accounts payable	**970**	(17,890)
-Accrued taxes	**(12,109)**	(18,604)
-Accrued compensation	**(7,719)**	(15,483)
-Over recovered regulatory clause revenues	**7,596**	
-Other current liabilities	**(708)**	1,629
Net cash provided from (used for) operating activities	**16,974**	(12,879)
Investing Activities:		
Property additions	**(19,054)**	(26,476)
Cost of removal, net of salvage	**(3,375)**	(2,941)
Construction payables	**2,812**	1,082
Other investing activities	**(5,316)**	(506)
Net cash used for investing activities	**(24,933)**	(28,841)
Financing Activities:		
Decrease in notes payable, net		(26,293)
Proceeds		
Capital contributions from parent company	**752**	1,294
Senior notes issuances		125,000
Redemptions		
Capital leases	**(323)**	
Senior notes		(40,000)
Payment of preferred stock dividends	**(433)**	(433)
Payment of common stock dividends	**(17,150)**	(17,125)

Other financing activities	**74**	(1,742)
Net cash provided from (used for) financing activities	**(17,080)**	40,701
Net Change in Cash and Cash Equivalents	**(25,039)**	(1,019)
Cash and Cash Equivalents at Beginning of Period	**65,025**	22,413
Cash and Cash Equivalents at End of Period	**$ 39,986**	$ 21,394
Supplemental Cash Flow Information:		
Cash paid during the period for		
Interest (net of $9 and $125 capitalized for 2010 and 2009, respectively)	**$ 7,028**	$ 3,847
Income taxes (net of refunds)	**$ (3,821)**	$ (2,325)

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

MISSISSIPPI POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At March 31, 2010	At December 31, 2009
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 39,986**	$ 65,025
Receivables		
Customer accounts receivable	**36,271**	36,766
Unbilled revenues	**25,212**	27,168
Other accounts and notes receivable	**6,247**	11,337
Affiliated companies	**13,041**	13,215
Accumulated provision for uncollectible accounts	**(842)**	(940)
Fossil fuel stock, at average cost	**109,477**	127,237
Materials and supplies, at average cost	**28,678**	27,793
Other regulatory assets, current	**67,582**	53,273
Prepaid income taxes	**35,105**	32,237
Other current assets	**15,611**	12,625
Total current assets	**376,368**	405,736
Property, Plant, and Equipment:		
In service	**2,327,318**	2,316,494
Less accumulated provision for depreciation	**958,076**	950,373
Plant in service, net of depreciation	**1,369,242**	1,366,121
Construction work in progress	**65,061**	48,219
Total property, plant, and equipment	**1,434,303**	1,414,340
Other Property and Investments	**6,729**	7,018
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**13,161**	8,536
Other regulatory assets, deferred	**232,984**	209,100
Other deferred charges and assets	**22,570**	27,951
Total deferred charges and other assets	**268,715**	245,587
Total Assets	**$ 2,086,115**	$ 2,072,681

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

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MISSISSIPPI POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder s Equity	At March 31, 2010	At December 31, 2009
	(in thousands)	
Current Liabilities:		
Securities due within one year	**$ 81,356**	$ 1,330
Accounts payable		
Affiliated	**45,414**	49,209
Other	**46,075**	38,662
Customer deposits	**11,572**	11,143
Accrued taxes		
Accrued income taxes	**31,318**	10,590
Other accrued taxes	**16,710**	49,547
Accrued interest	**4,290**	5,739
Accrued compensation	**6,066**	13,785
Other regulatory liabilities, current	**5,982**	7,610
Over recovered regulatory clause liabilities	**56,191**	48,596
Liabilities from risk management activities	**29,619**	19,454
Other current liabilities	**24,557**	21,142
Total current liabilities	**359,150**	276,807
Long-term Debt	**413,173**	493,480
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**223,507**	223,066
Deferred credits related to income taxes	**12,819**	13,937
Accumulated deferred investment tax credits	**12,528**	12,825
Employee benefit obligations	**163,070**	161,778
Other cost of removal obligations	**101,911**	97,820
Other regulatory liabilities, deferred	**55,267**	54,576
Other deferred credits and liabilities	**53,658**	47,090
Total deferred credits and other liabilities	**622,760**	611,092
Total Liabilities	**1,395,083**	1,381,379
Redeemable Preferred Stock	**32,780**	32,780
Common Stockholder s Equity:		
Common stock, without par value		
Authorized - 1,130,000 shares		
Outstanding - 1,121,000 shares	**37,691**	37,691
Paid-in capital	**327,169**	325,562
Retained earnings	**293,372**	295,269
Accumulated other comprehensive income (loss)	**20**	

Total common stockholder s equity	**658,252**		658,522
Total Liabilities and Stockholder s Equity	**$ 2,086,115**	$	2,072,681

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

MISSISSIPPI POWER COMPANY
MANAGEMENT S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FIRST QUARTER 2010 vs. FIRST QUARTER 2009

OVERVIEW

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

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

RESULTS OF OPERATIONS

Net Income

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$(2.7)	(15.1)

Mississippi Power s net income after dividends on preferred stock for the first quarter 2010 was $15.3 million compared to $18.0 million for the corresponding period in 2009. The decrease in net income after dividends on preferred stock for the first quarter 2010 was primarily due to a decrease in wholesale energy revenue from non-affiliate customers served outside Mississippi Power s service territory; a decrease in interest income; and increases in operations and maintenance expenses and interest expense, net of amounts capitalized. The decrease in net income after dividends on preferred stock for the first quarter 2010 was partially offset by an increase in territorial base revenue primarily resulting from significantly colder weather in the first quarter 2010 compared to the first quarter 2009.

Retail Revenues

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$10.9	6.1

In the first quarter 2010, retail revenues were $186.6 million compared to $175.7 million for the corresponding period in 2009.

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

Details of the change to retail revenues are as follows:

	First Quarter 2010	
	(in millions)	*(% change)*
Retail prior year	$175.7	
Estimated change in		
Rates and pricing	(0.2)	(0.1)
Sales growth (decline)	(1.1)	(0.7)
Weather	6.9	3.9
Fuel and other cost recovery	5.3	3.0
Retail current year	$186.6	6.1%

Revenues associated with changes in rates and pricing decreased in the first quarter 2010 when compared to the corresponding period in 2009 due to a $0.7 million decrease related to System Restoration Rider (SRR) revenues pursuant to an order from the Mississippi PSC, partially offset by an increase of $0.5 million related to the ECO Plan rate. For additional information on SRR, see MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters System Restoration Rider of Mississippi Power in Item 7 of the Form 10-K.

Revenues attributable to changes in sales declined in the first quarter 2010 when compared to the corresponding period in 2009, primarily resulting from the continued decline in the number of residential and commercial customers due to a weak job market and customer relocations, partially offset by continued economic recovery for some larger industrial customers and increased residential energy use. Weather-adjusted KWH energy sales to residential customers increased 4.6% primarily due to improved economic conditions and lower fuel costs. Weather-adjusted KWH energy sales to commercial customers decreased 6.9% primarily due to the declining number of commercial customers in Mississippi Power s service territory. KWH energy sales to industrial customers increased 7.4% as a result of increased production for several large industrial customers due to improving economic conditions.

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

Fuel and other cost recovery revenues increased in the first quarter 2010 when compared to the corresponding period in 2009 primarily as a result of higher recoverable fuel costs. Recoverable fuel costs include fuel and purchased power expenses reduced by the fuel portion of wholesale revenues from energy sold to customers outside Mississippi Power s service territory. Electric rates include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these provisions, fuel revenues generally equal fuel expenses, including the fuel component of purchased power costs, and do not affect net income.

Wholesale Revenues Non-Affiliates

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$(1.3)	(1.6)

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

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In the first quarter 2010, wholesale revenues from non-affiliates were $78.9 million compared to $80.2 million for the corresponding period in 2009. The decrease was due to $8.4 million in decreased revenues from customers outside Mississippi Power s service territory, partially offset by $7.2 million in increased revenues from customers inside Mississippi Power s service territory. The $8.4 million decrease in revenues from customers outside Mississippi Power s service territory was primarily due to a $9.6 million decrease in sales, partially offset by a $1.1 million increase associated with higher prices, resulting from higher marginal cost of fuel. The $7.2 million increase in revenues from customers inside Mississippi Power s service territory was primarily due to a $4.2 million increase in fuel revenues and a $3.0 million increase in wholesale base revenues due to significantly colder weather when compared to the corresponding period in 2009.

Wholesale Revenues Affiliates

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$5.3	55.8

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 first quarter 2010, wholesale revenues from affiliates were $14.7 million compared to $9.4 million for the corresponding period in 2009. The increase was primarily due to a $4.9 million increase in energy revenues, of which $4.3 million was associated with increased sales and $0.6 million was associated with lower prices. Capacity revenues increased $0.3 million.

Fuel and Purchased Power Expenses

	First Quarter 2010 vs. First Quarter 2009	
	(change in millions)	*(% change)*
Fuel	$10.8	9.0
Purchased power non-affiliates	0.8	27.7
Purchased power affiliates	(7.1)	(32.5)
Total fuel and purchased power expenses	$ 4.5	

In the first quarter 2010, total fuel and purchased power expenses were $149.1 million compared to $144.6 million for the corresponding period in 2009. The increase was primarily due to an $11.6 million increase in total KWHs generated and purchased, partially offset by a $7.1 million decrease in cost of fuel and purchased power.

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

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

Percent

Average Cost	First Quarter 2010	First Quarter 2009	Change
	(cents per net KWH)		
Fuel	4.23	4.44	(4.7)
Purchased power	3.76	3.91	(3.8)

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In the first quarter 2010, fuel expense was $130.8 million compared to $120.0 million for the corresponding period in 2009. The increase was primarily due to a 14.3% increase in generation from Mississippi Power facilities resulting from higher energy demand in the first quarter 2010 compared to the corresponding period in 2009. This increase was partially offset by a 4.7% decrease in the price of fuel primarily due to a decrease in coal prices.

Non-Affiliates

In the first quarter 2010, purchased power expense from non-affiliates was $3.6 million compared to $2.8 million for the corresponding period in 2009. The increase was primarily the result of a 172.5% increase in the average cost of purchased power per KWH, partially offset by a 53.1% decrease in KWH volume purchased. The increase in prices was due to a higher marginal cost of fuel while the decrease in volume was a result of higher cost opportunity purchases.

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

Affiliates

In the first quarter 2010, purchased power expense from affiliates was $14.7 million compared to $21.8 million for the corresponding period in 2009. The decrease was primarily due to a 25.5% decrease in the average cost of purchased power per KWH and a 9.4% decrease in KWH volume 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, as approved by the FERC.

Other Operations and Maintenance Expenses

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$7.5	12.7

In the first quarter 2010, other operations and maintenance expenses were $67.3 million compared to $59.8 million for the corresponding period in 2009. The increase was primarily due to a $2.9 million increase in generation planned maintenance expenses, a $1.0 million increase in environmental expenses, a $1.0 million increase in transmission and distribution maintenance expenses, and a $2.1 million increase in administrative and general expenses primarily due to an increase in affiliate service company expenses.

Taxes Other Than Income Taxes

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$3.6	23.7

In the first quarter 2010, taxes other than income taxes were $18.5 million compared to $14.9 million for the corresponding period in 2009. The increase was primarily due to a $3.2 million increase in ad valorem taxes, a $0.2 million increase in franchise taxes, and a $0.1 million increase in payroll taxes.

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

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Interest Income

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
($0.6)	(94.8)

In the first quarter 2010, interest income decreased $0.6 million compared to the corresponding period in 2009. The decrease was primarily due to lower interest income related to a regulatory recovery mechanism for fuel and energy cost hedging.

Interest Expense, Net of Amounts Capitalized

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$1.4	29.8

In the first quarter 2010, interest expense, net of amounts capitalized was $6.2 million compared to $4.8 million for the corresponding period in 2009. The increase was primarily due to a $0.9 million increase in interest expense associated with the issuance of new long-term debt in March 2009, a $0.2 million increase in interest expense associated with higher commitment fees, and a $0.2 million increase in interest expense related to a regulatory recovery mechanism for fuel and energy cost hedging.

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

Income Taxes

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$(0.8)	(7.3)

In the first quarter 2010, income taxes were $9.7 million compared to $10.5 million for the corresponding period in 2009. The decrease was primarily due to a $1.0 million decrease resulting from the decrease in pre-tax earnings and a $0.1 million decrease due to higher State of Mississippi manufacturing investment tax credits, partially offset by a $0.3 million increase due to a lower federal production activities deduction.

FUTURE EARNINGS POTENTIAL

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

MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL of Mississippi Power in Item 7 of the Form 10-K.

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Environmental Matters

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

Carbon Dioxide Litigation

New York Case

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

Other Litigation

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation Other Litigation of Mississippi Power in Item 7 and Note 3 to the financial statements of Mississippi Power under Environmental Matters Carbon Dioxide Litigation Other Litigation in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation related to Hurricane Katrina. On February 26, 2010, the U.S. Court of Appeals for the Fifth Circuit granted the defendants petition for rehearing en banc. The ultimate outcome of this matter cannot be determined at this time.

Coal Combustion Byproducts

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Coal Combustion Byproducts of Mississippi Power in Item 7 of the Form 10-K for information regarding potential additional regulation of coal combustion byproducts. On May 4, 2010, the EPA issued a proposal requesting comments on two potential regulatory options for management and disposal of coal combustion byproducts, either of which could require conversion of existing storage units to lined landfills with additional waste management and groundwater monitoring requirements. Under both options, the EPA proposes to exempt the beneficial reuse of coal combustion byproducts from regulation. The outcome of these proposed regulations will depend on their final form and any legal challenges, and cannot be determined at this time. However, additional regulation of coal combustion byproducts could have a significant impact on Mississippi Power s management, beneficial use, and disposal of such byproducts and could result in significant additional compliance costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

Global Climate Issues

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Global Climate Issues of Mississippi Power in Item 7 of the Form 10-K for information regarding the potential for legislation and regulation addressing greenhouse gas and other emissions. On April 1, 2010, the EPA issued a final

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rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that, once this rule becomes effective on January 2, 2011, carbon dioxide and other greenhouse gases will become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. The EPA also published a proposed rule governing how these programs would be applied to stationary sources, including power plants, in October 2009. The EPA is expected to finalize this proposed rule during 2010. The ultimate outcome of these proposed and final rules cannot be determined at this time and will depend on additional regulatory action and any legal challenges.

FERC and Mississippi PSC Matters

Retail Regulatory Matters

Performance Evaluation Plan

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

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

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

System Restoration Rider

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

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

Environmental Compliance Overview Plan

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

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

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Fuel Cost Recovery

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Fuel Cost Recovery of Mississippi Power in Item 7 of the Form 10-K for information regarding Mississippi Power s fuel cost recovery. Mississippi Power establishes an annual retail fuel cost recovery factor that is approved by the Mississippi PSC. Mississippi Power is required to file for an adjustment to the retail fuel cost recovery factor annually; such filing occurred in November 2009. The Mississippi PSC approved the retail fuel cost recovery factor on December 15, 2009 with the new rates effective January 2010. The retail fuel cost recovery factor will result in an annual decrease in an amount equal to 11.3% of total 2009 retail revenues. At March 31, 2010, the amount of over recovered retail fuel costs included in the balance sheet was $35.3 million compared to $29.4 million at December 31, 2009. Mississippi Power also has a wholesale Municipal and Rural Associations (MRA) and a Market Based (MB) fuel cost recovery factor. Effective January 1, 2010, the wholesale MRA fuel rate decreased, resulting in an annual decrease in an amount equal to 20.9% of total 2009 MRA revenue. Effective February 1, 2010, the wholesale MB fuel rate decreased, resulting in an annual decrease in an amount equal to 16.9% of total 2009 MB revenue. At March 31, 2010, the amount of over recovered wholesale MRA and MB fuel costs included in the balance sheet was $17.5 million and $3.4 million compared to $16.8 million and $2.4 million, respectively, at December 31, 2009. Mississippi Power s operating revenues are adjusted for differences in actual recoverable fuel cost and amounts billed in accordance with the currently approved cost recovery rate. Accordingly, this decrease to the billing factor will have no significant effect on Mississippi Power s revenues or net income, but will decrease annual cash flow.

Depreciation Study

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

Integrated Coal Gasification Combined Cycle

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

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

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

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On April 29, 2010, the Mississippi PSC issued an order finding that Mississippi Power s application to acquire, construct, and operate the Kemper IGCC did not satisfy the requirement of public convenience and necessity in the form that the project and the related cost recovery were originally proposed by Mississippi Power. The order requires Mississippi Power to accept certain conditions prior to the Mississippi PSC s approval of a Certificate of Public Convenience and Necessity. Among those conditions imposed in the order, Mississippi Power would be required to accept a construction cost cap of $2.4 billion and an operating cost cap based on assumptions contained in Mississippi Power s proposal. In addition, the order deferred a decision on whether, when, and to what extent the Mississippi PSC would apply the cost recovery provisions of the State of Mississippi Baseload Act of 2008 (Baseload Act) for financing cost recovery on construction work in progress (CWIP) balances during construction. According to the order, while the Kemper IGCC satisfies the eligibility requirements for application of the Baseload Act, the Mississippi PSC declined to approve CWIP recovery until Mississippi Power submits additional evidence supporting a specific request for CWIP within a defined recovery period. Mississippi Power expects to file a motion for reconsideration or, in the alternative, for rehearing, of the order.

The April 2010 order also approved recovery of $46 million of $50.5 million in prudent pre-construction costs incurred through March 2009. The remaining $4.5 million is associated with overhead costs and variable pay of SCS, which were recommended for exclusion from pre-construction costs by a consultant hired by the Mississippi Public Utilities Staff. An additional $2.7 million has been incurred for costs of this type since March 2009. The remaining $4.5 million, as well as additional pre-construction amounts incurred to date, will be reviewed and addressed in a future proceeding.

As of March 31, 2010, Mississippi Power had spent a total of $97.0 million associated with Mississippi Power s generation resource planning, evaluation, and screening activities, including regulatory filing costs. Costs incurred during the first quarter 2010 totaled $23.5 million compared to $8.4 million during the first quarter 2009. Of the total $97.0 million, $87.0 million was deferred in other regulatory assets, $9.0 million was related to land purchases capitalized, and $1.0 million was previously expensed.

In the event that Mississippi Power does not proceed with the Kemper IGCC, Mississippi Power would seek recovery of the pre-construction costs incurred as of March 2010, as well as contract termination obligations and other costs incurred since March 2010, in the amount of approximately $41.0 million. In November 2009, the Mississippi PSC issued an order that found Mississippi Power has a demonstrated need for additional capacity. In the event that Mississippi Power does not proceed with the Kemper IGCC, Mississippi Power would provide for its capacity need through either the construction of a combined cycle plant, a PPA, or other means available to Mississippi Power.

The ultimate outcome of these matters cannot now be determined.

Legislation

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

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

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

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

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

Other Matters

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

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

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

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

Mississippi Power prepares its financial statements in accordance with accounting principles generally accepted in the United States. Significant accounting policies are described in Note 1 to the financial statements of Mississippi Power in Item 8 of the Form 10-K. In the application of these policies, certain estimates are made that may have a material impact on Mississippi Power s results of operations and related disclosures. Different assumptions and measurements could

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produce estimates that are significantly different from those recorded in the financial statements. See MANAGEMENT S DISCUSSION AND ANALYSIS ACCOUNTING POLICIES Application of Critical Accounting Policies and Estimates of Mississippi Power in Item 7 of the Form 10-K for a complete discussion of Mississippi Power s critical accounting policies and estimates related to Electric Utility Regulation, Contingent Obligations, Unbilled Revenues, Plant Daniel Operating Lease, and Pension and Other Postretirement Benefits.

FINANCIAL CONDITION AND LIQUIDITY

Overview

Mississippi Power s financial condition remained stable at March 31, 2010. Mississippi Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See Sources of Capital and Financing Activities herein for additional information.

Net cash provided from operating activities totaled $17.0 million for the first three months of 2010, compared to net cash used for operating activities of $12.9 million for the corresponding period in 2009. The $29.9 million increase in cash provided from operating activities is primarily due to a decrease in fossil fuel stock resulting from an increase in Mississippi Power-owned generation and a decrease in cash payments related to fuel inventory, partially offset by an increase in spending related to the Kemper IGCC and a decrease in cash related to lower fuel rates effective in the first quarter 2010. Net cash used for investing activities totaled $24.9 million for the first three months of 2010, compared to $28.8 million for the corresponding period in 2009. The $3.9 million decrease in net cash used for investing activities is primarily due to a decrease in property additions. Net cash used for financing activities totaled $17.1 million for the first three months of 2010, compared to net cash provided from financing activities of $40.7 million for the corresponding period in 2009. The $57.8 million increase in net cash used for financing activities was primarily due to the issuance of $125 million in senior notes in the first quarter 2009, partially offset by the repayment of $40 million of senior notes and a decrease of $26.3 million in notes payable in the first quarter 2009.

Significant balance sheet changes for the first three months of 2010 include a decrease in cash of $25.0 million. Fossil fuel stock decreased $17.8 million due to decreases in coal inventory and emissions allowances of $17.0 million and $0.8 million, respectively. Other regulatory assets increased $38.2 million primarily due to increased spending related to the Kemper IGCC and mark-to-market losses on forward gas contracts. Total property, plant, and equipment increased by $20.0 million primarily due to construction projects in progress. Accrued income taxes increased by $20.7 million primarily due to the tax accrual for 2010. Other accrued taxes decreased by $32.8 million primarily due to property tax payments of $42.8 million in the first quarter 2010. Liabilities from risk management activities increased $10.2 million due to mark-to-market losses on energy related derivative positions.

Capital Requirements and Contractual Obligations

See MANAGEMENT S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Mississippi Power in Item 7 of the Form 10-K for a description of Mississippi Power s capital requirements for its construction program, lease obligations, purchase commitments, derivative obligations, preferred stock dividends, and trust funding requirements. Approximately $81.4 million will be required through March 31, 2011 for maturities of long-term debt. The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; storm impacts; changes in environmental statutes and regulations; changes in FERC rules and regulations; Mississippi PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

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Sources of Capital

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

Mississippi Power s current liabilities sometimes exceed current assets because of the continued use of short-term debt as a funding source to meet scheduled maturities of long-term debt, as well as cash needs, which can fluctuate significantly due to the seasonality of the business. To meet short-term cash needs and contingencies, Mississippi Power had at March 31, 2010 approximately $40 million of cash and cash equivalents and $156 million of unused committed credit arrangements with banks. Of the unused credit arrangements, $106 million expire in 2010 and $50 million expire in 2011. Of these credit arrangements, $41 million contain provisions allowing two-year term loans executable at expiration and $65 million contain provisions allowing one-year term loans executable at expiration. Mississippi Power expects to renew its credit arrangements, as needed, prior to expiration. The credit arrangements provide liquidity support to Mississippi Power s commercial paper program and $40 million are dedicated to funding purchase obligations related to variable rate pollution control revenue bonds. See Note 6 to the financial statements of Mississippi Power under Bank Credit Arrangements in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under Bank Credit Arrangements herein for additional information. Mississippi Power may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of Mississippi Power and other Southern Company subsidiaries. At March 31, 2010, Mississippi Power had no commercial paper borrowings outstanding. Management believes that the need for working capital can be adequately met by utilizing commercial paper, lines of credit, and cash.

Off-Balance Sheet Financing Arrangements

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

Credit Rating Risk

Mississippi Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- and/or Baa3 or below. These contracts are for physical electricity sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management. At March 31, 2010, the maximum potential collateral requirements under these contracts at a BBB- and/or Baa3 rating were approximately $4 million. At March 31, 2010, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately $396 million. Included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Mississippi Power s ability to access capital markets, particularly the short-term debt market.

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

Market Price Risk

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

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

The changes in fair value of energy-related derivative contracts, the majority of which are composed of regulatory hedges, for the three months ended March 31, 2010 were as follows:

	First Quarter 2010 Changes Fair Value *(in millions)*
Contracts outstanding at the beginning of the period, assets (liabilities), net	$ (42)
Contracts realized or settled	6
Current period changes[(a)]	(23)
Contracts outstanding at the end of the period, assets (liabilities), net	$ (59)

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

The change in the fair value positions of the energy-related derivative contracts for the three months ended March 31, 2010 was a decrease of $17 million, substantially all of which is due to natural gas positions. The change is attributable to the price of natural gas. At March 31, 2010, Mississippi Power had a net hedge volume of 23 million mmBtu with a weighted average contract cost approximately $2.62 per mmBtu above market prices, compared to

23 million mmBtu at December 31, 2009 with a weighted average contract cost approximately $1.83 per mmBtu above market prices. The majority of the natural gas hedges are recovered through the energy cost management clause.

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

Unrealized pre-tax gains and losses recognized in income for the three months ended March 31, 2010 and 2009 for energy-related derivative contracts that are not hedges were not material.

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MISSISSIPPI POWER COMPANY
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The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at March 31, 2010 are as follows:

	March 31, 2010 Fair Value Measurements			
	Total Fair Value	Maturity Year 1	Years 2&3	Years 4&5
	(in millions)			
Level 1	$	$	$	$
Level 2	(59)	(30)	(29)	
Level 3				
Fair value of contracts outstanding at end of period	$(59)	$(30)	$(29)	$

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

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

Financing Activities

Mississippi Power did not issue or redeem any securities during the three months ended March 31, 2010.

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

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

	For the Three Months Ended March 31,	
	2010	2009
	(in thousands)	
Operating Revenues:		
Wholesale revenues, non-affiliates	**$ 153,337**	$ 94,612
Wholesale revenues, affiliates	**101,757**	135,284
Other revenues	**1,394**	1,621
Total operating revenues	**256,488**	231,517
Operating Expenses:		
Fuel	**97,514**	65,781
Purchased power, non-affiliates	**18,542**	21,482
Purchased power, affiliates	**23,411**	15,202
Other operations and maintenance	**38,878**	32,973
Depreciation and amortization	**29,109**	24,339
Taxes other than income taxes	**5,106**	4,759
Total operating expenses	**212,560**	164,536
Operating Income	**43,928**	66,981
Other Income and (Expense):		
Interest expense, net of amounts capitalized	**(20,054)**	(21,559)
Other income (expense), net	**419**	(211)
Total other income and (expense)	**(19,635)**	(21,770)
Earnings Before Income Taxes	**24,293**	45,211
Income taxes	**9,483**	17,295
Net Income	**$ 14,810**	$ 27,916

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended March 31,	
	2010	2009
	(in thousands)	
Net Income	**$ 14,810**	$ 27,916
Other comprehensive income (loss):		
Qualifying hedges:		
Changes in fair value, net of tax of $1,714 and $302, respectively	**2,677**	466
Reclassification adjustment for amounts included in net income, net of tax of $1,003 and $935, respectively	**1,567**	1,440

Total other comprehensive income (loss)	**4,244**	1,906
Comprehensive Income	**$ 19,054**	$ 29,822

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

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

	For the Three Months Ended March 31,	
	2010	2009
	(in thousands)	
Operating Activities:		
Net income	**$ 14,810**	$ 27,916
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization, total	**32,355**	27,371
Deferred income taxes	**13,388**	18,763
Deferred revenues	**(20,993)**	(22,020)
Mark-to-market adjustments	**762**	883
Accumulated billings on construction contract	**401**	11,520
Accumulated costs on construction contract	**(13)**	(20,145)
Other, net	**541**	(134)
Changes in certain current assets and liabilities		
-Receivables	**16,566**	2,439
-Fossil fuel stock	**3,815**	1,464
-Materials and supplies	**4,721**	(497)
-Prepaid income taxes	**(9,201)**	7,870
-Other current assets	**1,020**	652
-Accounts payable	**(15,247)**	(19,840)
-Accrued taxes	**3,433**	3,628
-Accrued interest	**(12,028)**	(12,194)
-Other current liabilities	**297**	88
Net cash provided from operating activities	**34,627**	27,764
Investing Activities:		
Property additions	**(67,556)**	(4,632)
Change in construction payables	**15,489**	(271)
Payments pursuant to long-term service agreements	**(8,145)**	(6,136)
Other investing activities	**(245)**	
Net cash used for investing activities	**(60,457)**	(11,039)
Financing Activities:		
Increase in notes payable, net	**48,006**	
Proceeds Capital contributions	**702**	1,060
Payment of common stock dividends	**(26,775)**	(26,525)
Net cash provided from (used for) financing activities	**21,933**	(25,465)
Net Change in Cash and Cash Equivalents	**(3,897)**	(8,740)
Cash and Cash Equivalents at Beginning of Period	**7,152**	37,894
Cash and Cash Equivalents at End of Period	**$ 3,255**	$ 29,154

Supplemental Cash Flow Information:		
Cash paid during the period for		
Interest (net of $1,926 and $78 capitalized for 2010 and 2009, respectively)	**$ 28,900**	$ 30,791
Income taxes (net of refunds)	**$ 1,532**	$ (10,003)

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

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

Assets	At March 31, 2010	At December 31, 2009
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 3,255**	$ 7,152
Receivables		
Customer accounts receivable	**29,874**	28,873
Other accounts receivable	**1,829**	2,064
Affiliated companies	**23,256**	38,561
Fossil fuel stock, at average cost	**11,536**	15,351
Materials and supplies, at average cost	**26,886**	31,607
Prepaid service agreements current	**23,821**	44,090
Prepaid income taxes	**23,878**	5,177
Other prepaid expenses	**2,261**	3,176
Assets from risk management activities	**16,040**	4,901
Other current assets	**6,650**	6,754
Total current assets	**169,286**	187,706
Property, Plant, and Equipment:		
In service	**2,972,925**	2,994,463
Less accumulated provision for depreciation	**459,472**	439,457
Plant in service, net of depreciation	**2,513,453**	2,555,006
Construction work in progress	**263,770**	153,982
Total property, plant, and equipment	**2,777,223**	2,708,988
Other Property and Investments:		
Goodwill	**1,835**	1,794
Other intangible assets, net of amortization of $151 and $17 at March 31, 2010 and December 31, 2009, respectively	**48,969**	49,102
Total other property and investments	**50,804**	50,896
Deferred Charges and Other Assets:		
Prepaid long-term service agreements	**71,012**	74,513
Other deferred charges and assets affiliated	**3,474**	3,540
Other deferred charges and assets non-affiliated	**16,407**	17,410
Total deferred charges and other assets	**90,893**	95,463
Total Assets	**$ 3,088,206**	$ 3,043,053

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

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

Liabilities and Stockholder s Equity	At March 31, 2010	At December 31, 2009
	(in thousands)	
Current Liabilities:		
Notes payable	**$ 166,954**	$ 118,948
Accounts payable		
Affiliated	**52,271**	58,493
Other	**31,193**	31,128
Accrued taxes		
Accrued income taxes	**2,340**	1,449
Other accrued taxes	**6,358**	2,576
Accrued interest	**17,895**	29,923
Liabilities from risk management activities	**15,102**	8,119
Other current liabilities	**471**	323
Total current liabilities	**292,584**	250,959
Long-term Debt	**1,297,670**	1,297,607
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**253,292**	238,293
Deferred convertible investment tax credits	**26,300**	16,800
Deferred capacity revenues affiliated	**14,392**	36,369
Other deferred credits and liabilities affiliated	**5,392**	5,651
Other deferred credits and liabilities non-affiliated	**10,474**	2,252
Total deferred credits and other liabilities	**309,850**	299,365
Total Liabilities	**1,900,104**	1,847,931
Common Stockholder s Equity:		
Common stock, par value $.01 per share		
Authorized - 1,000,000 shares		
Outstanding - 1,000 shares		
Paid-in capital	**865,163**	864,462
Retained earnings	**340,096**	352,061
Accumulated other comprehensive loss	**(17,157)**	(21,401)
Total common stockholder s equity	**1,188,102**	1,195,122
Total Liabilities and Stockholder s Equity	**$ 3,088,206**	$ 3,043,053

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

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SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES
MANAGEMENT S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FIRST QUARTER 2010 vs. FIRST QUARTER 2009

OVERVIEW

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

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

RESULTS OF OPERATIONS

Net Income

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$(13.1)	(46.9)

Southern Power s net income for the first quarter 2010 was $14.8 million compared to $27.9 million for the corresponding period in 2009. The decrease was primarily due to decreased affiliate capacity revenues, higher other operations and maintenance expenses, and higher depreciation and amortization.

Wholesale Revenues Non-Affiliates

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$58.7	62.1

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

Wholesale energy sales to non-affiliates for the first quarter 2010 were $153.3 million compared to $94.6 million for the corresponding period in 2009. The increase was mainly due to $19.2 million of energy and capacity revenues under a new PPA that began in January 2010 and $34.7 million of energy sales that were not covered by PPAs as a result of significantly more favorable weather in the first quarter 2010 compared to 2009.

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

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

Wholesale Revenues Affiliates

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$(33.5)	(24.8)

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

Wholesale revenues from affiliates for the first quarter 2010 were $101.8 million compared to $135.3 million for the corresponding period in 2009. The decrease was primarily the result of $38.7 million and $19.2 million of lower energy and capacity revenues, respectively, associated with the expiration of PPAs covering Plant Wansley Units 6 and 7 in December 2009. These decreases were partially offset by increased energy revenues of $20.9 million related to increased power sales under the IIC and $3.5 million of capacity revenues associated with a new PPA with Gulf Power that began in June 2009.

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

Fuel and Purchased Power Expenses

	First Quarter 2010 vs. First Quarter 2009	
	(change in millions)	*(% change)*
Fuel	$31.7	48.2
Purchased power non-affiliates	(2.9)	(13.7)
Purchased power affiliates	8.2	54.0
Total fuel and purchased power expenses	$37.0	

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

In the first quarter 2010, total fuel and purchased power expenses were $139.5 million compared to $102.5 million for the corresponding period in 2009. Fuel and purchased power expenses increased $16.0 million due to a 3.4% increase in the average cost of natural gas and a 44.0% increase in the average cost of purchased power. Additionally, fuel and purchased power expenses increased $21.0 million due to an increase in KWHs generated and purchased.

In the first quarter 2010, fuel expense was $97.5 million compared to $65.8 million for the corresponding period in 2009. Fuel expense increased $3.2 million due to a 3.4% increase in the average cost of natural gas and $28.5 million due to an increase in KWHs generated.

In the first quarter 2010, purchased power expense was $42.0 million compared to $36.7 million for the corresponding period in 2009. Purchased power expenses increased $12.8 million due to an increase in the average cost of purchased power partially offset by a $7.5 million decrease due to fewer KWHs purchased.

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SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES
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Other Operations and Maintenance Expenses

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$5.9	17.9

In the first quarter 2010, other operations and maintenance expenses were $38.9 million compared to $33.0 million for the corresponding period in 2009. This increase was primarily due to a $2.9 million increase in salaries and wages relating mainly to payroll taxes, a $1.8 million increase related to more scheduled generating plant outages in the first quarter 2010 compared to the corresponding period in 2009, and a $0.6 million increase in contract labor expense.

Depreciation and Amortization

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$4.8	19.6

In the first quarter 2010, depreciation and amortization was $29.1 million compared to $24.3 million for the corresponding period in 2009. The increase was primarily due to equipment retirements at Plant Franklin Unit 2 and Plant Harris Unit 1.

See Note 1 to the financial statements of Southern Power under Depreciation in Item 8 of the Form 10-K for additional information.

Interest Expense, Net of Amounts Capitalized

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$(1.5)	(7.0)

In the first quarter 2010, interest expense, net of amounts capitalized was $20.1 million compared to $21.6 million for the corresponding period in 2009. The decrease was primarily due to an increase in capitalized interest associated with the construction of the Cleveland County combustion turbine units and the Nacogdoches biomass plant. See FUTURE EARNINGS POTENTIAL Construction Projects herein for additional information.

Income Taxes

First Quarter 2010 vs. First Quarter 2009	
(change in millions)	*(% change)*
$(7.8)	(45.2)

In the first quarter 2010, income taxes were $9.5 million compared to $17.3 million for the corresponding period in 2009 primarily due to lower pre-tax earnings.

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

FUTURE EARNINGS POTENTIAL

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

Environmental Matters

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

Carbon Dioxide Litigation

Other Litigation

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Carbon Dioxide Litigation Other Litigation of Southern Power in Item 7 and Note 3 to the financial statements of Southern Power under Carbon Dioxide Litigation Other Litigation in Item 8 of the Form 10-K for additional information regarding carbon dioxide litigation related to Hurricane Katrina. On February 26, 2010, the U.S. Court of Appeals for the Fifth Circuit granted the defendants petition for rehearing en banc. The ultimate outcome of this matter cannot be determined at this time.

Environmental Statutes and Regulations

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

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SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES
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Global Climate Issues

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Global Climate Issues of Southern Power in Item 7 of the Form 10-K for information regarding the potential for legislation and regulation addressing greenhouse gas and other emissions. On April 1, 2010, the EPA issued a final rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that, once this rule becomes effective on January 2, 2011, carbon dioxide and other greenhouse gases will become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. The EPA also published a proposed rule governing how these programs would be applied to stationary sources, including power plants, in October 2009. The EPA is expected to finalize this proposed rule during 2010. The ultimate outcome of these proposed and final rules cannot be determined at this time and will depend on additional regulatory action and any legal challenges.

Legislation

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Legislation of Southern Power in Item 7 of the Form 10-K for additional information. On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law and, on March 30, 2010, the Health Care and Education Reconciliation Act of 2010 (HCERA and, together with PPACA, the Acts), which makes various amendments to certain aspects of the PPACA, was signed into law. The Acts effectively change the tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide prescription drug benefits that are at least actuarially equivalent to the corresponding benefits provided under Medicare Part D. The federal subsidy paid to employers was introduced as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MPDIMA). Since the 2006 tax year, Southern Company has been receiving the federal subsidy related to certain retiree prescription drug plans that were determined to be actuarially equivalent to the benefit provided under Medicare Part D. Under the MPDIMA, the federal subsidy does not reduce an employer s income tax deduction for the costs of providing such prescription drug plans nor is it subject to income tax individually. Under the Acts, beginning in 2013, an employer s income tax deduction for the costs of providing Medicare Part D-equivalent prescription drug benefits to retirees will be reduced by the amount of the federal subsidy. Under GAAP, any impact from a change in tax law must be recognized in the period enacted regardless of the effective date. Southern Power incurred a non-cash write-off of approximately $3 million to expense during the quarter ended March 31, 2010. Southern Company is in the process of assessing the extent to which the legislation may affect its future health care and related employee benefit plan costs. Any future impact on the financial statements of Southern Power cannot be determined at this time.

Construction Projects

Cleveland County Units 1-4

In December 2008, Southern Power announced that it would build an electric generating plant in Cleveland County, North Carolina. The plant will consist of four combustion turbine natural gas generating units with a total capacity of 720 MWs. The units are expected to go into commercial operation in 2012. Costs incurred through March 31, 2010 were $80.5 million. The total estimated construction cost is expected to be between $350 million and $400 million.

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

Nacogdoches

On October 8, 2009, Southern Power acquired all of the outstanding membership interests of Nacogdoches Power LLC from American Renewables LLC, the original developer of the project. Nacogdoches is constructing a biomass generating plant in Sacul, Texas with an estimated capacity of 100 MWs. The generating plant will be fueled from wood waste. Construction commenced in 2009 and the plant is expected to begin commercial operation in 2012. Costs incurred through March 31, 2010 were $133.2 million. The total estimated cost of the project is expected to be between $475 million and $500 million. The output of the plant is contracted under a PPA with Austin Energy that begins in 2012 and expires upon the earlier of 2032 or when a contractual limit of $2.3 billion in billings is reached.

Other Matters

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

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

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

FINANCIAL CONDITION AND LIQUIDITY

Overview

Southern Power s financial condition remained stable at March 31, 2010. Southern Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements as needed to meet future capital and liquidity needs. See Sources of Capital herein for additional information on lines of credit.

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Net cash provided from operating activities totaled $34.6 million for the first three months of 2010, compared to $27.8 million for the corresponding period in 2009. This increase was mainly due to a reduction in accounts receivable related to lower sales to affiliate companies. Net cash used for investing activities totaled $60.5 million for the first three months of 2010, compared to $11.0 million for the corresponding period in 2009. The $49.5 million increase was primarily due to an increase in construction work in progress related to construction activities at Cleveland County and Nacogdoches. Net cash provided from financing activities totaled $21.9 million for the first three months of 2010, compared to $25.5 million cash used for financing activities for the corresponding period in 2009. The increase was primarily due to an increase in short-term borrowings in 2010.

Significant asset changes in the balance sheet for the first quarter 2010 include an increase in construction work in progress due to Cleveland County and Nacogdoches construction activities and a decrease in accounts receivable-affiliated companies mainly due to the expiration, in December 2009, of PPAs covering Plant Wansley Units 6 and 7.

Significant liability and stockholder s equity changes in the balance sheet for the first quarter 2010 include an increase in notes payable mainly related to Cleveland County and Nacogdoches construction activities and a decrease in deferred capacity revenues affiliated due to seasonality.

Capital Requirements and Contractual Obligations

See MANAGEMENT S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Capital Requirements and Contractual Obligations of Southern Power in Item 7 of the Form 10-K for a description of Southern Power s capital requirements for its construction program, maturing debt, interest, leases, derivative obligations, purchase commitments, and long-term service agreements. The construction programs are subject to periodic review and revision; these amounts include estimates for potential plant acquisitions and new construction as well as ongoing capital improvements. Planned expenditures for plant acquisitions may vary due to market opportunities and Southern Power s ability to execute its growth strategy. Actual construction costs may vary from these estimates because of changes in factors such as: business conditions; environmental statutes and regulations; FERC rules and regulations; load projections; legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital.

Sources of Capital

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

Southern Power s current liabilities frequently exceed current assets due to the use of short-term indebtedness as a funding source to meet cash needs which can fluctuate significantly due to the seasonality of the business. To meet liquidity and capital resource requirements, Southern Power had at March 31, 2010 cash and cash equivalents of approximately $3 million and $400 million in committed credit arrangements with banks, all of which expire in 2012. Proceeds from these credit arrangements may be used for working capital and general corporate purposes as well as liquidity support for Southern Power s commercial paper program. See Note 6 to the financial statements of Southern Power under Bank Credit Arrangements in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under Bank Credit Arrangements herein for additional information. Southern Power s commercial paper program is used to finance acquisition and construction costs related to electric generating facilities and for general corporate purposes. At March 31, 2010, Southern Power had $167 million of commercial paper borrowings outstanding.

SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES
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Management believes that the need for working capital can be adequately met by utilizing commercial paper programs, lines of credit, and cash.

Credit Rating Risk

Southern Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB and Baa2, or BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel transportation and storage, and energy price risk management. At March 31, 2010, the maximum potential collateral requirements under these contracts at a BBB and Baa2 rating were approximately $9 million and at a BBB- and/or Baa3 rating were approximately $327 million. At March 31, 2010, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately $999 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 Southern Power s ability to access capital markets, particularly the short-term debt market.

In addition, through the acquisition of Plant Rowan, Southern Power assumed PPAs with Duke Energy and North Carolina Municipal Power Agency No. 1 (NCMPA1) that could require collateral, but not accelerated payment, in the event of a downgrade of Southern Power s credit. The Duke Energy PPA defines the downgrade to be below BBB- or Baa3. The NCMPA1 PPA requires credit assurances without stating a specific credit rating. The amount of collateral required would depend upon actual losses, if any, resulting from a credit downgrade for both PPAs.

Market Price Risk

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

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

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

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The changes in fair value of energy-related derivative contracts for the three months ended March 31, 2010 were as follows:

	First Quarter 2010 Changes
	Fair Value
	(in millions)
Contracts outstanding at the beginning of the period, assets (liabilities), net	$ (3.5)
Contracts realized or settled	0.5
Current period changes[(a)]	3.1
Contracts outstanding at the end of the period, assets (liabilities), net	$ 0.1

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

The increase in the fair value positions of the energy-related derivative contracts for the three months ended March 31, 2010 was $3.6 million, which is due to both power and natural gas positions. This change is attributable to both the volume and prices of power and natural gas as follows:

	March 31, 2010	**December 31, 2009**
Power (net sold)		
MWHs *(in millions)*	1.3	2.7
Weighted average contract cost per MWH above (below) market prices *(in dollars)*	$ 9.03	$ (0.36)
Natural gas (net purchase)		
Commodity million mmBtu	6.4	8.3
Location basis million mmBtu	1.2	2.0
Commodity Weighted average contract cost per mmBtu above (below) market prices *(in dollars)*	$ 2.41	$ 0.29
Location basis Weighted average contract cost per mmBtu above (below) market prices *(in dollars)*	$ (0.03)	$ (0.04)

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	March 31, 2010	December 31, 2009
	(in millions)	
Cash flow hedges	$ 1.8	$ (2.5)
Not designated	(1.7)	(1.0)
Total fair value	$ 0.1	$ (3.5)

Gains and losses on energy-related derivatives used by Southern Power to hedge anticipated purchases and sales are initially deferred in OCI before being recognized in income in the same period as the hedged transaction. Gains and losses on derivative contracts that are not designated as hedges are recognized in the statements of income as incurred. Total net unrealized pre-tax losses recognized in income for the three months ended March 31, 2010 for energy-related derivative contracts that are not hedges were $0.7 million and will continue to be marked to market until the settlement date. For the three months ended March 31, 2009, the total net unrealized pre-tax losses recognized in the statements of income were $1.0 million.

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The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at March 31, 2010 are as follows:

	March 31, 2010 Fair Value Measurements			
	Total Fair Value	Year 1	Maturity Years 2&3	Years 4&5
	(in millions)			
Level 1	$	$	$	$
Level 2	0.1	1.0	(1.0)	0.1
Level 3				
Fair value of contracts outstanding at end of period	$0.1	$1.0	$(1.0)	$ 0.1

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

For additional information, see MANAGEMENT S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Market Price Risk of Southern Power in Item 7 and Note 1 under Financial Instruments and Note 9 to the financial statements of Southern Power in Item 8 of the Form 10-K and Note (H) to the Condensed Financial Statements herein.

Financing Activities

Southern Power did not issue or redeem any long-term securities during the three months ended March 31, 2010.

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS:

(A) INTRODUCTION

The condensed quarterly financial statements of each registrant included herein have been prepared by such registrant, without audit, pursuant to the rules and regulations of the SEC. The Condensed Balance Sheets as of December 31, 2009 have been derived from the audited financial statements of each registrant. In the opinion of each registrant s management, the information regarding such registrant furnished herein reflects all adjustments, which, except as otherwise disclosed, are of a normal recurring nature, necessary to present fairly the results of operations for the periods ended March 31, 2010 and 2009. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although each registrant believes that the disclosures regarding such registrant are adequate to make the information presented not misleading. Disclosures which would substantially duplicate the disclosures in the Form 10-K and details which have not changed significantly in amount or composition since the filing of the Form 10-K are generally omitted from this Quarterly Report on Form 10-Q. Therefore, these Condensed Financial Statements should be read in conjunction with the financial statements and the notes thereto included in the Form 10-K. Due to the seasonal variations in the demand for energy, operating results for the periods presented are not necessarily indicative of the operating results to be expected for the full year.

Certain prior years data presented in the financial statements have been reclassified to conform to the current year presentation.

Affiliate Transactions

Gulf Power purchased a turbine rotor assembly that was jointly-owned by Southern Power and Georgia Power for approximately $11 million. These affiliate transactions were in accordance with FERC and state PSC rules and guidelines.

Variable Interest Entities

Effective January 1, 2010, the traditional operating companies and Southern Power adopted new accounting guidance which modified the consolidation model and expanded disclosures related to variable interest entities (VIE). The primary beneficiary of a VIE is required to consolidate the VIE when it has both the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. The adoption of this new accounting guidance did not result in the traditional operating companies or Southern Power consolidating any VIEs that were not already consolidated under previous guidance, nor deconsolidating any VIEs.

Southern Power has certain wholly-owned subsidiaries that are determined to be VIEs. Southern Power is considered the primary beneficiary of these VIEs because it controls the most significant activities of the VIEs, including operating and maintaining the respective assets, and has the obligation to absorb expected losses of these VIEs to the extent of its equity interests.

(B) CONTINGENCIES AND REGULATORY MATTERS

See Note 3 to the financial statements of the registrants in Item 8 of the Form 10-K for information relating to various lawsuits, other contingencies, and regulatory matters.

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NOTES TO TH