

CHOICE HOTELS INTERNATIONAL INC /DE
Form 4
October 19, 2016

FORM 4

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

OMB APPROVAL

OMB Number: 3235-0287
Expires: January 31, 2015
Estimated average burden hours per response... 0.5

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Cimerola Patrick

2. Issuer Name and Ticker or Trading Symbol
CHOICE HOTELS INTERNATIONAL INC /DE [CHH]

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)

(Last) (First) (Middle)

3. Date of Earliest Transaction (Month/Day/Year)
10/17/2016

____ Director _____ 10% Owner
 Officer (give title below) _____ Other (specify below)
Chief Human Resources Officer

1 CHOICE HOTELS CIRCLE

(Street)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

ROCKVILLE, MD 20850

(City) (State) (Zip)

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
			Code	V	Amount	(D)	Price
Common Stock	10/17/2016		A		15.88	A	44.67
							\$
							(1)
					30,413.3	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

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GULF POWER COMPANY

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GULF POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

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

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

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

Other comprehensive income (loss):

Qualifying hedges:

Changes in fair value, net of tax of \$412, \$-, \$(542), and \$-, respectively

655 **(863)**

Reclassification adjustment for amounts included in net income, net of tax of \$91, \$104, \$196, and \$209, respectively

146 167 **312** 334

Total other comprehensive income (loss)

801 167 **(551)** 334

Comprehensive Income

\$ 33,118 \$ 32,436 **\$ 57,066** \$ 49,145

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

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GULF POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

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

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

Supplemental Cash Flow Information:

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

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

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GULF POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

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

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

Total common stockholder's equity	1,062,343	1,004,292
Total Liabilities and Stockholder's Equity	\$ 3,475,721	\$ 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
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
SECOND QUARTER 2010 vs. SECOND QUARTER 2009
AND
YEAR-TO-DATE 2010 vs. YEAR-TO-DATE 2009

OVERVIEW

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

RESULTS OF OPERATIONS**Net Income**

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

N/M-Not Meaningful

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

Retail Revenues

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

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

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

Details of the change to retail revenues are as follows:

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

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

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

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

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

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

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

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

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

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

for additional information.

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

Wholesale Revenues - Non-Affiliates

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

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

Wholesale Revenues - Affiliates

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

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

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

Other Revenues

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

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

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

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

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

Fuel and Purchased Power Expenses

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

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

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

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

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

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

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

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

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

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

Non-Affiliates

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

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

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

Affiliates

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

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

Other Operations and Maintenance Expenses

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

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

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

Depreciation and Amortization

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

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

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

Taxes Other Than Income Taxes

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

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

Allowance for Funds Used During Construction

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

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

Interest Expense, Net of Amounts Capitalized

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

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

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

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Income Taxes

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

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

FUTURE EARNINGS POTENTIAL

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

Environmental Matters

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

Carbon Dioxide Litigation*New York Case*

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

Other Litigation

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

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

Air Quality

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters - Environmental Statutes and Regulations - Air Quality of Gulf Power in Item 7 of the Form 10-K for information regarding proposed sulfur dioxide (SO₂) regulations. On June 2, 2010, the EPA issued its final revisions to the National Ambient Air Quality Standard for SO₂, including the establishment of a new short-term standard. The ultimate impact of the revised standard will depend on additional regulatory action, state implementation, and the outcome of any legal challenges, and cannot be determined at this time.

On January 22, 2010, the EPA finalized revisions to the National Ambient Air Quality Standard for Nitrogen Dioxide (NO₂) by setting a new one-hour standard that became effective on April 12, 2010. The impact of this regulation will depend on additional regulatory action, state implementation, and the outcome of any legal challenges, and cannot be determined at this time. Although none of the areas within Gulf Power's service territory are expected to be designated as nonattainment for the standard, based on current ambient air quality monitoring data, the new NO₂ standard could result in significant additional compliance and operational costs for units that require new source permitting.

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - Environmental Matters - Environmental Statutes and Regulations - Air Quality of Gulf Power in Item 7 of the Form 10-K for information regarding the Clean Air Interstate Rule (CAIR). On August 2, 2010, the EPA published a proposed rule to replace CAIR, which was overturned by the U.S. Court of Appeals for the D.C. Circuit in 2008 but left in place pending the promulgation of a replacement rule. This proposed rule, referred to as the Transport Rule, would require 31 eastern states and the District of Columbia (D.C.) to reduce power plant emissions of SO₂ and nitrogen oxides (NO_x) that contribute to downwind states' nonattainment of federal ozone and/or fine particulate matter ambient air quality standards. To address fine particulate matter standards, the proposed Transport Rule would require D.C. and 27 eastern states, including Florida and Georgia, to reduce annual emissions of SO₂ and NO_x from power plants. To address ozone standards, the proposed Transport Rule would also require D.C. and 25 states, including Florida, Georgia, and Mississippi, to achieve additional reductions in NO_x emissions from power plants during the ozone season. The proposed Transport Rule contains a preferred option that would allow limited interstate trading of emissions allowances; however, the EPA also requests comment on two alternative approaches that would not allow interstate trading of emissions allowances. The EPA states that it also intends to develop a second phase of the Transport Rule next year to address the more stringent ozone air quality standards as they are finalized. The EPA expects to finalize the Transport Rule in late spring of 2011 and to set the initial compliance deadline starting in 2012. The impact of this proposed regulation and potential future regulation will depend on its final form, state implementation, and the outcome of any legal challenges, and cannot be determined at this time.

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

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Coal Combustion Byproducts

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

Global Climate Issues

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

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

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

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

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

Environmental Compliance Recovery

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

Legislation

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

Healthcare Reform

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

Stimulus Funding

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

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Other Matters

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

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

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

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

FINANCIAL CONDITION AND LIQUIDITY

Overview

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

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

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

Capital Requirements and Contractual Obligations

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

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

Sources of Capital

Gulf Power plans to obtain the funds required for construction and other purposes from sources similar to those utilized in the past. Recently, Gulf Power has primarily utilized funds from operating cash flows, short-term debt, security issuances, a long-term bank note, and equity contributions from Southern Company. However, the amount, type, and timing of any future financings, if needed, will depend upon prevailing market conditions, regulatory approval, and other factors. See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Sources of Capital of Gulf Power in Item 7 of the Form 10-K for additional information. Gulf Power's current liabilities frequently exceed current assets because of the continued use of short-term debt as a funding source to meet scheduled maturities of long-term debt, as well as cash needs, which can fluctuate significantly due to the seasonality of the business. To meet short-term cash needs and contingencies, Gulf Power had at June 30, 2010 cash and cash equivalents of approximately \$19.5 million and unused committed credit arrangements with banks of \$220 million. Of the unused credit arrangements, \$80 million expire in 2010 and \$155 million expire in 2011. Of these credit arrangements, \$205 million contain provisions allowing one-year term loans executable at expiration. Subsequent to June 30, 2010, Gulf Power increased its existing lines of credit by \$15 million with an expiration of 2011. Gulf Power expects to renew its credit arrangements, as needed, prior to expiration. The credit arrangements provide liquidity support to Gulf Power's commercial paper borrowings and \$69 million are dedicated to funding purchase obligations related to variable rate pollution control revenue bonds. All of these facilities contain provisions allowing one-year term loans executable at expiration. See Note 6 to the financial statements of Gulf Power under Bank Credit Arrangements

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

Credit Rating Risk

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

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

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

Market Price Risk

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

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

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

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

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

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

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

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

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

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

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

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

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

Financing Activities

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

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

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

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MISSISSIPPI POWER COMPANY

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MISSISSIPPI POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

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

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

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

Qualifying hedges:

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

(14) (224) 6 44

Comprehensive Income

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

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

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MISSISSIPPI POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

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

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

Supplemental Cash Flow Information:

Cash paid during the period for

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

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

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MISSISSIPPI POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

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

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

Accumulated other comprehensive income (loss)	6	
Total common stockholder's equity	657,533	658,522
Total Liabilities and Stockholder's Equity	\$ 2,133,410	\$ 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
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
SECOND QUARTER 2010 vs. SECOND QUARTER 2009
AND
YEAR-TO-DATE 2010 vs. YEAR-TO-DATE 2009

OVERVIEW

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

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

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

RESULTS OF OPERATIONS***Net Income***

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

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

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

year-to-date 2009.

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

Retail Revenues

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

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

Details of the change to retail revenues are as follows:

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

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

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

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

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

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

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

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

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

Wholesale Revenues - Non-Affiliates

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

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

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

Wholesale Revenues - Affiliates

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

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

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

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

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

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

Fuel and Purchased Power Expenses

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

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

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

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

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

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

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

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

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

Non-Affiliates

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

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

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

Affiliates

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

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

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

Other Operations and Maintenance Expenses

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

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

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

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

Depreciation and Amortization

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

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

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

Taxes Other Than Income Taxes

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

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

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

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

Interest Expense, Net of Amounts Capitalized

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

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

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

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

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

Income Taxes

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

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

FUTURE EARNINGS POTENTIAL

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

Environmental Matters

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

Carbon Dioxide Litigation*New York Case*

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

Other Litigation

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

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

Air Quality

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Air Quality of Mississippi Power in Item 7 of the Form 10-K for information regarding proposed sulfur dioxide (SO₂) regulations. On June 2, 2010, the EPA issued its final revisions to the National Ambient Air Quality Standard for SO₂, including the establishment of a new short-term standard. The ultimate impact of the revised standard will depend on additional regulatory action, state implementation, and the outcome of any legal challenges, and cannot be determined at this time.

On January 22, 2010, the EPA finalized revisions to the National Ambient Air Quality Standard for Nitrogen Dioxide (NO₂) by setting a new one-hour standard that became effective on April 12, 2010. The impact of this regulation will depend on additional regulatory action, state implementation, and the outcome of any legal challenges, and cannot be determined at this time. Although none of the areas within Mississippi Power's service territory are expected to be designated as nonattainment for the standard, based on current ambient air quality monitoring data, the new NO₂ standard could result in significant additional compliance and operational costs for units that require new source permitting.

See MANAGEMENT'S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Environmental Matters Environmental Statutes and Regulations Air Quality of Mississippi Power in Item 7 of the Form 10-K for information regarding the Clean Air Interstate Rule (CAIR). On August 2, 2010, the EPA published a proposed rule to replace CAIR, which was overturned by the U.S. Court of Appeals for the D.C. Circuit in 2008 but left in place pending the promulgation of a replacement rule. This proposed rule, referred to as the Transport Rule, would require 31 eastern states and the District of Columbia (D.C.) to reduce power plant emissions of SO₂ and nitrogen oxides (NO_x) that contribute to downwind states' nonattainment of federal ozone and/or fine particulate matter ambient air quality standards. To address fine particulate matter standards, the proposed Transport Rule would require D.C. and 27 eastern states, including Alabama, to reduce annual emissions of SO₂ and NO_x from power plants. To address ozone standards, the proposed Transport Rule would also require D.C. and 25 states, including Alabama and Mississippi, to achieve additional reductions in NO_x emissions from power plants during the ozone season. The proposed Transport Rule contains a preferred option that would allow limited interstate trading of emissions allowances; however, the EPA also requests comment on two alternative approaches that would not allow interstate trading of emissions allowances. The EPA states that it also intends to develop a second phase of the Transport Rule next year to address the more stringent ozone air quality standards as they are finalized. The EPA expects to finalize the Transport Rule in late spring of 2011 and to set the initial compliance deadline starting in 2012. The impact of this proposed regulation and potential future regulation will depend on its final form, state implementation, and the outcome of any legal challenges, and cannot be determined at this time.

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

Coal Combustion Byproducts

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

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

Global Climate Issues

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

FERC and Mississippi PSC Matters

Retail Regulatory Matters

Performance Evaluation Plan

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

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

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

System Restoration Rider

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

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

Environmental Compliance Overview Plan

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

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

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

Fuel Cost Recovery

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

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Depreciation Study

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

Integrated Coal Gasification Combined Cycle

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

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

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

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

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

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

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

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

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

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

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

The ultimate outcome of these matters cannot now be determined.

Legislation

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

Healthcare Reform

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

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

Stimulus Funding

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

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

Other Matters

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

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

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ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

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

FINANCIAL CONDITION AND LIQUIDITY

Overview

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

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

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Capital Requirements and Contractual Obligations

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

Sources of Capital

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

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

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

Off-Balance Sheet Financing Arrangements

See MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY

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

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

Credit Rating Risk

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

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

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

Market Price Risk

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

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

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

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

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

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

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

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

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

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

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

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

Level 3

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

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

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

Financing Activities

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

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

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**SOUTHERN POWER COMPANY
AND SUBSIDIARY COMPANIES**

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

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

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

respectively

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

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

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

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

Cash and Cash Equivalents at End of Period	\$ 4,415	\$ 28,823
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Supplemental Cash Flow Information:

Cash paid during the period for

Interest (net of \$4,370 and \$163 capitalized for 2010 and 2009, respectively)	\$ 33,274	\$ 37,508
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Income taxes (net of refunds)	\$ (10,536)	\$ 7,725
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The accompanying notes as they relate to Southern Power are an integral part of these condensed financial statements.

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

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

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

OVERVIEW

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

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

RESULTS OF OPERATIONS**Net Income**

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

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

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

Wholesale Revenues - Non-Affiliates

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

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

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

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

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

Wholesale Revenues - Affiliates

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

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

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

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

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

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

Fuel and Purchased Power Expenses

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

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

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

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

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

Other Operations and Maintenance Expenses

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

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

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

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

See FUTURE EARNINGS POTENTIAL – Legislation herein for additional information.

Depreciation and Amortization

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

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

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

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

Interest Expense, Net of Amounts Capitalized

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

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

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

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

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

Income Taxes

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

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

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

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

FUTURE EARNINGS POTENTIAL

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

Environmental Matters

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

Air Quality

On January 22, 2010, the EPA finalized revisions to the National Ambient Air Quality Standard for Nitrogen Dioxide (NO₂) by setting a new one-hour standard that became effective on April 12, 2010. The impact of this regulation will depend on additional regulatory action, state implementation, and the outcome of any legal challenges, and cannot be determined at this time. Although none of the areas in which Southern Power operates generating assets are expected to

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be designated as nonattainment for the standard, based on current ambient air quality monitoring data, the new NO₂ standard could result in significant additional compliance and operational costs for units that require new source permitting.

Carbon Dioxide Litigation

Other Litigation

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

Environmental Statutes and Regulations

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

Global Climate Issues

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

Legislation

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

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

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

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

Nacogdoches

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

Other Matters

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

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

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

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

FINANCIAL CONDITION AND LIQUIDITY

Overview

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

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

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

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

Capital Requirements and Contractual Obligations

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

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

Sources of Capital

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

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

Credit Rating Risk

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

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Market Price Risk

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

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

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

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

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

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

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

	June 30, 2010	March 31, 2010	December 31, 2009
Power (net sold)			
MWHs (in millions)	0.7	1.3	2.7

Weighted average contract cost per MWH above (below) market prices (<i>in dollars</i>)	\$6.77	\$ 9.03	\$ (0.36)
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Natural gas (net purchase)

Commodity million mmBtu	5.6	6.4	8.3
Location basis million mmBtu		1.2	2.0

Commodity Weighted average contract cost per mmBtu above (below) market prices (<i>in dollars</i>)	\$1.31	\$ 2.41	\$ 0.29
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Location basis Weighted average contract cost per mmBtu above (below) market prices (<i>in dollars</i>)	\$	\$(0.03)	\$ (0.04)
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The fair value of energy-related derivative contracts by hedge designation reflected in the financial statements as assets (liabilities) consists of the following:

Asset (Liability) Derivatives	June 30, 2010	December 31, 2009
		<i>(in millions)</i>
Cash flow hedges	\$(1.4)	\$ (2.5)
Not designated	0.2	(1.0)
Total fair value	\$(1.2)	\$ (3.5)

Gains and losses on energy-related derivatives used by Southern Power to hedge anticipated purchases and sales are initially deferred in OCI before being recognized in income in the same period as the hedged transaction. Gains and losses on energy-related derivative contracts that are not designated as hedges are recognized in the statements of income as incurred.

Total net unrealized pre-tax gains recognized in income for the three and six months ended June 30, 2010 for energy-related derivative contracts that are not hedges were \$2.0 million and \$1.2 million, respectively, and will continue to be marked to market until the settlement date. For the three months ended June 30, 2009, the total net unrealized pre-tax gains (losses) recognized in the statements of income were immaterial. For the six months ended June 30, 2009, the total net unrealized pre-tax losses recognized in the statements of income were \$1.0 million.

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

	June 30, 2010			
	Fair Value Measurements			
	Total	Maturity		
	Fair Value	Year 1	Years 2&3	Years 4&5
		<i>(in millions)</i>		
Level 1	\$	\$	\$	\$
Level 2	(1.2)	(0.5)	(0.8)	0.1
Level 3				
Fair value of contracts outstanding at end of period	\$(1.2)	\$(0.5)	\$(0.8)	\$ 0.1

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

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

Financing Activities

Southern Power did not issue or redeem any long-term securities during the six months ended June 30, 2010.

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INDEX TO APPLICABLE NOTES TO
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Registrant	Applicable Notes
Southern Company	A, B, C, D, E, F, G, H, I
Alabama Power	A, B, C, E, F, G, H
Georgia Power	A, B, C, E, F, G, H
Gulf Power	A, B, C, E, F, G, H
Mississippi Power	A, B, C, E, F, G, H
Southern Power	A, B, C, E, G, H

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**THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
ALABAMA POWER COMPANY
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MISSISSIPPI POWER COMPANY**

SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES

NOTES TO THE CONDENSED FINANCIAL STATEMENTS:

(A) INTRODUCTION

The condensed quarterly financial statements of each registrant included herein have been prepared by such registrant, without audit, pursuant to the rules and regulations of the SEC. The Condensed Balance Sheets as of December 31, 2009 have been derived from the audited financial statements of each registrant. In the opinion of each registrant's management, the information regarding such registrant furnished herein reflects all adjustments, which, except as otherwise disclosed, are of a normal recurring nature, necessary to present fairly the results of operations for the periods ended June 30, 2010 and 2009. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although each registrant believes that the disclosures regarding such registrant are adequate to make the information presented not misleading. Disclosures which would substantially duplicate the disclosures in the Form 10-K and details which have not changed significantly in amount or composition since the filing of the Form 10-K are generally omitted from this Quarterly Report on Form 10-Q. Therefore, these Condensed Financial Statements should be read in conjunction with the financial statements and the notes thereto included in the Form 10-K. Due to the seasonal variations in the demand for energy, operating results for the periods presented are not necessarily indicative of the operating results to be expected for the full year.

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

Affiliate Transactions

In January 2010, Gulf Power purchased turbine rotor assembly parts owned by Georgia Power and Southern Power for approximately \$4 million and \$6 million, respectively. In June 2010, Mississippi Power purchased a turbine rotor assembly part from Gulf Power for approximately \$6 million. These affiliate transactions were in accordance with FERC and state PSC rules and guidelines.

Variable Interest Entities

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

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

(B) CONTINGENCIES AND REGULATORY MATTERS

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

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)

General Litigation Matters

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

Mirant Matters

Mirant was an energy company with businesses that included independent power projects and energy trading and risk management companies in the U.S. and selected other countries. It was a wholly-owned subsidiary of Southern Company until its initial public offering in October 2000. In April 2001, Southern Company completed a spin-off to its shareholders of its remaining ownership, and Mirant became an independent corporate entity.

In July 2003, Mirant and certain of its affiliates filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Northern District of Texas. The Bankruptcy Court entered an order confirming Mirant's plan of reorganization in December 2005, and Mirant announced that this plan became effective in January 2006. As part of the plan, Mirant transferred substantially all of its assets and its restructured debt to a new corporation that adopted the name Mirant Corporation (Reorganized Mirant).

Under the terms of the separation agreements entered into in connection with the spin-off, Mirant agreed to indemnify Southern Company for certain costs. As a result of Mirant's bankruptcy, Southern Company sought reimbursement as an unsecured creditor in Mirant's Chapter 11 proceeding. If Southern Company's claims for indemnification with respect to these costs are allowed, then Mirant's indemnity obligations to Southern Company would constitute unsecured claims against Mirant entitled to stock in Reorganized Mirant. As a result of the \$202 million settlement in March 2009 of another suit related to Mirant (MC Asset Recovery litigation), the maximum amount Southern Company can assert by proof of claim in the Mirant bankruptcy is capped at \$9.5 million. See Note 5 to the financial statements of Southern Company under "Effective Tax Rate" in Item 8 of the Form 10-K for more information regarding the MC Asset Recovery litigation settlement. By settlement agreement, dated as of July 7, 2010, substantially all the claims filed by Southern Company against Mirant have been resolved. Pursuant to the agreement, Southern Company will be given allowed unsecured claims against Mirant in the aggregate amount of approximately \$8.8 million, which claims will be treated pursuant to the terms of the Mirant plan of reorganization. The parties also released each other from any other claims arising from events or conduct prior to the effective date of Mirant's plan of reorganization, with certain limited exceptions. Mirant has requested bankruptcy court approval of the settlement and the matter is scheduled to be heard on August 26, 2010. The final outcome of this matter cannot now be determined.

Environmental Matters

New Source Review Actions

In November 1999, the EPA brought a civil action in the U.S. District Court for the Northern District of Georgia against certain Southern Company subsidiaries, including Alabama Power and Georgia Power, alleging that these subsidiaries had violated the NSR provisions of the Clean Air Act and related state laws at certain coal-fired generating facilities. After Alabama Power was dismissed from the original action, the EPA filed a separate action in January 2001 against Alabama Power in the U.S. District Court for the Northern District of Alabama. In these lawsuits, the EPA alleges that NSR violations occurred at eight coal-fired generating facilities operated by Alabama Power and Georgia Power, including

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facilities co-owned by Mississippi Power and Gulf Power. The civil actions request penalties and injunctive relief, including an order requiring installation of the best available control technology at the affected units. The EPA concurrently issued notices of violation to Gulf Power and Mississippi Power relating to Gulf Power's Plant Crist and Mississippi Power's Plant Watson. In early 2000, the EPA filed a motion to amend its complaint to add Gulf Power and Mississippi Power as defendants based on the allegations in the notices of violation. However, in March 2001, the court denied the motion based on lack of jurisdiction, and the EPA has not re-filed. The original action, now solely against Georgia Power, has been administratively closed since the spring of 2001, and the case has not been reopened.

In June 2006, the U.S. District Court for the Northern District of Alabama entered a consent decree between Alabama Power and the EPA, resolving a portion of the Alabama Power lawsuit relating to the alleged NSR violations at Plant Miller. In July 2008, the U.S. District Court for the Northern District of Alabama granted partial summary judgment in favor of Alabama Power with respect to its other affected units regarding the proper legal test for determining whether projects are routine maintenance, repair, and replacement and therefore are excluded from NSR permitting. The decision did not resolve the case, which remains ongoing.

Southern Company and the traditional operating companies believe that they complied with applicable laws and the EPA regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes maximum civil penalties of \$25,000 to \$37,500 per day, per violation at each generating unit, depending on the date of the alleged violation. An adverse outcome could require substantial capital expenditures or affect the timing of currently budgeted capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. Such expenditures could affect future results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

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

In July 2004, three environmental groups and attorneys general from eight states, each outside of Southern Company's service territory, and the corporation counsel for New York City filed complaints in the U.S. District Court for the Southern District of New York against Southern Company and four other electric power companies. The complaints allege that the companies' emissions of carbon dioxide, a greenhouse gas, contribute to global warming, which the plaintiffs assert is a public nuisance. Under common law public and private nuisance theories, the plaintiffs seek a judicial order (1) holding each defendant jointly and severally liable for creating, contributing to, and/or maintaining global warming and (2) requiring each of the defendants to cap its emissions of carbon dioxide and then reduce those emissions by a specified percentage each year for at least a decade. The plaintiffs have not, however, requested that damages be awarded in connection with their claims. Southern Company believes these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. In September 2005, the U.S. District Court for the Southern District of New York granted Southern Company's and the other defendants' motions to dismiss these cases. The plaintiffs filed an appeal to the U.S. Court of Appeals for the Second Circuit in October 2005 and, in September 2009, the U.S. Court of Appeals for the Second Circuit reversed the district court's ruling, vacating the dismissal of the plaintiffs' claim, and remanding the case to the district court. In November 2009, the defendants, including Southern Company, sought rehearing en banc. The U.S. Court of Appeals for the Second Circuit denied the defendants' petition for rehearing en banc on March 5, 2010 and granted the defendants' request to stay the mandate to allow the defendants to file a petition for writ of certiorari with the U.S. Supreme Court on March 16, 2010. On August 2, 2010, the defendants filed a petition for writ of certiorari with the U.S. Supreme Court. The ultimate outcome of these matters cannot be determined at this time.

Kivalina Case

In February 2008, the Native Village of Kivalina and the City of Kivalina filed a suit in the U.S. District Court for the Northern District of California against several electric utilities (including Southern Company), several oil companies, and a coal company. The plaintiffs are the governing bodies of an Inupiat village in Alaska. The plaintiffs contend that the village is being destroyed by erosion allegedly caused by global warming that the plaintiffs attribute to emissions of greenhouse gases by the defendants. The plaintiffs assert claims for public and private nuisance and contend that some of

Table of Contents**NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

the defendants have acted in concert and are therefore jointly and severally liable for the plaintiffs' damages. The suit seeks damages for lost property values and for the cost of relocating the village, which is alleged to be \$95 million to \$400 million. Southern Company believes that these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. In September 2009, the U.S. District Court for the Northern District of California granted the defendants' motions to dismiss the case based on lack of jurisdiction and ruled the claims were barred by the political question doctrine and by the plaintiffs' failure to establish the standard for determining that the defendants' conduct caused the injury alleged. In November 2009, the plaintiffs filed an appeal with the U.S. Court of Appeals for the Ninth Circuit challenging the district court's order dismissing the case. The ultimate outcome of this matter cannot be determined at this time.

Other Litigation

Common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas emissions have become more frequent, and courts have recently determined that private parties and states have standing to bring such claims. For example, in October 2009, the U.S. Court of Appeals for the Fifth Circuit reversed the U.S. District Court for the Southern District of Mississippi's dismissal of private party claims against certain oil, coal, chemical, and utility companies alleging damages as a result of Hurricane Katrina. In reversing the dismissal, the U.S. Court of Appeals for the Fifth Circuit held that plaintiffs have standing to assert their nuisance, trespass, and negligence claims and none of these claims are barred by the political question doctrine. On May 28, 2010, however, the U.S. Court of Appeals for the Fifth Circuit dismissed the plaintiffs' appeal of the case based on procedural grounds relating to the loss of a quorum by the full court on reconsideration, reinstating the district court decision in favor of the defendants. The plaintiffs have until August 26, 2010 to file a petition for writ of certiorari with the U.S. Supreme Court. Southern Company is not currently a party to this litigation, but the traditional operating companies and Southern Power were named as defendants in an amended complaint which was rendered moot in August 2007 by the U.S. District Court for the Southern District of Mississippi when such court dismissed the original matter. The ultimate outcome of this matter cannot be determined at this time.

Environmental Remediation

The registrants must comply with environmental laws and regulations that cover the handling and disposal of waste and releases of hazardous substances. Under these various laws and regulations, the subsidiaries may also incur substantial costs to clean up properties. The traditional operating companies have each received authority from their respective state PSCs to recover approved environmental compliance costs through regulatory mechanisms. Within limits approved by the state PSCs, these rates are adjusted annually or as necessary.

Georgia Power's environmental remediation liability as of June 30, 2010 was \$14.1 million. Georgia Power has been designated or identified as a potentially responsible party (PRP) at sites governed by the Georgia Hazardous Site Response Act and/or by the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), including a large site in Brunswick, Georgia on the CERCLA National Priorities List (NPL). The parties have completed the removal of wastes from the Brunswick site as ordered by the EPA. Additional claims for recovery of natural resource damages at this site or for the assessment and potential cleanup of other sites on the Georgia Hazardous Sites Inventory and CERCLA NPL are anticipated; however, they are not expected to have a material impact on Georgia Power's financial statements.

By letter dated September 30, 2008, the EPA advised Georgia Power that it has been designated as a PRP at the Ward Transformer Superfund site located in Raleigh, North Carolina. Numerous other entities have also received notices from the EPA. Georgia Power, along with other named PRPs, is negotiating with the EPA to

address cleanup of the site and reimbursement for past expenditures related to work performed at the site. In addition, in April 2009, two PRPs filed separate actions in the U.S. District Court for the Eastern District of North Carolina against numerous other PRPs, including Georgia Power, seeking contribution from the defendants for expenses incurred by the plaintiffs related to work performed at a portion of the site. The ultimate outcome of these matters will depend upon further environmental assessment and the ultimate number of PRPs and cannot be determined at this time; however, it is not expected to have a material impact on Georgia Power's financial statements.

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)

Gulf Power's environmental remediation liability includes estimated costs of environmental remediation projects of approximately \$63.1 million as of June 30, 2010. These estimated costs relate to site closure criteria by the Florida Department of Environmental Protection (FDEP) for potential impacts to soil and groundwater from herbicide applications at Gulf Power substations. The schedule for completion of the remediation projects will be subject to FDEP approval. The projects have been approved by the Florida PSC for recovery through Gulf Power's environmental cost recovery clause; therefore, there was no impact on net income as a result of these estimates.

In 2003, the Texas Commission on Environmental Quality (TCEQ) designated Mississippi Power as a PRP at a site in Texas. The site was owned by an electric transformer company that handled Mississippi Power's transformers as well as those of many other entities. The site owner is bankrupt and the State of Texas has entered into an agreement with Mississippi Power and several other utilities to investigate and remediate the site. Amounts expensed related to this work were not material. Hundreds of entities have received notices from the TCEQ requesting their participation in the anticipated site remediation. The final impact of this matter on Mississippi Power will depend upon further environmental assessment and the ultimate number of PRPs. The remediation expenses incurred by Mississippi Power are expected to be recovered through the ECO Plan.

The final outcome of these matters cannot now be determined. However, based on the currently known conditions at these sites and the nature and extent of activities relating to these sites, Southern Company, Georgia Power, Gulf Power, and Mississippi Power do not believe that additional liabilities, if any, at these sites would be material to their respective financial statements.

FERC Matters

Market-Based Rate Authority

Each of the traditional operating companies and Southern Power has authorization from the FERC to sell power to non-affiliates, including short-term opportunity sales, at market-based prices. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate.

In December 2004, the FERC initiated a proceeding to assess Southern Company's generation market power within its retail service territory. The ability to charge market-based rates in other markets was not an issue in the proceeding. Any new market-based rate sales by any subsidiary of Southern Company in Southern Company's retail service territory entered into during a 15-month refund period that ended in May 2006 could have been subject to refund to a cost-based rate level.

In December 2009, Southern Company and the FERC trial staff reached an agreement in principle that would resolve the proceeding in its entirety. The agreement does not reflect any finding or suggestion that any subsidiary of Southern Company possesses or has exercised any market power. The agreement likewise does not require Southern Company to make any refunds related to sales during the 15-month refund period. The agreement does provide for the traditional operating companies and Southern Power to donate a total of \$1.7 million to nonprofit organizations in the states in which they operate for the purpose of offsetting the electricity bills of low-income retail customers. The joint offer of settlement was filed on March 2, 2010. On July 13, 2010, the FERC issued an order approving the filed settlement, finding it to be fair, reasonable, and in the public interest. There is a 30-day period within which a rehearing request may be filed. If the 30-day period expires and no rehearing request has been filed, then the payment shall be made within 15 days after the order becomes final and non-appealable.

Intercompany Interchange Contract

Southern Company's generation fleet in its retail service territory is operated under the Intercompany Interchange Contract (IIC), as approved by the FERC. In May 2005, the FERC initiated a new proceeding to examine (1) the provisions of the IIC among the traditional operating companies, Southern Power, and SCS, as agent, under the terms of which the Power Pool is operated, (2) whether any parties to the IIC have violated the FERC's standards of conduct applicable to utility companies that are transmission providers, and (3) whether Southern Company's code of conduct defining Southern Power as a system company rather than a marketing affiliate is just and reasonable. In connection

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with the formation of Southern Power, the FERC authorized Southern Power's inclusion in the IIC in 2000. The FERC also previously approved Southern Company's code of conduct.

In October 2006, the FERC issued an order accepting a settlement resolving the proceeding subject to Southern Company's agreement to accept certain modifications to the settlement's terms. Southern Company notified the FERC that it accepted the modifications. The modifications largely involve functional separation and information restrictions related to marketing activities conducted on behalf of Southern Power. In November 2006, Southern Company filed with the FERC a compliance plan in connection with the order. In April 2007, the FERC approved, with certain modifications, the plan submitted by Southern Company. Implementation of the plan did not have a material impact on Southern Company's or the traditional operating companies' financial statements. In November 2007, Southern Company notified the FERC that the plan had been implemented. In December 2008, the FERC division of audits issued for public comment its final audit report pertaining to compliance implementation and related matters. No comments were submitted challenging the audit report's findings of Southern Company's compliance. The proceeding remains open pending a decision from the FERC regarding the audit report.

Right of Way Litigation

Southern Company and certain of its subsidiaries, including Mississippi Power, have been named as defendants in numerous lawsuits brought by landowners since 2001. The plaintiffs' lawsuits claim that defendants may not use, or sublease to third parties, some or all of the fiber optic communications lines on the rights of way that cross the plaintiffs' properties and that such actions exceed the easements or other property rights held by defendants. The plaintiffs assert claims for, among other things, trespass and unjust enrichment and seek compensatory and punitive damages and injunctive relief. Management of Southern Company and Mississippi Power believe that they have complied with applicable laws and that the plaintiffs' claims are without merit.

Mississippi Power has entered into agreements with plaintiffs in approximately 95% of the actions pending against Mississippi Power to clarify its easement rights in the State of Mississippi. These agreements have been approved by the Circuit Courts of Harrison County and Jasper County, Mississippi (First Judicial Circuit), and the related cases have been dismissed. These agreements have not resulted in any material effects on Southern Company's or Mississippi Power's financial statements.

In addition, in late 2001, certain subsidiaries of Southern Company, including Mississippi Power, were named as defendants in a lawsuit brought in Troup County, Georgia, Superior Court by Interstate Fiber Network, a subsidiary of telecommunications company ITC DeltaCom, Inc. that uses rights of way. This lawsuit alleges, among other things, that the defendants are contractually obligated to indemnify, defend, and hold harmless the telecommunications company from any liability that may be assessed against it in pending and future right of way litigation. Southern Company and Mississippi Power believe that the plaintiff's claims are without merit. In the fall of 2004, the trial court stayed the case until resolution of the underlying landowner litigation discussed above. In January 2005, the Georgia Court of Appeals dismissed the telecommunications company's appeal of the trial court's order for lack of jurisdiction. An adverse outcome in this matter, combined with an adverse outcome against the telecommunications company in one or more of the right of way lawsuits, could result in substantial judgments; however, the final outcome of these matters cannot now be determined.

Nuclear Fuel Disposal Cost Litigation

See Note 3 to the financial statements of Southern Company, Alabama Power, and Georgia Power under Nuclear Fuel Disposal Costs in Item 8 of the Form 10-K for information regarding the litigation brought by

Alabama Power and Georgia Power against the government for breach of contracts related to the disposal of spent nuclear fuel. In July 2007, the U.S. Court of Federal Claims awarded Georgia Power approximately \$30 million, based on its ownership interests, and awarded Alabama Power approximately \$17 million, representing substantially all of the direct costs of the expansion of spent nuclear fuel storage facilities at Plants Farley, Hatch, and Vogtle from 1998 through 2004. In November 2007, the government's motion for reconsideration was denied. In January 2008, the government filed an appeal and, in February 2008, filed a motion to stay the appeal, which the U.S. Court of Appeals for the Federal Circuit granted in April 2008. On May 5, 2010, the U.S. Court of Appeals for the Federal Circuit lifted the stay.

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In April 2008, a second claim against the government was filed for damages incurred after December 31, 2004 (the court-mandated cut-off in the original claim), due to the government's alleged continuing breach of contract. In October 2008, the U.S. Court of Appeals for the Federal Circuit denied a similar request by the government to stay this proceeding. The complaint does not contain any specific dollar amount for recovery of damages. Damages will continue to accumulate until the issue is resolved or the storage is provided. No amounts have been recognized in the financial statements as of June 30, 2010 for either claim. The final outcome of these matters cannot be determined at this time, but no material impact on net income is expected as any damage amounts collected from the government are expected to be returned to customers.

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

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

Retail Regulatory Matters***Rate Plans***

See Note 3 to the financial statements of Georgia Power under "Retail Regulatory Matters - Rate Plans" and of Southern Company under "Retail Regulatory Matters - Georgia Power - Retail Rate Plans" and "Cost of Removal" in Item 8 of the Form 10-K for information regarding the 2007 Retail Rate Plan.

On August 27, 2009, the Georgia PSC approved an accounting order that would allow Georgia Power to amortize up to \$324 million of its regulatory liability related to other cost of removal obligations. Under the terms of the accounting order, Georgia Power was entitled to amortize up to one-third of the regulatory liability (\$108 million) in 2009, limited to the amount needed to earn no more than a 9.75% retail return on equity (ROE). In addition, Georgia Power may amortize up to two-thirds of the regulatory liability (\$216 million) in 2010, limited to the amount needed to earn no more than a 10.15% retail ROE. Through June 30, 2010, Georgia Power had amortized \$155.3 million of the regulatory liability.

In accordance with the 2007 Retail Rate Plan, Georgia Power filed a base rate case with the Georgia PSC on July 1, 2010. The filing includes a requested rate increase totaling \$615 million, or 8.2% of retail revenues, to be effective January 1, 2011, based on a proposed retail ROE of 11.95%. The requested increase will be recovered through Georgia Power's existing base rate tariffs as follows: \$451 million, or 6.0%, through the traditional base rate tariffs; \$115 million, or 1.5%, through the Environmental Compliance Cost Recovery (ECCR) tariff;

\$32 million through the Demand Side Management (DSM) tariffs; and \$17 million through the Municipal Franchise Fee (MFF) tariff. The majority of the increase in retail revenues is being requested to cover the costs of environmental compliance and continued investment in new generation, transmission, and distribution facilities to support growth and ensure reliability. The remainder of the increase includes recovery of higher operation, maintenance, and other investment costs to meet the current and future demand for electricity.

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

Continuation of a plus or minus 100 basis point range for ROE.

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

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

Creation of a new Certified Capacity Cost Recovery (CCCR) tariff to recover costs related to new capacity additions certified by the Georgia PSC and updated through applicable project construction monitoring reports and hearings.

Continuation and enhancement of the ECCR and DSM-Residential tariffs from the 2007 Retail Rate Plan and creation of a DSM-Commercial tariff to recover environmental capital and operating costs resulting from governmental mandates and DSM costs approved and certified by the Georgia PSC.

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

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

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

Fuel Cost Recovery

See Note 3 to the financial statements of Southern Company under Retail Regulatory Matters Georgia Power Fuel Cost Recovery and of Georgia Power under Retail Regulatory Matters Fuel Cost Recovery in Item 8 of the Form 10-K for additional information on Georgia Power's fuel cost recovery.

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

Nuclear Construction

See Note 3 to the financial statements of Southern Company and Georgia Power under Retail Regulatory Matters Georgia Power Nuclear Construction and Construction Nuclear, respectively, in Item 8 of the Form 10-K for additional information regarding Georgia Power's construction of two nuclear generating units at Plant Vogtle.

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

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

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

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

Other Construction

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

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

Integrated Coal Gasification Combined Cycle

See Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters - Integrated Coal Gasification Combined Cycle (IGCC)" and of Mississippi Power under "Integrated Coal Gasification Combined Cycle" in Item 8 of the Form 10-K for information regarding Mississippi Power's construction of the Kemper IGCC.

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

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

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

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

On May 26, 2010, the Mississippi PSC issued an order revising its findings from the April 29, 2010 order. Among other things, the Mississippi PSC's May 26, 2010 order (1) approved the alternate construction cost cap of up to \$2.88 billion (and any amounts that fall within specified exemptions from the cost cap; such exemptions include the costs of the lignite mine and equipment), subject to determinations by the Mississippi PSC that such costs in excess of \$2.4 billion are prudent and required by the public convenience and necessity; (2) provided for the establishment of operational cost and revenue parameters based upon assumptions in Mississippi Power's proposal; and (3) approved financing cost recovery on construction work in progress (CWIP) balances under the State of Mississippi Baseload Act of 2008 (Baseload Act), which provides for the accrual of allowance for funds used during construction in 2010 and 2011 and recovery of financing costs on 100% of CWIP in 2012, 2013, and through May 1, 2014 (provided that the amount of CWIP allowed is (i) reduced by the amount of government construction cost incentives received by Mississippi Power in excess of \$296 million to the extent that such amount increases cash flow for the pertinent regulatory period and (ii) justified by a showing that such CWIP allowance will benefit customers over the life of the plant). The Mississippi PSC order established periodic prudence reviews during the annual CWIP review process. More frequent prudence determinations may be requested at a later time. On May 27, 2010, Mississippi Power filed a motion with the Mississippi PSC accepting the conditions contained in the order. On June 3, 2010, the Mississippi PSC issued the final certificate order which granted Mississippi Power's motion and issued a certificate of public convenience and necessity authorizing acquisition, construction, and operation of the Kemper IGCC.

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

On June 17, 2010, the Sierra Club filed an appeal of the Mississippi PSC's June 3, 2010 decision to grant a certificate of public convenience and necessity for the Kemper IGCC with the Chancery Court of Harrison County, Mississippi (Chancery Court). Subsequently, on July 6, 2010, the Sierra Club also filed an appeal directly with the Mississippi

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Supreme Court. On July 20, 2010, the Chancery Court issued a stay of the proceeding pending the resolution of the jurisdictional issues raised in a motion filed by Mississippi Power on July 16, 2010 to confirm jurisdiction in the Mississippi Supreme Court.

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

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

The ultimate outcome of these matters cannot now be determined.

(C) FAIR VALUE MEASUREMENTS

As of June 30, 2010, assets and liabilities measured at fair value on a recurring basis during the period, together with the level of the fair value hierarchy in which they fall, are as follows:

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
As of June 30, 2010:				
Southern Company				
Assets:				
Energy-related derivatives	\$	\$ 7	\$	\$ 7
Interest rate derivatives		8		8
Nuclear decommissioning trusts ^{(a)(b)}	677	384		1,061
Cash equivalents and restricted cash	142			142
Other investments	24	48	19	91
Total	\$843	\$ 447	\$ 19	\$1,309
Liabilities:				
Energy-related derivatives	\$	\$ 209	\$	\$ 209
Interest rate derivatives		1		1

Total	\$	\$ 210	\$	\$ 210
Alabama Power				
Assets:				
Nuclear decommissioning trusts: ^(a)				
Domestic equity	\$272	\$ 50	\$	\$ 322
U.S. Treasury and government agency securities	17	7		24
Corporate bonds		80		80
Mortgage and asset backed securities		36		36
Other		12		12
Cash equivalents and restricted cash	32			32
Total	\$321	\$ 185	\$	\$ 506
Liabilities:				
Energy-related derivatives	\$	\$ 45	\$	\$ 45

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	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
As of June 30, 2010:				
Georgia Power				
Assets:				
Nuclear decommissioning trusts: ^(a)				
Domestic equity	\$ 388	\$ 1	\$	\$ 389
U.S. Treasury and government agency securities		24		24
Municipal bonds		37		37
Corporate bonds		78		78
Mortgage and asset backed securities		41		41
Other		18		18
Cash equivalents	52			52
Total	\$ 440	\$ 199	\$	\$ 639
Liabilities:				
Energy-related derivatives	\$	\$ 93	\$	\$ 93
Gulf Power				
Assets:				
Cash equivalents and restricted cash	\$ 12	\$	\$	\$ 12
Liabilities:				
Energy-related derivatives	\$	\$ 15	\$	\$ 15
Mississippi Power				
Liabilities:				
Energy-related derivatives	\$	\$ 48	\$	\$ 48
Southern Power				
Assets:				
Energy-related derivatives	\$	\$ 7	\$	\$ 7
Liabilities:				
Energy-related derivatives	\$	\$ 8	\$	\$ 8

- (a) Excludes receivables related to investment income, pending investment sales, and payables related to pending investment purchases.
- (b) For additional detail, see the nuclear decommissioning trusts sections for Alabama Power and Georgia Power in this table.

Valuation Methodologies

The energy-related derivatives primarily consist of over-the-counter financial products for natural gas and physical power products, including from time to time, basis swaps. These are standard products used within the energy industry and are valued using the market approach. The inputs used are mainly from observable market sources, such as forward natural gas prices, power prices, implied volatility, and LIBOR interest rates. Interest rate derivatives are also standard over-the-counter financial products valued using the market approach. Inputs include LIBOR interest rates, interest rate futures contracts, and occasionally implied volatility of interest rate options. See Note (H) herein for additional information on how these derivatives are used.

Other investments include investments in funds that are valued using the market approach and income approach. Securities that are traded in the open market are valued at the closing price on their principal exchange as of the measurement date. Discounts are applied in accordance with GAAP when certain trading restrictions exist. For investments that are not traded in the open market, the price paid will have been determined based on market factors including comparable multiples and the expectations regarding cash flows and business plan execution. As the investments mature or if market conditions change materially, further analysis of the fair market value of the investment is performed. This analysis is typically based on a metric, such as multiple of earnings, revenues, earnings

Table of Contents**NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

before interest and income taxes, or earnings adjusted for certain cash changes. These multiples are based on comparable multiples for publicly traded companies or other relevant prior transactions.

For fair value measurements of investments within the nuclear decommissioning trusts and rabbi trust funds, specifically the fixed income assets using significant other observable inputs and significant unobservable inputs, the primary valuation technique used is the market approach. External pricing vendors are designated for each of the asset classes in the nuclear decommissioning trusts and rabbi trust funds with each security discriminately assigned a primary pricing source, based on similar characteristics.

A market price secured from the primary source vendor is then used in the valuation of the assets within the trusts. As a general approach, market pricing vendors gather market data (including indices and market research reports) and integrate relative credit information, observed market movements, and sector news into proprietary pricing models, pricing systems, and mathematical tools. Dealer quotes and other market information including live trading levels and pricing analysts' judgment are also obtained when available.

As of June 30, 2010, the fair value measurements of investments calculated at net asset value per share (or its equivalent), as well as the nature and risks of those investments, are as follows:

As of June 30, 2010:	Fair Value (in millions)	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Southern Company				
Nuclear decommissioning trusts:				
Corporate bonds commingled funds	\$ 38	None	Daily	1 to 3 days
Other commingled funds	18	None	Daily	Not applicable
Trust owned life insurance	76	None	Daily	15 days
Cash equivalents and restricted cash:				
Money market funds	142	None	Daily	Not applicable
Other:				
Deferred compensation money market funds	3	None	Daily	Not applicable
Alabama Power				
Nuclear decommissioning trusts:				
Trust owned life insurance	\$ 76	None	Daily	15 days
Cash equivalents and restricted cash:				
Money market funds	32	None	Daily	Not applicable
Georgia Power				
Nuclear decommissioning trusts:				
Corporate bonds commingled funds	\$ 38	None	Daily	1 to 3 days
Other commingled funds	18	None	Daily	Not applicable
Cash equivalents:				
Money market funds	52	None	Daily	Not applicable

Gulf Power

Cash equivalents and restricted cash:

Money market funds	\$ 12	None	Daily	Not applicable
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The commingled funds in the nuclear decommissioning trusts invest primarily in a diversified portfolio of investment high grade money market instruments, including, but not limited to, commercial paper, notes, repurchase agreements, and other evidences of indebtedness with a maturity not exceeding 13 months from the date of purchase. The commingled funds will, however, maintain a dollar-weighted average portfolio maturity of 90 days or less. The assets may be longer term investment grade fixed income obligations having a maximum five-year final maturity with put features or floating rates with a reset rate date of 13 months or less. The primary objective for the commingled funds is a high level of current income consistent with stability of principal and liquidity.

Table of Contents**NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

Alabama Power's nuclear decommissioning trusts include investments in Trust-Owned Life Insurance (TOLI). The taxable nuclear decommissioning trust invests in the TOLI in order to minimize the impact of taxes on the portfolio and can draw on the value of the TOLI through death proceeds, loans against the cash surrender value, and/or the cash surrender value, subject to legal restrictions. The amounts reported in the tables above reflect the fair value of investments the insurer has made in relation to the TOLI agreements. The nuclear decommissioning trusts do not own the underlying investments, but the fair value of the investments approximates the cash surrender value of the TOLI policies. The investments made by the insurer are in commingled funds. The commingled funds primarily include investments in domestic and international equity securities and predominantly high-quality fixed income securities. These fixed income securities include U.S. Treasury and government agency fixed income securities, non-U.S. government and agency fixed income securities, domestic and foreign corporate fixed income securities, and, to some degree, mortgage and asset backed securities. The passively managed funds seek to replicate the performance of a related index. The actively managed funds seek to exceed the performance of a related index through security analysis and selection.

Southern Company, Alabama Power, and Georgia Power account for investment securities held in the nuclear decommissioning trust funds at fair value. For the three months and six months ended June 30, 2010, the reduction in fair value of the funds, which includes reinvested interest and dividends, is recorded in the regulatory liability and was \$36 million and \$16 million, respectively, for Alabama Power, \$50 million and \$26 million, respectively, for Georgia Power, and \$86 million and \$42 million, respectively, for Southern Company.

The money market funds are short-term investments of excess funds in various money market mutual funds, which are portfolios of short-term debt securities. The money market funds are regulated by the SEC and typically receive the highest rating from credit rating agencies. Regulatory and rating agency requirements for money market funds include minimum credit ratings and maximum maturities for individual securities and a maximum weighted average portfolio maturity. Redemptions are available on a same day basis up to the full amount of the investments in the money market funds.

Changes in the fair value measurement of the Level 3 items using significant unobservable inputs for Southern Company at June 30, 2010 are as follows:

	Three Months Ended June 30, 2010	Level 3 Other Six Months Ended June 30, 2010 <i>(in millions)</i>
Beginning balance	\$ 19	\$ 35
Total gains (losses) realized/unrealized:		
Included in OCI		4
Transfers out of Level 3		(20)
Ending balance at June 30, 2010	\$ 19	\$ 19

Transfers in and out of the levels of fair value hierarchy are recognized as of the end of the reporting period. At March 31, 2010, the value of one of the investments was reclassified from Level 3 to Level 1 because the

securities began trading on the public market. The reclassification is reflected in the table above as a transfer out of Level 3 at its fair value.

At June 30, 2010, other financial instruments for which the carrying amount did not equal fair value were as follows:

	Carrying Amount	Fair Value
	<i>(in millions)</i>	
Long-term debt:		
Southern Company	\$ 19,548	\$ 20,641
Alabama Power	\$ 6,183	\$ 6,607
Georgia Power	\$ 8,315	\$ 8,719
Gulf Power	\$ 1,174	\$ 1,232
Mississippi Power	\$ 491	\$ 521
Southern Power	\$ 1,298	\$ 1,417

The fair values were based on closing market prices (Level 1) or closing prices of comparable instruments (Level 2).

Table of Contents**NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)****(D) STOCKHOLDERS EQUITY****Earnings per Share**

For Southern Company, the only difference in computing basic and diluted earnings per share is attributable to exercised options and outstanding options under the stock option plan. See Note 8 to the financial statements of Southern Company in Item 8 of the Form 10-K for further information on the stock option plan. The effect of the stock options was determined using the treasury stock method.

Shares used to compute diluted earnings per share are as follows:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
		<i>(in thousands)</i>		
As reported shares	828,363	790,748	825,444	785,303
Effect of options	4,259	1,320	3,308	1,562
Diluted shares	832,622	792,068	828,752	786,865

There were 20 million and 37.8 million stock options that were not included in the diluted earnings per share calculation for the three and six months ended June 30, 2010 and 2009, respectively, because they were anti-dilutive. Assuming an average stock price of \$38.01 (the highest exercise price of the anti-dilutive options outstanding), the effect of options would have increased by 2 million and 3.5 million shares for the three months ended June 30, 2010 and 2009, respectively, and 2 million and 3.1 million shares for the six months ended June 30, 2010 and 2009, respectively.

Changes in Stockholders Equity

The following table presents year-to-date changes in stockholders equity of Southern Company:

	Number of Common Shares Issued Treasury		Common Stockholders Equity	Preferred and Preference Stock of Subsidiaries	Total Stockholders Equity
	<i>(in thousands)</i>			<i>(in millions)</i>	
Balance at December 31, 2009	820,152	(505)	\$ 14,878	\$ 707	\$ 15,585
Net income after dividends on preferred and preference stock			1,005		1,005
Other comprehensive income (loss)			13		13
Stock issued	10,996		371		371
Cash dividends on common stock			(735)		(735)
Other		63	1		1
Balance at June 30, 2010	831,148	(442)	\$ 15,533	\$ 707	\$ 16,240

Balance at December 31, 2008	777,616	(424)	\$ 13,276	\$ 707	\$ 13,983
Net income after dividends on preferred and preference stock			604		604
Other comprehensive income (loss)			16		16
Stock issued	18,894		559		559
Cash dividends on common stock			(670)		(670)
Other		(34)	(1)		(1)
Balance at June 30, 2009	796,510	(458)	\$ 13,784	\$ 707	\$ 14,491

Table of Contents**NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)****(E) FINANCING****Bank Credit Arrangements**

Bank credit arrangements provide liquidity support to the registrants' commercial paper borrowings and the traditional operating companies' variable rate pollution control revenue bonds. See Note 6 to the financial statements of Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power under "Bank Credit Arrangements" in Item 8 of the Form 10-K for additional information.

The following table outlines the credit arrangements by company as of June 30, 2010:

Company	Total	Unused	Executable Term-Loans		Expires			
			One Year	Two Years	2010	2011	2012	
			<i>(in millions)</i>					
Southern Company	\$ 950	\$ 950	\$	\$	\$	\$	\$ 950	
Alabama Power	1,271	1,271	372		333	173	765	
Georgia Power	1,715	1,703	220	40	40	555	1,120	
Gulf Power	220	220	190		80	140		
Mississippi Power	161	161	65	41	56	105		
Southern Power	400	400					400	
Other	60	60	60		10	50		
Total	\$4,777	\$4,765	\$907	\$81	\$519	\$1,023	\$3,235	

Subsequent to June 30, 2010, Alabama Power renewed a \$200 million credit agreement which contains a provision allowing a one-year term loan executable at expiration and extended the expiration date to 2011.

Subsequent to June 30, 2010, Georgia Power renewed a \$40 million credit agreement which contains a provision allowing a two-year term loan executable at expiration and extended the expiration date to 2011.

Subsequent to June 30, 2010, Gulf Power increased its existing lines of credit by \$15 million with an expiration of 2011.

(F) RETIREMENT BENEFITS

Southern Company has a defined benefit, trusteed, pension plan covering substantially all employees. The plan is funded in accordance with requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA). No contributions to the plan are expected for the year ending December 31, 2010. Southern Company also provides certain defined benefit pension plans for a selected group of management and highly compensated employees. Benefits under these non-qualified pension plans are funded on a cash basis. In addition, Southern Company provides certain medical care and life insurance benefits for retired employees through other postretirement benefit plans. The traditional operating companies fund related trusts to the extent required by their respective regulatory commissions.

See Note 2 to the financial statements of Southern Company, Alabama Power, Georgia Power, Gulf Power, and Mississippi Power in Item 8 of the Form 10-K.

Table of Contents**NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

Components of the net periodic benefit costs for the three and six months ended June 30, 2010 and 2009 are as follows:

PENSION PLANS	Southern Company	Alabama Power	Georgia Power <i>(in millions)</i>	Gulf Power	Mississippi Power
Three Months Ended June 30, 2010					
Service cost	\$ 43	\$ 11	\$ 13	\$ 2	\$ 2
Interest cost	97	24	37	4	5
Expected return on plan assets	(137)	(42)	(55)	(6)	(6)
Net amortization	10	2	3		
Net cost (income)	\$ 13	\$ (5)	\$ (2)	\$	\$ 1
Six Months Ended June 30, 2010					
Service cost	\$ 86	\$ 21	\$ 27	\$ 4	\$ 4
Interest cost	195	48	73	8	9
Expected return on plan assets	(275)	(84)	(110)	(12)	(11)
Net amortization	21	5	7	1	1
Net cost (income)	\$ 27	\$ (10)	\$ (3)	\$ 1	\$ 3
Three Months Ended June 30, 2009					
Service cost	\$ 37	\$ 9	\$ 12	\$ 1	\$ 1
Interest cost	97	24	36	5	5
Expected return on plan assets	(136)	(41)	(54)	(6)	(5)
Net amortization	11	2	4		1
Net cost (income)	\$ 9	\$ (6)	\$ (2)	\$	\$ 2
Six Months Ended June 30, 2009					
Service cost	\$ 73	\$ 17	\$ 24	\$ 3	\$ 3
Interest cost	194	48	73	9	9
Expected return on plan assets	(271)	(82)	(108)	(12)	(10)
Net amortization	21	5	8		1
Net cost (income)	\$ 17	\$ (12)	\$ (3)	\$	\$ 3

Table of Contents**NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

POSTRETIREMENT BENEFITS	Southern Company	Alabama Power	Georgia Power	Gulf Power	Mississippi Power
			<i>(in millions)</i>		
Three Months Ended June 30, 2010					
Service cost	\$ 7	\$ 1	\$ 2	\$ 1	\$ 1
Interest cost	25	7	11	1	1
Expected return on plan assets	(16)	(6)	(7)	(1)	(1)
Net amortization	5	1	3		
Net cost (income)	\$ 21	\$ 3	\$ 9	\$ 1	\$ 1
Six Months Ended June 30, 2010					
Service cost	\$ 13	\$ 3	\$ 4	\$ 1	\$ 1
Interest cost	50	13	22	2	2
Expected return on plan assets	(32)	(12)	(15)	(1)	(1)
Net amortization	10	3	6		
Net cost (income)	\$ 41	\$ 7	\$ 17	\$ 2	\$ 2
Three Months Ended June 30, 2009					
Service cost	\$ 6	\$ 1	\$ 3	\$ 1	\$
Interest cost	29	8	12	2	2
Expected return on plan assets	(15)	(6)	(7)	(1)	(1)
Net amortization	7	2	3		
Net cost (income)	\$ 27	\$ 5	\$ 11	\$ 2	\$ 1
Six Months Ended June 30, 2009					
Service cost	\$ 13	\$ 3	\$ 5	\$ 1	\$ 1
Interest cost	57	15	25	3	3
Expected return on plan assets	(30)	(12)	(15)	(1)	(1)
Net amortization	14	4	7		
Net cost (income)	\$ 54	\$ 10	\$ 22	\$ 3	\$ 3

(G) EFFECTIVE TAX RATE AND UNRECOGNIZED TAX BENEFITS**Effective Tax Rate**

Southern Company's effective tax rate was 31.8% for the six months ended June 30, 2010, as compared to 38.2% for the corresponding period in 2009. Southern Company's effective tax rate is lower than the statutory rate primarily due to its employee stock plans dividend deduction and AFUDC equity, which is not taxable. See Note 5 to the financial statements of each registrant in Item 8 of the Form 10-K for information on the effective income tax rate. Southern Company's effective tax rate decreased for the six months ended June 30, 2010 as compared to June 30, 2009 due to the \$202 million charge for the MC Asset Recovery settlement, which

occurred in the first quarter 2009. Southern Company is currently evaluating potential recovery of the settlement payment through various means including insurance, claims in U.S. Bankruptcy Court, and other avenues. The degree to which any recovery is realized will determine, in part, the final income tax treatment of the settlement payment. Additionally, Georgia Power's effective tax rate decreased for the six months ended June 30, 2010 compared to June 30, 2009 from 33.6% to 30.1% primarily due to the recognition of additional Georgia state tax credits and additional AFUDC equity. Southern Power's effective tax rate decreased for the six months ended June 30, 2010 compared to June 30, 2009 from 39.1% to 30.2% primarily due to tax benefits associated with the construction of its biomass facility.

Table of Contents**NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)****Unrecognized Tax Benefits**

Changes during 2010 for unrecognized tax benefits are as follows:

	Southern Company	Alabama Power	Georgia Power	Gulf Power	Mississippi Power	Southern Power
			<i>(in millions)</i>			
Unrecognized tax benefits as of December 31, 2009	\$ 199	\$ 6	\$ 181	\$ 2	\$ 3	\$
Tax positions from current periods	23		22			
Tax positions from prior periods	(27)		(23)			
Reductions due to settlements						
Reductions due to expired statute of limitations						
Balance as of June 30, 2010	\$ 195	\$ 6	\$ 180	\$ 2	\$ 3	\$

All of the unrecognized tax benefits as of June 30, 2010 and December 31, 2009 would impact the effective tax rate of Southern Company and its subsidiaries if recognized. The tax positions increase from current periods relates primarily to the Georgia state tax credits litigation and other miscellaneous uncertain tax positions. The tax positions decrease from prior periods relates primarily to the Georgia state tax credits litigation. See Note (B) under Income Tax Matters Georgia State Income Tax Credits herein for additional information.

Accrued interest for unrecognized tax benefits was as follows:

	Georgia Power	Other Registrants	Southern Company
		<i>(in millions)</i>	
Interest accrued as of December 31, 2009	\$ 20	\$ 1	\$ 21
Interest reclassified due to settlements			
Interest accrued during the period	2		2
Balance as of June 30, 2010	\$ 22	\$ 1	\$ 23

None of the registrants accrued any penalties on uncertain tax positions.

It is reasonably possible that the amount of the unrecognized tax benefits associated with a majority of Southern Company's and Georgia Power's unrecognized tax positions will significantly increase or decrease within the next 12 months. The resolution of the Georgia state tax credits litigation would substantially reduce the balances. The conclusion or settlement of state audits could also impact the balances significantly. At this time, an estimate of the range of reasonably possible outcomes cannot be determined.

(H) DERIVATIVES

Southern Company, the traditional operating companies, and Southern Power are exposed to market risks, primarily commodity price risk and interest rate risk and occasionally foreign currency risk. To manage the

volatility attributable to these exposures, each company nets its exposures, where possible, to take advantage of natural offsets and enters into various derivative transactions for the remaining exposures pursuant to each company's policies in areas such as counterparty exposure and risk management practices. Each company's policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques including, but not limited to, market valuation, value at risk, stress testing, and sensitivity analysis. Derivative instruments are recognized at fair value in the balance sheets as either assets or liabilities.

Table of Contents**NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)****Energy-Related Derivatives**

The traditional operating companies and Southern Power enter into energy-related derivatives to hedge exposures to electricity, gas, and other fuel price changes. However, due to cost-based rate regulations, the traditional operating companies have limited exposure to market volatility in commodity fuel prices and prices of electricity. Each of the traditional operating companies manages fuel-hedging programs, implemented per the guidelines of their respective state PSCs, through the use of financial derivative contracts. Southern Power has limited exposure to market volatility in commodity fuel prices and prices of electricity because its long-term sales contracts shift substantially all fuel cost responsibility to the purchaser. However, Southern Power has been and may continue to be exposed to market volatility in energy-related commodity prices as a result of sales of uncontracted generating capacity.

To mitigate residual risks relative to movements in electricity prices, the traditional operating companies and Southern Power may enter into physical fixed-price or heat rate contracts for the purchase and sale of electricity through the wholesale electricity market. To mitigate residual risks relative to movements in gas prices, the traditional operating companies and Southern Power may enter into fixed-price contracts for natural gas purchases; however, a significant portion of contracts are priced at market.

Energy-related derivative contracts are accounted for in one of three methods:

Regulatory Hedges Energy-related derivative contracts which are designated as regulatory hedges relate primarily to the traditional operating companies fuel-hedging programs, where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as the underlying fuel is used in operations and ultimately recovered through the respective fuel cost recovery clauses.

Cash Flow Hedges Gains and losses on energy-related derivatives designated as cash flow hedges, which are mainly used by Southern Power, to hedge anticipated purchases and sales are initially deferred in OCI before being recognized in the statements of income in the same period as the hedged transactions are reflected in earnings.

Not Designated Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred.

Some energy-related derivative contracts require physical delivery as opposed to financial settlement, and this type of derivative is both common and prevalent within the electric industry. When an energy-related derivative contract is settled physically, any cumulative unrealized gain or loss is reversed and the contract price is recognized in the respective line item representing the actual price of the underlying goods being delivered.

At June 30, 2010, the net volume of energy-related derivative contracts for power and natural gas positions for the registrants, together with the longest hedge date over which the respective entity is hedging its exposure to the variability in future cash flows for forecasted transactions and the longest date for derivatives not designated as hedges, were as follows:

	Net Sold MWH	Power Longest Hedge Date	Longest Non-Hedge Date	Net Purchased mmBtu (in millions)	Gas Longest Hedge Date	Longest Non-Hedge Date
As of June 30, 2010:						

	<i>(in millions)</i>					
Southern Company	0.7	2010	2010	134	2014	2014
Alabama Power				31	2014	
Georgia Power				67	2014	
Gulf Power				9	2014	
Mississippi Power				22	2014	
Southern Power	0.7	2010	2010	5	2012	2014

In addition to the volumes discussed in the table above, the traditional operating companies and Southern Power enter into physical natural gas supply contracts that provide the option to sell back excess gas due to operational constraints. The expected volume of natural gas subject to such a feature is 7 million mmBtu for Southern Company and 6 million mmBtu for Georgia Power and less than 1 million mmBtu for each of the other registrants.

Table of Contents**NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

For the next 12-month period ending June 30, 2011, Southern Company and Southern Power expect to reclassify \$4 million in gains from OCI to revenue and \$4 million in losses from OCI to fuel expense with respect to cash flow hedges. Such amounts are immaterial for all other registrants.

Interest Rate Derivatives

Southern Company and certain subsidiaries also enter into interest rate derivatives, which include forward-starting interest rate swaps, to hedge exposure to changes in interest rates. Derivatives related to existing variable rate securities or forecasted transactions are accounted for as cash flow hedges. Derivatives related to existing fixed rate securities are accounted for as fair value hedges. The derivatives employed as hedging instruments are structured to minimize ineffectiveness.

For cash flow hedges, the derivatives' fair value gains or losses are recorded in OCI and are reclassified into earnings at the same time the hedged transactions affect earnings. For fair value hedges, the derivatives' fair value gains or losses and hedged items' fair value gains or losses are both recorded directly to earnings, providing an offset with any difference representing ineffectiveness.

At June 30, 2010, the following interest rate derivatives were outstanding:

	Notional Amount (in millions)	Interest Rate Received	Interest Rate Paid	Hedge Maturity Date	Fair Value Gain (Loss) June 30, 2010 (in millions)
<i>Cash flow hedges of existing debt</i>					
Southern Company	\$ 300	3-month LIBOR + 0.40% spread	1.24%*	October 2011	\$ (1)
<i>Fair value hedges of existing debt</i>					
Southern Company	350	4.15%	3-month LIBOR + 1.96%* spread	May 2014	8
Total	\$ 650				\$ 7

* Weighted
Average

The following table reflects the estimated pre-tax gains (losses) that will be reclassified from OCI to interest expense for the next 12-month period ending June 30, 2011, together with the longest date that total deferred gains and losses are expected to be amortized into earnings.

**Estimated Gain
(Loss) to**

Registrant	be Reclassified for the 12 Months Ending June 30, 2011 <i>(in millions)</i>	Total Deferred Gains (Losses) Amortized Through
Southern Company	\$ (19)	2037
Alabama Power	1	2035
Georgia Power	(7)	2037
Gulf Power	(1)	2020
Southern Power	(11)	2016

Table of Contents**NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)****Foreign Currency Derivatives**

Southern Company and certain subsidiaries may enter into foreign currency derivatives to hedge exposure to changes in foreign currency exchange rates arising from purchases of equipment denominated in a currency other than U.S. dollars. Derivatives related to a firm commitment in a foreign currency transaction are accounted for as a fair value hedge where the derivatives' fair value gains or losses and hedged items' fair value gains or losses are both recorded directly to earnings. The derivatives employed as hedging instruments are structured to minimize ineffectiveness. At June 30, 2010, the following foreign currency derivatives were outstanding:

	Notional Amount (in millions)	Forward Rate	Hedge Maturity Date	Fair Value Gain (Loss) June 30, 2010 (in millions)
Fair value hedges of firm commitments				
Mississippi Power	EUR38.6	1.227*	Various through June 2012	\$
* Weighted Average				

Derivative Financial Statement Presentation and Amounts

At June 30, 2010, the fair value of energy-related derivatives and interest rate derivatives was reflected in the balance sheets as follows:

Asset Derivatives at June 30, 2010

Derivative Category and Balance Sheet Location	Fair Value					
	Southern Company	Alabama Power	Georgia Power	Gulf Power	Mississippi Power	Southern Power
	<i>(in millions)</i>					
Derivatives designated as hedging instruments in cash flow and fair value hedges						
Energy-related derivatives:						
Other current assets*	\$ 4	\$	\$	\$	\$	\$
Assets from risk management activities						4
Interest rate derivatives:						
Other current assets	5					
Other deferred charges and assets	3					
Total derivatives designated as hedging instruments in cash flow and fair value hedges	\$12	\$	\$	\$	\$	\$ 4
Derivatives not designated as hedging instruments						

Energy-related derivatives:						
Other current assets*	\$ 3	\$	\$	\$	\$	\$
Assets from risk management activities						3
Total derivatives not designated as hedging instruments	\$ 3	\$	\$	\$	\$	\$ 3
Total asset derivatives	\$15	\$	\$	\$	\$	\$ 7

* Southern Company includes Assets from risk management activities in Other current assets where applicable.

Derivative Category and Balance Sheet Location	Southern Company	Alabama Power	Georgia Power	Gulf Power	Mississippi Power
			<i>(in millions)</i>		
Energy-related derivatives:					
Other regulatory assets, current	\$ (116)	\$ (32)	\$ (52)	\$ (10)	\$ (22)
Other regulatory assets, deferred	(85)	(13)	(41)	(5)	(26)
Total energy-related derivative gains (losses)	\$ (201)	\$ (45)	\$ (93)	\$ (15)	\$ (48)

For the three months and six months ended June 30, 2010, the pre-tax gains from interest rate derivatives designated as fair value hedging instruments on Southern Company's statements of income was \$9 million and \$8 million, respectively. These amounts were offset with changes in the fair value of the hedged debt.

Table of Contents**NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

For the three months ended June 30, 2010 and June 30, 2009, the pre-tax effect of energy-related derivatives and interest rate derivatives designated as cash flow hedging instruments on the statements of income were as follows:

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
	2010	2009	Statements of Income Location	Amount
	<i>(in millions)</i>			<i>(in millions)</i>
Southern Company				
Energy-related derivatives	\$ (4)	\$	Fuel	\$
Interest rate derivatives	1	(4)	Interest expense	(8) (12)
Total	\$ (3)	\$ (4)		\$ (8) \$ (12)
Alabama Power				
Interest rate derivatives	\$	\$ (2)	Interest expense	\$ 1 \$ (3)
Georgia Power				
Interest rate derivatives	\$	\$ (2)	Interest expense	\$ (5) \$ (6)
Gulf Power				
Interest rate derivatives	\$ 1	\$	Interest expense	\$
Southern Power				
Energy-related derivatives	\$ (3)	\$	Fuel	\$
Interest rate derivatives			Interest expense	(2) (3)
Total	\$ (3)	\$		\$ (2) \$ (3)

For the six months ended June 30, 2010 and June 30, 2009, the pre-tax effect of energy-related derivatives and interest rate derivatives designated as cash flow hedging instruments on the statements of income were as follows:

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
	2010	2009	Statements of Income Location	Amount
	<i>(in millions)</i>			<i>(in millions)</i>
Southern Company				
Energy-related derivatives	\$ 1	\$ 1	Fuel	\$
Interest rate derivatives	(2)	(3)	Interest expense	(17) (22)

Total	\$(1)	\$(2)		\$(17)	\$(22)
Alabama Power					
Interest rate derivatives	\$	\$(4)	Interest expense	\$(1)	\$(6)
Georgia Power					
Interest rate derivatives	\$	\$ 1	Interest expense	\$(10)	\$(11)
Gulf Power					
Interest rate derivatives	\$(1)	\$	Interest expense	\$(1)	\$(1)
Southern Power					
Energy-related derivatives	\$ 1	\$ 1	Fuel	\$	\$
Interest rate derivatives			Interest expense	(5)	(5)
Total	\$ 1	\$ 1		\$(5)	\$(5)

There was no material ineffectiveness recorded in earnings for any registrant for any period presented.

Table of Contents**NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

For the three months ended June 30, 2010 and June 30, 2009, the pre-tax effect of energy-related derivatives not designated as hedging instruments on the statements of income were as follows:

**Derivatives not Designated
as Hedging Instruments**

	Unrealized Gain (Loss) Recognized in Income Statements of Income Location	Amount	
		2010	2009
		<i>(in millions)</i>	
Southern Company			
Energy-related derivatives	Wholesale revenues	\$	\$ 1
	Fuel	1	1
	Purchased power	1	(2)
Total		\$ 2	\$
Southern Power			
Energy-related derivatives	Wholesale revenues	\$	\$ 1
	Fuel	1	1
	Purchased power	1	(2)
Total		\$ 2	\$

For the six months ended June 30, 2010 and June 30, 2009, the pre-tax effect of energy-related derivatives not designated as hedging instruments on the statements of income were as follows:

**Derivatives not Designated
as Hedging Instruments**

	Unrealized Gain (Loss) Recognized in Income Statements of Income Location	Amount	
		2010	2009
		<i>(in millions)</i>	
Southern Company			
Energy-related derivatives	Wholesale revenues	\$ 1	\$ 5
	Fuel		(3)
	Purchased power		(3)
Total		\$ 1	\$ (1)
Southern Power			
Energy-related derivatives	Wholesale revenues	\$ 1	\$ 5
	Fuel		(3)
	Purchased power		(3)
Total		\$ 1	\$ (1)

Contingent Features

The registrants do not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain derivatives that could require

collateral, but not accelerated payment, in the event of various credit rating changes of certain Southern Company subsidiaries. At June 30, 2010, the fair value of derivative liabilities with contingent features, by registrant, is as follows:

	Southern Company	Alabama Power	Georgia Power	Gulf Power	Mississippi Power	Southern Power
				<i>(in millions)</i>		
Derivative liabilities	\$43	\$ 7	\$25	\$ 2	\$ 5	\$ 4

At June 30, 2010, the registrants had no collateral posted with their derivative counterparties; however, because of the joint and several liability features underlying these derivatives, the maximum potential collateral requirements arising from the credit-risk-related contingent features, at a rating below BBB- and/or Baa3, is \$43 million for each registrant.

Table of Contents**NOTES TO THE CONDENSED FINANCIAL STATEMENTS: (Continued)**

Currently, each of the registrants has investment grade credit ratings from the major rating agencies with respect to debt, preferred securities, preferred stock, and/or preference stock. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. For the traditional operating companies and Southern Power, included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participants has a credit rating change to below investment grade.

(I) SEGMENT AND RELATED INFORMATION

Southern Company's reportable business segments are the sale of electricity in the Southeast by the four traditional operating companies and Southern Power. Revenues from sales by Southern Power to the traditional operating companies were \$93 million and \$195 million for the three months and six months ended June 30, 2010, respectively, and \$138 million and \$273 million for the three months and six months ended June 30, 2009, respectively. The All Other column includes parent Southern Company, which does not allocate operating expenses to business segments. Also, this category includes segments below the quantitative threshold for separate disclosure. These segments include investments in telecommunications, renewable energy projects, and leveraged lease projects. All other intersegment revenues are not material. Financial data for business segments and products and services are as follows:

	Electric Utilities						
	Traditional Operating Companies	Southern Power	Eliminations	Total	All Other	Eliminations	Consolidated
	<i>(in millions)</i>						
Three Months Ended June 30, 2010:							
Operating revenues	\$ 4,056	\$ 249	\$ (118)	\$ 4,187	\$ 41	\$ (20)	\$ 4,208
Segment net income (loss)*	475	30		505	5		510
Six Months Ended June 30, 2010:							
Operating revenues	\$ 8,061	\$ 505	\$ (243)	\$ 8,323	\$ 82	\$ (40)	\$ 8,365
Segment net income (loss)*	956	45		1,001	5	(1)	1,005
Total assets at June 30, 2010	\$49,792	\$3,173	\$ (130)	\$52,835	\$1,076	\$ (537)	\$53,374
Three Months Ended June 30, 2009:							
Operating revenues	\$ 3,781	\$ 230	\$ (152)	\$ 3,859	\$ 43	\$ (17)	\$ 3,885
Segment net income (loss)*	421	31		452	25	1	478
Six Months Ended June 30, 2009:							
Operating revenues	\$ 7,338	\$ 462	\$ (302)	\$ 7,498	\$ 87	\$ (34)	\$ 7,551
Segment net income (loss)*	723	59		782	(180)	2	604
	\$48,403	\$3,043	\$ (143)	\$51,303	\$1,223	\$ (480)	\$52,046

Total assets at
December 31, 2009

* After dividends
on preferred and
preference stock
of subsidiaries

Products and Services

Period	Retail	Electric Utilities	Revenues	Total
		Wholesale	Other	
		<i>(in millions)</i>		
Three Months Ended June 30, 2010	\$3,571	\$ 473	\$143	\$4,187
Three Months Ended June 30, 2009	3,293	438	128	3,859
Six Months Ended June 30, 2010	\$7,030	\$1,015	\$278	\$8,323
Six Months Ended June 30, 2009	6,358	889	251	7,498

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

See the Notes to the Condensed Financial Statements herein for information regarding certain legal and administrative proceedings in which the registrants are involved.

Item 1A. Risk Factors.

See RISK FACTORS in Item 1A of the Form 10-K for a discussion of the risk factors of the registrants. There have been no material changes to these risk factors from those previously disclosed in the Form 10-K.

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Item 6. Exhibits.

(4) Instruments Describing Rights of Security Holders, Including Indentures

Georgia Power

- (c)1 - Forty-First Supplemental Indenture to Senior Note Indenture dated as of June 3, 2010, providing for the issuance of the Series 2010B 5.40% Senior Notes due June 1, 2040. (Designated in Form 8-K dated May 24, 2010, File No. 1-6468, as Exhibit 4.2.)

(10) Material Contracts

Alabama Power

- (b)1 - Summary of Non-Employee Director Compensation Arrangements.

Gulf Power

- (d)1 - Summary of Non-Employee Director Compensation Arrangements.

(24) Power of Attorney and Resolutions

Southern Company

- (a)1 - Power of Attorney and resolution. (Designated in the Form 10-K for the year ended December 31, 2009, File No. 1-3526 as Exhibit 24(a) and incorporated herein by reference.)

Alabama Power

- (b)1 - Power of Attorney and resolution. (Designated in the Form 10-K for the year ended December 31, 2009, File No. 1-3164 as Exhibit 24(b) and incorporated herein by reference.)

Georgia Power

- (c)1 - Power of Attorney and resolution. (Designated in the Form 10-K for the year ended December 31, 2009, File No. 1-6468 as Exhibit 24(c) and incorporated herein by reference.)

Gulf Power

- (d)1 - Power of Attorney and resolution. (Designated in the Form 10-K for the year ended December 31, 2009, File No. 0-2429 as Exhibit 24(d) and incorporated herein by reference.)

Mississippi Power

- (e)1 - Power of Attorney and resolution. (Designated in the Form 10-K for the year ended December 31, 2009, File No. 001-11229 as Exhibit 24(e) and incorporated herein by reference.)

Southern Power

- (f)1 - Power of Attorney and resolution. (Designated in the Form 10-K for the year ended December 31, 2009, File No. 333-98553 as Exhibit 24(f) and incorporated herein by reference.)

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(31) Section 302 Certifications

Southern Company

- (a)1 - Certificate of Southern Company's Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
- (a)2 - Certificate of Southern Company's Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

Alabama Power

- (b)1 - Certificate of Alabama Power's Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
- (b)2 - Certificate of Alabama Power's Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

Georgia Power

- (c)1 - Certificate of Georgia Power's Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
- (c)2 - Certificate of Georgia Power's Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

Gulf Power

- (d)1 - Certificate of Gulf Power's Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
- (d)2 - Certificate of Gulf Power's Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

Mississippi Power

- (e)1 - Certificate of Mississippi Power's Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
- (e)2 - Certificate of Mississippi Power's Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

Southern Power

- (f)1 - Certificate of Southern Power's Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
- (f)2 -

Certificate of Southern Power's Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

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(32) Section 906 Certifications

Southern Company

- (a) - Certificate of Southern Company's Chief Executive Officer and Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.

Alabama Power

- (b) - Certificate of Alabama Power's Chief Executive Officer and Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.

Georgia Power

- (c) - Certificate of Georgia Power's Chief Executive Officer and Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.

Gulf Power

- (d) - Certificate of Gulf Power's Chief Executive Officer and Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.

Mississippi Power

- (e) - Certificate of Mississippi Power's Chief Executive Officer and Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.

Southern Power

- (f) - Certificate of Southern Power's Chief Executive Officer and Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.

(101) XBRL Related Documents

Southern Company

INS	XBRL Instance Document
SCH	XBRL Taxonomy Extension Schema Document
CAL	XBRL Taxonomy Calculation Linkbase Document
DEF	XBRL Definition Linkbase Document
LAB	XBRL Taxonomy Label Linkbase Document
PRE	XBRL Taxonomy Presentation Linkbase Document

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**THE SOUTHERN COMPANY
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

THE SOUTHERN COMPANY

By *David M. Ratcliffe*
Chairman and Chief Executive Officer
(Principal Executive Officer)

By *W. Paul Bowers*
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

By */s/ Melissa K. Caen*

(Melissa K. Caen, Attorney-in-fact)

Date: August 6, 2010

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**ALABAMA POWER COMPANY
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

ALABAMA POWER COMPANY

By *Charles D. McCrary*
President and Chief Executive Officer
(Principal Executive Officer)

By *Art P. Beattie*
Executive Vice President, Chief Financial Officer, and Treasurer
(Principal Financial Officer)

By */s/ Melissa K. Caen*

(Melissa K. Caen, Attorney-in-fact)

Date: August 6, 2010

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**GEORGIA POWER COMPANY
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

GEORGIA POWER COMPANY

By *Michael D. Garrett*
President and Chief Executive Officer
(Principal Executive Officer)

By *Ronnie R. Labrato*
Executive Vice President, Chief Financial Officer, and Treasurer
(Principal Financial Officer)

By */s/ Melissa K. Caen*

(Melissa K. Caen, Attorney-in-fact)

Date: August 6, 2010

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**GULF POWER COMPANY
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

GULF POWER COMPANY

By *Susan N. Story*
President and Chief Executive Officer
(Principal Executive Officer)

By *Philip C. Raymond*
Vice President and Chief Financial Officer
(Principal Financial Officer)

By */s/ Melissa K. Caen*

(Melissa K. Caen, Attorney-in-fact)

Date: August 6, 2010

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**MISSISSIPPI POWER COMPANY
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

MISSISSIPPI POWER COMPANY

By *Anthony J. Topazi*
President and Chief Executive Officer
(Principal Executive Officer)

By *Frances Turnage*
Vice President, Treasurer, and Chief Financial Officer
(Principal Financial Officer)

By */s/ Melissa K. Caen*

(Melissa K. Caen, Attorney-in-fact)

Date: August 6, 2010

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**SOUTHERN POWER COMPANY
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

SOUTHERN POWER COMPANY

By *Ronnie L. Bates*
Chief Executive Officer
(Principal Executive Officer)

By *Michael W. Southern*
Senior Vice President, Treasurer, and Chief Financial Officer
(Principal Financial Officer)

By */s/ Melissa K. Caen*

(Melissa K. Caen, Attorney-in-fact)

Date: August 6, 2010