Susan D. Ritenour

ORIGINAL

GULF POWER
A SOUTHERN COMPANY

March 26, 2004

04 MAR 29 AM 8:35
FPSC-COMMISSION CLERK

Ms. Blanca Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard, Room 110
Tallahassee, Florida 32399-0870

Dear Ms. Bayo:

Re: Docket No. 021088-EI, Order Number PSC-02-1708-FOF-EI
Application of Gulf Power Company for authority to receive common equity contributions and to issue and sell securities

An original and three copies of the Consummation Report dated March 26, 2004, and four copies of the exhibits are enclosed with this letter for filing in the above referenced docket.

Sincerely,

Susan D. Ritenour

ck

Enclosures

cc: E. W. Boston, Southern Company Services
J. A. Stone, Beggs & Lane

AUS
CAF
CMP
COM
CTR
ECR 1
GCL 1
OPC
MMS
SEC 1
OTH

DOCUMENT NUMBER-DATE
03989 MAR 29 04
FPSC-COMMISSION CLERK

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

| | |
|---|---|
| IN RE: Application of Gulf Power Company for authority to receive common equity contributions and to issue and sell securities. | ) Docket No.: 021088-EI ) Filed: March 26, 2004 |

TO THE HONORABLE FLORIDA PUBLIC SERVICE COMMISSION:

**CONSUMMATION REPORT**

GULF POWER COMPANY ("Gulf Power", "Gulf", or "the Company"), by and through its undersigned representative, and pursuant to Rule 25-8.009, Florida Administrative Code, and the reporting requirements of Order No. PSC-02-1708-FOF-EI entered in Docket No. 021088-EI on December 6, 2002, hereby reports for the fiscal year ending December 31, 2003:

**A.** 1. After negotiated arrangements, on March 21, 2003, Gulf Power Company (the "Company") entered into an Underwriting Agreement with Edward D. Jones & Co., L.P. and Goldman, Sachs & Co., (the "Underwriters"), for the purchase of an aggregate of $65,000,000 (denominations and multiples of $1,000 each) principal amount of Series F 5.60% Senior Insured Quarterly Notes (the "Notes") due April 1, 2033. The Depository Trust Company ("DTC") acts as the initial securities depositary for the notes. The notes were issued only as fully registered securities in the name of Cede & Co., DTC's nominee. On March 26, 2003, the Company delivered such notes to the Underwriters. On March 26, 2003, the Company received $62,952,500 representing payment in full of the purchase price less $2,047,500 underwriting discount and commissions of the underwriters for their services.

DOCUMENT NUMBER-DATE
03989 MAR 29 04
FPSC-COMMISSION CLERK

2. The proceeds from the sale of the Series F Senior Notes were used by the Company to redeem in April 2003, the $20,000,000 outstanding principal amount of its Series B 7.50% Junior Subordinated Notes due June 30, 2037, and to redeem in May 2003, the $45,000,000 outstanding principal amount of its Series E 6.00% Senior Notes due January 30, 2012.

3. Interest on the new notes will be payable at the rate of 5.60% per annum and payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year, commencing July 1, 2003.

4. Payment of principal and interest on the notes when due will be insured by a financial guaranty insurance policy (the "policy") to be issued by XL Capital Assurance Inc. (the "insurer") simultaneously with the delivery of the notes. On March 26, 2003, the Company paid $1,219,753.89 to the insurer.

5. The notes are direct, unsecured and unsubordinated obligations of the Company ranking pari passu (equal in priority) with all other unsecured and unsubordinated obligations of the Company.

**B.** 1. After negotiated arrangements authorized by Gulf Power Company (the "Company"), Banc of America Securities LLC (the "Underwriter") entered into an agreement on April 1, 2003, with the Board of County Commissioners of Escambia County, Florida (the "County") for the purchase of $32,550,000 aggregate principal amount of Escambia County, Florida Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003, due June 1, 2023. In consideration of such purchase, the Company paid to the Underwriter a fee of $113,925 for underwriting compensation. The bonds initially beared interest at an Auction Mode Rate. The bonds have a 35 day Auction Period unless changed at the option of the Company, as provided in the Trust Indenture. The first auction date for the bonds was May 19, 2003. The interest rate on the bonds can be converted from the Auction Mode Rate to Daily Rate, Weekly Rate, a Commercial Paper Rate, Index Rate or long-term rate. The duration of the Auction Period may be changed at the direction of the Company

permitted under the Trust Indenture. Except as otherwise provided in the Trust Indenture pursuant to which the bonds are to be secured, each interest rate for each such mode will be determined by the Auction Agent as the minimum rate necessary for the agent to sell the bonds at their principal amount (without regard to accrued interest). The bonds were offered as fully registered bonds and were registered in the name of Cede & Co., as nominee of the Depository Trust Company ("DTC"). DTC acts as securities depository for the bonds. During the Auction Rate Period, the bonds were issued in denominations of $1,000, and multiples thereof. Purchases were made in book-entry form through DTC participants and no physical delivery of bonds were made to purchasers. On April 15, 2003, the Trustee (The Bank of New York Trust Company of Florida, N.A.) delivered such bonds to the account of the Representative at the DTC on behalf of the underwriter against payment thereof of $32,550,000 consisting of the purchase price equal to 100% of the aggregate principal amount of the bonds.

2. The Series 2003 Bonds were issued to provide funds to refinance the acquisition, construction, installation and equipping of certain air and water pollution control and sewage and solid waste disposal facilities (the "Project") located at the Crist steam electric generating plant in Escambia County, Florida and the Lansing Smith electric generation plant in Bay County, Florida (collectively, the "Plants"), both of which are owned and operated by the Company.

3. On April 15, 2003, the proceeds of the sale of the Series 2003 Bonds were deposited by the Company with The Bank of New York Trust Company of Florida, N.A., as Trustee, under the Trust Indenture dated April 1, 2003, between Escambia County, Florida and the Bank of New York Trust Company of Florida, N.A.

4. The net proceeds received by the County from the sale of the bonds were $32,550,000. The proceeds were applied to the redemption in May, 2003, of $32,550,000 outstanding aggregate principal amount of Escambia County, Florida,

5.80% Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 1993.

5. The County loaned to the Company the proceeds of the Bonds pursuant to a Loan Agreement dated April 1, 2003. In order to evidence the loan from the County and to provide for its repayment, the Company issued a nonnegotiable promissory note dated April 15, 2003, between the Company to the County pursuant to the Loan Agreement.

6. The Trustee and the Company entered into an Auction Agreement dated April 1, 2003, initially with The Bank of New York, pursuant to which, The Bank of New York, as agent for the Trustee, performed the duties of Auction Agent. The Auction Agent determined the Auction Mode Rate for each Auction Period in accordance with the Agreement. The Company paid to the Auction Agent an Annual Auction Agent fee of 1% of the aggregate principal balance of bonds.

7. Banc of America Securities LLC was appointed Broker-Dealer pursuant to a Broker-Dealer Agreement dated April 1, 2003, among The Bank of New York as Auction Agent and Banc of America Securities LLC as Broker-Dealer and Gulf Power Company.

**C.** 1. After negotiated arrangements authorized by Gulf Power Company (the "Company"), J. P. Morgan Securities Inc. (the "Underwriter') entered into an agreement on April 14, 2003, with the Mississippi Business Finance Corporation ("MBFC"), for the purchase of $29,075,000 aggregate principal amount of Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds (the "bonds"), (Gulf Power Company Project) Series 2003, due February 1, 2026. In consideration of such purchase, the Company paid to the Underwriters a fee of $101,762.50 for underwriting compensation. The Company also paid an Issuers fee of $25,000 to MBFC. The bonds initially beared interest at an Auction Mode Rate. The bonds have a 35 day Auction Period unless changed at the option of the Company, as provided in the Trust Indenture. The first auction date for the bonds was May 19, 2003. The interest rate on the bonds can be converted from

the Auction Mode Rate to Daily Rate, Weekly Rate, a Commercial Paper Rate, Index Rate or long-term rate. The duration of the Auction Period may be changed at the direction of the Company permitted under the Trust Indenture. Except as otherwise provided in the Trust Indenture pursuant to which the bonds are to be secured, each interest rate for each such mode will be determined by the Auction Agent as the minimum rate necessary for the agent to sell the bonds at their principal amount (without regard to accrued interest). The bonds were offered as fully registered bonds and was registered in the name of Cede & Co., as nominee of the Depository Trust Company ("DTC"). DTC acts as securities depository for the bonds. During an Auction Rate Period, the bonds were issued in denominations of $1,000, and multiples thereof. Purchases were made in book-entry form through DTC participants and no physical delivery of bonds was made to purchasers. On April 15, 2003, the Trustee (The Bank of New York Trust Company of Florida, N.A.) delivered such bonds to the account of the Representative at the DTC on behalf of the underwriter against payment thereof of $29,075,000 consisting of the purchase price equal to 100% of the aggregate principal amount of the bonds

2. The Series 2003 Bonds were issued to provide funds to refinance the acquisition, construction, installation and equipping of the interest of the Company in certain air and water pollution control facilities (the "Project"). The Project is located at the Victor J. Daniel, Jr. steam electric generating plant in Jackson County, Mississippi (the "Plant"). The Plant consists of two units in which the Company owns a 50% undivided interest.

3. On April 15, 2003, the proceeds of the sale of the Bonds were deposited by the Company with The Bank of New York Trust Company of Florida, N.A., as Trustee, under the Trust Indenture dated April 1, 2003, between MBFC and the Bank of New York Trust Company of Florida, N.A.

4. The net proceeds received by MBFC from the sale of the bonds were $29,075,000. The proceeds were applied to the redemption in May, 2003, of $7,875,000 aggregate principal amount of MBFC 5.70% Water Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 1993 and to the redemption in May, 2003, of $21,200,000 MBFC 5-1/2% Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 1996.

5. MBFC loaned to the Company the proceeds of the bonds pursuant to a Loan Agreement dated as of April 1, 2003 between MBFC and the Company. In order to evidence the loan from MBFC and to provide for its repayment, the Company issued a nonnegotiable promissory note dated April 15, 2003 between the Company to MBFC pursuant to the Loan Agreement.

6. The Trustee and the Company entered into an Auction Agreement dated April 1, 2003, initially with The Bank of New York, pursuant to which, The Bank of New York, as agent for the Trustee, performed the duties of Auction Agent. The Auction Agent determined the Auction Mode Rate for each Auction Period in accordance with the Agreement. The Company paid to the Auction Agent an Annual Auction Agent fee of 1% of the aggregate principal balance of bonds.

7. J. P. Morgan Securities Inc. was appointed Broker-Dealer pursuant to a Broker-Dealer Agreement dated April 1, 2003, among The Bank of New York as Auction Agent and J. P. Morgan Securities Inc. as Broker-Dealer and Gulf Power Company.

**D.** 1. After negotiated arrangements, on July 14, 2003, Gulf Power Company (the "Company") entered into an Underwriting Agreement with Lehman Brothers Inc. and Scotia Capital (USA) Inc., (the "Underwriters"), as representatives of the Underwriters, for the purchase of an aggregate of $60,000,000 (denominations and multiples of $1,000 each) principal amount of Series G 4.35% Senior Notes (the "Notes") due July 15, 2013. The Depository Trust Company ("DTC") acts as the initial securities depositary for the notes. The notes were issued only as fully registered securities in the name of Cede & Co., DTC's nominee. On

July 22, 2003, the Company delivered such notes to the Underwriters. On July 22, 2003, the Company received $59,485,200 representing payment in full of the purchase price less $124,800 representing initial public offering price discount and less $390,000 underwriting discount and commissions of the underwriters for their services.

2. The proceeds from the sale of the Series G Senior Notes were used by the Company to pay at maturity in August 2003, the $60,000,000 outstanding principal amount of its Series C 4.69% Senior Notes due August 1, 2003.

3. Interest on the new notes will be payable at the rate of 4.35% per annum and payable semi-annually in arrears on January 15 and July 15 of each year, commencing January 15, 2004.

4. The notes are direct, unsecured and unsubordinated obligations of the Company ranking pari passu (equal in priority) with all other unsecured and unsubordinated obligations of the Company.

**E.** 1. After negotiated arrangements, on July 10, 2003, Gulf Power Company (the "Company") entered into an Underwriting Agreement with Morgan Stanley & Co., Incorporated and Wachovia Capital Markets, LLC, (the "Underwriters"), as representatives of the Underwriters, for the purchase of an aggregate of $60,000,000 (denominations and multiples of $25 each) principal amount of Series H 5.25% Senior Notes (the "Notes") due July 15, 2033. The Depository Trust Company ("DTC") acts as the initial securities depositary for the notes. The notes were issued only as fully registered securities in the name of Cede & Co., DTC's nominee. On July 22, 2003, the Company delivered such notes to the Underwriters. On July 22, 2003, the Company received $58,110,000 representing payment in full of the purchase price less $1,890,000 underwriting discount and commissions of the underwriters for their services.

2. The proceeds from the sale of the Series H Senior Notes were used by the Company to redeem in August 2003, the $46,695,000 outstanding principal amount of its Series A 6.70% Senior Insured Quarterly Notes due June 30, 2038.

The balance of the proceeds was used by the Company to repay a portion of its outstanding short-term indebtedness, which aggregated approximately $55,000,000 as of July 10, 2003.

3. Interest on the new notes will be payable at the rate of 5.25% per annum and payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, commencing October 15, 2003.

4. Payments of principal and interest on the notes when due will be insured by a financial guaranty insurance policy (the "policy") to be issued by XL Capital Assurance Inc. (the "insurer") simultaneously with the delivery of the notes. On July 22, 2003, the Company paid $1,081,077.12 to the insurer.

5. The notes are direct, unsecured and unsubordinated obligations of the Company ranking pari passu (equal in priority) with all other unsecured and unsubordinated obligations of the Company.

**F.** 1. After negotiated arrangements, on September 5, 2003, Gulf Power Company (the "Company") entered into an Underwriting Agreement with Morgan Stanley & Co., Incorporated, (the "Underwriters"), as representatives of the Underwriters, for the purchase of an aggregate of $40,000,000 (denominations and multiples of $25 each) principal amount of Series I 5.75% Senior Notes (the "Notes") due September 15, 2033. The Depository Trust Company ("DTC") acts as the initial securities depositary for the notes. The notes were issued only as fully registered securities in the name of Cede & Co., DTC's nominee. On September 16, 2003, the Company delivered such notes to the Underwriters. On September 16, 2003, the Company received $38,740,000 representing payment in full of the purchase price less $1,260,000 underwriting discount and commissions of the underwriters for their services.

2. The proceeds from the sale of the Series I Senior Notes were used by the Company to redeem in October 2003, the $45,000,000 outstanding principal amount of Gulf Power Capital Trust II 7.00% Cumulative Quarterly Income Preferred Securities due December 31, 2037.

3. Interest on the new notes will be payable at the rate of 5.75% per annum and payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year, commencing December 15, 2003.

4. Payments of principal and interest on the notes when due will be insured by a financial guaranty insurance policy (the "policy") to be issued by XL Capital Assurance Inc. (the "insurer") simultaneously with the delivery of the notes. On September 16, 2003, the Company paid $762,900.75 to the insurer.

5. The notes are direct, unsecured and unsubordinated obligations of the Company ranking pari passu (equal in priority) with all other unsecured and unsubordinated obligations of the Company.

Pursuant to Rule 25-8.009, F.A.C., Gulf Power Company submits the following documents relative to the issuance of the above referenced notes:

**A. Exhibits for $65,000,000 5.60% Series F Senior Notes:**

1. Underwriting Agreement dated March 21, 2003, between Gulf Power Company and Edward D. Jones & Co., L.P. and Goldman, Sachs & Co.
2. Sixth Supplemental Indenture, dated March 26, 2003, to the Note Indenture, between Gulf Power Company and JPMorgan Chase Bank, Trustee.
3. Prospectus supplement dated March 21, 2003 and prospectus dated June 1, 2001.
4. Opinion dated March 26, 2003 of Beggs & Lane, general counsel for the Company.
5. Opinion dated March 26, 2003 of Troutman Sanders LLP, counsel for the Company.
6. Statement on Form U-1 dated February 6, 1998, and amended on April 14, May 12, 1998; and Certificates of Notification dated June 30, and August 29, 1998, relating to among other things, Senior Notes, and Finance Statements made a part thereof filed with Securities and Exchange Commission File No. 70-9171 under the Public Utility Holding Company Act of 1935.
7. Form S-3 Registration Statement Nos. 333-59942, 333-59942-01, and 333-59942-02 as filed with the Securities Exchange Commission on May 1, 2001 under the Securities Act of 1933.
8. Description of Underwriters.
9. Report of Expenses.

**B. Exhibits for $32,550,000 Escambia County, Florida Pollution Control Revenue Refunding Bonds:**

1. Conformed copy of Trust Indenture dated April 1, 2003, between Escambia County, Florida and The Bank of New York Trust Company of Florida, N.A., as Trustee.
2. Loan Agreement dated April 1, 2003, between Escambia County, Florida and Gulf Power Company.
3. Promissory Note dated April 15, 2003 between Gulf Power Company and Escambia County, Florida.

4. Auction Agreement dated as of April 1, 2003 among Gulf Power Company and The Bank of New York Trust Company of Florida, N.A. as Trustee, and The Bank of New York as Auction Agent.
5. Broker-Dealer Agreement dated as of April 1, 2003 among The Bank of New York as Auction Agent and Banc of America Securities LLC as Broker-Dealer and Gulf Power Company.
6. Letter of Representative dated as of April 11, 2003 from Gulf Power Company to Board of County Commissioners of Escambia County, Florida and Banc of America Securities LLC.
7. Purchase Contract dated April 11, 2003 between Banc of America Securities LLC, as underwriter and Board of County Commissioners of Escambia County, Florida, as issuers.
8. Copy of the Official Statement dated April 11, 2003.
9. Opinion dated April 15, 2003 of Beggs & Lane, general counsel for the Company.
10. Opinion dated April 15, 2003 of Troutman Sanders, counsel for the Company.
11. Opinion dated April 15, 2003 of Balch & Bingham LLP, co-bond counsel.
12. Opinion dated April 15, 2003 of Miller, Canfield, Paddock and Stone, P.L.C., co-bond counsel.
13. Opinion dated April 15, 2003 of Janet Lander, counsel to the issuer.
14. Statement on Form U-1 dated November, 1, 1996, and amended on April 30, June 25, and June 27, 1997, and Certificate of Notification dated July 14, 1997, relating to among other things, the Pollution Control Revenue Bonds, and Finance Statements made a part thereof filed with Securities and Exchange Commission File No. 70-8949 under the Public Utility Holding Company Act of 1935.
15. Description of Underwriters
16. Report of Expenses

**C. Exhibits for $29,075,000 MBFC Pollution Control Revenue Refunding Bonds:**

1. Conformed copy of Trust Indenture dated April 1, 2003, between MBFC and The Bank of New York Trust Company of Florida, N.A. as Trustee.
2. Loan Agreement dated April 1, 2003, between MBFC and Gulf Power Company.
3. Promissory Note dated April 25, 2003 between Gulf Power Company and MBFC.
4. Auction Agreement dated as of April 1, 2003 among Gulf Power Company and The Bank of New York Trust Company of Florida, N.A. as Trustee, and The Bank of New York as Auction Agent.
5. Broker-Dealer Agreement dated as of April 1, 2003 among The Bank of New York as Auction Agent and J. P. Morgan Securities Inc. as Broker-Dealer and Gulf Power Company.
6. Letter of Representative dated as of April 14, 2003 from Gulf Power Company to MBFC and J. P. Morgan Securities Inc.
7. Purchase Contract dated April 14, 2003 between J. P. Morgan Securities Inc., as underwriters and MBFC, as issuers.
8. Copy of the Official Statement dated April 9, 2003.
9. Opinion dated April 15, 2003 of Beggs & Lane, general counsel for the Company
10. Opinion dated April 15, 2003 of Troutman Sanders, counsel for the Company.
11. Opinion dated April 15, 2003 of McGlinchey Stafford PLLC, bond counsel.
12. Opinion dated April 15, 2003 of Balch & Bingham LLP, counsel to the issuer.
13. Statement on Form U-1 dated November 1, 1996, and amended on April 30, June 25, and June 27, 1997, and Certificate of Notification dated July 14, 1997, relating to among other things, the Pollution Control Revenue Refunding Bonds, and Finance Statements made a part thereof filed with Securities and Exchange Commission File No. 70-8949 under the Public Utility Holding Company Act of 1935.

    SEE EXHIBIT B.14.
14. Description of Underwriters.
15. Report of Expenses.

**D. Exhibits for $60,000,000 4.35% Series G Senior Notes:**

1. Underwriting Agreement dated July 14, 2003, between Gulf Power Company and Lehman Brother Inc. and Scotia Capital (USA) Inc.
2. Seventh Supplemental Indenture, dated July 22, 2003, to the Note Indenture, between Gulf Power Company and JPMorgan Chase Bank, Trustee.
3. Prospectus supplement dated July 14, 2003 and prospectus dated April 25, 2003.
4. Opinion dated July 22, 2003 of Beggs & Lane, general counsel for the Company.
5. Opinion dated July 22, 2003 of Troutman Sanders LLP, counsel for the Company.
6. Statement on Form U-1 dated February 21, 2003, and amended on June 27, 2003 relating to among other things, Senior Notes, and Finance Statements made a part thereof filed with Securities and Exchange Commission File No. 70-10117 under the Public Utility Holding Company Act of 1935.
7. Form S-3 Registration Statement Nos. 333-104449, 333-104449-01, and 333-104449-02 as filed with the Securities Exchange Commission on April 11, 2003 under the Securities Act of 1933.
8. Description of Underwriters.
9. Report of Expenses.

**E. Exhibits for $60,000,000 5.25% Series H Senior Notes:**

1. Underwriting Agreement dated July 10, 2003, between Gulf Power Company and Morgan Stanley & Co. Incorporated and Wachovia Capital Markets, LLC.
2. Eighth Supplemental Indenture, dated July 22, 2003, to the Note Indenture, between Gulf Power Company and JPMorgan Chase Bank, Trustee.
3. Prospectus supplement dated July 10, 2003 and prospectus dated April 25, 2003.
4. Opinion dated July 22, 2003 of Beggs & Lane, general counsel for the Company.
5. Opinion dated July 22, 2003 of Troutman Sanders LLP, counsel for the Company.
6. Statement on Form U-1 dated February 21, 2003, and amended on June 27, 2003 relating to among other things, Senior Notes, and Finance Statements made a part

thereof filed with Securities and Exchange Commission File No. 70-10117 under the Public Utility Holding Company Act of 1935.

SEE EXHIBIT D.6.

7. Form S-3 Registration Statement Nos. 333-104449, 333-104449-01, and 333-104449-02 as filed with the Securities Exchange Commission on April 11, 2003 under the Securities Act of 1933.

   SEE EXHIBIT D.7.

8. Description of Underwriters.
9. Report of Expenses.

**F. Exhibits for $40,000,000 5.75% Series I Senior Notes:**

1. Underwriting Agreement dated September 5, 2003, between Gulf Power Company and Morgan Stanley & Co. Incorporated.
2. Ninth Supplemental Indenture, dated September 16, 2003, to the Note Indenture, between Gulf Power Company and JPMorgan Chase Bank, Trustee.
3. Prospectus supplement dated September 5, 2003 and prospectus dated April 25, 2003.
4. Opinion dated September 16, 2003 of Beggs & Lane, general counsel for the Company.
5. Opinion dated September 16, 2003 of Troutman Sanders LLP, counsel for the Company.
6. Statement on Form U-1 dated February 21, 2003, and amended on June 27, 2003 relating to among other things, Senior Notes, and Finance Statements made a part thereof filed with Securities and Exchange Commission File No. 70-10117 under the Public Utility Holding Company Act of 1935.

   SEE EXHIBIT D.6.

7. Form S-3 Registration Statement Nos. 333-104449, 333-104449-01, and 333-104449-02 as filed with the Securities Exchange Commission on April 11, 2003 under the Securities Act of 1933.

   SEE EXHIBIT D.7.

8. Description of Underwriters.
9. Report of Expenses.

**G. Exhibits Common For all Issues:**

1. 10-K for the year ended December 31, 2003, filed with the Securities and Exchange Commission, File No. 0-2429. On page II-175 of the 10-K is shown the Pro Forma Capitalization and Pretax Interest Coverage Statements. On page II-179 of the 10-K is shown the debt interest and preferred stock dividend requirements.

Respectfully submitted,

Susan D. Ritenour

Susan D. Ritenour
Secretary and Treasurer

Dated March 26, 2004

$65,000,000 Series F 5.60% Senior Insured Quarterly Notes

due April 1, 2033

**GULF POWER COMPANY**

UNDERWRITING AGREEMENT

March 21, 2003

Edward D. Jones & Co., L.P.
Goldman, Sachs & Co.

c/o Edward D. Jones & Co., L.P.
12555 Manchester Road
St. Louis, Missouri 63131

Ladies and Gentlemen:

Gulf Power Company, a Maine corporation (the "Company"), confirms its agreement (the "Agreement") with you and each of the other Underwriters named in Schedule I hereto (collectively, the "Underwriters", which term shall also include any underwriter substituted as hereinafter provided in Section 10 hereof) with respect to the sale by the Company and the purchase by the Underwriters, acting severally and not jointly, of $65,000,000 aggregate principal amount of the Series F 5.60% Senior Insured Quarterly Notes due April 1, 2033 (the "Senior Notes") as set forth in Schedule I hereto.

The Company understands that the Underwriters propose to make a public offering of the Senior Notes as soon as the Underwriters deem advisable after this Agreement has been executed and delivered. The Senior Notes will be issued pursuant to an indenture, dated as of January 1, 1998 (the "Base Indenture"), by and between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), as heretofore supplemented and amended and as to be further supplemented and amended by a sixth supplemental indenture, dated as of March 26, 2003, to the Base Indenture relating to the Senior Notes (the "Supplemental Indenture" and, together with the Base Indenture and any other amendments or supplements thereto, the "Indenture"), between the Company and the Trustee.

SECTION 1. REPRESENTATIONS AND WARRANTIES. The Company represents and warrants to the Underwriters as follows:

(a) A registration statement on Form S-3, as amended (File Nos. 333-59942, 333-59942-01 and 333-59942-02), in respect of the Senior Notes and certain other

3989 MAR 29 PM
FPSC-COMMISSION CLERK

securities has been prepared and filed in accordance with the provisions of the Securities Act of 1933, as amended (the "1933 Act"), with the Securities and Exchange Commission (the "Commission"); such registration statement, as amended, and any post-effective amendment thereto, each in the form heretofore delivered or to be delivered to the Underwriters, has been declared effective by the Commission in such form (except that copies of the registration statement, as amended, and any post-effective amendment delivered to the Underwriters need not include exhibits but shall include all documents incorporated by reference therein); and no stop order suspending the effectiveness of such registration statement has been issued and no proceeding for that purpose has been initiated or, to the best knowledge of the Company, threatened by the Commission (any preliminary prospectus, as supplemented by a preliminary prospectus supplement, included in such registration statement or filed with the Commission pursuant to Rule 424(a) of the rules and regulations of the Commission under the 1933 Act, being hereinafter called a "Preliminary Prospectus"); such registration statement, as it became effective, including the exhibits thereto and all documents incorporated by reference therein pursuant to Item 12 of Form S-3 at the time such registration statement became effective, being hereinafter called the "Registration Statement"; the prospectus relating to the Senior Notes, in the form in which it was included in the Registration Statement at the time it became effective, being hereinafter called the "Prospectus"; any reference herein to any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the 1933 Act, as of the date of such Preliminary Prospectus or Prospectus, as the case may be; any reference to any amendment or supplement to any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include any documents filed after the date of such Preliminary Prospectus or Prospectus, as the case may be, under the Securities Exchange Act of 1934, as amended (the "1934 Act"), and incorporated by reference in such Preliminary Prospectus or Prospectus, as the case may be; any reference to any amendment to the Registration Statement shall be deemed to refer to and include any annual report of the Company filed pursuant to Section 13(a) or 15(d) of the 1934 Act after the effective date of the Registration Statement that is incorporated by reference in the Registration Statement; the Prospectus as supplemented by a preliminary prospectus supplement dated March 19, 2003 relating to the Senior Notes, including any documents incorporated by reference therein as of such date, being hereinafter called the "Preliminary Supplemented Prospectus"; and the Prospectus as amended or supplemented in final form by a prospectus supplement relating to the Senior Notes in the form in which it is filed with the Commission, pursuant to Rule 424(b) under the 1933 Act in accordance with Section 3(e) hereof, including any documents incorporated by reference therein as of the date of such filing, being hereinafter called the "Final Supplemented Prospectus".

(b) The documents incorporated by reference in the Registration Statement or Prospectus, when they were filed with the Commission, complied in all material respects with the applicable provisions of the 1934 Act and the rules and regulations of the Commission thereunder, and as of such time of filing, when

read together with the Prospectus, none of such documents contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and any further documents so filed and incorporated by reference in the Prospectus or any further amendment or supplement thereto, when such documents are filed with the Commission, will comply in all material respects with the applicable provisions of the 1934 Act and the rules and regulations of the Commission thereunder and, when read together with the Prospectus as it otherwise may be amended or supplemented, will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the Company makes no warranty or representation to the Underwriters with respect to: (A) any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by the Underwriters expressly for use in the Preliminary Supplemented Prospectus or the Final Supplemented Prospectus; or (B) any information set forth in the Preliminary Supplemented Prospectus or the Final Supplemented Prospectus under the captions "Description of the Series F Senior Notes — Book-Entry Only Issuance — The Depository Trust Company", "The Policy and the Insurer" and "Experts".

(c) The Registration Statement, the Prospectus, the Preliminary Supplemented Prospectus and the Final Supplemented Prospectus comply, and any further amendments or supplements to the Registration Statement or the Prospectus, when any such post-effective amendments are declared effective or supplements are filed with the Commission, as the case may be, will comply, in all material respects with the applicable provisions of the 1933 Act, the 1934 Act, the 1939 Act (hereinafter defined) and the General Rules and Regulations of the Commission thereunder and do not and will not, (i) as of the applicable effective date as to the Registration Statement and any amendment thereto, (ii) as of the filing date thereof as to the Preliminary Supplemented Prospectus and (iii) as of the applicable filing date as to the Final Supplemented Prospectus and any Prospectus as further amended or supplemented, contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in the case of the Registration Statement and any amendment thereto, and, in the light of the circumstances under which they were made, not misleading in the case of the Final Supplemented Prospectus and any Prospectus as further amended or supplemented; except that the Company makes no warranties or representations with respect to: (A) that part of the Registration Statement which shall constitute the Statements of Eligibility (Form T-1) under the Trust Indenture Act of 1939, as amended (the "1939 Act"); (B) statements or omissions made in the Registration Statement, the Preliminary Supplemented Prospectus or the Final Supplemented Prospectus in reliance upon and in conformity with information furnished in writing to the Company by the Underwriters expressly for use therein; or (C) any information set forth in the Preliminary Supplemented Prospectus or the Final Supplemented Prospectus

under the captions "Description of the Series F Senior Notes — Book-Entry Only Issuance — The Depository Trust Company", "The Policy and the Insurer" and "Experts".

(d) With respect to the Registration Statement, the conditions for use of Form S-3, as set forth in the General Instructions thereof, have been satisfied.

(e) Since the respective dates as of which information is given in the Registration Statement and the Final Supplemented Prospectus, except as otherwise stated therein, there has been no material adverse change in the business, properties or financial condition of the Company.

(f) The Company is a corporation duly organized and existing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi, and has due corporate authority to carry on the public utility business in which it is engaged and to own and operate the properties used by it in such business, to enter into and perform its obligations under this Agreement and the Indenture and to issue and sell the Senior Notes to the Underwriters.

(g) This Agreement has been duly authorized, executed and delivered by the Company.

(h) The Indenture has been duly authorized by the Company and, on the Closing Date, will have been duly executed and delivered by the Company, and, assuming due authorization, execution and delivery of the Indenture by the Trustee, the Indenture will, on the Closing Date, constitute a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms except to the extent that enforcement thereof may be limited by (1) bankruptcy, insolvency, reorganization, receivership, liquidation, fraudulent conveyance, moratorium or other similar laws affecting creditors' rights generally or (2) general principles of equity (regardless of whether enforcement is considered in a proceeding at law or in equity) (the "Enforceability Exceptions"); the Indenture will conform in all material respects to all statements relating thereto contained in the Final Supplemented Prospectus; and, on the Closing Date, the Indenture will have been duly qualified under the 1939 Act.

(i) The issuance and delivery of the Senior Notes have been duly authorized by the Company and, on the Closing Date, the Senior Notes will have been duly executed by the Company and, when authenticated in the manner provided for in the Indenture and delivered against payment therefor as described in the Final Supplemented Prospectus, will constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms, except to the extent that enforcement thereof may be limited by the Enforceability Exceptions, will be in the form contemplated by, and entitled to the benefits of, the Indenture and will conform in all material respects to all statements relating thereto in the Final Supplemented Prospectus.

(j) The execution, delivery and performance by the Company of this Agreement, the Indenture and the Senior Notes and the consummation by the Company of the transactions contemplated herein and therein and compliance by the Company with its obligations hereunder and thereunder shall have been duly authorized by all necessary corporate action on the part of the Company and do not and will not result in any violation of the charter or bylaws of the Company, and do not and will not conflict with, or result in a breach of any of the terms or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company under (A) any contract, indenture, mortgage, loan agreement, note, lease or other agreement or instrument to which the Company is a party or by which it may be bound or to which any of its properties may be subject (except for conflicts, breaches or defaults which would not, individually or in the aggregate, be materially adverse to the Company or materially adverse to the transactions contemplated by this Agreement), or (B) any existing applicable law, rule, regulation, judgment, order or decree of any government, governmental instrumentality or court, domestic or foreign, or any regulatory body or administrative agency or other governmental body having jurisdiction over the Company, or any of its properties.

(k) The Company has duly authorized all necessary action to be taken by it for the procurement of an irrevocable financial guaranty insurance policy (the "Insurance Policy") issued by XL Capital Assurance Inc. (the "Insurer"), insuring the payment of principal and interest on the Senior Notes, when due.

(l) No authorization, approval, consent or order of any court or governmental authority or agency is necessary in connection with the issuance and sale by the Company of the Senior Notes or the transactions by the Company contemplated in this Agreement, except (A) such as may be required under the 1933 Act or the rules and regulations thereunder; (B) such as may be required under the Public Utility Holding Company Act of 1935, as amended; (C) the qualification of the Indenture under the 1939 Act; (D) the approval of the Florida Public Service Commission (the "Florida Commission"); and (E) such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or "blue sky" laws.

(m) The financial statements incorporated by reference in the Registration Statement, the Preliminary Supplemented Prospectus and the Final Supplemented Prospectus, together with the related schedules and notes, present fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of and for the dates indicated; said financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP") applied on a consistent basis (except that the unaudited financial statements may be subject to normal year-end adjustments) throughout the periods involved and necessarily include amounts that are based on the best estimates and judgments of management. The selected financial data and the summary financial information included in the Registration Statement, the

Preliminary Supplemented Prospectus and the Final Supplemented Prospectus present fairly the information shown therein and have been compiled on a basis consistent with that of the audited and unaudited financial statements incorporated by reference in the Registration Statement.

SECTION 2. SALE AND DELIVERY TO THE UNDERWRITERS; CLOSING.

(a) On the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company agrees to sell to each Underwriter, and each Underwriter, severally and not jointly, agrees to purchase from the Company, the principal amount of Senior Notes set forth in Schedule I to this Agreement opposite the name of such Underwriter (plus any additional amount of Senior Notes that such Underwriter may become obligated to purchase pursuant to the provisions of Section 10 hereof), at a price equal to 96.85% of the principal amount thereof.

(b) Payment for and delivery of certificates for the Senior Notes shall be made at the offices of Troutman Sanders LLP, Bank of America Plaza, 600 Peachtree Street, N.E., Atlanta, Georgia at 10:00 A.M., Atlanta time, on March 26, 2003 (unless postponed in accordance with the provisions of Section 10) or such other time, place or date as shall be agreed upon by Underwriters and the Company (such time and date of payment and delivery being herein called the "Closing Date"). Payment shall be made to the Company by wire transfer in federal funds at the Closing Date against delivery of the Senior Notes to the Underwriters.

The delivery of the Senior Notes shall be made in fully registered form, registered in the name of CEDE & CO., to the offices of The Depository Trust Company in New York, New York or its designee, and the Underwriters shall accept such delivery.

The certificate(s) for the Senior Notes will be made available for examination by the Underwriters not later than 12:00 Noon, New York time, on the last business day prior to the Closing Date.

SECTION 3. COVENANTS OF THE COMPANY. The Company covenants with the Underwriters as follows:

(a) The Company, on or prior to the Closing Date, will deliver to the Underwriters conformed copies of the Registration Statement as originally filed and of all amendments thereto, heretofore or hereafter made, including any post-effective amendment (in each case including all exhibits filed therewith, and including unsigned copies of each consent and certificate included therein or filed as an exhibit thereto, except exhibits incorporated by reference, unless specifically requested). As soon as the Company is advised thereof, it will advise the Underwriters orally of the issuance of any stop order under the 1933 Act with

respect to the Registration Statement, or the institution of any proceedings therefor, of which the Company shall have received notice, and will use its best efforts to prevent the issuance of any such stop order and to secure the prompt removal thereof, if issued. The Company will deliver to the Underwriters sufficient conformed copies of the Registration Statement, the Preliminary Supplemented Prospectus, the Prospectus and the Final Supplemented Prospectus and of all supplements and amendments thereto (in each case without exhibits) for distribution to the Underwriters and, from time to time, as many copies of the Preliminary Supplemented Prospectus, the Prospectus and the Final Supplemented Prospectus as the Underwriters may reasonably request for the purposes contemplated by the 1933 Act or the 1934 Act.

(b) The Company will furnish the Underwriters with copies of each amendment and supplement to the Preliminary Supplemented Prospectus and Final Supplemented Prospectus relating to the offering of the Senior Notes in such quantities as the Underwriters may from time to time reasonably request. If, during the period (not exceeding nine months) when the delivery of a prospectus shall be required by law in connection with the sale of any Senior Notes by an Underwriter, any event relating to or affecting the Company, or of which the Company shall be advised in writing by the Underwriters, shall occur, which in the opinion of the Company or of Underwriters' counsel should be set forth in a supplement to or an amendment of the Preliminary Supplemented Prospectus or the Final Supplemented Prospectus, as the case may be, in order to make the Preliminary Supplemented Prospectus or the Final Supplemented Prospectus not misleading in the light of the circumstances when it is delivered, or if for any other reason it shall be necessary during such period to amend or supplement the Preliminary Supplemented Prospectus or the Final Supplemented Prospectus or to file under the 1934 Act any document incorporated by reference in the Preliminary Prospectus or Prospectus in order to comply with the 1933 Act or the 1934 Act, the Company forthwith will (i) notify the Underwriters to suspend solicitation of purchases of the Senior Notes and (ii) at its expense, make any such filing or prepare and furnish to the Underwriters a reasonable number of copies of a supplement or supplements or an amendment or amendments to the Preliminary Supplemented Prospectus or the Final Supplemented Prospectus which will supplement or amend the Preliminary Supplemented Prospectus or the Final Supplemented Prospectus so that, as supplemented or amended, it will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances when the Preliminary Supplemented Prospectus or the Final Supplemented Prospectus is delivered, not misleading or which will effect any other necessary compliance. In case any Underwriter is required to deliver a prospectus in connection with the sale of any Senior Notes after the expiration of the period specified in the preceding sentence, the Company, upon the request of such Underwriter, will furnish to such Underwriter, at the expense of such Underwriter, a reasonable quantity of a supplemented or amended prospectus, or supplements or amendments to the Final Supplemented Prospectus, complying with Section 10(a) of the 1933 Act. During the period specified in the second sentence of this

subsection, the Company will continue to prepare and file with the Commission on a timely basis all documents or amendments required under the 1934 Act and the rules and regulations thereunder; provided, that the Company shall not file such documents or amendments without also furnishing copies thereof prior to such filing to the Underwriters and Dewey Ballantine LLP.

(c) The Company will endeavor, in cooperation with the Underwriters, to qualify the Senior Notes for offering and sale under the applicable securities laws of such states and the other jurisdictions of the United States as the Underwriters may designate; provided, however, that the Company shall not be obligated to qualify as a foreign corporation in any jurisdiction in which it is not so qualified or to file a consent to service of process or to file annual reports or to comply with any other requirements in connection with such qualification deemed by the Company to be unduly burdensome.

(d) The Company will make generally available to its security holders as soon as practicable but not later than 45 days after the close of the period covered thereby, an earnings statement of the Company (in form complying with the provisions of Rule 158 of the rules and regulations under the 1933 Act) covering a twelve-month period beginning not later than the first day of the Company's fiscal quarter next following the "effective date" (as defined in Rule 158) of the Registration Statement.

(e) As soon as practicable after the date of this Agreement, and in any event within the time prescribed by Rule 424 under the 1933 Act, to file the Final Supplemented Prospectus with the Commission and to advise the Underwriters of such filing and to confirm such advice in writing.

(f) During a period of 15 days from the date of this Agreement, the Company will not, without the Underwriters' prior written consent, directly or indirectly, sell, offer to sell, grant any option for the sale of, or otherwise dispose of, any Senior Notes or any security convertible into or exchangeable into or exercisable for the Senior Notes or any debt securities substantially similar to the Senior Notes (except for the Senior Notes issued pursuant to this Agreement). The Underwriters agree that commercial paper or other debt securities with scheduled maturities of less than one year are not subject to this Section 3(f).

SECTION 4. PAYMENT OF EXPENSES. The Company will pay all expenses incidental to the performance of its obligations under this Agreement, including but not limited to, the expenses of (i) the printing and filing of the Registration Statement as originally filed and of each amendment thereto, (ii) the preparation, issuance and delivery of the certificate(s) for the Senior Notes, (iii) the fees and disbursements of the Company's counsel and accountants, (iv) the qualification of the Senior Notes under securities laws in accordance with the provisions of Section 3(c) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Underwriters in connection therewith and in connection with the preparation of any blue sky survey (such fees and disbursements of counsel shall not exceed $3,500), (v) the printing and delivery

to the Underwriters of copies of the Registration Statement as originally filed and of each amendment thereto and of the Prospectus, the Preliminary Supplemented Prospectus, the Final Supplemented Prospectus, and any amendments or supplements thereto, (vi) the printing and delivery to the Underwriters of copies of any blue sky survey, (vii) the fee of the National Association of Securities Dealers, Inc. in connection with its review of the offering contemplated by this Agreement, if applicable, (viii) the fees and expenses of the Trustee, including the fees and disbursements of counsel for the Trustee in connection with the Indenture and the Senior Notes, (ix) any fees payable in connection with the rating of the Senior Notes, (x) the cost and charges of any transfer agent or registrar, (xi) the premium payable to the Insurer in connection with the issuance of the Insurance Policy, and (xii) the cost of qualifying the Senior Notes with The Depository Trust Company.

Except as otherwise provided in Section 9 hereof, the Underwriters shall pay all other expenses incurred by them in connection with their offering of the Senior Notes, including fees and disbursements of their counsel, Dewey Ballantine LLP.

SECTION 5. CONDITIONS OF UNDERWRITERS' OBLIGATIONS. The obligations of the Underwriters to purchase and pay for the Senior Notes are subject to the following conditions:

(a) No stop order suspending the effectiveness of the Registration Statement shall be in effect on the Closing Date and no proceedings for that purpose shall be pending before, or to the knowledge of the Company threatened by, the Commission on such date. If filing of the Preliminary Supplemented Prospectus or the Final Supplemented Prospectus, or any supplement thereto, is required pursuant to Rule 424, the Preliminary Supplemented Prospectus or the Final Supplemented Prospectus, and any such supplement, shall have been filed in the manner and within the time period required by Rule 424.

(b) Any required orders of the Florida Commission and the Commission permitting the transactions contemplated hereby substantially in accordance with the terms and conditions hereof shall be in full force and effect and shall contain no provision unacceptable to the Underwriters or the Company (but all provisions of such order or orders heretofore entered, copies of which have heretofore been delivered to the Underwriters, are deemed acceptable to the Underwriters and the Company and all provisions of such order or orders hereafter entered shall be deemed acceptable to the Underwriters and the Company unless within 24 hours after receiving a copy of any such order any party to this Agreement shall give notice to the other parties to the effect that such order contains an unacceptable provision).

(c) On the Closing Date, the Underwriters shall have received:

(1) The opinion, dated the Closing Date, of Beggs & Lane, a Registered Limited Liability Partnership, general counsel for the Company, substantially in the form attached hereto as Schedule II-A.

(2) The opinion, dated the Closing Date, of Troutman Sanders LLP, counsel for the Company, substantially in the form attached hereto as Schedule II-B.

(3) The opinion, dated the Closing Date, of Cravath, Swaine & Moore, counsel to the Trustee, substantially in the form attached hereto as Schedule III.

(4) The opinion, dated the Closing Date, of Dewey Ballantine LLP, counsel for the Underwriters, substantially in the form attached hereto as Schedule IV.

(5) The opinion, dated the Closing Date, of counsel for the Insurer, substantially in the form attached hereto as Schedule V.

(6) At the Closing Date, there shall not have been, since the date hereof or since the respective dates as of which information is given in the Registration Statement and the Final Supplemented Prospectus, any material adverse change in the business, properties or financial condition of the Company, whether or not arising in the ordinary course of business, and the Underwriters shall have received a certificate of the President or any Vice President of the Company, and dated as of the Closing Date, to the effect that (i) there has been no such material adverse change, (ii) the representations and warranties in Section 1 hereof are true and correct with the same force and effect as though expressly made at and as of the Closing Date, (iii) the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied on or prior to the Closing Date, and (iv) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been initiated or, to the knowledge of the Company, threatened by the Commission.

(7) On the Closing Date, the Underwriters shall have received from Deloitte & Touche LLP a letter dated the Closing Date to the effect that: (A) they are independent public accountants with respect to the Company within the meaning of the 1933 Act and the rules and regulations under the 1933 Act; (B) in their opinion, the financial statements audited by them and incorporated by reference in the Final Supplemented Prospectus comply as to form in all material respects with the applicable accounting requirements of the 1934 Act and the rules and regulations under the 1934 Act; (C) on the basis of certain limited procedures performed through a specified date not more than five business days prior to the date of such letter, namely (i) reading the minute books of the Company; (ii) performing the procedures specified by the American Institute of Certified Public Accountants for a review of interim financial information as described in Statement on Auditing Standards No. 71, "Interim Financial Information", on the unaudited financial statements, if any, of the Company incorporated in the Prospectus and of the latest available unaudited financial statements of the Company, if any, for any calendar quarter subsequent to the date of those incorporated in the Prospectus; and (iii) making inquiries of certain officials of the Company who have responsibility for financial and accounting matters regarding such unaudited financial statements or any specified unaudited amounts derived therefrom (it being understood that the foregoing procedures do not constitute an audit performed in accordance with generally accepted auditing standards and they would not necessarily reveal matters of significance with respect to the comments made in such letter, and accordingly that

Deloitte & Touche LLP make no representations as to the sufficiency of such procedures for the Underwriters' purposes), nothing came to their attention that caused them to believe that: (1) any material modifications should be made to the unaudited condensed financial statements, if any, incorporated in the Prospectus, for them to be in conformity with GAAP; (2) such unaudited condensed financial statements do not comply as to form in all material respects with the applicable accounting requirements of the 1934 Act as it applies to Form 10-Q and the related published rules and regulations thereunder; (3) the unaudited amounts for Operating Revenues, Earnings Before Income Taxes and Net Income After Dividends on Preferred Stock and the unaudited Ratio of Earnings to Fixed Charges set forth in the Prospectus do not agree with the amounts set forth in or derived from the unaudited financial statements for the same period; (4) as of a specified date not more than five business days prior to the date of delivery of such letter, there has been any change in the capital stock or long-term debt of the Company or any decrease in net assets as compared with amounts shown in the latest audited balance sheet incorporated in the Prospectus, except in each case for changes or decreases which (i) the Prospectus discloses have occurred or may occur, (ii) are occasioned by the declaration of dividends, (iii) are occasioned by draw-downs under existing pollution control financing arrangements, (iv) are occasioned by draw-downs and regularly scheduled payments of capitalized lease obligations, (v) are occasioned by the purchase or redemption of bonds or stock to satisfy mandatory or optional redemption provisions relating thereto, (vi) are occasioned by the reclassification of current maturities of long-term debt, or (vii) are disclosed in such letter; and (5) the unaudited amounts for Operating Revenues, Earnings Before Income Taxes and Net Income After Dividends on Preferred Stock and the unaudited Ratio of Earnings to Fixed Charges for any calendar quarter subsequent to those set forth in (3) above, which, if available, shall be set forth in such letter, do not agree with the amounts set forth in or derived from the unaudited financial statements for the same period or were not determined on a basis substantially consistent with that of the corresponding audited amounts or ratios included or incorporated by reference in the Prospectus.

(8) On the Closing Date, counsel for the Underwriters shall have been furnished with such documents and opinions as it may reasonably require for the purpose of enabling it to pass upon the issuance and sale of the Senior Notes as herein contemplated and related proceedings, or in order to evidence the accuracy of any of the representations or warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company in connection with the issuance and sale of the Senior Notes as herein contemplated shall be satisfactory in form and substance to the Underwriters and Dewey Ballantine LLP, counsel for the Underwriters.

(9) That no amendment or supplement to the Registration Statement, the Preliminary Supplemented Prospectus or the Final Supplemented Prospectus filed subsequent to the date of this Agreement (including any filing made by the Company pursuant to Section 13 or 14 of the 1934 Act) shall be unsatisfactory in form to Dewey Ballantine LLP or shall contain information (other than with respect to an amendment or supplement relating solely to the activity of the Underwriters) which, in the reasonable judgment of the Underwriters, shall materially impair the marketability of the Senior Notes.

(10) The Company shall have performed its obligations when and as provided under this Agreement.

(11) Evidence that the Insurance Policy has been issued by the Insurer and confirmation that the Senior Notes have been rated at least "Aaa" by Moody's Investors Services, Inc. and at least "AAA" by Standard and Poor's Corporation, a division of the McGraw-Hill Companies.

If any condition specified in this Section shall not have been fulfilled when and as required to be fulfilled, this Agreement may be terminated by the Underwriters by notice to the Company at any time prior to the Closing Date, and such termination shall be without liability of any party to any other party except as provided in Sections 4, 7 and 9(b) hereof.

SECTION 6. CONDITIONS OF THE OBLIGATIONS OF THE COMPANY.

The obligations of the Company shall be subject to the conditions set forth in the first sentence of Section 5(a) and in Section 5(b). In case such conditions shall not have been fulfilled, this Agreement may be terminated by the Company by mailing or delivering written notice thereof to the Underwriters. Any such termination shall be without liability of any party to any other party except as otherwise provided in Sections 4, 7 and 9(b) hereof.

SECTION 7. INDEMNIFICATION.

(a) The Company agrees to indemnify and hold harmless each of the Underwriters and each person, if any, who controls any such Underwriter within the meaning of Section 15 of the 1933 Act or Section 20(a) of the 1934 Act, against any and all losses, claims, damages or liabilities, joint or several, to which they or any of them may become subject under the 1933 Act, 1934 Act or otherwise, and to reimburse any such Underwriter and such controlling person or persons, if any, for any legal or other expenses incurred by them in connection with defending any actions, insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement, the Preliminary Supplemented Prospectus, the Prospectus or the Final Supplemented Prospectus or, if the Company shall furnish to the Underwriters any amendments or any supplements thereto, or shall make any filings pursuant to Section 13 or 14 of the 1934 Act which are incorporated therein by reference, in any Preliminary Prospectus, the Registration Statement, the Prospectus, the Preliminary Supplemented Prospectus or the Final Supplemented Prospectus as so amended or supplemented, or arise out of or are based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon any such untrue statement or alleged untrue statement or omission or alleged omission which was made in such Registration Statement, Preliminary Prospectus, Prospectus, Preliminary Supplemented Prospectus or

Final Supplemented Prospectus in reliance upon and in conformity with information furnished in writing to the Company by any Underwriter for use therein and except that this indemnity with respect to the Preliminary Prospectus, the Prospectus, the Preliminary Supplemented Prospectus or the Final Supplemented Prospectus, if the Company shall have furnished any amendment or supplement thereto, shall not inure to the benefit of any Underwriter (or of any person controlling such Underwriter) on account of any losses, claims, damages, liabilities or actions arising from the sale of the Senior Notes to any person if a copy of the Preliminary Prospectus, the Prospectus, the Preliminary Supplemented Prospectus or the Final Supplemented Prospectus (exclusive of documents incorporated therein by reference pursuant to Item 12 of Form S-3), as the same may then be amended or supplemented, shall not have been sent or given by or on behalf of such Underwriter to such person with or prior to the written confirmation of the sale involved and the untrue statement or alleged untrue statement or omission or alleged omission was corrected in the Preliminary Prospectus, the Prospectus, the Preliminary Supplemented Prospectus or the Final Supplemented Prospectus as supplemented or amended at the time of such confirmation. Each Underwriter agrees, within ten days after the receipt by it of notice of the commencement of any action in respect of which indemnity may be sought by it, or by any person controlling it, from the Company on account of its agreement contained in this Section 7, to notify the Company in writing of the commencement thereof but the omission of such Underwriter so to notify the Company of any such action shall not release the Company from any liability which it may have to such Underwriter or to such controlling person otherwise than on account of the indemnity agreement contained in this Section 7. In case any such action shall be brought against an Underwriter or any such person controlling such Underwriter and such Underwriter shall notify the Company of the commencement thereof as above provided, the Company shall be entitled to participate in (and, to the extent that it shall wish, including the selection of counsel, to direct) the defense thereof, at its own expense. In case the Company elects to direct such defense and select such counsel, any Underwriter or controlling person shall have the right to employ its own counsel, but, in any such case, the fees and expenses of such counsel shall be at the expense of such Underwriter or such controlling person unless the employment of such counsel has been authorized in writing by the Company in connection with defending such action. No indemnifying party shall, without the written consent of the indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification may be sought hereunder (whether or not the indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability arising out of such action or claim and (ii) does not include any statement as to, or an admission of, fault, culpability or a failure to act, by or on behalf of any indemnified party. In no event shall any indemnifying party have any liability or responsibility in respect of the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim effected without its prior written consent.

(b) Each Underwriter agrees severally and not jointly, to indemnify and hold harmless the Company, its directors and such of its officers who have signed the Registration Statement and each person, if any, who controls the Company within the

meaning of Section 15 of the 1933 Act or Section 20(a) of the 1934 Act to the same extent and upon the same terms as the indemnity agreement of the Company set forth in Section 7(a) hereof, but only with respect to alleged untrue statements or omissions made in the Registration Statement, the Preliminary Prospectus, the Prospectus or the Final Supplemented Prospectus, or such documents as amended or supplemented, in reliance upon and in conformity with information furnished in writing to the Company by such Underwriter for use therein.

SECTION 8. REPRESENTATIONS, WARRANTIES AND AGREEMENTS TO SURVIVE DELIVERY.

All representations, warranties and agreements contained in this Agreement, or contained in certificates of officers of the Company submitted pursuant hereto, shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of any Underwriter or controlling person, or by, or on behalf of the Company and shall survive delivery of the Senior Notes to the Underwriters.

SECTION 9. TERMINATION OF AGREEMENT.

(a) The Underwriters may terminate this Agreement, by notice to the Company, at any time at or prior to the Closing Date if (i) trading in securities on the New York Stock Exchange shall have been generally suspended or there shall have been a material disruption in settlement in securities generally, (ii) minimum or maximum ranges for prices shall have been generally established on the New York Stock Exchange by the Commission or by the New York Stock Exchange, (iii) a general banking moratorium shall have been declared by federal or New York State authorities, or (iv) there shall have occurred any outbreak or escalation of major hostilities in which the United States is involved, any declaration of war by the United States Congress or any other substantial national or international calamity, crisis or emergency (including, without limitation, acts of terrorism) affecting the United States, in any such case provided for in clauses (i) through (iv) with the result that, in the reasonable judgment of the Underwriters, the marketability of the Senior Notes shall have been materially impaired.

(b) If this Agreement shall be terminated by the Underwriters pursuant to subsection (a) above or because of any failure or refusal on the part of the Company to comply with the terms or to fulfill any of the conditions of this Agreement, or if for any reason the Company shall be unable to perform its obligations under this Agreement, then in any such case, the Company will reimburse the Underwriters for the reasonable fees and disbursements of Dewey Ballantine LLP and for the out of pocket expenses (in an amount not exceeding $10,000) reasonably incurred by the Underwriters in making preparations for the purchase, sale and delivery of the Senior Notes and, upon such reimbursement, the Company shall be absolved from any further liability hereunder, except as provided in Sections 4 and 7.

SECTION 10. DEFAULT BY AN UNDERWRITER.

If an Underwriter shall fail on the Closing Date to purchase the Senior Notes that it is obligated to purchase under this Agreement (the "Defaulted Securities"), the Underwriters shall have the right, within 24 hours thereafter, to make arrangements for the non-defaulting Underwriters, or any other underwriters, to purchase all, but not less than all, of the Defaulted Securities in such amounts as may be agreed upon and upon the terms herein set forth. If, however, the Underwriters shall not have completed such arrangements within such 24-hour period, then:

(a) if the principal amount of Defaulted Securities does not exceed 10% of the Senior Notes, the non-defaulting Underwriters shall be obligated, severally and not jointly, to purchase the full amount thereof in the proportions that their respective underwriting obligations hereunder bear to the underwriting obligations of all non-defaulting Underwriters, or

(b) if the principal amount of Defaulted Securities exceeds 10% of the Senior Notes, this Agreement shall terminate without liability on the part of any non-defaulting Underwriter.

No action taken pursuant to this Section shall relieve any defaulting Underwriter from liability in respect of its default.

In the event of any such default which does not result in a termination of this Agreement, either the Underwriters or the Company shall have the right to postpone the Closing Date for a period not exceeding seven days in order to effect any required changes in the Registration Statement or Final Supplemented Prospectus or in any other documents or arrangements.

SECTION 11. NOTICES. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted by any standard form of telecommunication. Notices to the Underwriters shall be directed to the Underwriters at Edward D. Jones & Co., L.P., 12555 Manchester Road, St. Louis Missouri 63131, Attention: Legal Department and Goldman, Sachs & Co., 85 Broad Street, New York, New York, 10004, Attention: Credit Capital Markets; notices to the Company shall be mailed to One Energy Place, Pensacola, Florida, 32520-0100, Attention: Corporate Secretary, with a copy to Southern Company Services, Inc., 270 Peachtree Street, N.W., Atlanta, Georgia 30303, Attention: Earl C. Long.

SECTION 12. PARTIES. This Agreement shall inure to the benefit of and be binding upon the Underwriters, the Company and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the Underwriters and the Company and their respective successors and the controlling persons and officers and directors referred to in Section 7 and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the Underwriters and the Company and their respective

successors, and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation. No purchaser of Senior Notes from the Underwriters shall be deemed to be a successor by reason merely of such purchase.

SECTION 13. GOVERNING LAW AND TIME. This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed in said State. Except as otherwise set forth herein, specified times of day refer to New York City time.

SECTION 14. COUNTERPARTS. This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such respective counterparts shall together constitute one and the same instrument.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the Underwriters and the Company in accordance with its terms.

Very truly yours,

GULF POWER COMPANY

By: _____
Title: Vice President, Secretary and Treasurer

CONFIRMED AND ACCEPTED,
as of the date first above written

EDWARD D. JONES & CO., L.P.
GOLDMAN, SACHS & CO.

Edward D. Jones & Co., L.P.

By: _____
Title:

By: _____
(Goldman, Sachs & Co.)

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the Underwriters and the Company in accordance with its terms.

Very truly yours,

GULF POWER COMPANY

By: _____
Title:

CONFIRMED AND ACCEPTED,
as of the date first above written

EDWARD D. JONES & CO., L.P.
GOLDMAN, SACHS & CO.

Edward D. Jones & Co., L.P.

By: _____
Title: Principal

By: _____
(Goldman, Sachs & Co.)

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the Underwriters and the Company in accordance with its terms.

Very truly yours,

GULF POWER COMPANY

By: _____
Title:

CONFIRMED AND ACCEPTED,
as of the date first above written

EDWARD D. JONES & CO., L.P.
GOLDMAN, SACHS & CO.

Edward D. Jones & Co., L.P.

By: _____
Title:

By: Goldman, Sachs & Co.
(Goldman, Sachs & Co.)

## SCHEDULE I

| NAME OF UNDERWRITER | Principal Amount of Series F Senior Notes |
|---|---|
| Edward D. Jones & Co., L.P. | $61,750,000 |
| Goldman, Sachs & Co. | $ 3,250,000 |
| TOTAL | $65,000,000 |

Schedule II-A

[Letterhead of BEGGS & LANE]

March __, 2003

Edward D. Jones & Co., L.P.
Goldman, Sachs & Co.

c/o Edward D. Jones & Co., L.P.
12555 Manchester Road
St. Louis, Missouri 63131

GULF POWER COMPANY
Series F 5.60% Senior Insured Quarterly Notes due April 1, 2033

Ladies and Gentlemen:

We have acted as general counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance and sale of $65,000,000 aggregate principal amount of its Series F 5.60% Senior Insured Quarterly Notes due April 1, 2033 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, by and between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Sixth Supplemental Indenture dated as of March 26, 2003 (collectively, the "Indenture"); and (ii) the purchase by you of the Notes pursuant to the terms of an Underwriting Agreement dated March 21, 2003 (the "Underwriting Agreement"). This opinion is being delivered to you pursuant to Section 5(c)(1) thereof.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (File Nos. 333-59942, 333-59942-01 and 333-59942-02) pertaining to the Notes (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act"), and the prospectus dated June 1, 2001 as supplemented by a final prospectus supplement relating to the Notes dated March 21, 2003 (the "Final Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002 (the "Form 10-K") and the Current Report on Form 8-K of the Company dated _____ (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to collectively as the "Agreements".

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Georgia law and the federal law of the United States upon the opinion dated the date hereof rendered to you by Troutman Sanders LLP, and relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP, that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi, and has due corporate authority to carry on the public utility business in which it is engaged, and to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations thereunder may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such

enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by you pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP and with your counsel. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Registration Statement, as of its effective date, and the Final Supplemented Prospectus, as of March 21, 2003, complied as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of the date of filing of the Form 10-K (including the Exchange Act Documents on file with the Commission as of such date), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contained, as of its date, or contains, on the date hereof, any untrue statement

of a material fact or omitted, as of its date, or omits, on the date hereof, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the captions "Description of the Series F Senior Notes — Book-Entry Only Issuance — The Depository Trust Company" and "The Policy and the Insurer" or in Appendix A thereto.

We are members of the Florida Bar and we do not express any opinion herein concerning any law other than the law of the States of Maine, Florida and Mississippi and, to the extent set forth herein, the laws of the States of Georgia and New York and the federal law of the United States.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent, except that Troutman Sanders LLP and Dewey Ballantine LLP may rely on this opinion in giving their opinions pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinions relates to matters of Maine, Florida and Mississippi law.

Yours very truly,

BEGGS & LANE

Schedule II-B

[Letterhead of TROUTMAN SANDERS LLP]

March __, 2003

Edward D. Jones & Co., L.P.
Goldman, Sachs & Co.

c/o Edward D. Jones & Co., L.P.
12555 Manchester Road
St. Louis, Missouri 63131

GULF POWER COMPANY
Series F 5.60% Senior Insured Quarterly Notes due April 1, 2033

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance of $65,000,000 aggregate principal amount of its Series F 5.60% Senior Insured Quarterly Notes due April 1, 2033 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, by and between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Sixth Supplemental Indenture dated as of March 26, 2003 (collectively, the "Indenture"); and (ii) the purchase by you of the Notes pursuant to the terms of an Underwriting Agreement dated March 21, 2003 among the Company and you (the "Underwriting Agreement"). This opinion is being delivered to you pursuant to Section 5(c)(2) thereof.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (File Nos. 333-59942, 333-59942-01 and 333-59942-02) pertaining to the Notes (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act"), and the prospectus dated June 1, 2001 as supplemented by a final prospectus supplement dated March 21, 2003 (the "Final Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002 (the "Form

10-K") and the Current Report on Form 8-K of the Company dated _____ (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, other than those of the Company, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to collectively as the "Agreements".

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Maine, Florida and Mississippi law upon the opinion dated the date hereof rendered to you by Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane"), and relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP, that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi, and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations thereunder may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by you pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP and with your counsel. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Registration Statement, as of its effective date, and the Final Supplemented Prospectus, as of March 21, 2003, complied as to form in all material respects with the relevant requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the relevant requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented

Prospectus or the Exchange Act Documents, and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of the date of filing of the Form 10-K (including the Exchange Act Documents on file with the Commission as of such date), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contained, as of its date, or contains, on the date hereof, any untrue statement of a material fact or omitted, as of its date, or omits, on the date hereof, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the captions "Description of the Series F Senior Notes — Book-Entry Only Issuance — The Depository Trust Company" and "The Policy and the Insurer" or in Appendix A thereto.

We are members of the State Bar of Georgia and we do not express any opinion herein concerning any law other than the law of the State of Georgia and the federal law of the United States and, to the extent set forth herein, the laws of the States of Maine, Florida, Mississippi and New York.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent, except that Beggs & Lane may rely on this opinion in giving its opinion pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinion relates to matters of Georgia law and the federal law of the United States and Dewey Ballantine LLP may rely on this opinion in giving its opinion pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinion relates to matters of Georgia law.

Yours very truly,

TROUTMAN SANDERS LLP

Schedule III

[Letterhead of Cravath, Swaine & Moore]

March __, 2003

Edward D. Jones & Co., L.P.
Goldman, Sachs & Co.

c/o Edward D. Jones & Co., L.P.
12555 Manchester Road
St. Louis, Missouri 63131

Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32520

XL Capital Assurance Inc.
1221 Avenue of the Americas, 31st Floor
New York, NY 10020-1001

Gulf Power Company
Series F 5.60% Senior Insured Quarterly Notes
due April 1, 2033

Ladies and Gentlemen:

We have acted as counsel to JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank) (the "Bank") in connection with (a) the Senior Note Indenture, dated as of January 1, 1998 as heretofore supplemented (the "Original Indenture"), between Gulf Power Company (the "Company") and the Bank, as Trustee, and (b) the Sixth Supplemental Indenture dated as of March 26, 2003 (together with the Original Indenture, herein called the "Indenture"), between the Company and the Bank, as Trustee.

In that connection, we have examined originals, or copies certified or otherwise identified to our satisfaction, of such documents, records and other instruments as we have deemed necessary or appropriate for the purpose of this opinion, including copies of the Indenture and certain resolutions adopted by the Board of Directors of the Bank.

Based upon the foregoing, we are of the opinion that:

(i) the Bank has been duly incorporated and is validly existing as a banking corporation in good standing under the laws of the State of New York;

(ii) the Bank has the corporate trust power and authority to execute, deliver and perform its duties under the Indenture, has duly executed and delivered the Indenture, and, insofar as the laws governing the trust powers of the Bank are concerned and assuming due authorization, execution and delivery thereof by the Company, the Indenture constitutes a legal, valid and binding agreement of the Bank, enforceable against the Bank in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity (including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing), regardless of whether considered in a proceeding in equity or at law;

(iii) the execution, delivery and performance by the Bank of the Indenture do not conflict with or constitute a breach of the charter or bylaws of the Bank; and

(iv) no approval, authorization or other action by, or filing with, any governmental authority of the United States of America or the State of New York having jurisdiction over the trust powers of the Bank is required in connection with the execution and delivery by the Bank of the Indenture or the performance by the Bank of its duties thereunder, except such as have been obtained, taken or made.

We are admitted to practice only in the State of New York, and we express no opinion as to matters governed by any laws other than the laws of the State of New York and the Federal law of the United States of America. We are furnishing this opinion to you solely for your benefit. This opinion is not to be relied upon by any other person or used, circulated, quoted or otherwise referred to for any other purpose.

Very truly yours,

CRAVATH, SWAINE & MOORE

Schedule IV

[Letterhead of DEWEY BALLANTINE LLP]

March__, 2003

Edward D. Jones & Co., L.P.
Goldman, Sachs & Co.

c/o Edward D. Jones & Co., L.P.
12555 Manchester Road
St. Louis, Missouri 63131

GULF POWER COMPANY
Series F 5.60% Senior Insured Quarterly Notes
due April 1, 2033

Ladies and Gentlemen:

We have represented you in connection with (i) the issuance by Gulf Power Company (the "Company") of $65,000,000 of its Series F 5.60% Senior Insured Quarterly Notes due April 1, 2033 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, by and between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Sixth Supplemental Indenture dated as of March 26, 2003 (collectively, the "Indenture"); and (ii) the purchase by you of the Notes pursuant to the terms of an Underwriting Agreement dated March 21, 2003, among the Company and you (the "Underwriting Agreement"). This opinion is being delivered to you pursuant to Section 5(c)(3) thereof.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (File Nos. 333-59942, 333-59942-01 and 333-59942-02) pertaining to the Notes (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act"), and the prospectus dated June 1, 2001 as supplemented

by a final prospectus supplement dated March 21, 2003 (the "Final Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002 (the "Form 10-K") and the Current Report on Form 8-K of the Company dated _____ (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to as the "Agreements".

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as aforesaid and as to all matters covered hereby which are governed by or dependent upon the laws of the States of Maine, Florida and Mississippi upon the opinion of Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane"), dated the date hereof and addressed to you and as to all matters covered hereby which are governed by or dependent upon the law of the State of Georgia upon the opinion of Troutman Sanders LLP dated the date hereof and addressed to you, that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi, and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents, or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as

to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by you pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with representatives of Deloitte & Touche LLP and with counsel to the Company. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement and the Final Supplemented Prospectus and our participation in the conferences referred to above, (i) we are of the opinion that the Registration Statement, as of its effective date, and the Final Supplemented Prospectus, as of March 21, 2003, complied as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the relevant requirements of the Exchange Act and the applicable rules and regulations of the

Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of the date of filing of the Form 10-K (including the Exchange Act Documents on file with the Commission as of such date), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contained, as of its date, or contains, on the date hereof, any untrue statement of a material fact or omitted, as of its date, or omits, on the date hereof, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the captions "Description of the Series F Senior Notes —Book-Entry Only Issuance —The Depository Trust Company" and "The Policy and the Insurer" or in Appendix A thereto.

We are members of the State Bar of New York and we do not express any opinion herein concerning any law other than the law of the State of New York and the federal law of the United States, and to the extent set forth herein, the law of the States of Maine, Florida, Georgia and Mississippi.

This opinion is rendered solely to you in connection with the above matter. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent except that Beggs & Lane and Troutman Sanders LLP may rely on this opinion in giving their opinions pursuant to Section 5(c) of the Underwriting Agreement, insofar as such opinions relate to matters of New York law, and Troutman Sanders LLP may rely on this opinion in giving its opinion pursuant to Sections 102, 302 and 904 of the Indenture, insofar as such opinion relates to matters of New York law.

Very truly yours,

DEWEY BALLANTINE LLP

Schedule V

[Letterhead of XL CAPITAL ASSURANCE INC.]

March __, 2003

To Each of the Addressees Listed
on the Attached Schedule A

GULF POWER COMPANY
Series F 5.60% Senior Insured Quarterly Notes
due April 1, 2033

Ladies and Gentlemen:

I am [Associate] General Counsel of XL Capital Assurance Inc., a New York stock insurance corporation (the "Corporation"), and have acted as counsel to the Corporation in connection with the issuance of Financial Guaranty Insurance Policy No. [ ] (the "Policy") relating to the above-captioned notes (the "Notes").

In so acting, I have examined a copy of (a) the Policy, (b) the Insurance and Indemnity Agreement, dated as of [ ] (the "Insurance Agreement"), among [ ], (c) the Indemnification Agreement, dated as of [ ] (the "Indemnification Agreement"), among [ ], (d) information under the heading "The Policy and the Insurer" contained in the Prospectus of Gulf Power Company dated June 1, 2001, as supplemented by a Prospectus Supplement dated March__, 2003 relating to the Notes (the "Final Supplemented Prospectus") and (e) such other relevant documents as I have deemed necessary.

Based upon the foregoing, I am of the following opinion:

1. The Corporation is a stock insurance corporation, duly incorporated and validly existing under the laws of the State of New York and is licensed and authorized to issue the Policy and to perform its obligations under the Policy under the laws of the State of New York.

2. The Policy, the Insurance Agreement and the Indemnification Agreement (collectively, the "Insurance Documents") have been duly executed, and

the Policy, and assuming due authorization, execution and delivery of the Insurance Agreement and the Indemnification Agreement by the parties thereto (other than the Corporation), the Insurance Agreement and the Indemnification Agreement are valid and binding obligations of the Corporation enforceable in accordance with their terms except that the enforcement of the Insurance Documents may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium, receivership and other similar laws affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and the enforceability of rights to indemnification under the Insurance Agreement and the Indemnification Agreement may be subject to limitations of public policy under applicable securities laws.

3. The execution, delivery and performance by the Corporation of its obligations under the Insurance Documents do not contravene any provision of the charter or by-laws of the Corporation. The execution, delivery and performance by the Corporation of its obligations under the Insurance Documents do not, to the extent that either of the following would affect the validity or enforceability of any of the Insurance Documents, (a) contravene any law or government regulation or order presently binding on the Corporation or (b) contravene any provision of or constitute a default under any indenture, contract or other instrument to which the Corporation is a party or by which the Corporation is bound.

4. The Policy is exempt from the registration requirements of the Securities Act of 1933, as amended (the "Act").

5. The information in the Final Supplemented Prospectus under the heading "The Policy and the Insurer" is limited and does not purport to provide the scope of disclosure required to be included in a prospectus with respect to a registrant under the Act in connection with a public offering and sale of securities of such registrant. Within such limited scope of disclosure, however, there has not come to my attention any information that would cause me to believe that the description of the Corporation referred to above, as of the date of the Final Supplemented Prospectus and as of the date hereof, contained or contains any untrue statement of a material fact or omitted, as of its date, or omits, on the date hereof, to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (except that no opinion is rendered with respect to any financial statements or other financial information contained or referred to therein).

I am qualified to practice law in the State of New York and do not purport to be an expert on, or to express any opinion concerning, any law other than the laws of the State of New York and the federal laws of the United States of America.

This opinion is being delivered to you in connection with the issuance of the Policy and the execution of the other Insurance Documents and may not be relied upon for any other purposes or by any other person without my express written consent.

Very truly yours,

[Fred Hnat]
[Susan Comparato]
[Mary Jane Constant]
[Associate] General Counsel

Schedule A

**GULF POWER COMPANY**

**TO**

**JPMORGAN CHASE BANK,**
**TRUSTEE**

# SIXTH SUPPLEMENTAL INDENTURE

**DATED AS OF MARCH 26, 2003**

$65,000,000

SERIES F 5.60% SENIOR INSURED QUARTERLY NOTES

DUE APRIL 1, 2033

## TABLE OF CONTENTS[1]

PAGE

ARTICLE 1

**Series F Senior Notes** ..... 1
SECTION 101. Establishment ..... 1
SECTION 102. Definitions ..... 2
SECTION 103. Payment of Principal and Interest ..... 2
SECTION 104. Denominations ..... 3
SECTION 105. Global Securities ..... 3
SECTION 106. Transfer ..... 4
SECTION 107. Redemption ..... 4
SECTION 108. Redemption Upon Death of a Beneficial Owner ..... 4

ARTICLE 2

**Special Insurance Provisions** ..... 7
SECTION 201. Supplemental Indentures ..... 7
SECTION 202. Events of Default and Remedies ..... 7
SECTION 203. Insurance Policy Payment Procedures ..... 8
SECTION 204. Application of Term "Outstanding" to Series F Notes ..... 9
SECTION 205. Insurer as Third Party Beneficiary ..... 9
SECTION 206. Concerning the Special Insurance Provisions ..... 9

ARTICLE 3

**Miscellaneous Provisions** ..... 9
SECTION 301. Recitals by Company ..... 9
SECTION 302. Ratification and Incorporation of Original Indenture ..... 10
SECTION 303. Executed in Counterparts ..... 10

[1]This Table of Contents does not constitute part of the Indenture or have any bearing upon the interpretation of any of its terms and provisions.

THIS SIXTH SUPPLEMENTAL INDENTURE is made as of the 26th day of March, 2003, by and between GULF POWER COMPANY, a Maine corporation, One Energy Place, Pensacola, Florida 32520-0100 (the "Company"), and JPMORGAN CHASE BANK, a New York banking corporation, 4 New York Plaza, New York, New York 10004 (the "Trustee").

WITNESSETH:

WHEREAS, the Company has heretofore entered into a Senior Note Indenture, dated as of January 1, 1998 (the "Original Indenture"), with JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as heretofore supplemented;

WHEREAS, the Original Indenture is incorporated herein by this reference and the Original Indenture, as heretofore supplemented and as further supplemented by this Sixth Supplemental Indenture, is herein called the "Indenture";

WHEREAS, under the Original Indenture, a new series of Senior Notes may at any time be established pursuant to a supplemental indenture executed by the Company and the Trustee;

WHEREAS, the Company proposes to create under the Indenture a new series of Senior Notes;

WHEREAS, additional Senior Notes of other series hereafter established, except as may be limited in the Original Indenture as at the time supplemented and modified, may be issued from time to time pursuant to the Indenture as at the time supplemented and modified; and

WHEREAS, all conditions necessary to authorize the execution and delivery of this Sixth Supplemental Indenture and to make it a valid and binding obligation of the Company have been done or performed.

NOW, THEREFORE, in consideration of the agreements and obligations set forth herein and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

## ARTICLE 1

### Series F Senior Notes

SECTION 101. Establishment. There is hereby established a new series of Senior Notes to be issued under the Indenture, to be designated as the Company's Series F 5.60% Senior Insured Quarterly Notes due April 1, 2033 (the "Series F Notes").

There are to be authenticated and delivered $65,000,000 principal amount of Series F Notes, and such principal amount of the Series F Notes need not be issued at the same time and such series may be reopened at any time, without the consent of the Holders thereof, for issuance of additional Series F Notes. Any such additional Series F Notes will have the same interest rate, maturity and

other terms, including the benefit of the Policy, as those initially issued. No Series F Notes shall be authenticated and delivered except as provided by Sections 203, 303, 304, 907 or 1107 of the Original Indenture. The Series F Notes shall be issued in definitive fully registered form.

The Series F Notes shall be issued in the form of one or more Global Securities in substantially the form set out in Exhibit A hereto. The Depositary with respect to the Series F Notes shall be The Depository Trust Company.

The form of the Trustee's Certificate of Authentication for the Series F Notes shall be in substantially the form set forth in Exhibit B hereto.

Each Series F Note shall be dated the date of authentication thereof and shall bear interest from the date of original issuance thereof or from the most recent Interest Payment Date to which interest has been paid or duly provided for.

SECTION 102. Definitions. The following defined terms used herein shall, unless the context otherwise requires, have the meanings specified below. Capitalized terms used herein for which no definition is provided herein shall have the meanings set forth in the Original Indenture.

"Insurer" means XL Capital Assurance Inc., a New York stock insurance corporation.

"Interest Payment Dates" means January 1, April 1, July 1 and October 1 of each year, commencing July 1, 2003.

"Original Issue Date" means March 26, 2003.

"Policy" means the financial guaranty insurance policy issued by the Insurer with respect to payments due for principal of and interest on the Series F Notes as provided in such policy.

"Regular Record Date" means, with respect to each Interest Payment Date, the close of business on the 15th calendar day preceding such Interest Payment Date (whether or not a Business Day).

"Stated Maturity" means April 1, 2033.

SECTION 103. Payment of Principal and Interest. The principal of the Series F Notes shall be due at Stated Maturity (unless earlier redeemed). The unpaid principal amount of the Series F Notes shall bear interest at the rate of 5.60% per annum until paid or duly provided for. Interest shall be paid quarterly in arrears on each Interest Payment Date to the Person in whose name the Series F Notes are registered on the Regular Record Date for such Interest Payment Date, *provided* that interest payable at the Stated Maturity of principal or on a Redemption Date as provided herein will be paid to the Person to whom principal is payable. Any such interest that is not so punctually paid or duly provided for will forthwith cease to be payable to the Holders on such Regular Record Date and may either be paid to the Person or Persons in whose name the Series F Notes are registered at the close of business on a Special Record Date for the payment of such defaulted interest to be fixed by the Trustee, notice whereof shall be given to Holders of the Series F Notes

not less than ten (10) days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange, if any, on which the Series F Notes shall be listed, and upon such notice as may be required by any such exchange, all as more fully provided in the Original Indenture.

Payments of interest on the Series F Notes will include interest accrued to but excluding the respective Interest Payment Dates. Interest payments for the Series F Notes shall be computed and paid on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on the Series F Notes is not a Business Day, then a payment of the interest payable on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay), with the same force and effect as if made on the date the payment was originally payable.

Payment of the principal and interest due at the Stated Maturity or earlier redemption of the Series F Notes shall be made upon surrender of the Series F Notes at the Corporate Trust Office of the Trustee. The principal of and interest on the Series F Notes shall be paid in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. Payments of interest (including interest on any Interest Payment Date) will be made, subject to such surrender where applicable, at the option of the Company, (i) by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register or (ii) by wire transfer or other electronic transfer at such place and to such account at a banking institution in the United States as may be designated in writing to the Trustee at least sixteen (16) days prior to the date for payment by the Person entitled thereto.

SECTION 104. Denominations. The Series F Notes may be issued in the denominations of $1,000, or any integral multiple thereof.

SECTION 105. Global Securities. The Series F Notes will be issued in the form of one or more Global Securities registered in the name of the Depositary (which shall be The Depository Trust Company) or its nominee. Except under the limited circumstances described below, Series F Notes represented by one or more Global Securities will not be exchangeable for, and will not otherwise be issuable as, Series F Notes in definitive form. The Global Securities described above may not be transferred except by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary or to a successor Depositary or its nominee.

Owners of beneficial interests in such a Global Security will not be considered the Holders thereof for any purpose under the Indenture, and no Global Security representing a Series F Note shall be exchangeable, except for another Global Security of like denomination and tenor to be registered in the name of the Depositary or its nominee or to a successor Depositary or its nominee. The rights of Holders of such Global Security shall be exercised only through the Depositary.

A Global Security shall be exchangeable for Series F Notes registered in the names of persons other than the Depositary or its nominee only if (i) the Depositary notifies the Company that it is unwilling or unable to continue as a Depositary for such Global Security and no successor Depositary shall have been appointed by the Company, or if at any time the Depositary ceases to be

a clearing agency registered under the Securities Exchange Act of 1934, as amended, at a time when the Depositary is required to be so registered to act as such Depositary and no successor Depositary shall have been appointed by the Company, in each case within 90 days after the Company receives such notice or becomes aware of such cessation, (ii) the Company in its sole discretion determines that such Global Security shall be so exchangeable, or (iii) there shall have occurred an Event of Default with respect to the Series F Notes. Any Global Security that is exchangeable pursuant to the preceding sentence shall be exchangeable for Series F Notes registered in such names as the Depositary shall direct.

SECTION 106. Transfer. No service charge will be made for any transfer or exchange of Series F Notes, but payment will be required of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith.

The Company shall not be required (a) to issue, transfer or exchange any Series F Notes except to the Insurer during a period beginning at the opening of business fifteen (15) days before the day of the mailing of a notice pursuant to Section 1104 of the Original Indenture identifying the serial numbers of the Series F Notes to be called for redemption, and ending at the close of business on the day of the mailing, or (b) to transfer or exchange any Series F Notes theretofore selected for redemption in whole or in part, except the unredeemed portion of any Series F Note redeemed in part.

SECTION 107. Redemption. The Series F Notes shall be subject to redemption at the option of the Company, in whole or in part, without premium or penalty, at any time or from time to time on or after April 1, 2008, at a Redemption Price equal to 100% of the principal amount to be redeemed plus accrued but unpaid interest to the Redemption Date.

In the event of redemption of the Series F Notes in part only, a new Series F Note or Notes for the unredeemed portion will be issued in the name or names of the Holders thereof upon the surrender thereof.

The Series F Notes will not have a sinking fund.

Notice of redemption shall be given as provided in Section 1104 of the Original Indenture.

Any redemption of less than all of the Series F Notes shall, with respect to the principal thereof, be divisible by $1,000.

SECTION 108. Redemption Upon Death of a Beneficial Owner. On or after April 1, 2008, unless the Series F Notes have been declared due and payable prior to the Stated Maturity by reason of an Event of Default, or have been previously redeemed or otherwise repaid, the Representative (as hereinafter defined) of a deceased Beneficial Owner (as hereinafter defined) of the Series F Notes has the right to request redemption prior to the Stated Maturity of all or part of his or her interest in such Series F Notes and the Company will redeem the same, subject to the limitations that the Company will not be obligated to redeem during any twelve-month period that ends on and includes each April 1 after April 1, 2008 (each such twelve-month period being hereinafter referred to as a "Subsequent Period") (i) on behalf of a deceased Beneficial Owner

any interest in the Series F Notes which exceeds $25,000 aggregate principal amount or (ii) interests in the Series F Notes exceeding $1,300,000 in aggregate principal amount for all Representatives requesting redemption upon the death of Beneficial Owners.

The Company may, at its option, redeem interests of any deceased Beneficial Owner in the Series F Notes in any Subsequent Period in excess of the $25,000 limitation. Any such redemption by the Company, to the extent that it exceeds the $25,000 limitation for any deceased Beneficial Owner, shall not be included in the computation of the $1,300,000 aggregate limitation for the Series F Notes for such Subsequent Period or for any succeeding Subsequent Period. The Company may, at its option, redeem interests of deceased Beneficial Owners in the Series F Notes, in any Subsequent Period in an aggregate principal amount exceeding the $1,300,000 aggregate limitation. Any such redemption by the Company, to the extent it exceeds the $1,300,000 aggregate limitation, shall not reduce the $1,300,000 aggregate limitation for any succeeding Subsequent Period. Upon any determination by the Company to redeem Series F Notes in excess of the $25,000 limitation or the $1,300,000 aggregate limitation, such Series F Notes shall be redeemed in the order of the receipt of Redemption Requests (as hereinafter defined) by the Trustee.

A request for redemption of an interest in the Series F Notes may be initiated by the personal representative or other person authorized to represent the estate of the deceased Beneficial Owner or from a surviving joint tenant(s) or tenant(s) by the entirety or the trustee of a trust (each, a "Representative"). A Representative may initiate a request for redemption at any time and in any principal amount, provided that the principal amount is in integral multiples of $1,000. The Representative shall deliver its request to the Participant (as hereinafter defined) through whom the deceased Beneficial Owner owned such interest, in form satisfactory to the Participant, together with evidence of the death of the Beneficial Owner, evidence of the authority of the Representative satisfactory to the Participant, any waivers, notices or certificates as may be required under applicable state or federal law and any other evidence of the right to such redemption as the Participant requires. The request shall specify the principal amount of the interest in the Series F Notes to be redeemed, which amount must be in integral multiples of $1,000. Subject to the rules and arrangements applicable to the Depositary, the Participant will then deliver to the Depositary a request for redemption substantially in the form attached to the Series F Notes as Annex A (a "Redemption Request"). The Depositary will, upon receipt of a Redemption Request, forward the same to the Trustee. The Trustee is required to maintain records with respect to Redemption Requests received by it, including the date of receipt, the name of the Participant filing the Redemption Request and the status of each Redemption Request with respect to the $25,000 limitation and the $1,300,000 aggregate limitation. The Trustee will promptly file with the Company each Redemption Request it receives, together with the information regarding the eligibility of the Redemption Request with respect to the $25,000 limitation and the $1,300,000 aggregate limitation. The Company, the Depositary and the Trustee (i) may conclusively assume, without independent investigation, that the statements contained in each Redemption Request are true and correct and (ii) shall have no responsibility (a) for reviewing any documents submitted to the Participant by the Representative or for determining whether the applicable decedent is in fact the Beneficial Owner of the interest in the Series F Notes to be redeemed or is in fact deceased and (b) for determining whether the

Representative is duly authorized to request redemption on behalf of the applicable Beneficial Owner.

On or after April 1, 2008 and subject to the $25,000 limitation and the $1,300,000 aggregate limitation, the Company will, after the death of any Beneficial Owner, redeem the interest of such Beneficial Owner in the Series F Notes within 60 days following receipt by the Company of a Redemption Request from the Trustee. If Redemption Requests exceed the aggregate principal amount of interests in Series F Notes required to be redeemed during any Subsequent Period, then such excess Redemption Requests will be applied, in the order received by the Trustee, to successive Subsequent Periods, regardless of the number of Subsequent Periods required to redeem such interests. The Company may, at any time, notify the Trustee that it will redeem, on a date not less than 30 nor more than 60 days after the date of such notice, all or any lesser amount of Series F Notes for which Redemption Requests have been received but which are not then eligible for redemption by reason of the $25,000 limitation or the $1,300,000 aggregate limitation. Such Series F Notes will be redeemed in the order of receipt of Redemption Requests by the Trustee.

The price to be paid by the Company for the Series F Notes to be redeemed pursuant to a Redemption Request is 100% of the principal amount thereof plus accrued and unpaid interest to the date of payment. Subject to arrangements with the Depositary, payment for interests in the Series F Notes to be redeemed shall be made to the Depositary upon presentation of the Series F Notes to the Trustee for redemption in the aggregate principal amount specified in the Redemption Requests submitted to the Trustee by the Depositary which are to be fulfilled in connection with such payment. The principal amount of any Series F Notes acquired or redeemed by the Company other than by redemption at the option of any Representative of a deceased Beneficial Owner pursuant to this Section 108 shall not be included in the computation of either the $25,000 limitation or the $1,300,000 aggregate limitation for any Subsequent Period.

For purposes of this section, a "Beneficial Owner" means the person who has the right to sell, transfer or otherwise dispose of an interest in a Series F Note and the right to receive the proceeds therefrom, as well as the interest and principal payable to the Holder thereof. In general, a determination of beneficial ownership in the Series F Notes will be subject to the rules, regulations and procedures governing the Depositary and institutions that have accounts with the Depositary or a nominee thereof ("Participants").

For purposes of this section, an interest in a Series F Note held in tenancy by the entirety, by joint tenancy or by tenants in common will be deemed to be held by a single Beneficial Owner, and the death of a tenant by the entirety, joint tenant or tenant in common will be deemed the death of a Beneficial Owner. The death of a person who, during his or her lifetime, was entitled to substantially all of the rights of a Beneficial Owner of an interest in the Series F Notes will be deemed the death of the Beneficial Owner, regardless of the recordation of such interest on the records of the Participant, if such rights can be established to the satisfaction of the Participant and the Company. Such interests shall be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Gifts to Minors Act or the Uniform Transfers to Minors Act, community property or other similar joint ownership arrangements, including

individual retirement accounts or Keogh H.R. 10 plans maintained solely by or for the decedent or by or for the decedent and any spouse, and trust and certain other arrangements where one person has substantially all of the rights of a Beneficial Owner during such person's lifetime.

In the case of a Redemption Request that is presented on behalf of a deceased Beneficial Owner and that has not been fulfilled at the time the Company gives notice of its election to redeem the Series F Notes pursuant to Section 107 hereof, the Series F Notes that are the subject of such pending Redemption Request shall not be eligible for redemption pursuant to the Company's option to redeem but shall remain subject to redemption pursuant to such Redemption Request.

Any Redemption Request may be withdrawn by the person(s) presenting such request upon delivery of a written request for such withdrawal given by the Participant on behalf of such person(s) to the Depositary and by the Depositary to the Trustee prior to the redemption payment by the Company.

During any time in which the Series F Notes are not represented by one or more Global Securities and are issued in definitive form (i) all references in this Section 108 to Participants and the Depositary, including the Depositary's governing rules, regulations and procedures will be deemed deleted, (ii) all determinations which under this Section 108 the Participants are required to make will be made by the Company (including, without limitation, determining whether the applicable decedent is in fact the Beneficial Owner of the interest in the Series F Notes to be redeemed or is in fact deceased and whether the Representative is duly authorized to request redemption on behalf of the applicable Beneficial Owner) and (iii) all Redemption Requests, to be effective, must (a) be delivered by the Representative to the Trustee, with a copy to the Company, (b) if required by the Trustee and the Company, be in the form of a Redemption Request (with appropriate changes mutually agreed to by the Trustee and the Company to reflect the fact that such Redemption Request is being executed by a Representative (including provision for signature guarantees)) and (c) in addition to all documents that are otherwise required to accompany a Redemption Request, shall be accompanied by the Series F Note that is the subject of such Redemption Request and, if applicable, a properly executed assignment or endorsement. If the record interest in the Series F Note is held by a nominee of the deceased Beneficial Owner, a certificate or letter from such nominee attesting to the deceased's ownership of a beneficial interest in the Series F Note must also be delivered.

## ARTICLE 2

### Special Insurance Provisions

SECTION 201. Supplemental Indentures. The consent of the Insurer shall be required with respect to any indenture or indentures supplemental to the Original Indenture requiring the consent of the Holders of the Series F Notes pursuant to Section 902 of the Original Indenture.

SECTION 202. Events of Default and Remedies. Subject to Section 107 of the Original Indenture and to the Trust Indenture Act, including, without limitation, Sections 316(a)(1) and

317(a) thereof, if an Event of Default occurs and is continuing, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Series F Notes or the Trustee for the benefit of the Holders of the Series F Notes under this Indenture, including, without limitation, (i) the right to accelerate the principal of the Series F Notes as provided in Section 502 of the Original Indenture, and (ii) the right to annul any such declaration of acceleration, and the Insurer shall also be entitled to approve any waiver of an Event of Default with respect to the Series F Notes, the obligation of the Trustee to comply with any such direction to be subject to compliance with the conditions set forth in Sections 512 and 603(e) of the Original Indenture (as if references in those Sections to Holders were references to the Insurer) and the protections provided to the Trustee by Section 601(c)(3) of the Original Indenture shall be applicable with respect to any direction from the Insurer given pursuant hereto (as if references in said Section to Holders were references to the Insurer).

SECTION 203. Insurance Policy Payment Procedures. (a) The Insurer will make payments of principal or interest due on the Series F Notes in accordance with the Policy on or before the first Business Day next following the date on which the Insurer shall have received notice of Nonpayment (as defined in the Policy) from the Trustee.

(b) In the event of Nonpayment and notification thereof to the Insurer, the Trustee shall make available to the Insurer the books kept by the Trustee for the registration and for the registration of transfer of Series F Notes as provided in the Indenture.

(c) The Trustee shall, at the time it provides notice to the Insurer pursuant to (a) above, notify Holders of Series F Notes entitled to receive the payment of principal or interest thereon from the Insurer (i) as to the fact of such entitlement, (ii) that the Insurer will remit to them all or a part of the interest payments next coming due upon proof of Holder entitlement to interest payments and delivery to the Insurer, in form satisfactory to the Insurer, of an appropriate assignment of the Holder's right to payment, (iii) that should they be entitled to receive full payment of principal from the Insurer, they must surrender their Series F Notes (along with an appropriate instrument of assignment in form satisfactory to the Insurer to permit ownership of such Series F Notes to be registered in the name of the Insurer) for payment to the Insurer, and not the Trustee or any paying agent, and (iv) that should they be entitled to receive partial payment of principal from the Insurer, they must surrender their Series F Notes for payment thereon first to the Trustee, who shall note on such Series F Notes the portion of the principal paid by the Trustee, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurer, to the Insurer, which will then pay the unpaid portion of principal.

(d) In the event that the Trustee has notice that any payment of principal of or interest on a Series F Note which has become due for payment (under the terms of the Policy) and which is made to a Holder by or on behalf of the Company has been deemed a preferential transfer and theretofore recovered from its Holder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time the Insurer is notified pursuant to (a) above, notify all Holders of the Series F Notes that in the event that any Holder's payment is so recovered, such Holder will be entitled to payment from the Insurer to the extent of such recovery if sufficient

funds are not otherwise available, and the Trustee shall furnish to the Insurer its records evidencing the payments of principal of and interest on the Series F Notes which have been made by the Trustee and subsequently recovered from Holders and the dates on which such payments were made.

(e) In addition to those rights granted the Insurer under the Indenture, the Insurer shall, to the extent it makes payment of principal of or interest on Series F Notes, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Insurer's rights as subrogee on the registration books of the Company maintained by the Trustee upon receipt from the Insurer of proof of the payment of interest thereon to the Holders of the Series F Notes, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Insurer's rights as subrogee on the registration books of the Company maintained by the Trustee upon surrender of the Series F Notes by the Holders thereof together with proof of the payment of principal thereof.

SECTION 204. Application of Term "Outstanding" to Series F Notes. In the event that the principal and/or interest due on the Series F Notes shall be paid by the Insurer pursuant to the Policy, the Series F Notes shall remain Outstanding for all purposes of the Indenture, not be considered defeased or otherwise satisfied and not be considered paid by the Company, and the assignment and pledge of the Indenture and all covenants, agreements and other obligations of the Company to the Holders of the Series F Notes shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such Holders to the extent of each such payment.

SECTION 205. Insurer as Third Party Beneficiary. To the extent that the Indenture confers upon or gives or grants to the Insurer any right, remedy or claim under or by reason of the Indenture, the Insurer is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.

SECTION 206. Concerning the Special Insurance Provisions. The provisions of this Article 2 shall apply notwithstanding anything in the Indenture to the contrary, but only so long as the Policy shall be in full force and effect and the Insurer is not in default thereunder.

## ARTICLE 3

### Miscellaneous Provisions

SECTION 301. Recitals by Company. The recitals in this Sixth Supplemental Indenture are made by the Company only and not by the Trustee, and all of the provisions contained in the Original Indenture in respect of the rights, privileges, immunities, powers and duties of the Trustee shall be applicable in respect of Series F Notes and of this Sixth Supplemental Indenture as fully and with like effect as if set forth herein in full.

SECTION 302. Ratification and Incorporation of Original Indenture. As heretofore supplemented and as supplemented hereby, the Original Indenture is in all respects ratified and confirmed, and the Original Indenture as heretofore supplemented and as supplemented by this Sixth Supplemental Indenture shall be read, taken and construed as one and the same instrument.

SECTION 303. Executed in Counterparts. This Sixth Supplemental Indenture may be simultaneously executed in several counterparts, each of which shall be deemed to be an original, and such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, each party hereto has caused this instrument to be signed in its name and behalf by its duly authorized officers, all as of the day and year first above written.

ATTEST:

By: Susan D. Ritenour
Susan D. Ritenour
Assistant Secretary

GULF POWER COMPANY

By: W E Tate
Warren E. Tate
Vice President, Secretary and Treasurer

ATTEST:

By:_____
Diane Darconte
Trust Officer

JPMORGAN CHASE BANK, as Trustee

By:_____
Carol Ng
Vice President

IN WITNESS WHEREOF, each party hereto has caused this instrument to be signed in its name and behalf by its duly authorized officers, all as of the day and year first above written.

ATTEST:

By:_____
Susan D. Ritenour
Assistant Secretary

GULF POWER COMPANY

By:_____
Warren E. Tate
Vice President, Secretary and Treasurer

ATTEST:

By:_____
Diane Darconte
Trust Officer

JPMORGAN CHASE BANK, as Trustee

By:_____
Carol Ng
Vice President

EXHIBIT A

FORM OF SERIES F NOTE

NO. ____ CUSIP NO. 402479BR9

GULF POWER COMPANY
SERIES F 5.60% SENIOR INSURED QUARTERLY NOTE
DUE APRIL 1, 2033

| | |
|---|---|
| Principal Amount: | $_____ |
| Regular Record Date: | 15th calendar day prior to Interest Payment Date (whether or not a Business Day) |
| Original Issue Date: | March 26, 2003 |
| Stated Maturity: | April 1, 2033 |
| Interest Payment Dates: | January 1, April 1, July 1 and October 1 |
| Interest Rate: | 5.60% per annum |
| Authorized Denominations: | $1,000 or any integral multiple thereof |
| Initial Redemption Date: | April 1, 2008 |

Gulf Power Company, a Maine corporation (the "Company", which term includes any successor corporation under the Indenture referred to on the reverse hereof), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of _____DOLLARS ($_____) on the Stated Maturity shown above (or upon earlier redemption), and to pay interest thereon from the Original Issue Date shown above, or from the most recent Interest Payment Date to which interest has been paid or duly provided for, quarterly in arrears on each Interest Payment Date as specified above, commencing July 1, 2003, and on the Stated Maturity (or upon earlier redemption) at the rate per annum shown above until the principal hereof is paid or made available for payment and on any overdue principal and on any overdue installment of interest. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date (other than an Interest Payment Date that is the Stated Maturity or on a Redemption Date) will, as provided in such Indenture, be paid to the Person in whose name this Note (the "Note") is registered at the close of business on the Regular Record Date as specified above next preceding such Interest Payment Date, provided that any interest payable at Stated Maturity or on any Redemption Date will be paid to the Person to whom principal is payable. Except as otherwise provided in the Indenture, any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Note is registered at the close of business on a Special Record Date for the payment of such defaulted interest to be fixed by the Trustee, notice

whereof shall be given to Holders of Notes of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange, if any, on which the Notes of this series shall be listed, and upon such notice as may be required by any such exchange, all as more fully provided in the Indenture.

Payments of interest on this Note will include interest accrued to but excluding the respective Interest Payment Dates. Interest payments for this Note shall be computed and paid on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on this Note is not a Business Day, then payment of the interest payable on such date will be made on the next succeeding day that is a Business Day (and without interest or other payment in respect of any such delay), with the same force and effect as if made on the date the payment was originally payable. A "Business Day" shall mean any day other than a Saturday or a Sunday or a day on which banking institutions in New York City are authorized or required by law or executive order to remain closed or a day on which the Corporate Trust Office of the Trustee is closed for business.

Payment of the principal of and interest due at the Stated Maturity or earlier redemption of the Series F Notes shall be made upon surrender of the Series F Notes at the Corporate Trust Office of the Trustee. The principal of and interest on the Series F Notes shall be paid in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. Payment of interest (including interest on an Interest Payment Date) will be made, subject to such surrender where applicable, at the option of the Company, (i) by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register or (ii) by wire transfer or other electronic transfer at such place and to such account at a banking institution in the United States as may be designated in writing to the Trustee at least 16 days prior to the date for payment by the Person entitled thereto.

XL Capital Assurance Inc. (the "Insurer"), New York, New York, has delivered its financial guaranty insurance policy (the "Policy") with respect to the scheduled payments due of principal of and interest on this Note to the principal Corporate Trust Office of the Trustee. **Said Policy is on file and available for inspection at the principal Corporate Trust Office of the Trustee and a copy thereof may be obtained from the Insurer or the Trustee.**

REFERENCE IS HEREBY MADE TO THE FURTHER PROVISIONS OF THIS NOTE SET FORTH ON THE REVERSE HEREOF, WHICH FURTHER PROVISIONS SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS IF SET FORTH AT THIS PLACE.

Unless the certificate of authentication hereon has been executed by the Trustee by manual signature, this Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

Dated:

GULF POWER COMPANY

By:_____
Title:

Attest:

_____
Title:

{Seal of GULF POWER COMPANY appears here}

CERTIFICATE OF AUTHENTICATION

This is one of the Senior Notes referred to in the within-mentioned Indenture.

JPMORGAN CHASE BANK,
as Trustee

By:_____
Authorized Officer

(Reverse Side of Note)

This Note is one of a duly authorized issue of Senior Notes of the Company (the "Notes"), issued and issuable in one or more series under a Senior Note Indenture, dated as of January 1, 1998, as supplemented (the "Indenture"), between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), Trustee (the "Trustee," which term includes any successor trustee under the Indenture), to which Indenture and all indentures incidental thereto reference is hereby made for a statement of the respective rights, limitation of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Notes issued thereunder and of the terms upon which said Notes are, and are to be, authenticated and delivered. This Note is one of the series designated on the face hereof as Series F 5.60% Senior Insured Quarterly Notes due April 1, 2033 (the "Series F Notes") which is unlimited in the aggregate principal amount. Capitalized terms used herein for which no definition is provided herein shall have the meanings set forth in the Indenture.

The Company shall have the right, subject to the terms and conditions of the Indenture, to redeem this Note at any time on or after April 1, 2008 at the option of the Company, without premium or penalty, in whole or in part, at a Redemption Price equal to 100% of the principal amount to be redeemed plus accrued but unpaid interest to the Redemption Date.

Subject to the conditions and restrictions contained in the Indenture, this Note may be redeemed in whole or in part at a Redemption Price equal to 100% of the principal amount to be redeemed plus accrued but unpaid interest to the Redemption Date, at the request of the Representative of the deceased beneficial owner of this Note pursuant to a Redemption Request attached hereto as Annex A.

In the event of redemption of this Note in part only, a new Note or Notes of this series for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the surrender hereof. The Notes will not have a sinking fund.

If an Event of Default with respect to the Notes of this series shall occur and be continuing, the principal of the Notes of this series may be declared due and payable in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Notes of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of not less than a majority in principal amount of the Notes at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Notes of each series at the time Outstanding, on behalf of the Holders of all Notes of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Note shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon

the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest on this Note at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Note is registrable in the Security Register, upon surrender of this Note for registration of transfer at the office or agency of the Company for such purpose, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar and duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Notes of this series, of authorized denominations and of like tenor and for the same aggregate principal amount, will be issued to the designated transferee or transferees. No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Note for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Note is registered as the owner hereof for all purposes, whether or not this Note be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

The Notes of this series are issuable only in registered form without coupons in denominations of $1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Notes of this series are exchangeable for a like aggregate principal amount of Notes of this series of a different authorized denomination, as requested by the Holder surrendering the same upon surrender of the Note or Notes to be exchanged at the office or agency of the Company.

This Note shall be governed by, and construed in accordance with, the internal laws of the State of New York.

## ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this instrument, shall be construed as though they were written out in full according to applicable laws or regulations:

| | | | |
|---|---|---|---|
| TEN COM- | as tenants in common | UNIF GIFT MIN ACT- | _____ Custodian _____ (Cust) (Minor) |
| TEN ENT- | as tenants by the entireties | | under Uniform Gifts to Minors Act |
| JT TEN- | as joint tenants with right of survivorship and not as tenants in common | | _____ (State) |

Additional abbreviations may also be used though not on the above list.

FOR VALUE RECEIVED, the undersigned hereby sell(s) and transfer(s) unto

_____

(please insert Social Security or other identifying number of assignee)

_____

PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING POSTAL ZIP CODE OF ASSIGNEE

_____

_____

the within Note and all rights thereunder, hereby irrevocably constituting and appointing

_____

_____

agent to transfer said Note on the books of the Company, with full power of substitution in the premises.

Dated: _____ _____

_____

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within instrument in every particular without alteration or enlargement, or any change whatever.

ANNEX A

**FORM OF REDEMPTION REQUEST**

**Gulf Power Company**
**Series F 5.60% Senior Insured Quarterly Notes**
**due April 1, 2033**
**(the "Series F Notes")**

**CUSIP NO. 402479BR9**

The undersigned, _____ (the "Participant"), does hereby certify, pursuant to the provisions of that certain Senior Note Indenture, dated as of January 1, 1998, as supplemented by the Sixth Supplemental Indenture, dated as of March 26, 2003 (the "Indenture") made by and between Gulf Power Company (the "Company") and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as Trustee (the "Trustee"), to The Depository Trust Company (the "Depositary"), the Company and the Trustee that:

1. [Name of deceased Beneficial Owner] is deceased.

2. [Name of deceased Beneficial Owner] had a $_____ interest in the above referenced Series F Notes.

3. [Name of Representative] is [Beneficial Owner's personal representative/other person authorized to represent the estate of the Beneficial Owner/surviving joint tenant/surviving tenant by the entirety/trustee of a trust] of [Name of deceased Beneficial Owner] and has delivered to the undersigned a request for redemption in form satisfactory to the undersigned, requesting that $_____ principal amount of said Series F Notes be redeemed pursuant to said Indenture. The documents accompanying such request, all of which are in proper form, are in all respects satisfactory to the undersigned and [Name of Representative] is entitled to have the Series F Notes to which this Request relates redeemed.

4. The Participant holds the interest in the Series F Notes with respect to which this Request for Redemption is being made on behalf of [Name of deceased Beneficial Owner].

5. The Participant hereby certifies that it will indemnify and hold harmless the Depositary, the Trustee and the Company (including their respective officers, directors, agents, attorneys and employees), against all damages, loss, cost, expense (including reasonable attorneys' and accountants' fees), obligations, claims or liability (collectively, the "Damages") incurred by the indemnified party or parties as a result of or in connection with the redemption of Series F Notes to which this Request relates. The Participant will, at the request of the Company, forward to the Company, a copy of the documents submitted by [Name of Representative] in support of the request for redemption.

**IN WITNESS WHEREOF**, the undersigned has executed this Redemption Request as of _____, _____.

**[PARTICIPANT NAME]**

By:_____
Name:_____
Title:_____

**PROSPECTUS SUPPLEMENT**
**(To Prospectus dated June 1, 2001)**

**Ratings:**
**Standard & Poor's: "AAA"**
**Moody's: "Aaa"**
**(See "Ratings" herein)**

# $65,000,000

GULF POWER
A SOUTHERN COMPANY

## Series F 5.60% Senior Insured Quarterly Notes (IQ Notes℠*) due April 1, 2033

The Series F Senior Notes bear interest at the rate of 5.60% per year. Interest on the Series F Senior Notes is payable quarterly on January 1, April 1, July 1 and October 1 of each year, beginning July 1, 2003. The Series F Senior Notes will mature on April 1, 2033. The Series F Senior Notes are redeemable by Gulf Power Company on or after April 1, 2008. Gulf Power Company will also redeem the Series F Senior Notes, subject to some limitations, at the option of the representative of any deceased beneficial owner of the Series F Senior Notes on or after April 1, 2008. The Series F Senior Notes do not have the benefit of any sinking fund.

The Series F Senior Notes are unsecured and rank equally with all of Gulf Power Company's other unsecured indebtedness and will be effectively subordinated to all secured debt of Gulf Power Company. The Series F Senior Notes will be issued only in registered form in denominations of $1,000 and any integral multiple thereof.

Payments of principal and interest on the Series F Senior Notes when due will be insured by a financial guaranty insurance policy to be issued by XL Capital Assurance Inc.

XL CAPITAL ASSURANCE

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus Supplement or the accompanying Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

| | Per Series F Senior Note | Total |
|---|---|---|
| Initial Public Offering Price(1) | 100.00% | $65,000,000 |
| Underwriting Discounts and Commissions | 3.15% | $ 2,047,500 |
| Net Proceeds, before expenses, to Gulf Power Company | 96.85% | $62,952,500 |

(1) The initial public offering price set forth above does not include accrued interest, if any. Interest on the Series F Senior Notes will accrue from the date the Series F Senior Notes are issued

*See "Risk Factors" on page S-3 for a description of certain risks associated with investing in the Series F Senior Notes.*

It is expected that the Series F Senior Notes will be ready for delivery in book-entry form only through The Depository Trust Company, on or about March 26, 2003.

℠IQ Notes is a service mark of Edward D. Jones & Co., L.P.

**Edward D. Jones & Co., L.P.** **Goldman, Sachs & Co.**

The date of this Prospectus Supplement is March 21, 2003.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained or incorporated by reference in this Prospectus Supplement or the accompanying Prospectus. You must not rely on any unauthorized information or representations. This Prospectus Supplement and accompanying Prospectus is an offer to sell only the Series F Senior Notes and only under circumstances and in jurisdictions where it is lawful to do so. The information incorporated by reference or contained in this Prospectus Supplement and accompanying Prospectus is current only as of its date.

## Table of Contents

### Prospectus Supplement


| | Page |
|---|---|
| Risk Factors | S-3 |
| The Company | S-3 |
| Selected Financial Information | S-3 |
| Use of Proceeds | S-4 |
| Description of the Series F Senior Notes | S-4 |
| The Policy and the Insurer | S-9 |
| Ratings | S-12 |
| Underwriting | S-13 |
| Experts | S-14 |
| Appendix A — Form of Policy | A-1 |
| Appendix B — Form of Redemption Request | B-1 |


### Prospectus


| | |
|---|---|
| About this Prospectus | 2 |
| Available Information | 2 |
| Incorporation of Certain Documents by Reference | 2 |
| Selected Information | 4 |
| Gulf Power Company | 5 |
| The Trusts | 5 |
| Accounting Treatment of Trusts | 6 |
| Use of Proceeds | 6 |
| Description of the Senior Notes | 6 |
| Description of the Junior Subordinated Notes | 10 |
| Description of the Preferred Securities | 15 |
| Description of the Guarantees | 16 |
| Relationship Among the Preferred Securities, the Junior Subordinated Notes and the Guarantees | 18 |
| Plan of Distribution | 19 |
| Legal Matters | 20 |
| Experts | 20 |

## RISK FACTORS

Investing in the Series F Senior Notes involves risk. Please see the risk factors in Gulf Power Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, which is incorporated by reference in this Prospectus Supplement. Before making an investment decision, you should carefully consider these risks as well as other information contained or incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. The risks and uncertainties not presently known to Gulf Power Company or that Gulf Power Company currently deems immaterial may also impair its business operations, its financial results and the value of the Series F Senior Notes.

## THE COMPANY

Gulf Power Company (the "Company") is a corporation organized under the laws of the State of Maine on November 2, 1925, and admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976 and in Georgia on November 20, 1984. The mailing address of the Company's principal executive offices is One Energy Place, Pensacola, Florida 32520-0100, and the telephone number is (850) 444-6111. The Company is a wholly owned subsidiary of The Southern Company ("Southern").

The Company is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy within an approximately 7,400 square mile service area within the northwestern portion of the State of Florida.

## SELECTED FINANCIAL INFORMATION

The following data is qualified in its entirety by reference to and, therefore, should be read together with the detailed information and financial statements appearing herein, in the accompanying Prospectus or in the documents incorporated herein by reference.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 |
| | (Thousands, except ratios) | | | | |
| Operating Revenues | $650,518 | $674,099 | $714,319 | $725,203 | $820,467 |
| Earnings Before Income Taxes | 89,356 | 86,515 | 82,607 | 89,716 | 104,397 |
| Net Income After Dividends on Preferred Stock | 56,521 | 53,667 | 51,843 | 58,307 | 67,036 |
| Ratio of Earnings to Fixed Charges(1) | 3.83 | 3.62 | 3.38 | 3.64 | 3.52 |

| | Capitalization As of December 31, 2002 | | |
|---|---|---|---|
| | Actual | As Adjusted(2) | |
| | (Thousands, except percentages) | | |
| Common Stock Equity | $ 549,505 | $ 559,505 | 47.6% |
| Cumulative Preferred Stock | 4,236 | 4,236 | 0.4 |
| Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Company Junior Subordinated Notes | 155,000 | 115,000 | 9.8 |
| Senior Notes | 216,757 | 281,757 | 24.0 |
| Other Long-Term Debt | 235,283 | 215,283 | 18.2 |
| Total | $1,160,781 | $1,175,781 | 100.0% |

(1) This ratio is computed as follows: (i) "Earnings" have been calculated by adding to "Earnings Before Income Taxes" "Interest Expense, Net of Amounts Capitalized," "Distributions on Preferred Securities of Subsidiary" and the debt portion of allowance for funds used during construction; and (ii) "Fixed Charges" consist of "Interest Expense, Net of Amounts Capitalized," "Distributions on Preferred Securities of Subsidiary" and the debt portion of allowance for funds used during construction.

(2) Reflects (i) the receipt in January 2003 of $10,000,000 in capital contributions from Southern; (ii) the redemption in January 2003 of $40,000,000 aggregate liquidation amount of Gulf Power Capital Trust I 7.625% Cumulative Quarterly Income Preferred Securities; (iii) the proposed redemption in April 2003 of $20,000,000 aggregate principal amount of Series B 7.50% Junior Subordinated Notes due June 30, 2037; and (iv) the issuance of the Series F Senior Notes offered hereby.

## USE OF PROCEEDS

A portion of the proceeds from the sale of the Series F Senior Notes will be used by the Company to redeem in April 2003 the $20,000,000 outstanding principal amount of its Series B 7.50% Junior Subordinated Notes due June 30, 2037, and the balance of the proceeds will be used by the Company to repay a portion of its outstanding short-term indebtedness, which aggregated approximately $59,000,000 as of March 21, 2003. This redemption is subject to the Company's closing of the sale of the Series F Senior Notes.

## DESCRIPTION OF THE SERIES F SENIOR NOTES

Set forth below is a description of the specific terms of the Series F 5.60% Senior Notes due April 1, 2033 (the "Series F Senior Notes"). This description supplements, and should be read together with, the description of the general terms and provisions of the senior notes set forth in the accompanying Prospectus under the caption "Description of the Senior Notes." The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the description in the accompanying Prospectus and the Senior Note Indenture dated as of January 1, 1998, as supplemented (the "Senior Note Indenture"), between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Senior Note Indenture Trustee").

### General

The Series F Senior Notes will be issued as a series of senior notes under the Senior Note Indenture. The Series F Senior Notes will initially be issued in the aggregate principal amount of $65,000,000. The Company may, without the consent of the holders of the Series F Senior Notes, issue additional notes having the same ranking and the same interest rate, maturity and other terms, including the benefit of the Policy (as defined below), as the Series F Senior Notes. Any additional notes having such similar terms, together with the Series F Senior Notes, will constitute a single series of senior notes under the Senior Note Indenture.

The entire principal amount of the Series F Senior Notes will mature and become due and payable, together with any accrued and unpaid interest thereon, on April 1, 2033. The Series F Senior Notes are not subject to any sinking fund provision. The Series F Senior Notes are available for purchase in denominations of $1,000 and any integral multiple thereof.

### Interest

Each Series F Senior Note shall bear interest at the rate of 5.60% per annum (the "Securities Rate") from the date of original issuance, payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year (each, an "Interest Payment Date") to the person in whose name such Series F Senior Note is registered at the close of business on the fifteenth calendar day prior to such payment date (whether or not a Business Day). The initial interest payment date is July 1, 2003. The amount of interest payable will be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on the Series F Senior Notes is not a Business Day, then payment of the interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay), with the same force and effect as if made on such date. "Business Day" means a day other than (i) a Saturday or Sunday, (ii) a day on which banks in New York, New York are authorized or obligated by law or executive order to remain closed or (iii) a day on which the Senior Note Indenture Trustee's corporate trust office is closed for business.

### Ranking

The Series F Senior Notes will be direct, unsecured and unsubordinated obligations of the Company ranking equally with all other unsecured and unsubordinated obligations of the Company. The Series F Senior Notes will be effectively subordinated to all secured debt of the Company, including its first mortgage bonds, aggregating

approximately $170,000,000 outstanding at December 31, 2002. The Senior Note Indenture contains no restrictions on the amount of additional indebtedness that may be incurred by the Company.

**Special Insurance Provisions of the Senior Note Indenture**

Subject to the provisions of the Senior Note Indenture, so long as the Insurer (as defined below) is not in default under the Policy, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies with respect to the Series F Senior Notes upon the occurrence and continuation of an Event of Default (as defined in the Senior Note Indenture).

**Optional Redemption**

The Company shall have the right to redeem the Series F Senior Notes, in whole or in part, without premium, from time to time, on or after April 1, 2008, upon not less than 30 nor more than 60 days' notice, at a redemption price (the "Redemption Price") equal to 100% of the principal amount to be redeemed plus any accrued and unpaid interest to the date of redemption (the "Redemption Date").

If notice of redemption is given as aforesaid, the Series F Senior Notes so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price together with any accrued interest thereon, and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest) such Series F Senior Notes shall cease to bear interest. If any Series F Senior Note called for redemption shall not be paid upon surrender thereof for redemption, the principal shall, until paid, bear interest from the Redemption Date at the Securities Rate. See "Description of the Senior Notes—Events of Default" in the accompanying Prospectus.

Subject to the foregoing and to applicable law (including, without limitation, United States federal securities laws), the Company or its affiliates may, at any time and from time to time, purchase outstanding Series F Senior Notes by tender, in the open market or by private agreement.

**Limited Right of Redemption upon Death of a Beneficial Owner**

On or after April 1, 2008 and unless the Series F Senior Notes have been declared due and payable prior to their maturity by reason of an Event of Default or have been previously redeemed or otherwise repaid, the Representative (as defined below) of a deceased Beneficial Owner (as defined below) of the Series F Senior Notes has the right to request redemption prior to maturity of all or part of his or her interest in such Series F Senior Notes and the Company will redeem the same subject to the limitations that the Company will not be obligated to redeem during any twelve-month period that ends on and includes each April 1 after April 1, 2008 (each such twelve-month period being hereinafter referred to as a "Subsequent Period") (i) on behalf of a deceased Beneficial Owner any interest in the Series F Senior Notes which exceeds $25,000 aggregate principal amount or (ii) interests in the Series F Senior Notes exceeding $1,300,000 in aggregate principal amount for all Representatives requesting redemption upon the death of Beneficial Owners.

The Company may, at its option, redeem interests of any deceased Beneficial Owner in the Series F Senior Notes in any Subsequent Period in excess of the $25,000 limitation. Any such redemption by the Company, to the extent that it exceeds the $25,000 limitation for any deceased Beneficial Owner, shall not be included in the computation of the $1,300,000 aggregate limitation for the Series F Senior Notes for such Subsequent Period or for any succeeding Subsequent Period. The Company may, at its option, redeem interests of deceased Beneficial Owners in the Series F Senior Notes in any Subsequent Period in an aggregate principal amount exceeding the $1,300,000 aggregate limitation. Any such redemption by the Company, to the extent it exceeds the $1,300,000 aggregate limitation, shall not reduce the $1,300,000 aggregate limitation for any Subsequent Period. Upon any determination by the Company to redeem Series F Senior Notes in excess of the $25,000 limitation or the $1,300,000 aggregate limitation, such Series F Senior Notes shall be redeemed in the order of the receipt of Redemption Requests (as defined below) by the Senior Note Indenture Trustee.

A request for redemption of an interest in the Series F Senior Notes may be initiated by the personal representative or other person authorized to represent the estate of the deceased Beneficial Owner or from a surviving joint tenant(s) or tenant(s) by the entirety or the trustee of a trust (each, a "Representative"). A Representative may initiate a request for redemption at any time and in any principal amount, provided that the principal amount is in integral multiples of $1,000. The Representative shall deliver its request to the Participant (as defined below) through whom the deceased Beneficial Owner owned such interest, in form satisfactory to the Participant, together with evidence of the death of the Beneficial Owner, evidence of the authority of the Representative satisfactory to the Participant, any waivers, notices or certificates as may be required under applicable state or federal law and any other evidence of the right to such redemption as the Participant requires. The request shall specify the principal amount of the interest in the Series F Senior Notes to be redeemed, which amount must be in integral multiples of $1,000. Subject to the rules and arrangements applicable to The Depository Trust Company ("DTC"), the Participant will then deliver to DTC a request for redemption substantially in the form attached to this Prospectus Supplement as Appendix B (a "Redemption Request"). DTC will, upon receipt of a Redemption Request, forward the same to the Senior Note Indenture Trustee. The Senior Note Indenture Trustee is required to maintain records with respect to each Redemption Request received by it, including the date of receipt, the name of the Participant filing the Redemption Request and the status of each Redemption Request with respect to the $25,000 limitation and the $1,300,000 aggregate limitation. The Senior Note Indenture Trustee will promptly file with the Company each Redemption Request it receives, together with the information regarding the eligibility of the Redemption Request with respect to the $25,000 limitation and the $1,300,000 aggregate limitation. The Company, DTC and the Senior Note Indenture Trustee (i) may conclusively assume, without independent investigation, that the statements contained in each Redemption Request are true and correct and (ii) shall have no responsibility (a) for reviewing any documents submitted to the Participant by the Representative or for determining whether the applicable decedent is in fact the Beneficial Owner of the interest in the Series F Senior Notes to be redeemed or is in fact deceased and (b) for determining whether the Representative is duly authorized to request redemption on behalf of the applicable Beneficial Owner.

On or after April 1, 2008 and subject to the $25,000 limitation and the $1,300,000 aggregate limitation, the Company will, after the death of any Beneficial Owner, redeem the interest of such Beneficial Owner in the Series F Senior Notes within 60 days following receipt by the Company of a Redemption Request from the Senior Note Indenture Trustee. If Redemption Requests exceed the aggregate principal amount of interests in Series F Senior Notes required to be redeemed during any Subsequent Period, then such excess Redemption Requests will be applied, in the order received by the Senior Note Indenture Trustee, to successive Subsequent Periods, regardless of the number of Subsequent Periods required to redeem such interests. The Company may, at any time, notify the Senior Note Indenture Trustee that it will redeem such interests. The Company may, at any time, notify the Senior Note Indenture Trustee that it will redeem, on a date not less than 30 nor more than 60 days after the date of such notice, all or any lesser amount of Series F Senior Notes for which Redemption Requests have been received but which are not then eligible for redemption by reason of the $25,000 limitation or the $1,300,000 aggregate limitation. Such Series F Senior Notes will be redeemed in the order of receipt of Redemption Requests by the Senior Note Indenture Trustee.

The price to be paid by the Company for the Series F Senior Notes to be redeemed pursuant to a Redemption Request is 100% of the principal amount thereof plus accrued but unpaid interest to the date of payment. Subject to arrangements with DTC, payment for interests in the Series F Senior Notes to be redeemed shall be made to DTC upon presentation of the Series F Senior Notes to the Senior Note Indenture Trustee for redemption in the aggregate principal amount specified in the Redemption Requests submitted to the Senior Note Indenture Trustee by DTC which are to be fulfilled in connection with such payment. The principal amount of any Series F Senior Notes acquired or redeemed by the Company other than by redemption at the option of any Representative of a deceased Beneficial Owner shall not be included in the computation of either the $25,000 limitation or the $1,300,000 limitation for any Subsequent Period.

A "Beneficial Owner" means the person who has the right to sell, transfer or otherwise dispose of an interest in a Series F Senior Note and the right to receive the proceeds from a Series F Senior Note, as well as the interest

and principal payable to the holder of a Series F Senior Note. In general, a determination of beneficial ownership in the Series F Senior Notes will be subject to the rules, regulations and procedures governing DTC and institutions that have accounts with DTC or a nominee thereof ("Participants").

An interest in a Series F Senior Note held in tenancy by the entirety, by joint tenancy or by tenants in common will be deemed to be held by a single Beneficial Owner, and the death of a tenant by the entirety, joint tenant or tenant in common will be deemed the death of a Beneficial Owner. The death of a person who, during his or her lifetime, was entitled to substantially all of the rights of a Beneficial Owner of an interest in the Series F Senior Notes will be deemed the death of the Beneficial Owner, regardless of the recordation of such interest on the records of the Participant, if such rights can be established to the satisfaction of the Participant and the Company. Such interests shall be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Gifts to Minors Act or the Uniform Transfers to Minors Act, community property or other similar joint ownership arrangements, including individual retirement accounts or Keogh H.R. 10 plans maintained solely by or for the decedent or by or for the decedent and any spouse, and trust and certain other arrangements where one person has substantially all of the rights of a Beneficial Owner during such person's lifetime.

In the case of a Redemption Request that is presented on behalf of a deceased Beneficial Owner and that has not been fulfilled at the time the Company gives notice of its election to redeem the Series F Senior Notes, the Series F Series Notes that are the subject of such pending Redemption Request shall not be eligible for redemption pursuant to the Company's option to redeem but shall remain subject to redemption pursuant to such Redemption Request.

Any Redemption Request may be withdrawn by the person(s) presenting such request upon delivery of a written request for such withdrawal given by the Participant on behalf of such person(s) to DTC and by DTC to the Senior Note Indenture Trustee prior to the redemption payment by the Company.

During any time in which the Series F Senior Notes are not represented by one or more global securities and are issued in definitive form (i) all references to Participants and DTC, including DTC's governing rules, regulations and procedures will be deemed deleted, (ii) all determinations which the Participants are required to make will be made by the Company (including, without limitation, determining whether the applicable decedent is in fact the Beneficial Owner of the interest in the Series F Senior Notes to be redeemed or is in fact deceased and whether the Representative is duly authorized to request redemption on behalf of the applicable Beneficial Owner) and (iii) all Redemption Requests, to be effective, must (a) be delivered by the Representative to the Senior Note Indenture Trustee, with a copy to the Company, (b) if required by the Senior Note Indenture Trustee and the Company, be in the form of a Redemption Request (with appropriate changes mutually agreed to by the Senior Note Indenture Trustee and the Company to reflect the fact that such Redemption Request is being executed by a Representative (including provision for signature guarantees)) and (c) in addition to all documents that are otherwise required to accompany a Redemption Request, shall be accompanied by the Series F Senior Note that is the subject of such Redemption Request and, if applicable, a properly executed assignment or endorsement. If the record interest in the Series F Senior Note is held by a nominee of the deceased Beneficial Owner, a certificate or letter from such nominee attesting to the deceased's ownership of a beneficial interest in the Series F Senior Note must also be delivered.

Because of the limitations of the Company's requirement to redeem, no Beneficial Owner can have any assurance that its interest in the Series F Senior Notes will be paid prior to maturity.

**Book-Entry Only Issuance—The Depository Trust Company**

DTC will act as the initial securities depositary for the Series F Senior Notes. The Series F Senior Notes will be issued only as fully-registered securities registered in the name of Cede & Co., DTC's nominee, or such other name as may be requested by an authorized representative of DTC. One or more fully registered global Series F Senior Notes certificates will be issued, representing in the aggregate the total principal amount of Series F Senior Notes, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended (the "1934 Act"). DTC holds securities that its Participants deposit with DTC. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S equity issues, corporate and municipal debt issues and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission (the "Commission"). More information about DTC can be found at www.dtcc.com.

Purchases of Series F Senior Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series F Senior Notes on DTC's records. The ownership interest of each actual purchaser of Series F Senior Notes is in turn to be recorded on the Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Participants through which the Beneficial Owners purchased Series F Senior Notes. Transfers of ownership interests in the Series F Senior Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series F Senior Notes, except in the event that use of the book-entry system for the Series F Senior Notes is discontinued.

To facilitate subsequent transfers, all Series F Senior Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series F Senior Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any changes in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series F Senior Notes. DTC's records reflect only the identity of the Direct Participants to whose accounts such Series F Senior Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Redemption notices shall be sent to DTC. If less than all of the Series F Senior Notes are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series F Senior Notes to be redeemed.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Although voting with respect to the Series F Senior Notes is limited, in those cases where a vote is required, neither DTC nor Cede & Co. (or such other DTC nominee) will itself consent or vote with respect to Series F

Senior Notes. Under its usual procedures, DTC would mail an Omnibus Proxy to the Company as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s (or such other DTC nominee's) consenting or voting rights to those Direct Participants to whose accounts the Series F Senior Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Series F Senior Notes will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Company or the Senior Note Indenture Trustee on the relevant payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payments on such payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the account of customers registered in "street name," and will be the responsibility of such Participant and not of DTC or the Company, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Company, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Participants.

Except as provided herein, a Beneficial Owner of a global Series F Senior Note will not be entitled to receive physical delivery of Series F Senior Notes. Accordingly, each Beneficial Owner must rely on the procedures of DTC to exercise any rights under the Series F Senior Notes. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of securities in definitive form. Such laws may impair the ability to transfer beneficial interests in a global Series F Senior Note.

DTC may discontinue providing its services as securities depositary with respect to the Series F Senior Notes at any time by giving reasonable notice to the Company. Under such circumstances, in the event that a successor securities depositary is not obtained, Series F Senior Notes certificates will be printed and delivered to the holders of record. Additionally, the Company may decide to discontinue use of the system of book-entry transfers through DTC (or a successor depositary) with respect to the Series F Senior Notes. In that event, certificates for the Series F Senior Notes will be printed and delivered to the holders of record.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Company believes to be reliable, but the Company takes no responsibility for the accuracy thereof. The Company has no responsibility for the performance by DTC or its Participants of their respective obligations as described herein or under the rules and procedures governing their respective operations.

## THE POLICY AND THE INSURER

### The Policy

Concurrently with the issuance of the Series F Senior Notes, XL Capital Assurance Inc. (the "Insurer") will issue a financial guaranty insurance policy relating to the Series F Senior Notes (the "Policy"). The form of the Policy is attached to this Prospectus Supplement as Appendix A. The following summary of the terms of the Policy does not purport to be complete and is qualified in its entirety by reference to the Policy. Any capitalized terms used in this section but not defined herein have the meanings ascribed to them in the Policy.

The Policy guarantees the scheduled payment of principal of and interest on the Series F Senior Notes when due. The Policy will extend for the term of the Series F Senior Notes and, once issued, cannot be canceled by the Insurer. The Policy will insure payment only on the stated maturity date, in the case of principal, and on stated dates for payment, in the case of interest. If any Series F Senior Notes become subject to redemption and insufficient funds are available for redemption of all such outstanding Series F Senior Notes, the Insurer will remain obligated to pay principal of and interest on such outstanding Series F Senior Notes on the originally scheduled principal and interest payment dates. In the event of any acceleration of the principal of the Series F Senior Notes, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Senior Note Indenture Trustee has notice that any payment of principal of or interest on a Series F Senior Note which has become Due for Payment on any regularly scheduled principal payment date or Interest Payment Date and which is made to a holder by or on behalf of the Company has been deemed a preferential transfer and theretofore recovered from its holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such holder will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available.

The Policy does not insure any risk other than Nonpayment. Specifically, the Policy does not cover:

a. payment on acceleration, as a result of a call for redemption or as a result of any other advancement of maturity;

b. nonpayment of principal or interest caused by the insolvency or negligence of the Senior Note Indenture Trustee; or

c. losses suffered as a result of a holder's inability to sell Series F Senior Notes.

Upon payment of the insurance benefits with respect to a Series F Senior Note, the Insurer will become the owner of such Series F Senior Note or right to payment of principal or interest on such Series F Senior Note and will be fully subrogated to the rights to payment of the surrendering holder.

**The Insurer**

*The information set forth below has been provided by the Insurer for use in this Prospectus Supplement. None of the Company, the Senior Note Indenture Trustee or any Underwriter makes any representation or warranty or assumes any responsibility with respect to the information concerning the Insurer, its parent or the Policy contained or incorporated into this Prospectus Supplement. Neither the Company nor any Underwriter has made any independent investigation of the Policy or the Insurer, and reference should be made to the information set forth below for a description of the Policy. The Policy does not constitute a part of the contract between the Company and the holders. Except for the payment of the premium for the Policy to the Insurer, the Company has no responsibility whatsoever with respect to the Policy, including the maintenance or enforcement of the Policy or collection of amounts payable under the Policy.*

*The Insurer accepts no responsibility for the accuracy or completeness of this Prospectus Supplement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer and its affiliates set forth under this heading. In addition, the Insurer makes no representation regarding the Series F Senior Notes or the advisability of investing in the Series F Senior Notes.*

*General.* The Insurer is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The Insurer is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, the State of New York, forty-seven other states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore. The Insurer has licence applications pending, or intends to file an application, in each of those states in which it is not currently licensed.

The Insurer is an indirect wholly owned subsidiary of XL Capital Ltd, a Cayman Islands corporation ("XL Capital Ltd"). Through its subsidiaries, XL Capital Ltd is a leading provider of insurance and reinsurance coverages and financial products to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The common stock of XL Capital Ltd is publicly traded in the United States and listed on the New York Stock Exchange (NYSE:XL). **XL Capital Ltd is not obligated to pay the debts of or claims against the Insurer**.

The Insurer was formerly known as The London Assurance of America Inc. ("London"), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. ("XL Re") acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999), with and into London, with

London as the surviving entity. London immediately changed its name to XL Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition.

*Reinsurance.* The Insurer has entered into a facultative quota share reinsurance agreement with XL Financial Assurance Ltd ("XLFA"), an insurance company organized under the laws of Bermuda, and an affiliate of the Insurer. Pursuant to this reinsurance agreement, the Insurer expects to cede up to 90% of its business to XLFA. The Insurer may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the Insurer as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the Insurer's obligations under any financial guaranty insurance policy. With respect to any transaction insured by the Insurer, the percentage of risk ceded to XLFA may be less than 90% depending on certain factors including, without limitation, whether the Insurer has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by the Insurer, including the Policy.

Based on the audited financials of XLFA as of December 31, 2001, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of US$543,538,559, US$244,403,576, US$39,000,000 and US$260,134,983, respectively, determined in accordance with generally accepted accounting principles in the United States. XLFA's insurance financial strength is rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's"), and Fitch Ratings ("Fitch"). In addition, XLFA has obtained a financial enhancement rating of "AAA" from Standard & Poor's.

The obligations of XLFA to the Insurer under the reinsurance agreement described above are unconditionally guaranteed by XL Insurance (Bermuda) Ltd ("XLI"), a Bermuda company and one of the world's leading excess commercial insurers. XLI is a wholly owned indirect subsidiary of XL Capital Ltd. In addition to having an "A+" rating from A.M. Best, XLI's insurance financial strength rating is "Aa2" by Moody's and "AA" by Standard & Poor's and Fitch. The ratings of XLFA and XLI are not recommendations to buy, sell or hold securities, including the Series F Senior Notes, and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch.

Notwithstanding the capital support provided to the Insurer described in this section, the holders of the Series F Senior Notes will have direct recourse against the Insurer only, and neither XLFA nor XLI will be directly liable to the holders of the Series F Senior Notes.

*Financial Strength and Financial Enhancement Ratings of the Insurer.* The Insurer's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch. In addition, the Insurer has obtained a financial enhancement rating of "AAA" from Standard & Poor's. These ratings reflect Moody's, Standard & Poor's and Fitch's current assessment of the Insurer's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described in "—Reinsurance" above.

The above ratings are not recommendations to buy, sell or hold securities, including the Series F Senior Notes, and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Series F Senior Notes. The Insurer does not guaranty the market price of the Series F Senior Notes nor does it guaranty that the ratings on the Series F Senior Notes will not be revised or withdrawn.

*Capitalization of the Insurer.* Based on the audited financial statements for the Insurer as of December 31, 2001, the Insurer had total admitted assets of $158,442,157, total liabilities of $48,899,961 and total capital and surplus of $109,542,696 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP"). Based on the unaudited statutory financial statements for the Insurer as of December 31, 2002 filed with the State of New York Insurance Department, the Insurer has total admitted assets of $180,993,189, total liabilities of $58,685,217 and total capital and surplus of $122,307,972 determined in accordance with SAP.

For further information concerning the Insurer and XLFA, see the financial statements of the Insurer and XLFA, and the notes thereto, incorporated by reference in this Prospectus Supplement. The financial statements of the Insurer and XLFA are included as exhibits to the periodic reports filed with the Commission by XL Capital Ltd and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of the Insurer and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act on or prior to the date of this Prospectus Supplement, or after the date of this Prospectus Supplement but prior to termination of the offering of the Series F Senior Notes, shall be deemed incorporated by reference in this Prospectus Supplement. Except for the financial statements of XLCA and XLFA, no other information contained in XL Capital Ltd's reports filed with the Commission are incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by the Insurer are available upon request to the State of New York Insurance Department.

*Regulation of the Insurer.* The Insurer is regulated by the Superintendent of Insurance of the State of New York. In addition, the Insurer is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the Insurer is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. The Insurer is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE INSURER, INCLUDING THE POLICY, ARE NOT COVERED BY THE FLORIDA INSURANCE GUARANTY ASSOCIATION ACT SPECIFIED IN PART II OF CHAPTER 631 OF THE FLORIDA INSURANCE LAW OR THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of the Insurer are located at 1221 Avenue of the Americas, 31st Floor, New York, New York 10020-1001 and its telephone number at this address is (212) 478-3400.

## RATINGS

It is anticipated that Standard & Poor's and Moody's will assign the Series F Senior Notes the ratings of "AAA" and "Aaa", respectively, conditioned upon the issuance and delivery by the Insurer at the time of delivery of the Series F Senior Notes of the Policy, insuring the timely payment of the principal of and interest on the Series F Senior Notes. Such ratings reflect only the views of such ratings agencies, and an explanation of the significance of such ratings may be obtained only from such rating agencies at the following addresses: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007; and Standard & Poor's, 25 Broadway, New York, New York 10004. There is no assurance that such ratings will remain in effect for any period of time or that they will not be revised downward or withdrawn entirely by said rating agencies if, in their judgment, circumstances warrant. Neither the Company nor any Underwriter has undertaken any responsibility to oppose any proposed downward revision or withdrawal of a rating on the Series F Senior Notes. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series F Senior Notes.

At present, each of such rating agencies maintains four categories of investment grade ratings. They are for Standard & Poor's—AAA, AA, A and BBB and for Moody's—Aaa, Aa, A and Baa. Standard & Poor's defines "AAA" as the highest rating assigned to a debt obligation. Moody's defines "Aaa" as representing the best quality debt obligation carrying the smallest degree of investment risk.

## UNDERWRITING

Subject to the terms and conditions set forth in the Underwriting Agreement dated the date hereof, the Company has agreed to sell to each of the Underwriters named below and each of the Underwriters severally has agreed to purchase the principal amount of the Series F Senior Notes set forth opposite its name below:

| Name | Principal Amount of Series F Senior Notes |
|---|---|
| Edward D. Jones & Co., L.P. | $ 61,750,000 |
| Goldman, Sachs & Co. | 3,250,000 |
| Total | $ 65,000,000 |

The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the Series F Senior Notes are subject to, among other things, the approval of certain legal matters by their counsel and certain other conditions. The Underwriters are obligated to take and pay for all the Series F Senior Notes if any are taken.

Series F Senior Notes sold by the Underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this Prospectus Supplement. Any Series F Senior Notes sold by the Underwriters to securities dealers may be sold at a discount from the initial public offering price of up to 3.00% of the principal amount of Series F Senior Notes. If all the Series F Senior Notes are not sold at the initial offering price, the Underwriters may change the offering price and the other selling terms.

Prior to this offering, there has been no public market for the Series F Senior Notes. The Underwriters have advised the Company that they intend to make a market in the Series F Senior Notes. The Underwriters will have no obligation to make a market in the Series F Senior Notes, however, and may cease market making activities, if commenced, at any time.

The Company has agreed, during the period of 15 days from the date of the Underwriting Agreement, not to sell, offer to sell, grant any option for the sale of or otherwise dispose of any Series F Senior Notes, any security convertible into or exchangeable into or exercisable for Series F Senior Notes or any debt securities substantially similar to the Series F Senior Notes (except for the Series F Senior Notes issued pursuant to the Underwriting Agreement), without the prior written consent of the Underwriters.

The Company estimates that it will incur offering expenses of approximately $1,460,000, which includes the initial premium for the Policy.

In connection with this offering and in compliance with applicable law and industry practice, the Underwriters may overallot or effect transactions which stabilize, maintain or otherwise affect the market price of the Series F Senior Notes at levels above those which might otherwise prevail in the open market, including by entering stabilizing bids, purchasing Series F Senior Notes to cover syndicate short positions and imposing penalty bids. A stabilizing bid means the placing of any bid, or the effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of a security. Covering a syndicate short position means placing a bid or effecting a purchase of a security on behalf of the underwriting syndicate to reduce a short position created in connection with the offering. Imposing a penalty bid means purchasing a security in the open market to reduce the underwriting syndicate's short position or to stabilize the price of the security and in connection therewith reclaiming the amount of the selling concession from the underwriters and selling group members who sold such securities as part of the offering.

In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases. The imposition of a penalty bid might also have an effect on the price of a security to the extent that it were to discourage resales of the security.

Neither the Company nor any of the Underwriters makes any representation or prediction as the direction or magnitude of any effect that the transactions described above may have on the price of the Series F Senior Notes. In addition, neither the Company nor any of the Underwriters makes any representation that such transactions will be engaged in or that such transactions, once commenced, will not be discontinued without notice.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "1933 Act").

The Underwriters and their affiliates engage in transactions with and, from time to time, have performed services for, the Company and its affiliates in the ordinary course of business.

## EXPERTS

The Company's financial statements and the related financial statement schedule as of and for the year ended December 31, 2002 incorporated by reference in this Prospectus Supplement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report, which is incorporated by reference herein, and has been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

Certain of the Company's financial statements incorporated by reference in this Prospectus Supplement have been audited by Arthur Andersen LLP ("Andersen"), independent public accountants, as indicated in their reports with respect to the financial statements, and are incorporated by reference in this Prospectus Supplement, in reliance upon the authority of Andersen as experts in giving such reports. On March 28, 2002, Southern's Board of Directors, upon recommendation of its Audit Committee, decided not to engage Andersen as the Company's principal public accountants. The Company has not obtained a reissued report from Andersen and has been unable to obtain, after reasonable efforts, Andersen's written consent to incorporate by reference Andersen's reports on the financial statements. Under these circumstances, Rule 437a under the 1933 Act permits this Prospectus Supplement to be filed without a written consent from Andersen. The absence of such written consent from Andersen may limit a holder's ability to assert claims against Andersen under Section 11(a) of the 1933 Act for any untrue statement of a material fact contained in the financial statements audited by Andersen or any omissions to state a material fact required to be stated in the financial statements.

The balance sheets of the Insurer as of December 31, 2001 and December 31, 2000 and the related statements of operations and comprehensive income, changes in shareholder's equity and cash flows for each of the three years in the period ended December 31, 2001, incorporated by reference in this Prospectus Supplement, have been incorporated in this Prospectus Supplement in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of that firm as experts in accounting and auditing.

The balance sheets of XLFA as of December 31, 2001 and December 31, 2000 and the related statements of operations and comprehensive income, changes in shareholder's equity and cash flows for each of the three years in the period ended December 31, 2001, incorporated by reference in this Prospectus Supplement, have been incorporated in this Prospectus Supplement in reliance on the report of PricewaterhouseCoopers, independent accountants, given on the authority of that firm as experts in accounting and auditing.

# APPENDIX A

# FORM OF POLICY



1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 478-3400
Facsimile: (212) 478-3597

# FINANCIAL GUARANTY INSURANCE POLICY

**OBLIGOR:** **Policy No:**

**INSURED OBLIGATIONS:** **Effective Date:**

**XL Capital Assurance Inc. (XLCA),** a New York stock insurance company, in consideration of the payment of the premium, hereby unconditionally and irrevocably guarantees to the Trustee for the benefit of the Owners of the Insured Obligations, the full and complete payment by the Obligor of Scheduled Payments in respect of the Insured Obligations, subject only to the terms of this Policy (which includes the Endorsement attached hereto).

XLCA will pay the Insured Amount to the Trustee upon the presentation of a Payment Notice to XLCA (which Payment Notice shall include an irrevocable assignment to XLCA of all rights and claims in respect of the relevant Insured Obligation, as specified in the Payment Notice), on the later of (a) one (1) Business Day following receipt by XLCA of a Payment Notice or (b) the Business Day on which Scheduled Payments are due for payment. XLCA shall be subrogated to the Owners' rights to payment on the Insured Obligations to the extent of any payment by XLCA hereunder. The obligations of XLCA with respect to a Scheduled Payment will be discharged to the extent funds to pay such Scheduled Payment are deposited in the account specified in the Payment Notice, whether such funds are properly applied by the Trustee or claimed by an Owner.

In addition, in the event that any Scheduled Payment which has become due for payment and which is made to an Owner by or on behalf of the Trustee is recovered or is recoverable from the Owner pursuant to a final order of a court of competent jurisdiction in an Insolvency Proceeding that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, XLCA unconditionally and irrevocably guarantees payment of the amount of such recovery (in accordance with the Endorsement attached hereto).

This Policy sets forth in full the undertaking of XLCA and shall not be cancelled or revoked by XLCA for any reason, including failure to receive payment of any premium due hereunder or under the Insurance Agreement, and may not be further endorsed or modified without the written consent of XLCA. The premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Insured Obligation, other than at the sole option of XLCA, nor against any risk other than Nonpayment and Avoided Payment, including any shortfalls, if any, attributable to the liability of the Obligor for taxes or withholding taxes if any, including interest and penalties in respect of such liability.

THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

Any capitalized terms not defined herein shall have the meaning given such terms in the Endorsement attached hereto and forming a part hereof, or in the Insurance Agreement referenced therein. In witness whereof, XLCA has caused this Policy to be executed as of the Effective Date.

| | |
|---|---|
| Name: Mary Jane Constant | Name: Henri N. Gourd |
| Title: Associate General Counsel | Title: Managing Director |

**Financial Guaranty Insurance Policy Endorsement**
**Effective Date**

**Attached to and forming part of**
**Financial Guaranty Insurance Policy No.**

Obligor:

Insured Obligations:

Beneficiary:

*Capitalized terms used herein and not otherwise defined herein or in the Policy shall have the meanings assigned to them in the Insurance Agreement as defined below.*

As used herein the term "Business Day" means any day other than Saturday or Sunday on which commercial banking institutions in New York, New York are generally open for banking business.

As used herein the term "Insolvency Proceeding" means the commencement, after the date hereof, of any bankruptcy, insolvency, readjustment of debt, reorganization, marshalling of assets and liabilities or similar proceedings by or against any Person, the commencement, after the date hereof, of any proceedings by or against any Person for the winding up or liquidation of its affairs, or the consent, after the date hereof, to the appointment of a trustee, conservator, receiver or liquidator in any bankruptcy, insolvency, readjustment of debt, reorganization, marshalling of assets and liabilities or similar proceedings of or relating to any Person.

As used herein the term "Indenture" means the _____ Indenture dated as of _____ between the Obligor and _____, as Trustee (the "Trustee"), as amended and supplemented, including by the _____ Supplemental Indenture dated as of _____.

As used herein the term "Insurance Agreement" means the Insurance Agreement dated as of _____ by and among XLCA, _____ and the Trustee, as may be amended or modified from time to time.

As used herein the term "Insured Amount" means that portion of the Scheduled Payments that shall become due for payment but shall be unpaid by reason of Nonpayment.

As used herein the term "Nonpayment" means, with respect to any Payment Date, the failure of the Trustee to receive in full, in accordance with the terms of the Indenture, that Scheduled Payment that is due for payment with respect to such date.

As used herein the term "Owner" means the registered owner of any Insured Obligation as indicated in the registration books maintained by or on behalf of the Obligor for such purpose or, if the Insured Obligation is in bearer form, the holder of the Insured Obligation.

As used herein, the term "Payment Date" means, in the case of scheduled interest on the Insured Obligations, each _____, _____, _____ and _____ of each year during the Term of this Policy, beginning _____, and, in the case of scheduled principal of the Insured Obligations, _____.

As used herein, the term "Person" means an individual, a partnership, a limited liability company, a joint venture, a corporation, a trust, an unincorporated organization, and a government or any department or agency thereof.

As used herein the term "Scheduled Payment" means, with respect to any Payment Date during the Term of this Policy, scheduled payments of interest and principal, in accordance with the original terms of the Insured Obligations and the Indenture when issued and without regard to any subsequent amendment or modification of the Insured Obligations or the Indenture that has not been consented to in writing by XLCA. Notwithstanding the foregoing, "Scheduled Payments" shall in no event include payments which become due on an accelerated basis as a result of (a) any default by the Obligor, (b) the occurrence of an Event of Default under the Indenture, (c) mandatory or optional redemption, in whole or in part or (d) any other cause, unless XLCA elects, in its sole discretion, to pay such amounts in whole or in part (in which event Scheduled Payments shall include such accelerated payments as, when, and to the extent so elected by XLCA). In the event that it does not make such election, Scheduled Payments shall include payments due in accordance with the original scheduled terms without regard to any acceleration. In addition, "Scheduled Payment" shall not include, nor shall coverage be provided under the Policy in respect of, (i) any make whole, redemption or call premium payable in respect of the Insured Obligations, (ii) any amounts due in respect of the Insured Obligations attributable to any increase in interest rate, penalty or other sum payable by the Issuer by reason of any default or event of default in respect of the Insured Obligations, or by reason of any deterioration of the creditworthiness of the Issuer or (iii) any taxes, withholding or other charge imposed by any governmental authority due in connection with the payment of any Scheduled Payment to any holder of an Insured Obligation.

As used herein the term "Term of this Policy" means the period from and including the Effective Date to and including the first date on which (i) all Scheduled Payments have been paid that are required to be paid by the Obligor under the Indenture; (ii) the 91-day period during which any Scheduled Payment could have been avoided in whole or in part as a preference payment under applicable bankruptcy, insolvency, receivership or similar law has expired, and (iii) if any proceedings requisite to avoidance as a preference payment have been commenced prior to the occurrence of (i) and (ii) above, a final and nonappealable order in resolution of each such proceeding has been entered; *provided, however*, that if the Owners are required to return any Avoided

Payment (as defined below) as a result of such insolvency proceeding, then the Term of the Policy shall terminate on the date on which XLCA has made all payments required to be made under the terms of this Policy in respect of all such Avoided Payments.

To make a claim under the Policy, the Trustee shall deliver to XLCA Payment Notice in the form of Exhibit A hereto (a "Payment Notice"), appropriately completed and executed by the Trustee. A Payment Notice under this Policy may be presented to XLCA by (i) delivery of the original Payment Notice to XLCA at its address set forth below, or (ii) facsimile transmission of the original Payment Notice to XLCA at its facsimile number set forth below. If presentation is made by facsimile transmission, the Trustee shall (x) simultaneously confirm transmission by telephone to XLCA at its telephone number set forth below, and (y) as soon as reasonably practicable, deliver the original Payment Notice to XLCA at its address set forth below. Any Payment Notice received by XLCA after 10:00 a.m., New York City time, on a Business Day, or on any day that is not a Business Day, will be deemed to be received by XLCA at 9:00 a.m., New York City time, on the next succeeding Business Day. XLCA shall make payments due in respect of Insured Amounts no later than 2:00 p.m. New York City time to the Trustee upon the presentation of a Payment Notice to XLCA on the later of (a) one (1) Business Day following receipt by XLCA of a Payment Notice or (b) the Business Day on which Scheduled Payments are due for payment.

Subject to the foregoing, if the payment of any amount with respect to the Scheduled Payment is voided (a "Preference Event") as a result of an Insolvency Proceeding and as a result of such Preference Event, the Owner is required to return such voided payment, or any portion of such voided payment, made in respect of the Insured Obligation (an "Avoided Payment"), XLCA will pay an amount equal to such Avoided Payment, as and when such payment would otherwise be due pursuant to the Insured Obligation and the Indenture without regard to acceleration or prepayment, and upon payment of such Avoided Payment and receipt by XLCA from the Trustee on behalf of such Owner of (x) a certified copy of a final order of a court exercising jurisdiction in such Insolvency Proceeding to the effect that the Owner or the Trustee on behalf of the Owner is required to return any such payment or portion thereof because such payment was voided under applicable law, with respect to which order the appeal period has expired without an appeal having been filed (the "Final Order"), (y) an assignment, substantially in the form attached hereto as Exhibit B, properly completed and executed by such Owner irrevocably assigning to XLCA all rights and claims of such Owner relating to or arising under such Avoided Payment, and (z) a Payment Notice in the form of Exhibit A hereto appropriately completed and executed by the Trustee.

XLCA shall make payments due in respect of Avoided Payments no later than 2:00 p.m. New York City time on the Business Day following XLCA's receipt of the documents required under clauses (x) through (z) of the preceding paragraph. Any such documents received by XLCA after 10:00 a.m. New York City time on any Business Day or on any day that is not a Business Day shall be deemed to have been received by XLCA at 9:00 a.m., New York City time, on the next succeeding Business Day. All payments made by XLCA hereunder on account of any Avoided Payment shall be disbursed to the receiver, conservator, debtor-in-possession or trustee in bankruptcy named in the Final

Order and not to any Owner directly (unless an Owner previously paid such amount to the receiver, conservator, debtor-in-possession or trustee in bankruptcy named in the Final Order, in which case such payment shall be disbursed to the Trustee for distribution to such Owner upon proof of such payment reasonably satisfactory to XLCA).

XLCA hereby waives and agrees not to assert any and all rights to require the Trustee to make demand on or to proceed against any person, party or security prior to the Trustee demanding payment under this Policy.

No defenses, set-offs and counterclaims of any kind available to XLCA so as to deny payment of any amount due in respect of this Policy will be valid and XLCA hereby waives and agrees not to assert any and all such defenses (including, without limitation, defense of fraud in the inducement or fact, or any other circumstances which would have the effect of discharging a surety in law or in equity), set-offs and counterclaims, including, without limitation, any such rights acquired by subrogation, assignment or otherwise. Upon any payment hereunder, in furtherance and not in limitation of XLCA's equitable right of subrogation and XLCA's rights under the Insurance Agreement, XLCA will be subrogated to the rights of the Owner in respect of which such payment was made to receive any and all amounts due in respect of the obligations in respect of which XLCA has made a payment hereunder. Any rights of subrogation acquired by XLCA as a result of any payment made under this Policy shall, in all respects, be subordinate and junior in right of payment to the prior indefeasible payment in full of any amounts due the Owner on account of payments due under the Insured Obligation.

This Policy is neither transferable nor assignable, in whole or in part, except to a successor trustee duly appointed and qualified under the Indenture. All Payment Notices and other notices, presentations, transmissions, deliveries and communications made by the Trustee to XLCA with respect to this Policy shall specifically refer to the number of this Policy and shall be made to XLCA at:

XL Capital Assurance Inc.
1221 Avenue of the Americas
New York, New York 10020
Attention: Surveillance
Telephone: (212) 478-3400
Facsimile: (212) 478- 3597

or such other address, telephone number or facsimile number as XLCA may designate to the Trustee in writing from time to time. Each such Payment Notice and other notice, presentation, transmission, delivery and communication shall be effective only upon actual receipt by XLCA.

The obligations of XLCA under this Policy are irrevocable, primary, absolute and unconditional, subject to satisfaction of the conditions for making a claim under the Policy, and neither the failure of any Person to perform any covenant or obligation in favor of XLCA (or otherwise), nor the failure or omission to make a

demand permitted hereunder, nor the failure of any assignment or grant of any security interest, nor the commencement of any Insolvency Proceeding shall in any way affect or limit XLCA's obligations under this Policy. If a successful action or proceeding to enforce this Policy is brought by the Trustee, the Trustee shall be entitled to recover from XLCA costs and expenses reasonably incurred, including, without limitation, reasonable fees and expenses of counsel.

This Policy and the obligations of XLCA hereunder shall terminate on the expiration of the Term of this Policy. This Policy shall be returned to XLCA by the Trustee upon the expiration of the Term of this Policy.

The Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law does not cover this Policy. The Florida Insurance Guaranty Association created under Part II of Chapter 631 of the Florida Insurance Code does not cover this Policy. In the event that XLCA were to become insolvent, the California Insurance Guaranty Association, established pursuant to Article 14.2 of Chapter 1 of Part 2 of Division 1 of the California Insurance Code excludes from coverage any claims arising under this Policy.

**THIS POLICY SHALL BE CONSTRUED, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED, IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES THAT WOULD REQUIRE THE APPLICATION OF THE LAWS OF ANY OTHER JURISDICTION.**

In the event any term or provision of the form of this Policy is inconsistent with the provision of this Endorsement, the provision of this Endorsement shall take precedence and be binding.

[Remainder of Page Intentionally Left Blank]

**IN WITNESS WHEREOF**, XL Capital Assurance Inc. has caused this Endorsement to the Policy to be executed on the Effective Date.

| | |
|---|---|
| Name: Mary Jane Constant | Name: Henri N. Gourd |
| Title: Associate General Counsel | Title: Managing Director |

**Exhibit A to Financial Guaranty Policy No.**

XL Capital Assurance Inc.
1221 Avenue of the Americas
New York, New York 10020
Attention: Surveillance

**PAYMENT NOTICE**
**UNDER FINANCIAL GUARANTY POLICY No.**

_____, as Trustee (the "Trustee"), hereby certifies to XL Capital Assurance Inc. ("XLCA") with reference to that certain Financial Guaranty Policy, No. _____, dated _____ (the "Policy"), issued by XLCA in favor of the Trustee under the _____ Indenture dated as of _____ between _____ and the Trustee, as amended and supplemented, including by the _____ Supplemental Indenture dated as of _____ (the "Indenture"), as follows:

1. The Trustee is the trustee under the Indenture and the beneficiary on behalf of each Owner of the Policy.

2. The Trustee is entitled to make a demand under the Policy pursuant to the Indenture.

3. This notice relates to the [insert date] Payment Date. The amount demanded is to be paid in immediately available funds to the [Specify Account] at [Identify Financial Institution Holding Account] account number[_____].

[For a Payment Notice in respect of Insured Amounts other than Avoided Payment, use paragraph 4.]

4. The Trustee demands payment of $_____ which is an amount equal to the amount by which the Scheduled Payment due on the above Payment Date exceeds the funds made available to the Trustee to pay such Scheduled Payment.

[For a Payment Notice in respect of an Avoided Payment use the following paragraphs [4] or [5].]

[4.] or [5.] The Trustee hereby represents and warrants, based upon information available to it, that (i) the amount entitled to be drawn under the Policy on the date hereof in respect of Avoided Payments is the amount paid or to be paid simultaneously with such draw on the Policy by the Owner on account of a Preference Event [$_____] (the "Avoided Payment Amount"), (ii) the Owner with respect to which the drawing is being made under the Policy has paid or simultaneously with such draw on the Policy will pay such Avoided Payment Amount, and (iii) the documents required by the Policy to be delivered in connection with such Avoided Payment and Avoided Payment Amount have previously been presented to XLCA or are attached hereto.

[6] The Trustee agrees that, following payment of funds by XLCA, it shall use reasonable efforts to procure (a) that such amounts are applied directly to the payment of any Insured Amount which is due for payment; (b) that such funds are not applied for any other purpose; and (c) the maintenance of accurate records of such payments in respect of the Insured Obligation and the corresponding claim on the Policy and the proceeds thereof.

[7] The Trustee, on behalf of itself and the Owners, hereby assigns to XLCA all rights and claims (including rights of actions and claims in respect of securities laws violations or otherwise) of the Trustee and the Owners with respect to the Insured Obligation to the extent of any payments under the Policy. The foregoing assignment is in addition to, and not in limitation of, rights of subrogation otherwise available to XLCA in respect of such payments. The Trustee shall take such action and deliver such instruments as may be reasonably required by XLCA to effectuate the purposes of this paragraph [7].

[8] The Trustee, on behalf of itself and the Owners, hereby appoints XLCA as agent and attorney-in-fact for the Trustee and the Owners in any legal proceeding in respect of the Insured Obligation. The Trustee, on behalf of itself and the Owners, thereby (and without limiting the generality of the preceding sentence) agrees that XLCA may, at any time during the continuation of any proceeding by or against any debtor with respect to which a Preference Claim (as defined below) or other claim with respect to the Insured Obligation is asserted under any Insolvency Proceeding, direct all matters relating to such Insolvency Proceeding, including, without limitation, (a) all matters relating to any claim in connection with a Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment made with respect to the obligations (a "Preference Claim"), (b) the direction of any appeal of any order relating to any Preference Claim and (c) the posting of any surety, supersedeas or performance bond pending any such appeal. In addition, the Trustee, on behalf of itself and the Owners, hereby agrees that XLCA shall be subrogated to, and the Trustee, on behalf of itself and the Owners, hereby delegates and assigns, to the fullest extent permitted by law, the rights of the Trustee and the Owners in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding.

Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Policy or Indenture.

IN WITNESS WHEREOF, this notice has been executed this ____ day of _____, ____.

_____, as Trustee

By:_____
Authorized Officer

*Any Person Who Knowingly And With Intent To Defraud Any Insurance Company Or Other Person Files An Application For Insurance Or Statement Of Claim Containing Any Materially False Information, Or Conceals For The Purpose Of Misleading Information Concerning Any Fact Material Thereof, Commits A Fraudulent Insurance Act, Which Is A Crime, And Shall Also Be Subject To A Civil Penalty Not To Exceed Five Thousand Dollars And The Stated Value Of The Claim For Each Such Violation*

**Exhibit B to Financial Guaranty Insurance Policy, No.**

**Form of Assignment**

Reference is made to the Financial Guaranty Insurance Policy No. _____, dated _____ (together with the Endorsement attached thereto, the "Policy"), issued by XL Capital Assurance Inc. ("XLCA") relating to the _____ due _____ issued by _____. Unless otherwise defined herein, capitalized terms used in this Assignment shall have the meanings assigned thereto in the Policy as incorporated by reference therein. In connection with the Avoided Payment of [$ ] paid by the undersigned (the "Owner") on [ ] and the payment by XLCA in respect of such Avoided Payment pursuant to the Policy, the Owner hereby irrevocably and unconditionally, without recourse, representation or warranty (except as provided below), sells, assigns, transfers, conveys and delivers all of such Owner's rights, title and interest in and to any rights or claims, whether accrued, contingent or otherwise, which the Owner now has or may hereafter acquire, against any person relating to, arising out of or in connection with such Avoided Payment. The Owner represents and warrants that such claims and rights are free and clear of any lien or encumbrance created or incurred by such Owner.[1]

_____
Owner

[1] In the event that the terms of this form of assignment are reasonably determined to be insufficient solely as a result of a change of law or applicable rules after the date of the Policy to fully vest all of the Owner's right, title and interest in such rights and claims, the Owner and XLCA shall agree on such other form as is reasonably necessary to effect such assignment, which assignment shall be without recourse, representation or warranty except as provided above.

# APPENDIX B

# FORM OF REDEMPTION REQUEST

**Gulf Power Company**
**Series F 5.60% Senior Insured Quarterly Notes**
**due April 1, 2033**
**(the "Series F Notes")**

**CUSIP NO. 402479BR9**

The undersigned, (the "Participant"), does hereby certify, pursuant to the provisions of that certain Senior Note Indenture, dated as of January 1, 1998, as supplemented by the Sixth Supplemental Indenture, dated as of March , 2003 (the "Indenture") made by and between Gulf Power Company (the "Company") and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as Trustee (the "Trustee"), to The Depository Trust Company (the "Depositary"), the Company and the Trustee that:

1. [Name of deceased Beneficial Owner] is deceased.

2. [Name of deceased Beneficial Owner] had a $ interest in the above referenced Series F Notes.

3. [Name of Representative] is [Beneficial Owner's personal representative/other person authorized to represent the estate of the Beneficial Owner/surviving joint tenant/surviving tenant by the entirety/trustee of a trust] of [Name of deceased Beneficial Owner] and has delivered to the undersigned a request for redemption in form satisfactory to the undersigned, requesting that $ principal amount of said Series F Notes be redeemed pursuant to said Indenture. The documents accompanying such request, all of which are in proper form, are in all respects satisfactory to the undersigned and [Name of Representative] is entitled to have the Series F Notes to which this Request relates redeemed.

4. The Participant holds the interest in the Series F Notes with respect to which this Request for Redemption is being made on behalf of [Name of deceased Beneficial Owner].

5. The Participant hereby certifies that it will indemnify and hold harmless the Depositary, the Trustee and the Company (including their respective officers, directors, agents, attorneys and employees), against all damages, loss, cost, expense (including reasonable attorneys' and accountants' fees), obligations, claims or liability (collectively, the "Damages") incurred by the indemnified party or parties as a result of or in connection with the redemption of Series F Notes to which this Request relates. The Participant will, at the request of the Company, forward to the Company, a copy of the documents submitted by [Name of Representative] in support of the request for redemption.

**IN WITNESS WHEREOF**, the undersigned has executed this Redemption Request as of , .

**[PARTICIPANT NAME]**

By:_____

Name:_____

Title:_____

PROSPECTUS

**$350,000,000**

# Gulf Power Company

**Senior Notes**

**Junior Subordinated Notes**

---

# Gulf Power Capital Trust III
# Gulf Power Capital Trust IV

**Trust Preferred Securities**
**Fully and unconditionally guaranteed, as set forth herein, by**

# Gulf Power Company

**a subsidiary of The Southern Company**

---

We will provide the specific terms of these securities in supplements to this Prospectus. You should read this Prospectus and the applicable prospectus supplement carefully before you invest.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**June 1, 2001**

## ABOUT THIS PROSPECTUS

This Prospectus is part of a registration statement filed with the Securities and Exchange Commission (the "Commission") using a "shelf" registration process under the Securities Act of 1933, as amended (the "1933 Act"). Under the shelf process, Gulf Power Company (the "Company") may sell, in one or more transactions,

- senior notes (the "Senior Notes")
- junior subordinated notes (the "Junior Subordinated Notes")

and Gulf Power Capital Trust III and Gulf Power Capital Trust IV (individually, a "Trust" and collectively, the "Trusts") may sell

- trust preferred securities or capital securities (the "Preferred Securities")

in one or more offerings up to a total dollar amount of $350,000,000. This Prospectus provides a general description of those securities. Each time the Company sells securities, the Company will provide a prospectus supplement that will contain specific information about the terms of that offering ("Prospectus Supplement"). The Prospectus Supplement may also add, update or change information contained in this Prospectus. You should read this Prospectus and the applicable Prospectus Supplement together with additional information under the heading "Available Information."

## AVAILABLE INFORMATION

The Company and the Trusts have filed with the Commission a combined registration statement on Form S-3 (the "Registration Statement," which term encompasses any amendments thereof and exhibits thereto) under the 1933 Act. As permitted by the rules and regulations of the Commission, this Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto, to which reference is hereby made.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "1934 Act"), and in accordance therewith files reports and other information with the Commission. Such reports and other information can be inspected and copied at the public reference facilities of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's Regional Offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and Seven World Trade Center, 13th Floor, New York, New York 10048. Copies of such material can also be obtained at prescribed rates by writing to the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. The Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants including the Company that file electronically at http://www.sec.gov. In addition, reports and other material concerning the Company can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

No separate financial statements of any Trust are included herein. The Company considers that such statements would not be material to holders of the Preferred Securities because each Trust has no independent operations and exists for the sole purpose of investing the proceeds of the sale of its Trust Securities (as defined below) in Junior Subordinated Notes.

## INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents have been filed with the Commission pursuant to the 1934 Act and are incorporated herein by reference and made a part of this Prospectus:

(a) the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000; and

(b) the Company's Current Report on Form 8-K dated February 28, 2001.

All documents filed by the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act subsequent to the date of this Prospectus and prior to the termination of this offering shall be deemed to be incorporated herein by reference and made a part of this Prospectus from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

**The Company will provide without charge to each person to whom this Prospectus is delivered, on the written or oral request of any such person, a copy of any or all documents incorporated herein by reference (other than the exhibits to such documents unless such exhibits are specifically incorporated by reference). Such requests should be directed to Warren E. Tate, Secretary and Treasurer, Gulf Power Company, One Energy Place, Pensacola, Florida 32520, telephone: (850) 444-6111.**

## SELECTED INFORMATION

*The following material, which is presented herein solely to furnish limited introductory information regarding the Company, has been selected from, or is based upon, the detailed information and financial statements appearing in the documents incorporated herein by reference or elsewhere in this Prospectus, is qualified in its entirety by reference thereto and, therefore, should be read together therewith.*

### Gulf Power Company

| | |
|---|---|
| Business | Generation, transmission, distribution and sale of electric energy |
| Service Area | Approximately 7,400 square miles within the northwestern portion of the State of Florida |
| Service Area Population (1990 Census) | Approximately 740,000 |
| Customers at December 31, 2000 | 370,119 |
| Generating Capacity at December 31, 2000 (kilowatts) | 2,188,150 |
| Sources of Generation during 2000 (kilowatt-hours) | Coal (98%), Gas and Oil (2%) |
| Sources of Generation Estimated for 2001 (kilowatt-hours) | Coal (98%), Gas and Oil (2%) |

### Certain Ratios

The following table sets forth the Ratios of Earnings to Fixed Charges and Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis) for the periods indicated.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1999 | 2000 |
| Ratio of Earnings to Fixed Charges(1) | 4.29 | 4.18 | 3.83 | 3.62 | 3.38 |
| Ratio of Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis)(2) | 3.31 | 3.53 | 3.72 | 3.58 | 3.34 |

(1) This ratio is computed as follows: (i) "Earnings" have been calculated by adding to "Earnings Before Interest and Income Taxes" the debt portion of allowance for funds used during construction, and (ii) "Fixed Charges" consist of "Net Interest Charges" plus the debt portion of allowance for funds used during construction.

(2) In computing this ratio, "Preferred Dividend Requirements" represent the before tax earnings necessary to pay such dividends, computed at the effective tax rates for the applicable periods.

## GULF POWER COMPANY

The Company is a corporation organized under the laws of the State of Maine on November 2, 1925, and was admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976 and in Georgia on November 20, 1984. The principal executive offices of the Company are located at 500 Bayfront Parkway, Pensacola, Florida 32501, and the telephone number is (850) 444-6111.

The Company is a wholly owned subsidiary of The Southern Company, a holding company registered under the Public Utility Holding Company Act of 1935, as amended. The Company is engaged, within the northwestern portion of the State of Florida, in the generation and purchase of electricity and the distribution and sale of such electricity at retail in 71 communities as well as in rural areas, and at wholesale to a nonaffiliated utility and to a municipality.

## THE TRUSTS

Each Trust is a statutory business trust created under Delaware law pursuant to the filing of a certificate of trust with the Delaware Secretary of State on November 26, 1997, with respect to Gulf Power Capital Trust III, and April 25, 2001, with respect to Gulf Power Capital Trust IV. Each Trust's business is defined in a trust agreement, executed by the Company, as Depositor, and the Delaware Trustee thereunder. This trust agreement of each Trust will be amended and restated in its entirety substantially in the form filed as an exhibit to the Registration Statement of which this Prospectus forms a part (the "Trust Agreement"). Each Trust Agreement will be qualified as an indenture under the Trust Indenture Act of 1939, as amended (the "1939 Act"). The Company will own all of the common securities (the "Common Securities" and, together with the Preferred Securities, the "Trust Securities") of each Trust. The Trust Securities represent undivided beneficial interests in the assets of the respective Trusts. Each Trust exists for the exclusive purposes of (i) issuing its Trust Securities representing undivided beneficial interests in the assets of such Trust, (ii) investing the gross proceeds of its Trust Securities in a related series of Junior Subordinated Notes, and (iii) engaging in only those other activities necessary, appropriate, convenient or incidental thereto. The payment of periodic cash distributions on the Preferred Securities of each Trust and payments on liquidation and redemption with respect to the Preferred Securities of each Trust, in each case to the extent each Trust has funds legally and immediately available therefor, will be guaranteed by the Company (individually, a "Guarantee" and collectively, the "Guarantees") to the extent set forth under "Description of the Guarantees."

Each Trust's business and affairs will be conducted by its trustees, which shall be appointed by the Company as the holder of the Common Securities: two employees of the Company as Administrative Trustees; The Chase Manhattan Bank as Property Trustee; and Chase Manhattan Bank USA, National Association as Delaware Trustee (collectively, the "Securities Trustees"). The Property Trustee of each Trust will act as the indenture trustee with respect to such Trust for purposes of compliance with the provisions of the 1939 Act.

The principal place of business of each Trust shall be c/o the Company, 500 Bayfront Parkway, Pensacola, Florida 32501, telephone (850) 444-6111, Attn: Treasurer.

Reference is made to the Prospectus Supplement relating to the Preferred Securities of a Trust for further information concerning such Trust.

## ACCOUNTING TREATMENT OF TRUSTS

For financial reporting purposes, the Trusts will be treated as subsidiaries of the Company and, accordingly, the accounts of the Trusts will be included in the consolidated financial statements of the Company. The Preferred Securities will be presented as a separate line item in the consolidated balance sheet of the Company, and appropriate disclosures concerning the Preferred Securities, the Guarantees and the Junior Subordinated Notes will be included in the notes to the consolidated financial statements. For financial reporting purposes, the Company will record distributions payable on the Preferred Securities as an expense.

## USE OF PROCEEDS

Each Trust will invest the proceeds received from the sale of its Preferred Securities in Junior Subordinated Notes. Except as may be otherwise described in an applicable Prospectus Supplement, the net proceeds received by the Company from such investment and any proceeds received from the sale of its Senior Notes or other sales of its Junior Subordinated Notes will be used in connection with its ongoing construction program, to pay scheduled maturities and/or refundings of its securities, to repay short-term indebtedness to the extent outstanding and for other general corporate purposes.

## DESCRIPTION OF THE SENIOR NOTES

Set forth below is a description of the general terms of the Senior Notes. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Senior Note Indenture, dated as of January 1, 1998, between the Company and The Chase Manhattan Bank, as trustee (the "Senior Note Indenture Trustee"), as to be supplemented by a supplemental indenture thereto establishing the Senior Notes of each series (the Senior Note Indenture, as so supplemented, is hereinafter referred to as the "Senior Note Indenture"), the forms of which are filed as exhibits to the Registration Statement of which this Prospectus forms a part. The terms of the Senior Notes will include those stated in the Senior Note Indenture and those made a part of the Senior Note Indenture by reference to the 1939 Act. Certain capitalized terms used herein are defined in the Senior Note Indenture.

### General

The Senior Notes will be issued as unsecured senior debt securities under the Senior Note Indenture and will rank *pari passu* with all other unsecured and unsubordinated debt of the Company. The Senior Notes will be effectively subordinated to all secured debt of the Company, including its first mortgage bonds, aggregating approximately $254,700,000 outstanding at December 31, 2000. The Senior Note Indenture does not limit the aggregate principal amount of Senior Notes that may be issued thereunder and provides that Senior Notes may be issued from time to time in one or more series pursuant to an indenture supplemental to the Senior Note Indenture. The Senior Note Indenture gives the Company the ability to reopen a previous issue of Senior Notes and issue additional Senior Notes of such series, unless otherwise provided.

Reference is made to the Prospectus Supplement that will accompany this Prospectus for the following terms of the series of Senior Notes being offered thereby: (i) the title of such Senior Notes; (ii) any limit on the aggregate principal amount of such Senior Notes; (iii) the date or dates on which the principal of such Senior Notes is payable; (iv) the rate or rates at which such Senior Notes shall bear interest, if any, or any method by which such rate or rates will be determined, the date or dates from which such interest will accrue, the interest payment dates on which such interest shall be payable, and the regular record date for the interest payable on any interest payment date; (v) the place or places where the principal of (and premium, if any) and interest, if any, on such Senior Notes shall be payable; (vi) the period or periods within which, the price or prices at which

and the terms and conditions on which such Senior Notes may be redeemed, in whole or in part, at the option of the Company; (vii) the obligation, if any, of the Company to redeem or purchase such Senior Notes; (viii) the denominations in which such Senior Notes shall be issuable; (ix) if other than the principal amount thereof, the portion of the principal amount of such Senior Notes which shall be payable upon declaration of acceleration of the maturity thereof; (x) any deletions from, modifications of or additions to the Events of Default or covenants of the Company as provided in the Senior Note Indenture pertaining to such Senior Notes; (xi) whether such Senior Notes shall be issued in whole or in part in the form of a Global Security; and (xii) any other terms of such Senior Notes.

The Senior Note Indenture does not contain provisions that afford holders of Senior Notes protection in the event of a highly leveraged transaction involving the Company.

**Events of Default**

The Senior Note Indenture provides that any one or more of the following described events with respect to the Senior Notes of any series, which has occurred and is continuing, constitutes an "Event of Default" with respect to the Senior Notes of such series:

(a) failure for 10 days to pay interest on the Senior Notes of such series, when due on an interest payment date other than at maturity or upon earlier redemption; or

(b) failure to pay principal or premium, if any, or interest on the Senior Notes of such series when due at maturity or upon earlier redemption; or

(c) failure for three Business Days to deposit any sinking fund payment when due by the terms of a Senior Note of such series; or

(d) failure to observe or perform any other covenant or warranty of the Company in the Senior Note Indenture (other than a covenant or warranty which has expressly been included therein solely for the benefit of one or more series of Senior Notes other than such series) for 90 days after written notice to the Company from the Senior Note Indenture Trustee or the holders of at least 25% in principal amount of the outstanding Senior Notes of such series; or

(e) certain events of bankruptcy, insolvency or reorganization of the Company.

The holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of any series have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Senior Note Indenture Trustee with respect to the Senior Notes of such series. If a Senior Note Indenture Event of Default occurs and is continuing with respect to the Senior Notes of any series, then the Senior Note Indenture Trustee or the holders of not less than 25% in aggregate outstanding principal amount of the Senior Notes of such series may declare the principal amount thereof due and payable immediately by notice in writing to the Company (and to the Senior Note Indenture Trustee if given by the holders), and upon any such declaration such principal amount shall become immediately due and payable. At any time after such a declaration of acceleration with respect to the Senior Notes of any series has been made and before a judgment or decree for payment of the money due has been obtained as provided in Article Five of the Senior Note Indenture, the holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of such series may rescind and annul such declaration and its consequences if the default has been cured or waived and the Company has paid or deposited with the Senior Note Indenture Trustee a sum sufficient to pay all matured installments of interest and principal due otherwise than by acceleration and all sums paid or advanced by the Senior Note Indenture Trustee, including reasonable compensation and expenses of the Senior Note Indenture Trustee.

The holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of any series may, on behalf of the holders of all the Senior Notes of such series, waive any past default with respect to such series, except (i) a default in the payment of principal or interest or (ii) a default in respect of a covenant or provision which under Article Nine of the Senior Note Indenture cannot be modified or amended thereunder without the consent of the holder of each outstanding Senior Note of such series affected thereby.

**Registration and Transfer**

The Company shall not be required to (i) issue, register the transfer of or exchange Senior Notes of any series during a period of 15 days immediately preceding the date notice is given identifying the Senior Notes of such series called for redemption, or (ii) register the transfer of or exchange any Senior Notes so selected for redemption, in whole or in part, except the unredeemed portion of any Senior Note being redeemed in part.

**Payment and Paying Agent**

Unless otherwise indicated in an applicable Prospectus Supplement, payment of principal of any Senior Notes will be made only against surrender to the Paying Agent of such Senior Notes. Principal of and interest on Senior Notes will be payable subject to any applicable laws and regulations, at the office of such Paying Agent or Paying Agents as the Company may designate from time to time, except that, at the option of the Company, payment of any interest may be made by wire transfer or by check mailed to the address of the person entitled thereto as such address shall appear in the Security Register with respect to the Senior Notes. Payment of interest on Senior Notes on any interest payment date will be made to the person in whose name the Senior Notes (or predecessor security) are registered at the close of business on the record date for such interest payment.

Unless otherwise indicated in an applicable Prospectus Supplement, the Senior Note Indenture Trustee will act as Paying Agent with respect to the Senior Notes. The Company may at any time designate additional Paying Agents or rescind the designation of any Paying Agents or approve a change in the office through which any Paying Agent acts.

All moneys paid by the Company to a Paying Agent for the payment of the principal of or interest on the Senior Notes of any series which remain unclaimed at the end of two years after such principal or interest shall have become due and payable will be repaid to the Company, and the holder of such Senior Notes will thereafter look only to the Company for payment thereof.

**Modification**

The Senior Note Indenture contains provisions permitting the Company and the Senior Note Indenture Trustee, with the consent of the holders of not less than a majority in principal amount of the outstanding Senior Notes of each series affected thereby, to modify the Senior Note Indenture or the rights of the holders of the Senior Notes of such series; provided, that no such modification may, without the consent of the holder of each outstanding Senior Note affected thereby, (i) change the stated maturity of the principal of, or any installment of principal of or interest on, any Senior Note, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or change the method of calculating the rate of interest thereon, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date), or (ii) reduce the percentage of principal amount of the outstanding Senior Notes of any series, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the Senior Note Indenture or certain defaults thereunder and their consequences) provided for in the Senior Note Indenture, or (iii) modify any of the provisions of the Senior Note Indenture relating to supplemental indentures, waiver of past defaults, or waiver of certain covenants, except to increase any such percentage or to provide that certain other provisions of the Senior Note Indenture cannot be modified or waived without the consent of the holder of each outstanding Senior Note affected thereby.

In addition, the Company and the Senior Note Indenture Trustee may execute, without the consent of any holders of Senior Notes, any supplemental indenture for certain other usual purposes, including the creation of any new series of senior notes.

### Consolidation, Merger and Sale

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any person, unless (1) such other corporation or person is a corporation organized and existing under the laws of the United States, any state thereof or the District of Columbia and such other corporation or person expressly assumes, by supplemental indenture executed and delivered to the Senior Note Indenture Trustee, the payment of the principal of (and premium, if any) and interest on all the Senior Notes and the performance of every covenant of the Senior Note Indenture on the part of the Company to be performed or observed; (2) immediately after giving effect to such transactions, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and (3) the Company has delivered to the Senior Note Indenture Trustee an officers' certificate and an opinion of counsel, each stating that such transaction complies with the provisions of the Senior Note Indenture governing consolidation, merger, conveyance, transfer or lease and that all conditions precedent thereto have been complied with.

### Information Concerning the Senior Note Indenture Trustee

The Senior Note Indenture Trustee, prior to an Event of Default with respect to Senior Notes of any series, undertakes to perform, with respect to Senior Notes of such series, only such duties as are specifically set forth in the Senior Note Indenture and, in case an Event of Default with respect to Senior Notes of any series has occurred and is continuing, shall exercise, with respect to Senior Notes of such series, the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provision, the Senior Note Indenture Trustee is under no obligation to exercise any of the powers vested in it by the Senior Note Indenture at the request of any holder of Senior Notes of any series, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The Senior Note Indenture Trustee is not required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties if the Senior Note Indenture Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

The Chase Manhattan Bank, the Senior Note Indenture Trustee, also serves as Subordinated Note Indenture Trustee, as Property Trustee and as Guarantee Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with The Chase Manhattan Bank. The Chase Manhattan Bank also serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

### Governing Law

The Senior Note Indenture and the Senior Notes will be governed by, and construed in accordance with, the internal laws of the State of New York.

### Miscellaneous

The Company will have the right at all times to assign any of its rights or obligations under the Senior Note Indenture to a direct or indirect wholly-owned subsidiary of the Company; provided, that, in the event of any such assignment, the Company will remain primarily liable for all such obligations. Subject to the foregoing, the Senior Note Indenture will be binding upon and inure to the benefit of the parties thereto and their respective successors and assigns.

## DESCRIPTION OF THE JUNIOR SUBORDINATED NOTES

Set forth below is a description of the general terms of the Junior Subordinated Notes. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Subordinated Note Indenture, dated as of January 1, 1997, between the Company and The Chase Manhattan Bank, as trustee (the "Subordinated Note Indenture Trustee"), as to be supplemented by a supplemental indenture thereto establishing the Junior Subordinated Notes of each series (the Subordinated Note Indenture, as so supplemented, is hereinafter referred to as the "Subordinated Note Indenture"), the forms of which are filed as exhibits to the Registration Statement of which this Prospectus forms a part. The terms of the Junior Subordinated Notes will include those stated in the Subordinated Note Indenture and those made a part of the Subordinated Note Indenture by reference to the 1939 Act. Certain capitalized terms used herein are defined in the Subordinated Note Indenture.

### General

The Junior Subordinated Notes will be issued as unsecured junior subordinated debt securities under the Subordinated Note Indenture. The Subordinated Note Indenture does not limit the aggregate principal amount of Junior Subordinated Notes that may be issued thereunder and provides that Junior Subordinated Notes may be issued from time to time in one or more series pursuant to an indenture supplemental to the Subordinated Note Indenture. The Subordinated Note Indenture gives the Company the ability to reopen a previous issue of Junior Subordinated Notes and issue additional Junior Subordinated Notes of such series, unless otherwise provided.

Reference is made to the Prospectus Supplement that will accompany this Prospectus for the following terms of the series of Junior Subordinated Notes being offered thereby: (i) the title of such Junior Subordinated Notes; (ii) any limit on the aggregate principal amount of such Junior Subordinated Notes; (iii) the date or dates on which the principal of such Junior Subordinated Notes is payable; (iv) the rate or rates at which such Junior Subordinated Notes shall bear interest, if any, or any method by which such rate or rates will be determined, the date or dates from which such interest will accrue, the interest payment dates on which such interest shall be payable, and the regular record date for the interest payable on any interest payment date; (v) the place or places where the principal of (and premium, if any) and interest, if any, on such Junior Subordinated Notes shall be payable; (vi) the period or periods within which, the price or prices at which and the terms and conditions on which such Junior Subordinated Notes may be redeemed, in whole or in part, at the option of the Company; (vii) the obligation, if any, of the Company to redeem or purchase such Junior Subordinated Notes; (viii) the denominations in which such Junior Subordinated Notes shall be issuable; (ix) if other than the principal amount thereof, the portion of the principal amount of such Junior Subordinated Notes which shall be payable upon declaration of acceleration of the maturity thereof; (x) any deletions from, modifications of or additions to the Events of Default or covenants of the Company as provided in the Subordinated Note Indenture pertaining to such Junior Subordinated Notes; (xi) whether such Junior Subordinated Notes shall be issued in whole or in part in the form of a Global Security; (xii) the right, if any, of the Company to extend the interest payment periods of such Junior Subordinated Notes; and (xiii) any other terms of such Junior Subordinated Notes. The terms of each series of Junior Subordinated Notes issued to a Trust will correspond to those of the related Preferred Securities of such Trust as described in the Prospectus Supplement relating to such Preferred Securities.

The Subordinated Note Indenture does not contain provisions that afford holders of Junior Subordinated Notes protection in the event of a highly leveraged transaction involving the Company.

### Subordination

The Junior Subordinated Notes are subordinated and junior in right of payment to all Senior Indebtedness (as defined below) of the Company. No payment of principal of (including redemption payments, if any), or premium, if any, or interest on (including Additional Interest (as defined below)) the Junior Subordinated Notes may be made if (a) any Senior Indebtedness is not paid when due and any applicable grace period with respect to such default has ended with such default not being cured or waived or otherwise ceasing to exist, or (b) the

maturity of any Senior Indebtedness has been accelerated because of a default, or (c) notice has been given of the exercise of an option to require repayment, mandatory payment or prepayment or otherwise. Upon any payment or distribution of assets of the Company to creditors upon any liquidation, dissolution, winding-up, reorganization, assignment for the benefit of creditors, marshalling of assets or liabilities, or any bankruptcy, insolvency or similar proceedings of the Company, the holders of Senior Indebtedness shall be entitled to receive payment in full of all amounts due or to become due on or in respect of all Senior Indebtedness before the holders of the Junior Subordinated Notes are entitled to receive or retain any payment or distribution. Subject to the prior payment of all Senior Indebtedness, the rights of the holders of the Junior Subordinated Notes will be subrogated to the rights of the holders of Senior Indebtedness to receive payments and distributions applicable to such Senior Indebtedness until all amounts owing on the Junior Subordinated Notes are paid in full.

The term "Senior Indebtedness" means, with respect to the Company, (i) any payment due in respect of indebtedness of the Company, whether outstanding at the date of execution of the Subordinated Note Indenture or thereafter incurred, created or assumed, (a) in respect of money borrowed (including any financial derivative, hedging or futures contract or similar instrument) and (b) evidenced by securities, debentures, bonds, notes or other similar instruments issued by the Company that, by their terms, are senior or senior subordinated debt securities including, without limitation, all obligations under its indentures with various trustees; (ii) all capital lease obligations; (iii) all obligations issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations of the Company under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business and long-term purchase obligations); (iv) all obligations for the reimbursement of any letter of credit, banker's acceptance, security purchase facility or similar credit transaction; (v) all obligations of the type referred to in clauses (i) through (iv) above of other persons the payment of which the Company is responsible or liable as obligor, guarantor or otherwise; and (vi) all obligations of the type referred to in clauses (i) through (v) above of other persons secured by any lien on any property or asset of the Company (whether or not such obligation is assumed by the Company), except for (1) any such indebtedness that is by its terms subordinated to or *pari passu* with the Junior Subordinated Notes and (2) any unsecured indebtedness between or among the Company or its affiliates. Such Senior Indebtedness shall continue to be Senior Indebtedness and be entitled to the benefits of the subordination provisions contained in the Subordinated Note Indenture irrespective of any amendment, modification or waiver of any term of such Senior Indebtedness.

The Subordinated Note Indenture does not limit the aggregate amount of Senior Indebtedness that may be issued by the Company. As of December 31, 2000, Senior Indebtedness of the Company aggregated approximately $416,000,000

**Additional Interest**

"Additional Interest" is defined in the Subordinated Note Indenture as (i) such additional amounts as may be required so that the net amounts received and retained by a holder of Junior Subordinated Notes (if the holder is a Trust) after paying taxes, duties, assessments or governmental charges of whatever nature (other than withholding taxes) imposed by the United States or any other taxing authority will not be less than the amounts the holder would have received had no such taxes, duties, assessments, or other governmental charges been imposed; and (ii) any interest due and not paid on an interest payment date, together with interest thereon from such interest payment date to the date of payment, compounded quarterly, on each interest payment date.

**Certain Covenants**

The Company covenants in the Subordinated Note Indenture, for the benefit of the holders of each series of Junior Subordinated Notes, that, (i) if at such time the Company shall have given notice of its election to extend an interest payment period for such series of Junior Subordinated Notes and such extension shall be continuing, (ii) if at such time the Company shall be in default with respect to its payment or other obligations under the Guarantee with respect to the Trust Securities, if any, related to such series of Junior Subordinated Notes, or (iii) if at such time an Event of Default thereunder with respect to such series of Junior Subordinated Notes shall have occurred and be continuing, (a) the Company shall not declare or pay any dividend or make any

distributions with respect to, or redeem, purchase, acquire or make a liquidation payment with respect to, any of its capital stock, and (b) the Company shall not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities (including guarantees other than the Guarantees) issued by the Company which rank *pari passu* with or junior to the Junior Subordinated Notes. None of the foregoing, however, shall restrict (i) any of the actions described in the preceding sentence resulting from any reclassifications of the Company's capital stock or the exchange or conversion of one class or series of the Company's capital stock for another class or series of the Company's capital stock, or (ii) the purchase of fractional interests in shares of the Company's capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged.

The Subordinated Note Indenture further provides that, for so long as the Trust Securities of any Trust remain outstanding, the Company covenants (i) to directly or indirectly maintain 100% ownership of the Common Securities of such Trust; provided, however, that any permitted successor of the Company under the Subordinated Note Indenture may succeed to the Company's ownership of such Common Securities, and (ii) to use its reasonable efforts to cause such Trust (a) to remain a statutory business trust, except in connection with the distribution of Junior Subordinated Notes to the holders of Trust Securities in liquidation of such Trust, the redemption of all of the Trust Securities of such Trust, or certain mergers, consolidations or amalgamations, each as permitted by the related Trust Agreement, and (b) to otherwise continue to be classified as a grantor trust for United States federal income tax purposes.

**Events of Default**

The Subordinated Note Indenture provides that any one or more of the following described events with respect to the Junior Subordinated Notes of any series, which has occurred and is continuing, constitutes an "Event of Default" with respect to the Junior Subordinated Notes of such series:

(a) failure for 10 days to pay interest on the Junior Subordinated Notes of such series, including any Additional Interest (as defined in clause (ii) of the definition thereof in the Subordinated Note Indenture) in respect thereof, when due on an interest payment date other than at maturity or upon earlier redemption; provided, however, that a valid extension of the interest payment period by the Company shall not constitute a default in the payment of interest for this purpose; or

(b) failure for 10 days to pay Additional Interest (as defined in clause (i) of the definition thereof in the Subordinated Note Indenture); or

(c) failure to pay principal or premium, if any, or interest, including Additional Interest (as defined in clause (ii) of the definition thereof in the Subordinated Note Indenture), on the Junior Subordinated Notes of such series when due at maturity or upon earlier redemption; or

(d) failure for three Business Days to deposit any sinking fund payment when due by the terms of a Junior Subordinated Note of such series; or

(e) failure to observe or perform any other covenant or warranty of the Company in the Subordinated Note Indenture (other than a covenant or warranty which has expressly been included therein solely for the benefit of one or more series of Junior Subordinated Notes other than such series) for 90 days after written notice to the Company from the Subordinated Note Indenture Trustee or the holders of at least 25% in principal amount of the outstanding Junior Subordinated Notes of such series; or

(f) certain events of bankruptcy, insolvency or reorganization of the Company.

The holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of any series have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Subordinated Note Indenture Trustee with respect to the Junior Subordinated Notes of such series. If a Subordinated Note Indenture Event of Default occurs and is continuing with respect to the Junior Subordinated Notes of any series, then the Subordinated Note Indenture Trustee or the holders of not less than 25% in aggregate outstanding principal amount of the Junior Subordinated Notes of such series may declare the principal amount thereof due and payable immediately by notice in writing to the Company (and to the

Subordinated Note Indenture Trustee if given by the holders), and upon any such declaration such principal amount shall become immediately due and payable. At any time after such a declaration of acceleration with respect to the Junior Subordinated Notes of any series had been made and before a judgment or decree for payment of the money due has been obtained as provided in Article Five of the Subordinated Note Indenture, the holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of such series may rescind and annul such declaration and its consequences if the default has been cured or waived and the Company has paid or deposited with the Subordinated Note Indenture Trustee a sum sufficient to pay all matured installments of interest (including any Additional Interest) and principal due otherwise than by acceleration and all sums paid or advanced by the Subordinated Note Indenture Trustee, including reasonable compensation and expenses of the Subordinated Note Indenture Trustee.

A holder of Preferred Securities may institute a legal proceeding directly against the Company, without first instituting a legal proceeding against the Property Trustee or any other person or entity, for enforcement of payment to such holder of principal of or interest on the Junior Subordinated Notes of the related series having a principal amount equal to the aggregate stated liquidation amount of the Preferred Securities of such holder on or after the due dates specified in the Junior Subordinated Notes of such series.

The holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of any series may, on behalf of the holders of all the Junior Subordinated Notes of such series, waive any past default with respect to such series, except (i) a default in the payment of principal or interest or (ii) a default in respect of a covenant or provision which under Article Nine of the Subordinated Note Indenture cannot be modified or amended thereunder without the consent of the holder of each outstanding Junior Subordinated Note of such series affected thereby.

**Registration and Transfer**

The Company shall not be required, to (i) issue, register the transfer of or exchange Junior Subordinated Notes of any series during a period of 15 days immediately preceding the date notice is given identifying the Junior Subordinated Notes of such series called for redemption, or (ii) register the transfer of or exchange any Junior Subordinated Notes so selected for redemption, in whole or in part, except the unredeemed portion of any Junior Subordinated Note being redeemed in part.

**Payment and Paying Agent**

Unless otherwise indicated in an applicable Prospectus Supplement, payment of principal of any Junior Subordinated Notes will be made only against surrender to the Paying Agent of such Junior Subordinated Notes. Principal of and interest on Junior Subordinated Notes will be payable, subject to any applicable laws and regulations, at the office of such Paying Agent or Paying Agents as the Company may designate from time to time, except that, at the option of the Company, payment of any interest may be made by wire transfer or by check mailed to the address of the person entitled thereto as such address shall appear in the Security Register with respect to the Junior Subordinated Notes. Payment of interest on Junior Subordinated Notes on any interest payment date will be made to the person in whose name the Junior Subordinated Notes (or predecessor security) are registered at the close of business on the record date for such interest payment.

Unless otherwise indicated in an applicable Prospectus Supplement, the Subordinated Note Indenture Trustee will act as Paying Agent with respect to the Junior Subordinated Notes. The Company may at any time designate additional Paying Agents or rescind the designation of any Paying Agents or approve a change in the office through which any Paying Agent acts.

All moneys paid by the Company to a Paying Agent for the payment of the principal of or interest on the Junior Subordinated Notes of any series which remain unclaimed at the end of two years after such principal or interest shall have become due and payable will be repaid to the Company, and the holder of such Junior Subordinated Notes will thereafter look only to the Company for payment thereof.

**Modification**

The Subordinated Note Indenture contains provisions permitting the Company and the Subordinated Note Indenture Trustee, with the consent of the holders of not less than a majority in principal amount of the outstanding Junior Subordinated Notes of each series affected thereby, to modify the Subordinated Note Indenture or the rights of the holders of the Junior Subordinated Notes of such series; provided, that no such modification may, without the consent of the holder of each outstanding Junior Subordinated Note affected thereby, (i) change the stated maturity of the principal of, or any installment of principal of or interest on, any Junior Subordinated Note, or reduce the principal amount thereof or the rate of interest (including Additional Interest) thereon or any premium payable upon the redemption thereof, or change the method of calculating the rate of interest thereon, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date), or (ii) reduce the percentage of principal amount of the outstanding Junior Subordinated Notes of any series, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the Subordinated Note Indenture or certain defaults thereunder and their consequences) provided for in the Subordinated Note Indenture, or (iii) modify any of the provisions of the Subordinated Note Indenture relating to supplemental indentures, waiver of past defaults, or waiver of certain covenants, except to increase any such percentage or to provide that certain other provisions of the Subordinated Note Indenture cannot be modified or waived without the consent of the holder of each outstanding Junior Subordinated Note affected thereby, or (iv) modify the provisions of the Subordinated Note Indenture with respect to the subordination of the Junior Subordinated Notes in a manner adverse to such holder.

In addition, the Company and the Subordinated Note Indenture Trustee may execute, without the consent of any holders of Junior Subordinated Notes, any supplemental indenture for certain other usual purposes, including the creation of any new series of junior subordinated notes.

**Consolidation, Merger and Sale**

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any person, unless (1) such other corporation or person is a corporation organized and existing under the laws of the United States, any state thereof or the District of Columbia and such other corporation or person expressly assumes, by supplemental indenture executed and delivered to the Subordinated Note Indenture Trustee, the payment of the principal of (and premium, if any) and interest (including Additional Interest) on all the Junior Subordinated Notes and the performance of every covenant of the Subordinated Note Indenture on the part of the Company to be performed or observed; (2) immediately after giving effect to such transactions, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and (3) the Company has delivered to the Subordinated Note Indenture Trustee an officers' certificate and an opinion of counsel, each stating that such transaction complies with the provisions of the Subordinated Note Indenture governing consolidation, merger, conveyance, transfer or lease and that all conditions precedent thereto have been complied with.

**Information Concerning the Subordinated Note Indenture Trustee**

The Subordinated Note Indenture Trustee, prior to an Event of Default with respect to Junior Subordinated Notes of any series, undertakes to perform, with respect to Junior Subordinated Notes of such series, only such duties as are specifically set forth in the Subordinated Note Indenture and, in case an Event of Default with respect to Junior Subordinated Notes of any series has occurred and is continuing, shall exercise, with respect to Junior Subordinated Notes of such series, the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provision, the Subordinated Note Indenture Trustee is under no obligation to exercise any of the powers vested in it by the Subordinated Note Indenture at the request of any holder of Junior Subordinated Notes of any series, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The Subordinated Note Indenture Trustee is not required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties if the Subordinated Note Indenture Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

The Chase Manhattan Bank, the Subordinated Note Indenture Trustee, also serves as Senior Note Indenture Trustee, as Property Trustee and as Guarantee Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with The Chase Manhattan Bank. The Chase Manhattan Bank also serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

### Governing Law

The Subordinated Note Indenture and Junior Subordinated Notes will be governed by, and construed in accordance with, the internal laws of the State of New York.

### Miscellaneous

The Company will have the right at all times to assign any of its rights or obligations under the Subordinated Note Indenture to a direct or indirect wholly-owned subsidiary of the Company; provided, that, in the event of any such assignment, the Company will remain primarily liable for all such obligations. Subject to the foregoing, the Subordinated Note Indenture will be binding upon and inure to the benefit of the parties thereto and their respective successors and assigns.

## DESCRIPTION OF THE PREFERRED SECURITIES

Each Trust may issue only one series of Preferred Securities having terms described in the Prospectus Supplement relating thereto. The Trust Agreement of each Trust will authorize the Administrative Trustees, on behalf of the Trust, to issue the Preferred Securities of such Trust. The Preferred Securities of each Trust will have such terms, including distributions, redemption, voting, liquidation rights and such other preferred, deferral or other special rights or such restrictions as shall be set forth in the Trust Agreement of such Trust. Reference is made to the Prospectus Supplement relating to the Preferred Securities of a Trust for specific terms, including (i) the distinctive designation of such Preferred Securities; (ii) the number of Preferred Securities issued by such Trust, (iii) the annual distribution rate (or method of determining such rate) for Preferred Securities of such Trust and the date or dates on which such distributions shall be payable; (iv) whether distributions on such Preferred Securities shall be cumulative and, in the case of Preferred Securities having cumulative distribution rights, the date or dates, or method of determining the date or dates, from which distributions on such Preferred Securities shall be cumulative; (v) the amount or amounts that shall be paid out of the assets of such Trust to the holders of the Preferred Securities of such Trust upon voluntary or involuntary dissolution, winding-up or termination of such Trust; (vi) the obligation, if any, of such Trust to purchase or redeem such Preferred Securities and the price or prices at which, the period or periods within which, and the terms and conditions upon which such Preferred Securities shall be purchased or redeemed, in whole or in part, pursuant to such obligation; (vii) the voting rights, if any, of such Preferred Securities in addition to those required by law, including the number of votes per Preferred Security and any requirement for the approval by the holders of Preferred Securities as a condition to specified action or amendments to the Trust Agreement of such Trust; (viii) the rights, if any, to defer distributions on the Preferred Securities by extending the interest payment period on the related Junior Subordinated Notes; and (ix) any other relative rights, preferences, privileges, limitations or restrictions of such Preferred Securities not inconsistent with the Trust Agreement of such Trust or applicable law. All Preferred Securities offered hereby will be guaranteed by the Company to the extent set forth under "Description of the Guarantees." Any material United States federal income tax considerations applicable to an offering of Preferred Securities will be described in the Prospectus Supplement relating thereto.

## DESCRIPTION OF THE GUARANTEES

Set forth below is a summary of information concerning the Guarantees that will be executed and delivered by the Company for the benefit of the holders of Preferred Securities of the respective Trusts from time to time. Each Guarantee will be qualified as an indenture under the 1939 Act. The Chase Manhattan Bank will act as indenture trustee under each Guarantee (the "Guarantee Trustee") for purposes of the 1939 Act. The terms of the respective Guarantees will be those set forth therein and those made part thereof by the 1939 Act. The following summary does not purport to be complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the Guarantees, the form of which is filed as an exhibit to the Registration Statement of which this Prospectus forms a part, and the 1939 Act. Each Guarantee will be held by the Guarantee Trustee for the benefit of holders of the Preferred Securities to which it relates.

### General

Pursuant to each Guarantee, the Company will irrevocably and unconditionally agree, to the extent set forth therein, to pay in full, to the holders of the related Preferred Securities, the Guarantee Payments (as defined herein), to the extent not paid by, or on behalf of, the related Trust, regardless of any defense, right of set-off or counterclaim that the Company may have or assert against any person. The following payments or distributions with respect to the Preferred Securities of any Trust to the extent not paid or made by, or on behalf of, such Trust will be subject to the Guarantee related thereto (without duplication): (i) any accrued and unpaid distributions required to be paid on the Preferred Securities of such Trust but if and only if and to the extent that such Trust has funds legally and immediately available therefor, (ii) the redemption price, including all accrued and unpaid distributions to the date of redemption (the "Redemption Price"), with respect to any Preferred Securities called for redemption by such Trust, but if and only to the extent such Trust has funds legally and immediately available therefor, and (iii) upon a dissolution, winding-up or termination of such Trust (other than in connection with the distribution of Junior Subordinated Notes to the holders of Trust Securities of such Trust or the redemption of all of the Preferred Securities of such Trust), the lesser of (a) the aggregate of the liquidation amount and all accrued and unpaid distributions on the Preferred Securities of such Trust to the date of payment, to the extent such Trust has funds legally and immediately available therefor, and (b) the amount of assets of such Trust remaining available for distribution to holders of Preferred Securities of such Trust in liquidation of such Trust (the "Guarantee Payments"). The Company's obligation to make a Guarantee Payment may be satisfied by direct payment of the required amounts by the Company to the holders of the related Preferred Securities or by causing the related Trust to pay such amounts to such holders.

Each Guarantee will be a guarantee of the Guarantee Payments with respect to the related Preferred Securities from the time of issuance of such Preferred Securities, but will not apply to the payment of distributions and other payments on such Preferred Securities when the related Trust does not have sufficient funds legally and immediately available to make such distributions or other payments. **If the Company does not make interest payments on the Junior Subordinated Notes held by the Property Trustee under any Trust, such Trust will not make distributions on its Preferred Securities.**

### Subordination

The Company's obligations under each Guarantee to make the Guarantee Payments will constitute an unsecured obligation of the Company and will rank (i) subordinate and junior in right of payment to all other liabilities of the Company, including the Junior Subordinated Notes, except those obligations or liabilities made *pari passu* or subordinate by their terms, (ii) *pari passu* with the most senior preferred or preference stock now or hereafter issued by the Company and with any guarantee now or hereafter entered into by the Company in respect of any preferred or preference securities of any affiliate of the Company, and (iii) senior to all common stock of the Company. The terms of the Preferred Securities will provide that each holder of Preferred Securities by acceptance thereof agrees to the subordination provisions and other terms of the Guarantee related thereto. The Company has outstanding preferred stock that ranks *pari passu* to the Guarantees and common stock that ranks junior to the Guarantees.

Each Guarantee will constitute a guarantee of payment and not of collection (that is, the guaranteed party may institute a legal proceeding directly against the guarantor to enforce its rights under the guarantee without first instituting a legal proceeding against any other person or entity).

**Amendments and Assignment**

Except with respect to any changes that do not materially and adversely affect the rights of holders of the related Preferred Securities (in which case no consent will be required), each Guarantee may be amended only with the prior approval of the holders of not less than 66⅔% in liquidation amount of such outstanding Preferred Securities. The manner of obtaining any such approval of holders of the Preferred Securities will be as set forth in an accompanying Prospectus Supplement. All guarantees and agreements contained in each Guarantee shall bind the successors, assigns, receivers, trustees and representatives of the Company and shall inure to the benefit of the holders of the related Preferred Securities then outstanding.

**Termination**

Each Guarantee will terminate and be of no further force and effect as to the related Preferred Securities upon full payment of the Redemption Price of all such Preferred Securities, upon distribution of Junior Subordinated Notes to the holders of such Preferred Securities, or upon full payment of the amounts payable upon liquidation of the related Trust. Each Guarantee will continue to be effective or will be reinstated, as the case may be, if at any time any holder of the related Preferred Securities must restore payment of any sums paid with respect to such Preferred Securities or under such Guarantee.

**Events of Default**

An event of default under each Guarantee will occur upon the failure by the Company to perform any of its payment obligations thereunder. The holders of a majority in liquidation amount of the Preferred Securities to which any Guarantee relates have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Guarantee Trustee in respect of such Guarantee or to direct the exercise of any trust or power conferred upon the Guarantee Trustee under such Guarantee. Any holder of the related Preferred Securities may institute a legal proceeding directly against the Company to enforce its rights under such Guarantee without first instituting a legal proceeding against the Guarantee Trustee or any other person or entity. The holders of a majority in liquidation amount of Preferred Securities of any series may, by vote, on behalf of the holders of all the Preferred Securities of such series, waive any past event of default and its consequences.

**Information Concerning the Guarantee Trustee**

The Guarantee Trustee, prior to the occurrence of any event of default with respect to any Guarantee and after the curing or waiving of all events of default with respect to such Guarantee, undertakes to perform only such duties as are specifically set forth in such Guarantee and, in case an event of default has occurred, shall exercise the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provisions, the Guarantee Trustee is under no obligation to exercise any of the powers vested in it by any Guarantee at the request of any holder of the related Preferred Securities, unless offered reasonable indemnity against the costs, expenses and liabilities which might be incurred thereby.

The Chase Manhattan Bank, the Guarantee Trustee, also serves as Property Trustee, as Senior Note Indenture Trustee and as Subordinated Note Indenture Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with The Chase Manhattan Bank. The Chase Manhattan Bank serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

**Governing Law**

Each Guarantee will be governed by, and construed in accordance with, the internal laws of the State of New York.

### The Agreements as to Expenses and Liabilities

Pursuant to an Agreement as to Expenses and Liabilities to be entered into by the Company under each Trust Agreement, the Company will irrevocably and unconditionally guarantee to each person or entity to whom each Trust becomes indebted or liable the full payment of any indebtedness, expenses or liabilities of such Trust, other than obligations of such Trust to pay to the holders of the related Preferred Securities or other similar interests in such Trust the amounts due such holders pursuant to the terms of such Preferred Securities or such other similar interests, as the case may be.

## RELATIONSHIP AMONG THE PREFERRED SECURITIES, THE JUNIOR SUBORDINATED NOTES AND THE GUARANTEES

As long as payments of interest and other payments are made when due on each series of Junior Subordinated Notes issued to a Trust, such payments will be sufficient to cover distributions and payments due on the related Trust Securities of such Trust primarily because (i) the aggregate principal amount of each series of Junior Subordinated Notes will be equal to the sum of the aggregate stated liquidation amount of the related Trust Securities; (ii) the interest rate and interest and other payment dates on each series of Junior Subordinated Notes will match the distribution rate and distribution and other payment dates for the related Preferred Securities; (iii) the Company shall pay for all costs and expenses of each Trust pursuant to the Agreements as to Expenses and Liabilities; and (iv) each Trust Agreement provides that the Securities Trustees thereunder shall not cause or permit the Trust to, among other things, engage in any activity that is not consistent with the purposes of the Trust.

Payments of distributions (to the extent funds therefor are legally and immediately available) and other payments due on the Preferred Securities (to the extent funds therefor are legally and immediately available) will be guaranteed by the Company as and to the extent set forth under "Description of the Guarantees." If the Company does not make interest payments on any series of Junior Subordinated Notes, it is not expected that the related Trust will have sufficient funds to pay distributions on its Preferred Securities. Each Guarantee is a guarantee from the time of its issuance, but does not apply to any payment of distributions unless and until the related Trust has sufficient funds legally and immediately available for the payment of such distributions.

If the Company fails to make interest or other payments on any series of Junior Subordinated Notes when due (taking into account any extension period as described in the applicable Prospectus Supplement), the Trust Agreement provides a mechanism whereby the holders of the related Preferred Securities may appoint a substitute Property Trustee. Such holders may also direct the Property Trustee to enforce its rights under the Junior Subordinated Notes of such series, including proceeding directly against the Company to enforce such Junior Subordinated Notes. If the Property Trustee fails to enforce its rights under any series of Junior Subordinated Notes, to the fullest extent permitted by applicable law, any holder of related Preferred Securities may institute a legal proceeding directly against the Company to enforce the Property Trustee's rights under such series of Junior Subordinated Notes without first instituting any legal proceeding against the Property Trustee or any other person or entity. Notwithstanding the foregoing, a holder of Preferred Securities may institute a legal proceeding directly against the Company, without first instituting a legal proceeding against the Property Trustee or any other person or entity, for enforcement of payment to such holder of principal of or interest on Junior Subordinated Notes of the related series having a principal amount equal to the aggregate stated liquidation amount of the Preferred Securities of such holder on or after the due dates specified in the Junior Subordinated Notes of such series.

If the Company fails to make payments under any Guarantee, such Guarantee provides a mechanism whereby the holders of the Preferred Securities to which such Guarantee relates may direct the Guarantee Trustee to enforce its rights thereunder. In addition, any holder of Preferred Securities may institute a legal proceeding directly against the Company to enforce the Guarantee Trustee's rights under the related Guarantee without first instituting a legal proceeding against the Guarantee Trustee or any other person or entity.

Each Guarantee, the Subordinated Note Indenture, the Junior Subordinated Notes of the related series, the related Trust Agreement and the related Agreement as to Expenses and Liabilities, as described above, constitute a full and unconditional guarantee by the Company of the payments due on the related series of Preferred Securities.

Upon any voluntary or involuntary dissolution, winding-up or termination of any Trust, unless Junior Subordinated Notes of the related series are distributed in connection therewith, the holders of Preferred Securities of such Trust will be entitled to receive, out of assets legally available for distribution to holders, a liquidation distribution in cash as described in the applicable Prospectus Supplement. Upon any voluntary or involuntary liquidation or bankruptcy of the Company, the Property Trustee, as holder of the related series of Junior Subordinated Notes, would be a subordinated creditor of the Company, subordinated in right of payment to all Senior Indebtedness, but entitled to receive payment in full of principal and interest, before any stockholders of the Company receive payments or distributions. Because the Company is guarantor under each Guarantee and has agreed to pay for all costs, expenses and liabilities of each Trust (other than the Trust's obligations to holders of the Preferred Securities) pursuant to the related Agreement as to Expenses and Liabilities, the positions of a holder of Preferred Securities and a holder of Junior Subordinated Notes of the related series relative to other creditors and to stockholders of the Company in the event of liquidation or bankruptcy of the Company would be substantially the same.

A default or event of default under any Senior Indebtedness would not constitute a default or Event of Default under the Subordinated Note Indenture. However, in the event of payment defaults under, or acceleration of, Senior Indebtedness, the subordination provisions of the Junior Subordinated Notes provide that no payments may be made in respect of the Junior Subordinated Notes until such Senior Indebtedness has been paid in full or any payment default thereunder has been cured or waived. Failure to make required payments on the Junior Subordinated Notes of any series would constitute an Event of Default under the Subordinated Note Indenture with respect to the Junior Subordinated Notes of such series except that failure to make interest payments on the Junior Subordinated Notes of such series will not be an Event of Default during an extension period as described in the applicable Prospectus Supplement.

## PLAN OF DISTRIBUTION

The Company may sell the Senior Notes and the Junior Subordinated Notes and the Trusts may sell the Preferred Securities in one or more of the following ways from time to time: (i) to underwriters for resale to the public or to institutional investors; (ii) directly to institutional investors; or (iii) through agents to the public or to institutional investors. The Prospectus Supplement with respect to each series of Senior Notes, Junior Subordinated Notes or Preferred Securities will set forth the terms of the offering of such Senior Notes, Junior Subordinated Notes or Preferred Securities, including the name or names of any underwriters or agents, the purchase price of such Senior Notes, Junior Subordinated Notes or Preferred Securities and the proceeds to the Company or the applicable Trust from such sale, any underwriting discounts or agency fees and other items constituting underwriters' or agents' compensation, any initial public offering price, any discounts or concessions allowed or reallowed or paid to dealers and any securities exchange on which such Senior Notes, Junior Subordinated Notes or Preferred Securities may be listed.

If underwriters participate in the sale, such Senior Notes, Junior Subordinated Notes or Preferred Securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale.

Unless otherwise set forth in the Prospectus Supplement, the obligations of the underwriters to purchase any series of Senior Notes, Junior Subordinated Notes or Preferred Securities will be subject to certain conditions precedent and the underwriters will be obligated to purchase all of such series of Senior Notes, Junior Subordinated Notes or Preferred Securities, if any are purchased.

Underwriters and agents may be entitled under agreements entered into with the Company and/or the applicable Trust to indemnification against certain civil liabilities, including liabilities under the 1933 Act. Underwriters and agents may engage in transactions with, or perform services for, the Company in the ordinary course of business.

Each series of Senior Notes, Junior Subordinated Notes or Preferred Securities will be a new issue of securities and will have no established trading market. Any underwriters to whom Senior Notes, Junior Subordinated Notes or Preferred Securities are sold for public offering and sale may make a market in such Senior Notes, Junior Subordinated Notes or Preferred Securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice. The Senior Notes, Junior Subordinated Notes or Preferred Securities may or may not be listed on a national securities exchange.

## LEGAL MATTERS

Certain matters of Delaware law relating to the validity of the Preferred Securities will be passed upon on behalf of the Company and the Trusts by Richards, Layton & Finger, Wilmington, Delaware, special Delaware counsel to the Company and the Trusts. The validity of the Senior Notes, the Junior Subordinated Notes, the Guarantees and certain matters relating thereto will be passed upon on behalf of the Company by Beggs & Lane, Pensacola, Florida, and by Troutman Sanders LLP, Atlanta, Georgia. Certain legal matters will be passed upon for the Underwriters by Dewey Ballantine LLP, New York, New York.

## EXPERTS

The financial statements and schedules of the Company included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000, incorporated by reference in this Prospectus, have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are incorporated herein in reliance upon the authority of said firm as experts in accounting and auditing in giving said reports.

# $65,000,000




## Series F 5.60% Senior Insured Quarterly Notes (IQ Notes℠)
## due April 1, 2033

PROSPECTUS SUPPLEMENT

Edward D. Jones & Co., L.P.

Goldman, Sachs & Co.

March 21, 2003

BEGGS & LANE
A REGISTERED LIMITED LIABILITY PARTNERSHIP
ATTORNEYS AND COUNSELLORS AT LAW
POST OFFICE BOX 12950
PENSACOLA, FLORIDA 32591-2950

501 COMMENDENCIA STREET
PENSACOLA, FLORIDA 32501-5641
TELEPHONE (850) 432-2451
TELECOPIER (850) 469-3330

JAMES M WEBER
JOHN F WINDHAM
J NIXON DANIEL, III
RALPH A PETERSON
GARY B LEUCHTMAN
JOHN P DANIEL
JEFFREY A STONE
JAMES S CAMPBELL
RUSSELL F VAN SICKLE
RUSSELL A BADDERS
MARY JANE THIES
DAVID L McGEE
CHARLES T WIGGINS
THOMAS F GONZALEZ
DAVID E HIGHTOWER
WILLIAM H MITCHEM
PETER J MOUGEY
R ANDREW KENT
ELIZABETH C CALLAHAN
TERRIE L DIDIER

W SPENCER MITCHEM
*Of Counsel*

E DIXIE BEGGS
1908-2001

BERT H LANE
1917-1981

March 26, 2003

Edward D. Jones & Co., L.P.
Goldman, Sachs & Co.

c/o Edward D. Jones & Co., L.P.
12555 Manchester Road
St. Louis, Missouri 63131

GULF POWER COMPANY
SERIES F 5.60% SENIOR INSURED QUARTERLY NOTES
DUE APRIL 1, 2033

Ladies and Gentlemen:

We have acted as general counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance and sale of $65,000,000 aggregate principal amount of its Series F 5.60% Senior Insured Quarterly Notes due April 1, 2033 (the "Notes") pursuant to the Senior Note Indenture dated as of January 1, 1998, by and between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Sixth Supplemental Indenture dated as of March 26, 2003 (collectively, the "Indenture") and (ii) the purchase by you of the Notes pursuant to the terms of an Underwriting Agreement dated March 21, 2003 (the "Underwriting Agreement"), among the Company and you. This opinion is being delivered to you pursuant to Section 5(c)(1) of the Underwriting Agreement.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (File Nos. 333-59942, 333-59942-01 and 333-59942-02) pertaining to the Notes (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act"), and the prospectus of the Company dated June 1, 2001, as supplemented by a final prospectus supplement relating to the Notes dated March 21, 2003 (the "Final Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the

Company for the fiscal year ended December 31, 2002 (the "Form 10-K") and the Current Report on Form 8-K of the Company dated March 21, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to collectively as the "Agreements."

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Georgia law and the federal law of the United States upon the opinion dated the date hereof rendered to you by Troutman Sanders LLP and relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP, that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue

sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by you pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP and with your counsel. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents and our participation in the conferences referred to above (i) we are of the opinion that the Registration Statement, as of its effective date, and the Final Supplemented Prospectus, as of March 21, 2003, complied as to form in all material respects with the requirements of the Act

and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the relevant requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of the date of filing of the Form 10-K (including the Form 10-K), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contained, as of its date, or contains, on the date hereof, any untrue statement of a material fact or omitted, as of its date, or omits, on the date hereof, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the captions "Description of the Series F Senior Notes – Book-Entry Only Issuance – The Depository Trust Company" and "The Policy and the Insurer" or in Appendix A thereto.

We are members of the Florida Bar and we do not express any opinion herein concerning any law other than the law of the States of Maine, Florida and Mississippi and, to the extent set forth herein, the laws of the States of Georgia and New York and the federal law of the United States.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent, except that Troutman Sanders LLP and Dewey Ballantine LLP may rely on this opinion in giving their opinions pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinions relate to matters of Maine, Florida and Mississippi law.

Yours very truly,

Beggs & Lane

BEGGS & LANE

TROUTMAN SANDERS LLP
ATTORNEYS AT LAW
A LIMITED LIABILITY PARTNERSHIP

BANK OF AMERICA PLAZA
600 PEACHTREE STREET, N.E. - SUITE 5200
ATLANTA, GEORGIA 30308-2216
www.troutmansanders.com
TELEPHONE 404-885-3000
FACSIMILE 404-885-3900

March 26, 2003

Edward D. Jones & Co., L.P.
Goldman, Sachs & Co.

c/o Edward D. Jones & Co., L.P.
12555 Manchester Road
St. Louis, Missouri 63131

GULF POWER COMPANY
SERIES F 5.60% SENIOR INSURED QUARTERLY NOTES
DUE APRIL 1, 2033

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance and sale of $65,000,000 aggregate principal amount of its Series F 5.60% Senior Insured Quarterly Notes due April 1, 2033 (the "Notes") pursuant to the Senior Note Indenture dated as of January 1, 1998, by and between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Sixth Supplemental Indenture dated as of March 26, 2003 (collectively, the "Indenture") and (ii) the purchase by you of the Notes pursuant to the terms of an Underwriting Agreement dated March 21, 2003 (the "Underwriting Agreement"), among the Company and you. This opinion is being delivered to you pursuant to Section 5(c)(2) of the Underwriting Agreement.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (Nos. 333-59942, 333-59942-01 and 333-59942-02) pertaining to the Notes and certain other securities (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act"), and the prospectus of the Company dated June 1, 2001, as supplemented by the prospectus supplement dated March 21, 2003 (the "Final Supplemented Prospectus"),

which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002 (the "Form 10-K") and the Current Report on Form 8-K of the Company dated March 21, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to collectively as the "Agreements."

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP, and as to matters of Maine, Florida and Mississippi law upon the opinion dated the date hereof rendered to you by Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane"), that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental

body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by you pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP and with your counsel. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents and our participation in the conferences referred to above (i) we are of the opinion

that the Registration Statement, as of its effective date, and the Final Supplemented Prospectus, as of March 21, 2003, complied as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the relevant requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of the date of the filing of the Form 10-K (including the Form 10-K), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contained, as of its date, or contains, on the date hereof, any untrue statement of a material fact or omitted, as of its date, or omits, on the date hereof, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the captions "Description of the Series F Senior Notes – Book-Entry Only Issuance – The Depository Trust Company" and "The Policy and the Insurer" or in Appendix A thereto.

We are members of the State Bar of Georgia and we do not express any opinion herein concerning any law other than the law of the State of Georgia and the federal law of the United States and, to the extent set forth herein, the laws of the States of Florida, Maine, Mississippi and New York.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent, except that Beggs & Lane may rely on this opinion in giving its opinion pursuant to Section 5(c) of the Underwriting Agreement insofar as

such opinion relates to matters of Georgia law and the federal law of the United States and Dewey Ballantine LLP may rely on this opinion in giving its opinion pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinion relates to matters of Georgia law.

Very truly yours,

Troutman Sanders LLP

TROUTMAN SANDERS LLP

File No. 70-9171

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM U-1
APPLICATION OR DECLARATION
under
The Public Utility Holding Company Act of 1935

GULF POWER COMPANY
500 Bayfront Parkway
Pensacola, Florida 32501

MISSISSIPPI POWER COMPANY
2992 West Beach
Gulfport, Mississippi 39501

(Name of company or companies filing this statement
and addresses of principal executive offices)

THE SOUTHERN COMPANY

(Name of top registered holding company parent of each
applicant or declarant)

Warren E. Tate, Secretary and Treasurer
Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32501

Michael W. Southern, Vice President,
Secretary, Treasurer and
Chief Financial Officer
Mississippi Power Company
2992 West Beach
Gulfport, Mississippi 39501

(Names and addresses of agents for service)

The Commission is requested to mail signed copies of all orders,
notices and communications to:

W. L. Westbrook
Financial Vice President
The Southern Company
270 Peachtree Street, N.W.
Atlanta, Georgia 30303

John D. McLanahan, Esq.
Troutman Sanders LLP
600 Peachtree Street, N.E., Suite 5200
Atlanta, Georgia 30308

ITEM 1. DESCRIPTION OF PROPOSED TRANSACTION.

Gulf Power Company ("Gulf") and Mississippi Power Company ("Mississippi") are wholly-owned subsidiaries of The Southern Company ("Southern"), a registered holding company under the Public Utility Holding Company Act of 1935, as amended (the "Act"). Gulf and Mississippi are sometimes hereinafter referred to individually as an "Applicant" and collectively as the "Applicants." Each of Gulf and Mississippi proposes to issue and sell at any time or from time to time in one or more series through March 31, 2003 up to $350 million and $400 million, respectively, aggregate principal amount of its senior debentures, senior promissory notes or other senior debt instruments (individually, a "Senior Note" and collectively, the "Senior Notes") governed by an indenture or other document. Each Applicant requests authority to issue and sell Senior Notes pursuant to the authority requested herein without additional prior Securities and Exchange Commission (the "Commission") approval if the Applicant is within the parameters discussed below under the heading "Parameters of Authorization." The provisions of each series of Senior Notes and related instruments would be determined at the time of the sale of such series of Senior Notes.

The proceeds from the issuance and sale of Senior Notes by the Applicants will be added to their respective treasuries and subsequently used principally (i) to finance capital expenditures, (ii) to acquire, retire or redeem securities of which the respective Applicant is the issuer, (iii) to repay outstanding short-term borrowings, (iv) to provide working capital and/or (v) for other general corporate purposes.

Parameters of Authorization

The Applicants request authority to issue Senior Notes for which the specific terms and conditions are not currently known, subject to the following parameters:

Effective Cost of Money on Senior Notes. The effective cost of money on Senior Notes issued pursuant to this application-declaration (this "Application") will not exceed the greater of (i) 300 basis points over comparable term U.S. Treasury securities, or (ii) a gross spread over such Treasury securities which is consistent with comparable securities.

Maturity of Senior Notes. The maturity of the Senior Notes will not exceed approximately 50 years.

Interest. The interest rate on each issue of Senior Notes may be either a fixed rate or an adjustable rate to be determined on a periodic basis by auction or remarketing procedures, in accordance with formula or formulae based upon certain reference rates, or by other predetermined methods.

Ranking. The Senior Notes will be direct, unsecured and unsubordinated obligations of the respective Applicants ranking pari passu with all other unsecured and unsubordinated obligations of the Applicants. The Senior Notes of each Applicant will be effectively subordinated to all secured debt of such Applicant, including its first mortgage bonds.

Issuance Expenses. The underwriting fees, commissions, or other similar expenses paid in connection with the issue, sale or distribution of the Senior Notes of each series pursuant to this Application will not exceed 5% of the aggregate principal amount of such series.

Description of Senior Notes

The Applicants request authority to sell Senior Notes covered by this Application in any of the following ways: (i) through underwriters or dealers; (ii) directly to a limited number of purchasers or to a single purchaser, or (iii) through agents or dealers. If underwriters are used in the sale of the Senior Notes, such Senior Notes will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The Senior Notes may be offered to the public either through underwriting syndicates (which may be represented by managing underwriters) or directly by one or more underwriters acting alone. The Senior Notes may be sold directly by an Applicant or through agents designated from time to time. If dealers are used in the sale of any Senior Notes, such Senior Notes will be sold to the dealers as principal. Any dealer may then resell such Senior Notes to the public at varying prices to be determined by such dealer at the time of resale.

Senior Notes may be sold pursuant to "delayed delivery contracts" which permit the underwriters to locate buyers who will agree to buy the Senior Notes at the same price but at a later date than the date of the closing of the sale to the underwriters. Senior Notes may also be sold through the use of medium-term note and similar programs, including in transactions covered by Rule 144A under the Securities Act of 1933, as amended.

Any Senior Notes would have such designations, aggregate principal amount, maturity, interest rate(s) or methods of determining the same, interest payment terms, redemption provisions, non-refunding provisions, sinking fund terms, conversion or put terms and other terms and conditions as the Applicants may determine at the time of issuance.

ITEM 2. FEES, COMMISSIONS AND EXPENSES.

The estimated fees and expenses to be incurred by Gulf in connection herewith are as follows:

| | Initial Issuance | Each Additional Issuance |
|---|---|---|
| *Florida Documentary Stamp Tax | $ 1,225,000 | $ — |
| *Filing fees - Securities and Exchange Commission | 103,250 | — |
| Fees and Expenses of Trustees | 9,500 | 9,500 |
| *Listing on New York Stock Exchange | 79,300 | — |
| Printing charges | 40,000 | 10,000 |
| Rating Agency Fees | 59,250 | 27,500 |
| Services of Southern Company Services, Inc. | 40,000 | 10,000 |
| Fees and Expenses of counsel | 65,000 | 35,000 |
| Blue sky fees and expenses | 3,500 | 3,500 |
| Fees of accountants, Arthur Andersen LLP | 40,000 | 20,000 |
| Miscellaneous | 15,200 | 4,500 |
| TOTAL | $1,680,000 | $120,000 |

*These categories of expenses are a function of the amount of issuance.

The estimated fees and expenses to be incurred by Mississippi in connection herewith are as follows:

| | Initial Issuance | Each Additional Issuance |
|---|---|---|
| *Filing fees - Securities and Exchange Commission | $ 118,000 | $ — |
| Fees and Expenses of Trustees | 17,000 | 17,000 |
| *Listing on New York Stock Exchange | 86,300 | — |
| Printing charges | 40,000 | 10,000 |
| Rating Agency Fees | 98,500 | 27,500 |
| Services of Southern Company Services, Inc. | 40,000 | 10,000 |
| Fees and Expenses of counsel | 65,000 | 35,000 |
| Blue sky fees and expenses | 3,500 | 3,500 |
| Fees of accountants, Arthur Andersen LLP | 40,000 | 20,000 |
| Miscellaneous | 11,700 | 7,000 |
| TOTAL | $520,000 | $130,000 |

*These categories of expenses are a function of the amount of issuance.

ITEM 3. APPLICABLE STATUTORY PROVISIONS.

Sections 6(a) and 7 of the Act and Rules 24 and 54 thereunder are applicable to the proposed transactions.

Rule 54 Analysis: The proposed transaction is also subject to Rule 54, which provides that, in determining whether to approve an application which does not relate to any "exempt wholesale generator" ("EWG") or "foreign utility company" ("FUCO"), the Commission shall not consider the effect of the capitalization or earnings of any such EWG or FUCO which is a subsidiary of a registered holding company if the requirements of Rule 53(a), (b) and (c) are satisfied.

Southern currently meets all of the conditions of Rule 53(a), except for clause (1). At January 31, 1998, Southern's "aggregate investment," as defined in Rule 53(a)(1), in EWGs and

FUCOs was approximately $2.899 billion, or about 76.82% of Southern's "consolidated retained earnings," also as defined in Rule 53(a)(1), for the four quarters ended September 30, 1997 ($3,774 million). With respect to Rule 53(a)(1), however, the Commission has determined that Southern's financing of investments in EWGs and FUCOs in an amount greater than the amount that would otherwise be allowed by Rule 53(a)(1) would not have either of the adverse effects set forth in Rule 53(c). See The Southern Company, Holding Company Act Release No. 16501, dated April 1, 1996 (the "Rule 53(c) Order"); and Holding Company Act Release No. 26646, dated January 15, 1997 (order denying request for reconsideration and motion to stay).

In addition, Southern has complied and will continue to comply with the record-keeping requirements of Rule 53(a)(2), the limitation under Rule 53(a)(3) on the use of operating company personnel to render services to EWGs and FUCOs, and the requirements of Rule 53(a)(4) concerning the submission of copies of certain filings under the Act to retail rate regulatory commissions. Further, none of the circumstances described in Rule 53(b) has occurred.

Moreover, even if the effect of the capitalization and earnings of EWGs and FUCOs in which Southern has an ownership interest upon the Southern holding company system were considered, there is no basis for the Commission to withhold or deny approval for the proposal made in this Application. The action requested in the instant filing (*viz.* issuance of Senior Notes by Gulf and Mississippi) would not, by itself, or even considered in conjunction with the effect of the capitalization and earnings of Southern's EWGs and FUCOs, have a material adverse effect on the financial integrity of the Southern system, or an adverse impact on Southern's public-utility

subsidiaries, their customers, or the ability of State commissions to protect such public-utility customers.

The Rule 53(c) Order was predicated, in part, upon an assessment of Southern's overall financial condition which took into account, among other factors, Southern's consolidated capitalization ratio and the recent growth trend in Southern's retained earnings. As of December 31, 1995, the most recent fiscal year preceding the Rule 53(c) Order, Southern's consolidated capitalization consisted of 49.3% equity (including mandatorily redeemable preferred securities) and 50.7% debt (including $1.68 billion of long-term, non-recourse debt and short-term debt related to EWGs and FUCOs). As of year-end 1996, that ratio was 52.9% equity and 47.1% debt (including $1.74 billion of long-term, non-recourse debt and short-term debt related to EWGs and FUCOs); and as of September 30, 1997, the comparable ratio was 48.9% equity and 51.1% debt (including $4.354 billion of long-term, non-recourse debt and short-term debt related to EWGs and FUCOs). On a *pro forma* basis, taking into consideration, among other things, the transactions contemplated hereby such ratios are 48.6% and 51.4%, respectively, for equity and debt. The common equity component of Southern's pro forma consolidated capitalization represents 35.6% of total capitalization at September 30, 1997. Thus, since the date of the Rule 53(c) Order, there has been no material change in Southern's consolidated capitalization ratio, which remains within acceptable ranges and limits of rating agencies as evident by the continued "A" corporate credit rating of Southern. Specifically, in January 1997 Standard & Poor's assigned Southern its corporate credit rating of "A" which was consistent with the implied corporate rating previously held by Southern. This implied rating had been in effect since May 1995. Therefore, since the April 1996 issue of the Rule 53(c) Order, the Southern consolidated

credit rating has remained at "A" thereby demonstrating Southern's continued strong financial integrity. In addition, the underlying ratings of the affiliated operating companies, which have a strong influence on the Southern corporate rating, are all "A+". As a point of reference, the consolidated pro forma percentage of debt in the total capital structure of the Southern domestic operating utility companies is 42.6%, which is solidly below the median total debt ratio of the Standard & Poor's "A" rated vertically integrated utilities.[1]

Southern's consolidated retained earnings grew on average approximately 8.8% per year from 1991 through 1995. In 1996, consolidated retained earnings increased $280,365,000, or slightly more than 8%. The small reduction in the rate of earnings growth was primarily attributable to reduced domestic utility sales due to mild weather conditions throughout most of 1996 in the southeastern United States. Earnings attributable to Southern's investments in EWGs and FUCOs continued to contribute modestly to consolidated retained earnings.

Accordingly, since the date of the Rule 53(c) Order, the capitalization and earnings attributable to Southern's investments in EWGs and FUCOs has not had any adverse impact on Southern's financial integrity.

Reference is made to Exhibit H filed herewith which reflects capitalization at September 30, 1997 and the Statement of Income for the twelve months ended September 30, 1997 for Southern and subsidiaries consolidated.

---

[1] Currently, capitalization ratios, including short-term debt, for "A" rated vertically integrated electric utilities have a median total debt to total capital ratio of 45% as noted by Standard & Poor's in May 1997 for companies rated both publicly and confidentially. Prior to issuing this rating standard, the Standard & Poor's total debt to total capital benchmark for an "A" rated vertically integrated investor-owned-utility having an average business position was 47%.

ITEM 4. REGULATORY APPROVAL.

A. The issuance of any series of Senior Notes by Gulf has been or will be authorized by the Florida Public Service Commission.

B. No other state commission (except as aforesaid) has jurisdiction with respect to the subject transactions and no federal commission other than the Commission has jurisdiction with respect thereto.

ITEM 5. PROCEDURE.

It is hereby requested that the Commission's order be issued as soon as the rules allow, and that there be no thirty-day waiting period between the issuance of the Commission's order and the date on which it is to become effective. The Applicants hereby waive a recommended decision by a hearing officer or other responsible officer of the Commission and hereby consent that the Division of Investment Management may assist in the preparation of the Commission's decision and/or orders in this matter unless the Division opposes the matters covered hereby.

ITEM 6. EXHIBITS AND FINANCIAL STATEMENTS.

(a) Exhibits:

| | |
|---|---|
| Exhibit B-1 | Form of Gulf Senior Note Indenture (Designated in Registration No. 333-42033 as Exhibit 4.1). |
| Exhibit B-2 | Form of Mississippi Senior Note Indenture (Designated in Registration No. 333-45069 as Exhibit 4.1). |
| Exhibit B-3 | Form of Gulf Senior Note (included in Exhibit B-1 above). |
| Exhibit B-4 | Form of Mississippi Senior Note (included in Exhibit B-2 above). |

Exhibit C-1 Gulf Registration Statement under the Securities Act of 1933. (Filed electronically December 11, 1997, File Nos. 333-42033, 333-42033-01 and 333-42033-02.).

Exhibit C-2 Mississippi Registration Statement under the Securities Act of 1933. (Filed electronically January 28, 1998, File Nos. 333-45069, 333-45069-01 and 333-45069-02.).

Exhibit F-1 Opinion of Beggs & Lane, counsel for Gulf (to be filed by amendment).

Exhibit F-2 Opinion of Eaton and Cottrell, P.A., counsel for Mississippi (to be filed by amendment).

Exhibit G Proposed form of notice.

Exhibit H Capitalization and Income Statement of The Southern Company and Subsidiary Companies after giving effect to the issuance of the Senior Notes.

(b) Financial Statements:

Balance sheet of each Applicant at September 30, 1997. (Designated in each Applicant's Form 10-Q for the quarter ended September 30, 1997, File Nos. 0-2429 and 0-6849.)

Statements of Income of each Applicant for the period ended September 30, 1997. (Designated in each Applicant's Form 10-Q for the quarter ended September 30, 1997, File Nos. 0-2429 and 0-6849.)

Since September 30, 1997, there have been no material adverse changes, not in the ordinary course of business, in the financial condition of the Applicants from that set forth in or contemplated by the foregoing financial statements.

ITEM 7. INFORMATION AS TO ENVIRONMENTAL EFFECTS.

A. As described in Item 1, the proposed transactions are of a routine and strictly financial nature in the ordinary course of the Applicants' businesses. Accordingly, the Commission's action in this matter will not constitute any major federal action significantly affecting the quality of the human environment.

B. No other federal agency has prepared or is preparing an environmental impact statement with respect to the proposed transactions.

SIGNATURES

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned companies have duly caused this statement to be signed on their behalf by the undersigned thereunto duly authorized.

Date: February 6, 1998

GULF POWER COMPANY

By _____
Wayne Boston
Assistant Secretary

MISSISSIPPI POWER COMPANY

By _____
Wayne Boston
Assistant Secretary

File No. 70-9171

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 1
to
FORM U-1
APPLICATION OR DECLARATION
under
The Public Utility Holding Company Act of 1935

GULF POWER COMPANY
500 Bayfront Parkway
Pensacola, Florida 32501

MISSISSIPPI POWER COMPANY
2992 West Beach
Gulfport, Mississippi 39501

(Name of company or companies filing this statement
and addresses of principal executive offices)

THE SOUTHERN COMPANY

(Name of top registered holding company parent of each
applicant or declarant)

Warren E. Tate, Secretary and Treasurer
Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32501

Michael W. Southern, Vice President,
Secretary, Treasurer and
Chief Financial Officer
Mississippi Power Company
2992 West Beach
Gulfport, Mississippi 39501

(Names and addresses of agents for service)

The Commission is requested to mail signed copies of all orders,
notices and communications to:

W. L. Westbrook
Financial Vice President
The Southern Company
270 Peachtree Street, N.W.
Atlanta, Georgia 30303

John D. McLanahan, Esq.
Troutman Sanders LLP
600 Peachtree Street, N.E., Suite 5200
Atlanta, Georgia 30308

Item 3. Applicable Statutory Provisions.

Rule 54 Analysis. The proposed transaction is also subject to Rule 54, which provides that, in determining whether to approve an application which does not relate to any "exempt wholesale generator" ("EWG") or "foreign utility company" ("FUCO"), the Commission shall not consider the effect of the capitalization or earnings of any such EWG or FUCO which is a subsidiary of a registered holding company if the requirements of Rule 53(a), (b) and (c) are satisfied.

Southern currently meets all of the conditions of Rule 53(a), except for clause (1). At March 31, 1998, Southern's "aggregate investment," as defined in Rule 53(a)(1), in EWGs and FUCOs was approximately $2.947 billion, or about 77.70% of Southern's "consolidated retained earnings," also as defined in Rule 53(a)(1), for the four quarters ended December 31, 1997 ($3,793 million). With respect to Rule 53(a)(1), however, the Commission has determined that Southern's financing of investments in EWGs and FUCOs in an amount greater than the amount that would otherwise be allowed by Rule 53(a)(1) would not have either of the adverse effects set forth in Rule 53(c). See *The Southern Company*, Holding Company Act Release No. 16501, dated April 1, 1996 (the "Rule 53(c) Order"); and Holding Company Act Release No. 26646, dated January 15, 1997 (order denying request for reconsideration and motion to stay).

In addition, Southern has complied and will continue to comply with the record-keeping requirements of Rule 53(a)(2), the limitation under Rule 53(a)(3) on the use of Operating Company personnel to render services to EWGs and FUCOs, and the

requirements of Rule 53(a)(4) concerning the submission of copies of certain filings under the Act to retail rate regulatory commissions. Further, none of the circumstances described in Rule 53(b) has occurred.

Moreover, even if the effect of the capitalization and earnings of EWGs and FUCOs in which Southern has an ownership interest upon the Southern holding company system were considered, there is no basis for the Commission to withhold or deny approval for the proposal made in this Application-Declaration. The action requested in the instant filing (*viz.* issuance of Senior Notes by Gulf and Mississippi) would not, by itself, or even considered in conjunction with the effect of the capitalization and earnings of Southern's EWGs and FUCOs, have a material adverse effect on the financial integrity of the Southern system, or an adverse impact on Southern's public-utility subsidiaries, their customers, or the ability of State commissions to protect such public-utility customers.

The Rule 53(c) Order was predicated, in part, upon an assessment of Southern's overall financial condition which took into account, among other factors, Southern's consolidated capitalization ratio and the recent growth trend in Southern's retained earnings. As of December 31, 1995, the most recent fiscal year preceding the Rule 53(c) Order, Southern's consolidated capitalization consisted of 49.3% equity (including mandatorily redeemable preferred securities) and 50.7% debt (including $1.68 billion of long-term, non-recourse debt and short-term debt related to EWGs and FUCOs). As of year-end 1997, that ratio was 47.5% equity and 52.5% debt (including $4.593 billion of long-term, non-recourse debt and short-term debt related to EWGs

and FUCOs). On a *pro forma* basis, taking into consideration, among other things, the transactions contemplated hereby such ratios are 47.5% and 52.5%, respectively, for equity and debt. The common equity component of Southern's pro forma consolidated capitalization represents 35.1% of total capitalization at December 31, 1997. Thus, since the date of the Rule 53(c) Order, there has been no material change in Southern's consolidated capitalization ratio, which remains within acceptable ranges and limits of rating agencies as evident by the continued "A" corporate credit rating of Southern. Specifically, in January 1997 Standard & Poor's assigned Southern its corporate credit rating of "A" which was consistent with the implied corporate rating previously held by Southern. This implied rating had been in effect since May 1995. Therefore, since the April 1996 issue of the Rule 53(c) Order, the Southern consolidated credit rating has remained at "A" thereby demonstrating Southern's continued strong financial integrity. In addition, the underlying ratings of the affiliated operating companies, which have a strong influence on the Southern corporate rating, are all "A+". As a point of reference, the pro forma percentage of debt in the total capital structure of the Southern domestic operating utility companies is 45.1%, which is at the median total debt ratio of the Standard & Poor's "A" rated vertically integrated utilities.[1]

Southern's consolidated retained earnings grew on average approximately 8.6% per year from 1992 through 1996. In 1997, consolidated retained earnings increased

---

[1] Currently, capitalization ratios, including short-term debt, for "A" rated vertically integrated electric utilities have a median total debt to total capital ratio of 45% as noted by Standard & Poor's in May 1997 for companies rated both publicly and confidentially. Prior to issuing this rating standard, the Standard & Poor's total debt to total capital benchmark for an "A" rated vertically integrated investor-owned-utility having an average business position was 47%.

approximately $78,148,000, or slightly more than 2%. The reduction in the rate of earnings growth in 1997 was primarily due to a $111 million windfall profits tax assessed against South Western Electricity in the United Kingdom. Excluding the impact of such tax, earnings attributable to Southern's investments in EWGs and FUCOs continued to contribute modestly to consolidated retained earnings.

Accordingly, since the date of the Rule 53(c) Order, the capitalization and earnings attributable to Southern's investments in EWGs and FUCOs has not had any adverse impact on Southern's financial integrity.

Reference is made to Exhibit H filed herewith which reflects capitalization at December 31, 1997 and the Statement of Income for the year ended December 31, 1997 for Southern and subsidiaries consolidated.

Item 6. Exhibits and Financial Statements.

(a) Exhibits:

| | |
|---|---|
| F-1 | Opinion of Beggs & Lane, counsel for Gulf. |
| F-2 | Opinion of Eaton and Cottrell, P.A., counsel for Mississippi. |
| H | Capitalization and Income Statement of The Southern Company and Subsidiary Companies after giving effect to the issuance of the Senior Notes. |

(b) Financial Statements:

Balance sheet of each Applicant at December 31, 1997. (Designated in each Applicant's Form 10-K for the year ended December 31, 1997, File Nos. 0-2429 and 0-6849.)

Statements of Income of each Applicant for the period ended December 31, 1997. (Designated in each Applicant's Form 10-K for the year ended December 31, 1997, File Nos. 0-2429 and 0-6849.)

Since December 31, 1997, there have been no material adverse changes, not in the ordinary course of business, in the financial condition of the Applicants from that set forth in or contemplated by the foregoing financial statements.

SIGNATURES

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned companies have duly caused this amendment to be signed on their behalf by the undersigned thereunto duly authorized.

Date: April 14, 1998

GULF POWER COMPANY

By _____
Wayne Boston
Assistant Secretary

MISSISSIPPI POWER COMPANY

By _____
Wayne Boston
Assistant Secretary

File No. 70-9171

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 2
to
FORM U-1
APPLICATION OR DECLARATION
under
The Public Utility Holding Company Act of 1935

GULF POWER COMPANY
500 Bayfront Parkway
Pensacola, Florida 32501

MISSISSIPPI POWER COMPANY
2992 West Beach
Gulfport, Mississippi 39501

(Name of company or companies filing this statement
and addresses of principal executive offices)

THE SOUTHERN COMPANY

(Name of top registered holding company parent of each
applicant or declarant)

Warren E. Tate, Secretary and Treasurer
Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32501

Michael W. Southern, Vice President,
Secretary, Treasurer and
Chief Financial Officer
Mississippi Power Company
2992 West Beach
Gulfport, Mississippi 39501

(Names and addresses of agents for service)

The Commission is requested to mail signed copies of all orders,
notices and communications to:

W. L. Westbrook
Financial Vice President
The Southern Company
270 Peachtree Street, N.W.
Atlanta, Georgia 30303

John D. McLanahan, Esq.
Troutman Sanders LLP
600 Peachtree Street, N.E., Suite 5200
Atlanta, Georgia 30308

Item 3. Applicable Statutory Provisions.

Rule 54 Analysis as amended by Amendment No. 1 hereto is hereby amended by adding the following sentence to the sixth paragraph thereto:

"The total windfall profits tax for South Western Electricity was $148 million; however, the $111 million only reflects Southern's 75% ownership."

SIGNATURES

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned companies have duly caused this amendment to be signed on their behalf by the undersigned thereunto duly authorized.

Date: May 12, 1998

GULF POWER COMPANY

By _____
Wayne Boston
Assistant Secretary

MISSISSIPPI POWER COMPANY

By _____
Wayne Boston
Assistant Secretary

CERTIFICATE OF NOTIFICATION

Filed by

GULF POWER COMPANY

Pursuant to order of the Securities and Exchange Commission dated May 14, 1998 in the matter of File No. 70-9171.

---

Gulf Power Company (the "Company") hereby certifies to said Commission, pursuant to Rule 24, as follows:

1. On June 24, 1998, the issuance by the Company of $50,000,000 aggregate principal amount of its Series A 6.70% Senior Insured Quarterly Notes due June 30, 2038 (the "Series A Notes"), pursuant to the First Supplemental Indenture dated as of June 24, 1998, supplementing the Senior Note Indenture dated as of January 1, 1998 between the Company and The Chase Manhattan Bank, as Trustee, was carried out in accordance with the terms and conditions of and for the purposes represented by the application, as amended, and of said order with respect thereto.

2. Filed herewith are the following exhibits:

Exhibit A — Copy of the prospectus supplement with respect to the Series A Notes, dated June 17, 1998. (Filed electronically June 18, 1998, in File Nos. 333-42033, 333-42033-01 and 333-42033-02.)

Exhibit B — Underwriting Agreement with respect to the Series A Notes dated June 17, 1998. (Designated in Form 8-K dated June 17, 1998, as Exhibit 1.1.)

Exhibit C — Senior Note Indenture dated as of January 1, 1998 between the Company and The Chase Manhattan Bank, as Trustee, and First Supplemental Indenture dated as of June 24, 1998. (Designated in Form 8-K dated June 17, 1998, as Exhibits 4.1 and 4.2.)

Exhibit F — Opinion of Beggs & Lane, A Registered Limited Liability Partnership, dated June , 1998.

Dated June 30, 1998

GULF POWER COMPANY

By _____
Wayne Boston
Assistant Secretary

CERTIFICATE OF NOTIFICATION

Filed by

GULF POWER COMPANY

Pursuant to order of the Securities and Exchange Commission dated May 14, 1998 in the matter of File No. 70-9171.

---

Gulf Power Company (the "Company") hereby certifies to said Commission, pursuant to Rule 24, as follows:

1. On August 24, 1999, the issuance by the Company of $50,000,000 aggregate principal amount of its Series B 7.05% Senior Notes due August 15, 2004 (the "Series B Notes"), pursuant to the Second Supplemental Indenture dated as of August 24, 1999, supplementing the Senior Note Indenture dated as of January 1, 1998 between the Company and The Chase Manhattan Bank, as Trustee, was carried out in accordance with the terms and conditions of and for the purposes represented by the application, as amended, and of said order with respect thereto.

2. Filed herewith are the following exhibits:

Exhibit A — Prospectus supplement with respect to the Series B Notes, dated August 17, 1999. (Filed electronically August 19, 1999, in File Nos. 333-42033, 333-42033-01 and 333-42033-02.)

Exhibit B — Underwriting Agreement with respect to the Series B Notes dated August 17, 1999. (Designated in Form 8-K dated August 17, 1999 as Exhibit 1.1.)

Exhibit C — Second Supplemental Indenture dated as of August 24, 1999 to the Senior Note Indenture dated as of January 1, 1998 between the Company and The Chase Manhattan Bank, as Trustee. (Designated in Form 8-K dated August 17, 1999, as Exhibit 4.2.)

Exhibit F — Opinion of Beggs & Lane, A Registered Limited Liability Partnership, dated August 29, 1999.

Dated August 29, 1999

GULF POWER COMPANY

By _____
Wayne Boston
Assistant Secretary

As filed with the Securities and Exchange Commission on May 1, 2001.
Subject to Amendment.

Registration Nos. 333-59942
333-59942-01
333-59942-02

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

EXHIBIT A.7.

# FORM S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

| | | |
|---|---|---|
| Gulf Power Company | Maine | 59-0276810 |
| Gulf Power Capital Trust III | Delaware | 58-6382080 |
| Gulf Power Capital Trust IV | Delaware | Applied for |
| (Exact name of registrant as specified in its charter) | (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

500 Bayfront Parkway
Pensacola, Florida 32501
(850) 444-6111

(Address, including zip code, and telephone number, including area code, of each registrant's principal executive offices)

WARREN E. TATE
Secretary and Treasurer
Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32501
(850) 444-6206

(Name, address, including zip code, and telephone number, including area code, of agent for service of each registrant)

**The Commission is requested to mail signed copies of all orders, notices and communications to:**

GALE E. KLAPPA
Financial Vice President
THE SOUTHERN COMPANY
270 Peachtree Street, N.W.
Atlanta, Georgia 30303

JOHN D. McLANAHAN, ESQ.
TROUTMAN SANDERS LLP
600 Peachtree Street, N.E.
Suite 5200
Atlanta, Georgia 30308-2216

**Approximate date of commencement of proposed sale to the public:** From time to time after the effective date of this registration statement

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box ☐

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box ☒

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

## CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities to be Registered | Amount to be Registered(1) | Proposed Maximum Offering Price Per Unit(1)(2)(3) | Proposed Maximum Aggregate Offering Price(1)(2)(3) | Amount of Registration Fee(1) |
|---|---|---|---|---|
| Gulf Power Capital Trust III Preferred Securities | | | | |
| Gulf Power Capital Trust IV Preferred Securities | | | | |
| Gulf Power Company Senior Notes | | | | |
| Gulf Power Company Junior Subordinated Notes | | | | |
| Gulf Power Company Guarantees with respect to Preferred Securities of Gulf Power Capital Trust III and Gulf Power Capital Trust IV(4)(5) | | | | |
| Total | $350,000,000(6) | 100% | $350,000,000 | $87,500(7) |

(1) There are being registered hereunder such presently indeterminate number of Preferred Securities of Gulf Power Capital Trust III and Gulf Power Capital Trust IV and such presently indeterminate principal amount of Senior Notes and Junior Subordinated Notes of Gulf Power Company with an aggregate initial offering price not to exceed $350,000,000. Junior Subordinated Notes also may be issued to Gulf Power Capital Trust III or Gulf Power Capital Trust IV and later distributed upon dissolution and distribution of the assets thereof, which would include such Junior Subordinated Notes for which no separate consideration will be received. Pursuant to Rule 457(o) under the Securities Act of 1933, which permits the registration fee to be calculated on the basis of the maximum offering price of all the securities listed, the table does not specify by each class information as to the amount to be registered, proposed maximum offering price per unit or proposed maximum aggregate offering price.

(2) Estimated solely for the purpose of determining the registration fee.

(3) Exclusive of accrued interest and distributions, if any.

(4) No separate consideration will be received for the Gulf Power Company Guarantees. Pursuant to Rule 457(n) no separate fee is payable in respect of the Gulf Power Company Guarantees.

(5) Includes the obligations of Gulf Power Company under the respective Trust Agreements, the Subordinated Note Indenture, the related series of Junior Subordinated Notes, the respective Guarantees and the respective Agreements as to Expenses and Liabilities, which include the Company's covenant to pay any indebtedness, expenses or liabilities of the Trusts (other than obligations pursuant to the terms of the Preferred Securities or other similar interests), all as described in this registration statement.

(6) Includes $45,000,000 of unsold securities previously registered under Registration Statement No. 333-42033.

(7) Pursuant to Rule 429 under the Securities Act of 1933, the registration fee consists of $76,250 paid herewith and $11,250 which has been previously paid. See Note (6).

**The registrants hereby amend this registration statement on such date or dates as may be necessary to delay its effective date until the registrants shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

**The within Prospectus contains the information required by Rule 429 of the Commission under the Securities Act of 1933 with respect to the $45,000,000 of securities remaining unsold under Registration Statement No. 333-42033.**

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted

SUBJECT TO COMPLETION DATED MAY 1, 2001

PROSPECTUS

**$350,000,000**

# Gulf Power Company

## Senior Notes

## Junior Subordinated Notes

---

# Gulf Power Capital Trust III
# Gulf Power Capital Trust IV

**Trust Preferred Securities**

**Fully and unconditionally guaranteed, as set forth herein, by**

# Gulf Power Company

**a subsidiary of The Southern Company**

---

We will provide the specific terms of these securities in supplements to this Prospectus. You should read this Prospectus and the applicable prospectus supplement carefully before you invest.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

, 2001

## ABOUT THIS PROSPECTUS

This Prospectus is part of a registration statement filed with the Securities and Exchange Commission (the "Commission") using a "shelf" registration process under the Securities Act of 1933, as amended (the "1933 Act"). Under the shelf process, Gulf Power Company (the "Company") may sell, in one or more transactions,

- senior notes (the "Senior Notes")
- junior subordinated notes (the "Junior Subordinated Notes")

and Gulf Power Capital Trust III and Gulf Power Capital Trust IV (individually, a "Trust" and collectively, the "Trusts") may sell

- trust preferred securities or capital securities (the "Preferred Securities")

in one or more offerings up to a total dollar amount of $350,000,000. This Prospectus provides a general description of those securities. Each time the Company sells securities, the Company will provide a prospectus supplement that will contain specific information about the terms of that offering ("Prospectus Supplement"). The Prospectus Supplement may also add, update or change information contained in this Prospectus. You should read this Prospectus and the applicable Prospectus Supplement together with additional information under the heading "Available Information."

## AVAILABLE INFORMATION

The Company and the Trusts have filed with the Commission a combined registration statement on Form S-3 (the "Registration Statement," which term encompasses any amendments thereof and exhibits thereto) under the 1933 Act. As permitted by the rules and regulations of the Commission, this Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto, to which reference is hereby made.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "1934 Act"), and in accordance therewith files reports and other information with the Commission. Such reports and other information can be inspected and copied at the public reference facilities of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's Regional Offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and Seven World Trade Center, 13th Floor, New York, New York 10048. Copies of such material can also be obtained at prescribed rates by writing to the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. The Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants including the Company that file electronically at http://www.sec.gov. In addition, reports and other material concerning the Company can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

No separate financial statements of any Trust are included herein. The Company considers that such statements would not be material to holders of the Preferred Securities because each Trust has no independent operations and exists for the sole purpose of investing the proceeds of the sale of its Trust Securities (as defined below) in Junior Subordinated Notes.

## INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents have been filed with the Commission pursuant to the 1934 Act and are incorporated herein by reference and made a part of this Prospectus:

(a) the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000; and

(b) the Company's Current Report on Form 8-K dated February 28, 2001.

All documents filed by the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act subsequent to the date of this Prospectus and prior to the termination of this offering shall be deemed to be incorporated herein by reference and made a part of this Prospectus from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

**The Company will provide without charge to each person to whom this Prospectus is delivered, on the written or oral request of any such person, a copy of any or all documents incorporated herein by reference (other than the exhibits to such documents unless such exhibits are specifically incorporated by reference). Such requests should be directed to Warren E. Tate, Secretary and Treasurer, Gulf Power Company, One Energy Place, Pensacola, Florida 32520, telephone: (850) 444-6111.**

## SELECTED INFORMATION

*The following material, which is presented herein solely to furnish limited introductory information regarding the Company, has been selected from, or is based upon, the detailed information and financial statements appearing in the documents incorporated herein by reference or elsewhere in this Prospectus, is qualified in its entirety by reference thereto and, therefore, should be read together therewith.*

### Gulf Power Company

| | |
|---|---|
| Business | Generation, transmission, distribution and sale of electric energy |
| Service Area | Approximately 7,400 square miles within the northwestern portion of the State of Florida |
| Service Area Population (1990 Census) | Approximately 740,000 |
| Customers at December 31, 2000 | 370,119 |
| Generating Capacity at December 31, 2000 (kilowatts) | 2,188,150 |
| Sources of Generation during 2000 (kilowatt-hours) | Coal (98%), Gas and Oil (2%) |
| Sources of Generation Estimated for 2001 (kilowatt-hours) | Coal (98%), Gas and Oil (2%) |

### Certain Ratios

The following table sets forth the Ratios of Earnings to Fixed Charges and Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis) for the periods indicated.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1999 | 2000 |
| Ratio of Earnings to Fixed Charges(1) | 4.29 | 4.18 | 3.83 | 3.62 | 3.38 |
| Ratio of Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis)(2) | 3.31 | 3.53 | 3.72 | 3.58 | 3.34 |

(1) This ratio is computed as follows: (i) "Earnings" have been calculated by adding to "Earnings Before Interest and Income Taxes" the debt portion of allowance for funds used during construction, and (ii) "Fixed Charges" consist of "Net Interest Charges" plus the debt portion of allowance for funds used during construction.

(2) In computing this ratio, "Preferred Dividend Requirements" represent the before tax earnings necessary to pay such dividends, computed at the effective tax rates for the applicable periods.

## GULF POWER COMPANY

The Company is a corporation organized under the laws of the State of Maine on November 2, 1925, and was admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976 and in Georgia on November 20, 1984. The principal executive offices of the Company are located at 500 Bayfront Parkway, Pensacola, Florida 32501, and the telephone number is (850) 444-6111.

The Company is a wholly owned subsidiary of The Southern Company, a holding company registered under the Public Utility Holding Company Act of 1935, as amended. The Company is engaged, within the northwestern portion of the State of Florida, in the generation and purchase of electricity and the distribution and sale of such electricity at retail in 71 communities as well as in rural areas, and at wholesale to a nonaffiliated utility and to a municipality.

## THE TRUSTS

Each Trust is a statutory business trust created under Delaware law pursuant to the filing of a certificate of trust with the Delaware Secretary of State on November 26, 1997, with respect to Gulf Power Capital Trust III, and April 25, 2001, with respect to Gulf Power Capital Trust IV. Each Trust's business is defined in a trust agreement, executed by the Company, as Depositor, and the Delaware Trustee thereunder. This trust agreement of each Trust will be amended and restated in its entirety substantially in the form filed as an exhibit to the Registration Statement of which this Prospectus forms a part (the "Trust Agreement"). Each Trust Agreement will be qualified as an indenture under the Trust Indenture Act of 1939, as amended (the "1939 Act"). The Company will own all of the common securities (the "Common Securities" and, together with the Preferred Securities, the "Trust Securities") of each Trust. The Trust Securities represent undivided beneficial interests in the assets of the respective Trusts. Each Trust exists for the exclusive purposes of (i) issuing its Trust Securities representing undivided beneficial interests in the assets of such Trust, (ii) investing the gross proceeds of its Trust Securities in a related series of Junior Subordinated Notes, and (iii) engaging in only those other activities necessary, appropriate, convenient or incidental thereto. The payment of periodic cash distributions on the Preferred Securities of each Trust and payments on liquidation and redemption with respect to the Preferred Securities of each Trust, in each case to the extent each Trust has funds legally and immediately available therefor, will be guaranteed by the Company (individually, a "Guarantee" and collectively, the "Guarantees") to the extent set forth under "Description of the Guarantees."

Each Trust's business and affairs will be conducted by its trustees, which shall be appointed by the Company as the holder of the Common Securities: two employees of the Company as Administrative Trustees; The Chase Manhattan Bank as Property Trustee; and Chase Manhattan Bank USA, National Association as Delaware Trustee (collectively, the "Securities Trustees"). The Property Trustee of each Trust will act as the indenture trustee with respect to such Trust for purposes of compliance with the provisions of the 1939 Act.

The principal place of business of each Trust shall be c/o the Company, 500 Bayfront Parkway, Pensacola, Florida 32501, telephone (850) 444-6111, Attn: Treasurer.

Reference is made to the Prospectus Supplement relating to the Preferred Securities of a Trust for further information concerning such Trust.

## ACCOUNTING TREATMENT OF TRUSTS

For financial reporting purposes, the Trusts will be treated as subsidiaries of the Company and, accordingly, the accounts of the Trusts will be included in the consolidated financial statements of the Company. The Preferred Securities will be presented as a separate line item in the consolidated balance sheet of the Company, and appropriate disclosures concerning the Preferred Securities, the Guarantees and the Junior Subordinated Notes will be included in the notes to the consolidated financial statements. For financial reporting purposes, the Company will record distributions payable on the Preferred Securities as an expense.

## USE OF PROCEEDS

Each Trust will invest the proceeds received from the sale of its Preferred Securities in Junior Subordinated Notes. Except as may be otherwise described in an applicable Prospectus Supplement, the net proceeds received by the Company from such investment and any proceeds received from the sale of its Senior Notes or other sales of its Junior Subordinated Notes will be used in connection with its ongoing construction program, to pay scheduled maturities and/or refundings of its securities, to repay short-term indebtedness to the extent outstanding and for other general corporate purposes.

## DESCRIPTION OF THE SENIOR NOTES

Set forth below is a description of the general terms of the Senior Notes. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Senior Note Indenture, dated as of January 1, 1998, between the Company and The Chase Manhattan Bank, as trustee (the "Senior Note Indenture Trustee"), as to be supplemented by a supplemental indenture thereto establishing the Senior Notes of each series (the Senior Note Indenture, as so supplemented, is hereinafter referred to as the "Senior Note Indenture"), the forms of which are filed as exhibits to the Registration Statement of which this Prospectus forms a part. The terms of the Senior Notes will include those stated in the Senior Note Indenture and those made a part of the Senior Note Indenture by reference to the 1939 Act. Certain capitalized terms used herein are defined in the Senior Note Indenture.

### General

The Senior Notes will be issued as unsecured senior debt securities under the Senior Note Indenture and will rank *pari passu* with all other unsecured and unsubordinated debt of the Company. The Senior Notes will be effectively subordinated to all secured debt of the Company, including its first mortgage bonds, aggregating approximately $254,700,000 outstanding at December 31, 2000. The Senior Note Indenture does not limit the aggregate principal amount of Senior Notes that may be issued thereunder and provides that Senior Notes may be issued from time to time in one or more series pursuant to an indenture supplemental to the Senior Note Indenture. The Senior Note Indenture gives the Company the ability to reopen a previous issue of Senior Notes and issue additional Senior Notes of such series, unless otherwise provided.

Reference is made to the Prospectus Supplement that will accompany this Prospectus for the following terms of the series of Senior Notes being offered thereby: (i) the title of such Senior Notes; (ii) any limit on the aggregate principal amount of such Senior Notes; (iii) the date or dates on which the principal of such Senior Notes is payable; (iv) the rate or rates at which such Senior Notes shall bear interest, if any, or any method by which such rate or rates will be determined, the date or dates from which such interest will accrue, the interest payment dates on which such interest shall be payable, and the regular record date for the interest payable on any interest payment date; (v) the place or places where the principal of (and premium, if any) and interest, if any, on such Senior Notes shall be payable; (vi) the period or periods within which, the price or prices at which

and the terms and conditions on which such Senior Notes may be redeemed, in whole or in part, at the option of the Company; (vii) the obligation, if any, of the Company to redeem or purchase such Senior Notes; (viii) the denominations in which such Senior Notes shall be issuable; (ix) if other than the principal amount thereof, the portion of the principal amount of such Senior Notes which shall be payable upon declaration of acceleration of the maturity thereof; (x) any deletions from, modifications of or additions to the Events of Default or covenants of the Company as provided in the Senior Note Indenture pertaining to such Senior Notes; (xi) whether such Senior Notes shall be issued in whole or in part in the form of a Global Security; and (xii) any other terms of such Senior Notes.

The Senior Note Indenture does not contain provisions that afford holders of Senior Notes protection in the event of a highly leveraged transaction involving the Company.

**Events of Default**

The Senior Note Indenture provides that any one or more of the following described events with respect to the Senior Notes of any series, which has occurred and is continuing, constitutes an "Event of Default" with respect to the Senior Notes of such series:

(a) failure for 10 days to pay interest on the Senior Notes of such series, when due on an interest payment date other than at maturity or upon earlier redemption; or

(b) failure to pay principal or premium, if any, or interest on the Senior Notes of such series when due at maturity or upon earlier redemption; or

(c) failure for three Business Days to deposit any sinking fund payment when due by the terms of a Senior Note of such series; or

(d) failure to observe or perform any other covenant or warranty of the Company in the Senior Note Indenture (other than a covenant or warranty which has expressly been included therein solely for the benefit of one or more series of Senior Notes other than such series) for 90 days after written notice to the Company from the Senior Note Indenture Trustee or the holders of at least 25% in principal amount of the outstanding Senior Notes of such series; or

(e) certain events of bankruptcy, insolvency or reorganization of the Company.

The holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of any series have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Senior Note Indenture Trustee with respect to the Senior Notes of such series. If a Senior Note Indenture Event of Default occurs and is continuing with respect to the Senior Notes of any series, then the Senior Note Indenture Trustee or the holders of not less than 25% in aggregate outstanding principal amount of the Senior Notes of such series may declare the principal amount thereof due and payable immediately by notice in writing to the Company (and to the Senior Note Indenture Trustee if given by the holders), and upon any such declaration such principal amount shall become immediately due and payable. At any time after such a declaration of acceleration with respect to the Senior Notes of any series has been made and before a judgment or decree for payment of the money due has been obtained as provided in Article Five of the Senior Note Indenture, the holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of such series may rescind and annul such declaration and its consequences if the default has been cured or waived and the Company has paid or deposited with the Senior Note Indenture Trustee a sum sufficient to pay all matured installments of interest and principal due otherwise than by acceleration and all sums paid or advanced by the Senior Note Indenture Trustee, including reasonable compensation and expenses of the Senior Note Indenture Trustee.

The holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of any series may, on behalf of the holders of all the Senior Notes of such series, waive any past default with respect to such series, except (i) a default in the payment of principal or interest or (ii) a default in respect of a covenant or provision which under Article Nine of the Senior Note Indenture cannot be modified or amended thereunder without the consent of the holder of each outstanding Senior Note of such series affected thereby.

**Registration and Transfer**

The Company shall not be required to (i) issue, register the transfer of or exchange Senior Notes of any series during a period of 15 days immediately preceding the date notice is given identifying the Senior Notes of such series called for redemption, or (ii) register the transfer of or exchange any Senior Notes so selected for redemption, in whole or in part, except the unredeemed portion of any Senior Note being redeemed in part.

**Payment and Paying Agent**

Unless otherwise indicated in an applicable Prospectus Supplement, payment of principal of any Senior Notes will be made only against surrender to the Paying Agent of such Senior Notes. Principal of and interest on Senior Notes will be payable subject to any applicable laws and regulations, at the office of such Paying Agent or Paying Agents as the Company may designate from time to time, except that, at the option of the Company, payment of any interest may be made by wire transfer or by check mailed to the address of the person entitled thereto as such address shall appear in the Security Register with respect to the Senior Notes. Payment of interest on Senior Notes on any interest payment date will be made to the person in whose name the Senior Notes (or predecessor security) are registered at the close of business on the record date for such interest payment.

Unless otherwise indicated in an applicable Prospectus Supplement, the Senior Note Indenture Trustee will act as Paying Agent with respect to the Senior Notes. The Company may at any time designate additional Paying Agents or rescind the designation of any Paying Agents or approve a change in the office through which any Paying Agent acts.

All moneys paid by the Company to a Paying Agent for the payment of the principal of or interest on the Senior Notes of any series which remain unclaimed at the end of two years after such principal or interest shall have become due and payable will be repaid to the Company, and the holder of such Senior Notes will thereafter look only to the Company for payment thereof.

**Modification**

The Senior Note Indenture contains provisions permitting the Company and the Senior Note Indenture Trustee, with the consent of the holders of not less than a majority in principal amount of the outstanding Senior Notes of each series affected thereby, to modify the Senior Note Indenture or the rights of the holders of the Senior Notes of such series; provided, that no such modification may, without the consent of the holder of each outstanding Senior Note affected thereby, (i) change the stated maturity of the principal of, or any installment of principal of or interest on, any Senior Note, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or change the method of calculating the rate of interest thereon, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date), or (ii) reduce the percentage of principal amount of the outstanding Senior Notes of any series, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the Senior Note Indenture or certain defaults thereunder and their consequences) provided for in the Senior Note Indenture, or (iii) modify any of the provisions of the Senior Note Indenture relating to supplemental indentures, waiver of past defaults, or waiver of certain covenants, except to increase any such percentage or to provide that certain other provisions of the Senior Note Indenture cannot be modified or waived without the consent of the holder of each outstanding Senior Note affected thereby.

In addition, the Company and the Senior Note Indenture Trustee may execute, without the consent of any holders of Senior Notes, any supplemental indenture for certain other usual purposes, including the creation of any new series of senior notes.

**Consolidation, Merger and Sale**

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any person, unless (1) such other corporation or person is a corporation organized and existing under the laws of the United States, any state thereof or the District of Columbia and such other corporation or person expressly assumes, by supplemental indenture executed and delivered to the Senior Note Indenture Trustee, the payment of the principal of (and premium, if any) and interest on all the Senior Notes and the performance of every covenant of the Senior Note Indenture on the part of the Company to be performed or observed; (2) immediately after giving effect to such transactions, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and (3) the Company has delivered to the Senior Note Indenture Trustee an officers' certificate and an opinion of counsel, each stating that such transaction complies with the provisions of the Senior Note Indenture governing consolidation, merger, conveyance, transfer or lease and that all conditions precedent thereto have been complied with.

**Information Concerning the Senior Note Indenture Trustee**

The Senior Note Indenture Trustee, prior to an Event of Default with respect to Senior Notes of any series, undertakes to perform, with respect to Senior Notes of such series, only such duties as are specifically set forth in the Senior Note Indenture and, in case an Event of Default with respect to Senior Notes of any series has occurred and is continuing, shall exercise, with respect to Senior Notes of such series, the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provision, the Senior Note Indenture Trustee is under no obligation to exercise any of the powers vested in it by the Senior Note Indenture at the request of any holder of Senior Notes of any series, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The Senior Note Indenture Trustee is not required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties if the Senior Note Indenture Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

The Chase Manhattan Bank, the Senior Note Indenture Trustee, also serves as Subordinated Note Indenture Trustee, as Property Trustee and as Guarantee Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with The Chase Manhattan Bank. The Chase Manhattan Bank also serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

**Governing Law**

The Senior Note Indenture and the Senior Notes will be governed by, and construed in accordance with, the internal laws of the State of New York.

**Miscellaneous**

The Company will have the right at all times to assign any of its rights or obligations under the Senior Note Indenture to a direct or indirect wholly-owned subsidiary of the Company; provided, that, in the event of any such assignment, the Company will remain primarily liable for all such obligations. Subject to the foregoing, the Senior Note Indenture will be binding upon and inure to the benefit of the parties thereto and their respective successors and assigns.

## DESCRIPTION OF THE JUNIOR SUBORDINATED NOTES

Set forth below is a description of the general terms of the Junior Subordinated Notes. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Subordinated Note Indenture, dated as of January 1, 1997, between the Company and The Chase Manhattan Bank, as trustee (the "Subordinated Note Indenture Trustee"), as to be supplemented by a supplemental indenture thereto establishing the Junior Subordinated Notes of each series (the Subordinated Note Indenture, as so supplemented, is hereinafter referred to as the "Subordinated Note Indenture"), the forms of which are filed as exhibits to the Registration Statement of which this Prospectus forms a part. The terms of the Junior Subordinated Notes will include those stated in the Subordinated Note Indenture and those made a part of the Subordinated Note Indenture by reference to the 1939 Act. Certain capitalized terms used herein are defined in the Subordinated Note Indenture.

### General

The Junior Subordinated Notes will be issued as unsecured junior subordinated debt securities under the Subordinated Note Indenture. The Subordinated Note Indenture does not limit the aggregate principal amount of Junior Subordinated Notes that may be issued thereunder and provides that Junior Subordinated Notes may be issued from time to time in one or more series pursuant to an indenture supplemental to the Subordinated Note Indenture. The Subordinated Note Indenture gives the Company the ability to reopen a previous issue of Junior Subordinated Notes and issue additional Junior Subordinated Notes of such series, unless otherwise provided.

Reference is made to the Prospectus Supplement that will accompany this Prospectus for the following terms of the series of Junior Subordinated Notes being offered thereby: (i) the title of such Junior Subordinated Notes; (ii) any limit on the aggregate principal amount of such Junior Subordinated Notes; (iii) the date or dates on which the principal of such Junior Subordinated Notes is payable; (iv) the rate or rates at which such Junior Subordinated Notes shall bear interest, if any, or any method by which such rate or rates will be determined, the date or dates from which such interest will accrue, the interest payment dates on which such interest shall be payable, and the regular record date for the interest payable on any interest payment date; (v) the place or places where the principal of (and premium, if any) and interest, if any, on such Junior Subordinated Notes shall be payable; (vi) the period or periods within which, the price or prices at which and the terms and conditions on which such Junior Subordinated Notes may be redeemed, in whole or in part, at the option of the Company; (vii) the obligation, if any, of the Company to redeem or purchase such Junior Subordinated Notes; (viii) the denominations in which such Junior Subordinated Notes shall be issuable; (ix) if other than the principal amount thereof, the portion of the principal amount of such Junior Subordinated Notes which shall be payable upon declaration of acceleration of the maturity thereof; (x) any deletions from, modifications of or additions to the Events of Default or covenants of the Company as provided in the Subordinated Note Indenture pertaining to such Junior Subordinated Notes; (xi) whether such Junior Subordinated Notes shall be issued in whole or in part in the form of a Global Security; (xii) the right, if any, of the Company to extend the interest payment periods of such Junior Subordinated Notes; and (xiii) any other terms of such Junior Subordinated Notes. The terms of each series of Junior Subordinated Notes issued to a Trust will correspond to those of the related Preferred Securities of such Trust as described in the Prospectus Supplement relating to such Preferred Securities.

The Subordinated Note Indenture does not contain provisions that afford holders of Junior Subordinated Notes protection in the event of a highly leveraged transaction involving the Company.

### Subordination

The Junior Subordinated Notes are subordinated and junior in right of payment to all Senior Indebtedness (as defined below) of the Company. No payment of principal of (including redemption payments, if any), or premium, if any, or interest on (including Additional Interest (as defined below)) the Junior Subordinated Notes may be made if (a) any Senior Indebtedness is not paid when due and any applicable grace period with respect to such default has ended with such default not being cured or waived or otherwise ceasing to exist, or (b) the

maturity of any Senior Indebtedness has been accelerated because of a default, or (c) notice has been given of the exercise of an option to require repayment, mandatory payment or prepayment or otherwise. Upon any payment or distribution of assets of the Company to creditors upon any liquidation, dissolution, winding-up, reorganization, assignment for the benefit of creditors, marshalling of assets or liabilities, or any bankruptcy, insolvency or similar proceedings of the Company, the holders of Senior Indebtedness shall be entitled to receive payment in full of all amounts due or to become due on or in respect of all Senior Indebtedness before the holders of the Junior Subordinated Notes are entitled to receive or retain any payment or distribution. Subject to the prior payment of all Senior Indebtedness, the rights of the holders of the Junior Subordinated Notes will be subrogated to the rights of the holders of Senior Indebtedness to receive payments and distributions applicable to such Senior Indebtedness until all amounts owing on the Junior Subordinated Notes are paid in full.

The term "Senior Indebtedness" means, with respect to the Company, (i) any payment due in respect of indebtedness of the Company, whether outstanding at the date of execution of the Subordinated Note Indenture or thereafter incurred, created or assumed, (a) in respect of money borrowed (including any financial derivative, hedging or futures contract or similar instrument) and (b) evidenced by securities, debentures, bonds, notes or other similar instruments issued by the Company that, by their terms, are senior or senior subordinated debt securities including, without limitation, all obligations under its indentures with various trustees; (ii) all capital lease obligations; (iii) all obligations issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations of the Company under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business and long-term purchase obligations); (iv) all obligations for the reimbursement of any letter of credit, banker's acceptance, security purchase facility or similar credit transaction; (v) all obligations of the type referred to in clauses (i) through (iv) above of other persons the payment of which the Company is responsible or liable as obligor, guarantor or otherwise; and (vi) all obligations of the type referred to in clauses (i) through (v) above of other persons secured by any lien on any property or asset of the Company (whether or not such obligation is assumed by the Company), except for (1) any such indebtedness that is by its terms subordinated to or *pari passu* with the Junior Subordinated Notes and (2) any unsecured indebtedness between or among the Company or its affiliates. Such Senior Indebtedness shall continue to be Senior Indebtedness and be entitled to the benefits of the subordination provisions contained in the Subordinated Note Indenture irrespective of any amendment, modification or waiver of any term of such Senior Indebtedness.

The Subordinated Note Indenture does not limit the aggregate amount of Senior Indebtedness that may be issued by the Company. As of December 31, 2000, Senior Indebtedness of the Company aggregated approximately $416,000,000.

**Additional Interest**

"Additional Interest" is defined in the Subordinated Note Indenture as (i) such additional amounts as may be required so that the net amounts received and retained by a holder of Junior Subordinated Notes (if the holder is a Trust) after paying taxes, duties, assessments or governmental charges of whatever nature (other than withholding taxes) imposed by the United States or any other taxing authority will not be less than the amounts the holder would have received had no such taxes, duties, assessments, or other governmental charges been imposed; and (ii) any interest due and not paid on an interest payment date, together with interest thereon from such interest payment date to the date of payment, compounded quarterly, on each interest payment date.

**Certain Covenants**

The Company covenants in the Subordinated Note Indenture, for the benefit of the holders of each series of Junior Subordinated Notes, that, (i) if at such time the Company shall have given notice of its election to extend an interest payment period for such series of Junior Subordinated Notes and such extension shall be continuing, (ii) if at such time the Company shall be in default with respect to its payment or other obligations under the Guarantee with respect to the Trust Securities, if any, related to such series of Junior Subordinated Notes, or (iii) if at such time an Event of Default thereunder with respect to such series of Junior Subordinated Notes shall have occurred and be continuing, (a) the Company shall not declare or pay any dividend or make any

distributions with respect to, or redeem, purchase, acquire or make a liquidation payment with respect to, any of its capital stock, and (b) the Company shall not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities (including guarantees other than the Guarantees) issued by the Company which rank *pari passu* with or junior to the Junior Subordinated Notes. None of the foregoing, however, shall restrict (i) any of the actions described in the preceding sentence resulting from any reclassifications of the Company's capital stock or the exchange or conversion of one class or series of the Company's capital stock for another class or series of the Company's capital stock, or (ii) the purchase of fractional interests in shares of the Company's capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged.

The Subordinated Note Indenture further provides that, for so long as the Trust Securities of any Trust remain outstanding, the Company covenants (i) to directly or indirectly maintain 100% ownership of the Common Securities of such Trust; provided, however, that any permitted successor of the Company under the Subordinated Note Indenture may succeed to the Company's ownership of such Common Securities, and (ii) to use its reasonable efforts to cause such Trust (a) to remain a statutory business trust, except in connection with the distribution of Junior Subordinated Notes to the holders of Trust Securities in liquidation of such Trust, the redemption of all of the Trust Securities of such Trust, or certain mergers, consolidations or amalgamations, each as permitted by the related Trust Agreement, and (b) to otherwise continue to be classified as a grantor trust for United States federal income tax purposes.

**Events of Default**

The Subordinated Note Indenture provides that any one or more of the following described events with respect to the Junior Subordinated Notes of any series, which has occurred and is continuing, constitutes an "Event of Default" with respect to the Junior Subordinated Notes of such series:

(a) failure for 10 days to pay interest on the Junior Subordinated Notes of such series, including any Additional Interest (as defined in clause (ii) of the definition thereof in the Subordinated Note Indenture) in respect thereof, when due on an interest payment date other than at maturity or upon earlier redemption; provided, however, that a valid extension of the interest payment period by the Company shall not constitute a default in the payment of interest for this purpose; or

(b) failure for 10 days to pay Additional Interest (as defined in clause (i) of the definition thereof in the Subordinated Note Indenture); or

(c) failure to pay principal or premium, if any, or interest, including Additional Interest (as defined in clause (ii) of the definition thereof in the Subordinated Note Indenture), on the Junior Subordinated Notes of such series when due at maturity or upon earlier redemption; or

(d) failure for three Business Days to deposit any sinking fund payment when due by the terms of a Junior Subordinated Note of such series; or

(e) failure to observe or perform any other covenant or warranty of the Company in the Subordinated Note Indenture (other than a covenant or warranty which has expressly been included therein solely for the benefit of one or more series of Junior Subordinated Notes other than such series) for 90 days after written notice to the Company from the Subordinated Note Indenture Trustee or the holders of at least 25% in principal amount of the outstanding Junior Subordinated Notes of such series; or

(f) certain events of bankruptcy, insolvency or reorganization of the Company.

The holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of any series have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Subordinated Note Indenture Trustee with respect to the Junior Subordinated Notes of such series. If a Subordinated Note Indenture Event of Default occurs and is continuing with respect to the Junior Subordinated Notes of any series, then the Subordinated Note Indenture Trustee or the holders of not less than 25% in aggregate outstanding principal amount of the Junior Subordinated Notes of such series may declare the principal amount thereof due and payable immediately by notice in writing to the Company (and to the

Subordinated Note Indenture Trustee if given by the holders), and upon any such declaration such principal amount shall become immediately due and payable. At any time after such a declaration of acceleration with respect to the Junior Subordinated Notes of any series had been made and before a judgment or decree for payment of the money due has been obtained as provided in Article Five of the Subordinated Note Indenture, the holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of such series may rescind and annul such declaration and its consequences if the default has been cured or waived and the Company has paid or deposited with the Subordinated Note Indenture Trustee a sum sufficient to pay all matured installments of interest (including any Additional Interest) and principal due otherwise than by acceleration and all sums paid or advanced by the Subordinated Note Indenture Trustee, including reasonable compensation and expenses of the Subordinated Note Indenture Trustee.

A holder of Preferred Securities may institute a legal proceeding directly against the Company, without first instituting a legal proceeding against the Property Trustee or any other person or entity, for enforcement of payment to such holder of principal of or interest on the Junior Subordinated Notes of the related series having a principal amount equal to the aggregate stated liquidation amount of the Preferred Securities of such holder on or after the due dates specified in the Junior Subordinated Notes of such series.

The holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of any series may, on behalf of the holders of all the Junior Subordinated Notes of such series, waive any past default with respect to such series, except (i) a default in the payment of principal or interest or (ii) a default in respect of a covenant or provision which under Article Nine of the Subordinated Note Indenture cannot be modified or amended thereunder without the consent of the holder of each outstanding Junior Subordinated Note of such series affected thereby.

**Registration and Transfer**

The Company shall not be required to (i) issue, register the transfer of or exchange Junior Subordinated Notes of any series during a period of 15 days immediately preceding the date notice is given identifying the Junior Subordinated Notes of such series called for redemption, or (ii) register the transfer of or exchange any Junior Subordinated Notes so selected for redemption, in whole or in part, except the unredeemed portion of any Junior Subordinated Note being redeemed in part.

**Payment and Paying Agent**

Unless otherwise indicated in an applicable Prospectus Supplement, payment of principal of any Junior Subordinated Notes will be made only against surrender to the Paying Agent of such Junior Subordinated Notes. Principal of and interest on Junior Subordinated Notes will be payable, subject to any applicable laws and regulations, at the office of such Paying Agent or Paying Agents as the Company may designate from time to time, except that, at the option of the Company, payment of any interest may be made by wire transfer or by check mailed to the address of the person entitled thereto as such address shall appear in the Security Register with respect to the Junior Subordinated Notes. Payment of interest on Junior Subordinated Notes on any interest payment date will be made to the person in whose name the Junior Subordinated Notes (or predecessor security) are registered at the close of business on the record date for such interest payment.

Unless otherwise indicated in an applicable Prospectus Supplement, the Subordinated Note Indenture Trustee will act as Paying Agent with respect to the Junior Subordinated Notes. The Company may at any time designate additional Paying Agents or rescind the designation of any Paying Agents or approve a change in the office through which any Paying Agent acts.

All moneys paid by the Company to a Paying Agent for the payment of the principal of or interest on the Junior Subordinated Notes of any series which remain unclaimed at the end of two years after such principal or interest shall have become due and payable will be repaid to the Company, and the holder of such Junior Subordinated Notes will thereafter look only to the Company for payment thereof.

**Modification**

The Subordinated Note Indenture contains provisions permitting the Company and the Subordinated Note Indenture Trustee, with the consent of the holders of not less than a majority in principal amount of the outstanding Junior Subordinated Notes of each series affected thereby, to modify the Subordinated Note Indenture or the rights of the holders of the Junior Subordinated Notes of such series; provided, that no such modification may, without the consent of the holder of each outstanding Junior Subordinated Note affected thereby, (i) change the stated maturity of the principal of, or any installment of principal of or interest on, any Junior Subordinated Note, or reduce the principal amount thereof or the rate of interest (including Additional Interest) thereon or any premium payable upon the redemption thereof, or change the method of calculating the rate of interest thereon, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date), or (ii) reduce the percentage of principal amount of the outstanding Junior Subordinated Notes of any series, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the Subordinated Note Indenture or certain defaults thereunder and their consequences) provided for in the Subordinated Note Indenture, or (iii) modify any of the provisions of the Subordinated Note Indenture relating to supplemental indentures, waiver of past defaults, or waiver of certain covenants, except to increase any such percentage or to provide that certain other provisions of the Subordinated Note Indenture cannot be modified or waived without the consent of the holder of each outstanding Junior Subordinated Note affected thereby, or (iv) modify the provisions of the Subordinated Note Indenture with respect to the subordination of the Junior Subordinated Notes in a manner adverse to such holder.

In addition, the Company and the Subordinated Note Indenture Trustee may execute, without the consent of any holders of Junior Subordinated Notes, any supplemental indenture for certain other usual purposes, including the creation of any new series of junior subordinated notes.

**Consolidation, Merger and Sale**

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any person, unless (1) such other corporation or person is a corporation organized and existing under the laws of the United States, any state thereof or the District of Columbia and such other corporation or person expressly assumes, by supplemental indenture executed and delivered to the Subordinated Note Indenture Trustee, the payment of the principal of (and premium, if any) and interest (including Additional Interest) on all the Junior Subordinated Notes and the performance of every covenant of the Subordinated Note Indenture on the part of the Company to be performed or observed; (2) immediately after giving effect to such transactions, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and (3) the Company has delivered to the Subordinated Note Indenture Trustee an officers' certificate and an opinion of counsel, each stating that such transaction complies with the provisions of the Subordinated Note Indenture governing consolidation, merger, conveyance, transfer or lease and that all conditions precedent thereto have been complied with.

**Information Concerning the Subordinated Note Indenture Trustee**

The Subordinated Note Indenture Trustee, prior to an Event of Default with respect to Junior Subordinated Notes of any series, undertakes to perform, with respect to Junior Subordinated Notes of such series, only such duties as are specifically set forth in the Subordinated Note Indenture and, in case an Event of Default with respect to Junior Subordinated Notes of any series has occurred and is continuing, shall exercise, with respect to Junior Subordinated Notes of such series, the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provision, the Subordinated Note Indenture Trustee is under no obligation to exercise any of the powers vested in it by the Subordinated Note Indenture at the request of any holder of Junior Subordinated Notes of any series, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The Subordinated Note Indenture Trustee is not required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties if the Subordinated Note Indenture Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

The Chase Manhattan Bank, the Subordinated Note Indenture Trustee, also serves as Senior Note Indenture Trustee, as Property Trustee and as Guarantee Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with The Chase Manhattan Bank. The Chase Manhattan Bank also serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

### Governing Law

The Subordinated Note Indenture and Junior Subordinated Notes will be governed by, and construed in accordance with, the internal laws of the State of New York.

### Miscellaneous

The Company will have the right at all times to assign any of its rights or obligations under the Subordinated Note Indenture to a direct or indirect wholly-owned subsidiary of the Company; provided, that, in the event of any such assignment, the Company will remain primarily liable for all such obligations. Subject to the foregoing, the Subordinated Note Indenture will be binding upon and inure to the benefit of the parties thereto and their respective successors and assigns.

## DESCRIPTION OF THE PREFERRED SECURITIES

Each Trust may issue only one series of Preferred Securities having terms described in the Prospectus Supplement relating thereto. The Trust Agreement of each Trust will authorize the Administrative Trustees, on behalf of the Trust, to issue the Preferred Securities of such Trust. The Preferred Securities of each Trust will have such terms, including distributions, redemption, voting, liquidation rights and such other preferred, deferral or other special rights or such restrictions as shall be set forth in the Trust Agreement of such Trust. Reference is made to the Prospectus Supplement relating to the Preferred Securities of a Trust for specific terms, including (i) the distinctive designation of such Preferred Securities; (ii) the number of Preferred Securities issued by such Trust; (iii) the annual distribution rate (or method of determining such rate) for Preferred Securities of such Trust and the date or dates on which such distributions shall be payable; (iv) whether distributions on such Preferred Securities shall be cumulative and, in the case of Preferred Securities having cumulative distribution rights, the date or dates, or method of determining the date or dates, from which distributions on such Preferred Securities shall be cumulative; (v) the amount or amounts that shall be paid out of the assets of such Trust to the holders of the Preferred Securities of such Trust upon voluntary or involuntary dissolution, winding-up or termination of such Trust; (vi) the obligation, if any, of such Trust to purchase or redeem such Preferred Securities and the price or prices at which, the period or periods within which, and the terms and conditions upon which such Preferred Securities shall be purchased or redeemed, in whole or in part, pursuant to such obligation; (vii) the voting rights, if any, of such Preferred Securities in addition to those required by law, including the number of votes per Preferred Security and any requirement for the approval by the holders of Preferred Securities as a condition to specified action or amendments to the Trust Agreement of such Trust; (viii) the rights, if any, to defer distributions on the Preferred Securities by extending the interest payment period on the related Junior Subordinated Notes; and (ix) any other relative rights, preferences, privileges, limitations or restrictions of such Preferred Securities not inconsistent with the Trust Agreement of such Trust or applicable law. All Preferred Securities offered hereby will be guaranteed by the Company to the extent set forth under "Description of the Guarantees." Any material United States federal income tax considerations applicable to an offering of Preferred Securities will be described in the Prospectus Supplement relating thereto.

## DESCRIPTION OF THE GUARANTEES

Set forth below is a summary of information concerning the Guarantees that will be executed and delivered by the Company for the benefit of the holders of Preferred Securities of the respective Trusts from time to time. Each Guarantee will be qualified as an indenture under the 1939 Act. The Chase Manhattan Bank will act as indenture trustee under each Guarantee (the "Guarantee Trustee") for purposes of the 1939 Act. The terms of the respective Guarantees will be those set forth therein and those made part thereof by the 1939 Act. The following summary does not purport to be complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the Guarantees, the form of which is filed as an exhibit to the Registration Statement of which this Prospectus forms a part, and the 1939 Act. Each Guarantee will be held by the Guarantee Trustee for the benefit of holders of the Preferred Securities to which it relates.

### General

Pursuant to each Guarantee, the Company will irrevocably and unconditionally agree, to the extent set forth therein, to pay in full, to the holders of the related Preferred Securities, the Guarantee Payments (as defined herein), to the extent not paid by, or on behalf of, the related Trust, regardless of any defense, right of set-off or counterclaim that the Company may have or assert against any person. The following payments or distributions with respect to the Preferred Securities of any Trust to the extent not paid or made by, or on behalf of, such Trust will be subject to the Guarantee related thereto (without duplication): (i) any accrued and unpaid distributions required to be paid on the Preferred Securities of such Trust but if and only if and to the extent that such Trust has funds legally and immediately available therefor, (ii) the redemption price, including all accrued and unpaid distributions to the date of redemption (the "Redemption Price"), with respect to any Preferred Securities called for redemption by such Trust, but if and only to the extent such Trust has funds legally and immediately available therefor, and (iii) upon a dissolution, winding-up or termination of such Trust (other than in connection with the distribution of Junior Subordinated Notes to the holders of Trust Securities of such Trust or the redemption of all of the Preferred Securities of such Trust), the lesser of (a) the aggregate of the liquidation amount and all accrued and unpaid distributions on the Preferred Securities of such Trust to the date of payment, to the extent such Trust has funds legally and immediately available therefor, and (b) the amount of assets of such Trust remaining available for distribution to holders of Preferred Securities of such Trust in liquidation of such Trust (the "Guarantee Payments"). The Company's obligation to make a Guarantee Payment may be satisfied by direct payment of the required amounts by the Company to the holders of the related Preferred Securities or by causing the related Trust to pay such amounts to such holders.

Each Guarantee will be a guarantee of the Guarantee Payments with respect to the related Preferred Securities from the time of issuance of such Preferred Securities, but will not apply to the payment of distributions and other payments on such Preferred Securities when the related Trust does not have sufficient funds legally and immediately available to make such distributions or other payments. **If the Company does not make interest payments on the Junior Subordinated Notes held by the Property Trustee under any Trust, such Trust will not make distributions on its Preferred Securities.**

### Subordination

The Company's obligations under each Guarantee to make the Guarantee Payments will constitute an unsecured obligation of the Company and will rank (i) subordinate and junior in right of payment to all other liabilities of the Company, including the Junior Subordinated Notes, except those obligations or liabilities made *pari passu* or subordinate by their terms, (ii) *pari passu* with the most senior preferred or preference stock now or hereafter issued by the Company and with any guarantee now or hereafter entered into by the Company in respect of any preferred or preference securities of any affiliate of the Company, and (iii) senior to all common stock of the Company. The terms of the Preferred Securities will provide that each holder of Preferred Securities by acceptance thereof agrees to the subordination provisions and other terms of the Guarantee related thereto. The Company has outstanding preferred stock that ranks *pari passu* to the Guarantees and common stock that ranks junior to the Guarantees.

Each Guarantee will constitute a guarantee of payment and not of collection (that is, the guaranteed party may institute a legal proceeding directly against the guarantor to enforce its rights under the guarantee without first instituting a legal proceeding against any other person or entity).

**Amendments and Assignment**

Except with respect to any changes that do not materially and adversely affect the rights of holders of the related Preferred Securities (in which case no consent will be required), each Guarantee may be amended only with the prior approval of the holders of not less than 66⅔% in liquidation amount of such outstanding Preferred Securities. The manner of obtaining any such approval of holders of the Preferred Securities will be as set forth in an accompanying Prospectus Supplement. All guarantees and agreements contained in each Guarantee shall bind the successors, assigns, receivers, trustees and representatives of the Company and shall inure to the benefit of the holders of the related Preferred Securities then outstanding.

**Termination**

Each Guarantee will terminate and be of no further force and effect as to the related Preferred Securities upon full payment of the Redemption Price of all such Preferred Securities, upon distribution of Junior Subordinated Notes to the holders of such Preferred Securities, or upon full payment of the amounts payable upon liquidation of the related Trust. Each Guarantee will continue to be effective or will be reinstated, as the case may be, if at any time any holder of the related Preferred Securities must restore payment of any sums paid with respect to such Preferred Securities or under such Guarantee.

**Events of Default**

An event of default under each Guarantee will occur upon the failure by the Company to perform any of its payment obligations thereunder. The holders of a majority in liquidation amount of the Preferred Securities to which any Guarantee relates have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Guarantee Trustee in respect of such Guarantee or to direct the exercise of any trust or power conferred upon the Guarantee Trustee under such Guarantee. Any holder of the related Preferred Securities may institute a legal proceeding directly against the Company to enforce its rights under such Guarantee without first instituting a legal proceeding against the Guarantee Trustee or any other person or entity. The holders of a majority in liquidation amount of Preferred Securities of any series may, by vote, on behalf of the holders of all the Preferred Securities of such series, waive any past event of default and its consequences.

**Information Concerning the Guarantee Trustee**

The Guarantee Trustee, prior to the occurrence of any event of default with respect to any Guarantee and after the curing or waiving of all events of default with respect to such Guarantee, undertakes to perform only such duties as are specifically set forth in such Guarantee and, in case an event of default has occurred, shall exercise the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provisions, the Guarantee Trustee is under no obligation to exercise any of the powers vested in it by any Guarantee at the request of any holder of the related Preferred Securities, unless offered reasonable indemnity against the costs, expenses and liabilities which might be incurred thereby.

The Chase Manhattan Bank, the Guarantee Trustee, also serves as Property Trustee, as Senior Note Indenture Trustee and as Subordinated Note Indenture Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with The Chase Manhattan Bank. The Chase Manhattan Bank serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

**Governing Law**

Each Guarantee will be governed by, and construed in accordance with, the internal laws of the State of New York.

### The Agreements as to Expenses and Liabilities

Pursuant to an Agreement as to Expenses and Liabilities to be entered into by the Company under each Trust Agreement, the Company will irrevocably and unconditionally guarantee to each person or entity to whom each Trust becomes indebted or liable the full payment of any indebtedness, expenses or liabilities of such Trust, other than obligations of such Trust to pay to the holders of the related Preferred Securities or other similar interests in such Trust the amounts due such holders pursuant to the terms of such Preferred Securities or such other similar interests, as the case may be.

## RELATIONSHIP AMONG THE PREFERRED SECURITIES, THE JUNIOR SUBORDINATED NOTES AND THE GUARANTEES

As long as payments of interest and other payments are made when due on each series of Junior Subordinated Notes issued to a Trust, such payments will be sufficient to cover distributions and payments due on the related Trust Securities of such Trust primarily because (i) the aggregate principal amount of each series of Junior Subordinated Notes will be equal to the sum of the aggregate stated liquidation amount of the related Trust Securities; (ii) the interest rate and interest and other payment dates on each series of Junior Subordinated Notes will match the distribution rate and distribution and other payment dates for the related Preferred Securities; (iii) the Company shall pay for all costs and expenses of each Trust pursuant to the Agreements as to Expenses and Liabilities; and (iv) each Trust Agreement provides that the Securities Trustees thereunder shall not cause or permit the Trust to, among other things, engage in any activity that is not consistent with the purposes of the Trust.

Payments of distributions (to the extent funds therefor are legally and immediately available) and other payments due on the Preferred Securities (to the extent funds therefor are legally and immediately available) will be guaranteed by the Company as and to the extent set forth under "Description of the Guarantees." If the Company does not make interest payments on any series of Junior Subordinated Notes, it is not expected that the related Trust will have sufficient funds to pay distributions on its Preferred Securities. Each Guarantee is a guarantee from the time of its issuance, but does not apply to any payment of distributions unless and until the related Trust has sufficient funds legally and immediately available for the payment of such distributions.

If the Company fails to make interest or other payments on any series of Junior Subordinated Notes when due (taking into account any extension period as described in the applicable Prospectus Supplement), the Trust Agreement provides a mechanism whereby the holders of the related Preferred Securities may appoint a substitute Property Trustee. Such holders may also direct the Property Trustee to enforce its rights under the Junior Subordinated Notes of such series, including proceeding directly against the Company to enforce such Junior Subordinated Notes. If the Property Trustee fails to enforce its rights under any series of Junior Subordinated Notes, to the fullest extent permitted by applicable law, any holder of related Preferred Securities may institute a legal proceeding directly against the Company to enforce the Property Trustee's rights under such series of Junior Subordinated Notes without first instituting any legal proceeding against the Property Trustee or any other person or entity. Notwithstanding the foregoing, a holder of Preferred Securities may institute a legal proceeding directly against the Company, without first instituting a legal proceeding against the Property Trustee or any other person or entity, for enforcement of payment to such holder of principal of or interest on Junior Subordinated Notes of the related series having a principal amount equal to the aggregate stated liquidation amount of the Preferred Securities of such holder on or after the due dates specified in the Junior Subordinated Notes of such series.

If the Company fails to make payments under any Guarantee, such Guarantee provides a mechanism whereby the holders of the Preferred Securities to which such Guarantee relates may direct the Guarantee Trustee to enforce its rights thereunder. In addition, any holder of Preferred Securities may institute a legal proceeding directly against the Company to enforce the Guarantee Trustee's rights under the related Guarantee without first instituting a legal proceeding against the Guarantee Trustee or any other person or entity.

Each Guarantee, the Subordinated Note Indenture, the Junior Subordinated Notes of the related series, the related Trust Agreement and the related Agreement as to Expenses and Liabilities, as described above, constitute a full and unconditional guarantee by the Company of the payments due on the related series of Preferred Securities.

Upon any voluntary or involuntary dissolution, winding-up or termination of any Trust, unless Junior Subordinated Notes of the related series are distributed in connection therewith, the holders of Preferred Securities of such Trust will be entitled to receive, out of assets legally available for distribution to holders, a liquidation distribution in cash as described in the applicable Prospectus Supplement. Upon any voluntary or involuntary liquidation or bankruptcy of the Company, the Property Trustee, as holder of the related series of Junior Subordinated Notes, would be a subordinated creditor of the Company, subordinated in right of payment to all Senior Indebtedness, but entitled to receive payment in full of principal and interest, before any stockholders of the Company receive payments or distributions. Because the Company is guarantor under each Guarantee and has agreed to pay for all costs, expenses and liabilities of each Trust (other than the Trust's obligations to holders of the Preferred Securities) pursuant to the related Agreement as to Expenses and Liabilities, the positions of a holder of Preferred Securities and a holder of Junior Subordinated Notes of the related series relative to other creditors and to stockholders of the Company in the event of liquidation or bankruptcy of the Company would be substantially the same.

A default or event of default under any Senior Indebtedness would not constitute a default or Event of Default under the Subordinated Note Indenture. However, in the event of payment defaults under, or acceleration of, Senior Indebtedness, the subordination provisions of the Junior Subordinated Notes provide that no payments may be made in respect of the Junior Subordinated Notes until such Senior Indebtedness has been paid in full or any payment default thereunder has been cured or waived. Failure to make required payments on the Junior Subordinated Notes of any series would constitute an Event of Default under the Subordinated Note Indenture with respect to the Junior Subordinated Notes of such series except that failure to make interest payments on the Junior Subordinated Notes of such series will not be an Event of Default during an extension period as described in the applicable Prospectus Supplement.

## PLAN OF DISTRIBUTION

The Company may sell the Senior Notes and the Junior Subordinated Notes and the Trusts may sell the Preferred Securities in one or more of the following ways from time to time: (i) to underwriters for resale to the public or to institutional investors; (ii) directly to institutional investors; or (iii) through agents to the public or to institutional investors. The Prospectus Supplement with respect to each series of Senior Notes, Junior Subordinated Notes or Preferred Securities will set forth the terms of the offering of such Senior Notes, Junior Subordinated Notes or Preferred Securities, including the name or names of any underwriters or agents, the purchase price of such Senior Notes, Junior Subordinated Notes or Preferred Securities and the proceeds to the Company or the applicable Trust from such sale, any underwriting discounts or agency fees and other items constituting underwriters' or agents' compensation, any initial public offering price, any discounts or concessions allowed or reallowed or paid to dealers and any securities exchange on which such Senior Notes, Junior Subordinated Notes or Preferred Securities may be listed.

If underwriters participate in the sale, such Senior Notes, Junior Subordinated Notes or Preferred Securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale.

Unless otherwise set forth in the Prospectus Supplement, the obligations of the underwriters to purchase any series of Senior Notes, Junior Subordinated Notes or Preferred Securities will be subject to certain conditions precedent and the underwriters will be obligated to purchase all of such series of Senior Notes, Junior Subordinated Notes or Preferred Securities, if any are purchased.

Underwriters and agents may be entitled under agreements entered into with the Company and/or the applicable Trust to indemnification against certain civil liabilities, including liabilities under the 1933 Act. Underwriters and agents may engage in transactions with, or perform services for, the Company in the ordinary course of business.

Each series of Senior Notes, Junior Subordinated Notes or Preferred Securities will be a new issue of securities and will have no established trading market. Any underwriters to whom Senior Notes, Junior Subordinated Notes or Preferred Securities are sold for public offering and sale may make a market in such Senior Notes, Junior Subordinated Notes or Preferred Securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice. The Senior Notes, Junior Subordinated Notes or Preferred Securities may or may not be listed on a national securities exchange.

## LEGAL MATTERS

Certain matters of Delaware law relating to the validity of the Preferred Securities will be passed upon on behalf of the Company and the Trusts by Richards, Layton & Finger, Wilmington, Delaware, special Delaware counsel to the Company and the Trusts. The validity of the Senior Notes, the Junior Subordinated Notes, the Guarantees and certain matters relating thereto will be passed upon on behalf of the Company by Beggs & Lane, Pensacola, Florida, and by Troutman Sanders LLP, Atlanta, Georgia. Certain legal matters will be passed upon for the Underwriters by Dewey Ballantine LLP, New York, New York.

## EXPERTS

The financial statements and schedules of the Company included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000, incorporated by reference in this Prospectus, have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are incorporated herein in reliance upon the authority of said firm as experts in accounting and auditing in giving said reports.

## PART II

## INFORMATION NOT REQUIRED IN PROSPECTUS

**Item 14.** ***Other Expenses of Issuance and Distribution.***

The estimated expenses of issuance and distribution, other than underwriting discounts and commissions, to be borne by the Company are as follows:

| | |
|---|---|
| Florida Documentary Stamp Tax | $1,225,000 |
| Florida intangible personal property tax | 26,000 |
| Filing Fees—Securities and Exchange Commission—registration statement | 87,500 |
| Charges of trustees (including counsel) | 100,000 |
| Listing fees of New York Stock Exchange | 88,500 |
| Printing and preparation of registration statement, prospectus, etc. | 125,000 |
| Rating Agency fees | 280,000 |
| Services of Southern Company Services, Inc. | 140,000 |
| Fees and expenses of counsel | 175,000 |
| Blue sky fees and expenses | 14,000 |
| Fees of accountants, Arthur Andersen LLP | 175,000 |
| Miscellaneous, including telephone charges and traveling expenses | 14,000 |
| Total | $2,450,000* |

* Each Prospectus Supplement will reflect estimated expenses of the Company based upon the amount of the related offering.

**Item 15.** ***Indemnification of Directors and Officers.***

Section 719 of Title 13-A of the Maine Revised Statutes, as amended in 1987, provides that a corporation shall have the power to indemnify, or if so provided in the bylaws shall in all cases indemnify, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that that person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, trustee, partner, fiduciary, employee or agent of another corporation, partnership, joint venture, trust, pension or other employee benefit plan or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by that person in connection with such action, suit or proceeding; provided that no indemnification shall be provided for any person with respect to any matter as to which that person shall have been finally adjudicated not to have acted honestly or in the reasonable belief that that person's action was in or not opposed to the best interests of the corporation or its shareholders or, in the case of a person serving as a fiduciary of an employee benefit plan or trust, in or not opposed to the best interests of that plan or trust, or its participants or beneficiaries; or, with respect to any criminal action or proceeding, had reasonable cause to believe that that person's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order or conviction adverse to that person, or by settlement or plea of nolo contendere or its equivalent, shall not of itself create a presumption that that person did not act honestly or in the reasonable belief that that person's action was in or not opposed to the best interests of the corporation or its shareholders or, in the case of a person serving as a fiduciary of an employee benefit plan or trust, in or not opposed to the best interests of that plan or trust or its participants or beneficiaries and, with respect to any criminal action or proceeding, had reasonable cause to believe that that person's conduct was unlawful.

Section 21 of the By-laws of the Company provides in pertinent part as follows.

To the fullest extent permitted by law, the Company shall indemnify each person made, or threatened to be made, a party to any threatened, pending, or completed claim, action, suit or proceeding, whether civil or criminal, administrative or investigative, and whether by or in the right of the Company or otherwise, by reason of the fact that such person, or such person's testator or intestate, is or was a director, officer or was an employee of the Company holding one or more management positions through and inclusive of managers (but not positions below the level of managers) (such positions being hereinafter referred to as "Management Positions") or is or was serving at the request of the Company as a director, officer, employee, agent or trustee of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, in any capacity at the request of the Company, against all loss and expense actually or reasonably incurred by him including, without limiting the generality of the foregoing, judgments, fines, penalties, liabilities, sanctions and amounts paid in settlement and attorneys fees and disbursements actually and necessarily incurred by him in defense of such action or proceeding, or any appeal therefrom. The indemnification provided by this Section shall inure to the benefit of the heirs, executors and administrators of such person.

In any case in which a director, officer of the Company or employee of the Company holding one or more Management Positions requests indemnification with respect to the defense of any such claim, action, suit or proceedings, the Company may advance expenses (including attorney's fees) incurred by such person prior to the final disposition of such claim, action, suit or proceeding, as authorized by the Board of Directors in the specific case, upon receipt of a written undertaking by or on behalf of such person to repay amounts advanced if it shall ultimately be determined that such person was not entitled to be indemnified by the Company under this Section or otherwise; provided, however, that the advancement of such expenses shall not be deemed to be indemnification unless and until it shall ultimately be determined that such person is entitled to be indemnified by the Company. Such a person claiming indemnification shall be entitled to indemnification upon a determination that no judgment or other final adjudication adverse to such person has established that such person's acts were committed in bad faith or were the result of active and deliberate dishonesty and were material to the cause of action so adjudicated, or such person personally obtained an economic benefit including a financial profit or other advantage to which such person was not legally entitled. Without limiting the generality of the foregoing provision, no former, present or future director or officer of the Company or employee of the Company holding one or more management positions, or his heirs, executors or administrators, shall be liable for any undertaking entered into by the Company or its subsidiaries or affiliates as required by the Securities and Exchange Commission pursuant to any rule or regulation of the Securities and Exchange Commission now or hereafter in effect or orders issued pursuant to the Public Utility Holding Company Act of 1935, the Federal Power Act, or any undertaking entered into by the Company due to environmental requirements including all legally enforceable environmental compliance obligations imposed by federal, state or local statute, regulation, permit, judicial or administrative decree, order and judgment or other similar means, or any undertaking entered into by the Company pursuant to any approved Company compliance plan or any federal or state or municipal ordinance which directly or indirectly regulates the Company, or its parent by reason of their being holding or investment companies, public utility companies, public utility holding companies or subsidiaries of public utility holding companies.

The foregoing rights shall not be exclusive of any other rights to which any such director, officer or employee may otherwise be entitled and shall be available whether or not the director, officer or employee continues to be a director, officer or employee at the time of incurring any such expenses and liabilities.

The Company has an insurance policy covering its liabilities and expenses which might arise in connection with its lawful indemnification of its directors and officers for certain of their liabilities and expenses and also covering its officers and directors against certain other liabilities and expenses.

**Item 16.** *Exhibits.*

| Exhibit Number | |
|---|---|
| 1.1 | —Form of Underwriting Agreement relating to Senior Notes.* |
| 1.2 | —Form of Underwriting Agreement relating to Junior Subordinated Notes.* |
| 1.3 | —Form of Underwriting Agreement relating to Preferred Securities.* |
| 4.1 | —Senior Note Indenture between Gulf Power Company and The Chase Manhattan Bank, as Trustee (Designated in the Company's Current Report on Form 8-K dated June 18, 1998, File No. 0-2429, as Exhibits 4.1 and 4.2 and in Form 8-K dated August 17, 1999, File No. 0-2429, as Exhibit 4.2). |
| 4.2 | —Form of Supplemental Indenture to Senior Note Indenture to be used in connection with the issuance of Senior Notes.* |
| 4.3 | —Subordinated Note Indenture between Gulf Power Company and The Chase Manhattan Bank, as Trustee (Designated in the Company's Current Report on Form 8-K dated January 27, 1997, File No. 0-2429, as Exhibits 4.1 and 4.2, in Form 8-K dated July 28, 1997, File No. 0-2429, as Exhibit 4.2 and in Form 8-K dated January 13, 1998, File No. 0-2429, as Exhibit 4.2). |
| 4.4 | —Form of Supplemental Indenture to Subordinated Note Indenture to be used in connection with the issuance of Junior Subordinated Notes.* |
| 4.5-A | —Certificate of Trust of Gulf Power Capital Trust III (Designated in Registration No. 333-42033 as Exhibit 4.5-B). |
| 4.5-B | —Certificate of Trust of Gulf Power Capital Trust IV. |
| 4.6-A | —Trust Agreement of Gulf Power Capital Trust III (Designated in Registration No. 333-42033 as Exhibit 4.6-B). |
| 4.6-B | —Trust Agreement of Gulf Power Capital Trust IV. |
| 4.7-A | —Form of Amended and Restated Trust Agreement of Gulf Power Capital Trust III (Designated in Registration No. 333-42033 as Exhibit 4.7-B). |
| 4.7-B | —Form of Amended and Restated Trust Agreement of Gulf Power Capital Trust IV. |
| 4.8-A | —Form of Preferred Security of Gulf Power Capital Trust III (included in Exhibit 4.7-A above). |
| 4.8-B | —Form of Preferred Security of Gulf Power Capital Trust IV (included in Exhibit 4.7-B above). |
| 4.9 | —Form of Senior Note (included in Exhibit 4.2 above). |
| 4.10 | —Form of Junior Subordinated Note (included in Exhibit 4.4 above). |
| 4.11-A | —Form of Guarantee relating to Gulf Power Capital Trust III (Designated in Registration No. 333-42033 as Exhibit 4.11-B). |
| 4.11-B | —Form of Guarantee relating to Gulf Power Capital Trust IV. |
| 4.12-A | —Form of Agreement as to Expenses and Liabilities relating to Gulf Power Capital Trust III (included in Exhibit 4.7-A above). |
| 4.12-B | —Form of Agreement as to Expenses and Liabilities relating to Gulf Power Capital Trust IV (included in Exhibit 4.7-B above). |
| 5.1 | —Opinion of Beggs & Lane. |
| 5.2-A | —Opinion of Richards, Layton & Finger, P.A. relating to Gulf Power Capital Trust III. |
| 5.2-B | —Opinion of Richards, Layton & Finger, P.A. relating to Gulf Power Capital Trust IV. |
| 12.1 | —Computation of ratio of earnings to fixed charges. |
| 12.2 | —Computation of ratio of earnings to fixed charges plus preferred dividend requirements (pre-income tax basis). |
| 23.1 | —Consent of Arthur Andersen LLP. |
| 23.2 | —Consent of Beggs & Lane (included in Exhibit 5.1 above). |
| 23.3 | —Consent of Richards, Layton & Finger, P.A. (included in Exhibits 5.2-A and 5.2-B above). |
| 24.1 | —Powers of Attorney and Resolution. |
| 25.1 | —Statement of Eligibility under Trust Indenture Act of 1939, as amended, of The Chase Manhattan Bank, as Senior Note Indenture Trustee. |

Exhibit Number

25.2 —Statement of Eligibility under Trust Indenture Act of 1939, as amended, of The Chase Manhattan Bank, as Subordinated Note Indenture Trustee.

25.3 —Statement of Eligibility under Trust Indenture Act of 1939, as amended, of The Chase Manhattan Bank, as Property Trustee, relating to Gulf Power Capital Trust III.

25.4 —Statement of Eligibility under Trust Indenture Act of 1939, as amended, of The Chase Manhattan Bank, as Guarantee Trustee, relating to Gulf Power Capital Trust III.

25.5 —Statement of Eligibility under Trust Indenture Act of 1939, as amended, of The Chase Manhattan Bank, as Property Trustee, relating to Gulf Power Capital Trust IV.

25.6 —Statement of Eligibility under Trust Indenture Act of 1939, as amended, of The Chase Manhattan Bank, as Guarantee Trustee, relating to Gulf Power Capital Trust IV.

Exhibits listed above which have heretofore been filed with the Commission and which were designated as noted above are hereby incorporated herein by reference and made a part hereof with the same effect as if filed herewith.

---

* To be subsequently filed or incorporated by reference.

**Item 17.** ***Undertakings.***

(a) Undertaking related to Rule 415 offering:

The undersigned registrants hereby undertake:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

Provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the registration statement is on Form S-3, S-8 or F-3 and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the registrants pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) Undertaking related to filings incorporating subsequent Securities Exchange Act of 1934 documents by reference:

The undersigned registrants hereby undertake that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Company's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Undertaking related to acceleration of effectiveness:

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrants pursuant to the foregoing provisions or otherwise, the registrants have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrants of expenses incurred or paid by a director, officer or controlling person of the registrants in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrants will, unless in the opinion of their counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(d) The undersigned registrants hereby undertake that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrants pursuant to Rule 424(b)(1) or (4) or 497(h) under the Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

## SIGNATURES

**Pursuant to the requirements of the Securities Act of 1933, Gulf Power Company certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Atlanta, State of Georgia, on the 1st day of May, 2001.**

GULF POWER COMPANY

By: TRAVIS J. BOWDEN,
President and Chief Executive Officer

By: WAYNE BOSTON,
Attorney-in-fact

**Pursuant to the requirements of the Securities Act of 1933, Gulf Power Capital Trust III certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Atlanta, State of Georgia, on the 1st day of May, 2001.**

GULF POWER CAPITAL TRUST III

By: GULF POWER COMPANY
Depositor

By: WAYNE BOSTON,
Assistant Secretary

**Pursuant to the requirements of the Securities Act of 1933, Gulf Power Capital Trust IV certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Atlanta, State of Georgia, on the 1st day of May, 2001.**

GULF POWER CAPITAL TRUST IV

By: GULF POWER COMPANY
Depositor

By: WAYNE BOSTON,
Assistant Secretary

**Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following directors and officers of Gulf Power Company in the capacities and on the date indicated.**

| Signature | Title | Date |
|---|---|---|
| TRAVIS J. BOWDEN | President, Chief Executive Officer and Director (Principal Executive Officer) | |
| RONNIE R. LABRATO | Comptroller and Chief Financial Officer (Principal Financial and Accounting Officer) | |
| FRED C. DONOVAN<br>W. DECK HULL, JR.<br>BARBARA H. THAMES | Directors | |
| By WAYNE BOSTON<br>**(Wayne Boston, Attorney-in-fact)** | | May 1, 2001 |

EXHIBIT A.8.

**Description of Holder**

*$65,000,000 Series F 5.60% Senior Notes*

| **Name of Underwriters** | **Principal Amount of Notes** |
|---|---|
| Edward D. Jones & Co., L.P.<br>12555 Manchester Road<br>St. Louis, Missouri 63131<br><br>As representative | $61,750,000 |
| Goldman, Sachs & Co. | $ 3,250,000 |
| | $65,000,000 |

Underwriters Fees: $2,047,500

GULF POWER COMPANY

Exhibit A.9.

Summary of Debt Expenses in Conjunction with the
Issuance and Sale of $65,000,000 Principal Amount
Series F 5.60% Senior Insured Quarterly Notes

| Item Number | Issuance Expenses For: | Amount $ |
|---|---|---|
| 1 | Shelf Registration-Securities & Exchange Commission | 26,541.16 |
| 2 | Charges of Trustee | 6,890.00 |
| 3 | Printing and Preparation of Registration Statement, Financial Statements, Prospectus, Competitive Bidding Papers, Supplemental Indenture, etc. | 18,927.15 |
| 4 | Fees and Expenses of Counsel | 25,326.02 |
| 5 | Fees of Accountants | 30,110.00 |
| 6 | Rating Fees | 7,573.71 |
| 7 | Expenses of Southern Company Services, Inc. | 4,844.91 |
| 8 | Insurance | 1,219,753.89 |
| 9 | Miscellaneous Expenses | 976.81 |
| | Total Expenses of Issue | 1,340,943.65 |
| | Unamortized Discount Expense | 2,047,500.00 |
| | Total Cost of Issue | $3,388,443.65 |

EXHIBIT B.1.

ESCAMBIA COUNTY, FLORIDA

to

THE BANK OF NEW YORK TRUST COMPANY OF FLORIDA, N.A.,

as Trustee

# TRUST INDENTURE

Dated as of April 1, 2003

Relating to

$32,550,000
Pollution Control Revenue Refunding Bonds
(Gulf Power Company Project)
Series 2003

## TABLE OF CONTENTS


ARTICLE I: DEFINITIONS AND RULES OF CONSTRUCTION ..... 3
Section 1.01. Definitions ..... 3
Section 1.02. Rules of Construction ..... 8

ARTICLE II: THE BONDS ..... 8
Section 2.01. Issuance of Bonds; Form; Dating ..... 8
Section 2.02. Interest on the Bonds ..... 9
Section 2.03. Changes to and from Auction Mode Rate Determination Method ..... 17
Section 2.04. Execution and Authentication ..... 19
Section 2.05. Bond Register ..... 20
Section 2.06. Registration and Exchange of Bonds; Persons Treated as Owners ..... 20
Section 2.07. Mutilated, Lost, Stolen, Destroyed or Undelivered Bonds ..... 21
Section 2.08. Cancellation of Bonds ..... 21
Section 2.09. Temporary Bonds ..... 21

ARTICLE III: REDEMPTION, MANDATORY TENDER AND REMARKETING ..... 22
Section 3.01. Notices to Trustee ..... 22
Section 3.02. Redemption Dates ..... 22
Section 3.03. Selection of Bonds to Be Redeemed ..... 22
Section 3.04. Redemption Notices ..... 22
Section 3.05. Payment of Bonds Called for Redemption ..... 23
Section 3.06. Bonds Redeemed in Part ..... 24
Section 3.07. Mandatory Tender ..... 24
Section 3.08. Disposition of Purchased Bonds ..... 25

ARTICLE IV: APPLICATION OF PROCEEDS AND PAYMENT OF BONDS ..... 27
Section 4.01. Application of Proceeds ..... 27
Section 4.02. Payment of Bonds ..... 27
Section 4.03. Investments of Moneys ..... 28
Section 4.04. Moneys Held in Trust; Unclaimed Funds ..... 28

ARTICLE V: BOOK ENTRY SYSTEM ..... 29
Section 5.01. Book-Entry System ..... 29

ARTICLE VI: COVENANTS ..... 31
Section 6.01. Payment of Bonds ..... 31
Section 6.02. Performance of Covenants; Issuer ..... 31
Section 6.03. Recording and Filing; Further Assurances ..... 31
Section 6.04. Tax Covenants ..... 31
Section 6.05. Rights Under Agreement ..... 32
Section 6.06. Designation of Additional Paying Agents ..... 32

Section 6.07. Existence of Issuer ..... 32

ARTICLE VII: DISCHARGE OF INDENTURE ..... 33
Section 7.01. Bonds Deemed Paid; Discharge of Indenture ..... 33
Section 7.02. Application of Trust Money ..... 34
Section 7.03. Repayment to Company ..... 34

ARTICLE VIII: DEFAULTS AND REMEDIES ..... 34
Section 8.01. Events of Default ..... 34
Section 8.02. Acceleration ..... 34
Section 8.03. Other Remedies ..... 35
Section 8.04. Legal Proceeding by Trustee ..... 36
Section 8.05. Appointment of Receivers ..... 36
Section 8.06. Waiver of Past Defaults ..... 37
Section 8.07. Control by Majority ..... 37
Section 8.08. Limitation on Suits ..... 37
Section 8.09. Rights of Holders to Receive Payment ..... 37
Section 8.10. Collection Suit by Trustee ..... 38
Section 8.11. Trustee May File Proofs of Claim ..... 38
Section 8.12. Priorities ..... 38
Section 8.13. Undertaking for Costs ..... 38

ARTICLE IX: TRUSTEE AND REMARKETING AGENT ..... 38
Section 9.01. Acceptance of the Trusts ..... 38
Section 9.02. Fees, Charges and Expenses of Trustee ..... 41
Section 9.03. Notice to Bondholders if an Event of Default Occurs ..... 41
Section 9.04. Intervention by Trustee ..... 41
Section 9.05. Successor Trustee ..... 41
Section 9.06. Resignation by Trustee ..... 42
Section 9.07. Removal of Trustee ..... 42
Section 9.08. Appointment of Successor Trustee ..... 42
Section 9.09. Concerning Any Successor Trustee ..... 42
Section 9.10. Successor Trustee as Bond Registrar and Paying Agent ..... 43
Section 9.11. Trustee and Issuer Required to Accept Directions and Actions of Company ..... 43
Section 9.12. No Transfer of Note Held by the Trustee; Exception ..... 43
Section 9.13. Filing of Certain Continuation Statements ..... 43
Section 9.14 Duties of Remarketing Agent ..... 44
Section 9.15 Eligibility of Remarketing Agent ..... 44
Section 9.16 Replacement of Remarketing Agent. ..... 44
Section 9.17. Compensation of Remarketing Agent ..... 44
Section 9.18. Successor Remarketing Agent ..... 44
Section 9.19. Inapplicability of Remarketing Agent ..... 45

ARTICLE X: AMENDMENTS OF AND SUPPLEMENTS TO INDENTURE ..... 45
Section 10.01. Without Consent of Bondholders ..... 45
Section 10.02. With Consent of Bondholders ..... 46
Section 10.03. Effect of Consents ..... 46
Section 10.04. Notation on or Exchange of Bonds ..... 46
Section 10.05. Signing by Trustee of Amendments and Supplements ..... 46

Section 10.06. Company Consent Required....46
Section 10.07. Notice to Bondholders....47

ARTICLE XI AMENDMENTS OF AND SUPPLEMENTS TO THE AGREEMENT....47
Section 11.01. Without Consent of Bondholders....47
Section 11.02. With Consent of Bondholders....47
Section 11.03. Consents by Trustee to Amendments or Supplements....47

ARTICLE XII MISCELLANEOUS....47
Section 12.01. Notices....48
Section 12.02. Bondholders' Consent....48
Section 12.03. Appointment of Separate Paying Agent and/or Tender Agent 49
Section 12.04. Limitation of Rights....49
Section 12.05. Severability....49
Section 12.06. Payments Due on Non-Business Days....49
Section 12.07. Governing Law....49
Section 12.08. Captions....49
Section 12.09. No Liability of Officers....50
Section 12.10. Limitation upon Responsibility of the Issuer....50
Section 12.11. Counterparts....50
Section 12.12. Regarding Insurer Provisions....50

Exhibit A Form of Bond
Exhibit B Auction Procedures

# TRUST INDENTURE

THIS TRUST INDENTURE made and entered into as of April 1, 2003, by and between ESCAMBIA COUNTY, FLORIDA, a "local agency" as defined in the Florida Industrial Development Financing Act, being Part II of Chapter 159, Florida Statutes, Sections 159.25 through 159.431, as amended (the "Act"), and a political subdivision of the State of Florida (the "Issuer"), and THE BANK OF NEW YORK TRUST COMPANY OF FLORIDA, N.A., a national banking association duly organized, existing and authorized to accept and execute trusts of the character herein set out under and by virtue of the laws of the United States, with its principal corporate trust office located in Atlanta, Georgia, as trustee (the "Trustee").

## RECITALS

A. In furtherance of its statutory purposes, the Issuer has entered into a Loan Agreement dated as of April 1, 2003 (the "Agreement") with Gulf Power Company, a Maine corporation (the "Company"), providing for the undertaking by the Issuer to loan amounts to the Company in order to refund certain of the Issuer's bonds heretofore issued to refinance the acquisition, construction, installation and equipping of the Company's interest in certain air and water pollution control and sewage and solid waste disposal facilities, or portions thereof, at Plant Crist in Escambia County, Florida and Plant Lansing Smith, in Bay County, Florida.

B. The Agreement provides that, for the purposes therein set forth, the Issuer will sell its Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003, in the aggregate principal amount of $32,550,000 (the "Bonds"); that the Issuer will loan the proceeds of the Bonds to the Company; and to evidence the Loan (as hereinafter defined) the Company will execute and deliver a non-negotiable promissory note in a like principal amount bearing interest at the rate or rates borne by the Bonds.

C. The execution and delivery of this Indenture and the Agreement and the issuance and sale of the Bonds have been in all respects duly and validly authorized by resolution duly adopted by the Issuer.

D. The Company has agreed to make payments on the aforementioned promissory note to the Issuer in amounts sufficient to pay the principal, purchase price, premium, if any, and interest on the Bonds, all as hereinafter defined.

E. All acts, conditions and things required by the Constitution and laws of the State of Florida to happen, exist and be performed precedent to and in the execution and delivery of this Indenture and the Agreement have happened, exist and have been performed as so required, in order to make this Indenture a valid and binding trust indenture for the security of the Bonds in accordance with its terms and in order to make the Agreement a valid and binding loan agreement in accordance with its terms.

F. The Trustee has accepted the trusts created by this Indenture and in evidence thereof has joined in the execution hereof.

Accordingly, the Issuer and the Trustee agree as follows for the benefit of each other and for the benefit of the holders of the Bonds issued pursuant to this Indenture.

## GRANTING CLAUSE

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that in consideration of the premises, of the acceptance by the Trustee of the trusts hereby created, and the purchase and acceptance of the Bonds by the holders thereof, and also for and in consideration of the sum of One Dollar ($1.00) to the Issuer in hand paid by the Trustee at or before the execution and delivery of this Indenture, the receipt of which is hereby acknowledged, and for the purpose of fixing and declaring the terms and conditions upon which the Bonds are to be issued, authenticated, delivered, secured and accepted by all persons who shall from time to time be or become holders thereof, and in order to secure the payment of all Bonds at any time issued and outstanding hereunder and the interest and the premiums, if any, payable upon redemption or mandatory tender thereon according to their tenor, purport and effect, and in order to secure the performance and observance of all the covenants, agreements and conditions therein or herein contained; the Issuer has executed and delivered this Indenture, and will cause the Company to deliver to the Trustee the Company's Note (as defined herein); the Issuer does hereby bargain, sell, convey, assign and pledge to the Trustee, and grant to the Trustee a security interest in, all rights, title and interest of the Issuer in, to and under such promissory note and all payments, if any, made and to be made thereunder as security for the payment of all outstanding Bonds and the interest and the premium, if any, thereon and does hereby bargain, sell, convey, assign and pledge to the Trustee, and grant to the Trustee a security interest in, all other rights, title and interest of the Issuer in, to and under the Agreement and all moneys receivable thereunder (except for Unassigned Rights, as defined herein) as security for the satisfaction of any other obligation assumed by it in connection with all outstanding Bonds at any time issued hereunder;

TO HAVE AND TO HOLD the same unto the Trustee and its successors in trust forever;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth, for the equal and proportionate benefit and security of all and singular present and future holders of the Bonds issued under this Indenture, without preference, priority or distinction as to lien or otherwise, except as otherwise hereinafter provided, of any one Bond over any other Bond, by reason of priority in the issue, sale or negotiation thereof or otherwise;

PROVIDED, HOWEVER, that if the Issuer, its successors or assigns shall pay or cause to be paid the principal of, premium, if any, and interest on the Bonds due or to become due thereon, at the times and in the manner mentioned in the Bonds, and shall perform all the covenants and conditions required of it by this Indenture, and shall pay or cause to be paid to the Trustee and any additional paying agents all sums of money due or to become due to them in accordance with the terms and provisions hereof, then upon such final payments this Indenture and the rights hereby granted shall terminate and the Trustee shall release this Indenture and shall

execute such documents to evidence such termination and release as may be reasonably required by the Issuer or the Company; otherwise this Indenture to be and remain in full force and effect.

THIS INDENTURE FURTHER WITNESSETH, and it is expressly declared, that all Bonds from time to time issued and secured hereunder are to be issued, authenticated and delivered, and all said property, rights and interests, including, without limitation, the amounts hereby assigned and pledged, are to be dealt with and disposed of subject to the terms of this Indenture, and the Issuer agrees with the Trustee and with the respective owners, from time to time, of said Bonds, or part thereof, as follows:

## ARTICLE I DEFINITIONS AND RULES OF CONSTRUCTION

**Section 1.01. Definitions**. For all purposes of this Indenture, unless the context requires otherwise, words or terms defined in the preamble and recitals of this Indenture shall have the meanings specified therein, and the following terms shall have the following meanings; provided, however, that any terms used herein relating to Bonds in the Auction Mode Rate Determination Method or Auction Procedures that are not expressly defined below shall be deemed to have the meanings provided in Exhibit B, Auction Procedures, attached hereto:

"*Act*" means the Florida Industrial Development Financing Act, being Part II of Chapter 159, Florida Statutes, Sections 159.25 through 159.431, as amended.

*"Agreement"* means the Loan Agreement between the Issuer and the Company, dated as of April 1, 2003.

"*Auction Rate Period*" means each period of time when the Bonds bear interest at an Auction Mode Rate.

"*Beneficial Owner*" means the purchaser of a beneficial interest in the Bonds when the Bonds are held by the Securities Depository in the Book-Entry System, and otherwise means a Bondholder.

*"BMA Index"* means, as of any date, the rate calculated according to the Bond Market Association Municipal Swap Index as of the most recent date for which such index was published or such other weekly, high-grade index composed of weekly, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc. or any successor thereto, or as otherwise designated by the Bond Market Association.

"*BMA Margin*" is defined in Section 2.02(a)(6)(i).

"*Bondholder*" or "*holder*" means the registered owner of any Bond.

"*Bonds*" means the Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003 issued by the Issuer hereunder in the aggregate principal amount of $32,550,000.

"*Book-Entry System*" means the system maintained by the Securities Depository described in Section 5.01.

"*Business Day*" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York, Atlanta, Georgia, or the city in which the principal corporate trust office of the Trustee is located, are authorized by law to close or (iii) a day on which the New York Stock Exchange is closed; provided, however, that during an Auction Rate Period the definition of "Business Day" shall be supplemented as provided in Exhibit B attached hereto.

"*Code*" means the Internal Revenue Code of 1986, as amended, and the applicable Treasury Regulations promulgated thereunder as the same may be applicable to the Bonds.

"*Commercial Paper Mode*" means each period of time, comprised of Commercial Paper Periods, during which Commercial Paper Rates are in effect.

"*Commercial Paper Period*" means, with respect to any Bond, each period set under Section 2.02(a)(3).

"*Commercial Paper Rate*" means an interest rate on each Bond set under Section 2.02(a)(3).

"*Company*" means Gulf Power Company, a Maine corporation, and its successors and assigns, and any surviving, resulting or transferee entity as provided in Section 4.3 of the Agreement.

"*Conversion Notice*" is defined in Section 2.02(b)(1).

"*corporation*" includes corporations, partnerships, limited partnership, limited liability partnerships, limited liability companies, associations, companies, statutory trusts and business trusts.

"*Daily Rate*" means an interest rate on the Bonds set under Section 2.02(a)(l).

"*Determination Method*" is defined in Section 2.02(a) hereof.

"*Event of Default*" is defined in Section 8.01.

"*Favorable Opinion of Tax Counsel*" means an Opinion of Tax Counsel addressed to the Issuer and to the Trustee to the effect that the action proposed to be taken is permitted by the

laws of the State and by this Indenture and will not adversely affect any exclusion from gross income for federal income tax purposes of interest on the Bonds.

"*Government Obligations*" means (i) noncallable direct obligations of the United States for which its full faith and credit are pledged, (ii) noncallable obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States, or (iii) securities or receipts evidencing ownership interests in obligations or specified portions (such as principal or interest) of obligations described in (i) or (ii).

"*Indenture*" means this Trust Indenture, as it may be amended or supplemented from time to time in accordance with its terms.

"*Index*" means the BMA Index or LIBOR Index, as applicable.

"*Index Adjustment Date*" is defined in Section 2.02(a)(6)(i).

"*Index Period*" means any period of time established by the Company pursuant to Section 2.02(a)(6) during which the Bonds bear interest at the Index Rate.

"*Index Rate*" means an interest rate on the Bonds set under 2.02(b)(1).

"*Index Rate Determination Date*" means (i) if the applicable Index is the LIBOR Index, the second London Business Day immediately preceding the first day of the relevant Index Period or, if the applicable Index is the BMA Index, the Business Day immediately preceding the first day of the relevant Index Period; and (ii) the second London Business Day or the Business Day, as the case may be, preceding each Thursday during the relevant Index Period thereafter.

"*Interest Payment Date*" is defined in the form of the Bonds appearing in Exhibit A hereto.

"*Interest Period*" is defined in the form of the Bonds appearing in Exhibit A hereto.

"*Insurer*" means the issuer of a Policy, if any, with respect to the Bonds.

"*LIBOR Index*" for any Index Rate Determination Date will be the Reported Rate for deposits in U.S. dollars having an index maturity of one month for a period commencing on the second London Business Day immediately following the Index Rate Determination Date, in amounts of not less than $1,000,000, at approximately 11:00 a.m., London time on the Index Rate Determination Date.

"*LIBOR Percentage*" is defined in Section 2.02(a)(6)(i).

"*London Business Day*" means a day that is a Business Day and a day on which dealings in deposits in U.S. dollars are transacted, or with respect to any future date are expected to be transacted, in the London interbank market.

"*Long-Term Interest Rate*" means an interest rate on the Bonds set under Section 2.02(a)(4).

"*Long-Term Interest Rate Period*" means any period as defined in Section 2.02(a)(4).

"*Maturity Date*" means the stated maturity for the Bonds as set forth in Section 2.01.

"*Note*" means the promissory note executed and delivered by the Company in the form attached to the Agreement in a like principal amount bearing interest at the rate or rates borne by the Bonds.

"*Opinion of Counsel*" means a written opinion of counsel selected by the Company who is acceptable to the Issuer and the Trustee. Such counsel may be an employee of or counsel to the Issuer, the Trustee or the Company.

"*Opinion of Tax Counsel*" means an Opinion of Counsel by counsel of nationally recognized standing in matters relating to the exclusion of interest from gross income on obligations issued by or on behalf of states and their political subdivisions.

The term "*outstanding*" when used with reference to Bonds, or "*Bonds outstanding*" means all Bonds which have been authenticated and delivered by the Trustee under this Indenture, except the following:

a. Bonds canceled or purchased by or delivered to the Trustee for cancellation.

b. Bonds that have become due (at maturity or on redemption, acceleration or otherwise) and for the payment, including interest accrued to the due date, of which sufficient moneys are held by the Trustee.

c. Bonds deemed paid by Section 7.01.

d. Bonds in lieu of which others have been authenticated under Section 2.06 (relating to registration and exchange of Bonds) or Section 2.07 (relating to mutilated, lost, stolen, destroyed or undelivered Bonds).

Bonds purchased pursuant to tenders and not delivered to the Trustee for payment are not outstanding, but there will be outstanding Bonds authenticated and delivered in lieu of such undelivered Bonds as provided in the second paragraph of Section 2.07.

"*Participant*" means one of the entities which deposit securities, directly or indirectly, in the Book-Entry System.

"*Person*" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, estate, unincorporated organization or government or any agency or political subdivision thereof.

"*Plants*" means the Crist steam electric generating plant located in Escambia County, Florida and the Lansing Smith electric generation plant in Bay County, Florida.

"*Policy*" means a bond insurance policy or similar agreement, if any, issued by the Insurer with respect to the Bonds.

"*Principal*," when used with reference to any Bonds, includes any premium payable on those Bonds.

"*Project*" has the meaning assigned to such term in the Agreement.

"*Reported Rate*" means the rate that appears on Telerate Page 3750 or a successor reporter of such rates selected by the Remarketing Agent and acceptable to the Company.

"*Record Date*" is defined in the form of the Bonds appearing as Exhibit A hereto, except when the Bonds bear interest at the Auction Mode Rate, the Record Date will be the Second Business Day immediately preceding an Interest Payment Date.

"*Refunded Bonds*" means $32,550,000 principal amount of Escambia County (Florida) Pollution Control Revenue Bonds (Gulf Power Company Project), Series 1993, refunded by the Bonds.

"*Refunded Bonds Indenture*" means the Trust Indenture, dated as of May 15, 1993, between Escambia County, Florida and the Refunded Bonds Trustee under which the Refunded Bonds were issued.

"*Refunded Bonds Trustee*" means Wachovia Bank, National Association, formerly known as First Union National Bank of Florida, in its capacity as trustee for the Refunded Bonds.

"*Remarketing Agent*" means the Person appointed as Remarketing Agent pursuant to Section 9.15 hereof, and its successors under this Indenture.

"*Responsible Officer*" means any officer or trust officer of the Trustee assigned by the Trustee to administer its corporate trust matters.

"*Securities Depository*" means The Depository Trust Company, New York, New York or its nominee, and its successors and assigns, or any successor appointed under Section 5.01.

*"Spread"* is defined in Section 2.02(a)(6)(i).

"*State*" means the State of Florida.

*"Telerate Page 3750"* means the display designated on page 3750 on Moneyline Telerate, Inc. (or such other page as may replace the 3750 page on that service or such other service as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits).

"*Trustee*" means the entity identified as such in the heading of this Indenture and its successors under this Indenture.

"*Unassigned Rights*" means the rights of the Issuer under Section 4.2 and Section 5.3 of the Agreement.

*"Weekly Index Period"* means, while the Bonds bear interest at an Index Rate, each weekly period beginning on a Thursday and ending on a Wednesday.

"*Weekly Rate*" means an interest rate on the Bonds set under Section 2.02(a)(2).

**Section 1.02. Rules of Construction.** Unless the context otherwise requires,

a. an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles,

b. references to Articles and Sections are to the Articles and Sections of this Indenture, and

c. the singular form of any word, including the terms defined in Section 1.01, includes the plural, and vice versa, and a word of any gender includes all genders.

## ARTICLE II THE BONDS

**Section 2.01. Issuance of Bonds; Form; Dating.** The Bonds shall be designated "Escambia County, Florida Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003." The total principal amount of Bonds that may be outstanding shall not exceed $32,550,000. The Bonds shall be substantially in the form of *Exhibit A*, which is part of this Indenture, in the denominations provided for in the Bonds. The Bonds may have notations, legends or endorsements required by law or usage.

All Bonds will be dated the date of original issuance and delivery, will bear interest from that date and shall mature, subject to prior redemption or mandatory tender, on June 1, 2023. Bonds will be numbered as determined by the Trustee.

Upon the execution and delivery of this Indenture, the Issuer will execute and deliver to the Trustee and the Trustee will authenticate the Bonds and deliver them to the purchaser or purchasers as directed by the Issuer.

**Section 2.02. Interest on the Bonds.** Interest on the Bonds will be payable as provided in the Bonds and in this Section. The Determination Method may be changed by the Company as described in subsection (b) below. The methods of determining the various interest rates are as provided in subsection (a) below.

(a) *Interest Rate Determination Methods.* In accordance with the notification requirements described herein, the Company shall determine the applicable interest rate determination method (each a "Determination Method") on the Bonds. The interest rate on the Bonds shall be determined by one of the following Determination Methods; provided, however, that while there exists an Event of Default under the Indenture, the interest rate on the Bonds will be the rate on the Bonds on the day before the Event of Default occurred, except that if interest on any Bond was then payable at a Commercial Paper Rate, the interest rate for all Bonds then bearing interest at a Commercial Paper Rate will be the highest Commercial Paper Rate then in effect for any Bond.

(1) *Daily Rate.* When interest on the Bonds is payable at a Daily Rate, the Remarketing Agent will set a Daily Rate on or before 11:00 a.m., New York City time, on each Business Day for that Business Day. Each Daily Rate will be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the Bonds on the day the rate is set at their principal amount (without regard to accrued interest). The Daily Rate for any non-Business Day will be the rate for the last day for which a rate was set.

(2) *Weekly Rate.* When interest on the Bonds is payable at a Weekly Rate, the Remarketing Agent will set a Weekly Rate on or before 5:00 p.m., New York City time, on the last Business Day before the commencement of a period during which the Bonds bear interest at a Weekly Rate and on each Tuesday thereafter so long as interest on the Bonds is to be payable at a Weekly Rate or, if any Tuesday is not a Business Day, on the next preceding Business Day. Each Weekly Rate will be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) for the Remarketing Agent to sell the Bonds on the date the rate is set at their principal amount (without regard to accrued interest). Thereafter, each Weekly Rate shall apply to (i) the period beginning on the Wednesday after the Weekly Rate is set and ending on the following Tuesday or, if earlier, ending on the day before the effective date of a new method of determining the interest rate on the Bonds or (ii) the period beginning on the effective date of the change to a Weekly Rate and ending on the next Tuesday.

(3) *Commercial Paper Rate.* During a Commercial Paper Mode, each Bond will bear interest during the Commercial Paper Period for such Bond at the Commercial Paper Rate for such Bond. Different Commercial Paper Periods may apply to different Bonds at any time and from time to time. Except as otherwise described in this subsection (a)(3), the Commercial Paper Period and Commercial Paper Rate for each Bond will be determined by the Remarketing Agent no later than 12:15 p.m., New York City time, on the first day of each Commercial Paper Period.

(i) *Determination of Commercial Paper Periods.* Subject to Section 2.02(b)(2)(vii), each Commercial Paper Period will be a period of at least 1 day and not more than 270 days, determined by the Remarketing Agent to be the period which, together with all other Commercial Paper Periods for all Bonds then outstanding, will, in the judgment of the Remarketing Agent, result in the lowest overall interest expense on the Bonds over the next 270 days. Each Commercial Paper Period will end on either the day before a Business Day or on the day before the Maturity Date for such Bond. However, any Bond purchased on behalf of the Company and remaining unsold by the Remarketing Agent as of the close of business on the first day of the Commercial Paper Period for that Bond will have a Commercial Paper Period of 1 day or, if that Commercial Paper Period would not end on a day before a Business Day, a Commercial Paper Period of the shortest possible duration greater than 1 day ending on a day before a Business Day.

In determining the number of days in each Commercial Paper Period, the Remarketing Agent shall take into account the following factors: (I) existing short-term tax-exempt market rates and indices of such short-term rates, (II) the existing market supply and demand for short-term tax-exempt securities, (III) existing yield curves for short-term and long-term tax-exempt securities for obligations of credit quality comparable to the Bonds, (IV) general economic conditions, (V) industry economic and financial conditions that may affect or be relevant to the Bonds, (VI) the number of days in other Commercial Paper Periods applicable to the Bonds and (VII) such other facts, circumstances and conditions as the Remarketing Agent, in its sole discretion, shall determine to be relevant.

(ii) *Determination of Commercial Paper Rates.* The Commercial Paper Rate for each Commercial Paper Period for each Bond shall be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell such Bond on the date and at the time of such determination at its principal amount (without regard to accrued interest).

(4) *Long-Term Interest Rate.* The Remarketing Agent will set a Long-Term Interest Rate on a date not less than three Business Days before the beginning of any period (a "*Long-Term Interest Rate Period*") in which interest on any of the Bonds will

be payable at a Long-Term Interest Rate. The last day of each such Long-Term Interest Rate Period shall be determined by the Company in accordance with Section 2.02(b)(1). Each Long-Term Interest Rate will be the minimum rate necessary (as determined by the Remarketing Agent with respect to any Long-Term Interest Rate Period based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the Bonds for delivery on the effective date of the Long-Term Interest Rate at their principal amount (without regard to accrued interest).

(5) *Auction Mode Rate.* During an Auction Rate Period, the Auction Mode Rate will be determined by the Auction Agent in accordance with the provisions set forth in Exhibit B attached hereto which is part of this Indenture.

(6) *Index Rate.* During an Index Period, the Bonds will bear interest at the Index Rate to be determined as follows:

(i) On the first day of the applicable Index Period and on the first Index Rate Determination Date following each six month anniversary of such day until the end of the Index Period (each, an "Index Adjustment Date"), the Remarketing Agent shall (A) depending on the Index, determine the minimum percentage of the LIBOR Index (the "LIBOR Percentage") or the minimum number of basis points above or below the BMA Index (the "BMA Margin;" the BMA Margin and the LIBOR Percentage are hereinafter sometimes referred to as the "Spread"), as applicable, that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on the date and at the time of such determination at their principal amount (without regard to accrued interest) if such Bonds were being sold on such date, and (B) notify the Trustee and the Company of the applicable Spread, for such six month period.

(ii) On each Index Rate Determination Date, (A) the Remarketing Agent shall, no later than 11:00 a.m., New York City time, on such date, notify the Trustee, depending on the applicable Index, of the LIBOR Index or the BMA Index to apply for the next succeeding Weekly Index Period. The applicable Index as determined by the Remarketing Agent, adjusted by the applicable Spread, will be the interest rate to be borne by the Bonds from the first Thursday after such date through the following Wednesday; provided that, if the applicable Index Rate Determination Date is a day following the Thursday in any week, the Index Rate so determined will be in effect from the next preceding Thursday through the following Wednesday.

(iii) Promptly upon the determination of the Index Rate by the Remarketing Agent, the Remarketing Agent will notify the Company and the Trustee of the Index Rate for the applicable period. The Index Rate determined by the Remarketing Agent, absent manifest error, shall be binding and conclusive upon the Beneficial Owners, Bondholders, the Company and the Trustee.

(iv) If the following circumstances exist on any Index Rate Determination Date, the Index Rate shall be determined as follows:

(A) In the event that the applicable Index on such Index Rate Determination Date is the BMA Index and the BMA Index has not been published or set, the Index Rate for the succeeding Weekly Index Period shall be the minimum percentage of LIBOR Index that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on the date and at the time of such determination at its principal amount (without regard to accrued interest) if the Bonds were being sold on such date.

(B) In the event that the applicable Index on such Index Rate Determination Date is LIBOR Index and no Reported Rate appears on Telerate Page 3750 as of approximately 11:00 a.m., London time, on an Index Rate Determination Date, the Index Rate for the succeeding Weekly Index Period shall be based on the Reported Rate for the preceding week; provided, however, that if no Reported Rate appears in Telerate Page 3750 for two consecutive weeks, the Index Rate shall be determined by the Remarketing Agent and shall be the minimum percentage of four week Treasury Bills that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on such date and at the time of such determination at its principal amount (without regard to accrued interest) if the Bonds were being sold on such date.

(C) In the event that neither Index is available, the Index Rate for the succeeding Weekly Index Period shall be the minimum percentage of a referenced Treasury security selected by the Remarketing Agent that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on such date and at the time of such determination at its principal

amount (without regard to accrued interest) if the Bonds were being sold on such date.

(v) The foregoing notwithstanding, the interest rate to be borne by the Bonds from the date of the commencement of the Index Period until the commencement of the first succeeding Weekly Index Period shall be a rate determined by the Remarketing Agent prior to the commencement of such Index Period, and such rate shall be the rate that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on such date and at the time of such determination at their principal amount (without regard to accrued interest) if the Bonds were being sold on such date.

(7) *Failure of Remarketing Agent to Announce Interest Rates or Spread on the Bonds*. Except as set forth in Exhibit B, if the appropriate interest rate, Spread or Commercial Paper Period is not or cannot be determined for any reason, the method of determining interest on the Bonds shall be automatically converted to the Weekly Rate (without the necessity of complying with the requirements of Section 2.02(b)) and the interest rate shall be equal to the BMA Index plus the BMA Margin or, if the BMA Index is unavailable, the LIBOR Index multiplied by the LIBOR Percentage, or if the LIBOR Index is unavailable, 90% of the 30-day Treasury rate, until such time as the Determination Method can be changed in accordance with Section 2.02(b); provided, however, during an Index Period, if the applicable Index is not available, clause (iv)(A), (iv)(B) or (iv)(C), as applicable, of Section 2.02(a)(6) shall be effective instead of this clause (7); provided, further, that if the Bonds are then in a Long-Term Interest Rate Period, the Bonds shall bear interest at a Weekly Rate, but only if a Favorable Opinion of Tax Counsel with respect to the change to a Weekly Rate has been delivered to the Trustee and the Issuer. If such Favorable Opinion of Tax Counsel has not been delivered, the Bonds shall remain in a Long-Term Interest Rate Period with an interest rate equal to the interest rate for the prior Long-Term Interest Rate Period and with a duration equal to the prior Long-Term Interest Rate Period (or, if earlier, a Long-Term Interest Rate Period ending on the day before the Maturity Date for such Bond). The Trustee shall promptly notify the Bondholders of any such automatic change as set forth in Section 3.07(b).

While Bonds are in a Commercial Paper Mode, during any transition period caused by an automatic conversion of such Bonds to a Weekly Rate in accordance with this subsection (7), Bonds bearing interest at a Weekly Rate and Bonds bearing interest at a Commercial Paper Rate, as applicable, shall be governed by the provisions of this Indenture applicable to such methods of determining interest on the Bonds.

(b) (1) *Initial Interest Rate Determination Method; Change in Interest Rate Determination Method.* The Bonds shall bear interest as of the effective date of this Indenture at an Auction Mode Rate. The initial Auction Mode Rate shall be determined in accordance with

this Indenture on or prior to the effective date of this Indenture by the Broker-Dealer as the minimum rate required to sell the Bonds on the date of issuance at a purchase price of par. The Company may change the Determination Method from time to time by notifying, as applicable, the Issuer, the Trustee, the Remarketing Agent, the Auction Agent and the Broker-Dealer in writing. Such notice (a "Conversion Notice") shall contain (a) the effective date of such change, (b) the proposed Determination Method, and (c) if the change is to a Long-Term Interest Rate or Rates, the last day of the first such Long-Term Interest Rate Period and, at the option of the Company, the effective date and last day of any successive Long-Term Interest Rate Periods (which last day for each Long-Term Interest Rate Period must be either the day before the Maturity Date for such Bonds or a day which next precedes a Business Day and is at least 365 days after the effective date); provided, however, that if the change is (x) to or from an Auction Rate Period, the notice shall be given in accordance with Sections 2.03(a) or 2.03(b), as applicable, and (y) if such change is to an Index Period, such notice shall also specify the applicable Index for the Index Period and the length of such Index Period. The Long-Term Interest Rate Period shall be the same duration for all of the Bonds. The notice must be accompanied by a Favorable Opinion of Tax Counsel. If the Company's notice complies with this paragraph, and if the Company shall deliver to the Trustee and the Issuer a confirming Opinion of Tax Counsel on the effective date as specified in the notice, the interest rate on the Bonds will be determined on the basis of the new rate on the effective date specified in the notice until there is another change as provided in this Section.

If the Company wishes to designate successive Long-Term Interest Rate Periods without specifying the effective dates and last days as described in the preceding paragraph for the second or any subsequent Long-Term Interest Rate Periods, it may do so by following the same procedure as for a change in the Determination Method as provided in the foregoing paragraph.

If the Company wishes to change the Determination Method to or from an Auction Mode Rate, the Company must comply with Section 2.03 as well as this Section 2.02(b)(1).

If, 30 days before the end of a Long-Term Interest Rate Period, the Company has not provided for the next interest rate period, a new Long-Term Interest Rate Period of the same duration will follow (or if shorter, a Long-Term Interest Rate Period ending on the day before the Maturity Date for the Bonds).

When one Long-Term Interest Rate Period follows another, all provisions of this Indenture applying to a change in the Determination Method will apply, except:

(A) the mandatory tender described under "Mandatory Tender Upon a Change in the Determination Method" in the Bonds;

(B) the Company will not be required to deliver a Favorable Opinion of Tax Counsel if a new Long-Term Interest Rate Period begins as a result of the Company failing to provide for the next interest rate period; and

(C) the Company will not be required to deliver a Favorable Opinion of Tax Counsel if (i) the Company has previously designated a series of successive Long-Term Interest Rate Periods which, together with the current Long-Term Interest Rate Period, are substantially equal in length, (ii) a Favorable Opinion of Tax Counsel was delivered before the first such Long-Term Interest Rate Period in that series which applies to each such successive Long-Term Interest Rate Period, and (iii) no other change in the security for the Bonds or in this Indenture or the terms of the Bonds is made which is effective as of, or agreed to in connection with, the effective date of such subsequent Long-Term Interest Rate Period.

(2) *Limitations*. Any change in the Determination Method pursuant to subsection (1) above must comply with the following:

(i) the effective date of a change (or each effective date in the case of a change from a Commercial Paper Mode) shall be a Business Day which is at least 15 days (30 days if a Long-Term Interest Rate is then in effect and the effective date is before the day after the last day of a Long-Term Interest Rate Period) after receipt by the Trustee of the Company's Conversion Notice;

(ii) if a Long-Term Interest Rate is then in effect, the effective date of any change must be either the day after the last day of the then current Long-Term Interest Rate Period or, except as described in clause (iii) below, a day on which the Bonds would otherwise be subject to redemption under the paragraph "Optional Redemption During Long-Term Interest Rate Period" in paragraph 9 of the Bonds if the change did not occur;

(iii) if the Company has previously designated successive Long-Term Interest Rate Periods, the effective date of each Long-Term Interest Rate Period must be the day after the last day of the previous Long-Term Interest Rate Period;

(iv) if a Commercial Paper Mode is then in effect, the effective date of any change must be either the day after the last day of the Commercial Paper Mode or, as to any Bond, the day after the last day of the Commercial Paper Period then in effect (or to be in effect) with respect to that Bond;

(v) if any Bonds have been called for redemption and the redemption has not yet occurred, the effective date of the change cannot be before such redemption date;

(vi) if a Long-Term Interest Rate or a Daily Rate is then in effect, the effective date of any change cannot occur during the period after a Record Date and to, but not including, the related Interest Payment Date;

(vii) if a Commercial Paper Mode is then in effect, the Remarketing Agent shall determine Commercial Paper Periods of such duration that will, in the judgment of the Remarketing Agent, best promote an orderly transition on the effective date. After the receipt by the Trustee of the Company's Conversion Notice, the day after the last day of

each Commercial Paper Period shall be, with respect to such Bond, not later than the effective date of the change. The Remarketing Agent shall promptly give written notice of each such last date and each such effective date with respect to each Bond to the Issuer, the Company and the Trustee;

(viii) if an Auction Mode Rate is then in effect, the effective date of any change must be the day after the last day of the Auction Period then in effect;

(ix) if an Index Rate is then in effect, the effective date of any change must be the day after the last day of the Index Period then in effect;

(x) any change in the Auction Period with respect to a Bond in an Auction Rate Determination Method or in the Index applicable to Bonds in an Index Rate Determination Method shall be deemed to be a change in the Determination Method for purposes of this Indenture; and

(xi) in the event of a conversion to an Auction Rate Determination Method from Commercial Paper Mode, the effective date of such conversion may not be earlier than the day following the last day of the longest Commercial Paper Period then in effect.

During any such transition period, Bonds bearing interest at a Commercial Paper Rate shall be governed by the provisions of this Indenture applicable to a Commercial Paper Mode and Bonds bearing interest at a Daily Rate, Weekly Rate, Long-Term Interest Rate, Auction Mode Rate or Index Rate, as applicable, shall be governed by the provisions of this Indenture applicable to such Determination Methods.

(c) *Calculation of Interest.* The Remarketing Agent, and in the case of subsection (c)(5) below the Auction Agent, shall provide the Trustee and the Company with notice in writing or by other written electronic means or by telephone (any such notice by telephone to be delivered to a Responsible Officer of the Trustee) promptly confirmed by facsimile transmission by 12:30 p.m., New York City time,

(1) on the first Business Day after a month in which interest on the Bonds was payable at a Daily Rate, of the Daily Rate for each day in such month,

(2) on each day on which a Weekly Rate becomes effective, of the Weekly Rate,

(3) on the first day of each Commercial Paper Period, of the length thereof and the Commercial Paper Rate, and, if there is more than one Commercial Paper Rate then in effect, of the related applicable principal amounts,

(4) on the first Business Day of a Long-Term Interest Rate Period, of the Long-Term Interest Rate or Long-Term Interest Rates set for that period,

(5) on the first Business Day of each Auction Period, of the Auction Mode Rate set for that period,

(6) on each Index Adjustment Date, the Spread,

(7) on each Index Rate Determination Date during an Index Period, depending on the applicable Index, the LIBOR Index or BMA Index for such date, and

(8) on any Business Day preceding any redemption or purchase date, any interest rate requested by the Trustee in order to enable it to calculate the accrued interest, if any, due on such redemption or purchase date.

Using the rates supplied by this notice, the Trustee will calculate the interest payable on the Bonds. The Remarketing Agent or the Auction Agent, as the case may be, will inform the Trustee and the Company orally at the oral request of either of them of any interest rate so set. The Trustee will confirm the effective interest rate by telephone or in writing to any Bondholder who requests it in any manner.

The setting of the rates by the Remarketing Agent or the Auction Agent, as applicable, and the determination of Commercial Paper Periods and the Spread by the Remarketing Agent and the calculation of interest payable on the Bonds by the Trustee as provided in this Indenture will be conclusive and binding on the Issuer, the Company, the Trustee and the owners of the Bonds.

(d) *Change in Rate Determination Method-Opinions of Counsel.* Notwithstanding any provision of this Section 2.02, no change shall be made in the Determination Method at the direction of the Company pursuant to Section 2.02(b)(1) hereof if the Company shall fail to deliver a Favorable Opinion of Tax Counsel and confirmation thereof if required under Section 2.02(b)(1). If the Trustee shall have sent any notice to the Bondholders regarding a change in rate pursuant to Section 3.07(b), then in the event of such failure to deliver such opinion or confirmation, the Trustee shall promptly notify all Bondholders of such failure.

**Section 2.03. Changes to and from Auction Mode Rate Determination Method.**

(a) *Changes to Auction Mode Rate.* At the option of the Company, all of the Bonds may be converted from another Determination Method to the Auction Mode Rate Determination Method. Any such conversion shall be made as follows:

(1) In any such conversion from another Determination Method, the effective date for the Auction Rate Period shall be a regularly scheduled Interest Payment Date on which interest is payable for the Interest Period from which the conversion is to be made;

(2) The Company shall give written notice of any such conversion to the Remarketing Agent, the Issuer, the Trustee, the Auction Agent, and the Broker-Dealer not less than 15 days prior to the proposed effective date for the change. Such notice shall specify the information required pursuant to Section 2.02(b)(1) and the length of the

Auction Period for such Auction Rate Period. Together with such notice, the Company shall file with the Issuer and the Trustee an Opinion of Tax Counsel to the effect that the conversion of the Bonds to an Auction Mode Rate Determination Method shall not adversely affect the validity of the Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Bonds would otherwise be entitled. No such change to an Auction Mode Rate Determination Method shall become effective unless the Company shall also file, with the Issuer and the Trustee, an Opinion of Tax Counsel to the same effect dated the effective date for the Auction Mode Rate.

(3) At least 15 days prior to the effective date for the Auction Mode Rate, the Trustee shall mail a written notice of the conversion to the owners of all Bonds to be converted;

(4) The initial Auction Mode Rate for the Auction Period commencing on the effective date for the Auction Mode Rate shall be the lowest rate which, in the judgment of the Broker-Dealer, is necessary to enable the Bonds to be remarketed at a price equal to the principal amount thereof, plus accrued interest, if any, on the effective date for the Auction Mode Rate. Such determination shall be conclusive and binding upon the Issuer, the Company, the Trustee, the Auction Agent and the owners of the Bonds to which such rate will be applicable.

(5) Not later than 5:00 p.m., New York City time, on the date of determination of the Auction Mode Rate, the Broker-Dealer shall notify the Trustee and the Company of the Auction Mode Rate by telephone, promptly confirmed in writing.

(6) Interest on the Bonds in an Auction Period of 180 days or less will be computed on the basis of actual days over 360 and in an Auction Period greater than 180 days on the basis of a 360-day year of twelve 30-day months.

(7) The Company may revoke its election to effect a conversion of the interest rate on any Bonds to an Auction Mode Rate by giving written notice of such revocation to the Trustee, the Remarketing Agent, the Auction Agent and the Broker-Dealer at any time prior to the setting of the Auction Mode Rate by the Broker-Dealer.

(8) No Bonds may be converted to the Auction Mode Rate Determination Method when the Bonds are not held by a Securities Depository.

(b) *Conversions from Auction Mode Rate Determination Method.* At the option of the Company, all of the Bonds may be converted from an Auction Rate Period to another Determination Method. Any such conversion shall be made as follows:

(1) The effective date for the new Determination Method shall be the second regularly scheduled Interest Payment Date following the final Auction Date.

(2) The Company shall give written notice of any such conversion to the Issuer, the Trustee, the Remarketing Agent, the Auction Agent and the Broker-Dealer(s) not less than 15 days prior to the proposed effective date for the change. Such notice

shall specify the effective date for the new Determination Method, the Determination Method to which the conversion will be made and any additional information required pursuant to section 2.02(b)(1). Together with such notice, the Company shall file with the Issuer and the Trustee an Opinion of Tax Counsel to the effect that the conversion of the Bonds to be converted will not adversely affect the validity of the Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Bonds would otherwise be entitled. No change to the new Determination Method shall become effective unless the Company shall also file, with the Issuer and the Trustee, an Opinion of Tax Counsel to the same effect dated the effective date for the new Determination Method.

(3) At least 15 days prior to the effective date for the new Determination Method, the Trustee shall mail a written notice of the conversion to the owners of all Bonds to be converted, specifying the effective date for the new Determination Method.

(4) If on the effective date for the new Determination Method any condition precedent to such conversion required under the Indenture is not satisfied, the Trustee will give written notice by first class mail postage prepaid as soon as practicable, and in any event not later than the next succeeding Business Day, to the Bondholders to have been converted, that such conversion has not occurred, that Bonds will not be purchased on the failed effective date for the new Determination Method, that the Auction Agent will continue to implement the Auction Procedures on the Auction Dates with respect to such Bonds which otherwise would have been converted excluding however, the Auction Date falling on the Business Day next preceding the failed effective date for the new Determination Method, and that the interest rate will continue to be the Auction Mode Rate; provided, however, that the interest rate borne by such Bonds during the Auction Period commencing on such failed effective date for the new Determination Method will be the Maximum Auction Rate, and the Auction Period will be the seven-day Auction Period.

(5) On the conversion date applicable to the Bonds to be converted, the Bonds to be converted shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The purchase price of such Bonds so tendered shall be payable solely from the proceeds of the remarketing of such Bonds. In the event that the conditions of a conversion are not satisfied, including the failure to remarket all applicable Bonds on a mandatory tender date, the Bonds to have been converted will not be subject to mandatory tender, will be returned to their owners, will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Auction Rate.

**Section 2.04. Execution and Authentication.** The Bonds shall be signed on behalf of the Issuer with the manual or facsimile signature of its Chairman or Vice Chairman and attested by the manual or facsimile signature of its Clerk or Deputy Clerk, and the seal of the Issuer shall be impressed or imprinted on the Bonds by facsimile or otherwise. All authorized facsimile signatures shall have the same effect as if manually signed. If an officer of the Issuer whose signature is on a Bond no longer holds that office at the time the Trustee authenticates the Bond,

the Bond shall nevertheless be valid. Also, if a person signing a Bond is the proper officer on the actual date of execution, the Bond shall be valid even if that person is not the proper officer on the nominal date of action.

A Bond shall not be valid for any purpose under this Indenture until the Trustee manually signs the certificate of authentication on the Bond. Such signature shall be conclusive evidence that the Bond has been authenticated under this Indenture.

As a precondition to the initial authentication and delivery of the Bonds, the Trustee shall receive a request and authorization to the Trustee from the Issuer, signed by the Chairman or Vice Chairman of the Issuer, to authenticate and deliver the Bonds to the persons and in the manner therein described.

**Section 2.05. Bond Register.** Bonds must be presented at the principal corporate trust office of the Trustee for registration of transfer, exchange and, except as otherwise provided herein, payment. The Trustee shall keep a register of Bonds and of their registration of transfer and exchange, which register shall be open to inspection by the Issuer and the Company during normal business hours.

**Section 2.06. Registration and Exchange of Bonds; Persons Treated as Owners.** Bonds may be registered as transferred only on the register maintained by the Trustee. Upon surrender for registration of transfer of any Bond to the Trustee, duly endorsed for transfer or accompanied by an assignment duly executed by the holder or the holder's attorney duly authorized in writing, the Trustee will authenticate a new Bond or Bonds of the same maturity, in an equal total principal amount and registered in the name of the transferee.

Bonds may be exchanged for an equal total principal amount of Bonds of the same maturity but of different authorized denominations. The Trustee will authenticate and deliver Bonds that the Bondholder making the exchange is entitled to receive, bearing numbers not then outstanding.

Except in connection with the purchase of Bonds tendered for purchase, the Trustee will not be required to register the transfer of or to exchange any Bond called for redemption or during the period beginning 15 days before the mailing of notice calling the Bonds or any portion of the Bonds for redemption and ending on the redemption date.

The registered owner of a Bond shall be treated as the absolute owner of the Bond for all purposes, and payment of principal, interest, premium, if any, or purchase price shall be made only to or upon the written order of the Bondholder or the Bondholder's legal representative, notwithstanding any notice, actual or constructive, to the contrary.

The Trustee will require the payment by a Bondholder requesting exchange or registration of transfer of any tax or other governmental charge required to be paid in respect of the exchange or registration of transfer, but will not impose any other charge.

**Section 2.07. Mutilated, Lost, Stolen, Destroyed or Undelivered Bonds.** If any Bond is mutilated, lost, stolen or destroyed, the Trustee will authenticate a new Bond of the same denomination with similar terms if any mutilated Bond shall first be surrendered to the Trustee, and if, in the case of any lost, stolen or destroyed Bond, there shall first be furnished to the Issuer, the Trustee and the Company evidence of such loss, theft or destruction, together with an indemnity, satisfactory to them. If the Bond has matured or become subject to redemption or tender, instead of issuing a replacement Bond, the Trustee may with the consent of the Company pay the Bond or the Company may purchase the Bond without requiring surrender of the Bond and make such requirements as the Trustee deems fit for its protection, including a lost instrument bond. The Issuer and the Trustee may charge the Bondholder their reasonable fees and expenses in this connection.

If a Bond is tendered for purchase as provided in Article III, or if the holder of a Bond gives irrevocable instructions to the Remarketing Agent for purchase, and in each case funds are deposited with the Trustee sufficient for the purchase, the Trustee upon request of the Company or the Remarketing Agent will authenticate a new Bond in the same maturity and in the same denomination registered as the Company or the Remarketing Agent may direct and deliver it to the Company or upon the Company's order, whether or not the Bond purchased is ever delivered, and the undelivered Bonds shall be canceled on the books of the Trustee, whether or not said undelivered Bonds have been delivered to the Trustee. From and after the purchase date, interest on such Bond shall cease to be payable to the prior holder thereof, such holder shall cease to be entitled to the benefits or security of this Indenture and shall have recourse solely to the funds held by the Trustee for the purchase of such Bond, and the Trustee shall not register any further transfer of such Bond by such prior holder. All funds held by the Trustee for the purchase of undelivered Bonds shall be held uninvested.

**Section 2.08. Cancellation of Bonds.** Whenever a Bond is delivered to the Trustee for cancellation (upon payment, redemption, tender or otherwise), or for registration of transfer, exchange or replacement pursuant to Section 2.06 or Section 2.07, the Trustee will promptly cancel and dispose of the Bond in accordance with the Trustee's policy of disposal. The Trustee may, but shall not be required to, destroy canceled Bonds.

**Section 2.09. Temporary Bonds**. Until definitive Bonds are ready for delivery, the Issuer may execute and the Trustee will authenticate temporary Bonds substantially in the form of the definitive Bonds, with appropriate variations. The Issuer will, without unreasonable delay, prepare and the Trustee will authenticate definitive Bonds in exchange for the temporary Bonds. Such exchange shall be made by the Trustee without charge.

## ARTICLE III REDEMPTION, MANDATORY TENDER AND REMARKETING

**Section 3.01. Notices to Trustee.** If the Company wishes that any Bonds be redeemed pursuant to any optional redemption provision in the Bonds, the Company will notify the Trustee of the applicable provision, the redemption date, the principal amount of the Bonds to be redeemed and other necessary particulars in accordance with Section 4.7 of the Agreement.

**Section 3.02. Redemption Dates.** The redemption date of Bonds to be redeemed pursuant to any optional redemption provision in the Bonds will be a date permitted by the Bonds and specified by the Company in the notice delivered pursuant to Section 4.7 of the Agreement. The redemption date for mandatory redemptions will be as specified in the Bonds to be redeemed or determined by the Trustee consistently with the provisions of the Bonds.

**Section 3.03. Selection of Bonds to Be Redeemed.** Except as provided in the Bonds, if fewer than all the Bonds are to be redeemed, the Trustee will select the Bonds to be redeemed by lot or other method it deems fair and appropriate, except that the Trustee will first select any Bonds owned by the Company or any of its nominees or held by the Trustee for the account of the Company or any of its nominees. The Trustee will make the selection from Bonds not previously called for redemption. For this purpose, the Trustee will consider each Bond in a denomination larger than the minimum denomination permitted by the Bonds at the time to be separate Bonds each in the minimum denomination. Provisions of this Indenture that apply to Bonds called for redemption also apply to portions of Bonds called for redemption.

**Section 3.04. Redemption Notices.**

(a) *Official Notice of Redemption.* The Trustee will give notice of each redemption as provided in the Bonds and will at the same time give a copy of the notice to the Remarketing Agent, the Auction Agent and the Broker-Dealer, as applicable. The notice shall identify the Bonds to be redeemed and shall state (1) the redemption date (and, if the Bonds provide that accrued interest will not be paid on the redemption date, the date it will be paid), (2) the redemption price, (3) that the Bonds called for redemption must be surrendered to collect the redemption price, (4) the address at which the Bonds must be surrendered and (5) that interest on the Bonds called for redemption ceases to accrue on the redemption date.

With respect to an optional redemption of any Bonds under "Optional Redemption During Long-Term Interest Rate Period," "Extraordinary Optional Redemption," "Optional Redemption During Daily or Weekly Rate Period" or "Optional Redemption During Auction Rate Period" in paragraph 9 of the form of the Bonds, unless moneys sufficient to pay the principal of, premium, if any, and interest on the Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice may state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for redemption. If such moneys are not received, such notice shall be of no force and effect, the Issuer shall not redeem such Bonds, the redemption price shall not be due and payable, and the Trustee shall give notice, in the same manner in which the notice of

redemption was given, that such moneys were not so received and that such Bonds will not be redeemed.

Failure to give any required notice of redemption as to any particular Bonds or any defect therein will not affect the validity of the call for redemption of any Bonds in respect of which no such failure or defect has occurred. Any notice mailed as provided in the Bonds shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by any holder.

(b) *Additional Notice of Redemption.* In addition to the redemption notice required above, further notice (the "*Additional Redemption Notice*") shall be given by the Trustee as set out below. No defect in the Additional Redemption Notice nor any failure to give all or any portion of the Additional Redemption Notice shall in any manner defeat the effectiveness of a call for redemption if notice is given as prescribed in subsection (a) above.

(1) Each Additional Redemption Notice shall contain the information required in subsection (a) above for an official notice of redemption plus (i) the CUSIP numbers of all Bonds being redeemed; (ii) the date of the Bonds as originally issued; (iii) the Determination Method for, or the rate of interest borne by each Bond being redeemed; (iv) the maturity date of each Bond being redeemed; and (v) any other descriptive information needed to identify accurately the Bonds being redeemed.

(2) Each Additional Redemption Notice shall be sent at least 30 days before the redemption date by registered or certified mail or overnight delivery service (or by such other means as the Trustee may have established with the Securities Depository or any information service) to all registered securities depositories then in the business of holding substantial amounts of obligations similar to the Bonds (such depositories now being Depository Trust Company of New York, New York, and Midwest Securities Trust Company of Chicago, Illinois) and to one or more national information services that disseminate notices of redemption of obligations such as the Bonds.

The information required in any redemption notice (including an Additional Redemption Notice) pursuant to this Section and the information required in any notice of tender (including an Additional Tender Notice) may be combined in a single notice if it is sent to Bondholders in the manner and at the time specified under "Notice of Redemption" in subsection 9 of the form of the Bonds.

**Section 3.05. Payment of Bonds Called for Redemption.** Upon surrender to the Trustee, Bonds called for redemption shall be paid as provided in this Article at the redemption price (including premium, if any) stated in the notice, plus interest accrued to the redemption date, or at a purchase price as provided in the form of Bond, except that interest payable on Bonds bearing interest at a Daily Rate will be paid on the fifth Business Day following the redemption date. Bonds called for redemption and purchased pursuant to a tender before the redemption date will not be redeemed but will be dealt with as provided below in this Article. Upon the payment of the redemption price of the Bonds being redeemed, each check or other

transfer of funds issued for such purpose shall bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

**Section 3.06. Bonds Redeemed in Part.** Subject to Article V, upon surrender of a Bond redeemed in part, the Trustee will authenticate for the holder a new Bond or Bonds in authorized denominations equal in principal amount to the unredeemed portion of the Bond surrendered.

**Section 3.07. Mandatory Tender.**

(a) *Mandatory Tender of Bonds.* The Bonds are subject to mandatory tender for purchase as provided in paragraph 7 of the form of the Bonds.

(b) *Notice to Bondholders of Change in Interest Rate Determination Method.* When a change in the Determination Method is to be made, or upon commencement of a new Long-Term Interest Rate Period or a new Index Period immediately after a prior Index Period, the Trustee will, upon notice from the Company pursuant to Section 2.02(b), notify the affected Bondholders by first class mail at least 15 days before the effective date of the change or the commencement of a new Long-Term Interest Rate Period or Index Period, except that (i) such notice shall be given at least 30 days prior to the effective date if a Long-Term Interest Rate Period is in effect and the effective date is on or before the end of the Long-Term Interest Rate Period and (ii) no notice shall be given with respect to a tender under "Mandatory Tender on Each Interest Payment Date During Commercial Paper Mode" in paragraph 7 of the form of the Bonds. The notice shall be effective when sent and shall state:

(1) the purchase date (and, if the Bonds provide that accrued interest will not be paid on the purchase date, the date it will be paid);

(2) the purchase price;

(3) that the Bonds to be tendered must be surrendered to collect the purchase price;

(4) the address at which or the manner in which the Bonds must be surrendered;

(5) that interest on the Bonds to be tendered ceases to accrue on the purchase date;

(6) that the interest rate determination method will be changed and what the new method will be;

(7) the proposed effective date of the new rate; and

(8) that a mandatory tender will result on the effective date of the change as provided in the Bonds.

Failure to give any required notice of tender as to any particular Bonds or any defect therein will not affect the validity of the tender of any Bonds in respect of which no such failure or defect has occurred. Any notice mailed as provided in the Bonds shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by any holder.

(c) *Additional Notice of Tender.* In addition to the tender notice required above, further notice (the "Additional Tender Notice") shall be given by the Trustee as set out below. No defect in the Additional Tender Notice nor any failure to give all or any portion of the Additional Tender Notice shall in any manner defeat the effectiveness of a tender notice if notice is given as prescribed in subsection (b) above.

(1) Each Additional Tender Notice shall contain the information required in subsection (c) above for an official notice of tender plus (i) the CUSIP numbers of all Bonds being tendered; (ii) the date of the Bonds as originally issued; (iii) the maturity date of each Bond being purchased; and (iv) any other descriptive information needed to identify accurately the Bonds being purchased.

(2) Each Additional Tender Notice shall be sent at least 30 days before the purchase date by registered or certified mail or overnight delivery service (or by such other means as the Trustee may have established with the Securities Depository or any information service) to all registered securities depositories then in the business of holding substantial amounts of obligations similar to the Bonds (such depositories now being Depository Trust Company of New York, New York and Midwest Securities Trust Company of Chicago, Illinois) and to one or more national information services that disseminate notices of purchase of obligations such as the Bonds.

The information required in any tender notice (including an Additional Tender Notice) pursuant to this Section and the information required in any redemption notice (including an Additional Redemption Notice) may be combined in a single notice if it is sent to Bondholders in the manner and at the time specified under "Notice of Tender" in paragraph 7 of the form of the Bonds.

**Section 3.08. Disposition of Purchased Bonds.**

(a) *Bonds to be Remarketed.* Bonds purchased pursuant to tenders as provided in the form of Bonds as provided in Section 3.07 will be offered for sale by the Remarketing Agent as provided in this Section except as follows:

(1) Bonds required to be tendered as described under "Mandatory Tender Upon a Change in the Determination Method" in paragraph 7 of the form of Bond, which are tendered between the date notice of mandatory tender is given and the mandatory

tender date, may be remarketed before the mandatory tender date only if the buyer receives a copy of the mandatory tender notice from the Remarketing Agent; and

(2) Bonds will not be offered for sale under this Section during the continuance of an Event of Default under Section 8.01(a), (b), (c) or (d). Bonds will be offered for sale under this Section 3.08 during an event which with the passage of time or the giving of notice or both may become an Event of Default only in the sole discretion of the Remarketing Agent.

(b) *Remarketing Effort.* Except to the extent the Company directs the Remarketing Agent not to do so, the Remarketing Agent will offer for sale and use reasonable efforts to sell all Bonds to be sold as provided in subsection (a) above and, when directed by the Company, any Bonds held by the Company. The sale price of each Bond must be equal to the principal amount of each Bond plus accrued interest, if any, to the purchase date. The Company may direct the Remarketing Agent from time to time to cease and to resume sales efforts with respect to some of or all the Bonds. The Remarketing Agent may buy as principal any Bonds to be offered under this Section 3.08.

(c) *Notices in Respect of Tenders.* When the Trustee receives a notice from a Bondholder (or a Beneficial Owner through its Direct Participant) as specified in paragraph 6 of the form of the Bond for the Bondholder (or a Beneficial Owner through its Direct Participant) that Bonds are being tendered , the Trustee will promptly notify the Remarketing Agent and the Company by facsimile transmission or telephone, promptly confirmed in writing, of the receipt of such notice, but in no event later than the following times:

(i) when the Bonds bear interest at a Daily Rate, no later than 11:15 a.m. (New York City time) on the same Business Day; and

(ii) when the Bonds bear interest at a Weekly Rate, no later than 11:15 a.m. (New York City time) on the Business Day next succeeding receipt of such notice.

(d) *Delivery of Remarketed Bonds.*

(i) Except when a book-entry system of registration is in effect, the Trustee shall hold all Bonds delivered pursuant to this Section 3.08 in trust for the benefit of the owners thereof until moneys representing the purchase price of such Bonds shall have been delivered to or for the account of or to the order of such Bondholders, and thereafter, if such Bonds are remarketed, shall deliver replacement Bonds, prepared by the Trustee in accordance with the directions of the Remarketing Agent and authenticated by the Trustee, for any Bonds purchased in accordance with the written directions of the Remarketing Agent to the Remarketing Agent for delivery to the purchasers thereof.

(ii) The Remarketing Agent or, in the case of Bonds bearing interest at an Auction Mode Rate, the Auction Agent, shall advise the Trustee and the Company in writing or by facsimile transmission of (A) the principal amount of Bonds which have

been remarketed, and (B) except in the case of Bonds bearing interest at an Auction Mode Rate, the denominations and registration instructions (including taxpayer identification numbers), in each case, in accordance with the following schedule (all times of which are New York City time):

| CURRENT METHOD OF INTEREST RATE DETERMINATION OR, IN CONNECTION WITH A CHANGE IN SUCH METHOD, THE NEW METHOD OF INTEREST RATE DETERMINATION | TIME BY WHICH INFORMATION TO BE FURNISHED TO TRUSTEE |
|---|---|
| Commercial Paper Period | 12:15 p.m. on the purchase date |
| Daily Rate Period | 12:15 p.m. on the purchase date |
| Weekly Rate Period | 12:15 p.m. on the purchase date |
| Long-Term Interest Rate Period | 12:15 p.m. on the purchase date |
| Auction Rate Period | 12:15 p.m. on the date of the Auction |
| Index Period | 12:15 p.m. on the purchase date |

(iii) The terms of any sale by the Remarketing Agent shall provide for the authorization of the payment of the purchase price by the Remarketing Agent to the Trustee in exchange for Bonds registered in the name of the new Bondholder which shall be delivered by the Trustee to the Remarketing Agent at or before 2:00 p.m. (New York City time) on the purchase date if the purchase price has been received from the Remarketing Agent by the time set forth in Section 3.08(e) on the purchase date.

(e) *Delivery of Proceeds of Sale.* The Remarketing Agent shall deliver directly to the Trustee an amount equal to the principal amount thereof plus accrued interest, if any, of the Bonds which the Remarketing Agent has advised the Trustee have been remarketed pursuant to Section 3.08(d)(ii) no later than 12:30 p.m. (New York City time) on the purchase date.

## ARTICLE IV APPLICATION OF PROCEEDS AND PAYMENT OF BONDS

**Section 4.01. Application of Proceeds.** The Issuer will cause the proceeds of the initial sale of the Bonds to be deposited with the Trustee in a segregated trust account. On a date or dates to be designated by the Company, the Trustee will disburse the proceeds of the initial sale of the Bonds and any investment earnings thereon to the Refunded Bonds Trustee, along with any other necessary moneys of the Company, for deposit in the bond fund created under the Refunded Bonds Indenture to be applied to pay the redemption price of the Refunded Bonds upon call for redemption.

**Section 4.02. Payment of Bonds.** The Trustee will make payments of principal of, premium, if any, and interest on the Bonds from moneys available to the Trustee under this Indenture for that purpose. The Trustee will pay the purchase price of tendered Bonds *first* from the proceeds of the reoffering of Bonds under Section 3.08 and *second* from other moneys available to the Trustee for that purpose; provided, however, that during an Auction Rate Period, payment of purchase price shall occur pursuant to Section 2.03(b)(5) hereof.

All moneys received as proceeds of remarketing the Bonds under Section 3.08 shall be held segregated by the Trustee in a separate and segregated trust account. To the extent that the payment of principal or interest on the Bonds is made from moneys as described in this Section, such payment shall also satisfy and discharge any payment obligation of the Company under the Note and the Trustee shall promptly notify the Company in writing if such payment requirement has not been satisfied. If any Bond is redeemed prior to maturity or if the Company surrenders any Bond to the Trustee for cancellation, the Trustee shall cancel such Bond.

**Section 4.03. Investments of Moneys.** The Trustee will invest and reinvest moneys held by the Trustee as directed by the Company to the extent permitted by law, in:

(a) Government Obligations;

(b) Bonds and notes of the Federal Land Bank;

(c) Obligations of the Federal Intermediate Credit Bank;

(d) Obligations of the Federal Bank for Cooperatives;

(e) Bonds and notes of Federal Home Loan Banks;

(f) Negotiable or non-negotiable certificates of deposit, time deposits or similar banking arrangements, issued by a bank or trust company (which may be the commercial banking department of the Trustee or any bank or trust company under common control with the Trustee) or savings and loan association which are insured by the Federal Deposit Insurance Corporation or secured as to principal by Government Obligations; or

(g) Other investments then permitted by law.

The Trustee may make investments permitted by this Article through its own bond department or the bond department of any bank or trust company under common control with the Trustee. Investments will be made so as to mature or be subject to redemption at the option of the holder on or before the date or dates that the Trustee anticipates that moneys from the investments will be required. The Trustee, when authorized by the Company, may trade with itself in the purchase and sale of securities for such investment. Investments will be registered in the name of the Trustee and held by or under the control of the Trustee. The Trustee will sell and reduce to cash a sufficient amount of investments whenever the cash held by the Trustee is insufficient. The Trustee shall not be liable for any loss from such investments to the extent directed by the Company and to the extent such directions have been complied with by the Trustee.

**Section 4.04. Moneys Held in Trust; Unclaimed Funds.** The Trustee shall deposit into a separate and segregated trust account for the benefit of the Bondholders all moneys received by it for any payment on the Bonds. Money received by the Remarketing Agent or the

Trustee from the sale of a Bond under Section 3.08 or for the purchase of a Bond will be held segregated from other funds of the Remarketing Agent or the Trustee in trust for the benefit of the person from whom such Bond was purchased or the person delivering such purchase money, as the case may be, and will not be invested. The Trustee shall promptly, but in no event later than 30 days of their original deposit, apply moneys received from the Company in accordance with this Indenture and as directed in writing by the Company.

Notwithstanding the provisions of the immediately preceding paragraph, any moneys which shall be set aside by the Trustee or deposited by the Trustee with the paying agents and which shall remain unclaimed by the holders of such Bonds for a period of six years after the date on which such Bonds shall have become due and payable shall upon request in writing be paid to the Company or to such officer, board or body as may then be entitled by law to receive the same, and thereafter the holders of such Bonds shall look only to the Company or to such officer, board or body, as the case may be, for payment and then only to the extent of the amount so received without any interest thereon, and the Trustee, the Issuer and the paying agents shall have no responsibility with respect to such moneys.

## ARTICLE V BOOK-ENTRY SYSTEM

**Section 5.01. Book-Entry System.** The Bonds shall be initially issued in the name of Cede & Co., as nominee for The Depository Trust Company as the initial Securities Depository and registered owner of such Bonds, and held in the custody of the Securities Depository. A single certificate will be issued and delivered to the Securities Depository, or a custodian thereof, for the Bonds. The Beneficial Owners will not receive physical delivery of Bond certificates except as provided herein. For so long as the Securities Depository shall continue to serve as securities depository for such Bonds as provided herein, all transfers of beneficial ownership interests will be made by book-entry only on the records of the Securities Depository, and no investor or other party purchasing, selling or otherwise transferring beneficial ownership of such Bonds is to receive, hold or deliver any Bond certificate. The Issuer, the Company and the Trustee will recognize the Securities Depository or its nominee as the Bondholder of such Bonds for all purposes, including payment, notices and voting.

The Issuer and the Trustee covenant and agree, so long as The Depository Trust Company shall continue to serve as Securities Depository for the Bonds, to meet the requirements of The Depository Trust Company with respect to required notices and other provisions of the Letter of Representations among The Depository Trust Company, the Issuer, the Trustee, the Company and the Remarketing Agent, executed with respect to the Bonds.

The Issuer, the Trustee, the Company and the Remarketing Agent may conclusively rely upon (i) a certificate of the Securities Depository as to the identity of the Participants in the Book-Entry-System and (ii) a certificate of any such Participant as to the identity of, and the respective principal amount of Bonds beneficially owned by, the Beneficial Owners.

Whenever, during the term of the Bonds, the beneficial ownership thereof is determined by a book-entry at the Securities Depository, the requirements in this Indenture of holding, delivering or transferring Bonds shall be deemed modified to require the appropriate person to meet the requirements of the Securities Depository as to registering or registering the transfer of the book-entry to produce the same effect. Any provision hereof permitting or requiring delivery of Bonds shall, while the Bonds are in a Book-Entry System, be satisfied by the notation on the books of the Securities Depository in accordance with applicable law.

The Trustee and the Issuer, at the direction and expense of the Company and with the consent of the Remarketing Agent, may from time to time appoint a successor Securities Depository and enter into an agreement with such successor Securities Depository to establish procedures with respect to the Bonds consistent with current industry practice. Any successor Securities Depository shall be a "clearing agency" registered under Section 17A of the Securities Exchange Act of 1934, as amended.

None of the Issuer, the Company, the Trustee, any Broker-Dealer nor any Remarketing Agent will have any responsibility or obligation to any Securities Depository, any Participants in the Book-Entry System or the Beneficial Owners with respect to (i) the accuracy of any records maintained by the Securities Depository or any Participant; (ii) the payment by the Securities Depository or by any Participant of any amount due to any Beneficial Owner in respect of the principal amount or redemption or purchase price of, or interest on, any Bonds; (iii) the delivery of any notice by the Securities Depository or any Participant; (iv) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; or (v) any other action taken by the Securities Depository or any Participant.

Bond certificates are required to be delivered to and registered in the name of the Beneficial Owner, under the following circumstances:

(a) The Securities Depository determines to discontinue providing its service with respect to the Bonds and no successor Securities Depository is appointed as described above. Such a determination may be made at any time by giving 30 days' notice to the Issuer, the Company, the Remarketing Agent and the Trustee and discharging its responsibilities with respect thereto under applicable law.

(b) The Company determines not to continue the Book-Entry System through a Securities Depository.

The Trustee is hereby authorized to make such changes to the form of bond attached hereto as Exhibit A which are necessary or appropriate to reflect whether the Book-Entry System is not in effect, that a successor Securities Depository has been appointed or that an additional or co-paying agent or tender agent has been designated pursuant to Section 12.03 hereof.

If at any time, the Securities Depository ceases to hold the Bonds all references herein to the Securities Depository shall be of no further force or effect.

## ARTICLE VI COVENANTS

**Section 6.01. Payment of Bonds**. The Issuer will promptly pay the principal of, premium, if any, and interest on, and other amounts due with respect to, the Bonds on the dates and in the manner provided in the Bonds, but only from the amounts assigned to and held by the Trustee under this Indenture. Neither the State, nor any political subdivision thereof (including Escambia County) shall be obligated to pay the principal of the Bonds, or the premium, if any, or interest thereon or other costs incidental thereto, the same being payable solely from the revenues and receipts hereinabove referred to.

The Bonds do not pledge the faith, credit or taxing power of the State or any political subdivision thereof, including Escambia County, but shall be limited and special obligations payable solely from the proceeds derived by the Issuer under the Agreement and the Note, and neither the Issuer nor the State, nor any political subdivision thereof, shall ever be required to (i) levy ad valorem taxes on any property within its territorial limits to pay the principal of and premium, if any, and interest on the Bonds or to make any other payments provided for hereunder or under the Agreement or the Note for the Bonds, or (ii) pay the same from any funds of the Issuer other than those derived by the Issuer under the Agreement or the Note, and such Bonds shall not constitute a lien upon any property owned by or situated within the territorial limits of the Issuer except the proceeds derived under the Agreement and the Note.

**Section 6.02. Performance of Covenants; Issuer**. The Issuer covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Indenture, in any and every Bond executed, authenticated and delivered hereunder and in all of its proceedings pertaining hereto. The Issuer covenants that it is duly authorized under the Constitution and laws of the State of Florida, including particularly and without limitation the Act, to issue the Bonds authorized hereby and to execute this Indenture, to assign and pledge the Note and the Agreement and the amounts payable under the Note and to pledge the amounts hereby pledged in the manner and to the extent herein set forth; that all action on its part necessary for the issuance of the Bonds and the execution and delivery of this Indenture and the Agreement has been duly and effectively taken; and that the Bonds in the hands of the owners thereof are and will be valid and enforceable obligations of the Issuer according to the terms thereof and hereof.

**Section 6.03. Recording and Filing; Further Assurances**. The Issuer will execute and deliver such supplemental indentures and such further instruments, and do such further acts, as the Trustee may reasonably require for the better assuring, assigning and confirming to the Trustee the amounts assigned under this Indenture for the payment of the Bonds. The Issuer further covenants that it will not create or suffer to be created any lien, encumbrance or charge upon its interest in the Note, or the Agreement, if any, except the lien of this Indenture.

**Section 6.04. Tax Covenants.** The Issuer covenants that it shall not knowingly take any action which would cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, and the proposed, temporary or

final regulations thereunder as such may be applicable to the Bonds or the proceeds derived from the sale of the Bonds or any other moneys; provided, however, that no action taken by the Issuer pursuant to and in accordance with the terms of the Agreement or this Indenture shall give rise in any manner whatsoever to any claim against or liability of the Issuer under this Indenture; and provided further, that any such claims or liabilities shall in all events be subject to the indemnification provisions of the Agreement.

Notwithstanding any provision of this Indenture to the contrary, the Trustee shall not be liable or responsible for any calculation or determination which may be required in connection with, or for the purpose of complying with, Section 148 of the Code, or any successor statute or any regulation, ruling or other judicial or administrative interpretation thereof, including, without limitation, the calculation of amounts required to be paid to the United States of America or the determination of the maximum amount which may be invested in nonpurpose obligations having a yield higher than the yield on the Bonds, and the Trustee shall not be liable or responsible for monitoring the compliance by the Issuer or the Company with any of the requirements of Section 148 of the Code or any applicable regulation, ruling or other judicial or administrative interpretation thereof; it being acknowledged and agreed that the sole obligation of the Trustee with respect to the investment of monies held under any fund or account created hereunder shall be to invest such monies in accordance with Section 4.03 hereof in each case pursuant to the instructions received by the Trustee in accordance with Section 4.03 hereof.

**Section 6.05. Rights Under Agreement**. The Agreement, a duly executed counterpart of which has been filed with the Trustee, sets forth the covenants and obligations of the Issuer and the Company, and reference is hereby made to the same for a detailed statement of said covenants and obligations of the Company thereunder; and the Issuer agrees that the Trustee in its own name or in the name of the Issuer may enforce all rights of the Issuer and all obligations of the Company under and pursuant to the Agreement for and on behalf of the Bondholders, whether or not the Issuer is in default hereunder.

**Section 6.06. Designation of Additional Paying Agents**. The Issuer may cause, with the consent of the Company, the necessary arrangements to be made through the Trustee and to be thereafter continued for the designation of additional paying agents and for providing for the payment of such of the Bonds as shall be presented when due at the designated corporate trust office of the Trustee, or its successor in trust hereunder, or at the designated principal office of said additional paying agents. All such funds held by said additional paying agents shall be held by each of them in trust and shall constitute a part of the trust estate and shall be subject to the security interest created hereby.

**Section 6.07. Existence of Issuer**. The Issuer covenants that it will at all times maintain its legal existence and will duly procure any necessary renewals and extensions thereof; will use its best efforts to maintain, preserve and renew all the rights, powers, privileges and franchises owned by it; and will comply with all valid acts, rules, regulations and orders of any legislative, executive, judicial or administrative body applicable to the Project.

## ARTICLE VII DISCHARGE OF INDENTURE

**Section 7.01. Bonds Deemed Paid; Discharge of Indenture.** Any Bond will be deemed paid for all purposes of this Indenture when (a) payment of the principal of and interest (which, except for Bonds which bear interest at a Long-Term Interest Rate, shall be calculated at the Maximum Interest Rate) on the Bond to the due date of such principal and interest (whether at maturity, upon redemption or otherwise) or the payment of the purchase price either (1) has been made in accordance with the terms of the Bonds or (2) has been provided for by depositing with the Trustee in trust (A) moneys in an amount which are sufficient to make such payment and/or (B) Government Obligations maturing as to principal and interest in such amounts and at such times as will insure, without any further reinvestment, the availability of sufficient moneys to make such payment, and (b) all compensation and reasonable expenses of the Trustee pertaining to each Bond in respect of which such deposit is made have been paid or provided for to the Trustee's satisfaction. When a Bond is deemed paid, it will no longer be secured by or entitled to the benefits of this Indenture or be an obligation of the Issuer, and shall be payable solely from the moneys or Government Obligations under (a)(2) above, except that such Bond may be tendered if and as provided in the Bonds and it may be registered as transferred, exchanged, registered, discharged from registration or replaced as provided in Article II.

Notwithstanding the foregoing, upon the deposit of funds or Government Obligations under clause (a)(2) of the first paragraph of this Section 7.01, the purchase price of tendered Bonds shall be paid from the sale of Bonds under Section 3.08. If payment of such purchase price is not made from the sale of Bonds pursuant to Section 3.08, payment shall be made from funds (or Government Obligations) on deposit pursuant to this Section without the need of any further instruction or direction by the Company, in which case such Bonds shall be surrendered to the Trustee and canceled.

Notwithstanding the foregoing, no deposit under clause (a)(2) of the first paragraph of this Section shall be deemed a payment of a Bond until (1) the Company has furnished the Trustee an Opinion of Tax Counsel to the effect that the deposit of such cash or Government Obligations will not cause the Bonds to become "arbitrage bonds" under Section 148 of the Code and (2) (a) notice of redemption of the Bond is given in accordance with Article III or, if the Bond is not to be redeemed or paid within the next 60 days, until the Company has given the Trustee, in form satisfactory to the Trustee, irrevocable instructions (i) to notify, as soon as practicable, the owner of the Bond, in accordance with Article III, that the deposit required by (a)(2) above has been made with the Trustee and that the Bond is deemed to be paid under this Article and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of the Bond, and premium, if any, and interest on such Bond, if the Bond is to be redeemed rather than paid and (ii) to give notice of redemption not less than 30 nor more than 60 days prior to the redemption date for such Bond or (b) the maturity of the Bond.

When all outstanding Bonds are deemed paid under the foregoing provisions of this Section, the Trustee will upon request acknowledge the discharge of the lien of this Indenture, provided, however that the obligations relating to the tender for purchase as provided in the Bonds, the obligations under Section 6.04 and obligations under Article II in respect of the

registration of transfer, exchange, registration, discharge from registration and replacement of Bonds shall survive the discharge of the lien of this Indenture.

**Section 7.02. Application of Trust Money**. The Trustee shall hold in trust money or Government Obligations deposited with it pursuant to the preceding Section and shall apply the deposited money and the money from the Government Obligations in accordance with this Indenture only to the payment of principal of, premium, if any, and interest on the Bonds and to the payment of the purchase price of tendered Bonds.

**Section 7.03. Repayment to Company**. The Trustee shall promptly pay to the Company upon request any excess money or securities held by the Trustee at any time under this Article and any money held by the Trustee under any provision of this Indenture for the payment of principal or interest or for the purchase of Bonds that remains unclaimed for six years [shall upon request be promptly paid to the Company or to such officer, board or body as may then be entitled by law to receive the same, and thereafter the holders of such Bonds shall look only to the Company or to such officer, board or body, as the case may be, for payment and then only to the extent of the amount so received without any interest thereon, and the Trustee, the Issuer and the paying agents shall have no responsibility with respect to such moneys.

## ARTICLE VIII DEFAULTS AND REMEDIES

**Section 8.01. Events of Default.** An "Event of Default" is any of the following:

(a) Default in the payment of any interest on any Bond when due and as the same shall become due and payable, which default continues for five days;

(b) Default in the due and punctual payment of principal on any Bond when due and payable, whether at maturity, upon redemption or by declaration or otherwise;

(c) Default in the due and punctual payment of the purchase price of any Bond required to be purchased in accordance with its terms; or

(d) An event of default has occurred and is continuing under the Agreement.

**Section 8.02. Acceleration**. Upon the occurrence of an Event of Default, the Trustee may (with the prior written consent of the Insurer if a Policy is in effect and the Insurer is not in default of its obligations thereunder) and upon

(a) receipt of (x) the written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding and (y) the prior written consent of the Insurer if a Policy is in effect and the Insurer is not in default of its obligations thereunder, or

(b) receipt of the written request of the Insurer if a Policy is in effect and the Insurer is not in default of its obligations thereunder,

shall by notice in writing delivered to the Issuer, the Insurer and the Company, declare the principal of all Bonds then outstanding and the interest accrued thereon immediately due and payable; and such principal and interest shall thereupon become and be immediately due and payable.

If after the principal of the Bonds and the accrued interest thereon have been so declared to be due and payable, all arrears of interest and interest on overdue installments of interest (if lawful) and the principal and premium, if any, on all Bonds then outstanding which shall have become due and payable otherwise than by acceleration and all other sums payable under this Indenture or upon the Bonds, except the principal of, and interest on, the Bonds which by such declaration shall have become due and payable, are paid by the Issuer, and the Issuer also performs all other things in respect of which it may have been in default hereunder and pays the reasonable charges of the Trustee, the Bondholders and any trustee appointed under law, including the Trustee's reasonable attorneys' fees, then, and in every such case, the Trustee shall annul such declaration and its consequences, and such annulment shall be binding upon all holders of Bonds issued hereunder; but no such annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon. The Trustee shall forward a copy of any such annulment notice pursuant to this paragraph to the Issuer, the Insurer and the Company.

**Section 8.03. Other Remedies.** If an Event of Default occurs and is continuing, subject to Section 8.06, the Trustee, before or after declaring the principal of the Bonds and the interest accrued thereon immediately due and payable, may (with the prior written consent of the Insurer if a Policy is in effect and the Insurer is not in default of its obligations thereunder) and upon

(a) receipt of (x) the written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding and (y) the prior written consent of the Insurer if a Policy is in effect and the Insurer is not in default of its obligations thereunder, or

(b) receipt of the written request of the Insurer if a Policy is in effect and the Insurer is not in default of its obligations thereunder,

shall by notice in writing delivered to the Issuer, the Insurer and the Company, pursue any available remedy by proceeding at law or in equity available to the Trustee under the Agreement or the Note to collect the principal of or interest on the Bonds or to enforce the performance of any provision of the Bonds, the Note, this Indenture or the Agreement.

The Trustee, as the assignee of all the right, title and interest of the Issuer in and to the Agreement and the Note, may enforce each and every right granted to the Issuer under the Agreement and the Note. In exercising such rights and the rights given the Trustee under this Article VIII, the Trustee shall take such action as, in the judgment of the Trustee applying the standards described in Section 9.01(a), would best serve the interests of the Bondholders.

**Section 8.04. Legal Proceeding by Trustee.** If any Event of Default has occurred and is continuing, the Trustee may (with the prior written consent of the Insurer if a Policy is in effect and the Insurer is not in default of its obligations thereunder) and upon

(a) receipt of (x) the written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding and (y) the prior written consent of the Insurer if a Policy is in effect and the Insurer is not in default of its obligations thereunder, or

(b) receipt of the written request of the Insurer if a Policy is in effect and the Insurer is not in default of its obligations thereunder,

shall by notice in writing delivered to the Issuer, the Insurer and the Company, and receipt of indemnity to its satisfaction shall, in its own name;

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, including the right to require the Issuer to enforce any rights under the Agreement and the Note and to require the Issuer to carry out any other provisions of this Indenture for the benefit of the Bondholder and to perform its duties under the Act;

(b) bring suit upon the Bonds;

(c) by action or suit in equity require the Issuer to account as if it were the trustee of an express trust for the Bondholders; or

(d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

No remedy conferred upon or reserved to the Trustee or to the Bondholders by the terms of this Indenture is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bondholders hereunder or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time as often as may be deemed expedient.

No waiver of any default or Event of Default hereunder, whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

**Section 8.05. Appointment of Receivers.** Upon the occurrence and continuance of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to

enforce the rights of the Trustee and of the Bondholders under this Indenture, the Trustee shall be entitled as a matter of right to the appointment of a receiver or receivers of the trust estate with such powers as the court making such appointment shall confer.

**Section 8.06. Waiver of Past Defaults**. The holders of a majority in principal amount of the Bonds then outstanding, with the consent of the Insurer if a Policy is in effect and the Insurer has not defaulted in its payment obligations thereunder, by notice to the Trustee, may waive an existing Event of Default and its consequences. When an Event of Default is waived, it is cured and stops continuing, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent to it.

**Section 8.07. Control by Majority**. The holders of a majority in principal amount of the Bonds then outstanding, with the consent of the Insurer if a Policy is in effect and the Insurer has not defaulted in its payment obligations thereunder, may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture or, subject to Section 9.01, that the Trustee determines is unduly prejudicial to the rights of other Bondholders, or would involve the Trustee in personal liability.

**Section 8.08. Limitation on Suits**. A Bondholder may not pursue any remedy with respect to this Indenture or the Bonds unless (a) the holder gives the Trustee notice stating that an Event of Default is continuing, (b) the holders of at least 25% in principal amount of the Bonds then outstanding make a written request to the Trustee to pursue the remedy, (c) such holder or holders offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense, and (d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; it being understood and intended that no one or more holders of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of this Indenture by its, his or their action or to enforce any right hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal and ratable benefit of the holders of all Bonds then outstanding. Nothing in the Indenture contained shall, however, affect or impair the right of any Bondholder to enforce the payment of the principal of and premium, if any, and interest on any Bond at and after the maturity thereof, or the obligation of the Issuer to pay the principal of and premium, if any, and interest on each of the Bonds issued hereunder to the respective holders thereof at the time and place, from the source and in the manner in the Bonds expressed.

A Bondholder may not use this Indenture to prejudice the rights of another Bondholder or to obtain a preference or priority over the other Bondholders.

**Section 8.09. Rights of Holders to Receive Payment**. Notwithstanding any other provision of this Indenture, the right of any holder to receive payment of principal of and interest on a Bond, on or after the due dates expressed in the Bond, or the purchase price of a Bond on or after the date for its purchase as provided in the Bond, or to bring suit for the enforcement of any

such payment on or after such dates, shall not be impaired or affected without the consent of the holder.

**Section 8.10. Collection Suit by Trustee.** If an Event of Default under Section 8.01(a), (b) or (c) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount remaining unpaid.

**Section 8.11. Trustee May File Proofs of Claim.** The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and the Bondholders allowed in any judicial proceedings relative to the Company, its creditors or its property and, unless prohibited by law or applicable regulations, may vote on behalf of the holders in any election of a trustee in bankruptcy or other person performing similar functions. In the event of a bankruptcy or reorganization of the Company, the Trustee may file a proof of claim on behalf of all Bondholders with respect to the obligations of the Company pursuant to the Agreement and the Note.

**Section 8.12. Priorities.** If the Trustee collects any money pursuant to this Article, it shall pay out the money in the following order:

FIRST: To the Trustee for amounts to which it is entitled under Section 9.02.

SECOND: To Bondholders for amounts due and unpaid on the Bonds for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Bonds for principal and interest, respectively.

THIRD: To the Company.

The Trustee may fix a payment date for any payment to the Bondholders under this Section 8.12.

**Section 8.13. Undertaking for Costs.** In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee, a suit by a holder pursuant to Section 8.07 or a suit by holders of more than 10% in principal amount of the Bonds then outstanding.

## ARTICLE IX TRUSTEE AND REMARKETING AGENT

**Section 9.01. Acceptance of the Trusts.** The Trustee hereby accepts the trusts imposed upon it by this Indenture, and agrees to perform such trusts, but only upon and subject to the following express terms and conditions:

(a) The Trustee, prior to the occurrence of any Event of Default and after the curing or waiver of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default has occurred (which has not been cured or waived), the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent corporate trustee would exercise or use under the circumstances in the enforcement of a corporate indenture.

(b) The Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, agents, receivers or employees selected by it with reasonable care and the Trustee shall not be responsible for the conduct of such attorneys, agents, receivers or employees, if selected with reasonable care, and shall be entitled to advice of counsel concerning all matters relating to the trusts hereof and the duties hereunder, and may in all cases pay such reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trusts hereof. The Trustee may act upon the opinion or advice of any attorney (who may be the attorney or attorneys for the Issuer or the Company), approved by the Trustee in the exercise of reasonable care. The Trustee shall not be responsible for any loss or damage resulting from any action or inaction in good faith in reliance upon such opinion or advice.

(c) The Trustee shall not be responsible for any recital herein, or in the Bonds (except in respect to the certificate of the Trustee endorsed on the Bonds), or for the recording or re-recording, filing or re-filing of this Indenture, or any other instrument required by this Indenture to secure the Bonds, or for insuring the Project or collecting any insurance moneys, or for validity of the execution by the Issuer of this Indenture or of any supplements hereto or instruments of further assurance, or for the sufficiency of the security for the Bonds issued hereunder or intended to be secured hereby.

(d) The Trustee shall not be accountable for the use of any Bonds authenticated or delivered hereunder. The Trustee may become the owner of Bonds secured hereby with the same rights which it would have if not the Trustee. To the extent permitted by law, the Trustee may also receive tenders and purchase in good faith Bonds from itself, including any department, affiliate or subsidiary, with like effect as if it were not the Trustee.

(e) The Trustee shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons. Any action taken by the Trustee pursuant to this Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the owner of any Bond, shall be conclusive and binding upon all future owners of the same Bond and upon owners of Bonds issued in exchange therefor or in place thereof.

(f) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to rely upon a certificate signed by the Issuer or the Company as sufficient evidence of the facts therein contained; and prior to the occurrence of a default of which the Trustee has been notified as provided in subsection (h) of this Section 9.01, or of which by said subsection it is deemed to have notice, the Trustee shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a certificate of the Clerk or Deputy Clerk of the Issuer under the Issuer's seal to the effect that a resolution in the form therein set forth has been adopted by the Issuer as conclusive evidence that such resolution has been duly adopted, and is in full force and effect.

(g) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty, and it shall not be answerable for other than its negligence or willful default.

(h) The Trustee shall not be required to take notice or be deemed to have notice of any Event of Default hereunder except failure by the Issuer to cause to be made any of the payments to the Trustee required to be made by Article IV hereof, unless the Trustee shall be specifically notified in writing of such Event of Default by the Insurer, the Issuer or by the holders of at least 25% in aggregate principal amount of Bonds then outstanding; and all notices or other instruments required by this Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the principal corporate trust office of the Trustee, and in the absence of such notice so delivered the Trustee may conclusively assume there is no default except as aforesaid.

(i) At any and all reasonable times the Trustee and its duly authorized agents, attorneys, experts, engineers, accountants and representatives shall have the right fully to inspect any and all parts of the Project, including all books, papers and records of the Issuer pertaining to the Project and the Bonds and to take such memoranda from and in regard thereto as may be desired.

(j) The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(k) Notwithstanding anything elsewhere in this Indenture contained, the Trustee shall have the right, but shall not be required, to demand, in respect of the authentication of any Bonds, the withdrawal of any cash, the release of any property or any action whatsoever within the purview of this Indenture, any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, in addition to that by the terms hereof required as a condition of such action by the Trustee, which the Trustee in its discretion may deem desirable for the purpose of establishing the right of the Issuer to the authentication of any Bonds, the withdrawal of any cash or the taking of any other action by the Trustee.

(l) Before taking any action referred to in Section 8.02, 8.03, 8.04, 8.05, 8.08, 8.09 or 9.04, the Trustee may require that a satisfactory indemnity bond be furnished for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful default by reason of any action so taken.

(m) All moneys received by the Trustee or any paying agent shall, until used or applied or invested as herein provided, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required herein or by law. Neither the Trustee nor any paying agent shall be under any liability for interest on any moneys received hereunder except such as may be mutually agreed upon.

(n) No provision of the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers.

**Section 9.02. Fees, Charges and Expenses of Trustee**. The Trustee shall be entitled to payment and reimbursement for reasonable fees for its services rendered hereunder and all advances, counsel fees and other expenses reasonably and necessarily made or incurred by the Trustee in connection with such services. Upon an Event of Default, but only upon an Event of Default, the Trustee shall have a first lien, with right of payment prior to payment on account of principal of and premium, if any, and interest on any Bond, upon the trust estate for the foregoing fees, charges and expenses incurred by it other than moneys paid pursuant to the Policy.

**Section 9.03. Notice to Bondholders if an Event of Default Occurs**. If an Event of Default occurs of which the Trustee is by Section 9.01(h) required to take notice or if notice of an Event of Default be given as in Section 9.01(h) provided, then the Trustee shall promptly give written notice thereof by registered or certified mail to each owner of Bonds then outstanding and to the Insurer.

**Section 9.04. Intervention by Trustee**. In any judicial proceeding to which the Issuer is a party and which in the opinion of the Trustee and its counsel has a substantial bearing on the interests of the owners of the Bonds, the Trustee may intervene on behalf of the Bondholders and shall do so if requested in writing by the owners of at least 25% of the aggregate principal amount of Bonds then outstanding. The rights and obligations of the Trustee under this Section 9.04 are subject to the approval of a court of competent jurisdiction.

**Section 9.05. Successor Trustee**. Any corporation or association into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, ipso facto, shall be and become successor Trustee hereunder and vested with all of the title to the trust estate and all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any

instrument or any further act, deed or conveyance on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

**Section 9.06. Resignation by Trustee.** The Trustee and any successor Trustee may at any time resign from the trusts hereby created by giving thirty days' written notice to the Issuer and the Company, served personally or sent by registered or certified mail, and to each owner of Bonds then outstanding, sent by registered or certified mail, and such resignation shall take effect at the end of such thirty days, or upon the earlier appointment of a successor Trustee pursuant to Section 9.08 hereof.

**Section 9.07. Removal of Trustee.** The Trustee may be removed at any time, by an instrument or concurrent instruments in writing delivered to (a) the Trustee, the Issuer and the Company, and signed by the owners of a majority in aggregate principal amount of Bonds then outstanding, or (b) the Trustee and the owners of the Bonds then outstanding, and signed by the Issuer and the Company.

**Section 9.08. Appointment of Successor Trustee.** In case the Trustee hereunder shall resign or be removed, or be dissolved, or shall be in course of dissolution or liquidation, or otherwise become incapable of acting hereunder, or in case it shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor shall be appointed by the Issuer at the direction of the Company. The Issuer shall cause notice of such appointment to be given in the same manner as the giving of notices of redemption as set forth in Section 3.04. If the Issuer fails to make such appointment promptly, a successor may be appointed by the owners of a majority in aggregate principal amount of Bonds then outstanding, with the written consent of the Insurer if a Policy is in effect and the Insurer is not in default thereunder. Every such successor Trustee appointed pursuant to the provisions of this Section 9.08 shall be a trust company or bank in good standing having a reported capital, surplus and undivided profits of not less than $25,000,000, if there be such an institution willing, qualified and able to accept the trusts upon reasonable and customary terms.

**Section 9.09. Concerning Any Successor Trustee.** Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to the Issuer an instrument in writing accepting such appointment hereunder, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all of the estates, properties, rights, powers, trusts, duties and obligations of its predecessor; but such predecessor shall, nevertheless, on the written request of the Issuer, or of its successor, execute and deliver an instrument transferring to such successor Trustee all the estates, properties, rights, powers and trusts of such predecessor hereunder, and every predecessor Trustee shall deliver all securities and moneys held by it as Trustee hereunder to its successor. Should any instrument in writing from the Issuer be required by any successor Trustee for more fully and certainly vesting in such successor the estate, rights, powers and duties hereby vested or intended to be vested in the predecessor, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Issuer. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor hereunder, together with all other instruments provided for in this Article IX, shall be filed and/or recorded by the successor Trustee in each

recording office where the Indenture shall have been filed and/or recorded and the successor Trustee shall bear the cost thereof.

**Section 9.10. Successor Trustee as Bond Registrar and Paying Agent.** In the event of a change of Trustee, the Trustee which has resigned or been removed shall cease to be bond registrar and a paying agent for principal of and premium, if any, and interest on the Bonds, and the successor Trustee shall become such bond registrar and a paying agent.

**Section 9.11. Trustee and Issuer Required to Accept Directions and Actions of Company.** Whenever, after a reasonable request by the Company, the Issuer shall fail, refuse or neglect to give any direction to the Trustee or to require the Trustee to take any action which the Issuer is required to have the Trustee take pursuant to the provisions of the Agreement or this Indenture, the Company as agent of the Issuer may give any such direction to the Trustee or require the Trustee to take any such action, and the Trustee is hereby irrevocably empowered and directed to accept such direction from the Company as sufficient for all purposes of this Indenture. The Company shall have the right as agent of the Issuer to cause the Trustee to comply with any of the Trustee's obligations under this Indenture to the same extent that the Issuer is empowered so to do.

Certain actions or failures to act by the Issuer under this Indenture may create or result in an Event of Default under this Indenture and the Company, as agent of the Issuer, may to the extent permitted by law, perform any and all acts or take such action as may be necessary for and on behalf of the Issuer to prevent or correct said Event of Default and the Trustee shall take or accept such performance by the Company as performance by the Issuer in such event.

The Issuer hereby makes, constitutes and appoints the Company irrevocably as its agent to give all directions, do all things and perform all acts provided, and to the extent so provided, by this Section 9.11.

**Section 9.12. No Transfer of Note Held by the Trustee; Exception.** Except as required to effect an assignment to a successor Trustee, the Trustee shall not sell, assign or transfer the Note or its rights under any Policy and the Trustee is authorized to enter into an agreement with the Company to such effect.

**Section 9.13. Filing of Certain Continuation Statements.** From time to time, the Trustee shall duly file, or cause to be filed, at the expense of the Company, continuation statements for the purpose of continuing without lapse the effectiveness of the filing of the financing statements with respect to the security interest created by this Indenture in the Agreement and the Note, at or prior to the issuance of the Bonds and any previously filed continuation statements which shall have been filed as herein required. The Issuer shall sign and deliver to the Trustee or its designee such continuation statements as may be requested of it from time to time by the Trustee. Upon the filing of any such continuation statements the Trustee shall immediately notify the Issuer and the Company that the same has been accomplished.

**Section 9.14 Duties of Remarketing Agent.** Except as otherwise described herein, the Remarketing Agent will set the interest rates on the Bonds and perform the other duties provided for in Section 2.02 and will remarket the Bonds as provided in Section 3.08, subject to any provisions of a remarketing agreement between the Company and the Remarketing Agent. The Remarketing Agent may for its own account or as broker or agent for others deal in Bonds and may do anything any other Bondholder may do to the same extent as if the Remarketing Agent were not serving as such.

**Section 9.15 Eligibility of Remarketing Agent**. Unless a notice of redemption with respect to the Bonds has theretofore been issued by the Trustee pursuant to Section 3.04, upon any change in the Determination Method, the Company shall appoint a Remarketing Agent in sufficient time for such Remarketing Agent to establish the interest rate for such succeeding Interest Rate Period. The Company will give prompt notice of such appointment to the Issuer and the Trustee. The Remarketing Agent will be a bank, trust company or member of the National Association of Securities Dealers, Inc. organized and doing business under the laws of the United States or any state or the District of Columbia, will have a combined capital stock, surplus and undivided profits of at least $15,000,000 as shown in its most recent published annual report, will be a Participant in the Securities Depository and will be authorized by law to perform all the duties imposed upon it by this Indenture. Any Remarketing Agent shall be rated at least Baa3/P-3 or otherwise qualified by Moody's Investors Service, Inc. or have an equivalent rating of another rating agency.

**Section 9.16 Replacement of Remarketing Agent.** The Remarketing Agent may resign by notifying the Issuer, the Trustee and the Company. Such resignation will take effect on the day a successor Remarketing Agent appointed in accordance with this Section 9.16 has accepted the appointment or, if no successor has so accepted, 30 days after notice of resignation has been sent. The Company may remove the Remarketing Agent at any time by an instrument signed by the Company and filed with the Remarketing Agent, the Issuer and the Trustee at least 30 days prior to the effective date of such removal (which will not in any event occur prior to the appointment of a successor Remarketing Agent). A new Remarketing Agent may be appointed by the Company upon the resignation or removal of the Remarketing Agent. The Trustee shall promptly notify the Bondholders of any change in the Remarketing Agent.

**Section 9.17. Compensation of Remarketing Agent.** The Remarketing Agent will not be entitled to any compensation from the Issuer or the Trustee or to any property held under this Indenture but must make separate arrangements with the Company for compensation.

**Section 9.18. Successor Remarketing Agent.** If the Remarketing Agent consolidates with, merges or converts into, or transfers all or substantially all its assets (or, in the case of a bank or trust company, its corporate trust assets) to another corporation, the resulting, surviving or transferee corporation without any further act shall be the successor Remarketing Agent, provided that such successor shall be eligible under the applicable provisions in this Article.

**Section 9.19. Inapplicability of Remarketing Agent.** The provisions of this Indenture relating to the Remarketing Agent, including, but not limited to, Sections 9.14, 9.15, 9.16, 9.17 and 9.18, shall not apply when the Bonds are in an Auction Rate Period.

## ARTICLE X AMENDMENTS OF AND SUPPLEMENTS TO INDENTURE

**Section 10.01. Without Consent of Bondholders.** The Issuer and the Trustee may amend or supplement this Indenture or the Bonds without notice to or consent of any Bondholder:

(a) to cure any ambiguity, inconsistency, formal defect or omission;

(b) to grant to the Trustee for the benefit of the Bondholders additional rights, remedies, powers or authority;

(c) to subject to this Indenture additional collateral or to add other agreements of the Issuer;

(d) to modify this Indenture or the Bonds to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States;

(e) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to this Indenture regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature;

(f) to increase or decrease the number of days specified for the giving of notices in Section 3.07 and to make corresponding changes to the period for notice of redemption of the Bonds; provided that no decreases in any such number of days shall become effective except while the Bonds bear interest at a Daily Rate or a Weekly Rate and until 30 days after the Trustee has given notice to the owners of the Bonds;

(g) to provide for an uncertificated system of registering the Bonds or to provide for the change to or from a Book-Entry System for the Bonds;

(h) to evidence the succession of a new Trustee or the appointment by the Trustee or the Issuer of a co-trustee;

(i) to make any change (including a change in Section 4.01 to reflect any amendment to the Code or interpretations by the Internal Revenue Service of the Code) that does not materially adversely affect the rights of any Bondholder; or

(j) to make any other changes to this Indenture that take effect as to any or all remarketed Bonds following a mandatory tender.

**Section 10.02. With Consent of Bondholders.** If an amendment of or supplement to this Indenture or the Bonds without any consent of Bondholders is not permitted by the preceding Section, the Issuer and the Trustee may enter into such amendment or supplement without prior notice to any Bondholders but with the consent of the holders of at least a majority in aggregate principal amount of the Bonds then outstanding. However, without the consent of each Bondholder affected thereby, no amendment or supplement may (a) extend the maturity of the principal of, or interest on, any Bond, (b) reduce the principal amount of, or rate of interest on, any Bond, (c) effect a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (d) reduce the percentage of the principal amount of the Bonds required for consent to such amendment or supplement, (e) impair the exclusion from federal gross income of interest on any Bond, (f) eliminate the holders' rights to tender the Bonds, or any mandatory redemption of the Bonds, extend the due date for the purchase of Bonds tendered by the holders thereof or call for mandatory redemption or reduce the purchase or redemption price of such Bonds, (g) create a lien ranking prior to or on a parity with the lien of this Indenture on the property described in the Granting Clause of this Indenture or (h) deprive any Bondholder of the lien created by this Indenture on such property. In addition, if moneys or Government Obligations have been deposited or set aside with the Trustee pursuant to Article VII for the payment of Bonds and those Bonds shall not have in fact been actually paid in full, no amendment to the provisions of that Article shall be made without the consent of the holder of each of those Bonds affected.

**Section 10.03. Effect of Consents.** Any consent received pursuant to Section 10.02 will bind each Bondholder delivering such consent and each subsequent holder of a Bond or portion of a Bond evidencing the same debt as the consenting holder's Bond.

**Section 10.04. Notation on or Exchange of Bonds.** If an amendment or supplement changes the terms of a Bond, the Trustee may require the holder to deliver it to the Trustee. The Trustee may place an appropriate notation on the Bond about the changed terms and return it to the holder. Alternatively, if the Trustee, the Issuer and the Company determine, the Issuer in exchange for the Bond will issue and the Trustee will authenticate a new Bond that reflects the changed terms.

**Section 10.05. Signing by Trustee of Amendments and Supplements.** The Trustee will sign any amendment or supplement to the Indenture or the Bonds authorized by this Article if the amendment or supplement does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, but need not, sign it. In signing an amendment or supplement, the Trustee will be entitled to receive and (subject to Section 9.01) will be fully protected in relying on an Opinion of Counsel stating that such amendment or supplement is authorized by this Indenture.

**Section 10.06. Company and Insurer Consent Required.** An amendment or supplement to this Indenture or the Bonds shall not become effective unless the Company

delivers to the Trustee its written consent to the amendment or supplement. The consent of the Insurer shall be required with respect to any amendments or supplements hereto or any amendment, change or modification of the Agreement or the Note requiring the consent of the Bondholders pursuant to Section 10.02 or Section 11.02 hereof or that materially adversely affects the rights of the Insurer.

**Section 10.07. Notice to Bondholders.** The Trustee shall cause notice of the execution of each supplement or amendment to this Indenture or the Agreement to be mailed to the Bondholders. The notice will at the option of the Trustee, either (i) briefly state the nature of the amendment or supplement and that copies of it are on file with the Trustee for inspection by Bondholders or (ii) enclose a copy of such amendment or supplement.

## ARTICLE XI AMENDMENTS OF AND SUPPLEMENTS TO THE AGREEMENT

**Section 11.01. Without Consent of Bondholders.** The Issuer, with the consent of the Insurer if a Policy is in effect and the Insurer is not in default in its payment obligations under the Policy, may enter into, and the Trustee may consent to, any amendment of or supplement to the Agreement or the Note, or may waive compliance by the Company of any provision of the Agreement or the Note, in each case without notice to or consent of any Bondholder, but with notice to the Insurer, if the amendment, supplement or waiver is required or permitted (a) by the provisions of the Agreement or this Indenture, (b) to cure any ambiguity, inconsistency, formal defect or omission, (c) to identify more precisely the Project, (d) in connection with any authorized amendment of or supplement to this Indenture or (e) to make any change that, in the judgment of the Trustee, does not materially adversely affect the rights of any Bondholder.

**Section 11.02. With Consent of Bondholders.** If an amendment of or supplement to the Agreement or the Note without any consent of Bondholders is not permitted by Section 11.01, the Issuer may enter into, and/or the Trustee may consent to (as the case may be), such amendment or supplement, or may waive compliance by the Company of any provision of the Agreement, without notice to any Bondholder but with the consent of the holders of at least a majority in aggregate principal amount of the Bonds then outstanding. However, without the consent of each Bondholder affected thereby, no amendment, supplement or waiver may result in anything described in the lettered clauses of Section 10.02.

**Section 11.03. Consents by Trustee to Amendments or Supplements.** The Trustee will consent to any amendment or supplement to the Agreement or the Note authorized by this Article XI if the amendment or supplement does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, but need not, sign it. In signing a consent to an amendment or supplement, the Trustee shall be entitled to receive and (subject to Section 9.01) shall be fully protected in relying on an Opinion of Counsel stating that such amendment or supplement is authorized or permitted by this Indenture.

## ARTICLE XII MISCELLANEOUS

**Section 12.01. Notices.**

(a) Any notice, request, direction, designation, consent, acknowledgment, certification, appointment, waiver or other communication required or permitted by this Indenture or the Bonds must be in writing except as expressly provided otherwise in this Indenture or the Bonds.

(b) Any notice or other communication shall be sufficiently given and deemed given when delivered by hand or mailed by first-class mail, postage prepaid, addressed as follows: if to the Issuer, to the Chairman of the Board of Commissioners, 223 Palafox Place, Pensacola, Florida 32597; if to the Trustee, to The Bank of New York Trust Company of Florida, N.A., at 100 Ashford Center North, Suite 520, Atlanta, Georgia 30338, Attention: Corporate Trust Department; if to the Company and via United States mail or facsimile, at One Energy Place, Pensacola, Florida 32520, Attention: Treasurer, with copies to Southern Company Services, Inc., 270 Peachtree Street, N.W., Atlanta, Georgia 30303, Attention: Corporate Finance Department; if to the Company and via hand delivery, at 500 Bayfront Parkway, Pensacola, Florida 32501, Attention: Treasurer, with copies to Southern Company Services, Inc., 270 Peachtree Street, N.W., Atlanta, Georgia 30303, Attention: Corporate Finance Department; if to the Auction Agent, to the address specified at the time of acceptance of its duties; if to the Broker-Dealer, to the address specified at the time of acceptance of its duties; and if to the Remarketing Agent, to the address specified at the time of acceptance of its duties. Any addressee may designate additional or different addresses for purposes of this Section.

**Section 12.02. Bondholders' Consent.** Any consent or other instrument required by this Indenture to be signed by Bondholders may be in any number of concurrent documents and may be signed by a Bondholder or by the holder's agent appointed in writing. Proof of the execution of such instrument or of the instrument appointing an agent and of the ownership of Bonds, if made in the following manner, shall be conclusive for any purposes of this Indenture with regard to any action taken by the Trustee under the instrument:

(a) The fact and date of a person's signing an instrument may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within that jurisdiction that the person signing the writing acknowledged before the officer the execution of the writing, or by an affidavit of any witness to the signing.

(b) The fact of ownership of Bonds, the amount or amounts, numbers and other identification of such Bonds and the date of holding shall be proved by the registration books kept pursuant to this Indenture.

In determining whether the holders of the required principal amount of Bonds outstanding have taken any action under this Indenture, Bonds owned by the Company or any person controlling, controlled by or under common control with the Company shall be disregarded and deemed not to be outstanding unless all of the Bonds are so owned. In determining whether the

Trustee shall be protected in relying on any such action, only Bonds which the Trustee knows to be so owned shall be disregarded.

Notwithstanding any provision of this Indenture, so long as the Insurer is not in default with respect to its payment obligations under the Policy, the Insurer shall be deemed to be the owner of the Bonds for purposes of any consents, directions or other actions under this Indenture, except for the purpose of consenting to anything described in the lettered clauses of Section 10.02.

Any consent or other instrument shall be irrevocable and shall bind any subsequent owner of such Bond or any Bond delivered in substitution therefor.

**Section 12.03. Appointment of Separate Paying Agent and/or Tender Agent.** If, at any time, the Securities Depository ceases to hold the Bonds, with the effect that the Bonds are no longer subject to the Book-Entry System, then the Issuer and the Trustee, acting at the request of the Company, may appoint one or more banks or trust companies to act as paying agent and/or tender agent for the Bonds hereunder. Any such paying agent or tender agent shall be a bank or trust company organized under the laws of the United States of America or any state thereof, shall have a reported capital and surplus of at least $100,000,000 and a corporate trust office located in New York, New York at which Bonds may be presented for payment or purchase and shall perform such duties and responsibilities as may be delegated to it hereunder. If such a paying agent or tender agent is appointed, then all references herein to the "Trustee" shall include such paying agent or tender agent to the extent of the duties performed by such entity.

**Section 12.04. Limitation of Rights.** Nothing expressed or implied in this Indenture or the Bonds shall give any person other than the Trustee, the Issuer, the Company, the Insurer, the Remarketing Agent and the Bondholders any right, remedy or claim under or with respect to this Indenture.

**Section 12.05. Severability.** If any provision of this Indenture shall be held or deemed to be or shall, in fact, be illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative or unenforceable to any extent whatsoever.

**Section 12.06. Payments Due on Non-Business Days.** If a payment date is not a Business Day at the place of payment, then payment may be made at that place on the next Business Day, and no interest shall accrue for the intervening period.

**Section 12.07. Governing Law.** This Indenture shall be governed exclusively by and construed in accordance with the applicable laws of the State.

**Section 12.08. Captions.** The captions in this Indenture are for convenience only and do not define or limit the scope or intent of any provisions or Sections of this Indenture.

**Section 12.09. No Liability of Officers.** No covenant or agreement contained in the Bonds or this Indenture shall be deemed to be a covenant or agreement of any commissioner, agent or employee of the Issuer in his individual capacity, and neither the officers of the Issuer nor any official executing the Bonds or this Indenture shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance of the Bonds or the execution, delivery and performance of this Indenture.

**Section 12.10. Limitation upon Responsibility of the Issuer.**

(a) Notwithstanding anything to the contrary contained herein or in any of the Bonds, the Agreement or in any other instrument or document executed by or on behalf of the Issuer in connection herewith, (i) the Issuer shall have no obligation to take action under this Indenture, the Bonds, the Agreement or such other instruments or documents, unless Issuer is reasonably requested in writing by an appropriate person to take such action and is provided with indemnity and assurances reasonably satisfactory to it of payment of or reimbursement for any expenses (including attorneys' fees) in such action, and (ii) any judgment rendered against the Issuer for breach of its obligations hereunder or under the Bonds, the Agreement or such instruments or documents, shall be payable solely from the revenues derived by the Issuer hereunder or under the Agreement or the Note, and no personal liability or charge payable directly or indirectly from the general funds of the Issuer shall arise therefrom.

(b) The Issuer shall not be required to incur any expense with respect to the Project or the Bonds unless requested to do so by the Company, in which event the Company hereby agrees to reimburse the full amount of such expense to the Issuer, and the Issuer may require payment to it of such amount as a prerequisite to its incurring any such expense.

(c) In acting under this Indenture, the Bonds, the Agreement, the Note or such other instruments or documents, or in refraining from taking such action, the Issuer may conclusively rely on the advice of its counsel.

**Section 12.11 Counterparts.** This Indenture may be signed in several counterparts. Each will be an original, but all of them together constitute the same instrument.

**Section 12.12 Regarding Insurer Provisions.** At any time when a Policy is not in effect with respect to the Bonds, all references in this Indenture to the Insurer or the Policy shall be null and void and have no force or effect.

IN WITNESS WHEREOF, Escambia County, Florida has caused these presents to be signed in its name and behalf by the Chairman or Vice Chairman of its Board of County Commissioners, and its official seal to be hereunto affixed and attested by its Clerk or Deputy Clerk, and to evidence its acceptance of the trusts hereby created The Bank of New York Trust Company of Florida, N.A., as Trustee, has caused these presents to be signed in its name and behalf and its official seal to be hereunto affixed and attested by its duly authorized officers, all as of the day and year first above written.

[SEAL]
SEAL
BOARD OF COUNTY COMMISSIONERS
ESCAMBIA CO., FL

**ESCAMBIA COUNTY, FLORIDA**

By: Marie Young
Chairman of the Escambia County
Board of County Commissioners

Attest: ERNIE LEE MAGAHA
CLERK OF THE CIRCUIT COURT

Patricia M. Cotton
DEPUTY CLERK

**THE BANK OF NEW YORK TRUST COMPANY OF FLORIDA, N.A.**
as Trustee

[SEAL]

By: Elizabeth A. Wagner
VICE PRESIDENT
Title: _____

EXHIBIT A

*Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Issuer or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co. has an interest herein.*

UNITED STATES OF AMERICA

STATE OF FLORIDA

No. R-__ $32,550,000

ESCAMBIA COUNTY, FLORIDA
POLLUTION CONTROL REVENUE REFUNDING BOND
(GULF POWER COMPANY PROJECT)
SERIES 2003

| MATURITY DATE | DATED DATE | CUSIP |
|---|---|---|
| June 1, 2023 | April 15, 2003 | 296130BW6 |

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: $32,550,000

Escambia County, Florida (the "*Issuer*"), a "local agency" as defined in the Florida Industrial Development Financing Act, being Part II of Chapter 159, Florida Statutes, Sections 159.25 through 159.431, and a political subdivision of the State of Florida, for value received, hereby promises to pay, solely from the sources described in this Bond, to the Registered Owner identified above, or registered assigns, on the Maturity Date stated above (or if this Bond is called for earlier redemption as described herein, on the redemption date) the principal amount identified above and to pay interest as provided in this Bond.

1. *Indenture; Agreement.* This Bond is one of the bonds (the "*Bonds*"), limited to $32,550,000 in principal amount, issued under the Trust Indenture dated as of April 1, 2003 (the "*Indenture*"), between the Issuer and The Bank of New York Trust Company of Florida, N.A., as trustee (the "*Trustee*"). The terms of the Bonds include those in the Indenture and those contained herein. Bondholders are referred to the Indenture for a statement of certain of those terms. When used with reference to the Bonds, the term "principal" includes any premium payable on those Bonds. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Indenture.

The Issuer has entered into a Loan Agreement dated as of April 1, 2003 (the "*Agreement*") with Gulf Power Company, a Maine corporation and qualified and doing business as an electric utility in the State of Florida (the "*Company*"). Under the Agreement, the Issuer has loaned the proceeds of the Bonds of this series to the Company (the "*Loan*"). In order to evidence the Loan and the Company's obligation to repay the same, the Company has executed and delivered its non-negotiable promissory note (the "*Note*"). The Note provides for the repayment by the Company of the Loan, including interest thereon, in installments sufficient to pay (i) the principal of, and premium, if any, and interest on the Bonds as the same shall become due and payable, (ii) the purchase price of certain tendered Bonds as required under the Indenture and (iii) the cost of operating, maintaining and repairing the Project (as hereinafter defined). The Note provides that the payments thereunder shall be paid directly to the Trustee as assignee of the Issuer. The Issuer has assigned its rights to such payments under the Agreement and the Note to the Trustee as security for the Bonds. The proceeds of the Bonds have been used to refund certain outstanding revenue bonds issued to refinance the interest of the Company in certain air and water pollution control and sewage and solid waste disposal facilities (the "*Project*") located at the Crist steam electric generating plant in Escambia County, Florida and the Lansing Smith steam electric generating plant in Bay County, Florida (the *"Plants"*).

The Indenture, the Agreement and the Note may be amended or supplemented as provided by their terms, and references to them include any amendments or supplements.

The Issuer has established a book-entry only system of registration for the Bonds (the *"Book-Entry System"*). Except as specifically provided otherwise in the Indenture, a Securities Depository (or its nominee) will be the registered owner of this Bond. By acceptance of a confirmation of purchase, delivery or transfer, the Beneficial Owner (if any) of this Bond shall be deemed to have agreed to this arrangement. If the Securities Depository (or its nominee) is the registered owner of this Bond, it shall be treated as the owner of it for all purposes.

2. *Source of Payments.* The principal of, premium, if any, and interest on, and any other amounts due with respect to, the Bonds are limited special obligations of the Issuer and, as provided in the Indenture, are payable solely and only from payments derived from the Agreement, the Note and from any other moneys held by the Trustee under the Indenture for such purpose. The Bonds are issued pursuant to and in full compliance with the Constitution and laws of the State of Florida, particularly Florida Industrial Development Financing Act, being Part II of Chapter 159, Florida Statutes, Sections 159.25 through 159.431, as amended, and pursuant to resolutions adopted by the Issuer on February 27, 2003, which resolutions authorize the

execution and delivery of the Agreement and the Indenture. The Bonds and the interest thereon are limited special obligations of the Issuer and are payable solely from the revenues and other amounts derived from the Agreement and the Note and are secured as set forth in the Indenture. The Bonds and premium, if any, and interest thereon and other amounts due with respect to the Bonds shall not be deemed to constitute a debt or general obligation or a pledge of the faith and credit of the State of Florida or any political subdivision thereof, including the County of Escambia. Neither the State of Florida nor any political subdivision thereof nor the Issuer shall be obligated to pay the principal of the Bonds or premium, if any, or interest thereon or other amounts due with respect thereto except from the revenues and receipts pledged therefor, and neither the faith and credit nor the taxing power of the State of Florida or any political subdivision thereof is pledged to the payment of such amounts. Payments under the Note sufficient for the prompt payment when due of the principal of and premium, if any, and interest on the Bonds are to be paid to the Trustee by the Company for the account of the Issuer and deposited in a special trust account created by the Issuer and have been duly pledged and assigned for that purpose. In addition, substantially all other rights of the Issuer under the Agreement have also been assigned to the Trustee to secure payment of amounts due on the Bonds.

3. *Interest Rate.* Interest on this Bond will be paid at the lesser of (a) a Daily Rate, a Weekly Rate, a Commercial Paper Rate, a Long-Term Interest Rate, an Auction Mode Rate or an Index Rate as selected by the Company and as determined in accordance with the Indenture or (b) 15%. Interest will initially be payable at an Auction Mode Rate as set forth in the Indenture. The Company may change the Determination Method from time to time. A change in the Determination Method will result in mandatory tender of the Bonds (see *"Mandatory Tender for Purchase"* below). While there exists an Event of Default under the Indenture, the interest rate on the Bonds will be the rate on the Bonds on the day before the Event of Default occurred, except that if interest on any Bond was then payable at a Commercial Paper Rate, the interest rate for all Bonds then bearing interest at a Commercial Paper Rate will be the highest Commercial Paper Rate then in effect for any Bond.

When interest is payable at a Daily Rate, Weekly Rate, Commercial Paper Rate or Index Rate, it will be computed on the basis of the actual number of days elapsed over a year of 365 days (366 days in leap years), when payable at an Auction Mode Rate, on the basis of actual days over 360 (during Auction Periods of 180 days or less) and on the basis of a 360-day year of twelve 30-day months (during Auction Periods greater than 180 days), and when payable at a Long-Term Interest Rate, on the basis of a 360-day year of twelve 30-day months. Interest on overdue principal and, to the extent lawful, on overdue premium and interest will be payable at the rate on the Bonds on the day before the default occurred.

4. *Interest Payment and Record Dates.* Interest will accrue on the unpaid portion of the principal of this Bond from the Dated Date stated above and thereafter from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication hereof to which interest has been paid or duly provided for, unless the date of authentication hereof is an Interest Payment Date to which interest has been paid or duly provided for, in which case from the date of authentication hereof, or unless no interest has been paid or duly provided for on the Bonds of

this series, in which case from the Dated Date; provided, however, that if the date of authentication is between the Record Date (as hereinafter defined) for any Interest Payment Date and such Interest Payment Date, then interest will accrue from such Interest Payment Date or, if the Company shall default in payment of the interest due on such Interest Payment Date, then from the next preceding Interest Payment Date to which interest has been paid or duly provided for, or if no interest has been paid or duly provided for, then from the Dated Date.

When interest is payable at the rate in the first column below, interest accrued during the period (an *"Interest Period"*) shown in the second column will be paid on the date (an *"Interest Payment Date"),* in the third column to holders of record on the date (a *"Record Date"*) in the fourth column:

| RATE | INTEREST PERIOD | INTEREST PAYMENT DATE | RECORD DATE |
|---|---|---|---|
| Daily* | Calendar month | Fifth Business Day of the next month | Last Business Day of the month |
| Weekly* | Calendar month | First Business Day of the next month | Last Business Day before Interest Payment Date |
| Commercial Paper | From 1 to 270 days as determined for each Bond pursuant to the Indenture (*"Commercial Paper Period"*) | Day after the last day of Commercial Paper Period | Last Business Day before Interest Payment Date |

---

* If there shall be a change from a Daily Rate or a Weekly Rate on a day other than the first day of a calendar month, the then current Interest Period relating to such Daily Rate or Weekly Rate shall end on the day immediately preceding the date on which the new interest rate on the Bonds shall become effective, which date in the case of a change from a Weekly Rate, shall be the Interest Payment Date for such Interest Period for which the Record Date shall be the immediately preceding Business Day; but in the case of a change from a Daily Rate, the Interest Payment Date for such Interest Period shall be the fifth Business Day after the last day of such Interest Period, for which the Record Date shall be the last Business Day of such Interest Period. If such new interest rate shall be a Daily Rate or a Weekly Rate, the first Interest Period relating thereto shall begin on the effective date of such new interest rate and end on the last day of the then current calendar month, for which the Interest Payment Date and the Record Date shall be as prescribed in this Table.

| RATE | INTEREST PERIOD | INTEREST PAYMENT DATE | RECORD DATE |
|---|---|---|---|
| Long-Term** | Six month period or portion thereof ending the last day of May or November | June 1 and December 1 | Fifteenth of the month before the Interest Payment Date (May 15 and November 15) *** |
| Auction Mode | From 1 to 364 days as determined for each Bond pursuant to the Indenture | The Business Day immediately following each Auction Period, and, in addition, for an Auction Period of more than 91 days, each 13th Thursday after the first day of such Auction Period **** | The second Business Day preceding an Interest Payment Date therefore |
| Index | Calendar Month | First Business Day of the next month | Last Business Day before Interest Payment Date |

*"Business Day"* is defined in the Indenture. Payment of defaulted interest will be made to holders of record as of the fifth-to-last Business Day before payment.

5. *Method of Payment.* Holders must surrender Bonds to the Trustee to collect principal at maturity or upon redemption. (See "*Optional Tenders*" and "*Mandatory Tender for*

---

** If there shall be a change from a Long-Term Interest Rate on a day other than a regularly scheduled Interest Payment Date for a Long-Term Interest Rate Period, or if there shall be an early termination of such Long-Term Interest Rate Period and a new Long-Term Interest Rate shall be set, such Long-Term Interest Rate Period shall end on the day immediately preceding the date on which the new interest rate shall become effective, which date shall be the Interest Payment Date for such Long-Term Interest Rate Period, for which the Record Date shall be the last day of such Long-Term Interest Rate Period or, if sooner, the first day of such Long-Term Interest Rate Period. If such new interest rate shall be a Daily Rate or a Weekly Rate, the first Interest Period relating thereto shall begin on the effective date of such new interest rate and end on the last day of the then current calendar month, for which the Interest Payment Date and the Record Date shall be as prescribed in this Table.

*** If an Interest Payment Date occurs less than 15 days after the first day of a Long-Term Interest Rate Period, the first day of such Long-Term Interest Rate Period is the Record Date for such Interest Payment Date.

**** The Interest Payment Date with respect to a daily Auction Period shall be the first Business Day of the month immediately succeeding such Auction Period.

*Purchase*" below for the payment of purchase price of tendered Bonds.) Interest on Bonds bearing interest at a Commercial Paper Rate (other than Bonds in the Book-Entry System) is payable only upon presentation of such Bonds to the Trustee. Interest on Bonds bearing interest at a Daily, Weekly, Auction Mode, Index or Long-Term Interest Rate (other than Bonds in the Book-Entry System) will be paid to the registered holder hereof as of the Record Date by check mailed by first-class mail on the Interest Payment Date to such holder's registered address. A holder of $1,000,000 or more in principal amount of Bonds may be paid interest at a Daily, Weekly, Auction Mode, Index or Commercial Paper Rate by wire transfer in immediately available funds to an account in the continental United States if the holder makes a written request of the Trustee (in form satisfactory to the Trustee) at least two Business Days before the Record Date specifying the account address. The notice may provide that it will remain in effect for later interest payments until changed or revoked by another written notice. Principal and interest will be paid in money of the United States that at the time of payment is legal tender for payment of public and private debts or by checks or wire transfers payable in such money. If any payment on the Bonds is due on a non-Business Day, it will be made on the next Business Day, and no interest will accrue as a result.

6. *Optional Tenders.* *"Tender"* means to require, or the act of requiring, the Trustee to purchase a Bond at the holder's option under the provisions of this paragraph 6 at 100% of the principal amount plus interest accrued to (but excluding) the date of purchase. During a Daily Rate Interest Period, if a Bond is tendered after the Record Date and before the Interest Payment Date for that Interest Period, the Trustee will pay (but only from funds available therefor as provided in the Indenture) a purchase price of principal plus interest accruing after the last day of that Interest Period. While the Bonds bear interest at a Long-Term Interest Rate, a Commercial Paper Rate, an Auction Mode Rate or an Index Rate, the owner of a Bond does not have the option to require the Trustee to purchase its Bond.

*Daily Rate Tender.* When interest on the Bonds is payable at a Daily Rate and a Book-Entry System is in effect, a Beneficial Owner (through its Direct Participant in the Securities Depository) may tender his interest in a Bond (or portion of Bond) by delivering an irrevocable written notice or an irrevocable telephone notice, promptly confirmed in writing, to the Trustee (any such telephone notice to be delivered to a Responsible Officer of the Trustee) and an irrevocable notice by telephone, telegraph or facsimile transmission to the Remarketing Agent, in each case prior to 11:00 a.m., New York City time, on a Business Day, stating the principal amount of the Bond (or portion of Bond) being tendered, payment instructions for the purchase price and the Business Day (which may be the date the notice is delivered) the Bond (or portion of Bond) is to be purchased. The Beneficial Owner shall effect delivery of such Bond by causing such Direct Participant to transfer its interest in the Bond equal to such Beneficial Owner's interest on the records of the Securities Depository to the participant account of the Trustee with the Securities Depository. Any notice received by the Trustee after 11:00 a.m., New York City time, shall be deemed to have been given on the next Business Day.

When interest on the Bonds is payable at a Daily Rate and a Book-Entry System is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering the notices as described above (which shall include the certificate number of the Bond), and shall also deliver

the Bond to the Trustee by 1:00 p.m., New York City time, on the date of purchase (see additional requirements below).

*Weekly Rate Tender.* When interest on the Bonds is payable at a Weekly Rate and a Book-Entry System is in effect, a Beneficial Owner (through its Direct Participant in the Securities Depository) may tender his interest in a Bond (or portion of Bond) by delivering an irrevocable written notice or an irrevocable telephone notice, promptly confirmed in writing, to the Trustee (any such telephone notice to be delivered to a Responsible Officer of the Trustee) and an irrevocable notice by telephone, telegraph or facsimile transmission to the Remarketing Agent, in each case prior to 5:00 p.m., New York City time on a Business Day stating the principal amount of the Bond (or portion of Bond) being tendered, payment instructions for the purchase price and the date, which must be a Business Day at least seven days after the notice is delivered, on which the Bond (or portion of Bond) is to be purchased. The Beneficial Owner shall effect delivery of such Bond by causing such direct Participant to transfer its interest in the Bond equal to such Beneficial Owner's interest on the records of the Securities Depository to the participant account of the Trustee or its agent with the Securities Depository.

When interest on the Bonds is payable at a Weekly Rate and a Book-Entry System is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering the notices as described above (which shall include the certificate number of the Bond), and shall also deliver the Bond to the Trustee by 1:00 p.m., New York City time, on the date of purchase (see additional requirements below).

*Payment of Purchase Price.* The purchase price for a tendered Bond will be paid in immediately available funds to the registered owner of the Bond by the close of business on the date of purchase. No purchase of Bonds by the Trustee shall be deemed to be a payment or redemption of the Bonds or of any portion thereof and such purchase will not operate to extinguish or discharge the indebtedness evidenced by such Bonds.

7. *Mandatory Tender for Purchase.* As provided below, the Bonds are subject to mandatory tender for purchase under certain circumstances. BY ACCEPTANCE OF THIS BOND, THE OWNER AGREES TO SELL AND SURRENDER THIS BOND, PROPERLY ENDORSED, UNDER THE CONDITIONS DESCRIBED BELOW. All purchases will be made in funds immediately available on the purchase date and will be at a purchase price of 100% of the principal amount of the Bonds being purchased (unless a premium is required as otherwise specified) plus interest accrued to (but excluding) the purchase date, except that interest accruing at a Daily Rate will be paid on the fifth Business Day following the purchase date. Bonds tendered for purchase on a date after a call for redemption but before the redemption date will be purchased pursuant to the tender. No purchase of Bonds shall be deemed to be a payment or redemption of the Bonds or of any portion thereof and such purchase will not operate to extinguish or discharge the indebtedness evidenced by such Bonds.

*Mandatory Tender at Beginning of a New Long-Term Interest Rate Period.* When the Bonds bear interest at a Long-Term Interest Rate and a new Long-Term Interest Rate is to be determined, the Bonds will be subject to mandatory tender for purchase on the effective date of

the new Long-Term Interest Rate. In the case of a change prior to the day originally established as the day after the last day of a Long-Term Interest Rate Period, the Bonds will be purchased at the percentage of their principal amount which would be payable upon the applicable redemption described under "Optional Redemption During Long-Term Interest Rate Period" below.

*Mandatory Tender on Each Interest Payment Date During Commercial Paper Mode.* When Bonds bear interest at a Commercial Paper Rate, each Bond must be tendered for purchase on the Interest Payment Date for such Bond.

*Mandatory Tender Upon a Change in the Determination Method.* Subject to the provisions of Section 2.03(b) of the Indenture, on the effective date of the change in the Determination Method (the methods being Daily, Weekly, Commercial Paper, Long-Term, Auction Mode or Index Interest Rates), the Bonds will be subject to mandatory tender for purchase on the effective date of such change. Any such purchase shall be at a price equal to 100% of the principal amount of the Bonds, plus accrued interest, except that in the case of change prior to the day originally established as the date after the last day of a Long-Term Interest Rate Period, the Bonds will be purchased at the percentage of their principal amount which would be payable upon the applicable redemption described under "*Optional Redemption During Long-Term Interest Rate Period*" below.

*Mandatory Tender Upon Expiration of Index Period.* When a new Index Period immediately follows the expiration of a prior Index Period, the Bonds will be subject to mandatory tender for purchase on the commencement date of the new Index Period.

*Notice of Tender.* At least 15 days before each mandatory tender (except for the tender described under "*Mandatory Tender on Each Interest Payment Date During Commercial Paper Mode*" described above, for which no notice will be given and except that such notice shall be given at least 30 days prior to the effective date if a Long-Term Interest Rate Period is in effect and the effective date is on or before the end of the Long-Term Interest Rate Period), the Trustee will mail a notice of tender by first-class mail to each Bondholder at the holder's registered address. Failure to give any required notice of tender as to any particular Bonds, or any defect therein, will not affect the validity of the tender of any Bonds in respect of which no failure or defect occurs. Any notice mailed as provided in this paragraph shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by the addressee.

*Effect of Notice.* When notice of tender is required and given, and when Bonds are to be tendered without notice, Bonds tendered become due and payable on the purchase date; in such case when funds are deposited with the Trustee sufficient for purchase, interest on the Bonds to be purchased ceases to accrue as of the date of purchase.

*8. Delivery Address; Additional Delivery Requirements.* Notices in respect of tenders and Bonds tendered must be delivered to the Trustee, and notices in respect of tenders must be delivered to the Remarketing Agent, as provided in the Indenture.

All tendered Bonds must be accompanied by an instrument of transfer satisfactory to the Trustee, executed in blank by the registered owner or his duly authorized attorney, with the signature guaranteed by an eligible guarantor institution.

*Limitation on Tenders.* Except as provided under "*Mandatory Tender Upon a Change in the Determination Method,*" "*Mandatory Tender Upon Expiration of Index Period,*" "*Mandatory Tender at Beginning of a New Long-Term Interest Rate Period*" and "*Mandatory Tender on Each Interest Payment Date During Commercial Paper Mode,*" no Bonds may be tendered while they bear interest at a Commercial Paper Rate, Auction Mode Rate, Index Rate or a Long-Term Interest Rate.

*Irrevocable Notice Deemed to be Tender of Bond; Undelivered Bonds.* The giving of notice by the registered owner of a Bond as provided in paragraph 6 or the occurrence of a mandatory tender for purchase as described in paragraph 7 constitutes the irrevocable tender for purchase of each Bond (or portion of Bond) with respect to which such notice was given, irrespective of whether such Bond was delivered as provided in paragraph 6 or 7. The determination of the Trustee as to whether a notice of tender has been properly sent shall be conclusive and binding upon the Bondholders.

The Trustee may refuse to accept delivery of any Bond for which a proper instrument of transfer has not been provided. If any owner of a Bond who gave notice of optional tender or which is subject to mandatory tender fails to deliver his Bond to the Trustee at the place and on the applicable date and time specified, or fails to deliver his Bond properly endorsed, and moneys for the payment of such Bond are on deposit with the Trustee, his Bond shall constitute an undelivered Bond as described in the Indenture and interest shall cease to accrue on his Bonds as of the tender date and such owner shall have no right under the Indenture other than the right to receive payment of the tender price thereof. BY ACCEPTANCE OF THIS BOND, THE OWNER AGREES TO SELL AND SURRENDER THIS BOND, PROPERLY ENDORSED, TO THE TRUSTEE AFTER THE GIVING OF IRREVOCABLE NOTICE OF TENDER FOR PURCHASE AS DESCRIBED ABOVE.

9. *Redemptions.* All redemptions will be made in funds immediately available on the redemption date and will be at a redemption price of 100% of the principal amount of the Bonds being redeemed (unless a premium is required as provided below) plus interest accrued to the redemption date, except that interest accruing at a Daily Rate will be paid on the fifth Business Day following the redemption date.

*Optional Redemption During Long-Term Interest Rate Period.* During any Long-Term Interest Rate Period, if the Long-Term Interest Rate Period is less than or equal to five years, the Bonds will not be redeemable pursuant to this provision during the Long-Term Interest Rate Period

If the Long-Term Interest Rate Period is greater than five years, the Bonds will not be redeemable for five years after the date on which the Bonds begin to bear interest at the Long-

Term Interest Rate. After the five year no-call period, the Bonds may be redeemed at any time in whole or in part at 100% of their principal amount plus accrued interest, if any.

As an alternative to and in lieu of the foregoing redemption provisions, if, with respect to any Long-Term Interest Rate Period, a Favorable Opinion of Tax Counsel is delivered to the Trustee not later than the date of the establishment of such Long-Term Interest Rate Period, the Bonds may be redeemed during such Long-Term Interest Rate Period at the option of the Company in whole or in part at any time after a no-call period, if any, established by the Remarketing Agent, at the percentages of their principal amount, plus accrued interest, as follows: the Remarketing Agent shall, given the duration of the Long-Term Interest Rate Period, determine and inform the Trustee and the Company, on a date which is no later than the establishment of the Long-Term Interest Rate, the periods during which the Bonds shall not be subject to redemption (the *"Call Protection Period"*), the premium or premiums payable upon redemption (the *"Call Premiums"*), if any, applicable to the redemption of Bonds after the Call Protection Period, and the period or periods during which the Call Premiums shall be effective (the *"Call Premium Periods"*) necessary to establish the Long-Term Interest Rate. Such Call Protection Period, Call Premiums and Call Premium Periods shall be established in accordance with optional call redemption provisions which, in the judgment of the Remarketing Agent, are generally accepted at the time of determination as the standard features for obligations such as the Bonds, given the length of the Long-Term Interest Rate Period.

*Extraordinary Optional Redemption.* The Bonds are subject to redemption in whole without premium at any time upon receipt by the Trustee and the Issuer of a written notice from the Company stating that the Company has determined that:

(i) Any federal, state or local body exercising governmental or judicial authority has taken any action which results in the imposition of unreasonable burdens or excessive liabilities with respect to the Project or the Plants, rendering impracticable or uneconomical the operation of either, including, without limitation, the condemnation or taking by eminent domain of all or substantially all of the Project or the Plants; or

(ii) Changes in the economic availability of raw materials, operating supplies or facilities or technological or other changes have made the continued operation of the Plants as an efficient generating facility uneconomical; or

(iii) The Project or the Plants have been damaged or destroyed to such an extent that it is not practicable or desirable to rebuild, repair or restore the Project or the Plants.

If the Issuer shall have received such notice by the Company, the Issuer, upon request of the Company, shall give written notice to the Trustee directing the Trustee to take all action necessary to redeem the outstanding Bonds in whole and on a date specified in such notice, which date shall be not less than 45 nor more than 90 days from the date the notice is received by the Trustee.

*Optional Redemption During Daily or Weekly Rate Period.* When interest on the Bonds is payable at a Daily or Weekly Rate, the Bonds may be redeemed in whole or in part at the option of the Company, on any Business Day.

*Optional Redemption During Auction Rate Periods.* When interest on the Bonds is payable at an Auction Mode Rate, the Bonds may be redeemed in whole or in part at the option of the Company, on the first day after the last day of the Auction Period then in effect.

*Optional Redemption During Index Rate Periods.* During any Index Rate Period, the Bonds are not subject to optional redemption.

*Notice of Redemption.* At least 30 days before each redemption, the Trustee will mail a notice of redemption by first-class mail to each Bondholder with Bonds to be redeemed at such holder's registered address. Failure to give any required notice of redemption as to any particular Bonds, or any defect therein, will not affect the validity of the call for redemption of any Bonds in respect of which no failure or defect occurs. Any notice mailed as provided in this paragraph shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by the addressee.

*Effect of Notice.* When notice is required and given, Bonds called for redemption become due and payable on the redemption date; in such case when funds are deposited with the Trustee sufficient for redemption, interest on the Bonds to be redeemed ceases to accrue as of the date of redemption.

10. *Denominations; Transfer; Exchange.* The Bonds may be issued in registered form without coupons in denominations as follows: (1) when interest is payable at a Daily, Weekly or Commercial Paper Rate, $100,000 or any integral multiple thereof; (2) when interest is payable at a Long-Term Interest Rate, $5,000 and integral multiples of $5,000 thereafter; (3) when interest is payable at an Auction Mode Rate, $1,000 and integral multiples thereof; and (4) when interest is payable at an Index Rate, $100,000 and integral multiples of $5,000 thereafter. A holder may register the transfer of or exchange Bonds in accordance with the Indenture. The Trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. Except in connection with the purchase of Bonds tendered for purchase, the Trustee will not be required to register the transfer of or exchange any Bond which has been called for redemption or during the period beginning 15 days before the mailing of notice calling the Bonds or any portion of the Bonds for redemption and ending on the redemption date.

11. *Persons Deemed Owners.* The registered holder of this Bond shall be treated as the owner of it for all purposes.

12. *Funds in Trust; Unclaimed Funds.* All moneys which the Trustee shall have withdrawn from the account of the Company or shall have received from any other source and set aside, or deposited with the paying agents, for the purpose of paying any of the Bonds hereby secured, either at the maturity thereof or upon call for redemption or tender, shall be held in trust

for the respective holders of such Bonds. But any moneys which shall be so set aside or deposited by the Trustee and which shall remain unclaimed by the holders of such Bonds for a period of six years after the date on which such Bonds shall have become due and payable shall upon request in writing be paid to the Company or to such officer, board or body as may then be entitled by law to receive the same, and thereafter the holders of such Bonds shall look only to the Company or to such officer, board or body, as the case may be, for payment and then only to the extent of the amount so received without any interest thereon, and the Trustee, the Issuer and the paying agents shall have no responsibility with respect to such moneys.

13. *Discharge Before Redemption, Tender or Maturity.* If the Company at any time deposits with the Trustee money or Government Obligations as described in the Indenture sufficient to pay at redemption, tender or maturity principal of and interest on the outstanding Bonds, and if the Company also pays or provides for the payment of all other sums then payable by the Company under the Agreement or the Indenture, the lien of the Indenture will be discharged. After discharge, Bondholders must look only to the deposited money and securities for payment except as otherwise specifically provided in the Indenture.

14. *Amendment, Supplement, Waiver.* Subject to certain exceptions, the Indenture, the Agreement, the Note or the Bonds may be amended or supplemented, and any past default or compliance with any provision may be waived, with the consent of the holders of a majority in principal amount of the Bonds then outstanding. Any such consent shall be irrevocable and shall bind any subsequent owner of this Bond or any Bond delivered in substitution for this Bond. Without the consent of any Bondholder, the Issuer may amend or supplement the Indenture, the Agreement or the Bonds as described in the Indenture, among other things, to cure any ambiguity, omission, defect or inconsistency, to provide for uncertificated Bonds in addition to or in place of certificated Bonds, to provide for a Book-Entry System for the Bonds or to make any change that does not materially adversely affect the rights of any Bondholder.

15. *Defaults and Remedies.* The Indenture provides that the occurrences of certain events constitute Events of Default. If an Event of Default occurs and is continuing, the Bonds may become or may be declared immediately due and payable, as provided in the Indenture. An Event of Default and its consequences may be waived as provided in the Indenture. Bondholders may not enforce the Indenture or the Bonds except as provided in the Indenture. Except as specifically provided in the Indenture, the Trustee may refuse to enforce the Indenture or the Bonds unless it receives indemnity satisfactory to it. Subject to certain limitations, holders of a majority in principal amount of the Bonds then outstanding may direct the Trustee in its exercise of any trust or power.

16. *No Recourse Against Others.* A member, director, officer or employee, as such, of the Issuer shall not have any liability for any obligations of the Issuer or the Company under the Bonds or the Indenture or for any claim based on such obligations or their creation. Each Bondholder by accepting a Bond waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Bond.

17. *Authentication.* This Bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Indenture until the certificate of authentication hereon shall have been duly executed by the Trustee.

18. *Abbreviations.* Customary abbreviations may be used in the name of a Bondholder or an assignee, such as TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian) and U/G/M/A (= Uniform Gifts to Minors Act).

A copy of the Indenture may be inspected at the corporate trust office of the Trustee located at 100 Ashford Center North, Suite 520, Atlanta, Georgia 30338.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required to exist, happen and be performed precedent to and in the execution and delivery of the Indenture and the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law.

IN WITNESS WHEREOF Escambia County, Florida has caused this Bond to be executed in its name by the Chairman or Vice Chairman of its Board of County Commissioners by his manual or facsimile signature and attested by the manual or facsimile signature of its Clerk or Deputy Clerk and its corporate seal to be hereunto affixed or printed hereon.

ESCAMBIA COUNTY, FLORIDA

By: _____
Chairman of the Escambia County
Board of County Commissioners

Attest:

_____
Clerk of Escambia County
Board of County Commissioners

CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds of the series designated therein and issued under the provisions of the within-mentioned Indenture.

THE BANK OF NEW YORK TRUST COMPANY OF FLORIDA, N.A.
as Trustee

Date: _____

By: _____
Authorized Signature

The following abbreviations, when used in the inscription on the face of the within Bond, shall be construed as though they were written out in full according to applicable laws or regulations:

| | | | |
|---|---|---|---|
| TEN COM- | as tenants common | UNIF GIFT MIN ACT- | _____ Custodian _____ (Cust) (Minor) |
| TEN ENT- | as tenants by the entireties | | under Uniform Gifts to Minors Act |
| JT TEN- | as joint tenants with right of survivorship and not as tenants in common | | _____ (State) |

Additional abbreviations may also be used though not in list above.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto

_____

PLEASE INSERT SOCIAL SECURITY OR
OTHER IDENTIFYING NUMBER OF ASSIGNEE

| |
|---|
| |

_____

(Name and Address of Assignee)

_____

the within Bond and does hereby irrevocably constitute and appoint _____ attorney to transfer the said Bond on the books kept for registration thereof with full power of substitution in the premises.

Dated:_____

Signature guaranteed:

_____

Medallion Number:_____

*Signature(s) must be guaranteed by an eligible guarantor institution which is a member of a recognized signature guarantee program, i.e. Securities Transfer Agents Medallion Program (STAMP), or New York Stock Exchange Medallion Signature Program (MSP).

_____

NOTICE: The signature to this assignment must correspond with the name of the registered owner as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatever.

EXHIBIT B

TO

TRUST INDENTURE

Auction Procedures

## TABLE OF CONTENTS

**Page**


ARTICLE I Definitions....1

ARTICLE II Auction Procedures....7

Section 2.01. General Procedures....7

Section 2.02. Orders by Existing Owners and Potential Owners. ....7

Section 2.03. Submission of Orders by Broker-Dealers to Auction Agent. ....9

Section 2.04. Determination of Auction Mode Rate....11

Section 2.05. Allocation of Bonds.. ....12

Section 2.06. Notice of Auction Mode Rate. ....14

Section 2.07. Reference Rate. ....15

Section 2.08. Miscellaneous Provisions Regarding Auctions. ....16

Section 2.09. Changes in Auction Period or Auction Date....17

ARTICLE III Auction Agent....18

Section 3.01. Auction Agent. ....18

Section 3.02. Qualifications of Auction Agent; Resignation; Removal. ....18

## ARTICLE I

### Definitions

In addition to the words and terms elsewhere defined in this Indenture, the following words and terms as used in this *Exhibit B* and elsewhere in this Indenture have the following meanings while the Bonds are in an Auction Rate Period unless the context or use indicates another or different meaning or intent.

"Agent Member" means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

"All Hold Rate" means, as of any Auction Date, 45% of the Reference Rate in effect on such Auction Date.

"Applicable Percentage" means, as of any Auction Date, (a) so long as there has not been more than one Failed Auction since the last Successful Auction, 300%, and (b) if there have been two or more consecutive Failed Auctions since the last Successful Auction, 400%.

"Auction" means each periodic implementation of the Auction Procedures.

"Auction Agent" means the auctioneer appointed in accordance with Section 3.01 or 3.02 of this Exhibit B and shall initially be The Bank of New York.

"Auction Agreement" means an agreement among the Company, the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in this Exhibit B with respect to the Bonds while bearing interest at an Auction Mode Rate, as such agreement may from time to time be amended or supplemented.

"Auction Date" means during any period in which the Auction Procedures are not suspended in accordance with the provisions hereof, (i) if the Bonds are in a daily Auction Period, each Business Day, and (ii) if the Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction shall be conducted on such date); *provided, however*, that the last Auction Date with respect to the Bonds in an Auction Period other than a daily Auction Period shall be the earlier of (a) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Bonds and (b) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Bonds; and *provided, further*, that if the Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the Conversion Date for the Bonds and (y) the Business Day next preceding the final maturity date for the Bonds. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion. The first Auction Date for the Bonds is May 19, 2003.

"Auction Mode Rate" means the rate of interest to be borne by the Bonds during each Auction Period determined in accordance with Section 2.04 of this Exhibit B; provided, however, in no event may the Auction Mode Rate exceed the Maximum Auction Rate.

"Auction Period" or "Auction Rate Period" means any period of less than 365 days during which the Bonds bear interest at a single Auction Mode Rate, as established pursuant to the Indenture.

"Auction Procedures" means the procedures for conducting Auctions for Bonds during an Auction Rate Period set forth in this Exhibit B.

"Auction Rate" means for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the Bonds are the subject of Submitted Hold Orders, the All Hold Rate and (ii) if Sufficient Clearing Bids do not exist, the Maximum Auction Rate.

"Authorized Denominations" means $1,000 and integral multiples thereof, notwithstanding anything else in this Indenture to the contrary, so long as the Bonds bear interest at an Auction Mode Rate.

"Available Bonds" means on each Auction Date, the aggregate principal amount of Bonds that are not the subject of Submitted Hold Orders.

"Bid" has the meaning specified in subsection (a) of Section 2.02 of this Exhibit B.

"Bidder" means each Existing Owner and Potential Owner who places an Order.

"Broker-Dealer" means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Exhibit B, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Company and the Insurer, and that is a party to a Broker-Dealer Agreement with the Company and the Auction Agent.

"Broker-Dealer Agreement" means an agreement among the Auction Agent, the Company and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Exhibit B, as such agreement may from to time be amended or supplemented.

"Business Day" in addition to any other definition of "Business Day" included in this Indenture while Bonds bear interest at an Auction Mode Rate, the term Business Day shall not include April 14 or 15 or December 30 or 31 or days on which the Auction Agent or any Broker-Dealer are not open for business.

"Conversion Date" means the date on which the Bonds begin to bear interest at a Daily Rate, a Weekly Rate, a Commercial Paper Rate, a Long-Term Interest Rate or an Index Rate.

"Existing Owner" means a Person who is listed from time to time as the beneficial owner of Bonds in the records of the Auction Agent.

"Failed Auction" means an Auction for which there were not Sufficient Clearing Bids.

"Hold Order" has the meaning specified in subsection (a) of Section 2.02 of this Exhibit B.

"Initial Period" means the period from the date of original issuance of the Bonds to but not including May 20, 2003.

"Interest Payment Date" with respect to Bonds bearing interest at Auction Mode Rates, means May 20, 2003 and thereafter (a) when used with respect to any Auction Period of less than 92 days (other than a daily Auction Period), the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to an Auction Period of 92 or more days, each 13th Thursday after the first day of such Auction Period or the next Business Day if such Thursday is not a Business Day and on the Business Day immediately following such Auction Period, (d) each Conversion Date, and (e) the Maturity Date.

"Maximum Auction Rate" means, as of any Auction Date, the product of the Reference Rate multiplied by the Applicable Percentage, provided, however, that if there have been two or more consecutive Failed Auctions since the last Successful Auction and there has not been a Successful Auction for a period of greater than 90 days after the first of such Failed Auctions, the Maximum Auction Rate shall be the Maximum Interest Rate; provided, further, that in no event shall the Maximum Auction Rate exceed the Maximum Interest Rate.

"Maximum Interest Rate" means, 15% on the date hereof and, to the extent the maximum rate permitted by applicable law shall become less than 15%, then the maximum rate permitted by applicable law.

"Moody's" means Moody's Investors Service, Inc and its successors and assigns.

"Order" means a Hold Order, Bid or Sell Order.

"Potential Owner" means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Bonds in addition to the Bonds currently owned by such Person, if any.

"Principal Office" means, with respect to the Auction Agent, the office thereof designated in writing to the Company, the Trustee, the Insurer and each Broker-Dealer.

"Rating Agencies" means Moody's and S&P.

"Reference Rate" shall have the meaning specified in Section 2.07 of this Exhibit B.

"S&P" means Standard & Poor's, a division of The McGraw-Hill Companies, and its successors and assigns.

"Securities Depository" means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Company which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

"Sell Order" has the meaning specified in subsection (a) of Section 2.02 of this Exhibit B.

"Submission Deadline" means 1:00 p.m., New York City time, on each Auction Date not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent.

"Submitted Bid" has the meaning specified in subsection (b) of Section 2.04 of this Exhibit B.

"Submitted Hold Order" has the meaning specified in subsection (b) of Section 2.04 of this Exhibit B.

"Submitted Order" has the meaning specified in subsection (b) of Section 2.04 of this Exhibit B.

"Submitted Sell Order" has the meaning specified in subsection (b) of Section 2.04 of this Exhibit B.

"Successful Auction" means an Auction for which there were Sufficient Clearing Bids.

"Sufficient Clearing Bids" means an Auction for which the aggregate principal amount of Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Interest Rate is not less than the aggregate principal amount of Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Interest Rate.

"Winning Bid Rate" means the lowest rate specified in any Submitted Bid which if selected by the Auction Agent as the Auction Rate, subject to the All Hold Rate, would cause the aggregate principal amount of Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Bonds.

## ARTICLE II

### Auction Procedures

*Section 2.01. General Procedures.* While the Bonds bear interest at the Auction Mode Rate, Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding each Auction Rate Period commencing after the ownership of the Bonds is no longer maintained in the Book-Entry System pursuant to this Indenture. If there is an Auction Agent on such Auction Date, Auctions shall be conducted in the manner set forth in this Exhibit B.

*Section 2.02. Orders by Existing Owners and Potential Owners.*

(a) Prior to the Submission Deadline on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, information as to:

(A) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period,

(B) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period shall not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner irrevocably offers to sell on the next succeeding Auction Date (or the same day in the case of a daily Auction Period) if the rate determined by the Auction Procedures for the next succeeding Auction Period shall be less than the rate per annum then specified by such Existing Owner), and/or

(C) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably offers to sell on the next succeeding Auction Date (or on the same day in the case of a daily Auction Period) without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period; and

(ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the Bonds, the Broker-Dealers shall contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of Bonds, if any, which each such Potential Owner irrevocably offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof an Order containing the information referred to in clause (i)(A) above is herein referred to as a "Hold Order", an Order containing the information referred to in clause (i)(B) or (ii) above is herein referred to as a "Bid", and an Order containing the information referred to in clause (i)(C) above is herein referred to as a "Sell Order."

(b) (i) Subject to the provisions of Section 2.03 of this Exhibit B, a Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds to be determined as set forth in subsection (a)(v) of Section 2.05 hereof if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate; or

(C) a lesser principal amount of Bonds to be determined as set forth in subsection (b)(iv) of Section 2.05 hereof if such specified rate shall be higher than the Maximum Auction Rate and Sufficient Clearing Bids do not exist.

(ii) Subject to the provisions of Section 2.03 of this Exhibit B, a Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of Bonds as set forth in subsection (b)(iv) of Section 2.05 hereof if Sufficient Clearing Bids do not exist.

(iii) Subject to the provisions of Section 2.03 of this Exhibit B, a Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(A) the principal amount of Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds as set forth in subsection (a)(vi) of Section 2.05 hereof if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies Bonds to be held, purchased or sold in a principal amount which is not $1,000 or an integral multiple thereof shall be rounded down to the nearest $1,000, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) for purposes of any Auction other than during a daily Auction Period, any portion of an Order of an Existing Owner which relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted; and

(iii) for purposes of any Auction other than during a daily Auction Period, no portion of a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction.

*Section 2.03. Submission of Orders by Broker-Dealers to Auction Agent.*

(a) Each Broker-Dealer shall submit to the Auction Agent in writing or by such other method as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and specifying, with respect to each Order:

(i) the name of the Bidder placing such Order;

(ii) the aggregate principal amount of Bonds, if any, that are the subject of such Order;

(iii) to the extent that such Bidder is an Existing Owner:

(A) the principal amount of Bonds, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of Bonds, if any, subject to any Sell Order placed by such Existing Owner; and

(iv) to the extent such Bidder is a Potential Owner, the rate and amount specified in such Potential Owner's Bid.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If an Order or Orders covering all of the Bonds held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds held by such Existing Owner and not subject to Orders submitted to the Auction Agent; *provided, however*, that if there is a conversion from one Auction Period to another Auction Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of Bonds to be converted held by such Existing Owner, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds to be converted held by such Existing Owner not subject to Orders submitted to the Auction Agent.

(d) If one or more Orders covering in the aggregate more than the principal amount of outstanding Bonds held by any Existing Owner are submitted to the Auction Agent, such Orders shall be considered valid as follows and in the following order of priority:

(i) all Hold Orders shall be considered valid Hold Orders, but only up to and including in the aggregate the principal amount of Bonds held by such Existing Owner, and if the aggregate principal amount of Bonds subject to such Hold Orders exceeds the aggregate principal amount of Bonds held by such Existing Owner, the aggregate principal amount of Bonds subject to each such Hold Order shall be reduced pro rata to

cover the aggregate principal amount of outstanding Bonds held by such Existing Owner;

(ii) (A) any Bid of an Existing Owner shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of Bonds held by such Existing Owner over the aggregate principal amount of the Bonds subject to Hold Orders referred to in paragraph (i) above;

(B) subject to sub-clause (A) of this paragraph (ii), all Bids of an Existing Owner with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of Bonds held by such Existing Owner over the principal amount of Bonds held by such Existing Owner subject to Hold Orders referred to in sub-paragraph (i) of this paragraph (d);

(C) subject to sub-clause (A) of this paragraph (ii), if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of Bonds held by such Existing Owner over the principal amount of Bonds held by such Existing Owner subject to Hold Orders referred to in sub-paragraph (i) of this paragraph (d); and

(D) the principal amount, if any, of such Bonds subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Owner at the rate specified therein; and

(iii) all Sell Orders shall be considered valid Sell Orders, but only up to and including a principal amount of Bonds equal to the excess of the principal amount of Bonds held by such Existing Owner over the sum of the principal amount of the Bonds considered to be subject to Hold Orders pursuant to sub-paragraph (i) of this paragraph (d) and the principal amount of Bonds considered to be subject to Bids of such Existing Owner pursuant to sub-paragraph (ii) of this paragraph (d).

(e) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate shall be aggregated and considered a single Bid and each Bid submitted with a different rate shall be considered a separate Bid with the rate and the principal amount of Bonds specified therein.

(f) Any Bid submitted by an Existing Owner or a Potential Owner specifying a rate lower than the All Hold Rate shall be treated as a Bid specifying the All Hold Rate, and any such Bid shall be considered as valid and shall be selected in ascending order of the respective rates in the Submitted Bids (as defined in Section 2.04).

(g) Neither the Issuer, the Insurer, the Company, the Trustee, the Remarketing Agent nor the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

*Section 2.04. Determination of Auction Mode Rate.*

(a) Not later than 9:30 a.m., New York City time, on each Auction Date, the Auction Agent shall advise the Broker-Dealers and the Trustee by telephone of the All Hold Rate, the Maximum Auction Rate and the Reference Rate.

(b) Promptly after the Submission Deadline on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) Promptly after the Auction Agent has made the determinations pursuant to subsection (b) of this Section 2.04, the Auction Agent shall advise the Trustee and the Company by telex, facsimile or other electronic transmission of the Auction Rate for the next succeeding Auction Period and the Trustee shall promptly notify DTC of such Auction Rate.

(d) In the event the Auction Agent fails to calculate or, for any reason, fails to timely provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a period of 35 days or less, the new Auction Period shall be the same as the preceding Auction Period and the Auction Mode Rate for the New Auction Period shall be the same as the Auction Mode Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 35 days, the preceding Auction Period shall be extended to the seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the Auction Mode Rate in effect for the preceding Auction Period will continue in effect for the Auction Period as so extended. In the event an Auction Period is extended as set forth in clause (ii) of the preceding sentence, an Auction shall be held on the last Business Day of the Auction Period as so extended to take effect for an Auction Period beginning on the Business Day immediately following the last day of the Auction Period as extended which Auction Period will end on the date it would otherwise have ended on had the prior Auction Period not been extended.

(e) In the event of a failed conversion from an Auction Mode Rate Determination Method to another Determination Method or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Mode Rate for the next Auction Period shall be the Maximum Auction Rate and the Auction Period shall be a seven-day Auction Period.

(f) If the Bonds are not rated or if the Bonds are no longer maintained in book-entry-only form by the Securities Depository then the Auction Mode Rate shall be the Maximum Auction Rate.

*Section 2.05. Allocation of Bonds.*

(a) In the event of Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted, and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Bonds outstanding which are not the subject of Submitted Hold Orders described in sub-paragraph (i) of this paragraph (a) or of Submitted Bids described in sub-paragraphs (iii) and (iv) of this paragraph (a) by (B) a fraction the numerator of which shall be the principal amount of Bonds outstanding held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of Bonds outstanding subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Bonds outstanding which are not the subject of Submitted Hold Orders described in sub-paragraph (i) of this paragraph (a) or of Submitted Bids described in sub-paragraphs (iii), (iv) or (v) of this paragraph (a) by (B) a fraction the

numerator of which shall be the principal amount of Bonds outstanding subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of Bonds outstanding subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Auction Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Auction Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Auction Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Bonds subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the principal amount of Bonds outstanding held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of Bonds outstanding subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Auction Rate shall be rejected.

(c) If, as a result of the procedures described in subsection (a) or (b) of this Section 2.05, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of Bonds which is not an integral multiple of $1,000 on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of Bonds to be purchased or sold by any Existing Owner or Potential

Owner on such Auction Date so that the aggregate principal amount of Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of $1,000, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Bonds on such Auction Date.

(d) If, as a result of the procedures described in subsection (a) of this Section 2.05, any Potential Owner would be required to purchase less than $1,000 in principal amount of Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate Bonds for purchase among Potential Owners so that the principal amount of Bonds purchased on such Auction Date by any Potential Owner shall be an integral multiple of $1,000, even if such allocation results in one or more of such Potential Owners not purchasing Bonds on such Auction Date.

*Section 2.06. Notice of Auction Mode Rate.*

(a) On each Auction Date, the Auction Agent shall notify by telephone or other electronic means or in writing each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Owner or Potential Owner of the following:

(i) the Auction Mode Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of the Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Mode Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected and (C) the immediately succeeding Auction Date;

(ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of Bonds to be purchased pursuant to such Bid (including, with respect to the Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Bonds; and

(iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

*Section 2.07. Reference Rate.*

(a) The Reference Rate on any Auction Date with respect to Bonds in any Auction Period of 35 days or less shall be the greater of (a) the offered rate for deposits in U.S. dollars for a one-month period (LIBOR) which appears on the MoneyLine Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market, or (b) the BMA Index at approximately 9:30 a.m., New York City time, on such date. The Reference Rate with respect to Bonds in any Auction Period of more than 35 days shall be the rate on Treasury securities having a maturity which most closely approximates the length of the Auction Period, as last published in *The Wall Street Journal*. If either rate is unavailable, the Reference Rate shall be an index or rate agreed to by all Broker-Dealers and consented to by the Company.

(b) If for any reason on any Auction Date the Reference Rate shall not be determined as hereinabove provided in this section, the Reference Rate shall be the Reference Rate for the Auction Period ending on such Auction Date.

(c) The determination of the Reference Rate as provided herein shall be conclusive and binding upon the Issuer, the Company, the Trustee, the Remarketing Agent, the Broker-Dealers, the Auction Agent and the Owners and Beneficial Owners of the Bonds.

*Section 2.08. Miscellaneous Provisions Regarding Auctions.*

(a) In this Exhibit B, each reference to the purchase, sale or holding of Bonds shall refer to beneficial interests in Bonds, unless the context clearly requires otherwise.

(b) During an Auction Rate Period, the provisions of the Indenture and the definitions contained therein and described in this Exhibit B, including without limitation the definitions of

All Hold Rate, Interest Payment Date, Maximum Auction Rate, Reference Rate, Applicable Percentage and Auction Mode Rate, may be amended pursuant to the Indenture by obtaining the consent of (i) the owners of all Bonds bearing interest at a Auction Mode Rate, and (ii) the Insurer, as follows. If, on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the registered owners of the Bonds as required by the Indenture, (i) the Auction Mode Rate which is determined on such date is the Winning Bid Rate and (ii) there is delivered to the Company and the Trustee an Opinion of Tax Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income tax to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the owners of all affected Bonds affected by such amendment.

(c) During an Auction Rate Period, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, *provided that* (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the Existing Owner of such Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this Section 2.08 if such Broker-Dealer remains the Existing Owner of the Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

*Section 2.09. Changes in Auction Period or Auction Date.*

(a) Changes in Auction Period.

(i) During any Auction Rate Period, the Company, may, from time to time on any Interest Payment Date, change the length of the Auction Period with respect to all of the Bonds in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Bonds. Any such change in the Auction Period shall be deemed to be a change in Determination Method. The Company shall initiate the change in the length of the Auction Period by giving a Conversion Notice pursuant to Section 2.02(b)(1) of the Indenture.

(ii) The change in the length of the Auction Period shall not be effective unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this subsection (a) and the Auction immediately preceding the proposed change.

(iii) The change in length of the Auction Period shall take effect only if (i) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period and (ii) on the proposed effective date, the Company provides the Trustee with a Favorable Opinion of Tax Counsel as to such change in the Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds except to the extent such

Existing Owner submits an Order with respect to such Bonds. If the conditions referred to in the first sentence of this sub-paragraph (iii) are not met, the Trustee shall notify the Auction Agent and then the Auction Mode Rate for the next Auction Period shall be the Maximum Auction Rate, and the Auction Period shall be a seven-day Auction Period.

(iv) On the conversion date of the Bonds selected for conversion from one Auction Period to another, any Bonds which are not the subject of a specific Hold Order or Bid will be deemed to be subject to a Sell Order.

(b) Changes in Auction Date. During any Auction Rate Period, the Auction Agent, with the written consent of the Company, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the Bonds. The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Issuer, the Insurer, the Company, the Broker-Dealers, the Remarketing Agent and the Securities Depository.

## ARTICLE III

### Auction Agent

*Section 3.01. Auction Agent.*

(a) The Auction Agent shall be The Bank of New York, or any successor appointed by the Company with the consent of the Insurer, to perform the functions specified herein. The Auction Agent shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument, delivered to the Company, the Trustee, the Issuer and each Broker-Dealer which shall set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to the Issuer, the Company and the Trustee.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in Bonds with the same rights as if such entity were not the Auction Agent.

*Section 3.02. Qualifications of Auction Agent; Resignation; Removal.* The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least $30,000,000, or (b) a member of NASD having a capitalization of at least $30,000,000 and, in either case, authorized by law to perform all the duties and obligations imposed upon it by this Indenture and a member of or a participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by this Indenture by giving at least 90 days notice to the Company, the Issuer, the Insurer and the Trustee. The

Auction Agent may be removed at any time by the Company with the consent of the Insurer by written notice, delivered to the Auction Agent, the Issuer, the Insurer and the Trustee. Upon any such resignation or removal, the Company with the consent of the Insurer shall appoint a successor Auction Agent meeting the requirements of this section. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties hereunder until its successor has been appointed by the Company. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving forty-five (45) days notice to the Company, the Issuer, the Insurer and the Trustee even if a successor Auction Agent has not been appointed.

**ESCAMBIA COUNTY, FLORIDA**

**and**

**GULF POWER COMPANY**

---

# LOAN AGREEMENT

---

Dated as of April 1, 2003

Relating to

$32,550,000
Pollution Control Revenue Refunding Bonds
(Gulf Power Company Project)
Series 2003

LOAN AGREEMENT

TABLE OF CONTENTS

(This Table of Contents is for convenience of reference only and is not a part of this Loan Agreement)

PAGE


ARTICLE I: DEFINITIONS ..... 1

ARTICLE II: ACQUISITION AND COMPLETION OF THE PROJECT; ISSUANCE OF THE BONDS ..... 2
SECTION 2.1. Acquisition and Completion of the Project ..... 2
SECTION 2.2. Issuance of the Bonds ..... 2

ARTICLE III: LOAN BY ISSUER; PROVISIONS FOR PAYMENT ..... 2
SECTION 3.1. Loan by Issuer ..... 2
SECTION 3.2. Delivery of Note by Company; Other Amounts Payable ..... 3
SECTION 3.3. Obligation of the Company Unconditional ..... 3
SECTION 3.4. Assignment and Pledge of Payments and Rights Under the Note and the Agreement ..... 3

ARTICLE IV: SPECIAL COVENANTS ..... 4
SECTION 4.1. Use of Project ..... 4
SECTION 4.2. Indemnity Against Claims ..... 4
SECTION 4.3. The Company to Maintain Its Corporate Existence; Conditions Under Which Exceptions Permitted ..... 5
SECTION 4.4. Annual Statement ..... 5
SECTION 4.5. Further Assurances and Corrective Instruments ..... 5
SECTION 4.6. Maintenance of Project by Company ..... 5
SECTION 4.7. Redemption or Purchase of Bonds ..... 5
SECTION 4.8. Non-Arbitrage Covenant ..... 6
SECTION 4.9. No Issuer Liability ..... 6
SECTION 4.10 Post Issuance Audits. ..... 7

ARTICLE V: EVENTS OF DEFAULT AND REMEDIES ..... 7
SECTION 5.1. Events of Default ..... 7
SECTION 5.2. Remedies on Default ..... 9
SECTION 5.3. Agreement to Pay Attorneys' Fees and Expenses ..... 9
SECTION 5.4. No Additional Waiver Implied by One Waiver ..... 9

ARTICLE VI MISCELLANEOUS ..... 9

SECTION 6.1. Term of This Agreement ..... 9
SECTION 6.2. Notices ..... 9
SECTION 6.3. Binding Effect ..... 10
SECTION 6.4. Severability ..... 10
SECTION 6.5. Amendments ..... 10
SECTION 6.6. Execution in Counterparts ..... 10
SECTION 6.7. Applicable Law ..... 10
SECTION 6.8. Captions ..... 10
SECTION 6.9. Other Financing ..... 10

**LOAN AGREEMENT** dated as of April 1, 2003 between ESCAMBIA COUNTY, FLORIDA (the "Issuer"), a "local agency" as defined in the Florida Industrial Development Financing Act, being Part II of Chapter 159, Florida Statutes, Sections 159.25 through 159.431 (the "Act"), and a political subdivision of the State of Florida, and GULF POWER COMPANY, a corporation organized and existing under the laws of the State of Maine and qualified and doing business as an electric utility in the State of Florida (the "Company"), evidencing the agreement of the parties hereto.

In consideration of the respective representations and agreements hereinafter contained, the parties hereto agree as follows (provided that in the performance of the agreements of the Issuer herein contained, any obligation it may thereby incur for the payment of money shall not be a general debt, liability or obligation of the Issuer, or of the State of Florida or any political subdivision thereof but shall be payable solely out of the revenues and proceeds derived from this Agreement and the Note (as hereinafter defined) and the sale of the Bonds referred to herein):

## ARTICLE I DEFINITIONS

"Bondholder", "Bonds", "Business Day", "Government Obligations", "Refunded Bonds", "Refunded Bonds Trustee", "Remarketing Agent" and "Trustee" have the same meanings given and assigned to such words in Article I of the Indenture (as hereinafter defined).

"Agreement" means this Loan Agreement and any amendments and supplements hereto.

"corporation" includes corporations, partnerships, limited partnerships, limited liability partnerships, limited liability companies, associations, companies, statutory trusts and business trusts.

"Event of Default" means any of the occurrences enumerated in Section 5.1 of this Agreement.

"Indenture" means the Trust Indenture dated as of April 1, 2003, relating to Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003, between the Issuer and The Bank of New York Trust Company of Florida, N.A., as Trustee, pursuant to which the Bonds are authorized to be issued, and including any indenture supplemental thereto.

"Loan" means the loan to be made by the Issuer to the Company of the proceeds (which shall be deemed to include the underwriting discounts, if any, and original issue discount, if any) of the sale of the Bonds, exclusive of any accrued interest paid by the initial purchasers of the Bonds upon the delivery thereof.

"1976 Original Agreement" means the Installment Sale Agreement, dated as of May 1, 1976 between the Issuer and the Company, delivered in connection with the issuance of the

Issuer's Pollution Control Revenue Bonds (Gulf Power Company Crist Steam Plant Project No. 2), Series A, in the outstanding principal amount of $12,550,000.

"1983 Original Agreement" means the Loan Agreement dated as of August 1, 1983 between the Issuer and the Company, delivered in connection with the Issuer's Pollution Control Revenue Bonds (Gulf Power Company Project), Series 1983, in the outstanding principal amount of $20,000,000.

"Note" means the non-negotiable promissory note of the Company issued pursuant to Section 3.2 hereof, in the form set forth in Exhibit A hereto.

"Original Agreement" means, collectively, the 1976 Original Agreement and the 1983 Original Agreement.

"Plans" has the same meaning given and assigned to the word "Plans" in Article I of the Original Agreement.

"Project" has the same meaning given and assigned to the word "Project" in Article I of the Original Agreement.

## ARTICLE II ACQUISITION AND COMPLETION OF THE PROJECT; ISSUANCE OF THE BONDS

SECTION 2.1. Acquisition and Completion of the Project. The Company represents that it has caused the acquisition, construction, installation and equipping of the Project to be completed substantially in accordance with the Plans.

SECTION 2.2. Issuance of the Bonds. In order to provide funds for the purpose set forth in Section 3.1 hereof, the Issuer agrees that it will issue and deliver the Bonds to the purchasers thereof at a price of par and apply and deposit the proceeds thereof in accordance with the terms of the Indenture and Section 3.1 hereof. The Indenture shall be satisfactory in form and substance to the County and the Company and shall provide the manner in which, and the purposes for which, proceeds of Bonds may be used and invested.

## ARTICLE III LOAN BY ISSUER; PROVISIONS FOR PAYMENT

SECTION 3.1. Loan by Issuer. The Issuer hereby agrees to make the Loan to the Company in order to refund the Refunded Bonds. The Company hereby agrees to cause the proceeds of the Bonds to be applied exclusively to such purpose and to cause the refunding of the Refunded Bonds to be effected within 90 days after the date of initial issuance of the Bonds. The Company agrees to pay to the Refunded Bonds Trustee the amount in excess of the proceeds of the Bonds needed to pay the redemption price of the Refunded Bonds.

SECTION 3.2. Delivery of Note by Company; Other Amounts Payable. In order to evidence the Loan and the obligation of the Company to repay the same, the Company shall execute and deliver the Note in a principal amount equal to the aggregate principal amount of the Bonds and providing for payments which correspond in time and amount with payments due with respect to the principal or purchase price of, interest and premium, if any, on the Bonds, whether at maturity, prior optional or mandatory redemption, or upon tender for purchase or otherwise. The Note shall be dated the date of the initial authentication of, and mature on the same maturity date as, the Bonds. If (i) on the date any payments on the Bonds are due there are any available moneys on deposit with the Trustee which are not being held for the payment of Bonds due and payable but which have not been presented for payment, or (ii) on any date on which Bonds are required to be purchased pursuant to the Bonds or Article III of the Indenture, there are available moneys on deposit with the Trustee held for the payment of the purchase price which are not being held for the payment of Bonds which have not been presented for payment, then, in each case, such moneys shall be credited against the payment then due under the Note, first in respect of interest and then, to the extent of remaining moneys, in respect of principal.

The Company shall pay all reasonable costs and expenses incurred in connection with the issuance of the Bonds and the execution, delivery and performance of the Agreement, the Indenture and any other documents or instruments related thereto or to the Bonds, to which the Issuer is a party or by which it is bound, including, without limitation, the reasonable fees of the Issuer's financial advisor and bond counsel. The Company will also pay: (i) the fees, charges and reasonable expenses of the Trustee and any paying agents under the Indenture, such fees, charges and reasonable expenses to be paid directly to the Trustee or paying agents for their respective accounts as and when such fees, charges and reasonable expenses become due and payable, (ii) any expenses in connection with any redemption of the Bonds and (iii) all other amounts due under the terms hereof to the Issuer.

SECTION 3.3. Obligation of the Company Unconditional. The obligation of the Company to make payments as provided in the Note and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional notwithstanding any change in the tax or other laws of the United States of America or of the State of Florida or any political subdivision of either thereof or any failure of the Issuer to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Agreement. Subject in all cases to Section 4.2 hereof, nothing contained in this Section 3.3 shall be construed to release the Issuer from the performance of any of the agreements on its part herein contained; and, in the event the Issuer should fail to perform any such agreement on its part, the Company may institute such action against the Issuer as the Company may deem necessary to compel performance so long as such action shall not violate the agreements on the part of the Company contained in the preceding sentence, but in no event shall the Company be entitled to any diminution of the amounts payable under the Note and as provided in Section 3.2 hereof.

SECTION 3.4. Assignment and Pledge of Payments and Rights Under the Note and the Agreement. The Issuer shall assign to the Trustee as security under the Indenture all rights, title and interests of the Issuer in and to (i) the Note and all payments thereunder and (ii) this

Agreement and all moneys receivable hereunder (except for payments under Sections 4.2 and 5.3 hereof). The Company assents to such assignment and hereby agrees that, as to the Trustee, its obligations to make such payments shall be absolute and shall not be subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach by the Issuer or the Trustee of any obligation to the Company, whether hereunder or otherwise, or out of any indebtedness or liability at any time owing to the Company by the Issuer or the Trustee.

## ARTICLE IV SPECIAL COVENANTS

SECTION 4.1. Use of Project. The Issuer hereby acknowledges that it shall have no rights to the use or possession of the Project. The Issuer hereby further acknowledges that the Project will not constitute any part of the security for the Bonds.

SECTION 4.2. Indemnity Against Claims.

(a) Notwithstanding anything to the contrary contained herein or in any of the Bonds, the Indenture or in any other instrument or document executed by or on behalf of the Issuer in connection herewith, (i) the Issuer shall have no obligation to take action under this Agreement, the Indenture, the Bonds or such other instruments or documents unless the Issuer is reasonably requested in writing by an appropriate person to take such action and is provided with indemnity and assurances reasonably satisfactory to it of payment of or reimbursement for any expenses (including attorneys' fees) in such action, and (ii) any judgment rendered against the Issuer for breach of its obligations under this Agreement, the Indenture, the Bonds or such other instruments or documents shall be payable solely from the revenues derived from the Project by the Issuer under this Agreement, the Note and the Indenture, and no personal liability or charge payable directly or indirectly from the general funds of the Issuer shall arise therefrom. The provisions of this Section shall survive the termination of this Agreement.

(b) In acting under this Agreement, the Indenture, the Bonds or such other instruments or documents, or in refraining from taking such action, the Issuer may conclusively rely on the advice of its counsel.

(c) The Company will pay and discharge and will indemnify and hold harmless the Issuer from (i) any lien or charge upon payments by the Company to the Issuer under the Note or hereunder, (ii) any taxes, assessments, impositions and other charges upon payments by the Company to the Issuer under the Note or hereunder and (iii) any and all liability, damages, costs and expenses arising out of or resulting from the transactions contemplated by this Agreement and the Indenture, including the reasonable fees and expenses of counsel. If any such lien or charge is sought to be imposed upon payments, or any such taxes, assessments, impositions or other charges are sought to be imposed, or any such liability, damages, costs and expenses are sought to be imposed, the Issuer will give prompt notice to the Company, and the Company shall have the sole right and duty to assume, and will assume, the defense thereof, with full power to litigate, compromise or settle the same in its sole discretion.

SECTION 4.3. The Company to Maintain Its Corporate Existence; Conditions Under Which Exceptions Permitted. The Company agrees that during the term of this Agreement it will maintain its corporate existence and qualification to do business in Florida, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it; provided, that the Company may, without violating the agreements contained in this Section 4.3, consolidate with or merge into another domestic corporation (i.e., a corporation incorporated and existing under the laws of one of the states of the United States of America or under the laws of the United States of America) or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another domestic corporation all or substantially all of its assets as an entirety and thereafter dissolve, provided that, in the event the Company is not the surviving, resulting or transferee corporation, as the case may be, the surviving, resulting or transferee corporation assumes, accepts and agrees in writing to pay and perform all of the obligations of the Company herein and under the Note and is a Florida corporation or is qualified to do business in Florida as a foreign corporation and that such consolidation or merger does not result in the loss of the exclusion from gross income for federal income tax purposes of interest on the outstanding Bonds.

SECTION 4.4. Annual Statement. The Company agrees to have an annual audit made by its regular independent public accountants and within 180 days after the close of each fiscal year to furnish the Trustee and any Bondholder who may so request a balance sheet and statement of income and surplus showing the financial condition of the Company and its consolidated subsidiaries, if any, at the close of such fiscal year and the results of operations of the Company and its consolidated subsidiaries, if any, for such fiscal year, accompanied by a certificate or opinion of said accountants. The requirements of this Section 4.4 may be satisfied by the submission to the Trustee and each Bondholder who may request such information of the Company's annual report to its shareholders.

SECTION 4.5. Further Assurances and Corrective Instruments. The Issuer and the Company agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Project and for carrying out the intention or facilitating the performance of this Agreement.

SECTION 4.6. Maintenance of Project by Company. The Company agrees that during the term of this Agreement it will pay all costs of operating, maintaining and repairing the Project; provided, however, that the Company shall not be under any obligation to renew, repair or replace any inadequate, obsolete, worn-out, unsuitable, undesirable or unnecessary portion of the Project.

SECTION 4.7. Redemption or Purchase of Bonds. The Issuer shall take all steps then necessary under the applicable provisions of the Indenture for the redemption or purchase (other than a purchase pursuant to tenders as provided in the form of Bonds or in lieu of redemption as provided in Section 3.07 of the Indenture) of Bonds upon receipt, not less than ten days prior to

the day on which the Trustee is required to give notice (if any) thereof pursuant to the Indenture, by the Issuer and the Trustee from the Company of a written notice specifying:

(a) the principal amount of Bonds to be redeemed or purchased;

(b) the date of such redemption or purchase; and

(c) in the case of a redemption of Bonds, directions to mail a notice of redemption.

In the case of a purchase of Bonds, the written notice to the Trustee shall, if available moneys on deposit with the Trustee are insufficient to purchase the principal amount of Bonds specified in (a) above, be accompanied by a deposit with the Trustee of cash or Government Obligations sufficient, together with other available moneys on deposit with the Trustee, to make the directed purchase of Bonds.

SECTION 4.8. Non-Arbitrage Covenant. The Company covenants that it shall take no action, nor shall the Company direct the taking of any action or the making of any investment or use of the proceeds of the Bonds or any other moneys, which would cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, and the proposed, temporary or final regulations thereunder as such may be applicable or proposed to be applicable to the Bonds at the time of such action, investment or use.

The Issuer covenants that it shall not knowingly take any action which would cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, and the proposed, temporary or final regulations thereunder as such may be applicable to the Bonds or the proceeds derived from the sale of the Bonds or any other moneys; provided, however, that no action taken by the Issuer pursuant to and in accordance with the terms of this Agreement or the Indenture shall give rise in any manner whatsoever to any claim against or liability of the Issuer under this Agreement; and provided further, that any such claims or liabilities shall in all events be subject to the indemnification provisions of Section 4.2.

Without limiting the generality of the foregoing, the Company covenants and agrees to comply with the requirements of Section 148(f) of the Internal Revenue Code of 1986, as amended, and any proposed, temporary or final regulations thereunder as may be applicable to the Bonds or the proceeds derived from the sale of the Bonds or any other moneys.

SECTION 4.9. No Issuer Liability. Notwithstanding the fact that it is the intention of the parties hereto that the Issuer shall not incur any loss, expense or pecuniary liability by reason of the terms of this Agreement or the undertakings required of the Issuer hereunder, by reason of the issuance of the performance of any act requested of the Issuer by the Company, including all claims, liabilities or losses arising in connection with the violation of any statutes or regulation pertaining to the foregoing, if the Issuer should incur any such loss, expense or pecuniary liability, then in such event the Company shall indemnify and hold the Issuer harmless against all

claims, demands or causes of action whatsoever, by or on behalf of any person, firm or corporation or other legal entity arising out of the same or out of any offering statement or lack of offering statement or disclosure in connection with the offering, sale or remarketing of the Bonds or out of any determination of taxability of the Bonds or interest thereon and all costs and expenses incurred in connection with any such claim or in connection with any action or proceeding brought thereon, and upon notice from the Issuer, the Company shall defend the Issuer in any such action or proceeding. All references to the Issuer in this Section shall be deemed to include its Board of County Commissioners, Commission Members, officers, employees and agents.

Notwithstanding anything to the contrary contained herein or in any of the Bonds, or the Indenture or in any other instrument or document executed by or on behalf of the Issuer in connection herewith, no stipulation, covenant, agreement or obligation contained herein or therein shall be deemed or construed to be a stipulation, covenant, agreement or obligation of any present or future member, officer, employee or agent of the Issuer, or of any incorporator, member, director, trustee, officer, employee or agent of any successor to the Issuer, in any such person's individual capacity, and no such person, in his individual capacity, shall be liable personally for any breach or non-observance of or for any failure to perform, fulfill or comply with any such stipulations, covenants, agreements or obligations, nor shall any recourse be had for the payment of the principal of, premium, if any, or interest on any of the Bonds or for any claim based thereon or on any such stipulation, covenant, agreement or obligation, against any such person, in his individual capacity, either directly or through the Issuer or any successor to the Issuer, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such person, in his individual capacity, is hereby expressly waived and released. The provisions of this Section shall survive the termination of this Agreement.

SECTION 4.10 Post Issuance Audits. The Company agrees to provide such records regarding the Project and the use, investment and application of proceeds of the Bonds as may reasonably be requested by the County to enable the County to determine that the Company has complied with the requirements of this Agreement and the Indenture subsequent to the issuance of the Bonds. Such compliance shall include, but not be limited to, the proper use of the Bonds proceeds for the intended purposes of the Indenture and this Agreement and compliance with any federal arbitrage rebate requirements. The Company agrees to advance all funds necessary to enable the County to engage and pay for such auditors, accountants, financial advisors, counsel or other professionals for purposes of reasonably determining such compliance.

## ARTICLE V EVENTS OF DEFAULT AND REMEDIES

SECTION 5.1. Events of Default. Each of the following shall be an "Event of Default" under this Agreement:

(a) Failure by the Company to pay when due the amounts required to be paid pursuant to the Note which failure, in the case of such amounts in respect of interest on

any Bond, continues for five days, or the failure by the Company to pay within 30 days of the date due any other amounts required to be paid pursuant to this Agreement.

(b) Failure by the Company to observe and perform any covenant, condition or agreement on its part to be observed or performed hereunder, other than as referred to in subsection (a) of this Section 5.1, for a period of 90 days after written notice, specifying such failure and requesting that it be remedied, is given to the Company by the Issuer or the Trustee, unless the Issuer and the Trustee shall agree in writing to an extension of such period prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Issuer and the Trustee will not unreasonably withhold their consent to an extension of such period if corrective action is instituted by the Company within the applicable period and diligently pursued until the default is corrected.

(c) The dissolution or liquidation of the Company, except as permitted by Section 4.3 hereof, or the commencement by the Company of any case or proceeding seeking to have an order for relief entered on its behalf as a debtor or to adjudicate it as bankrupt or insolvent or seeking reorganization, liquidation, dissolution, winding-up, arrangement, composition, readjustment of its debts or any other relief under any bankruptcy, insolvency, reorganization or other similar law of the United States or any state, or adjudication of the Company as bankrupt, or an assignment by the Company for the benefit of its creditors, or the entry by the Company into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Company in any proceeding for its reorganization instituted under the provisions of Title 11 of the United States Code, as amended, or under any similar statutory provision which may hereafter be enacted.

The foregoing provisions of Section 5.1(b) are subject to the limitation that, if by reason of force majeure the Company is unable in whole or in part to carry out its agreements herein contained other than those set forth in Sections 3.2, 4.3 and 4.8 hereof, an Event of Default shall not be deemed to have occurred during the continuance of such inability. The term "force majeure" as used herein shall mean the following: acts of God; strikes; lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State of Florida or any of their departments, agencies or officials or of any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fire; hurricanes; tornadoes; storms; floods; washouts; droughts; arrests; restraints of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission lines, pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Company. The Company agrees, however, to remedy to the extent practicable with all reasonable dispatch the effects of any force majeure preventing the Company from carrying out its agreements; provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Company unfavorable to the Company.

SECTION 5.2. Remedies on Default. Whenever any Event of Default shall have occurred and be continuing, the Issuer may, in addition to any other remedy now or hereafter existing at law, in equity or by statute, take either or both of the following remedial steps:

(a) By written notice to the Company, the Issuer may accelerate and declare all amounts payable pursuant to the Note to be immediately due and payable, whereupon the same shall become immediately due and payable; and

(b) The Issuer may take whatever action at law or in equity may appear necessary or desirable to collect the amounts referred to in (a) above then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company under this Agreement.

Any amounts collected pursuant to action taken under this Section 5.2 shall be deposited with the Trustee and applied in accordance with the provisions of the Indenture or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the provisions of the Indenture) and the fees and expenses of the Trustee and the paying agents and all other amounts required to be paid under the Indenture shall have been paid, returned to the Company.

SECTION 5.3. Agreement to Pay Attorneys' Fees and Expenses. In the event the Company should breach any of the provisions of the Note or this Agreement and the Issuer should employ attorneys or incur other expenses for the collection of amounts payable hereunder or the enforcement of performance or observance of any obligation or agreement on the part of the Company herein contained, the Company agrees that it will on demand therefor pay to the Issuer the reasonable fees of such attorneys and such other reasonable expenses so incurred by the Issuer.

SECTION 5.4. No Additional Waiver Implied by One Waiver. In the event any agreement contained in the Note or in this Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

## ARTICLE VI MISCELLANEOUS

SECTION 6.1. Term of This Agreement. Except as otherwise expressly provided herein, this Agreement shall remain in full force and effect from the date hereof until such time as all of the outstanding Bonds shall have been fully paid or provision made therefor in accordance with the provisions of the Indenture, whichever shall first occur, and the fees and expenses of the Trustee and any paying agents and all other amounts payable by the Company under this Agreement and the Note shall have been paid.

SECTION 6.2. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when delivered or mailed by registered or

certified mail, postage prepaid, addressed as follows: if to the Issuer, to the Chairman of the Board of Commissioners, 223 Palafox Place, Pensacola, Florida 32597; if to the Company and via United States mail at One Energy Place, Pensacola, Florida 32520-0100, Attention: Treasurer, with copies to Southern Company Services, Inc., 270 Peachtree Street, N.W., Atlanta, Georgia 30303, Attention: Corporate Finance Department; if to the Company and via hand delivery at 500 Bayfront Parkway, Pensacola, Florida 32501, Attention: Treasurer, with copies to Southern Company Services, Inc., 270 Peachtree Street, N.W., Atlanta, Georgia 30303, Attention: Corporate Finance Department; and if to the Trustee, at 100 Ashford Center North, Suite 520, Atlanta, Georgia 30338, Attention: Corporate Trust Department. A duplicate copy of each notice, certificate or other communication given hereunder by either the Issuer or the Company to the other shall also be given to the Trustee. The Issuer, the Company and the Trustee may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 6.3. Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon the Issuer, the Company and their respective successors and assigns, subject, however, to the limitations contained in Section 4.3 hereof.

SECTION 6.4. Severability. In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

SECTION 6.5. Amendments. This Agreement may not be effectively terminated except in accordance with the provisions hereof and may not be effectively amended except by a written agreement in accordance with Article XI of the Indenture and signed by the parties hereto.

SECTION 6.6. Execution in Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 6.7. Applicable Law. This Agreement and the Note shall be governed by and construed in accordance with the laws of the State of Florida.

SECTION 6.8. Captions. The captions or headings in this Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Agreement.

SECTION 6.9. Other Financing. Notwithstanding anything in this Agreement to the contrary, the Issuer and the Company may hereafter enter into agreements to provide for the financing or refinancing of costs of the Project or any portion thereof.

**IN WITNESS WHEREOF**, the Issuer and the Company have caused this Agreement to be executed in their respective corporate names and their respective corporate seals to be hereunto affixed and attested by their duly authorized officers, all as of the date first above written.

**ESCAMBIA COUNTY, FLORIDA**

[SEAL]

By: _____
Chairman of the Escambia County
Board of County Commissioners

ATTEST: ERNIE LEE MAGAHA
CLERK OF THE CIRCUIT COURT

_____
DEPUTY CLERK

**GULF POWER COMPANY**

[SEAL]

By: _____
Vice President, Secretary and Treasurer

ATTEST:

_____
Assistant Secretary

EXHIBIT A

GULF POWER COMPANY
PROMISSORY NOTE

$32,550,000 April 15, 2003

GULF POWER COMPANY ("Gulf"), a corporation organized and existing under the laws of the State of Maine, acknowledges itself indebted and for value received hereby promises to pay to the order of Escambia County, Florida (the "County"), and its successors and assigns, the principal sum of THIRTY-TWO MILLION FIVE HUNDRED FIFTY THOUSAND DOLLARS ($32,550,000) together with interest on the unpaid principal balance thereof from the date hereof until Gulf's obligations with respect to the payment of such sum shall be discharged at the rate or rates borne by the Bonds referred to below. As additional interest hereon there shall be payable, and Gulf promises to pay when due, amounts which shall equal the premium, if any, due on such Bonds in connection with the redemption thereof. Gulf further promises to pay the purchase price of such Bonds as hereinbelow provided.

This Note is issued to evidence the Loan (as defined in the Agreement hereinafter referred to) of the County to Gulf and the obligation of Gulf to repay the same and shall be governed by and be payable in accordance with the terms and conditions of a loan agreement (the "Agreement") between the County and Gulf dated as of April 1, 2003, pursuant to which the County has loaned to Gulf the proceeds of the sale of the County's $32,550,000 of Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003 (the "Bonds"). This Note (together with the Agreement) has been assigned to The Bank of New York Trust Company of Florida, N.A. (the "Trustee"), acting pursuant to a trust indenture dated as of April 1, 2003 (the "Indenture") between the County and the Trustee, and may not be assigned by the Trustee except to a successor Trustee pursuant to the terms of the Indenture. Such assignment is made as security for the Bonds. The Bonds are dated and bear interest in accordance with the provisions of the Indenture, and mature on June 1, 2023. The Bonds are subject to redemption or prior purchase prior to maturity as provided therein.

Subject to the provisions of the Agreement, payments hereon are to be made by paying to the Trustee, as assignee of the County, in funds which will be immediately available on the day payment is due, amounts which, and at or before times which, shall correspond to the payments with respect to the principal of and premium, if any, and interest on the Bonds whenever and in whatever manner the same shall become due, whether at stated maturity, upon redemption or declaration or otherwise, and the purchase price of Bonds required to be purchased under the Indenture. If (i) on the date any payments on the Bonds are due there are any available moneys on deposit with the Trustee which are not being held for the payment of Bonds due and payable but which have not been presented for payment, or (ii) on any date on which Bonds are required to be purchased pursuant to the Bonds or Article III of the Indenture, there are available moneys on deposit with the Trustee held for the payment of the purchase price which are not being held for the payment of Bonds which have not been presented for payment, then, in each case, such

moneys shall be credited against the payment then due hereunder, first in respect of interest and then, to the extent of remaining moneys, in respect of principal. Upon the occurrence of an Event of Default, as defined in the Agreement, the principal of and interest on this Note may be declared immediately due and payable as provided in the Agreement.

Neither the officers of Gulf nor any persons executing this Note shall be liable personally or shall be subject to any personal liability or accountability by reason of the issuance hereof.

**IN WITNESS WHEREOF**, Gulf Power Company has caused this Note to be executed in its corporate name and on its behalf by its President, its Treasurer or a Vice President by his manual signature, and its corporate seal to be impressed hereon and attested by the manual signature of its Secretary or an Assistant Secretary, all as of the date first above written.

GULF POWER COMPANY

By: _____

Attest: _____

ASSIGNMENT

Pay, without recourse, to the order of The Bank of New York Trust Company of Florida, N.A., as assignee of Escambia County, Florida under the Trust Indenture, dated as of April 1, 2003, between Escambia County, Florida and The Bank of New York Trust Company of Florida, N.A., as Trustee, securing the payment of Escambia County, Florida Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003, in the original principal amount of $32,550,000.

**ESCAMBIA COUNTY, FLORIDA**

By: _____

*The holder hereof has agreed not to transfer this Note except to a successor Trustee under the Trust Indenture dated as of April 1, 2003 of Escambia County, Florida relating to the Bonds (hereinafter referred to).*

GULF POWER COMPANY
PROMISSORY NOTE

$32,550,000 April 15, 2003

GULF POWER COMPANY ("Gulf"), a corporation organized and existing under the laws of the State of Maine, acknowledges itself indebted and for value received hereby promises to pay to the order of Escambia County, Florida (the "County"), and its successors and assigns, the principal sum of THIRTY-TWO MILLION FIVE HUNDRED FIFTY THOUSAND DOLLARS ($32,550,000) together with interest on the unpaid principal balance thereof from the date hereof until Gulf's obligations with respect to the payment of such sum shall be discharged at the rate or rates borne by the Bonds referred to below. As additional interest hereon there shall be payable, and Gulf promises to pay when due, amounts which shall equal the premium, if any, due on such Bonds in connection with the redemption thereof. Gulf further promises to pay the purchase price of such Bonds as hereinbelow provided.

SPECIMEN

This Note is issued to evidence the Loan (as defined in the Agreement hereinafter referred to) of the County to Gulf and the obligation of Gulf to repay the same and shall be governed by and be payable in accordance with the terms and conditions of a loan agreement (the "Agreement") between the County and Gulf dated as of April 1, 2003, pursuant to which the County has loaned to Gulf the proceeds of the sale of the County's $32,550,000 of Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003 (the "Bonds"). This Note (together with the Agreement) has been assigned to The Bank of New York Trust Company of Florida, N.A. (the "Trustee"), acting pursuant to a trust indenture dated as of April 1, 2003 (the "Indenture") between the County and the Trustee, and may not be assigned by the Trustee except to a successor Trustee pursuant to the terms of the Indenture. Such assignment is made as security for the Bonds. The Bonds are dated and bear interest in accordance with the provisions of the Indenture, and mature on June 1, 2023. The Bonds are subject to redemption or prior purchase prior to maturity as provided therein.

Subject to the provisions of the Agreement, payments hereon are to be made by paying to the Trustee, as assignee of the County, in funds which will be immediately available on the day payment is due, amounts which, and at or before times which, shall correspond to the payments with respect to the principal of and premium, if any, and interest on the Bonds whenever and in whatever manner the same shall become due, whether at stated maturity, upon redemption or declaration or otherwise, and the purchase price of Bonds required to be purchased under the Indenture. If (i) on the date any payments on the Bonds are due there are any available moneys on deposit with the Trustee which are not being held for the payment of Bonds due and payable but which have not been presented for payment, or (ii) on any date on which Bonds are required to be purchased pursuant to the Bonds or Article III of the Indenture, there are available moneys

IN WITNESS WHEREOF, Gulf Power Company has caused this Note to be executed in its corporate name and on its behalf by its President, its Treasurer or a Vice President by his manual signature, and its corporate seal to be impressed hereon and attested by the manual signature of its Secretary or an Assistant Secretary, all as of the date first above written.

GULF POWER COMPANY

By: _____
Vice President, Secretary and Treasurer

Attest: _____
Assistant Secretary

SPECIMEN

## ASSIGNMENT

Pay, without recourse, to the order of The Bank of New York Trust Company of Florida, N.A., as assignee of Escambia County, Florida under the Trust Indenture, dated as of April 1, 2003, between Escambia County, Florida and The Bank of New York Trust Company of Florida, N.A., as Trustee, securing the payment of Escambia County, Florida Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003, in the original principal amount of $32,550,000.

**ESCAMBIA COUNTY, FLORIDA**

By: SPECIMEN
Chairman, Board of County Commissioners

# AUCTION AGREEMENT

Dated as of April 1, 2003

among

Gulf Power Company

and

The Bank of New York Trust Company of Florida, N.A.,

as Trustee

and

The Bank of New York,

as Auction Agent

Relating to

$32,550,000

Escambia County, Florida

Pollution Control Revenue Refunding Bonds

(Gulf Power Company Project)

Series 2003

## TABLE OF CONTENTS


| | | Page |
|---|---|---|
| SECTION 1. | DEFINITIONS AND RULES OF CONSTRUCTION | 1 |
| 1.1 | Terms Defined by Reference to the Indenture. | 1 |
| 1.2 | Terms Defined Herein | 1 |
| 1.3 | Rules of Construction. | 2 |
| SECTION 2. | AUCTION | 2 |
| 2.1 | Purpose; Appointment; Incorporation by Reference of Auction Procedures and Settlement Procedures. | 2 |
| 2.2 | Preparation for each Auction; Maintenance of Registry of Beneficial Owners. | 3 |
| 2.3 | Auction Schedule. | 5 |
| 2.4 | Notice of Auction Results. | 5 |
| 2.5 | Notices to Existing Owners. | 6 |
| 2.6 | Broker-Dealers | 6 |
| 2.7 | Ownership of the Bonds | 6 |
| 2.8 | Access to and Maintenance of Auction Records | 6 |
| SECTION 3. | THE AUCTION AGENT | 6 |
| 3.1 | Duties and Responsibilities of the Auction Agent | 6 |
| 3.2 | Rights of the Auction Agent. | 8 |
| 3.3 | Auction Agent's Disclaimer | 8 |
| 3.4 | Compensation, Expenses and Indemnification of the Auction Agent | 8 |
| 3.5 | Broker-Dealer Fee. | 9 |
| SECTION 4. | REPRESENTATIONS AND WARRANTIES OF THE TRUSTEE | 10 |
| SECTION 5. | MISCELLANEOUS | 10 |
| 5.1 | Term of Agreement. | 10 |
| 5.2 | Communications | 11 |
| 5.3 | Entire Agreement. | 12 |
| 5.4 | Benefits; Successors and Assigns. | 12 |
| 5.5 | Amendment, Waiver. | 12 |
| 5.6 | Severability | 12 |
| 5.7 | Execution in Counterparts | 13 |
| 5.8 | Governing Law. | 13 |

AUCTION AGREEMENT

THIS AUCTION AGREEMENT, dated as of April 1, 2003 (the "Auction Agreement"), among GULF POWER COMPANY, a Maine corporation (the "Company"), THE BANK OF NEW YORK, as Auction Agent (the "Auction Agent"), and THE BANK OF NEW YORK TRUST COMPANY OF FLORIDA, N.A., as Trustee (the "Trustee").

WITNESSETH

WHEREAS, concurrently with the execution and delivery of this Auction Agreement, the Escambia County, Florida (the "Issuer") is offering $32,550,000 in aggregate principal amount of its Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003 (the "Bonds") pursuant to the Trust Indenture dated as of April 1, 2003 (the "Indenture") by and between the Issuer and the Trustee;

WHEREAS, the Trustee is entering into this Auction Agreement as agent for the Bondholders pursuant to the Indenture; and

WHEREAS, the Auction Agent is to perform certain duties set forth herein;

NOW, THEREFORE, the Company, the Trustee and the Auction Agent hereby agree as follows:

Section 1. Definitions and Rules of Construction

1.1 Terms Defined by Reference to the Indenture. Capitalized terms used herein and not defined herein shall have the respective meanings specified in the Indenture, including the Exhibits thereto.

1.2 Terms Defined Herein. As used herein and in the exhibits hereto, the following terms shall have the following meanings, unless the context otherwise requires:

(a) "Auction Agent Acceptance Fee" means an acceptance fee as set forth in a written agreement signed by the Auction Agent and the Company.

(b) "Auction Agent Fee" means the fees, other than the Auction Agent Acceptance Fee, set forth in a written agreement signed by the Auction Agent and the Company.

(c) "Authorized Officer" shall mean (i) in the case of the Auction Agent, each Vice President, Assistant Vice President and Assistant Treasurer of the Auction Agent assigned to its Dealing and Trading Group of its Corporate Trust Department and every other officer or employee of the Auction Agent designated an "Authorized Officer" for purposes hereof in a written communication delivered to the Trustee, (ii) in the case of the Company, its Chief Financial Officer and every other officer or employee of the Company designated an "Authorized Officer" for purposes hereof in a written communication delivered to the Trustee, and (iii) in the case of the Trustee, every officer or employee of the Trustee designated as an

"Authorized Officer" for purposes hereof in a written communication delivered to the Auction Agent.

(d) "Bond Register" is defined in Section 2.2(c)(i) hereof.

(e) "Broker-Dealer Agreement" shall mean each agreement among the Auction Agent, the Company and a Broker-Dealer substantially in the form attached hereto as EXHIBIT A.

(f) "Closing Date" shall mean April 15, 2003.

(g) "Existing Owner" shall mean the owner of any beneficial interest in any Bonds as shown on the Bond Register.

(h) "Settlement Procedures" shall mean the Settlement Procedures attached hereto as EXHIBIT B.

1.3 Rules of Construction. Unless the context or use indicates another or different meaning or intent, the following rules shall apply to the construction of this Auction Agreement.

(a) Words importing the singular number shall include the plural number and vice versa.

(b) The captions and headings herein are solely for the convenience of reference and shall not constitute a part of this Auction Agreement nor shall they affect its meaning, construction or effect.

(c) The words "hereof," "herein" and other words of similar import refer to this Auction Agreement as a whole.

(d) All references herein to a particular time of day shall be to New York City time.

(e) Each reference to the purchase, sale or holding of Bonds shall refer to beneficial ownership interests in the Bonds unless the context clearly requires otherwise.

Section 2. Auction.

2.1 Purpose; Appointment; Incorporation by Reference of Auction Procedures and Settlement Procedures.

(a) The Indenture provides that the interest rate on the Bonds for each Auction Period shall be the Auction Mode Rate which shall be, except as otherwise provided therein, the rate per annum that the Auction Agent determines to have resulted from the implementation of the Auction Procedures.

(b) Pursuant to Section 3.01 of Exhibit B to the Indenture, the Company hereby appoints The Bank of New York to act as Auction Agent. The Bank of New York hereby

accepts such appointment to perform the Auction Procedures, Settlement Procedures and other duties herein, in each Broker-Dealer Agreement and in Exhibit B to the Indenture specified to be performed by the Auction Agent.

(c) The Auction Procedures contained in Exhibit B to the Indenture are hereby incorporated herein by reference in their entirety and shall be deemed to be a part hereof to the same extent as if such provisions were expressly set forth herein. No amendment of any provision of the Auction Procedures or any other provision of the Indenture that adversely affects any right, duty or obligation of the Auction Agent shall be binding upon the Auction Agent without its consent.

2.2 Preparation for each Auction; Maintenance of Registry of Beneficial Owners.

(a) Not later than seven days prior to any Auction Date for which any change in Broker-Dealers is to be effective, the Trustee shall notify or cause to be notified the Auction Agent and the Company in writing of such change and, if such change is the addition of a Broker Dealer, the Company shall cause to be delivered to the Auction Agent, for execution by the Auction Agent pursuant to Section 2.6(a) hereof, a Broker-Dealer Agreement manually signed by such Broker-Dealer. The Auction Agent shall have entered into a Broker-Dealer Agreement with each Broker-Dealer prior to the participation of any such Broker-Dealer in any Auction. The Auction Agent shall be entitled to assume that there has been no change in the Broker-Dealers unless and until it has actual receipt of such notification from an Authorized Officer of the Trustee.

(b) On each Auction Date, the Auction Agent shall determine the All Hold Rate, the Maximum Auction Rate and the Reference Rate. Not later than 9:30 A.M. on each Auction Date, the Auction Agent shall notify the Trustee and the Broker-Dealers by telephone (confirmed to the Trustee in writing or by facsimile transmission after the Auction) or other electronic communication acceptable to the parties of the All Hold Rate, the Maximum Auction Rate and the Reference Rate.

(c) (i) The Auction Agent shall maintain a registry of the beneficial owners of Bonds (the "Bond Register") based on information provided to it from the Broker-Dealers who shall constitute Existing Owners for purposes of Auctions and shall indicate thereon the identity of the respective Broker-Dealer of each Existing Owner, if any, on whose behalf such Broker-Dealer submitted the most recent Order in any Auction which resulted in such Existing Owner continuing to hold or purchase such Bonds. The Auction Agent shall keep such Bond Register current and accurate. Each Broker-Dealer is required under the Broker-Dealer Agreement to which it is a party to deliver to the Auction Agent on the Closing Date a list of the initial Existing Owners that purchased such Bonds through such Broker-Dealer. The Auction Agent may conclusively rely upon, as evidence of the identities of the Existing Owners, the following: such lists; the results of Auctions; notices from DTC regarding the results of redemptions or mandatory tenders; notices from any Existing Owner, the Agent Member of any Existing Owner or the Broker-Dealer of any Existing Owner with respect to such Existing Owner's transfer of the Bonds to another Person.

(ii) The Trustee shall provide to the Auction Agent any notice of redemption, conversion or mandatory tender of the Bonds at or before the time any such notice is first given by the Trustee to any Existing Owner thereof. In the event of any partial redemption or mandatory tender of the Bonds, the Auction Agent shall promptly request DTC to notify the Auction Agent of the Agent Members whose Bonds have been called for redemption or mandatory tender and the person or department at such Agent Member to contact regarding such redemption or mandatory tender and, within two Business Days, request each such Agent Member to disclose to the Auction Agent (upon selection by such Agent Member of the Existing Owners whose Bonds are to be redeemed) the principal amount of Bonds of each such Existing Owner, if any, which are subject to such redemption or mandatory tender, provided the Auction Agent shall have been furnished with the name and telephone number of a person or department at such Agent Member from which it is to request such information. In the absence of receiving any such information with respect to an Existing Owner from such Existing Owner's Agent Member (or otherwise), the Auction Agent may continue to treat such Existing Owner as the beneficial owner of the principal amount of Bonds shown in the Auction Agent's registry.

(iii) The Auction Agent may refuse to register a transfer of beneficial ownership of Bonds from an Existing Owner to another person unless (a) such transfer is pursuant to an Auction or (b) the Auction Agent has been notified in writing (I) in a notice in the form of EXHIBIT C to the Broker-Dealer Agreements by such Existing Owner, the Broker-Dealer or an Agent Member of such Existing Owner of such transfer, (II) in a notice in the form of EXHIBIT D to the Broker-Dealer Agreements by the Broker-Dealer of any Person that purchased or sold such Bonds in an Auction of the failure of such Bonds to be transferred as a result of such Auction, or (III) in a notice from DTC regarding the results of mandatory tenders. In the event a notice referred to in the preceding clause (II) is received, the Auction Agent shall register the beneficial ownership of the Bonds covered thereby in the name of the Existing Owner thereof prior to the Auction referred to in such notice. The Auction Agent shall not be required to accept any notice delivered pursuant to the terms of the foregoing sentence if received by the Auction Agent after 3:00 P.M. on the Business Day next preceding an Auction Date.

(iv) The Auction Agent may, but shall have no obligation to, request a Broker-Dealer, as set forth in the applicable Broker-Dealer Agreement, to provide the Auction Agent with a list of their respective customers that such Broker-Dealer believes are Existing Owners of Bonds. The Auction Agent shall not disclose such information so provided to any Person other than the Trustee, the Company and the Broker-Dealer that provided the same; provided, however, that the Auction Agent reserves the right and is authorized to disclose any such information if (A) it is ordered to do so by a court of competent jurisdiction or a regulatory, judicial or quasi judicial agency or authority having the authority to compel such disclosure, (B) it is advised by such counsel that its failure to do so would be unlawful or (C) failure to do so would expose the Auction Agent to loss, liability, claim, damage or expense for which it has not received indemnity satisfactory to it.

(d) In the event that the notice referred to in clause (vi) of paragraph (a) of the Settlement Procedures states an Auction Date that is subsequently changed, the Auction Agent, by such means as the Auction Agent deems practicable, shall give notice of the new Auction Date not later than 9:15 A.M. on the earlier of the new Auction Date or the old Auction Date.

(e) The Auction Agent shall deliver a copy of any notice received by it from the Trustee pursuant to clause (ii) of the foregoing paragraph (c) to the effect that an Event of Default has been cured or waived to the Broker-Dealers on the Business Day following its receipt thereof by telecopy or other electronic communication acceptable to the parties.

2.3 Auction Schedule. The Auction Agent shall conduct Auctions for the Bonds in accordance with the schedule set forth below. Such schedule may be changed by the Auction Agent if directed in writing by the Company to reflect then currently accepted market practices for similar auctions. The Auction Agent shall give written notice of any such change to the Trustee, the Company and each Broker-Dealer. Such notice shall be given prior to the close of business on the Business Day next preceding the first Auction Date on which any such change shall be effective.

| Time | Event |
|---|---|
| By 9:30 A.M. | Auction Agent advises the Broker-Dealers of the All Hold Rate, the Maximum Auction Rate and the Reference Rate, as set forth in Section 2.2(b) hereof. |
| 9:30 A.M. – 1:00 P.M. (11:00 A.M. in the case of a daily Auction Period). | Auction Agent assembles information communicated to it by Broker-Dealers as provided in Section 2.03 of Exhibit B to the Indenture. Submission Deadline is 1:00 P.M. (11:00 A.M. in the case of a daily Auction Period). |
| As soon as practical after 1:00 P.M. (11:30 A.M. in the case of a daily Auction Period). | Auction Agent makes determination pursuant to Section 2.04 of Exhibit B to the Indenture. |
| By approximately 3:00 P.M. but not later than the close of business (by 12:00 Noon in the case of a daily Auction Period). | Submitted Bids and Submitted Sell Orders are accepted and rejected and the Bonds allocated as provided in Section 2.05 of Exhibit B to the Indenture. Auction Agent gives notice of Auction results as set forth in Section 2.4 hereof. |

2.4 Notice of Auction Results. Following such Auction, the Auction Agent shall follow the notification procedures set forth in paragraph (a) of the Settlement Procedures. In addition, promptly after making the determinations required by Section 2.04 of Exhibit B to the Indenture on each Auction Date, the Auction Agent shall give notice of the Auction Rate to the Trustee by telephone (promptly confirmed in writing) or by telecopy or other electronic communication acceptable to the parties and the Trustee shall promptly give notice to DTC of such Auction Rate.

2.5 Notices to Existing Owners. The Auction Agent shall be entitled to conclusively rely upon the address of each Existing Owner delivered by such Existing Owner in connection

with any notice to Existing Owners required to be given by the Auction Agent pursuant to this Section 2.

2.6 Broker-Dealers.

(a) On the Closing Date the Auction Agent shall enter into a Broker-Dealer Agreement with Banc of America Securities LLC. The Auction Agent shall from time to time enter into such other Broker-Dealer Agreements (substantially in the form set forth in EXHIBIT A hereto) as the Company shall request and with written notice to the Trustee and the Auction Agent and the written consent of Banc of America Securities LLC, so long as Banc of America Securities LLC is a Broker-Dealer.

(b) The Auction Agent shall terminate any Broker-Dealer Agreement as set forth therein if so directed by the Company in writing with prior written notice to the Trustee.

2.7 Ownership of the Bonds. Neither the Issuer nor the Company nor any Person controlled by any thereof may submit any Order or Bid, directly or indirectly, in any Auction. The Auction Agent shall have no duty to monitor compliance with this Section 2.7.

2.8 Access to and Maintenance of Auction Records. The Auction Agent shall afford to the Trustee and its agents, independent public accountants and counsel, access at reasonable times during normal business hours to all books, records, documents and other information concerning the conduct and results of Auctions; provided that any such agent, accountant or counsel of the Trustee shall furnish the Auction Agent with a letter from an Authorized Officer of the Trustee requesting that the Auction Agent afford such person access. Except as provided in Sections 3.1(d) and 5.1(b) hereof, the Auction Agent shall maintain records relating to any Auction for a period of two years after such Auction and such records shall, in reasonable detail, accurately and fairly reflect the actions taken by the Auction Agent hereunder. At the end of such two-year period the Auction Agent shall deliver such records to the Trustee if the Trustee so requests. The Auction Agent shall provide the Trustee with copies of any report the Auction Agent provides DTC concerning discrepancies between the records of the Auction Agent and DTC of the aggregate portions registered in each CUSIP number. The Auction Agent shall not be responsible for any actions of the Trustee or its agents, accountants or counsel for passing on confidential information as a result of access to the records of the Auction Agent.

Section 3. The Auction Agent.

3.1 Duties and Responsibilities of the Auction Agent.

(a) The Auction Agent is acting solely as agent of the Trustee and owes no duties, fiduciary or otherwise, to any other person by reason of this Auction Agreement, except as otherwise stated herein, and no implied duties, fiduciary or otherwise, shall be read into this Auction Agreement.

(b) The Auction Agent and the Trustee undertake to perform such duties and only such duties as are expressly set forth herein, or expressly incorporated herein by reference pursuant to Section 2.1 hereof, to be performed by it, and no implied covenants or obligations shall be read into this Auction Agreement against the Auction Agent or the Trustee.

(c) In the absence of bad faith, gross negligence or willful misconduct on its part, the Auction Agent, whether acting directly or through agents or attorneys as provided in Section 3.2(d) hereof, shall not be liable for any action taken, suffered, or omitted or for any error of judgment made by it in the performance of its duties hereunder. The Auction Agent shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been grossly negligent in ascertaining the pertinent facts necessary to make such judgment. In no event shall the Auction Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profit), even if the Auction Agent has been advised of the likelihood of such loss or damage and regardless of the form of action.

(d) Upon termination of this Auction Agreement, the Auction Agent shall promptly deliver to the Company, the Auction records and accompanying documentation and any other documents referred to in Section 2.8 hereof to the extent not previously delivered to the Trustee.

(e) The Auction Agent shall: (i) not be required to and shall make no representations and have no responsibilities as to the validity, accuracy, value or genuineness of any signatures or endorsements, other than its own, or any document delivered pursuant to or as contemplated by this Auction Agreement; (ii) not be obligated to take any legal action hereunder that might, in its judgment, involve any expense or liability, unless it has been furnished with reasonable indemnity; and (iii) not be responsible for or liable in any respect on account of the identity, authority or rights of any person executing or delivering or purporting to execute or deliver any document under this Auction Agreement or any Broker-Dealer Agreement.

(f) The Auction Agent shall not be responsible or liable for any failure or delay in the performance of its obligations under this Auction Agreement arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including without limitation, acts of God; earthquakes; fires; floods; wars; civil or military disturbances; terrorism; sabotage; epidemics; riots; interruptions; loss or malfunction of utilities, computer (hardware or software) or communications service; accidents; labor disputes; acts of civil or military authority or governmental actions; it being understood that the Auction Agent shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

(g) To the extent the maximum interest rate allowable by applicable law is reduced to less than the Maximum Interest Rate or Maximum Auction Rate on the date hereof, the Company shall notify, in writing, the Auction Agent, or instruct the Trustee to do the same, of such reduced maximum interest rate allowable by applicable law.

3.2 Rights of the Auction Agent.

(a) The Auction Agent may conclusively rely upon, and shall be fully protected in acting or refraining from acting upon, any communication authorized hereby and upon any such written instruction, notice, request, direction, consent, report, certificate, share certificate or other instrument, paper or other document believed by it to be genuine. The Auction Agent shall not be liable for acting in good faith upon any such communication made by

telephone or other electronic communication acceptable to the parties which the Auction Agent reasonably believes to have been given by the particular party or parties. To the extent permitted by law, the Auction Agent may record telephone communications with the Company, the Issuer, the Trustee and the Broker-Dealers, and each of such parties may record telephone communications with the Auction Agent.

(b) The Auction Agent may consult with counsel of its choice (provided such selection is made with reasonable care) and the advice of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(c) The Auction Agent shall not be required to advance, expend or risk its own funds or otherwise incur or become exposed to financial liability in the performance of its duties hereunder, except as may be required as a result of its own gross negligence, willful misconduct or bad faith.

(d) The Auction Agent may perform its duties and exercise its rights hereunder either directly or by or through agents or attorneys and shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed by it with due care.

(e) The Auction Agent shall have no obligation or liability in respect of the registration or exemption therefrom of the Bonds under federal or state securities laws in respect of the sufficiency or the conformity of any transfer of the Bonds pursuant to the terms of this Auction Agreement, any Broker-Dealer Agreement, the Indenture or any other document contemplated by any thereof.

3.3 Auction Agent's Disclaimer. The Auction Agent makes no representations and assumes no responsibility for the validity, accuracy or adequacy of this Auction Agreement, any Broker-Dealer Agreement, the Indenture or any offering material used in connection with the offer and sale of the Bonds.

3.4 Compensation, Expenses and Indemnification of the Auction Agent. The Company shall pay (i) the Auction Agent Acceptance Fee on the date of payment for and delivery of the Bonds, (ii) the Auction Agent Fee for the Bonds on the first Interest Payment Date following the Closing Date and annually thereafter, and (iii) upon request of the Auction Agent, reasonable expenses, disbursements and advances reasonably incurred or made by the Auction Agent in accordance with this Agreement and any Broker-Dealer Agreement (including the reasonable compensation, expenses and disbursements of its agents and counsel), except any expense, disbursement or advance attributable to the bad faith, gross negligence or willful misconduct of the Auction Agent. The Auction Agent Fee represents compensation for the services of the Auction Agent in conducting Auctions for the benefit of the beneficial owners of the Bonds. The Auction Agent Fee may be adjusted from time to time with the approval of the Company upon a written request of the Auction Agent delivered to the Company. The Company shall indemnify the Auction Agent, its directors, officers, agents and employees for, and hold them harmless against any loss, liability or expense incurred without bad faith, gross negligence or willful misconduct on their part arising out of or in connection with its agency under this Auction Agreement and any Broker-Dealer Agreement, including the costs and expenses of

defending itself, its directors, officers, agents and employees against any claim of liability in connection with their exercise or performance of any of their duties thereunder (including the enforcement of this provision), except such as may result from their bad faith, gross negligence or willful misconduct. The Trustee shall have no responsibility for payment of the fees and expenses of the Auction Agent.

3.5 Broker-Dealer Fee. While the Bonds are in an Auction Period other than a daily Auction Period, on each Interest Payment Date following each Auction Date, each Broker-Dealer shall be entitled to receive an amount (the "Broker-Dealer Fee") equal to the product of (x) .25 of 1% multiplied by (y)(A) if an Auction was held on such Auction Date, the sum of the aggregate principal amount of the Bonds that were (1) the subject of a valid Hold Order of an Existing Owner submitted by such Broker-Dealer, (2) the subject of a Submitted Bid of an Existing Owner submitted by such Broker-Dealer and continued to be held by such Existing Owner as a result of such Auction, (3) the subject of a Submitted Bid of a Potential Owner and were purchased by such Potential Owner as a result of such Auctions and (4) deemed to be the subject of a Hold Order by an Existing Owner that were acquired by such Existing Owner from such Broker-Dealer or (B) if an Auction was not held on such Auction Date, the aggregate principal amount of Outstanding Bonds that were acquired by an Existing Owner through such Broker-Dealer, multiplied by (z) a fraction, the numerator of which is the actual number of days in the Auction Period next succeeding such Auction Date and the denominator of which is 360. If the Bonds are in a daily Auction Period each Broker-Dealer shall be entitled to receive on each Interest Payment Date an amount equal to the sum calculated for each Auction Period in the preceding month of the product of (x) .25 of 1% multiplied by (y) the aggregate principal amount of Bonds for each Auction Period that were (1) the subject of a valid Hold Order submitted by such Broker-Dealer, (2) the subject of a Submitted Bid of an Existing Owner submitted by such Broker-Dealer and continued to be held by such Existing Owner as a result of such Auction, (3) the subject of a Submitted Bid of a Potential Owner submitted by such Broker-Dealer and were purchased by such Potential Owner as a result of such Auction, (4) deemed to be the subject of a Hold Order by an Existing Owner that were acquired by such Existing Owner from such Broker-Dealer and (5) if an Auction was not held for any Auction Period, the aggregate principal amount of Outstanding Bonds that were acquired by an Existing Owner through such Broker-Dealer, multiplied by (z) a fraction, the numerator of which is the number of days in the Auction Period and denominator of which is 360. The Broker-Dealer Fee shall be calculated by the Auction Agent, which shall be conclusive absent manifest error. Such amounts shall be communicated by the Auction Agent to the Company and the Trustee by 4:00 P.M. on the Business Day immediately preceding each Interest Payment Date. On or before 10:00 A.M. on each Interest Payment Date, the Company shall pay to the Trustee the amount due to the Broker-Dealer. By noon on each Interest Payment Date, to the extent of its receipt of adequate funds from the Company, the Trustee shall deliver to the Auction Agent the amount constituting the Broker-Dealer Fee, by wire transfer of immediately available funds to such account as the Auction Agent may designate. The amount constituting the Broker-Dealer Fee shall be held by the Auction Agent on behalf of the Broker-Dealer, and immediately upon receipt of such Fee, the Auction Agent shall deliver such Fee to the Broker-Dealer, pursuant to the written instructions of the Broker-Dealer. If any Existing Owner who acquired Bonds through a Broker-Dealer transfers any such Bonds to another Person other than pursuant to an Auction, the Broker-Dealer for the Bonds so transferred shall continue to be the Broker-Dealer with respect to such Bonds; provided, however, that if the transfer was effected by, or if the transferee is, another Person who

has met the requirements specified in the definition of "Broker-Dealer" contained in the Bonds and executed a Broker-Dealer Agreement, such Person shall be the Broker-Dealer for such Bonds.

Section 4. Representations and Warranties of the Trustee. The Trustee hereby represents and warrants that:

(a) this Auction Agreement has been duly and validly authorized, executed and delivered by the Trustee and constitutes the legal, valid and binding limited obligation of the Trustee;

(b) neither the execution and delivery of this Auction Agreement, the consummation of the transactions contemplated hereby nor the fulfillment of or compliance with the terms and conditions of this Auction Agreement will conflict with, or violate or result in a breach of the terms, conditions or provisions of, or constitute a default under the organizational documents of the Trustee, any law or regulation, any order or decree of any court or public corporation having jurisdiction over such party, or any mortgage, resolution, contract, agreement or undertaking to which the Trustee is a party or by which it is bound; and

(c) any approvals, consents and orders of any governmental corporation, legislative body, board, agency or commission having jurisdiction over the Trustee which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the Trustee of its obligations under this Auction Agreement have been obtained.

Section 5. Miscellaneous.

5.1 Term of Agreement.

(a) This Auction Agreement shall remain in effect until (i) all Bonds are redeemed, paid or purchased and cancelled, (ii) the Bonds are no longer held by DTC in book-entry form, (iii) this Auction Agreement shall be terminated as provided in this Section 5.1, (iv) the Auction Agent resigns upon forty-five (45) days notice due to non-payment of the Auction Agent Fee or (v) the Auction Agent is removed as provided in this Section 5.1. The Trustee shall, upon the written direction of the Company, remove the Auction Agent by giving at least fifteen (15) days' prior written notice to the Auction Agent and each Broker Dealer, provided that a successor Auction Agent has been appointed. The Auction Agent may terminate this Auction Agreement by giving at least ninety (90) days' notice to the Company, the Issuer and the Trustee, who shall give notice of the same to each Broker-Dealer. In the event the Auction Agent has not been compensated for its services rendered hereunder, the Auction Agent may terminate this Auction Agreement by giving at least forty-five (45) days notice to the Company, the Issuer and the Trustee (who shall give notice of the same to each Broker-Dealer), and upon the expiration of such forty-five (45) days, the Auction Agent may resign even if a successor Auction Agent has not been appointed.

(b) Except as otherwise provided in this paragraph (b), the respective rights and duties of the Trustee and the Auction Agent under this Auction Agreement shall cease upon termination of this Auction Agreement. The representations and warranties of the Trustee

contained herein, and the rights of the Auction Agent under Sections 3.2 and 3.4 hereof, shall survive the termination hereof. Upon termination of this Auction Agreement, the Auction Agent shall be deemed to have resigned as Auction Agent under the Broker-Dealer Agreement and shall promptly deliver to the Company copies of all books and records maintained by it in connection with its duties hereunder.

5.2 Communications. Except for (a) communications authorized to be by telephone pursuant to this Auction Agreement or the Auction Procedures and (b) communications in connection with Auctions (other than those expressly required to be in writing), all notices, requests and other communications to any party hereunder shall be in writing (including telecopy or other electronic communication acceptable to the parties) and shall be given to such party, addressed to it, at its address, telecopy number or e-mail address set forth below:

If to the Trustee, addressed:

The Bank of New York Trust Company of Florida, N.A.
100 Ashford Center North
Suite 520
Atlanta, Georgia 30338
Attention: Elizabeth Wagner
FAX: (770) 698-5195
PHONE: (770) 698-5188

If to the Auction Agent, addressed:

The Bank of New York
100 Church Street, 8th Floor
New York, New York 10286
Attention: Corporate Trust Administration – Dealing and Trading Group
FAX: (212) 437-6123
PHONE: (212) 437-6166

If to the Issuer, addressed:

Chairman of the Board of Commissioners
223 Palafox Place
Pensacola, Florida 32597

If to the Company, addressed:

Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32501
If by mail:
One Energy Place
Pensacola, Florida 32520
Attention: Treasurer

*with copies to*
Southern Company Services, Inc.

270 Peachtree Street, N.W.
Atlanta, Georgia 30303
Attention: Corporate Finance Department

or such other address, telecopier number or e-mail address as such party may hereafter specify for such purpose by notice to the other parties. Each such notice, request or communication shall be effective (a) if given by telecopy, when such telecopy is transmitted to the telecopier number specified herein or (b) if given by any other means, when delivered at the address specified herein. Communications shall be given on behalf of the parties hereto by one of their respective Authorized Officers.

5.3 Entire Agreement. This Auction Agreement contains the entire agreement between the parties relating to the subject matter hereof, and there are no other representations, endorsements, promises, agreements or understandings, oral, written or inferred, between the parties relating to the subject matter hereof.

5.4 Benefits; Successors and Assigns. This Auction Agreement shall be binding upon, inure to the benefit of and be enforceable by the Trustee and the Auction Agent and their respective successors and assigns. Nothing herein, express or implied, shall give to any person, other than the Trustee and the Auction Agent and their respective successors or assigns, any benefit of any legal or equitable right, remedy or claim hereunder, except as otherwise expressly stated, other than the rights expressly granted to the Company herein.

5.5 Amendment, Waiver.

(a) This Auction Agreement shall not be deemed or construed to be modified, amended, rescinded, cancelled or waived, in whole or in part, except by written instrument signed by a duly authorized representative of all the parties hereto.

(b) The failure of any party hereto to exercise any right or remedy hereunder in the event of a breach hereof by any party shall not constitute a waiver of any such right or remedy with respect to any subsequent breach.

5.6 Severability. If any clause, provision or section hereof shall be ruled invalid or unenforceable by any court or competent jurisdiction, the invalidity or unenforceability of such clause, provision or section shall not affect any of the remaining clauses, provisions or sections hereof.

5.7 Execution in Counterparts. This Auction Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

5.8 Governing Law. This Auction Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to conflict of laws principles.

IN WITNESS WHEREOF, the parties hereto have caused this Auction Agreement to be duly executed and delivered by their proper and duly Authorized Officers as of the date first above written.

THE BANK OF NEW YORK TRUST COMPANY
OF FLORIDA, N.A.
as Trustee

By: _____
Name: ELIZABETH T. WAGNER
Title: VICE PRESIDENT

GULF POWER COMPANY

By: _____
Name: Warren E. Tate
Title: Vice President, Secretary and Treasurer

THE BANK OF NEW YORK
as Auction Agent

By: _____
Name:
Title: JOSEPH PANEPINTO
VICE PRESIDENT

EXHIBIT A

Form of Broker-Dealer Agreement

[See separate Broker-Dealer Agreement]

EXHIBIT B

SETTLEMENT PROCEDURES

(a) On each Auction Date, the Auction Agent shall notify by telephone or other electronic means or in writing each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Owner or Potential Owner of the following:

(i) the Auction Mode Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more other Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such other Broker-Dealers submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Mode Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected and (C) the immediately succeeding Auction Date;

(ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of Bonds to be purchased pursuant to such Bid (including, with respect to Bonds in a daily Auction

Period, accrued interest if the purchase date is not an Interest Payment Date for such Bonds) against receipt of such Bonds; and

(iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through DTC the principal amount of Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order shall allocate any funds received by it pursuant to subparagraph (b) (ii) above, and any Bonds received by it pursuant to (b) (iii) above, among the Potential Owners, if any, on whose behalf such Broker-Dealer submitted Bids and the Existing Owners, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders and any Broker-Dealer identified to it by the Auction Agent pursuant to subparagraph (a)(v) above.

(d) On the Business Day after the Auction Date or, in the case of Bonds in a daily Auction Period, on such Auction Date, DTC shall execute the transactions described above, debiting and crediting the accounts of the respective Agent Members as necessary to effect the purchase and sale of Bonds as determined in the Auction.

# BROKER-DEALER AGREEMENT

Dated as of April 1, 2003

among

THE BANK OF NEW YORK
as Auction Agent

and

BANC OF AMERICA SECURITIES LLC

as Broker-Dealer

and

GULF POWER COMPANY

relating to

$32,550,000

Escambia County, Florida
Pollution Control Revenue Refunding Bonds

(Gulf Power Company Project)

Series 2003

## TABLE OF CONTENTS


| | | Page |
|---|---|---|
| SECTION 1. | DEFINITIONS AND RULES OF CONSTRUCTION | 1 |
| 1.1 | Terms Defined by Reference to the Indenture | 1 |
| 1.2 | Terms Defined Herein | 1 |
| 1.3 | Rules of Construction | 2 |
| 1.4 | Warranties of BD | 2 |
| SECTION 2. | THE AUCTION | 3 |
| 2.1 | Purpose; Incorporation by Reference of Auction Procedures and Settlement Procedures | 3 |
| 2.2 | Preparation for Each Auction | 3 |
| 2.3 | Auction Schedule; Method of Submission of Orders | 4 |
| 2.4 | Notices | 5 |
| 2.5 | Compensation | 5 |
| 2.6 | Settlement | 6 |
| SECTION 3. | THE AUCTION AGENT | 7 |
| 3.1 | Duties and Responsibilities of the Auction Agent | 7 |
| 3.2 | Rights of the Auction Agent | 8 |
| SECTION 4. | DISCLOSURE; INDEMNIFICATION | 9 |
| 4.1 | Disclosure | 9 |
| 4.2 | Indemnification | 9 |
| SECTION 5. | MISCELLANEOUS | 11 |
| 5.1 | Termination | 11 |
| 5.2 | Participant | 11 |
| 5.3 | Communications | 11 |
| 5.4 | Entire Agreement | 12 |
| 5.5 | Benefits; Successors and Assigns | 12 |
| 5.6 | Amendment; Waiver | 12 |
| 5.7 | Severability | 13 |
| 5.8 | Execution in Counterparts | 13 |
| 5.9 | Governing Law | 13 |
| 5.10 | No Implied Duties | 13 |

BROKER-DEALER AGREEMENT

THIS BROKER-DEALER AGREEMENT, dated as of April 1, 2003 (the "Broker-Dealer Agreement"), among (i) THE BANK OF NEW YORK (the "Auction Agent"), not in its individual capacity but solely as agent of THE BANK OF NEW YORK TRUST COMPANY OF FLORIDA, N.A., as trustee (the "Trustee"), pursuant to authority granted to the Auction Agent in the Auction Agreement, dated as of April 1, 2003 (the "Auction Agreement"), among the Trustee, the Auction Agent and the Company, as hereinafter defined; (ii) BANC OF AMERICA SECURITIES LLC, as Broker-Dealer ("BD"); and (iii) GULF POWER COMPANY (the "Company").

WITNESSETH

WHEREAS, Escambia County, Florida (the "Issuer") is offering $32,550,000 in aggregate principal amount of its Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003 (the "Bonds"); and

WHEREAS, BD is to perform certain duties set forth herein; and

WHEREAS, the Trust Indenture dated as of April 1, 2003 between the Issuer and the Trustee providing for the issuance of the Bonds (the "Indenture") provides that, except as provided therein, the interest rate on the Bonds shall be the Auction Mode Rate which shall be, except as otherwise provided therein, the rate per annum that the Auction Agent determines to have resulted from the implementation of the Auction Procedures; and

WHEREAS, The Bank of New York has been appointed as Auction Agent for purposes of the Auction Agreement, and pursuant to Section 2.6(a) of the Auction Agreement, the Company has requested and directed the Auction Agent to execute and deliver this Broker-Dealer Agreement; and

WHEREAS, the Auction Procedures require the participation of one or more Broker-Dealers;

NOW, THEREFORE, the Auction Agent, as agent for the Trustee, BD for the benefit of the Existing Owners and the Potential Owners of the Bonds, and the Company agree as follows:

SECTION 1. DEFINITIONS AND RULES OF CONSTRUCTION.

1.1 *Terms Defined by Reference to the Indenture.* Capitalized terms used herein and not defined herein shall have the respective meanings specified in the Indenture. Unless otherwise specified, Section references to the Auction Agreement refer to such Sections in the Auction Agreement.

1.2 *Terms Defined Herein.* As used herein and in the exhibits hereto, the following terms shall have the following meanings, unless the context otherwise requires.

(a) "Authorized Officers" shall mean (i) in the case of the Auction Agent, each Vice President, Assistant Vice President and Assistant Treasurer of the Auction

Agent assigned to its Dealing and Trading Group of its Corporate Trust Department and every other officer or employee of the Auction Agent designated an "Authorized Officer" for purposes hereof in a written communication delivered to the Trustee, (ii) in the case of the Company, its Chief Financial Officer and every other officer or employee of the Company designated an "Authorized Officer" for purposes hereof in a written communication delivered to the Trustee, and (iii) in the case of the Trustee, every officer or employee of the Trustee designated as an "Authorized Officer" for purposes hereof in a written communication delivered to the Auction Agent.

(b) "BD Officer" shall mean each officer or employee of BD designated as a "BD Officer" for purposes of this Broker-Dealer Agreement in a communication to the Auction Agent.

(c) "Broker-Dealer Agreement" shall mean this Broker-Dealer Agreement and any substantially similar agreement among the Company, the Auction Agent and a Broker-Dealer.

(d) "Closing Date" shall mean April 15, 2003.

(e) "Settlement Procedures" shall mean the Settlement Procedures for the Bonds and shall be substantially in the form attached hereto as EXHIBIT A.

1.3 *Rules of Construction.* Unless the context or rules indicates another or different meaning or intent, the following rules shall apply to the construction of this Broker-Dealer Agreement:

(a) Words importing the singular number shall include the plural number and vice versa.

(b) The captions and headings herein are solely for the convenience of reference and shall not constitute a part of this Broker-Dealer Agreement nor shall they affect its meaning, construction or effect.

(c) The words "hereof," "herein," "hereto" and other words of similar import refer to this Broker-Dealer Agreement as a whole.

(d) All references herein to a particular time of day shall be to New York City time.

(e) Each reference to the purchase, sale or holding of Bonds shall refer to beneficial ownership interests in Bonds unless the context clearly requires otherwise.

1.4 *Warranties of BD.* BD hereby represents and warrants that this Broker-Dealer Agreement has been duly authorized, executed and delivered by BD and that, assuming the due authorization, execution and delivery hereof by the Auction Agent and the Company, this Broker-Dealer Agreement constitutes a valid and binding agreement of BD, enforceable against it in accordance with its terms.

SECTION 2. THE AUCTION.

2.1 *Purpose; Incorporation by Reference of Auction Procedures and Settlement Procedures.*

(a) The Auction Procedures will be followed by the Auction Agent for the purpose of determining the Auction Mode Rate for each Auction Period after the Initial Period for the Bonds. Each periodic implementation of such procedures is hereinafter referred to as an "Auction."

(b) All of the provisions contained in the Auction Procedures and the Settlement Procedures are incorporated herein by reference in their entirety and shall be deemed to be a part of this Broker-Dealer Agreement to the same extent as if such provisions were fully set forth herein.

(c) BD agrees to act as, and assumes the obligations of, and limitations and restrictions placed upon, a Broker-Dealer under this Broker-Dealer Agreement. BD understands that other Persons meeting the requirements specified in the definition of "Broker-Dealer" contained in the Indenture may execute Broker-Dealer Agreements and participate as Broker-Dealers in Auctions. BD agrees to handle customer orders in accordance with its respective duties under applicable securities laws and rules.

(d) BD and other Broker-Dealers may participate in Auctions for their own accounts. The Company may, however, by notice to BD and all other Broker-Dealers, prohibit all of the Broker-Dealers from submitting Bids in Auctions for their own accounts, provided that Broker-Dealers may continue to submit Hold Orders and Sell Orders. Notwithstanding the foregoing, if BD is an affiliate of the Company it may not submit Bids to purchase Bonds in Auctions for its own account, but may submit Hold Orders and Sell Orders in Auctions with respect to Bonds otherwise acquired for its own account. The Auction Agent shall be under no duty or liability with respect to monitoring compliance with this Section 2.1(d).

2.2 *Preparation for Each Auction.*

(a) Not later than 9:30 A.M. on each Auction Date, the Auction Agent shall advise the Broker-Dealers by telephone or other electronic communication acceptable to the parties of the All Hold Rate, the Maximum Auction Rate and the Reference Rate.

(b) On the Closing Date and from time to time thereafter as the Auction Agent may request, BD shall provide the Auction Agent with a list, substantially in the form of EXHIBIT E hereto, of the names of its customers that it believes are Existing Owners of the Bonds and the principal amount of Bonds held by each of such customers. The Auction Agent shall not disclose any such information so provided to any Person other than the Trustee, the Issuer, the Company or BD except as otherwise required by law.

(c) Not later than 3:00 P.M. on the Record Date preceding each Auction Date, the Auction Agent shall notify BD of any change in the aggregate principal

amount of Bonds, as of the opening of business on such Record Date by delivering a notice to BD by telecopy or other electronic communication acceptable to the parties.

2.3 *Auction Schedule; Method of Submission of Orders.*

(a) The Auction Agent shall conduct Auctions for the Bonds in accordance with the schedule set forth below. Such schedule may be changed at any time by the Auction Agent at the written direction of the Company to reflect then currently accepted market practices for similar auctions. The Auction Agent shall give notice of any such change to BD, the Issuer, the Company and the Trustee, which notice shall be given prior to the close of business on the Business Day next preceding the first Auction Date on which any such change shall be effective.

| Time | Event |
|---|---|
| By 9:30 A.M. | Auction Agent advises the Broker-Dealers of the All Hold Rate, the Maximum Auction Rate and the Reference Rate, as set forth in Section 2.2(a) hereof. |
| 9:30 A.M.- 1:00 P.M. (11:00 A.M. in the case of a daily Auction Period). | Auction Agent assembles information communicated to it by Broker-Dealers as provided in Section 2.03 of Exhibit B to the Indenture. Submission Deadline is 1:00 P.M. (11:00 A.M. in the case of a daily Auction Period). |
| As soon as practical after 1:00 P.M. (by 11:30 A.M. in the case of a daily Auction Period). | Auction Agent makes determinations pursuant to Section 2.04 of Exhibit B to the Indenture. |
| By approximately 3:00 P.M. but not later than the close of business (by 12:00 Noon in the case of a daily Auction Period). | Submitted Bids and Submitted Sell Orders are accepted and rejected and Bonds allocated as provided in Section 2.05 of Exhibit B to the Indenture. Auction Agent gives notice of the Auction results as set forth in Section 2.4(a) hereof. |

(b) BD agrees, for the purpose of implementing the Auctions (and thereby achieving the lowest possible interest rate on the Bonds), to contact Potential Owners, including Persons that are not Existing Owners, prior to the Submission Deadline on each Auction Date to determine the principal amount of Bonds, if any, that each such Potential Owner offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum requested by such Potential Owner. BD further agrees, upon request, to deliver a copy of the Auction Procedures and other relevant documents prepared for the purpose of disclosure to Potential Owners by the Issuer and the

Company relating to the Bonds to each Potential Owner prior to such Potential Owner's participation in any Auction.

(c) In each Auction in which BD submits one or more Orders, BD shall submit a separate Order to the Auction Agent for each Potential Owner or Existing Owner on whose behalf BD is submitting an Order and shall not net the Orders of different Potential Owners or Existing Owners on whose behalf BD is submitting Orders. Each Order shall be in writing in substantially the form attached hereto as EXHIBIT B or in such other form as may be reasonably acceptable to the Auction Agent.

(d) BD shall deliver to the Auction Agent (i) a written notice, substantially in the form attached hereto as EXHIBIT C, of transfers of Bonds made through BD by an Existing Owner to another Person other than pursuant to an Auction, and (ii) a written notice, substantially in the form attached hereto as EXHIBIT D, of the failure of any Bond to be transferred to or by any Person that purchased or sold Bonds through BD pursuant to an Auction. The Auction Agent is not required to accept any such notice specified in this Subsection (d) for an Auction if it is received by it after 3:00 P.M. on the Business Day preceding such Auction.

2.4 *Notices.*

(a) On each Auction Date, the Auction Agent shall notify BD by telephone or other electronic communication acceptable to the parties of the results of the Auction as set forth in paragraph (a) of the Settlement Procedures. As soon as reasonably practicable thereafter, the Auction Agent shall notify BD, if so requested, in writing of the disposition of all Orders submitted by BD in the Auction held on such Auction Date.

(b) The Auction Agent shall notify BD of any change in the Auction schedule set forth in Section 2.3(a) hereof.

(c) BD shall notify each Existing Owner or Potential Owner on whose behalf BD has submitted an Order as set forth in paragraph (b) of the Settlement Procedures, and take such other action as is required of BD pursuant to the Settlement Procedures.

(d) The Auction Agent shall deliver to BD after receipt all notices and certificates which the Auction Agent is required to deliver to BD pursuant to Section 2 of the Auction Agreement at the times and in the manner set forth in the Auction Agreement.

2.5 *Compensation.*

(a) The initial rate of Broker-Dealer compensation (the "Broker-Dealer Fee Rate") shall equal .25 of 1% per annum. The Broker-Dealer Fee (hereinafter defined) for the Bonds shall be paid by the Company and represents compensation for the services of the Broker-Dealer in facilitating Auctions for the benefit of the beneficial owners of the Bonds. The Broker-Dealer Fee Rate may be adjusted from time to time with the approval of the Company upon a written request of the Broker-Dealer delivered to the Company.

(b) While the Bonds are in an Auction Period on each Interest Payment Date following each Auction Date, each Broker-Dealer shall be entitled to receive an

amount (the "Broker-Dealer Fee") equal to the product of (x) .25 of 1% multiplied by (y)(A) if an Auction was held on such Auction Date, the sum of the aggregate principal amount of Bonds that were (1) the subject of a valid Hold Order of an Existing Owner submitted by such Broker-Dealer, (2) the subject of a Submitted Bid of an Existing Owner submitted by such Broker-Dealer and continued to be held by such Existing Owner as a result of such Auction, (3) the subject of a Submitted Bid of a Potential Owner submitted by such Broker-Dealer and were purchased by such Potential Owner as a result of such Auction and (4) deemed to be the subject of a Hold Order by an Existing Owner that were acquired by such Existing Owner from such Broker-Dealer or (B) if an Auction was not held on such Auction Date, the aggregate principal amount of Outstanding Bonds that were acquired by an Existing Owner through such Broker-Dealer, multiplied by (z) a fraction, the numerator of which is the actual number of days in the Auction Period next succeeding such Auction Date and the denominator of which is 360. If the Bonds are in a daily Auction Period each Broker-Dealer shall be entitled to receive on each Interest Payment Date an amount equal to the sum calculated for each Auction Period in the preceding month of the product of (x) .25 of 1% multiplied by (y) the aggregate principal amount of Bonds for each Auction Period that were (1) the subject of a valid Hold Order submitted by such Broker-Dealer, (2) the subject of a Submitted Bid of an Existing Owner submitted by such Broker-Dealer and continued to be held by such Existing Owner as a result of such Auction, (3) the subject of a Submitted Bid of a Potential Owner submitted by such Broker-Dealer and were purchased by such Potential Owner as a result of such Auction, (4) deemed to be the subject of a Hold Order by an Existing Owner that were acquired by such Existing Owner from such Broker-Dealer and (5) if an Auction was not held for any Auction Period, the aggregate principal amount of Outstanding Bonds that were acquired by an Existing Owner through such Broker-Dealer, multiplied by (z) a fraction, the numerator of which is the number of days in the Auction Period and denominator of which is 360. The Broker-Dealer Fee shall be calculated by the Auction Agent, which shall be conclusive absent manifest error. Such amounts shall be communicated by the Auction Agent to the Company and the Trustee by 4:00 P.M. on the Business Day immediately preceding each Interest Payment Date. On or before 10:00 A.M. on each Interest Payment Date, the Company shall pay to the Trustee the amount due to the Broker-Dealer. By noon on each Interest Payment Date, to the extent of receipt of adequate funds from the Company, the Trustee shall deliver to the Auction Agent the amount constituting the Broker-Dealer Fee, by wire transfer of immediately available funds to such account as the Auction Agent may designate. The amount constituting the Broker-Dealer Fee shall be held by the Auction Agent on behalf of the Broker- Dealer, and immediately upon receipt of such Fee, the Auction Agent shall deliver such Fee to the Broker-Dealer, pursuant to the written instructions of the Broker-Dealer. If any Existing Owner who acquired Bonds through a Broker-Dealer transfers any such Bonds to another Person other than through an Auction, the Broker-Dealer for the Bonds so transferred shall continue to be the Broker-Dealer with respect to such Bonds, provided, however, that if the transfer was effected by, or if the transferee is, another Person who has met the requirements specified in the definition of "Broker-Dealer" contained in the Indenture and executed a Broker-Dealer Agreement, such Person shall be the Broker-Dealer for such Bonds.

2.6 *Settlement.*

(a) If any Potential Owner on whose behalf BD has submitted an Order fails to deliver funds with respect to any Auction, BD shall promptly deliver such funds to

the party entitled to receive such funds. If any Existing Owner on whose behalf BD has submitted an Order fails to instruct its Agent Member to deliver Bonds subject to such Order against payment therefor, BD shall instruct such Agent Member to deliver such Bonds against payment therefor. The delivery of funds by BD for the purchase of Bonds by a Potential Owner, as provided above, shall not relieve such Potential Owner of any liability to BD for payment for such Bonds. Notwithstanding the foregoing provisions of this Section 2.6(a), any delivery or nondelivery of Bonds which represents any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or non-delivery in accordance with the terms of Section 2.3(d) hereof. The Auction Agent shall have no duty or liability with respect to enforcement of this Section 2.6(a).

(b) The Auction Agent, the Trustee, the Company and the Issuer shall have no responsibility or liability with respect to the failure of an Existing Owner, a Potential Owner or its respective Agent Member to deliver Bonds or to pay for Bonds sold or purchased pursuant to the Auction Procedures or otherwise.

SECTION 3. THE AUCTION AGENT.

3.1 *Duties and Responsibilities of the Auction Agent.*

(a) The Auction Agent is acting solely as agent of the Trustee and owes no duties, fiduciary or otherwise, to any other person by reason of this Broker-Dealer Agreement, except as expressly set forth herein or in the Auction Agreement, and no implied duties, fiduciary or otherwise, shall be read into this Broker-Dealer Agreement.

(b) Each of the Auction Agent and the Company undertake to perform such duties and only such duties as are expressly set forth in this Broker-Dealer Agreement, or expressly incorporated herein by reference pursuant to Section 2.1 hereof, to be performed by each of the Auction Agent and the Company, and no implied covenants or obligations shall be read into this Broker-Dealer Agreement against the Auction Agent or the Company.

(c) In the absence of bad faith, gross negligence or willful misconduct on its part, the Auction Agent, whether acting directly or through agents or attorneys as provided in Section 3.2(d) hereof, shall not be liable for any action taken, suffered, or omitted or for any error of judgment made by it in the performance of its duties hereunder. The Auction Agent shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been grossly negligent in ascertaining the pertinent facts necessary to make such judgment. In no event shall the Auction Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including, but not limited to, lost profit), even if the Auction Agent has been advised of the likelihood of such loss or damage and regardless of the form of action.

(d) Upon termination of the Auction Agreement, the Auction Agent shall promptly deliver to the Company the Auction records and accompanying documentation and any other documents referred to in Section 2.8 therein to the extent not previously delivered to the Trustee.

(e) The Auction Agent shall: (i) not be required to and shall make no representations and have no responsibilities as to the validity, accuracy, value or genuineness of any signatures or endorsements, other than its own; or any document delivered pursuant to or as contemplated by this Broker-Dealer Agreement; (ii) not be obligated to take any legal action hereunder that might, in its judgment, involve any expense or liability, unless it has been furnished with reasonable indemnity; and (iii) not be responsible for or liable in any respect on account of the identity, authority or rights of any person executing or delivering or purporting to execute or deliver any document under this Broker-Dealer Agreement or any Broker-Dealer Agreement.

(f) The Auction Agent shall not be responsible or liable for any failure or delay in the performance of its obligations under this Broker-Dealer Agreement arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including without limitation, acts of God; earthquakes; fires; floods; wars; civil or military disturbances; terrorism; sabotage; epidemics; riots; interruptions; loss or malfunction of utilities, computer (hardware or software) or communications service; accidents; labor disputes; acts of civil or military authority or governmental actions; it being understood that the Auction Agent shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

3.2 *Rights of the Auction Agent.*

(a) The Auction Agent may conclusively rely upon, and shall be fully protected in acting or refraining from acting upon, any communication authorized hereby and upon any such written instruction, notice, request, direction, consent, report, certificate, share certificate or other instrument, paper or other document believed by it to be genuine. The Auction Agent shall not be liable for acting in good faith upon any such communication made by telephone or other electronic communication acceptable to the parties which the Auction Agent reasonably believes to have been given by the particular party or parties. To the extent permitted by law, the Auction Agent may record telephone communications with the Company, the Issuer, the Trustee and the Broker-Dealers, and each of such parties may record telephone communications with the Auction Agent.

(b) The Auction Agent may consult with counsel of its choice (provided such selection is made with reasonable care) and the advice of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(c) The Auction Agent shall not be required to advance, expend or risk its own funds or otherwise incur or become exposed to financial liability in the performance of its duties hereunder, except as may be required as a result of its own gross negligence, willful misconduct or bad faith.

(d) The Auction Agent may perform its duties and exercise its rights hereunder either directly or by or through agents or attorneys and shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed by it with due care.

(e) The Auction Agent shall have no obligation or liability in respect of the registration or exemption therefrom of the Bonds under federal or state securities laws in respect of the sufficiency or the conformity of any transfer of the Bonds pursuant to the terms of this Broker-Dealer Agreement, any other Broker-Dealer Agreement, the Indenture or any other document contemplated by any thereof.

SECTION 4. DISCLOSURE; INDEMNIFICATION.

4.1 *Disclosure.*

(a) The Company agrees to supply to BD, at the Company's expense, such number of copies of the Official Statement, dated April 11, 2003 (the "Official Statement"), as BD shall reasonably request from time to time and, upon request of BD, to amend the Official Statement so that the Official Statement will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

(b) If BD determines (upon consultation and mutual agreement with the Company) that it is necessary or desirable to use a disclosure statement (other than the Official Statement), relating specifically to the Bonds (a "Disclosure Statement") in connection with the solicitation of Orders for the Bonds, BD will notify the Company, and the Company will provide BD with a Disclosure Statement reasonably satisfactory to BD and its counsel. The Company will supply BD, at the Company's expense, with such number of copies of such Disclosure Statement as BD requests from time to time and will, upon request of BD, amend such Disclosure Statement (as well as the documents incorporated by reference therein) so that such Disclosure Statement will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. In connection with the use of any Disclosure Statement by BD in its solicitation of Orders for the Bonds (other than the Official Statement), the Company will furnish to BD such certificates, accountants' letters and opinions of counsel as would be customary in a public offering of tax-exempt securities underwritten by BD. In addition, the Company will, at its own expense, take all steps reasonably requested by BD that BD or its counsel may consider necessary or desirable to effect compliance with applicable federal or state securities laws.

4.2 *Indemnification.*

(a) The Company agrees to indemnify and hold harmless BD and each person, if any, who controls BD, within the meaning of Section 15 of the Securities Act of 1933, as amended (the "Securities Act"), against any and all losses, claims, damages, liabilities, joint or several, and expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Official Statement or the Disclosure Statement, or in any amendment or supplement thereto, or arising out of any omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect, except insofar as such losses, claims, damages, liabilities or expenses arise out of any such untrue statement or omission or any alleged untrue statement or omission made in any such documents in reliance

upon and in conformity with written information furnished to the Company by the BD specifically for use therein; provided, however, that the indemnity agreement contained in this Section 4.2 shall not inure to the benefit of BD (or of any person so controlling BD) to the extent of any losses, claims, damages, liabilities or expenses arising from the sale of the Bonds to any person if a copy of the Official Statement (exclusive of the documents incorporated by reference therein), as amended or supplemented at the time of such sale, shall not have been given or sent to such person by or on behalf of BD with or prior to the written confirmation of the sale involved.

(b) BD agrees to indemnify and hold harmless the Company, its directors and officers and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act against any and all losses, claims, damages, liabilities and expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Official Statement or the Disclosure Statement, or in any amendment or supplement thereto, or any omission or alleged omission to state therein any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, but only to the extent that such untrue statement or alleged untrue statement or omission or alleged omission was made in any such document in reliance upon and in conformity with written information furnished to the Company by BD specifically for use therein.

(c) The Company agrees with respect to any action against it, any of its directors or officers or any person controlling it as aforesaid, and BD agrees with respect to any action against it or any person controlling it as aforesaid, in respect of which indemnity may be sought hereunder, that it will promptly give written notice of the commencement of such action to the party or parties against whom indemnity may be sought; but the omission so to notify any indemnifying party will not relieve such indemnifying party from any liability which it may have to the indemnified party which failed to give such notice otherwise than under this Section 4.2 nor affect any rights such indemnifying party may have otherwise than under this Section 4.2 to participate in or assume the defense of any action brought against such indemnified party. Upon receipt of any such notice by an indemnifying party, such indemnifying party shall be entitled to assume the defense of such action, including the employment of counsel and the payment of all expenses in connection with such defense, and will have the right to negotiate and consent to settlement. Any indemnified party shall have the right to employ separate counsel in any such action against it and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless the employment of such counsel shall have been specifically authorized in writing by the indemnifying party or the indemnifying party shall have elected not to assume the defense of such action. No indemnifying party shall be liable for any settlement of any such action effected without its consent; but if any such action is settled with the consent of an indemnifying party or if there be a final judgment for the plaintiff in any such action (of which an indemnifying party shall have been notified as aforesaid), such indemnifying party shall indemnify and hold harmless each indemnified party from and against any losses, claims, damages, liabilities or expenses incurred or suffered by reason of such settlement or judgment.

SECTION 5. MISCELLANEOUS.

5.1 *Termination.* BD may be removed by the Auction Agent at the written direction of the Company, or may resign at any time, upon five Business Days' notice to the Auction Agent, the Trustee and the Company; provided, however, that BD may resign immediately if it determines, in its reasonable judgment, that for any reason, including, without limitation, (i) a pending or proposed change in applicable tax laws, (ii) a material adverse change in the financial condition of the Issuer or the Company, (iii) hostilities involving the United States, (iv) a down-rating of the Bonds, or (v) an imposition of material restrictions on the Bonds or similar obligations, it is not advisable to attempt to Auction the Bonds. The Auction Agent upon the written direction of the Company may terminate this Broker-Dealer Agreement at any time on five Business Days' notice to the other parties hereto; provided that this Broker-Dealer Agreement shall terminate upon the resignation or removal of the BD pursuant to this Section 5.1 or termination of the Auction Agreement.

5.2 *Participant.* BD is and for the term of this Broker-Dealer Agreement shall remain a member of, a participant in, or an affiliate of such a member or participant in DTC; and will give the Auction Agent, each other Broker-Dealer, the Company and the Trustee two Business Days' notice if it ceases to be so or if it changes its participation or affiliation to a different Securities Depository.

5.3 *Communications.* Except for (i) communications authorized to be by telephone pursuant to this Broker-Dealer Agreement or the Auction Procedures and (ii) communications in connection with Auctions (other than those expressly required to be in writing) all notices, requests and other communications to any party hereunder shall be in writing (including telecopy or similar writing or other electronic communication acceptable to the parties) and shall be given to such party, addressed to it, at its address, telecopy number or e-mail address set forth below and, where appropriate, reference the particular Auction to which such notice relates:

| | |
|---|---|
| If to BD addressed: | Banc of America Securities LLC<br>Interstate Tower<br>121 West Trade Street<br>Charlotte, North Carolina 28255<br>Attention: Vicky Lanier, Auction Trade Desk<br>FAX: (704) 388-0393<br>PHONE: (704) 386-8508 |
| If to the Auction Agent addressed: | The Bank of New York<br>100 Church Street, 8th Floor<br>New York, New York 10286<br>Attention: Corporate Trust Administration –<br>Dealing & Trading Group<br>FAX: (212) 437-6123<br>PHONE: (212) 437-6166 |
| If to the Issuer addressed: | Chairman of the Board of Commissioners |

223 Palafox Place
Pensacola, Florida 32597

If to the Company addressed:

Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32501
If by mail:
One Energy Place
Pensacola, Florida 32520
Attention: Treasurer

*with copies to*
Southern Company Services, Inc.
270 Peachtree Street, N.W.
Atlanta, Georgia 30303
Attention: Corporate Finance Department

or such other address, telecopy number or e-mail address as such party may hereafter specify for such purpose by notice to the other party. Each such notice, request or communication shall be effective (i) if given by telecopier, when such telecopy is transmitted to the telecopy number specified herein or (ii) if given by any other means, when delivered at the address specified herein. Communications shall be given on behalf of BD by a BD Officer and on behalf of the Auction Agent by an Authorized Officer.

5.4 *Entire Agreement.* This Broker-Dealer Agreement, and the other agreements and instruments executed and delivered in connection with the issuance of the Bonds, contain the entire agreement between the parties relating to the subject matter hereof, and there are no other representations, endorsements, promises, agreements or understandings, oral, written or inferred, between the parties relating to the subject matter hereof.

5.5 *Benefits; Successors and Assigns.* This Broker-Dealer Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the respective successors and assigns of BD and the Auction Agent. Nothing in this Broker-Dealer Agreement, express or implied, shall give to any person, other than the Auction Agent and BD and their respective successors and assigns, any benefit of any legal or equitable right, remedy or claim under this Broker-Dealer Agreement, other than the rights expressly granted to the Company herein.

5.6 *Amendment; Waiver.*

(a) This Broker-Dealer Agreement shall not be deemed or construed to be modified, amended, rescinded, canceled or waived, in whole or in part, except by a written instrument signed by a duly authorized representative of the parties hereto and consented to in writing by a duly authorized officer of the Trustee.

(b) Failure of any party to this Broker-Dealer Agreement to exercise any right or remedy hereunder in the event of a breach of this Broker-Dealer Agreement by any

other party shall not constitute a waiver of any such right or remedy with respect to any subsequent breach.

5.7 *Severability.* If any clause, provision or section of this Broker-Dealer Agreement shall be ruled invalid or unenforceable by any court of competent jurisdiction, the invalidity or unenforceability of such clause, provision or section shall not affect any of the remaining clauses, provisions or sections hereof.

5.8 *Execution in Counterparts.* This Broker-Dealer Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

5.9 *Governing Law.* This Broker-Dealer Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to conflict of laws principles.

5.10 *No Implied Duties.* Nothing contained in this Broker-Dealer Agreement, the Indenture or the Auction Agreement shall be deemed to imply any duties, covenants or obligations on the part of the Company not otherwise expressly set forth herein or therein.

IN WITNESS WHEREOF, the parties hereto have caused this Broker-Dealer Agreement to be duly executed and delivered by their proper and duly authorized officers as of the date first above written.

THE BANK OF NEW YORK
as Auction Agent

By: _____
Name: JOSEPH PANEFINTO
Title: VICE PRESIDENT

BANC OF AMERICA SECURITIES LLC
as Broker-Dealer

By: _____
Name: J David Hospodar
Title: Managing Director

GULF POWER COMPANY

By: _____
Name: Warren E. Tate
Title: Vice President, Secretary and Treasurer

EXHIBIT A

SETTLEMENT PROCEDURES FOR BONDS

(a) On each Auction Date, the Auction Agent shall notify by telephone or other electronic means or in writing each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Owner or Potential Owner of the following:

(i) the Auction Mode Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more other Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such other Broker-Dealers submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Mode Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected and (C) the immediately succeeding Auction Date;

(ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of Bonds to

be purchased pursuant to such Bid (including, with respect to Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bonds) against receipt of such Bonds; and

(iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through DTC the principal amount of Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order shall allocate any funds received by it pursuant to subparagraph (b) (ii) above, and any Bonds received by it pursuant to (b) (iii) above, among the Potential Owners, if any, on whose behalf such Broker-Dealer submitted Bids and the Existing Owners, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders and any Broker-Dealer identified to it by the Auction Agent pursuant to subparagraph (a)(v) above.

(d) On the Business Day after the Auction Date or, in the case of Bonds in a daily Auction Period, on such Auction Date, DTC shall execute the transactions described above, debiting and crediting the accounts of the respective Agent Members as necessary to effect the purchase and sale of Bonds as determined in the Auction.

EXHIBIT B

(Submit only one Order on this Order Form)
$32,550,000

Escambia County, Florida
Pollution Control Revenue Refunding Bonds
(Gulf Power Company Project)
Series 2003
(the "Bonds")

Attention:

_____
Date of Auction

The undersigned Broker-Dealer submits the following Order on behalf of the Bidder listed below:

Name of Bidder:_____

Bidder places the Order listed below covering the Bonds indicated (complete only one blank):

$_____ Bonds now held by Bidder (an Existing Owner), and the Order is a (check one):

_____ Hold Order; or

_____ Bid at rate of ____%; or

_____ Sell Order.

or

$_____ Bonds not now held by Bidder (a Potential Owner), and the Order is a Bid at a rate of _____%.

Notes: (1) If submitting more than one Order for one Bidder, use additional Order Forms.

(2) If one or more Orders covering in the aggregate more than the number of Outstanding Bonds held by any Existing Owner are submitted, such Orders

shall be considered valid in the order or priority set forth in the Auction Procedures.

(3) A Hold Order may be placed only by an Existing Owner covering a number of Outstanding Bonds not greater than the number of Outstanding Bonds currently held.

(4) Potential Owners may make only Bids, each of which must specify a rate. If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted shall be a separate Bid with the rate specified.

(5) Bids may contain no more than three figures to the right of the decimal point.

(6) An Order must be submitted in integral multiples of $1,000.

Name of Broker-Dealer:_____

By_____

EXHIBIT C

(To be used only for transfers of Bonds made
other than pursuant to an Auction)

$32,550,000

Escambia County, Florida
Pollution Control Revenue Refunding Bonds
(Gulf Power Company Project)
Series 2003
(the "Bonds")

TRANSFER FORM

_____
_____
_____
Attention:_____

_____, ____

Check I, II or III

_____ I. We are the Existing Owner named below.

_____ II. We are the Agent Member for such Existing Owner.

_____ III. We are a Broker-Dealer for such Existing Owner.

We hereby notify you that the Existing Owner named below has transferred:

$_____ Bonds to _____

Complete either I or II

I. Corporate Name of Existing Owner:

By: _____
Printed Name:
Title:

II. Corporate Name of Existing Owner:

_____
Name of Agent Member or Broker-Dealer
Submitting this notice:

_____

By: _____
Printed Name:
Title:

_____
Bonds may only be transferred in integral multiples of $1,000.

EXHIBIT D

(To be used for failure to deliver Bonds
sold pursuant to an Auction)

$32,550,000

Escambia County, Florida
Pollution Control Revenue Refunding Bonds
(Gulf Power Company Project)
Series 2003
(the "Bonds")

NOTICE OF FAILURE TO DELIVER

_____
_____
_____
Attention:_____

Complete either I or II _____,____ _____,____

I. We are a Broker-Dealer for _____ (the "Purchaser"), who was to purchase $_____ in the Auction held on _____.

II. We are a Broker-Dealer for _____ (the "Seller"), who was to sell $_____ Bonds in the Auction held on _____.

We hereby notify you that (check one) -

_____ the Seller failed to deliver such Bonds to us.

_____ the Purchaser failed to make payment to us upon delivery of such Bonds.

_____ the following Broker-Dealer failed to deliver to us such Bonds.

_____ the following Broker-Dealer failed to make payment to us upon delivery of such Bonds:

Name:_____

(Name of Broker-Dealer submitting this notice)

By:_____

Printed Name:

Title:

*Bonds may only be transferred in integral multiples of $1,000.

EXHIBIT E

TO BROKER - DEALER AGREEMENT

LISTING OF EXISTING OWNERS

of

$32,550,000

Escambia County, Florida
Pollution Control Revenue Refunding Bonds
(Gulf Power Company Project)
Series 2003
(the "Bonds")

_____
_____
_____
Attention:_____

The undersigned Broker-Dealer hereby provides the names and related principal amounts of each of its customers that it believes is an Existing Owner of Bonds:

| Name of Existing Owner | Principal Amount of Bonds |
|---|---|

Name of Broker-Dealer:

_____
By:_____
Name:
Title:

GULF POWER COMPANY

Letter of Representation

April 11, 2003

Board of County Commissioners
Escambia County, Florida

Banc of America Securities LLC
Charlotte, North Carolina

Ladies and Gentlemen:

Gulf Power Company (the "Company") delivers this Letter of Representation in order to induce Banc of America Securities LLC, as underwriter (the "Underwriter") and Escambia County, Florida (the "County") to enter into a Purchase Contract, to be dated the date hereof (the "Purchase Contract"), with the County relating to the purchase by the Underwriter from the County of $32,550,000 aggregate principal amount of its Escambia County, Florida Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) (the "Bonds"). The Bonds will be issued under and secured by a Trust Indenture, dated as of April 1, 2003 (the "Indenture"), between the County and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"). The proceeds of the Bonds are to be used, pursuant to the terms of a Loan Agreement, dated as of April 1, 2003 (the "Agreement"), between the County and the Company, to refund certain pollution control revenue bonds previously issued by the County to finance the acquisition, construction, installation and equipping of certain air and water pollution control and solid waste disposal facilities (the "Project") located at the Crist Steam Plant in Escambia County, Florida and the Lansing Smith Steam Plant in Bay County, Florida. The Company's payment obligations with respect to the Bonds under the Agreement will be evidenced by a non-negotiable promissory note equal in principal amount to the Bonds and bearing interest at the rate or rates borne by the Bonds (the "Note"). In addition, in connection with the issuance of the Bonds, the Company and the Trustee will enter into an Auction Agreement related to the Bonds dated as of April 1, 2003 (the "Auction Agreement") with The Bank of New York, as auction agent (the "Auction Agent"), providing, among other things, that the Auction Agent will follow certain auction procedures (each implementation thereof, an "Auction") for the purpose of determining the rate of interest which the Bonds will bear when such rate is to be determined by an Auction (the "Auction Rate"). The Company and the Auction Agent will also enter into a Broker-Dealer Agreement, dated as of April 1, 2003 (the "Broker-Dealer Agreement"), with Banc of America Securities LLC, as the broker-dealer. As used in this Letter of Representation the term "Official Statement" means the Official Statement of the County,

dated April 11, 2003 relating to the Bonds and certain other obligations described therein, including the Appendices thereto and the documents incorporated in Appendix A by reference.

1. In consideration of the execution and delivery of the Purchase Contract, the Company represents, warrants and covenants to and with the Underwriter and the County that:

(a) The Official Statement does not, and at the Closing Date (as defined in the Purchase Contract) the Official Statement, as it may be amended or supplemented, will not, include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that none of the representations and warranties in this Letter of Representation shall apply to statements in or omissions from the Official Statement under the captions "The County," "The Bonds-Book-Entry System," "Tax Exemption" or "Underwriting" or in the statements on the cover page with respect to the initial public offering price, tax exemption and terms of offering or on the Table of Contents page with respect to stabilization.

(b) The financial statements incorporated by reference in the Official Statement, together with the related schedules and notes, present fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of and for the dates indicated; said financial statements have been prepared in conformity with accounting principles generally accepted in the United States applied on a consistent basis throughout the periods involved and necessarily include amounts that are based on the best estimates and judgments of management. The selected financial data and the summary financial information, if any, included in the Official Statement present fairly the information shown therein and have been compiled on a basis consistent with that of the audited and unaudited financial statements incorporated by reference in the Official Statement.

(c) There has not been any material adverse change in the business, properties, or financial condition of the Company as a whole from that set forth in or contemplated by the Official Statement.

(d) The Company has not entered into any material transaction or incurred any material liability otherwise than in the ordinary course of business or as set forth in or contemplated by the Official Statement.

(e) This Letter of Representation has been, and the Agreement, the Auction Agreement, the Broker-Dealer Agreement and the Note, when executed and delivered by the Company, will be, duly authorized, executed and delivered by the Company, and assuming due authorization, execution and delivery thereof by the other parties thereto, will be legal, valid and binding obligations of the Company and will be

enforceable in accordance with their respective terms except as limited by any principles of public policy limiting the right to enforce the indemnification provisions of this Letter of Representation and the Broker-Dealer Agreement; and the Undertaking (as defined in the Purchase Contract), when executed and delivered by the Company, will be duly authorized, executed and delivered by the Company.

(f) All necessary authorizations, approvals, consents or other orders of any governmental authority or agency for the execution and delivery by the Company of the Agreement, the Auction Agreement and the Broker-Dealer Agreement and for the issuance by the Company of the Note have been obtained and are in full force and effect.

(g) The execution of this Letter of Representation, the Auction Agreement, the Broker-Dealer Agreement, the Undertaking and the Agreement, the issuance and delivery of the Note, the consummation of the transactions herein and therein contemplated and the fulfillment of the terms hereof and thereof, did not or will not result in a breach of any of the terms and provisions of, or constitute a default under, any indenture, mortgage, deed of trust or other agreement or instrument to which the Company is a party (except for breaches or defaults which would not, individually or in the aggregate, be materially adverse to the Company or materially adverse to the transactions contemplated by the Purchase Contract and this Letter of Representation), or of the Company's charter or by-laws or, to the knowledge of the Company, any order, rule or regulation applicable to the Company of any court or of any Federal or State regulatory body or administrative agency or other governmental body having jurisdiction over the Company or over any of its activities or its properties.

(h) The Company is a corporation duly organized and existing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged and to own and operate the properties used by it in such business.

(i) To the best of the Company's knowledge, the Securities and Exchange Commission has not issued, and is not threatening to issue, any order preventing or suspending the use of the Preliminary Official Statement, dated April 8, 2003 relating to the Bonds and certain other obligations of the Company described therein (the "Preliminary Official Statement") or the Official Statement.

(j) Except as disclosed in or contemplated by the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body known to the Company to be pending or threatened against or directly affecting the Company, nor to the best of the knowledge of the Company is there any basis therefor, wherein an unfavorable decision, ruling or finding (i) would have a material adverse effect on the transactions contemplated by the Purchase Contract or the Official Statement (excluding transactions contemplated solely by

Appendix A thereto and the documents incorporated in Appendix A by reference), or (ii) would adversely affect the validity or enforceability of the Bonds, the Indenture, the Agreement, the Note, the Purchase Contract or this Letter of Representation, or any agreement or instrument to which the Company is a party, used or contemplated for use in connection with the consummation by the Company of the transactions contemplated by the Purchase Contract or by the Official Statement (excluding transactions contemplated solely by Appendix A thereto and the documents incorporated in Appendix A by reference).

(k) The Company will not take or omit to take any action the taking or omission of which would cause the proceeds from the sale of the Bonds to be applied in a manner contrary to that provided for in the Indenture and the Agreement, as amended from time to time.

(l) The Company will cooperate with the Underwriter and its counsel in any endeavor to qualify the Bonds for offering and sale under the securities or "blue sky" laws of such jurisdictions of the United States as the Underwriter may request; provided, however, that the Company shall not be required with respect to the offering or sale of the Bonds to file written consent to suit or to file written consent to service of process in any jurisdiction in which the Bonds may be offered or sold.

(m) The Company acknowledges the terms of the Purchase Contract as they relate to it and the Company will pay the fees, costs and expenses to be paid by it pursuant to Section 8 of the Purchase Contract (subject to the terms and conditions set forth therein).

(n) The Bonds, the Indenture, the Agreement, the Auction Agreement, the Broker-Dealer Agreement and the Note conform in all material respects to the descriptions thereof in the Official Statement.

(o) If at any time prior to the completion of the sale of the Bonds by the Underwriter when in the judgment of the Underwriter, it is necessary or desirable to deliver an Official Statement in connection with the sale of the Bonds an event occurs as a result of which, in the opinion of Dewey Ballantine LLP, counsel for the Underwriter, Appendix A to the Official Statement as then amended and supplemented (including any documents incorporated therein by reference) would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, the Company promptly will prepare an amendment or supplement to said Appendix (or in its discretion, make an appropriate filing pursuant to Section 13 or 14 of the Securities Exchange Act of 1934, as amended) which will correct such statement or omission; provided that any such amendment or supplement which is requested by the Underwriter more than 90 days after the Closing Date shall be prepared at the Underwriter's expense.

(p) During such period (not to exceed nine months after the Closing Date) as the Underwriter believe delivery of the Official Statement is necessary or desirable in connection with the sales of the Bonds by the Underwriter or dealers, if any, the Company will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement, insofar as it shall be known to the Company, and the Company agrees not to effect any such amendment or supplementation of the Official Statement which is unsatisfactory in form to Dewey Ballantine LLP or in substance to the Underwriter; the Company will also advise the Underwriter promptly of the institution of any proceedings by the Securities and Exchange Commission or any other action or event of which the Company is aware and which may affect the use of the Official Statement in connection with the sale and distribution of the Bonds.

2. The acceptance and confirmation of this Letter of Representation by the County shall constitute a representation and warranty by the County to the Company that the representations and warranties contained in Section 4 of the Purchase Contract are true as of the date hereof and will be true in all material respects as of the Closing Date.

3. (a) The Company agrees to indemnify and hold harmless the County, any official or employee of the County, the Underwriter, and each person, if any, who controls the Underwriter within the meaning of Section 15 of the Securities Act of 1933, as amended (the "Securities Act"), against any and all losses, claims, damages, liabilities and expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Official Statement or the Official Statement, or in any amendment or supplement thereto, or arising out of any omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect, except insofar as such losses, claims, damages, liabilities or expenses arise out of any such untrue statement or omission or alleged untrue statement or omission made in any such documents in reliance upon and in conformity with written information furnished to the Company by the Underwriter specifically for use therein; provided, however, that the indemnity agreement contained in this Section 3(a) shall not inure to the benefit of the Underwriter (or of any person so controlling the Underwriter) to the extent of any losses, claims, damages, liabilities or expenses arising from the sale of the Bonds to any person if a copy of the Official Statement (exclusive of the documents incorporated in Appendix A by reference), as amended or supplemented at the time of such sale, shall not have been given or sent to such person by or on behalf of the Underwriter with or prior to the written confirmation of the sale involved.

(b) The Underwriter agrees to indemnify and hold harmless the Company, its directors and officers and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act, the County and any official or employee of the County, against any and all losses, claims, damages, liabilities and

expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Official Statement, or in any amendment or supplement thereto, or any omission or alleged omission to state therein any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, but only to the extent that such untrue statement or alleged untrue statement or omission or alleged omission was made in any such document in reliance upon and in conformity with written information furnished to the Company or the County by the Underwriter specifically for use therein.

(c) The Company agrees with respect to any action against it, any of its directors or officers or any person controlling it as aforesaid, the Underwriter agrees with respect to any action against it or any person controlling it as aforesaid, and the County agrees with respect to any action against it, or any of its officers or employees, in respect of which indemnity may be sought hereunder, that it will promptly give written notice of the commencement of such action to the party or parties against whom indemnity may be sought; but the omission so to notify any indemnifying party will not relieve such indemnifying party from any liability which it may have to the indemnified party which failed to give such notice otherwise than under this Section 3 nor affect any rights such indemnifying party may have otherwise than under this Section 3 to participate in or assume the defense of any action brought against such indemnified party. Upon receipt of any such notice by an indemnifying party, such indemnifying party shall be entitled to assume the defense of such action, including the employment of counsel and the payment of all expenses in connection with such defense, and will have the right to negotiate and consent to settlement. Any indemnified party shall have the right to employ separate counsel in any such action against it and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless the employment of such counsel shall have been specifically authorized in writing by the indemnifying party or the indemnifying party shall have elected not to assume the defense of such action. No indemnifying party shall be liable for any settlement of any such action effected without its consent; but if any such action is settled with the consent of an indemnifying party or if there be a final judgment for the plaintiff in any such action (of which an indemnifying party shall have been notified as aforesaid), such indemnifying party shall indemnify and hold harmless each indemnified party from and against any losses, claims, damages, liabilities or expenses incurred or suffered by reason of such settlement or judgment.

4. The Company will deliver or cause to be delivered all opinions, certificates and other documents as provided for in the Purchase Contract to be delivered by it.

5. The representations and warranties of the Company and the County contained herein, or in the certificates of officers of the Company or officials of the County submitted to the Underwriter pursuant to the Purchase Contract, and the agreements of the Company and the Underwriter contained in Section 3 hereof shall

remain operative and in full force and effect regardless of any investigation made by or on behalf of the County or any of its officials or employees, the Underwriter or controlling person thereof, or the Company or any of its directors or officers or controlling persons, and shall survive the delivery of the Bonds to the Underwriter. The Company's agreement contained in Section 1(m) hereof to pay expenses shall survive the termination of the Purchase Contract and this Letter of Representation.

6. This Letter of Representation is made solely for the benefit of the County, the Underwriter and the Company, and, to the extent expressly provided herein, any person referred to in Section 3 hereof, and their respective successors and assigns, and no other person, partnership, association or corporation shall acquire or have any right under or by virtue hereof. The terms "successors" and "assigns" shall not include any purchaser of Bonds from the Underwriter merely because of such purchase.

7. The execution and delivery of this Letter of Representation by the Company shall constitute the Company's approval of and consent to the County's entering into, acceptance and execution of the Purchase Contract and the Indenture and performance thereunder.

8. This Letter of Representation shall be governed by and construed in accordance with the laws of the State of Florida.

9. Any notice or other communication to be given to the Company under this Letter of Representation may be given by delivering the same in writing to the Treasurer of the Company at its address set forth below. Any notice or other communication to be given to the County may be given by delivering the same in writing to its address set forth in the Purchase Contract. Any notice or other communication to be given to the Underwriter may be given by delivering the same in writing at the address of the Underwriter set forth in the Purchase Contract. The Company, the County and the Underwriter shall each be fully entitled to rely upon notice given pursuant to this Section and to act thereon.

10. This Letter of Representation shall become effective upon execution thereof and the effectiveness of the Purchase Contract referred to herein. It shall terminate upon termination of the Purchase Contract.

11. This Letter of Representation may be executed in counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same instrument.

Very truly yours,

**GULF POWER COMPANY**
One Energy Place
Pensacola, Florida 32520-0102

By: _____
Name: Warren E. Tate
Title: Vice President, Secretary and Treasurer

Accepted and confirmed as of the
date first above written

**BANC OF AMERICA SECURITIES LLC**

By: _____
Name: J. David Hespodar
Title: Managing Director

**BOARD OF COUNTY COMMISSIONERS**
**Escambia County, Florida**

By: _____
Name: Marie K. Young
Title: Chairman

**$32,550,000**

# ESCAMBIA COUNTY, FLORIDA

**Pollution Control Revenue Refunding Bonds,**
**(Gulf Power Company Project)**
**Series 2003**

## PURCHASE CONTRACT

Ladies and Gentlemen:

Banc of America Securities LLC, as underwriter of the above-mentioned issuance (the "Underwriter"), hereby offers to enter into this Purchase Contract with you (the "County") for the purchase by the Underwriter and sale by the County of $32,550,000 aggregate principal amount of its Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003 (the "Bonds").

Upon the effectiveness of this Purchase Contract, Gulf Power Company (the "Company") is executing and delivering concurrently therewith a Letter of Representation, dated the date hereof (the "Letter of Representation") and in the form of Exhibit H hereto, wherein the Company will undertake certain obligations with respect to this Purchase Contract. Defined terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in the Official Statement (as hereinafter defined).

1. Upon the terms and conditions and upon the basis of the representations, warranties and covenants set forth herein and in the Letter of Representation, (i) the Underwriter hereby agrees to purchase the Bonds from the County for offering to the public, and the County hereby agrees to sell the Bonds to the Underwriter for such purpose, for a purchase price of 100% of the principal amount of the Bonds and (ii) the Company agrees to pay $113,925 to the Underwriter as an underwriting fee (the "Fee"). The Underwriter agrees that the initial public offering price for the Bonds shall be 100% of the principal amount thereof.

2. The Bonds shall be as described in and shall be issued under and secured by a Trust Indenture, dated as of April 1, 2003 (the "Indenture"), by and between the County and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"), to be executed and delivered on or prior to the Closing Date (as hereinafter defined). In addition, in connection with the issuance of the Bonds, the Company and the Trustee will enter into an Auction Agreement related to the Bonds, dated as of April 1, 2003 (the "Auction Agreement") with The Bank of New York, as auction agent (the "Auction Agent"), providing, among other things, that the Auction Agent will follow certain auction procedures (each implementation thereof, an "Auction") for the purpose of determining the rate of interest which the Bonds will bear when such rate is to be determined by an Auction (the "Auction Rate"). The Company and the Auction Agent will also enter into a Broker-Dealer Agreement, dated as of April 1, 2003 (the "Broker-Dealer Agreement") with Banc of America Securities LLC, as broker-dealer (in such capacity, the "Broker-Dealer"). The County has previously executed and delivered a Blanket

Letter of Representations (the "DTC Letter") covering the Bonds to The Depository Trust Company ("DTC").

The Bonds shall be issued as required by the provisions of a Loan Agreement, dated as of April 1, 2003 (the "Agreement"), between the County and the Company to be executed and delivered on or prior to the Closing Date providing, among other things, for the undertaking by the County to loan amounts to the Company in order to refund certain pollution control revenue bonds previously issued by the County to finance the acquisition, construction, installation and equipping of certain air and water pollution control and solid waste disposal facilities (collectively, the "Project") located at the Crist Steam Plant in Escambia County, Florida and the Lansing Smith Steam Plant in Bay County, Florida. To evidence the loan made pursuant to the Agreement, the Company will execute and deliver, concurrently with the issuance of the Bonds, a non-negotiable promissory note (the "Note") in a like principal amount bearing interest at the rate or rates borne by the Bonds. The Bonds are more fully described in the Official Statement, dated April 11, 2003. As used in this Purchase Contract, the term "Official Statement" means the Official Statement, dated the date hereof, including the Appendices thereto (the "Appendices") and the documents incorporated by reference in Appendix A at such date.

3. At the time of or before the acceptance by the County hereof, the County shall deliver to the Underwriter a copy of the Official Statement executed on behalf of the County by an authorized representative of the County.

The County authorizes the use of the Official Statement, the Agreement and the Indenture, and the information therein contained, by the Underwriter in connection with the public offering and sale of the Bonds. The County ratifies and confirms the use by the Underwriter prior to the date hereof of the Preliminary Official Statement of the County, dated April 8, 2003 (the "Preliminary Official Statement"), in connection with the public offering of the Bonds.

The County deemed the Preliminary Official Statement "final" as of its date, as described in Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule"), for purposes of the Rule, except for the omission of no more than the following information: the offering prices, interest rates, selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the securities depending on such matters. The County, at the cost of the Company, shall provide to the Underwriter sufficient quantities of the Official Statement which the County deems complete as of its date, executed by an authorized representative of the County, in substantially the same form as the Preliminary Official Statement, subject to minor additions, deletions and revisions, within seven business days after the effective date of this Purchase Contract and in sufficient time to accompany any confirmation that requires payment from any customer. The County agrees to notify the Underwriter and the Company of any material developments impacting the County or the Bonds, of which the County becomes aware, within 90 days after delivery of the Bonds.

4. The County represents and warrants to the Underwriter and the Company that:

(a) The County is a validly existing political subdivision of the State of Florida. The County is authorized by the full legal right, power and authority under the laws of the State

of Florida, including, particularly, the provisions of Chapter 159, Florida Statutes, Sections 159.25 to 159.431, inclusive (the "Act"), to issue the Bonds for the purpose described in this Purchase Contract; to assign under the Indenture substantially all of its rights in and to the Note and the Agreement as security for the payment of the principal of, purchase price, premium, if any, and interest on the Bonds; to enter into and comply with the provisions of the DTC Letter; to accept the Letter of Representation; to sell and deliver the Bonds to the Underwriter as provided herein; and to carry out and consummate all other transactions contemplated on the part of the County by each of the aforesaid documents and the Official Statement.

(b) The County has complied with all provisions of the Constitution of the State of Florida and the Act and has full power and authority to consummate all transactions contemplated on the part of the County by the Official Statement, this Purchase Contract, the Bonds, the Indenture, the Agreement and any and all other agreements relating thereto.

(c) The County has duly authorized all necessary action to be taken by it for: (i) the issuance and sale of the Bonds upon the terms set forth herein and in the Official Statement and the Indenture; (ii) the execution and delivery by it of the Indenture providing for the issuance of and security for the Bonds and the appointment of the Trustee as trustee, paying agent and bond registrar under the Indenture; (iii) the approval of the Official Statement and the signing of the Official Statement by its authorized representative; (iv) the lending of the proceeds of the Bonds to the Company; (v) the execution, delivery, receipt and due performance of this Purchase Contract, the Bonds, the Indenture, the Agreement, the DTC Letter and any and all such other agreements and documents as may be required to be executed, delivered and received by the County in order to carry out, give effect to and consummate the transactions contemplated thereby and by the Official Statement; (vi) the acceptance of the Letter of Representation; and (vii) the carrying out, giving effect to and consummation of the transactions contemplated on the part of the County by this Purchase Contract, the Official Statement, the Indenture and the Agreement.

(d) With respect to information contained under the captions "Introductory Statement," "The County," "Use of Bond Proceeds; Refunding of Outstanding Bonds" and "The Bonds," the Official Statement does not, and at the Closing Date the Official Statement, as it may be amended or supplemented, will not, include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(e) The Bonds, when issued, delivered and paid for as herein and in the Indenture provided, will have been duly authorized and issued and will constitute valid and binding obligations of the County enforceable in accordance with their terms and entitled to the benefits and security of the Indenture and the Agreement. The Bonds and the interest thereon do not pledge the credit of the County or the State of Florida, nor are they a charge against the general revenues of such entities or a lien against any of their property except as provided for in the Indenture. The Bonds are limited special obligations of the County and no taxes will be levied for the payment of principal of, purchase price, premium, if any, and interest on the Bonds, such principal, purchase price, premium and interest being payable solely out of the moneys to be received by the County from repayment of the Note.

(f) The County will apply the proceeds from the sale of the Bonds as specified in the Indenture and the Agreement.

(g) The execution and delivery of the Official Statement, this Purchase Contract, the Bonds, the Indenture, the Agreement, the DTC Letter and the other agreements contemplated on the part of the County hereby and by the Official Statement and compliance on the part of the County with the provisions thereof and the pledge and assignment to the Trustee of the Note and the Agreement and acceptance of and compliance with the provisions of the Letter of Representation will not conflict with or constitute on the part of the County a breach of or a default under any existing law, court or administrative regulation, decree or order or any agreement, indenture, mortgage, lease or other instrument to which the County is subject or by which it is or may be bound, or to the knowledge of the County, any order, rule or regulation applicable to the County of any court or governmental agency or body having jurisdiction over the County or any of its activities or properties; and all consents, approvals, authorizations and orders of governmental or regulatory authorities which are required for the consummation by the County of the transactions contemplated on the part of the County by said documents have been obtained.

(h) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending or, to the knowledge of the County, threatened against or directly affecting the County, except as disclosed in or contemplated by the Official Statement, (i) to restrain or enjoin the issuance and sale of the Bonds or the execution, delivery or performance by the County of the Agreement or the Indenture or (ii) wherein an unfavorable decision, ruling or finding would (A) have a material adverse effect on the transactions contemplated hereby or by the Official Statement (excluding the Appendices thereto and the documents incorporated in Appendix A by reference), (B) adversely affect or put in question the validity or enforceability of the Bonds, the Indenture, the Agreement, the DTC Letter, this Purchase Contract, the Letter of Representation or any other agreement, instrument or document to which the County is a party or by which it is bound relating to the consummation of the transactions contemplated hereby or by the Official Statement (excluding the Appendices thereto and the documents incorporated in Appendix A by reference), or (C) adversely affect the tax-exempt status of the Bonds.

(i) The County will not take or omit to take any action the taking or omission of which will cause the proceeds from the sale of the Bonds to be applied in a manner contrary to that provided for in the Indenture and the Agreement, as amended from time to time.

(j) Any certificate signed by an authorized officer of the County delivered to the Underwriter shall be deemed to be a representation and warranty by the County to the Underwriter as to the statements made therein.

(k) Except for bonds upon which the County is not obligated to pay principal or interest, the County has not since December 31, 1975 defaulted in the payment of the principal of or interest on any of its bonds, notes, warrants or any other securities or any legally authorized obligation issued by the County and is not currently in default in the payment of any such principal or interest.

(l) The County has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that the County is a bond County whose arbitrage certifications may not be relied upon.

(m) The issuance and sale of the Bonds to the Underwriter will not be subject to any State of Florida issuance, transfer or other documentary stamp taxes.

5. At 9:30 A.M. New York Time, on April 15, 2003, or at such other time or on such earlier or later business day as shall have been mutually agreed upon by the County and the Underwriter with the consent of the Company (the "Closing Date"), the County will deliver to the Underwriter the Bonds in definitive form, duly executed and authenticated, together with the other documents hereinafter mentioned, and the Underwriter will accept such delivery of the Bonds and pay the purchase price therefor in immediately available funds, payable to the order of the Trustee for the account of the County. The Company shall pay the Fee to the Underwriter for the account of the Underwriter on the Closing Date in immediately available funds. The Bonds so delivered will be in form acceptable for deposit with DTC and shall be registered in such names as the Underwriter may request no less than two business days prior to the Closing Date and will be available for checking and packaging by the Underwriter at a place suitable therefor at least 20 hours prior to the Closing Date.

6. The Underwriter's obligations hereunder to purchase and pay for the Bonds shall be subject to the performance by the County of its obligations to be performed hereunder at or prior to the Closing Date; to the performance by the Company of the other obligations and agreements to be performed by it at or prior to the Closing Date hereunder and under the Letter of Representation; and to the accuracy in all material respects of the representations and warranties of the County and of the Company contained herein and in the Letter of Representation, respectively, as of the date hereof and as of the Closing Date, and shall also be subject to the following conditions:

(a) At the Closing Date, the Indenture, the Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Note and the Letter of Representation shall have been duly authorized, executed and delivered by the respective parties thereto and shall be in full force and effect, and shall not have been materially amended, modified or supplemented except as may have been agreed to in writing by the Underwriter; provided, however, that the acceptance of delivery of the Bonds by the Underwriter on the Closing Date shall be deemed to constitute such agreement pursuant to the foregoing.

(b) At the Closing Date, the Bonds shall have been duly authorized, executed and authenticated in accordance with the provisions of the Indenture.

(c) No amendment or supplement to the Official Statement filed subsequent to the date hereof (including any filing made by the Company pursuant to Section 13 or 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) shall be unsatisfactory in form to Dewey Ballantine LLP, counsel for the Underwriter, or shall contain information (other than with respect to an amendment or supplement relating solely to the activity of the Underwriter) which, in the reasonable judgment of the Underwriter, shall materially impair the marketability of the Bonds.

(d) At or prior to the Closing Date, no order, decree or injunction of any court of competent jurisdiction, nor any order, ruling, regulation or administrative proceeding by any governmental official, body or board, shall have been issued or commenced, nor shall any legislation have been enacted, with the purpose or effect of prohibiting the issuance, offering or sale of the Bonds as contemplated hereby or by the Official Statement or the execution or performance of the Indenture, the Agreement, the Auction Agreement, the Broker-Dealer Agreement or the Note in accordance with their respective terms.

(e) At the Closing Date, there shall be in full force and effect all legally required orders of the Securities and Exchange Commission authorizing the participation of the Company in the transactions contemplated hereby and by the Official Statement (excluding the Appendices thereto and the documents incorporated in Appendix A by reference).

(f) At or prior to the Closing Date, the Underwriter shall have received the following documents:

(1) Executed counterparts, or certified copies, of the Agreement, the DTC Letter, the Indenture, the Auction Agreement, the Broker-Dealer Agreement, the Letter of Representation and the Note.

(2) Executed copies or photocopies of the applications to, including all amendments, and orders of, the Securities and Exchange Commission and the Florida Public Service Commission authorizing the participation of the Company in the transactions contemplated hereby and by the Official Statement.

(3) Opinions, dated the Closing Date, with such changes as the Underwriter shall approve, of (i) Balch & Bingham LLP, Bond Counsel substantially in the forms annexed hereto as Exhibits A-1 and A-2; (ii) Beggs & Lane, a Registered Limited Liability Partnership, General Counsel for the Company, substantially in the form annexed hereto as Exhibit B; (iv) Troutman Sanders LLP, Counsel for the Company, substantially in the form annexed hereto as Exhibit C; (v) and (vi) Dewey Ballantine LLP, Counsel for the Underwriter, substantially in the form annexed hereto as Exhibit D; and such counsel shall have been furnished with such documents as they may request for the purpose of enabling them to pass upon the matters to be covered by their respective opinions.

(4) An opinion, dated the Closing Date, of Janet Lander, counsel for the County, addressed also to Balch & Bingham LLP, to the effect that: (A) the County is a duly constituted political subdivision of the State of Florida, and in good standing under such laws and is authorized to exercise the powers under the Act, (B) the County has full legal right, power and authority (i) to adopt the resolution authorizing the Bonds (the "Resolution"), (ii) to enter into this Purchase Contract, the Agreement, the DTC Letter and the Indenture, (iii) to issue and deliver the Bonds to the Underwriter as provided in this Purchase Contract, and (iv) to carry out and consummate all other transactions contemplated by each of the aforesaid documents, and the County has complied with the provisions of the Act in all matters relating to such transaction, (C) the County has duly authorized (i) the execution, delivery and due performance of this Purchase Contract, the Bonds, the Agreement, the DTC Letter and the Indenture, (ii) the execution and delivery

of the Official Statement dated April 11, 2003 relating to the Bonds by the County and (iii) the taking of any and all such action as may be required on the part of the County to carry out, give effect to and consummate the transactions contemplated by such instruments, (D) the Indenture, the Agreement, the DTC Letter and this Purchase Contract have been duly authorized, executed and delivered by the County and, assuming the due authorization, execution and delivery by the other respective parties thereto, the Indenture, the Agreement, the DTC Letter and this Purchase Contract constitute valid, legally binding and enforceable obligations of the County, except to the extent that their enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and principles of equity affecting the availability of specific performance or other equitable relief, (E) the Note has been duly assigned to the Trustee, (F) the Resolution has been duly adopted by the County and constitutes the legal, valid and binding act of the County and has not been in any way amended, modified, rescinded or revoked, (G) the adoption of the Resolution, the execution and delivery of this Purchase Contract, the Bonds, the DTC Letter, the Agreement and the Indenture, the acceptance of the Letter of Representation and compliance with the provisions of each of such instruments will not conflict with or constitute a breach of, or default under, any commitment, agreement or other instrument to which the County is a party or by which it is bound, or under any existing law, rule, regulation, ordinance, judgment, order of decree to which the County is subject, (H) to their knowledge, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body, pending against or affecting the County, wherein an unfavorable decision, ruling or finding would materially adversely affect the transactions contemplated by this Purchase Contract or the transactions contemplated by the Official Statement, or which in any way would adversely affect the validity of the Resolution or the validity or enforceability of the Bonds, the Indenture, the Agreement or this Purchase Contract, (I) the County has pledged and assigned to the Trustee pursuant to the Indenture all of the County's right and interest in the Agreement (except for certain payments for indemnification and expenses), (J) the County has granted no other security interests in and to such rights and interest or in and to the trust funds created and held by the Trustee under the Indenture; and (K) the statements in the Official Statement under the caption "The County", insofar as they relate to the County purport to constitute summaries of the matters referred to therein, fairly and accurately summarize the matters summarized therein.

(5) A letter, dated the Closing Date, of Deloitte & Touche LLP, substantially to the effect set forth in Exhibit E hereto.

(6) A certificate, satisfactory to the Underwriter, of a duly authorized officer of the County satisfactory to the Underwriter, dated the Closing Date, to the effect that: (A) the County has duly performed all of its obligations to be performed in connection with the issuance and sale of the Bonds at or prior to the Closing Date and each of the representations and warranties of the County contained herein is true and correct as of the Closing Date; (B) the County has authorized, by all necessary action, the execution, delivery, receipt and due performance of the Indenture, the Agreement, this Purchase Contract, the Letter of Representation and any and all such other agreements and documents as may be required to be executed, delivered, received and/or performed by

the County in order to carry out, give effect to and consummate the transactions contemplated on its part by the Indenture, the Agreement and the Official Statement; (C) no litigation is pending, or to the best of his knowledge threatened, to restrain or enjoin the issuance or sale of the Bonds or in any way affecting any authority for or the validity of the Bonds, the Indenture or the Agreement or the existence or powers of the County or the right of the County to loan the proceeds of the Bonds to the Company or the collection of receipts and revenues pledged or to be pledged to pay the principal of, purchase price, premium, if any, and interest on the Bonds, including, without limitation, payments under the Agreement or the Note; and (D) neither the execution, delivery, receipt or due performance of the Indenture, the Agreement, this Purchase Contract or the other agreements contemplated hereby or by the Official Statement under the circumstances contemplated hereby or thereby, nor the compliance by the County with the provisions thereof, nor acceptance of the Letter of Representation, will conflict with or constitute on the part of the County a breach of or a default under any existing law, court or administrative regulation, decree or order or any agreement or other instrument to which the County is subject or by which it is or may be bound.

(7) A certificate, dated the Closing Date, of the President or any Vice President and the Treasurer or an Assistant Treasurer of the Company to the effect that:

(i) the representations and warranties contained in Section 1 of the Letter of Representation are true and correct at and as of the Closing Date and that the Company has satisfied all conditions therein contained to be satisfied at or prior to the Closing Date; and

(ii) there has not been any material adverse change in the business, properties or financial condition of the Company from that set forth in or contemplated by the Official Statement.

(8) An undertaking, dated the Closing Date, from the County and the Company (in form and substance satisfactory to the Underwriter) as required by paragraph (b)(5) of the Rule (the "Undertaking").

(9) Evidence satisfactory to the Underwriter that the Bonds have been rated "A2" by Moody's Investors Service, Inc.

(10) Such additional certificates, instruments and other documents as the Underwriter or its counsel may deem necessary to evidence the accuracy as of the Closing Date of the representations of the County and the Company contained herein and in the Letter of Representation, respectively, and the due performance or satisfaction by the County and the Company at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the County and the Company in connection with the issuance of the Bonds.

If the County or the Company shall be unable to satisfy the conditions of the obligations of the Underwriter contained in this Purchase Contract, or if the obligations of the Underwriter shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract

shall terminate and neither the Underwriter nor the County shall be under further obligation hereunder except as otherwise provided in Section 8 hereof.

7. The County agrees to cooperate with the Underwriter and its counsel and the Company (i) in arranging for the qualification of the Bonds for offer and sale under the securities or "blue sky" laws of such jurisdictions as the Underwriter may request; provided, however, that the County will not be required to execute a special or general consent to service of process or qualify as a foreign corporation in connection with any such qualification in any jurisdiction, and (ii) in applying for and securing ratings on the Bonds by Moody's Investors Service, Inc. and Standard & Poor's, a division of The McGraw-Hill Companies, Inc.

8. All expenses and costs incident to the authorization, issuance, printing, sale and delivery, as the case may be, of the Bonds, the Indenture, the Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Note, the DTC Letter, the Preliminary Official Statement, the Official Statement, the Letter of Representation and this Purchase Contract, including, without limitation, (i) fees and disbursements of Counsel for the Underwriter in connection with the qualification of the Bonds for sale under the securities or "blue sky" laws of various jurisdictions; (ii) the preparation and printing of the "blue sky" survey; (iii) any documentary, stamp or other taxes in connection with the issuance and sale of the Bonds hereunder; (iv) all filing, registration and recording fees and expenses; (v) fees of the Trustee, the Auction Agent and the Broker-Dealer; (vi) the fees and disbursements of Bond Counsel, Counsel for the Underwriter and Counsel for the County; and (vii) the Fee, shall be paid directly by the Company pursuant to the Letter of Representation. Nothing herein shall be construed to relieve the Underwriter of its liability for its default hereunder. The Underwriter shall pay all advertising expenses in connection with the public offering of the Bonds.

9. The Underwriter may terminate this Purchase Contract by written notification to the County and the Company if at any time at or prior to the Closing Date (i) legislation shall be enacted by the Congress or adopted by either house thereof or a decision shall be rendered by a federal court, including the Tax Court of the United States, or a ruling, regulation or official statement by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency shall be made, which has the purpose or effect of imposing federal taxation upon receipts, revenues or other income of the general character expected to be derived by the County, including, without limitation, payments under the Note, or upon interest received on bonds of the same kind and character as the Bonds which would have the effect of changing directly or indirectly the federal income tax consequences of interest on bonds of the same kind and character as the Bonds in the hands of the holders thereof, (ii) trading in securities on the New York Stock Exchange shall have been generally suspended or there shall have been a material disruption in settlement in securities generally, (iii) minimum or maximum ranges for prices shall have been generally established on the New York Stock Exchange by the Commission or by the New York Stock Exchange, (iv) a general banking moratorium shall have been declared by federal or New York State authorities or (v) there shall have occurred any outbreak or escalation of major hostilities in which the United States is involved, any declaration of war by the United States Congress or any other substantial national or international calamity or emergency (including, without limitation, acts of terrorism) affecting the United States, in any such case provided for in clauses (i) through (v) with the result that, in the opinion of the Underwriter, the marketability of the Bonds shall have been materially and adversely affected

thereby.

10. This Purchase Contract shall be governed by and construed in accordance with the laws of the State of Florida.

11. Any notice or other communication to be given to the County under this Purchase Contract may be given by delivering the same in writing to it at 223 Palafox Place, Pensacola, Florida 32597, Attention: Chairman of the Board of Commissioners. Any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to it at Banc of America Securities LLC, Interstate Tower, 121 West Trade Street, Charlotte, North Carolina 28255, Attention: Vicky Lanier, Auction Trade Desk.

12. This Purchase Contract will inure to the benefit of the County, the Underwriter and the Company and their respective successors and assigns, and no other person will have any right or obligation hereunder. The terms "successors" and "assigns" shall not include any purchaser of Bonds from the Underwriter solely by reason of such purchase.

13. The representations and warranties of the County contained herein, or in the certificates of officials of the County submitted to the Underwriter pursuant hereto, shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Underwriter and shall survive the delivery of the Bonds to the Underwriter.

14. This Purchase Contract may be executed in counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same instrument.

Dated: April 11, 2003

**BANC OF AMERICA SECURITIES LLC**

By: J David Hosfelder
Name: J David Hosfelder
Title: Managing Director

Accepted as of the date hereof:

**BOARD OF COUNTY COMMISSIONERS**
**OF ESCAMBIA COUNTY, FLORIDA**

By: Marie Young
Name: Marie K. Young
Title: Chairman

EXHIBIT A-1
to the
Purchase Contract

[LETTERHEAD OF BALCH & BINGHAM LLP]

April ___, 2003

Banc of America Securities LLC
Charlotte, North Carolina

Board of County Commissioners
Escambia County, Florida

Gulf Power Company
Pensacola, Florida

The Bank of New York Trust Company of Florida, N.A.
Atlanta, Georgia

Ladies and Gentlemen:

We have acted as Co-Bond Counsel in connection with the issuance by Escambia County, Florida (the "County") of $32,550,000 aggregate principal amount of its Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003 (the "Series 2003 Bonds"). The Series 2003 Bonds are being issued pursuant to the Florida Industrial Development Financial Act, which, as amended, appears as Part II of Chapter 159, Florida Statutes, Sections 159.25 to 159.431, inclusive, (the "Act"). The proceeds of the Series 2003 Bonds are to be used for the purpose of refunding certain pollution control revenue bonds previously issued by the County to finance the acquisition, construction, installation and equipping of certain air and water pollution control and solid waste disposal facilities (the "Project") located at the Crist Steam Plant in Escambia County, Florida and the Lansing Smith Steam Plant in Bay County, Florida.

The County has entered into a Loan Agreement, dated as of April 1, 2003 (the "Agreement"), with Gulf Power Company (the "Company") pursuant to which the County will loan the proceeds of the sale of the Series 2003 Bonds to the Company, which loan is to be evidenced by the Company's promissory note (the "Note").

All of the Series 2003 Bonds are issued or are to be issued under and pursuant to a Trust Indenture, dated as of April 1, 2003 (the "Indenture") by and between the County and The Bank of New York Trust Company of Florida, N.A., as trustee (said banking corporation and any bank or trust company becoming successor trustee under the Indenture being herein called "Trustee"), to be executed and delivered on or prior to the Closing Date (as hereinafter defined).

In our capacity as Co-Bond Counsel we have examined such documents, records of the County and other instruments as we deem necessary to enable us to express the

opinions set forth below, including original counterparts or certified copies of the Indenture, the Agreement and certain other documents. Our opinions regarding authority and actions by the County are based upon direct inquiries by us, examination of a certified copy of the proceedings of the County relating to the authorization and issuance of the Series 2003 Bonds and an opinion of Janet Lander, Counsel for the County, of even date herewith as to the authority, procedures and actions of the County in the authorization and issuance of the Series 2003 Bonds.

We have examined the single fully executed and authenticated Series 2003 Bond executed and authenticated on the date hereof.

Based on the foregoing, it is our opinion that, under existing law:

1. The County is a political subdivision of the State of Florida validly existing under Florida law, with full authority to issue the Series 2003 Bonds, to loan the proceeds of the sale of Series 2003 Bonds to the Company, and to execute, deliver and perform its obligations under the Agreement and the Indenture.

2. The Agreement has been duly authorized, executed and delivered by the County and the Company and constitutes a legal, valid and binding obligation of the County in accordance with its terms.

3. The Indenture has been duly authorized, executed and delivered by the County and constitutes a legal, valid and binding obligation of the County in accordance with its terms.

4. By the terms of the Indenture, the County's right in the Agreement and in all revenues and receipts received or to be received thereunder (except for rights to indemnification) have been effectively assigned to the Trustee as security for the Series 2003 Bonds. The Indenture creates a valid lien on the trust estate described therein.

5. The issuance and sale of the Series 2003 Bonds have been duly authorized by the County; the Series 2003 Bonds have been duly executed and delivered by the County and authenticated by the Trustee; and the Series 2003 Bonds are legal, valid and binding limited obligations of the County, payable in accordance with the terms of the Indenture and entitled to the benefit and security of the Indenture.

6. Under the Act, the Series 2003 Bonds and the interest thereon are exempt from all present Florida taxation, except estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations.

7. The interest on the Series 2003 Bonds is excludable from gross income for federal income tax purposes, except for interest on any Series 2003 Bond for any period during which it is held by a "substantial user" of a Project or a "related person" within the meaning of section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Series 2003 Bonds is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations, but such interest is taken into account in determining adjusted current earnings for the

purpose of computing the federal alternative minimum tax imposed on certain corporations. The opinion set forth in the first sentence of this paragraph is rendered in reliance upon certain certifications and representations of the County, the Trustee and the Company made at the time of issuance of the Series 2003 Bonds, and is subject to the condition that the County, the Trustee and the Company comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2003 Bonds in order that interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the Series 2003 Bonds to be included in gross income retroactively to the date of issuance. The County, the Trustee and the Company have covenanted to comply with such requirements. We express no opinion regarding other federal tax consequences arising with respect to the Series 2003 Bonds.

On the date of issuance of the Series 2003 Bonds, the Mississippi Business Finance Corporation (the "Mississippi Authority") will issue and deliver its Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) in the aggregate principal amount of $29,075,000 (the "Mississippi Bonds"). The proceeds of the Mississippi Bonds will be loaned by the Mississippi Authority to the Company to redeem certain bonds previously issued by the Mississippi Authority to finance or refinance facilities owned by the Company and located in the State of Mississippi. Under the provisions of the Code, the Series 2003 Bonds and the Mississippi Bonds may be aggregated and treated as a single issue of bonds for federal income tax purposes and the exclusion of the interest on the Series 2003 Bonds from gross income for federal income tax purposes may be dependent upon whether the interest on the Mississippi Bonds is excluded from gross income for federal income tax purposes. Contemporaneously with the issuance and delivery of the Mississippi Bonds, McGlinchey Stafford, PLLC, Jackson, Mississippi, will deliver its opinion as bond counsel to the effect that the interest on the Mississippi Bonds is excludable from gross income for federal income tax purposes. We will express no opinion relating to the Mississippi Bonds.

The obligations of the parties with respect to the documents described above are subject, in part, to the provisions of the Federal Bankruptcy Code and any applicable bankruptcy, insolvency, reorganization, moratorium or similar law relating to or affecting the enforcement of creditors' rights now or hereafter in effect. Such obligations are also subject to equity principles which may limit the specific enforcement of certain remedies, but which do not affect the validity of such documents and do not make inadequate other remedies available to the holders of the Series 2003 Bonds for the enforcement of such obligations.

Respectfully submitted,

EXHIBIT A-2
to the
Purchase Contract

[Letterhead of Balch & Bingham LLP]

April __, 2003

Banc of America Securities LLC
Charlotte, North Carolina

Ladies and Gentlemen:

Reference is made to our opinion delivered to you concurrently herewith relating to the $32,550,000 aggregate principal amount of Pollution Control Revenue Refunding bonds, (Gulf Power Company Project), Series 2003 (the "Bonds") of Escambia County, Florida (the "County") and Section 6(f)(3)(i) of the Purchase Contract, dated April ___, 2003 (the "Purchase Contract"), between the County and the Underwriter named therein (the "Underwriter"). Terms used herein and not defined herein shall have the meanings accorded to such term in the Purchase Contract.

We have reviewed the Official Statement incident to our activities as Co-Bond Counsel. During the course of such review, we participated in conferences with representatives of the Company, its counsel, and your counsel, at which conferences the contents of the Official Statement were discussed. With your consent, our review as Co-Bond Counsel, however, was limited to the information set forth in the Official Settlement on its cover page and under the captions "INTRODUCTORY STATEMENT," "THE COUNTY," "USE OF BOND PROCEEDS; REFUNDING OF OUTSTANDING BONDS," "THE BONDS" (excluding the information contained therein under the heading "THE BONDS – Book-Entry System" as to which no opinion is expressed) "THE AGREEMENT," "THE INDENTURE" and "TAX EXEMPTION".

Subject to the preceding paragraph, nothing has come to our attention which would cause us to believe that the information contained under the captioned headings described above in the Official Statement (other than the financial statements and other financial or statistical data contained therein, or incorporated therein by reference as to which we express no opinion) includes an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

The Purchase Contract has been duly authorized and accepted by the County and constitutes a valid and legally binding obligation of the County.

Such instruments as are required have been duly filed and recorded wherever necessary to perfect the security interests created by the Indenture.

The offer and sale of the Bonds do not require registration of the Bonds under the Securities Act of 1933, as amended, or qualification of the Indenture under the Trust Indenture Act of 1939, as amended.

This letter is furnished by us solely for the benefit of the Underwriter in connection with the provisions of the Purchase Contract and may not be relied upon by any other person.

Very truly yours,

EXHIBIT B
to the
Purchase Contract

[LETTERHEAD OF BEGGS & LANE]

_____, 2003

Banc of America Securities LLC
Charlotte, North Carolina

Board of County Commissioners
Escambia County, Florida

The Bank of New York Trust Company of Florida, N.A., as Trustee
Atlanta, Georgia

Re: $32,550,000 Escambia County, Florida Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with the purchase by Banc of America Securities LLC (the "Underwriter") of $32,550,000 aggregate principal amount of Escambia County, Florida Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003 (the "Bonds"), pursuant to the Purchase Contract dated April ___, 2003 (the "Purchase Contract"), between Escambia County, Florida (the "County") and the Underwriter.

We have examined (i) the Official Statement dated April ___, 2003 relating to the Bonds, including Appendix A thereto (the "Official Statement"), which incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002, and the Current Report on Form 8-K of the Company dated March 21, 2003, (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) the Trust Indenture relating to the Bonds, dated as of April 1, 2003 (the "Trust Indenture") between the County and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"); (iii) the Loan Agreement dated as of April 1, 2003 (the "Agreement") between the County and the Company; (iv) the promissory note dated April ___, 2003 (the "Note") in the aggregate principal amount of $32,550,000 issued by the Company pursuant to the Agreement; (v) the Purchase Contract; (vi) the Letter of Representation dated April ___, 2003 (the "Letter of Representation") among the Company, the County and the Underwriter; (vii) the Auction Agreement (the "Auction Agreement") dated as of April 1, 2003, among the Company, the Trustee and The Bank of New York, as auction agent (the "Auction Agent"); and (viii) the Broker-Dealer Agreement dated as of April 1, 2003 (the "Broker-Dealer Agreement") among the Company, the Auction Agent and Banc of America Securities LLC, as the broker-dealer. In addition, we have examined, and have relied as to matters of

fact upon, the documents delivered at the closing (except the Bonds of which we have examined a specimen), and upon originals or copies, certified or otherwise identified to our satisfaction, of such corporate records, agreements, documents and other instruments and such certificates or comparable documents of public officials and of officers and representatives of the County and the Company, and have made such other and further investigations, as we deemed relevant and hereinafter set forth.

We are of the opinion, relying as to matters of federal law of the United States on the opinion of even date herewith of Troutman Sanders LLP and relying as to matters of New York law upon the opinion dated the date hereof rendered by Dewey Ballantine LLP, that:

1. The Company is a corporation duly organized and existing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged to own and operate the properties owned and used by it in such business.

2. The Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Letter of Representation and the Note have been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery thereof by other parties thereto, constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Letter of Representation and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) and by any principles of public policy limiting the right to enforce the indemnification provisions contained in the Broker-Dealer Agreement and the Letter of Representation.

3. The statements made in the Official Statement under the captions "The Bonds," "The Agreement" and "The Indenture," insofar as they purport to constitute summaries of the terms of documents referred to therein, constitute accurate summaries of the terms of such documents in all material respects; provided that no opinion is expressed with respect to the information contained under the heading "The Bonds -- Book-Entry System."

4. All orders, consents or other authorizations or approvals of the Securities and Exchange Commission (the "Commission") and the Florida Public Service Commission legally required for the issuance of the Note and with respect to the authorization, execution and delivery of the Agreement by the Company have been obtained; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express

no opinion) is legally required for the issuance of the Note or the authorization, execution and delivery of the Agreement by the Company.

5. The execution and delivery of the Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Note and the Letter of Representation by the Company will not result in a breach of or constitute a default under the Charter or by-laws of the Company or any indenture, mortgage, deed of trust, agreement or other instrument, of which we have knowledge, to which the Company is a party or by which is or any of its property is bound or any order, rule or regulation applicable to the Company of any court or other governmental body having jurisdiction over the Company or any of its property.

We have no knowledge of any material litigation or proceedings pending or threatened which challenge the validity of the Note, the Agreement, the Auction Agreement, the Broker-Dealer Agreement or the Letter of Representation, or which seek to enjoin the performance of the Company's obligations thereunder.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Official Statement or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraph 3 above. In the course of the preparation by the County and the Company of the Official Statement, we participated in conferences with certain officers and employees of the Company, with representatives of Deloitte & Touche LLP, with other counsel for the Company, with your counsel and with Bond Counsel. In addition, in the course of the preparation by the Company of the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with your counsel and with representatives of Deloitte & Touche LLP. Based upon our examination of the Official Statement and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion or belief as to the financial statements or other financial or statistical data contained or incorporated by reference in the Exchange Act Documents, and (ii) we have no reason to believe that the Official Statement (including the Exchange Act Documents) contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Official Statement or the Exchange Act Documents or with respect to the information in the Official Statement under the captions "The County," "The Bonds -- Book-Entry System," "Underwriting" and "Tax Exemption."

We are members of the Florida Bar and we do not express any opinion herein concerning any law other than the law of the States of Florida, Mississippi and

Maine, and, to the extent set forth herein, the laws of the States of Georgia and New York and the federal law of the United States.

This opinion is rendered to you in connection with the above described transaction. This opinion may not be relied upon by you for any other purpose, or relied upon by, or furnished to, any other person, firm or corporation without our prior written consent, except that Dewey Ballantine LLP and Troutman Sanders LLP may rely on this opinion in giving their opinions pursuant to Section 6 of the Purchase Contract insofar as such opinions relate to matters of Florida, Mississippi and Maine law.

Very truly yours,

BEGGS & LANE

EXHIBIT C
to the
Purchase Contract

[LETTERHEAD OF TROUTMAN SANDERS LLP]

___, 2003

Banc of America Securities LLC
Charlotte, North Carolina

Board of Commissioners
Excambia County, Florida

The Bank of New York Trust Company of Florida, N.A., as Trustee
Atlanta, Georgia

Re: $32,550,000, Escambia County, Florida Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with the purchase by Banc of America Securities LLC (the "Underwriter") of $32,550,000 aggregate principal amount of Escambia County, Florida Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003 (the "Bonds"), pursuant to the Purchase Contract dated April ___, 2003 (the "Purchase Contract"), between Escambia County, Florida (the "County") and the Underwriter.

We have examined (i) the Official Statement dated April ___, 2003 relating to the Bonds, including Appendix A thereto (the "Official Statement"), which incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002 and the Current Report on Form 8-K of the Company dated March 21, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) the Trust Indenture relating to the Bonds, dated as of April 1, 2003 (the "Trust Indenture") between the County and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"); (iii) the Loan Agreement dated as of April 1, 2003 (the "Agreement") between the County and the Company; (iv) the promissory note dated April __, 2003 (the "Note") in the aggregate principal amount of $32,550,000 issued by the Company pursuant to the Agreement; (v) the Purchase Contract; (vi) the Letter of Representation dated April ___, 2003 (the "Letter of Representation") among the Company, the County and the Underwriter; (vii) the Auction Agreement (the "Auction Agreement") dated as of April 1, 2003, among the Company, the Trustee and The Bank of New York, as auction agent (the "Auction Agent");

and (viii) the Broker-Dealer Agreement dated as of April 1, 2003 (the "Broker-Dealer Agreement") among the Company, the Auction Agent and Banc of America Securities LLC, as the broker-dealer. In addition, we have examined, and have relied as to matters of fact upon, the documents delivered at the closing (except the Bonds of which we have examined a specimen), and upon originals or copies, certified or otherwise identified to our satisfaction, of such corporate records, agreements, documents and other instruments and such certificates or comparable documents of public officials and of officers and representatives of the County and the Company, and have made such other and further investigations, as we deemed relevant and hereinafter set forth.

In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Maine, Mississippi and Florida law upon the opinion dated the date hereof rendered to you by Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane") and relying as to matters of New York law upon the opinion dated the date hereof rendered by Dewey Ballantine LLP, that:

1. The Company is a corporation duly organized and existing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged and to own and operate the properties used by it in such business.

2. The Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Letter of Representation and the Note have been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery thereof by other parties thereto, constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Letter of Representation and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) and by any principles of public policy limiting the right to enforce the indemnification provisions contained in the Broker-Dealer Agreement and the Letter of Representation.

3. The statements made in the Official Statement under the captions "The Bonds," "The Agreement" and "The Indenture," insofar as they purport to constitute summaries of the terms of documents referred to therein, constitute accurate summaries of the terms of such documents in all material respects;

provided that no opinion is expressed with respect to the information contained under the heading "The Bonds -- Book-Entry System."

4. All orders, consents or other authorizations or approvals of the Securities and Exchange Commission (the "Commission") and the Florida Public Service Commission legally required for the issuance of the Note and with respect to the authorization, execution and delivery of the Agreement by the Company have been obtained; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance of the Note or the authorization, execution and delivery of the Agreement by the Company.

5. The Bonds are exempted securities within the meaning of Section 3(a)(2) of the Securities Act of 1933, as amended (the "Act"), and it is not necessary in connection with the sale of the Bonds to the public to register the Bonds or the Note under the Act or to qualify the Trust Indenture under the Trust Indenture Act of 1939, as amended.

In rendering the opinion expressed in paragraph 5 above, we have relied upon the legal opinion dated the date hereof, rendered by Balch & Bingham LLP, Bond Counsel, pursuant to the Purchase Contract as to the exclusion from gross income for federal income tax purposes of interest on the Bonds and have made no independent investigation with respect to such exclusion.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Official Statement or the Exchange Act Documents and take no responsibility therefor except as and to the extent set forth in paragraph 3 above. In the course of the preparation by the County and the Company of the Official Statement, we participated in conferences with certain officers and employees of the Company, with representatives of Deloitte & Touche LLP, with other counsel for the Company, with your counsel and with Bond Counsel. In addition, in the course of the preparation by the Company of the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with your counsel and with representatives of Deloitte & Touche LLP. Based upon our examination of the Official Statement and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in this case we express no opinion or belief as to the financial statements or other financial or statistical data contained or incorporated by reference in the Exchange Act Documents, and (ii) we have no reason to believe that the Official Statement (including the Exchange Act Documents) contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of circumstances under

which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Official Statement or the Exchange Act Documents or with respect to the information in the Official Statement under the captions "The County," "The Bonds -- Book-Entry System," "Underwriting" and "Tax Exemption".

We are members of the State Bar of Georgia and we do not express any opinion herein concerning any law other than the law of the State of Georgia and the federal law of the United States and, to the extent set forth herein, the laws of the States of Florida, Mississippi, Maine and New York.

This opinion is rendered to the addressees hereto in connection with the above described transaction. This opinion may not be relied upon by the addressees hereto for any other purpose, or relied upon by, or furnished to, any other person, firm or corporation without our prior written consent except that Dewey Ballantine LLP and Beggs & Lane may rely on this opinion in giving their opinions pursuant to Section 6 of the Purchase Contract insofar as such opinions relate to matters of Georgia law and except that Beggs & Lane may rely on this opinion in giving its opinion pursuant to Section 6 of the Purchase Contract insofar as such opinion relates to the federal law of the United States.

Very truly yours,

TROUTMAN SANDERS LLP

EXHIBIT D
to the
Purchase Contract

[LETTERHEAD OF DEWEY BALLANTINE LLP]

___, 2003

Banc of America Securities LLC
Interstate Tower
121 West Trade Street
Charlotte, North Carolina 28255

Re: $32,550,000, Escambia County, Florida Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003

Ladies and Gentlemen:

We have acted as counsel to the Banc of America Securities LLC (the "Underwriter") in connection with the purchase by the Underwriter of $32,550,000 aggregate principal amount of Escambia County, Florida Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003 (the "Bonds"), pursuant to the Purchase Contract dated April __, 2003 (the "Purchase Contract") between the Underwriter and Escambia County, Florida (the "County").

We have examined (i) the Official Statement dated April __, 2003 relating to the Bonds, including the Appendices thereto (the "Official Statement"), which incorporates by reference the Annual Report on Form 10-K of Gulf Power Company (the "Company") for the fiscal year ended December 31, 2002 and the Current Report on Form 8-K of the Company dated March 21, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) the Trust Indenture relating to the Bonds, dated as of April 1, 2003 (the "Indenture") between the County and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"); (iii) the Loan Agreement, dated as of April 1, 2003 (the "Agreement") between the Company and the County; (iv) the promissory note dated April ___, 2003 (the "Note") in the aggregate principal amount of $32,550,000 issued by the Company pursuant to the Agreement; (v) the Purchase Contract; (vi) the Letter of Representation dated April ___, 2003 (the "Letter of Representation") among the Company, the County and you; (vii) the Auction Agreement (the "Auction Agreement") dated as of April 1, 2003, among the Company, the Trustee and The Bank of New York, as auction agent (the "Auction Agent"); and (viii) the Broker-Dealer Agreement dated as of April 1, 2003 (the "Broker-Dealer Agreement") among the Company, the Auction Agent and Banc of America Securities LLC, as the broker-dealer. In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to

us at the closing (except the Bonds, of which we have examined a specimen), and upon originals or copies, certified or otherwise identified to our satisfaction, of such corporate records, agreements, documents and other instruments and such certificates or comparable documents of public officials and of officers and representatives of the County and the Company, and have made such other and further investigations, as we deemed relevant and necessary as a basis for the opinions hereinafter set forth.

In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

We understand that included among the opinions you are receiving concurrently herewith are opinions dated the date hereof of Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane"), general counsel to the Company, and Troutman Sanders LLP, counsel for the Company. In rendering this opinion, we have, with your consent, relied on said opinions of Beggs & Lane and Troutman Sanders LLP, to the extent that they relate to matters of conformity to the laws of the States of Maine, Florida, Georgia and Mississippi. With respect to the opinion expressed in paragraph (5) below, we have, with your consent, relied on an opinion of even date herewith rendered by Balch & Bingham LLP in its capacity as Co-Bond Counsel, to the effect, among other things, that interest on the Bonds, to the extent set forth in such opinion, is excluded from gross income for federal income tax purposes.

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion that:

1. The Company is a corporation duly organized and existing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged and to own and operate the properties used by it in such business.

2. The Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Letter of Representation and the Note have been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery thereof by other parties thereto, constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Letter of Representation and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law)

and by any principles of public policy affecting the right to enforce the indemnification provisions contained in the Broker-Dealer Agreement and the Letter of Representation.

3. The statements made in the Official Statement under the captions "The Bonds," "The Agreement" and "The Indenture," insofar as they purport to constitute summaries of the terms of documents referred to therein, constitute accurate summaries of the terms of such documents in all material respects; provided that no opinion is expressed with respect to the information contained under the heading "The Bonds-Book-Entry System."

4. All orders, consents or other authorizations or approvals of the Securities and Exchange Commission (the "Commission") and the Florida Public Service Commission legally required for the issuance of the Note and with respect to the authorization, execution and delivery of the Agreement by the Company have been obtained; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance of the Note or the authorization, execution and delivery of the Agreement by the Company.

5. The Bonds are exempted securities within the meaning of Section 3(a)(2) of the Securities Act of 1933, as amended (the "Act"), and it is not necessary in connection with the sale of the Bonds to the public to register the Bonds or the Note under the Act or to qualify the Indenture under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Official Statement or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraph 3 above. In the course of the preparation by the County and the Company of the Official Statement, we participated in conferences with certain officers and employees of the Company, with representatives of Deloitte & Touche LLP, with counsel for the Company and with Bond Counsel. In addition, in the course of the preparation by the Company of the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with representatives of Deloitte & Touche LLP and with counsel for the Company. Based upon our examination of the Official Statement and the Exchange Act Documents and our participation in the conferences referred to above (i) we are of the opinion that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion or belief as to the financial statements or other financial or statistical data contained or incorporated by reference in the Exchange Act Documents, and (ii) we have no reason to believe that the Official Statement (including the Exchange Act Documents) contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of circumstances under which they were made,

not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Official Statement or the Exchange Act Documents or with respect to the information in the Official Statement under the captions "The County," "The Bonds-Book-Entry System," "Underwriting" and "Tax Exemption."

We are members of the State Bar of New York and we do not express any opinion herein concerning any law other than the law of the State of New York and the federal law of the United States and, to the extent set forth herein, the laws of the States of Maine, Florida, Georgia and Mississippi.

This opinion is rendered to you in connection with the above described transaction. This opinion may not be relied upon by you for any other purpose, or relied upon by, or furnished to, any other person, firm or corporation without our prior written consent except that Beggs & Lane and Troutman Sanders LLP may rely on this opinion in giving their opinions pursuant to the Purchase Contract insofar as such opinions relate to matters of New York law.

Very truly yours,

DEWEY BALLANTINE LLP

EXHIBIT E
to the
Purchase Contract

[LETTERHEAD OF DELOITTE & TOUCHE LLP]

This letter will be to the effect that:

(A) Deloitte & Touche LLP are independent certified public accountants with respect to Gulf Power Company (the "Company") under Rule 101 of the American Institute of Certified Public Accountant's Code of Professional Conduct and its interpretations and rulings; (B) at the Underwriter's request, Deloitte & Touche LLP have performed, and will report their findings as a result of performing, certain limited procedures performed through a specified date not more than five business days prior to the date of such letter, namely (i) reading of the minute books of the Company; (ii) reading of the unaudited financial statements, if any, of the Company incorporated by reference in Appendix A to the Official Statement (the "Appendix") and agreeing the amounts contained therein with the Company's accounting records; (iii) reading the unaudited financial statements of the Company, from which the unaudited amounts for Operating Revenues, Earnings Before Income Taxes, Net Income After Dividends on Preferred Stock and the unaudited Ratio of Earnings to Fixed Charges included in the Appendix are derived and agreeing the amounts contained therein with the Company's accounting records; (iv) reading the latest available unaudited financial statements of the Company, if any, for any calendar quarter subsequent to that set forth in (iii) above and agreeing the amounts contained therein and the unaudited amounts of Operating Revenues, Earnings Before Income Taxes, Net Income After Dividends on Preferred Stock and the unaudited Ratio of Earnings to Fixed Charges for the period covered by such financial statements, which amounts and ratio shall be set forth in such letter, to the Company's accounting records; and (v) making inquiries of certain officials of the Company who have responsibility for financial and accounting matters regarding whether (a) the unaudited financial statements described in (ii) are in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited financial statements incorporated by reference in the Appendix; (b) the unaudited financial statements described in (iii) and (iv) are stated on a basis substantially consistent with that of the audited financial statements incorporated by reference in the Appendix; (c) the specified unaudited amounts or ratios described in (iii) and (iv) are stated on a basis substantially consistent with that of the corresponding audited amounts and ratios included or incorporated by reference in the Appendix; and (d) there has been any change in the capital stock or long-term debt or any decrease in net assets of the Company as compared with amounts shown in the latest audited balance sheet incorporated by reference in the Appendix, except in each case for changes or decreases which (i) the Appendix discloses have occurred or may occur, (ii) are occasioned by the declaration of dividends, (iii) are occasioned by draw-downs or regularly scheduled payments of capitalized lease obligations, (iv) are occasioned by the purchase or redemption of bonds or stock to satisfy mandatory or optional redemption provisions relating thereto, or (v) are disclosed in such letter (it being understood that the foregoing procedures do not constitute an

audit performed in accordance with generally accepted auditing standards and they would not necessarily reveal matters of significance with respect to the comments made in such letter, nor would they necessarily disclose changes in specified financial statement line items, inconsistencies in the application of generally accepted accounting principles, or other matters, and accordingly that Deloitte & Touche LLP make no representations as to the sufficiency of such procedures for the Underwriter's purposes).

EXHIBIT F
to the
Purchase Contract

GULF POWER COMPANY

Letter of Representation

___, 2003

Board of County Commissioners
Escambia County, Florida

Banc of America Securities LLC
Charlotte, North Carolina

Ladies and Gentlemen:

Gulf Power Company (the "Company") delivers this Letter of Representation in order to induce Banc of America Securities LLC, as underwriter (the "Underwriter") and Escambia County, Florida (the "County") to enter into a Purchase Contract, to be dated the date hereof (the "Purchase Contract"), with the County relating to the purchase by the Underwriter from the County of $32,550,000 aggregate principal amount of its Escambia County, Florida Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) (the "Bonds"). The Bonds will be issued under and secured by a Trust Indenture, dated as of April 1, 2003 (the "Indenture"), between the County and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"). The proceeds of the Bonds are to be used, pursuant to the terms of a Loan Agreement, dated as of April 1, 2003 (the "Agreement"), between the County and the Company, to refund certain pollution control revenue bonds previously issued by the County to finance the acquisition, construction, installation and equipping of certain air and water pollution control and solid waste disposal facilities (the "Project") located at the Crist Steam Plant in Escambia County, Florida and the Lansing Smith Steam Plant in Bay County, Florida. The Company's payment obligations with respect to the Bonds under the Agreement will be evidenced by a non-negotiable promissory note equal in principal amount to the Bonds and bearing interest at the rate or rates borne by the Bonds (the "Note"). In addition, in connection with the issuance of the Bonds, the Company and the Trustee will enter into an Auction Agreement related to the Bonds dated as of April 1, 2003 (the "Auction Agreement") with The Bank of New York, as auction agent (the "Auction Agent"), providing, among other things, that the Auction Agent will follow certain auction procedures (each implementation thereof, an "Auction") for the purpose of determining

the rate of interest which the Bonds will bear when such rate is to be determined by an Auction (the "Auction Rate"). The Company and the Auction Agent will also enter into a Broker-Dealer Agreement, dated as of April 1, 2003 (the "Broker-Dealer Agreement"), with Banc of America Securities LLC, as the broker-dealer. As used in this Letter of Representation the term "Official Statement" means the Official Statement of the County, dated April , 2003 relating to the Bonds and certain other obligations described therein, including the Appendices thereto and the documents incorporated in Appendix A by reference.

1. In consideration of the execution and delivery of the Purchase Contract, the Company represents, warrants and covenants to and with the Underwriter and the County that:

(a) The Official Statement does not, and at the Closing Date (as defined in the Purchase Contract) the Official Statement, as it may be amended or supplemented, will not, include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that none of the representations and warranties in this Letter of Representation shall apply to statements in or omissions from the Official Statement under the captions "The County," "The Bonds-Book-Entry System," "Tax Exemption" or "Underwriting" or in the statements on the cover page with respect to the initial public offering price, tax exemption and terms of offering or on the Table of Contents page with respect to stabilization.

(b) The financial statements incorporated by reference in the Official Statement, together with the related schedules and notes, present fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of and for the dates indicated; said financial statements have been prepared in conformity with accounting principles generally accepted in the United States applied on a consistent basis throughout the periods involved and necessarily include amounts that are based on the best estimates and judgments of management. The selected financial data and the summary financial information, if any, included in the Official Statement present fairly the information shown therein and have been compiled on a basis consistent with that of the audited and unaudited financial statements incorporated by reference in the Official Statement.

(c) There has not been any material adverse change in the business, properties, or financial condition of the Company as a whole from that set forth in or contemplated by the Official Statement.

(d) The Company has not entered into any material transaction or incurred any material liability otherwise than in the ordinary course of business or as set forth in or contemplated by the Official Statement.

(e) This Letter of Representation has been, and the Agreement, the Auction Agreement, the Broker-Dealer Agreement and the Note, when executed and delivered by the Company, will be, duly authorized, executed and delivered by the Company, and assuming due authorization, execution and delivery thereof by the other parties thereto, will be legal, valid and binding obligations of the Company and will be enforceable in accordance with their respective terms except as limited by any principles of public policy limiting the right to enforce the indemnification provisions of this Letter of Representation and the Broker-Dealer Agreement; and the Undertaking (as defined in the Purchase Contract), when executed and delivered by the Company, will be duly authorized, executed and delivered by the Company.

(f) All necessary authorizations, approvals, consents or other orders of any governmental authority or agency for the execution and delivery by the Company of the Agreement, the Auction Agreement and the Broker-Dealer Agreement and for the issuance by the Company of the Note have been obtained and are in full force and effect.

(g) The execution of this Letter of Representation, the Auction Agreement, the Broker-Dealer Agreement, the Undertaking and the Agreement, the issuance and delivery of the Note, the consummation of the transactions herein and therein contemplated and the fulfillment of the terms hereof and thereof, did not or will not result in a breach of any of the terms and provisions of, or constitute a default under, any indenture, mortgage, deed of trust or other agreement or instrument to which the Company is a party (except for breaches or defaults which would not, individually or in the aggregate, be materially adverse to the Company or materially adverse to the transactions contemplated by the Purchase Contract and this Letter of Representation), or of the Company's charter or by-laws or, to the knowledge of the Company, any order, rule or regulation applicable to the Company of any court or of any Federal or State regulatory body or administrative agency or other governmental body having jurisdiction over the Company or over any of its activities or its properties.

(h) The Company is a corporation duly organized and existing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged and to own and operate the properties used by it in such business.

(i) To the best of the Company's knowledge, the Securities and Exchange Commission has not issued, and is not threatening to issue, any order preventing or suspending the use of the Preliminary Official Statement, dated April _____, 2003 relating to the Bonds and certain other obligations of the Company described therein (the "Preliminary Official Statement") or the Official Statement.

(j) Except as disclosed in or contemplated by the Official Statement,

there is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body known to the Company to be pending or threatened against or directly affecting the Company, nor to the best of the knowledge of the Company is there any basis therefor, wherein an unfavorable decision, ruling or finding (i) would have a material adverse effect on the transactions contemplated by the Purchase Contract or the Official Statement (excluding transactions contemplated solely by Appendix A thereto and the documents incorporated in Appendix A by reference), or (ii) would adversely affect the validity or enforceability of the Bonds, the Indenture, the Agreement, the Note, the Purchase Contract or this Letter of Representation, or any agreement or instrument to which the Company is a party, used or contemplated for use in connection with the consummation by the Company of the transactions contemplated by the Purchase Contract or by the Official Statement (excluding transactions contemplated solely by Appendix A thereto and the documents incorporated in Appendix A by reference).

(k) The Company will not take or omit to take any action the taking or omission of which would cause the proceeds from the sale of the Bonds to be applied in a manner contrary to that provided for in the Indenture and the Agreement, as amended from time to time.

(l) The Company will cooperate with the Underwriter and its counsel in any endeavor to qualify the Bonds for offering and sale under the securities or "blue sky" laws of such jurisdictions of the United States as the Underwriter may request; provided, however, that the Company shall not be required with respect to the offering or sale of the Bonds to file written consent to suit or to file written consent to service of process in any jurisdiction in which the Bonds may be offered or sold.

(m) The Company acknowledges the terms of the Purchase Contract as they relate to it and the Company will pay the fees, costs and expenses to be paid by it pursuant to Section 8 of the Purchase Contract (subject to the terms and conditions set forth therein).

(n) The Bonds, the Indenture, the Agreement, the Auction Agreement, the Broker-Dealer Agreement and the Note conform in all material respects to the descriptions thereof in the Official Statement.

(o) If at any time prior to the completion of the sale of the Bonds by the Underwriter when in the judgment of the Underwriter, it is necessary or desirable to deliver an Official Statement in connection with the sale of the Bonds an event occurs as a result of which, in the opinion of Dewey Ballantine LLP, counsel for the Underwriter, Appendix A to the Official Statement as then amended and supplemented (including any documents incorporated therein by reference) would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements made

therein, in the light of the circumstances under which they were made, not misleading, the Company promptly will prepare an amendment or supplement to said Appendix (or in its discretion, make an appropriate filing pursuant to Section 13 or 14 of the Securities Exchange Act of 1934, as amended) which will correct such statement or omission; provided that any such amendment or supplement which is requested by the Underwriter more than 90 days after the Closing Date shall be prepared at the Underwriter's expense.

(p) During such period (not to exceed nine months after the Closing Date) as the Underwriter believe delivery of the Official Statement is necessary or desirable in connection with the sales of the Bonds by the Underwriter or dealers, if any, the Company will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement, insofar as it shall be known to the Company, and the Company agrees not to effect any such amendment or supplementation of the Official Statement which is unsatisfactory in form to Dewey Ballantine LLP or in substance to the Underwriter; the Company will also advise the Underwriter promptly of the institution of any proceedings by the Securities and Exchange Commission or any other action or event of which the Company is aware and which may affect the use of the Official Statement in connection with the sale and distribution of the Bonds.

2. The acceptance and confirmation of this Letter of Representation by the County shall constitute a representation and warranty by the County to the Company that the representations and warranties contained in Section 4 of the Purchase Contract are true as of the date hereof and will be true in all material respects as of the Closing Date.

3. (a) The Company agrees to indemnify and hold harmless the County, any official or employee of the County, the Underwriter, and each person, if any, who controls the Underwriter within the meaning of Section 15 of the Securities Act of 1933, as amended (the "Securities Act"), against any and all losses, claims, damages, liabilities and expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Official Statement or the Official Statement, or in any amendment or supplement thereto, or arising out of any omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect, except insofar as such losses, claims, damages, liabilities or expenses arise out of any such untrue statement or omission or alleged untrue statement or omission made in any such documents in reliance upon and in conformity with written information furnished to the Company by the Underwriter specifically for use therein; provided, however, that the indemnity agreement contained in this Section 3(a) shall not inure to the benefit of the Underwriter (or of any person so controlling the Underwriter) to the extent of any losses, claims, damages, liabilities or expenses arising from the sale of the Bonds to any person if a copy of the Official Statement (exclusive of the documents incorporated in Appendix A by reference), as

amended or supplemented at the time of such sale, shall not have been given or sent to such person by or on behalf of the Underwriter with or prior to the written confirmation of the sale involved.

(b) The Underwriter agrees to indemnify and hold harmless the Company, its directors and officers and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act, the County and any official or employee of the County, against any and all losses, claims, damages, liabilities and expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Official Statement, or in any amendment or supplement thereto, or any omission or alleged omission to state therein any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, but only to the extent that such untrue statement or alleged untrue statement or omission or alleged omission was made in any such document in reliance upon and in conformity with written information furnished to the Company or the County by the Underwriter specifically for use therein.

(c) The Company agrees with respect to any action against it, any of its directors or officers or any person controlling it as aforesaid, the Underwriter agrees with respect to any action against it or any person controlling it as aforesaid, and the County agrees with respect to any action against it, or any of its officers or employees, in respect of which indemnity may be sought hereunder, that it will promptly give written notice of the commencement of such action to the party or parties against whom indemnity may be sought; but the omission so to notify any indemnifying party will not relieve such indemnifying party from any liability which it may have to the indemnified party which failed to give such notice otherwise than under this Section 3 nor affect any rights such indemnifying party may have otherwise than under this Section 3 to participate in or assume the defense of any action brought against such indemnified party. Upon receipt of any such notice by an indemnifying party, such indemnifying party shall be entitled to assume the defense of such action, including the employment of counsel and the payment of all expenses in connection with such defense, and will have the right to negotiate and consent to settlement. Any indemnified party shall have the right to employ separate counsel in any such action against it and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless the employment of such counsel shall have been specifically authorized in writing by the indemnifying party or the indemnifying party shall have elected not to assume the defense of such action. No indemnifying party shall be liable for any settlement of any such action effected without its consent; but if any such action is settled with the consent of an indemnifying party or if there be a final judgment for the plaintiff in any such action (of which an indemnifying party shall have been notified as aforesaid), such indemnifying party shall indemnify and hold harmless each indemnified party from and against any losses, claims, damages, liabilities or expenses incurred or suffered by reason of such settlement or judgment.

4. The Company will deliver or cause to be delivered all opinions, certificates and other documents as provided for in the Purchase Contract to be delivered by it.

5. The representations and warranties of the Company and the County contained herein, or in the certificates of officers of the Company or officials of the County submitted to the Underwriter pursuant to the Purchase Contract, and the agreements of the Company and the Underwriter contained in Section 3 hereof shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the County or any of its officials or employees, the Underwriter or controlling person thereof, or the Company or any of its directors or officers or controlling persons, and shall survive the delivery of the Bonds to the Underwriter. The Company's agreement contained in Section 1(m) hereof to pay expenses shall survive the termination of the Purchase Contract and this Letter of Representation.

6. This Letter of Representation is made solely for the benefit of the County, the Underwriter and the Company, and, to the extent expressly provided herein, any person referred to in Section 3 hereof, and their respective successors and assigns, and no other person, partnership, association or corporation shall acquire or have any right under or by virtue hereof. The terms "successors" and "assigns" shall not include any purchaser of Bonds from the Underwriter merely because of such purchase.

7. The execution and delivery of this Letter of Representation by the Company shall constitute the Company's approval of and consent to the County's entering into, acceptance and execution of the Purchase Contract and the Indenture and performance thereunder.

8. This Letter of Representation shall be governed by and construed in accordance with the laws of the State of Florida.

9. Any notice or other communication to be given to the Company under this Letter of Representation may be given by delivering the same in writing to the Treasurer of the Company at its address set forth below. Any notice or other communication to be given to the County may be given by delivering the same in writing to its address set forth in the Purchase Contract. Any notice or other communication to be given to the Underwriter may be given by delivering the same in writing at the address of the Underwriter set forth in the Purchase Contract. The Company, the County and the Underwriter shall each be fully entitled to rely upon notice given pursuant to this Section and to act thereon.

10. This Letter of Representation shall become effective upon execution thereof and the effectiveness of the Purchase Contract referred to herein. It shall terminate upon termination of the Purchase Contract.

11. This Letter of Representation may be executed in counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same instrument.

Very truly yours,

GULF POWER COMPANY
One Energy Place
Pensacola, Florida 32520-0102

By: _____
Name:
Title:

Accepted and confirmed as of the
date first above written

BANC OF AMERICA SECURITIES LLC

By: _____
Name:
Title:

BOARD OF COUNTY COMMISSIONERS
Escambia County, Florida

By: _____
Name:
Title:

**NEW ISSUE—BOOK-ENTRY ONLY**

*In the opinion of Balch & Bingham LLP and Miller, Canfield, Paddock and Stone, P.L.C. ("Co-Bond Counsel"), assuming the accuracy of certain representations and certifications and compliance with certain tax covenants, interest on the Bonds is not includable in gross income for federal income tax purposes under existing statutes, rulings and court decisions, and under applicable regulations and proposed regulations, except for interest on any such Bond for any period during which such Bond is held by a person who is a "substantial user" of the Project (as defined below) or a "related person" as defined in the Internal Revenue Code of 1986, as amended, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations, but such interest will be includable in adjusted current earnings in computing the federal alternative minimum tax imposed on certain corporations. See "TAX EXEMPTION" below for a brief description of certain other possible federal tax consequences arising with respect to the Bonds. In the opinion of Co-Bond Counsel, interest on the Bonds is exempt from present Florida taxation, except estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations.*

# $32,550,000

**Escambia County, Florida**
**Pollution Control Revenue Refunding Bonds**
**(Gulf Power Company Project)**
**Series 2003**

**THE BONDS ARE THE LIMITED SPECIAL OBLIGATIONS OF ESCAMBIA COUNTY, FLORIDA (THE "COUNTY") AND ARE PAYABLE SOLELY FROM THE LOAN REPAYMENTS UNDER A NOTE ISSUED PURSUANT TO A LOAN AGREEMENT WITH**

GULF POWER
A SOUTHERN COMPANY

Dated Date of original issuance and delivery

Due June 1, 2023

The Bonds will bear interest from their date of original issuance and delivery (the "Issue Date") for the period to but not including May 20, 2003 (the "Initial Period") at a rate established by the Broker-Dealer prior to the Issue Date and thereafter at the Auction Mode Rate for each Auction Period. Interest on the Bonds will be adjusted based upon 35-day Auction Periods (or, at the option of Gulf Power Company (The "Company"), any period having a length between 1 and 364 days). The first Auction Date for the Bonds shall be May 19, 2003, the last Business Day of the Initial Period. Generally, the Interest Payment Date for an Auction Period will be the Business Day immediately following each Auction Period and, in addition, for an Auction Period of more than 91 days, each 13th Thursday after the first day of such Auction Period. The length of the Auction Period with respect to the Bonds may be changed in accordance with the Indenture.

The Bonds are subject to mandatory tender and redemption as described under "THE BONDS—Mandatory Tender," "THE BONDS—Optional Redemption" and "THE BONDS—Extraordinary Optional Redemption" below.

Subject to satisfaction of certain conditions in the Indenture pursuant to which the Bonds are issued, the Company may from time to time change the method of determining the interest rate on the Bonds to a Daily, Weekly, Commercial Paper, Long-Term Interest or Index Rate, as more fully described under "THE BONDS—Determination Methods" below.

The Bonds will be offered as fully registered bonds and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC acts as securities depository for the Bonds. During an Auction Rate Period, the Bonds will be issued in denominations of $1,000 and integral multiples thereof. Purchases will be made in book-entry form through DTC participants and no physical delivery of Bonds will be made to purchasers, except as otherwise described herein. Payments of principal and premium, if any, and interest on the Bonds will be made by The Bank of New York Trust Company of Florida, N.A., as Trustee and Paying Agent, to Cede & Co., as nominee for DTC, as registered owner of the Bonds, to be subsequently disbursed to DTC participants and thereafter to the beneficial owners of the Bonds. See "THE BONDS—Book-Entry System" below.

**PRICE: 100%**

The Bonds are offered subject to prior sale, when, as and if issued and received by the Underwriter, subject to the approval of legality by Balch & Bingham LLP, Birmingham, Alabama, and Miller, Canfield, Paddock and Stone, P.L.C., Pensacola, Florida, Co-Bond Counsel, and certain other conditions. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income for federal income tax purposes of interest thereon, will be passed on for the Company by its counsel, Beggs & Lane, a Registered Limited Liability Partnership, Pensacola, Florida, and Troutman Sanders LLP, Atlanta, Georgia, and for the Underwriter by its counsel, Dewey Ballantine LLP, New York, New York. The Bonds are expected to be delivered through the facilities of DTC in New York, New York on or about April 15, 2003.

**Banc of America Securities LLC**

April 11, 2003

The information contained in this Official Statement has been obtained from the Company, DTC or other sources. No representation or warranty is made as to the accuracy or completeness of such information, and nothing contained in this Official Statement is, or shall be relied upon as, a promise or representation by the Underwriter. This Official Statement is submitted in connection with the sale of securities as referred to herein, and may not be reproduced or be used, in whole or in part, for any other purpose The delivery of this Official Statement at any time does not imply that information herein or in the Appendices hereto (including the documents incorporated therein by reference) is correct as of any time subsequent to its date.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

No broker, dealer, salesman or any other person has been authorized by the County, by the Company or by the Underwriter to give any information or to make any representation other than as contained in this Official Statement or in the Appendices hereto (including the documents incorporated therein by reference) in connection with the offering described herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer of any securities other than those described on the cover page or an offer to sell or a solicitation of an offer to buy in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

**IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE COUNTY AND THE COMPANY AND THE TERMS OF THE OFFERING INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING REGULATORY AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE BONDS, INCLUDING BY ENTERING STABILIZING BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING" HEREIN.**

---

**TABLE OF CONTENTS**

**OFFICIAL STATEMENT** **Page**


*Introductory Statement* ..... *1*

*The County* ..... *2*

*Use of Bond Proceeds; Refunding of Outstanding Bonds* ..... *2*

*The Bonds* ..... *2*

*The Agreement* ..... *8*

*The Indenture* ..... *10*

*The Trustee and the Auction Agent* ..... *13*

*Underwriting* ..... *13*

*Tax Exemption* ..... *14*

*Secondary Market Information* ..... *15*

*Legal Matters* ..... *16*

*Disclosure Required by Florida Blue Sky Regulations* ..... *16*

*Miscellaneous* ..... *17*

*APPENDIX A-GULF POWER COMPANY* ..... *A-1*

*APPENDIX B-AUCTION PROCEDURES* ..... *B-1*

*OFFICIAL STATEMENT*

# $32,550,000

Escambia County, Florida
Pollution Control Revenue Refunding Bonds
(Gulf Power Company Project)
Series 2003
Due June 1, 2023

## INTRODUCTORY STATEMENT

This Official Statement of the County, including the cover page and the Appendices, is provided to furnish information in connection with the sale of $32,550,000 aggregate principal amount of Escambia County, Florida Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003 (the "Bonds"). The Bonds are to be dated as of the date of their initial issuance, and, subject to prior redemption as hereinafter set forth, will mature on the date set forth on the cover page hereof.

The Bonds are to be issued pursuant to a Trust Indenture dated as of April 1, 2003 (the "Indenture") between the County and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"), to provide funds to refund the outstanding Escambia County, Florida, Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 1993 (the "Refunded Bonds"). The Refunded Bonds were used to refinance the acquisition, construction, installation and equipping of certain air and water pollution control and sewage and solid waste disposal facilities (the "Project") located at the Crist steam electric generating plant in Escambia County, Florida and the Lansing Smith electric generation plant in Bay County, Florida (collectively, the "Plants"), both of which are owned and operated by the Company.

The County will loan to the Company the proceeds of the Bonds pursuant to a Loan Agreement dated as of April 1, 2003 (the "Agreement"). In order to evidence the loan from the County (the "Loan") and to provide for its repayment, the Company will issue a nonnegotiable promissory note (the "Note") pursuant to the Agreement. Payments required under the Note will be sufficient to pay when due the principal of, premium, if any, and interest on the Bonds.

The Bonds initially will bear interest at an Auction Mode Rate. The Initial Period for the Bonds shall be from the Issue Date to but not including May 20, 2003. Thereafter, the Bonds have a 35-day Auction Period unless changed at the option of the Company, as provided in the Indenture. See "THE BONDS" and Appendix B — "AUCTION PROCEDURES" below. The interest rate on the Bonds can be converted from the Auction Mode Rate to Daily, Weekly, Commercial Paper, Index or Long-Term Interest Rates or the duration of the Auction Period may be changed in accordance with the Indenture, in each case following mandatory tender for purchase upon not less than 15 days' prior written notice to the owners of the Bonds. THIS OFFICIAL STATEMENT DOES NOT PROVIDE ANY INFORMATION REGARDING THE BONDS AFTER THE DATE, IF ANY, ON WHICH THE BONDS CONVERT TO BEAR INTEREST AT AN INTEREST RATE OTHER THAN AN AUCTION MODE RATE.

The Bonds will be limited special obligations of the County payable solely from and secured by revenues and proceeds to be received by the County pursuant to the Note. The Bonds will be secured by an assignment and pledge to the Trustee of substantially all the County's right, title and interest in and to the Note and Agreement.

There follow brief descriptions of the County, the use of the proceeds of the Bonds, the Bonds, the Agreement and the Indenture. Information with respect to the Company, including certain financial statements, is set forth or incorporated by reference in Appendix A hereto. Information with respect to the Auction Procedures is set forth in Appendix B hereto.

*The descriptions and summaries herein do not purport to be complete, and reference is made to each document for the complete details of all of its terms and conditions. Terms not defined herein have the meanings set forth in the Agreement and the Indenture, copies of which are available for inspection, during the initial offering period of the Bonds, at the offices of Southern Company Services, Inc., 241 Ralph McGill Boulevard, N.E., Atlanta, Georgia 30308-3374, Attention: Wayne Boston. The statements made herein are qualified in their entirety by reference to each such document.*

## THE COUNTY

The County is a political subdivision of the State of Florida, duly created and validly existing pursuant to the Constitution and the laws of the State of Florida.

**EXCEPT FOR INFORMATION CONCERNING THE COUNTY UNDER THIS CAPTION, NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY THE COUNTY, AND THE COUNTY MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.**

## USE OF BOND PROCEEDS; REFUNDING OF OUTSTANDING BONDS

The proceeds received by the County from the sale of the Bonds, together with any investment proceeds and other moneys of the Company, will be used to redeem the Refunded Bonds. The redemption price of the Refunded Bonds will be 100% of the principal amount thereof plus accrued interest to the redemption date.

It is anticipated that a total of approximately $275,000 will be expended by the Company for legal, accounting, printing and other fees in connection with the issuance of the Bonds. See also "UNDERWRITING" below.

## THE BONDS

### General

**This Official Statement does not provide any information regarding the Bonds after the date, if any, on which the Bonds convert to bear interest, as permitted by the Indenture, at interest rates other than an Auction Mode Rate. The Bonds are subject to mandatory tender in the event of any such conversion. See "— Mandatory Tender" below. See also Appendix B hereto for definitions relating to the Auction Mode Rate and for Auction Procedures.**

The Bonds will mature on the date set forth on the cover page of this Official Statement. The Bonds will bear interest from the Issue Date for the Initial Period at a rate established prior to that date by Banc of America Securities LLC as the minimum rate required to sell the Bonds for delivery on the Issue Date at a price of par. The Initial Period for the Bonds shall be from the Issue Date to but not including May 20, 2003. Following the Initial Period, the Bonds will bear interest for 35-day Auction Periods (unless changed at the option of the Company pursuant to the terms of the Indenture). Upon (i) a conversion from an Auction Mode Rate Determination Method to a Daily Rate, Weekly Rate, Index Rate, Commercial Paper Rate or Long-Term Interest Rate Determination Method or (ii) a change in the length of the Auction Period, the Bonds will be subject to mandatory tender on any such Conversion Date or the date of such change at a price equal to 100% of the principal amount thereof, plus accrued interest; provided, however, that such mandatory tender price is payable solely from the proceeds of the remarketing of such Bonds, and if all such Bonds are not remarketed, such mandatory tender will be cancelled with the effect described under "— Conversion from Auction Mode Rate Determination Method" below. The first Auction Date for the Bonds shall be the last Business Day of the Initial Period. Interest will be payable with respect to the Bonds on each Interest Payment Date (as defined below). During any Auction Rate Period, interest on the

Bonds in an Auction Period of 180 days or less will be computed on the basis of actual days over 360 and in an Auction Period greater than 180 days on the basis of a 360-day year of twelve 30-day months.

The Bonds will be issued as fully registered bonds without coupons and in authorized denominations of $1,000 or any integral multiple thereof. The Bonds will be registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC acts as securities depository for the Bonds and individual purchases of Bonds may be made in book-entry form only. So long as the Bonds are in book-entry only form, purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner of such Bonds, as nominee of DTC, references herein to the Bondholders or registered owners or holders shall mean Cede & Co. and shall not mean the Beneficial Owners (as defined below) of the Bonds.

So long as Cede & Co. is the registered owner of Bonds, principal of, premium, if any, and interest on the Bonds are payable to Cede & Co., as nominee for DTC, which will, in turn, remit such amounts to the DTC Participants (as defined below) for subsequent disbursement to the Beneficial Owners. See "— Book-Entry System" below.

The Bank of New York Trust Company of Florida, N.A. is the trustee under the Indenture. The principal corporate trust office of The Bank of New York Trust Company of Florida, N.A. is currently located in Atlanta, Georgia. The Trustee may be removed at any time by the holders of a majority in aggregate principal amount of the Bonds at the time outstanding. Any resignation of the Trustee will become effective upon the acceptance of appointment by the successor Trustee. See "THE TRUSTEE AND THE AUCTION AGENT" below.

**Interest**

During any Auction Rate Period, interest shall be payable to the registered holder of the Bonds as of the Record Date (as defined below) by check mailed by first-class mail on the Interest Payment Date to such holder's registered address. When the Bonds are held in book-entry form, such payments will be made to DTC as record owner (see "— Book-Entry System" below).

"Interest Payment Date" means, except as otherwise provided in Appendix B, with respect to Bonds in an Auction Rate Period, the Business Day immediately following each Auction Period, and, in addition, for an Auction Period of more than 91 days, each 13th Thursday after the first day of such Auction Period. "Record Date" means, for Bonds bearing interest at an Auction Mode Rate, the second Business Day immediately preceding an Interest Payment Date.

**Auction Agent**

The Trustee and the Company will enter into the Auction Agreement initially with The Bank of New York, pursuant to which, The Bank of New York, as agent for the Trustee, shall perform the duties of Auction Agent. The Auction Agreement will provide, among other things, that the Auction Agent will determine the Auction Mode Rate for each Auction in accordance with the Auction Procedures.

**Auction Date**

An Auction to determine the interest rate with respect to the Bonds for the next succeeding Auction Period will be held (i) on each Business Day while such Bonds are in a one-day Auction Period and (ii) if the Bonds are in an Auction Period of any other length, on the Business Day next preceding each Interest Payment Date for such Bonds. The first Auction for the Bonds will take place on May 19, 2003.

**Orders by Existing Owners and Potential Owners**

The procedure for submitting orders prior to the Submission Deadline on each Auction Date is described in Appendix B, as are the particulars with regard to the determination of the Auction Mode Rate and the allocation of Bonds bearing interest at an Auction Mode Rate (collectively, the "Auction Procedures").

**Amendment of Auction Procedures**

During any Auction Rate Period, the provisions of the Indenture concerning the Auction Procedures, including, without limitation, the definitions of All Hold Rate, Interest Payment Date, Maximum Auction Rate, Reference Rate, Applicable Percentage and Auction Mode Rate, may be amended by obtaining the consent of the owners of all the Bonds bearing interest at an Auction Mode Rate. All owners of Bonds affected by an amendment will be deemed to have consented thereto if, on the first Auction Date occurring at least 20 days after the Trustee mailed notice to such owners, (i) the Auction Mode Rate determined for such date is the Winning Bid Rate and (ii) there is delivered to the Company and the Trustee an Opinion of Tax Counsel to the effect that such amendment will not adversely affect the validity of the Bonds or any exemption from federal income tax to which the interest on the Bonds would otherwise be entitled.

**Conversion from Auction Mode Rate Determination Method**

At the option of the Company, the Bonds may be converted to bear interest at a Daily Rate, a Weekly Rate, a Commercial Paper Rate, an Index Rate or a Long-Term Interest Rate. On the Conversion Date applicable to the Bonds, the Bonds shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The purchase price of the Bonds so tendered is payable solely from the proceeds of the remarketing of such Bonds. In the event that the conditions of a conversion are not satisfied, including the failure to remarket all such Bonds, the Bonds will not be subject to mandatory tender, will be returned to their owners, will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Auction Rate. It is currently anticipated that, should any of the Bonds be converted to bear interest at a Daily Rate, a Weekly Rate, a Commercial Paper Rate, an Index Rate or a Long-Term Interest Rate, a new reoffering memorandum or reoffering circular will be distributed describing the Bonds while they bear interest at any such interest rate.

**Conversion from One Auction Period to Another**

During any Auction Rate Period, the Company may, from time to time, on an Interest Payment Date, change the length of the Auction Period with respect to all of the Bonds. Any such change in the Auction Period shall be deemed to be a change in Determination Method and will cause the Bonds to be subject to mandatory tender as described under "— Conversion from Auction Mode Rate Determination Method" above. In the event of a failed conversion to another Auction Period due to the lack of Sufficient Clearing Bids in accordance with the Indenture or the Company's failure to deliver a Favorable Opinion of Tax Counsel, the Bonds will not be subject to mandatory tender, will be returned to their owners, will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Auction Rate. In connection with a change in the length of the Auction Period, written notice of such change will be given in accordance with the Auction Procedures.

**Special Considerations Relating to the Bonds Bearing Interest at an Auction Mode Rate**

The Auction Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days' notice or 45 days' notice, if it has not been paid, to the County, the Company and the Trustee and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon five Business Days' notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible to hold Auctions.

The Broker-Dealer Agreement provides that a Broker-Dealer may submit an Order in Auctions for its own account. If a Broker-Dealer submits an Order for its own account in any Auction, it might have an advantage over other Bidders in that it would have knowledge of Orders placed through it in that Auction; such Broker-Dealer, however, would not have knowledge of Orders submitted by other Broker-Dealers (if any) in that Auction. In the Broker-Dealer Agreement, Broker-Dealers agree to handle customer orders in accordance with their respective duties under applicable securities laws and rules. Initially, Banc of America Securities LLC is the only Broker-

Dealer. The Company may retain other Broker-Dealers from time to time or terminate any Broker-Dealer upon not less than five Business Days' notice.

During an Auction Rate Period, a beneficial owner of a Bond may sell, transfer or dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures (see "Appendix B — AUCTION PROCEDURES") or through a Broker-Dealer. The ability to sell a Bond in an Auction may be adversely affected if there are not sufficient buyers willing to purchase all the Bonds at a rate equal to or less than the Maximum Auction Rate. Banc of America Securities LLC has advised the County and the Company that it intends initially to make a market in the Bonds between Auctions; however, Banc of America Securities LLC is not obligated to make or maintain such markets, and no assurance can be given that secondary markets therefor will develop.

**Security**

The Bonds are limited special obligations of the County, payable by the County solely from and secured by an assignment and pledge by the County to the Trustee of its right to payments by the Company pursuant to the Note.

The County has assigned to the Trustee, for the benefit of the holders of the Bonds, all its right, title and interest in and to the Agreement and the Note and all amounts payable thereunder (except for certain amounts payable under the Agreement in respect of indemnification and certain fees and expenses). The payments by the Company under the Note are required to be made to the Trustee and to be equal, together with other moneys available therefor, to the amount of principal, premium, if any, and interest required to be paid on the Bonds, whether at stated maturity, upon redemption or declaration, or otherwise.

The Bonds and the interest thereon shall not be deemed to constitute a debt or general obligation or a pledge of the faith and credit of the State of Florida or any political subdivision thereof, including the County. Neither the State of Florida nor any political subdivision thereof nor the County shall be obligated to pay the principal of the Bonds, the interest thereon or other costs incident thereto except from the revenues and receipts pledged therefor, and neither the faith and credit nor the taxing power of the State of Florida or any political subdivision thereof, including the County, is pledged to the payment of the principal of the Bonds or the interest thereon or other costs incident thereto.

**Determination Methods**

Pursuant to the Indenture, the Bonds may bear interest at a Daily Rate, Weekly Rate, Commercial Paper Rate, Long-Term Interest Rate, Auction Mode Rate or Index Rate. The Bonds shall bear interest at an Auction Mode Rate, or, upon conversion as described above under "— Conversion from Auction Mode Rate Determination Method," at another interest rate as provided by the Indenture.

THIS OFFICIAL STATEMENT DOES NOT PROVIDE ANY INFORMATION REGARDING THE BONDS AFTER THE DATE, IF ANY, ON WHICH THE BONDS CONVERT TO BEAR INTEREST AT INTEREST RATES OTHER THAN AN AUCTION MODE RATE.

**Optional Tender**

While the Bonds bear interest at an Auction Mode Rate, the owner of a Bond does not have the option to require the purchase of his Bonds.

**Mandatory Tender**

The Bonds are subject to mandatory tender upon 15 days' prior written notice to each Bondholder at a purchase price equal to 100% of the principal amount of the Bonds, plus accrued interest, on the effective date of any change in Determination Method, subject to the successful remarketing of such Bonds. See "— Conversion from Auction Mode Rate Determination Method" above.

**Optional Redemption**

During an Auction Rate Period, the Bonds may be redeemed in whole or in part at the option of the Company, on the first day after the last day of the Auction Period then in effect.

**Extraordinary Optional Redemption**

The Bonds are subject to redemption in whole at any time prior to maturity at the redemption price equal to the principal amount thereof plus accrued interest to the redemption date, but without premium at any time, upon receipt by the Trustee and the County of a written notice from the Company stating that the Company has determined that:

(a) any federal, state or local body exercising governmental or judicial authority has taken any action which results in the imposition of unreasonable burdens or excessive liabilities with respect to the Project or the Plants, rendering impracticable or uneconomical the operation by the Company of either the Project or the Plants, including, without limitation, the condemnation or taking by eminent domain of all or substantially all of the Project or the Plants; or

(b) changes in the economic availability of raw materials, operating supplies or facilities or technological or other changes have made the continued operation of the Plants as efficient generating facilities uneconomical; or

(c) the Project or the Plants have been damaged or destroyed to such an extent that it is not practicable or desirable to rebuild, repair or restore the Project or the Plants.

**Notice of Redemption**

At least 30 days before the redemption date of any Bonds, the Trustee shall cause a notice of any such redemption to be mailed first-class, postage prepaid, to all registered owners of Bonds to be redeemed at their addresses as they appear on the registration books maintained by the Trustee. No further interest will accrue on the principal of any Bonds called for redemption after the redemption date if notice has been duly given and payment of the redemption price thereof and accrued interest has been duly provided for, and the owners of such Bonds will have no rights with respect to such Bonds except to receive payment of the redemption price thereof and interest accrued to the redemption date.

**Book-Entry System**

DTC will act as securities depository (the "Securities Depository") for the Bonds. The Bonds will be offered as fully-registered bonds registered in the name of Cede & Co., DTC's partnership nominee, or such other name as may be requested by an authorized representative of DTC. One fully-registered global Bond certificate will be issued in the aggregate principal amount of the Bonds, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants ("Participants") deposit with DTC. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust &

Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission (the "Commission"). More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co, or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any DTC nominee) will consent or vote with respect to Bonds. Under its usual procedures, DTC would mail an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Company or the Trustee on the relevant payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with the securities held for the account of customers registered in "street name," and will be the responsibility of such Participant and not of DTC, the Company, the Trustee or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

The requirement for physical delivery of the Bonds in connection with a mandatory tender for purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Underwriter's DTC account.

DTC may discontinue providing its services as Securities Depository with respect to the Bonds at any time by giving reasonable notice to the County or the Trustee. Under such circumstances, in the event that a successor Securities Depository is not obtained, Bond certificates are required to be printed and delivered. Additionally, the Company may decide to discontinue use of the system of book-entry transfers through DTC (or any successor Securities Depository) with respect to the Bonds. In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the County, the Company and the Trustee believe to be reliable, but neither the County, the Company, the Trustee nor the Underwriter takes any responsibility for the accuracy thereof. Neither the County, the Company nor the Trustee has any responsibility for the performance of DTC or its Participants of their respective obligations as described herein or under the rules and procedures governing their respective operations.

In the event that the book-entry system is discontinued, a holder may transfer or exchange the Bonds in accordance with the Indenture. The Trustee will require a holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture.

Except in connection with the purchase of Bonds tendered for purchase, the Trustee is not required to transfer or exchange any Bond which has been called for redemption or during the period beginning 15 days before mailing a notice of redemption of the Bonds or any portion of the Bonds and ending on the redemption date. In addition, in case of such discontinuance, an additional or co-paying agent may be designated.

## THE AGREEMENT

### Issuance of the Bonds

The County will issue the Bonds and loan the proceeds of the sale thereof to the Company, which proceeds will be applied as described under "USE OF BOND PROCEEDS; REFUNDING OF OUTSTANDING BONDS" above.

### Repayment of the Loan and Other Amounts Payable

In order to evidence the Loan and the Company's obligation to repay the same, the Company will issue a Note in the same principal amount as the Bonds and having the same stated maturity and interest rate. Pursuant to the Note, the Company will pay to the Trustee, as assignee of the County, amounts which, and at or before times which, shall correspond to the payments in respect of principal of, premium, if any, and interest on the Bonds whenever and in whatever manner the same shall become due, whether at stated maturity, upon redemption or declaration or otherwise. The Company will also pay the purchase price of Bonds required to be purchased under the terms of the Indenture. In the event there are available moneys on deposit with the Trustee on any payment date, such moneys shall be credited against the payment then due.

The Company will also pay the fees and charges of the Trustee and any paying agents and tender agents under the Indenture and any expenses in connection with any redemption of the Bonds.

### Term of Agreement

The Agreement shall continue in full force and effect until such time as all of the outstanding Bonds have been fully paid or provision has been made for such payment in accordance with the Indenture, whichever shall be earlier, and the fees and expenses of the Trustee and any paying agents and all other amounts payable by the Company under the Agreement and the Note shall have been paid.

**Obligations of the Company Unconditional**

The Company agrees that its obligations to make payments pursuant to the Note and to perform and observe the other agreements on its part contained in the Agreement are absolute and unconditional notwithstanding, among other things, changes in the tax law or other law of the United States of America or the State of Florida or failure by the County to perform its obligations under the Agreement.

**Assignment and Pledge**

The County will assign to the Trustee a security interest in all rights, title and interest in, to and under the Note and the Agreement and all amounts payable thereunder (except for certain payments under the Agreement in respect of indemnification and certain fees and expenses). The Company will assent to such assignment and will agree that, as to the Trustee, its obligation to make payments will be absolute and not subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach by the County or the Trustee of any obligation to the Company, whether under the Agreement or otherwise, or out of any indebtedness or liability at any time owing to the Company by the County or the Trustee.

**Consolidation, Merger or Sale of Assets**

The Company may consolidate with or merge into another domestic corporation (i.e., a corporation incorporated and existing under the laws of one of the states of the United States of America or under the laws of the United States of America) or permit other corporations to consolidate with or merge into it, or sell or otherwise transfer to another domestic corporation all or substantially all of its assets as an entirety and thereafter dissolve, provided, in the event the Company is not the surviving, resulting or transferee corporation, that the surviving, resulting or transferee corporation assumes, accepts and agrees in writing to pay and perform all of the obligations of the Company under the Agreement and the Note and is incorporated in or qualified to do business in Florida and that such consolidation, merger or transfer of assets does not result in the loss of the exclusion from gross income for federal income tax purposes of interest on the outstanding Bonds.

**Defaults and Remedies; Force Majeure**

The Agreement provides that the happening of one or more of the following events will constitute an "Event of Default": (a) failure by the Company to pay when due the amounts required to be paid pursuant to the Note, which failure, in the case of such amounts in respect of interest on any Bond, continues for five days; (b) failure by the Company to pay within 30 days of the date due any other amounts required to be paid pursuant to the Agreement; (c) failure by the Company to observe and perform any other of its covenants, conditions or agreements under the Agreement for a period of 90 days after written notice from the County or the Trustee, unless extended; and (d) certain events of bankruptcy, insolvency, dissolution, liquidation, winding-up, reorganization or other similar events of the Company.

Under the terms of the Agreement, certain of the Company's obligations referred to in clause (c) of the preceding paragraph may be suspended if by reason of force majeure (as defined in the Agreement) the Company is unable to carry out such obligations.

Whenever an Event of Default shall have occurred and be continuing, the Trustee may (a) declare all amounts payable pursuant to the Note to be immediately due and payable and (b) take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due under the Note or to enforce performance and observance of any obligation, agreement or covenant of the Company under the Agreement.

Any amounts collected pursuant to any above action taken will be deposited with the Trustee and applied in accordance with the provisions of the Indenture, or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the provisions of the Indenture) and the fees and expenses of the Trustee, paying agents and tender agents and all other amounts required to be paid under the Indenture shall have been paid, returned to the Company.

**Amendment of the Agreement**

Prior to the payment of the Bonds in full (or provision for the payment thereof having been made in accordance with the provisions of the Indenture), the Agreement may not be terminated and may not be effectively amended, changed or modified except in accordance with the Indenture. See "THE INDENTURE — Amendment of the Agreement" below.

## THE INDENTURE

**Permitted Investments**

Except as otherwise provided in the Indenture, any moneys held by the Trustee shall be invested and reinvested by the Trustee, at the direction of the Company, in: (a) Government Obligations (as defined under "—Defeasance" below); (b) bonds and notes of the Federal Land Bank; (c) obligations of the Federal Intermediate Credit Bank; (d) obligations of the Federal Bank for Cooperatives; (e) bonds and notes of Federal Home Loan Banks; (f) negotiable or non-negotiable certificates of deposit, time deposits or similar banking arrangements, issued by a bank or trust company (which may be the commercial banking department of the Trustee or any bank or trust company under common control with the Trustee) or savings and loan association which are insured by the Federal Deposit Insurance Corporation or secured as to principal by Government Obligations; or (g) other investments then permitted by law.

**Default Under the Indenture**

The following shall be "Events of Default" under the Indenture: (a) default in the payment of any interest on any Bond outstanding under the Indenture when due and as the same shall become due and payable, which default continues for five days; (b) default in the due and punctual payment of principal on any Bond when due and payable, whether at maturity, upon redemption, or by declaration or otherwise; (c) default in the due and punctual payment of the purchase price of any Bond required to be purchased in accordance with its terms; and (d) the occurrence and continuance of an "Event of Default" under the Agreement.

**Remedies Under the Indenture**

Upon the occurrence of an Event of Default, the Trustee may, and upon written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding shall, by notice in writing to the County and the Company, declare the principal of all Bonds then outstanding and the interest accrued thereon immediately due and payable and such principal and interest shall thereupon become and be immediately due and payable.

If, after the principal of the Bonds has been declared due and payable, all arrears of interest and principal and premium, if any, having become due other than by acceleration are paid by the County and the County also performs all other things in respect of which it may have been in default under the Indenture and pays the reasonable charges of the Trustee and other costs, the Trustee shall annul such declaration and such annulment shall be binding upon all holders of the Bonds issued under the Indenture; but no such annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

If an Event of Default occurs and is continuing, subject to the Indenture, the Trustee before or after declaring the principal of the Bonds and the interest accrued thereon immediately due and payable may, and upon request of the holders of at least 25% in principal amount of the Bonds then outstanding shall, pursue any available remedy by proceeding at law or in equity available to the Trustee under the Agreement or the Note to collect the principal of or interest on the Bonds or to enforce the performance of any provision of the Bonds, the Indenture, the Agreement or the Note. The Trustee, as the assignee of all the right, title and interest of the County in and to the Agreement and the Note, may enforce each and every right granted to the County under the Agreement and the Note. In exercising such rights and the rights given the Trustee under the Indenture, the Trustee shall take such

action as, in the judgment of the Trustee applying the standards described in the Indenture, would best serve the interests of the Bondholders. If any Event of Default has occurred and is continuing, the Trustee in its discretion may, and upon the written request of the holders of not less than 25% in principal amount of all Bonds then outstanding and receipt of indemnity to its satisfaction shall, in its own name: (a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, including the right to require the County to enforce any rights under the Agreement and the Note and to require the County to carry out any other provisions of the Indenture for the benefit of the Bondholders and to perform its duties under the Act; (b) bring suit upon the Bonds; (c) by action or suit in equity require the County to account as if it were the trustee of an express trust for the Bondholders; or (d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

No remedy conferred upon or reserved to the Trustee or to the Bondholders by the terms of the Indenture is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bondholders under the Indenture or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time as often as may be deemed expedient. No waiver of any default or Event of Default under the Indenture, whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

Upon the occurrence and continuance of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bondholders under the Indenture, the Trustee shall be entitled as a matter of right to the appointment of a receiver or receivers of the trust estate with such powers as the court making such appointment shall confer.

In the event of a bankruptcy or reorganization of the Company, the Trustee may file a proof of claim on behalf of all Bondholders with respect to the obligations of the Company pursuant to the Agreement and the Note.

A Bondholder may not pursue any remedy with respect to the Indenture of the Bonds unless (a) the holder gives the Trustee notice stating that an Event of Default is continuing, (b) the holders of at least 25% in principal amount of the Bonds then outstanding make a written request to the Trustee to pursue the remedy, (c) such holder or holders offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense and (d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity. Nothing contained in the Indenture shall, however, affect or impair the right of any Bondholder to enforce the payment of the principal of, premium, if any, and interest on any Bond after the stated maturity thereof.

A Bondholder may not use the Indenture to prejudice the rights of another Bondholder or to obtain a preference or priority over the other Bondholders.

Notwithstanding any other provision of the Indenture, the right of any holder to receive payment of principal of and interest on a Bond, on or after the due dates expressed in the Bond, or the purchase price of a Bond on or after the date for its purchase as provided in the Bond, or to bring suit for the enforcement of any such payment on or after such dates, shall not be impaired or affected without the consent of the holder.

**Waivers of Events of Default**

The holders of a majority in principal amount of the Bonds then outstanding, by notice to the Trustee, may waive an existing Event of Default and its consequences. When an Event of Default is waived, it is cured and stops continuing, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent to it. The holders of a majority in principal amount of the Bonds then outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of other Bondholders or would involve the Trustee in personal liability.

**Defeasance**

Any Bond will be deemed paid for all purposes of the Indenture when (a) payment of the principal of and interest on the Bond to the due date of such principal and interest at the Maximum Interest Rate (whether at maturity, upon redemption or otherwise) or the payment of the purchase price either (1) has been made in accordance with the terms of the Bonds or (2) has been provided for by depositing with the Trustee in trust (A) moneys in an amount which are sufficient to make such payment and/or (B) Government Obligations maturing as to principal and interest in such amounts and at such times as will insure, without any further investment, the availability of sufficient moneys to make such payment, and (b) all compensation and reasonable expenses, without any further reinvestment, of the Trustee pertaining to each Bond in respect of which such deposit is made have been paid or provided for to the Trustee's satisfaction. When a Bond is deemed paid, it will no longer be secured by or entitled to the benefits of the Indenture or be an obligation of the County and shall be payable solely from the moneys or Government Obligations described above, except that such Bond may be tendered if and as provided in the Bonds and it may be registered as transferred, exchanged, registered, discharged from registration or replaced as provided in the Indenture.

Notwithstanding the foregoing, upon the deposit of funds or Government Obligations under clause (a)(2) above, the purchase price of tendered Bonds shall be paid from the sale of Bonds under the Indenture. If payment of such purchase price is not made from the sale of Bonds pursuant to the Indenture, payment shall be made from funds (or Government Obligations) on deposit pursuant to the Indenture without the need of any further instruction or direction by the Company, in which case such Bonds shall be surrendered to the Trustee and cancelled.

Notwithstanding the foregoing, no deposit under clause (a)(2) above shall be deemed a payment of a Bond until (1) the Company has furnished the Trustee an Opinion of Tax Counsel to the effect that the deposit of such cash or Government Obligations will not cause the Bonds to become "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), and (2) (a) notice of redemption of the Bond is given in accordance with the Indenture or, if the Bond is not to be redeemed or paid within the next 60 days, until the Company has given the Trustee, in form satisfactory to the Trustee, irrevocable instructions (i) to notify, as soon as practicable, the owner of the Bond, in accordance with the Indenture, that the deposit required by (a)(2) above has been made with the Trustee and that the Bond is deemed to be paid under the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of the Bond, and premium, if any, and interest on such Bond, if the Bond is to be redeemed rather than paid and (ii) to give notice of redemption not less than 30 nor more than 60 days prior to the redemption date for such Bond or (b) the maturity of the Bond.

"Government Obligations" means (i) noncallable direct obligations of the United States for which its full faith and credit are pledged, (ii) noncallable obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States or (iii) securities or receipts evidencing ownership interests in obligations or specified portions (such as principal or interest) of obligations described in (i) or (ii).

**Amendment of the Indenture**

Any amendment of the Indenture will be effected by a supplemental indenture entered into by the County and the Trustee. The County and the Trustee may enter into supplemental indentures without notice to or the consent of any Bondholder for the following purposes: (a) to cure any ambiguity, inconsistency, formal defect or omission; (b) to grant to the Trustee for the benefit of the Bondholders additional rights, remedies, powers or authority; (c) to subject to the Indenture additional collateral or to add other agreements of the County; (d) to modify the Indenture or the Bonds to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States; (e) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to the Indenture regarding exchangeability of the Bonds of different authorized denominations, redemptions of portions of the Bonds of particular authorized denominations and similar amendments and modifications of a technical nature; (f) to increase the number of days specified for the

giving of notices of mandatory tender and to make corresponding changes to the period for notice of redemption of the Bonds; (g) to provide for an uncertificated system of registering the Bonds or to provide for the change to or from a Book-Entry System for the Bonds; (h) to evidence the succession of a new Trustee or the appointment by the Trustee or the County of a co-trustee; (i) to make any change that does not materially adversely affect the rights of any Bondholder; or (j) to make any other changes to the Indenture that take effect as to any or all remarketed Bonds following a mandatory tender.

Except for supplemental indentures entered into for the purposes described in the preceding paragraph, the Indenture will not be modified or amended without the consent of the holders of at least a majority in aggregate principal amount of Bonds at the time outstanding thereunder; provided that without the consent of each Bondholder affected thereby, no amendment or supplement may (a) extend the maturity of the principal of, or interest on, any Bond, (b) reduce the principal amount of, or rate of interest on, any Bond, (c) effect a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (d) reduce the percentage of the principal amount of the Bonds required for consent to such amendment or supplement, (e) impair the exclusion from federal gross income of interest on any Bond, (f) eliminate the holders' rights to tender the Bonds, or any mandatory redemption or tender of the Bonds, extend the due date for the purchase of Bonds tendered by the holders thereof or call for mandatory redemption or tender or reduce the purchase or redemption price of such Bonds, (g) create a lien ranking prior to or on a parity with the lien of the Indenture on the property described in the Granting Clause of the Indenture or (h) deprive any Bondholder of the lien created by the Indenture on such property. In addition, if moneys or Government Obligations have been deposited or set aside with the Trustee for the payment of Bonds as described under "— Defeasance" above and those Bonds shall not have in fact been actually paid in full, no amendment to the defeasance provisions of the Indenture shall be made without the consent of the holder of each of those Bonds affected.

**Amendment of the Agreement**

The County may enter into, and the Trustee may consent to, any amendment of or supplement to the Agreement or the Note or may waive compliance by the Company of any provision of the Agreement or the Note, in each case without notice to or consent of any Bondholder if the amendment, supplement or waiver is required or permitted: (a) by the provisions of the Agreement or the Indenture; (b) to cure any ambiguity, inconsistency, formal defect or omission; (c) to identify more precisely the Project; (d) in connection with any authorized amendment of or supplement to the Indenture or (e) to make any change that, in the judgment of the Trustee, does not materially adversely affect the rights of any Bondholder.

Any other amendment, change or supplement of the Agreement or the terms of the Note may be entered into with the consent of the holders of at least a majority in aggregate principal amount of the Bonds at the time outstanding.

## THE TRUSTEE AND THE AUCTION AGENT

The Bank of New York Trust Company of Florida, N.A. serves as trustee under other indentures providing for certain tax-exempt bonds for the benefit of the Company. The Bank of New York serves as the Auction Agent. The Company and certain of its affiliates maintain banking relationships with The Bank of New York and borrow from such bank from time to time. The Bank of New York Trust Company of Florida, N.A. and The Bank of New York serve as trustee under other indentures with, or for the benefit of, affiliates of the Company.

## UNDERWRITING

Pursuant to an agreement with the County, Banc of America Securities LLC (the "Underwriter") has agreed, subject to certain conditions, to purchase the Bonds from the County at a purchase price equal to 100% of the aggregate principal amount thereof.

In consideration of such purchase, the Company will pay to the Underwriter a fee of $113,925. The nature of the Underwriter's obligation is such that if it purchases any Bonds, it must purchase all the Bonds. After the Bonds are released for sale to the public, the offering price and other selling terms may from time to time be varied by the Underwriter and such Bonds may be offered and sold to certain dealers (including dealers depositing such Bonds into investment accounts) and others at prices lower than the public offering price set forth on the cover page hereof. The Company has agreed to indemnify the Underwriter and the County against certain liabilities relating to this Official Statement, including certain liabilities under federal securities laws.

In connection with this offering and in compliance with applicable law and industry practice, the Underwriter may overallot or effect transactions which stabilize, maintain or otherwise affect the market price of the Bonds at levels above those which might otherwise prevail in the open market, including by entering stabilizing bids. A stabilizing bid means the placing of any bid, or the effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of a security. In general, purchases of a security for the purpose of stabilization could cause the price of the security to be higher than it might be in the absence of such purchases.

None of the County, the Company or the Underwriter makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, none of the County, the Company or the Underwriter makes any representation that the Underwriter will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

In the ordinary course of their respective businesses, the Underwriter and its affiliates have engaged, and may in the future engage, in investment banking and commercial banking transactions with the Company and its affiliates.

## TAX EXEMPTION

In the opinion of Balch & Bingham LLP and Miller, Canfield, Paddock and Stone, P.L.C. ("Co-Bond Counsel"), which will be dated the date of issuance of the Bonds, under existing statutes, rulings and court decisions, and under applicable regulations and proposed regulations, interest on the Bonds is not includable in gross income for federal income tax purposes except for interest on any Bond for any period during which such Bond is held by a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code. In addition, the opinions of Co-Bond Counsel will state that the interest on the Bonds will not be treated as an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed on such corporations. No opinion will be expressed with respect to any other federal tax consequences of the receipt or accrual of interest on, or ownership of, the Bonds. It should be noted that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may affect a holder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the holder or the holder's other items of income or deduction.

No assurance can be given that any future legislation or clarifications or amendments to the Code, if enacted into law, will not cause the interest on the Bonds to be subject, directly or indirectly, to federal or state income taxation, or otherwise prevent the holders from realizing the full current benefit of the tax status of the interest thereon. Further, no assurance can be given that any future legislation, or any actions of the Internal Revenue Service, including, but not limited to, selection of the Bonds for audit examination, or the course or result of any examination of the Bonds, or other bonds which present similar tax issues, will not affect the market price for the Bonds. Co-Bond Counsel have not undertaken to notify the County, the Trustee, the Company, the Underwriter or the owners of the Bonds of any change in law or fact after the date of such opinions which might affect any of the opinions expressed therein.

Ownership of the Bonds may result in other collateral federal income tax consequences to certain taxpayers, including, without limitation, banks, thrift institutions and other financial institutions, foreign

corporations which conduct a trade or business in the United States, property and casualty insurance corporations, S corporations, individual recipients of social security or railroad retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. Purchasers of the Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

In concluding that the interest on the Bonds is not includable in gross income for federal income tax purposes, Co-Bond Counsel will (i) rely as to certain factual matters upon representations and certifications of the Company with respect to the use of the proceeds of the obligations of the County being refunded thereby, the use of the proceeds of the Bonds, the design, scope, function, cost and economic useful life of the facilities constituting the Project, and the relationship of such facilities to the plants which they are designed to serve, without undertaking to verify the same by independent investigation, and (ii) assume continued compliance by the County and the Company with their respective covenants relating to the use of the proceeds of the Bonds and compliance with other requirements of the Code. The inaccuracy of any such representations or noncompliance with such covenants may cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

On the date of issuance of the Bonds, the Mississippi Business Finance Corporation (the "Mississippi Authority") will issue and deliver its Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) in the aggregate principal amount of $29,075,000 (the "Mississippi Bonds"). The proceeds of the Mississippi Bonds will be loaned by the Mississippi Authority to the Company to redeem certain bonds previously issued by the Mississippi Authority to finance or refinance facilities owned by the Company and located in the State of Mississippi. Under the provisions of the Code, the Bonds and the Mississippi Bonds may be aggregated and treated as a single issue of bonds for federal income tax purposes and the exclusion of the interest on the Bonds from gross income for federal income tax purposes may be dependent upon whether the interest on the Mississippi Bonds is excluded from gross income for federal income tax purposes. Contemporaneously with the issuance and delivery of the Mississippi Bonds, McGlinchey Stafford, PLLC, Jackson, Mississippi, will deliver its opinion as bond counsel to the effect that the interest on the Mississippi Bonds is excludable from gross income for federal income tax purposes. Balch & Bingham LLP and Miller, Canfield, Paddock and Stone, P.L.C., as Co-Bond Counsel for the Bonds, will express no opinion relating to the Mississippi Bonds.

In the opinions of Co-Bond Counsel, under existing statutes, interest on the Bonds is exempt from all present state income taxation within the State of Florida, except estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligation owed by corporation.

**The foregoing discussion is a general discussion of certain federal and state income tax consequences with respect to the Bonds and does not purport to deal with all tax questions that may be relevant to particular investors or circumstances.**

## SECONDARY MARKET INFORMATION

No financial statements or operating data concerning the County are included in this Official Statement and the County has not undertaken to provide any such information in the future.

Solely for the purpose of enabling the Underwriter to comply with the requirements of Rule 15c2-12(b)(5) under the Securities Exchange Act of 1934, as in effect on the date hereof (the "Rule"), the Company has undertaken (but only to the extent required for compliance with valid and effective provisions of the Rule), for the benefit of the holders of the Bonds, to provide the persons specified below (i) not later than 100 days after the end of each fiscal year of the Company, the Company's Annual Report to the Commission on Form 10-K (or any successor form), excluding any exhibits or documents incorporated by referenced therein, other than (if applicable) the audited financial statements appearing in the Company's annual report to shareholders (the "Form 10-K"), or, if the Form 10-K is no longer required, audited annual financial statements of the Company of the type incorporated by reference in Appendix A hereto (the "Audited Financial Statements"), and (ii) in a timely manner, notice of the occurrence of certain events enumerated in the Rule, if material (the "Company's Undertaking").

The Form 10-K (or, if required, the Audited Financial Statements) shall be provided to each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") recognized by the Commission for purposes of the Rule and to the Florida State Information Depository ("FSID"), if one shall be established for the purposes of the Rule, and the notices of certain events shall be provided to each NRMSIR or to the Municipal Securities Rulemaking Board and to the FSID, if any.

Neither the County nor its members, officers or employees have any responsibility or liability for the sufficiency, performance or enforcement of the Company's Undertaking. The Company and its directors, officers, employees and shareholders shall have no liability under the Company's Undertaking for any act or failure to act; a failure to perform the Company's Undertaking shall not constitute an Event of Default under the Agreement, an event of default under the Indenture or a default under the Note or any Bond; and the sole remedy shall be specific enforcement of the Company's Undertaking by the Trustee or by such persons, if any, as the Rule may require to be entitled to enforce the same. The Company reserves the right to (a) contest the validity of the Rule and (b) modify its performance of the Company's Undertaking, to the extent not inconsistent with valid and effective provisions of the Rule.

## LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving opinions of Balch & Bingham LLP and Miller, Canfield, Paddock and Stone, P.L.C., as Co-Bond Counsel. Copies of such opinions will be available at the time of delivery of the Bonds. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income for federal income tax purposes of interest thereon, will be passed upon for the Company by its counsel, Beggs & Lane, a Registered Limited Liability Partnership, Pensacola, Florida, and Troutman Sanders LLP, Atlanta, Georgia, and for the Underwriter by its counsel, Dewey Ballantine LLP, New York, New York. Miller, Canfield, Paddock and Stone, P.L.C. has not undertaken any responsibility for the accuracy, completeness or fairness of this Official Statement.

## DISCLOSURE REQUIRED BY FLORIDA BLUE SKY REGULATIONS

Florida Administrative Code Rule 3E-400.003(1), adopted under and pursuant to the authority of Section 517.051(1), Florida Statutes, requires the County to disclose each default as to the payment of principal and interest with respect to obligations issued or guaranteed by the County after December 31, 1975. Fla. Admin. Code Rule 3E-400.003(2) provides, however, that if the County, in good faith, believes that such disclosures would not be considered material by a reasonable investor, such disclosures may be omitted. Since the County believes that disclosure concerning defaults with regard to any of its other bonds would not be considered material by a reasonable investor in the Bonds, the County has not undertaken to contact the various trustees of other conduit bond issues of the County to determine the existence of prior defaults.

## MISCELLANEOUS

Information, including certain financial statements, relating to the business and properties of the Company is included or incorporated by reference in Appendix A to this Official Statement and is hereby made a part hereof.

This Official Statement has been duly approved by:

ESCAMBIA COUNTY, FLORIDA

By: /s/ Marie Young
Chairman of the Board of County Commissioners
of Escambia County, Florida

# APPENDIX A

## GULF POWER COMPANY

**THE INFORMATION CONTAINED HEREIN AS AN APPENDIX TO THE OFFICIAL STATEMENT HAS BEEN OBTAINED FROM GULF POWER COMPANY**

## GULF POWER COMPANY

Gulf Power Company (the "Company") is a wholly-owned subsidiary of The Southern Company ("Southern"), a holding company registered under the Public Utility Holding Company Act of 1935, as amended. The Company was incorporated under the laws of the State of Maine on November 2, 1925 and admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976 and in Georgia on November 20, 1984. The Company is engaged, within the northwestern portion of Florida, in generation and purchase of electricity and the distribution and sale of such electricity at retail in 71 communities as well as in rural areas, at wholesale to a nonaffiliated utility and to a municipality. The mailing address of the Company's principal executive offices is One Energy Place, Pensacola, Florida 32520-0100, and the telephone number is (850) 444-6111.

## AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "SEC"). Such reports and other information can be inspected and copied upon payment of a fee set by the SEC at a public reference room of the SEC in Washington, D.C. (450 Fifth Street, N.W., 20549). The SEC may be contacted at 1-800-732-0330 for information on the public reference room. Reports of the Company are also available on the internet through the SEC's EDGAR database at the SEC's website at http://www.sec.gov. Certain securities of the Company are listed on the New York Stock Exchange, and reports and other information concerning the Company can be inspected at the office of such Exchange.

## INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents, which have heretofore been filed by the Company with the SEC pursuant to the Exchange Act, are incorporated by reference in this Appendix and shall be deemed to be a part hereof:

1. Annual Report on Form 10-K for the year ended December 31, 2002.

2. Current Report on Form 8-K dated March 21, 2003.

All documents subsequently filed by the Company with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the termination of the offering hereunder shall be deemed to be incorporated by reference in this Appendix and to be made a part hereof from their respective dates of filing. Any statement contained in a document incorporated or deemed to be incorporated by reference herein as aforesaid shall be deemed to be modified or superseded for purposes of this Appendix to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Appendix.

**The Company hereby undertakes to provide without charge to each person to whom a copy of this Official Statement has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated by reference in this Appendix, other than exhibits to such documents. Requests for such copies should be directed to W. E. Tate, Vice President, Secretary and Treasurer, Gulf Power Company, One Energy Place, Pensacola, Florida 32520-0100, (850) 444-6111.**

## SELECTED INFORMATION

The following material, which is presented herein solely to furnish limited introductory information regarding the Company, has been selected from, or is based upon, the detailed information and financial statements appearing in the documents incorporated herein by reference or elsewhere in this Appendix, is qualified in its entirety by reference thereto and, therefore, should be read together therewith.

### Gulf Power Company

| | |
|---|---|
| Business | Generation, transmission, distribution and sale of electric energy |
| Service Area | Approximately 7,400 square miles within the northwestern portion of Florida |
| Customers at December 31, 2002 | 383,923 |
| Generating Capacity at December 31, 2002 (kilowatts) | 2,808,550 |
| Sources of Generation during 2002 (kilowatt-hours) | Coal (82%), Gas (18%) |

### Selected Financial Information

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 |
| | (Thousands, Except Ratios) | | | | |
| Operating Revenues | $650,518 | $647,099 | $714,319 | $725,203 | $820,467 |
| Earnings Before Income Taxes | 89,356 | 86,515 | 82,607 | 89,716 | 104,397 |
| Net Income After Dividends on Preferred Stock | 56,521 | 53,667 | 51,843 | 58,307 | 67,036 |
| Ratio of Earnings to Fixed Charges (1) | 3.83 | 3.62 | 3.38 | 3.64 | 3.52 |

| | Capitalization as of December 31, 2002 | | |
|---|---|---|---|
| | Actual | As Adjusted (2) | |
| | (Thousands, Except Percentages) | | |
| Common Stock Equity | $549,505 | $559,505 | 47.6% |
| Cumulative Preferred Stock | 4,236 | 4,236 | 0.4 |
| Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Company Junior Subordinated Notes | 155,000 | 115,000 | 9.8 |
| Senior Notes | 216,757 | 281,757 | 24.0 |
| Other Long-Term Debt | 235,283 | 215,283 | 18.2 |
| Total, excluding amounts due within one year | $1,160,781 | $1,175,781 | 100.0% |

(1) This ratio is computed as follows. (i) "Earnings" have been calculated by adding to "Earnings Before Income Taxes" "Interest Expense, Net of Amounts Capitalized," "Distributions on Preferred Securities of Subsidiary" and the debt portion of allowance for funds used during construction; and (ii) "Fixed Charges" consist of "Interest Expense, Net of Amounts Capitalized," "Distributions on Preferred Securities of Subsidiary" and the debt portion of allowance for funds used during construction

(2) Reflects (i) the receipt in January 2003 of $10,000,000 in capital contributions from Southern; (ii) the redemption in January 2003 of $40,000,000 aggregate liquidation amount of Gulf Power Capital Trust I 7.625% Cumulative Quarterly Income Preferred Securities; (iii) the issuance in March 2003 of $65,000,000 aggregate principal amount of Series F 5.60% Senior Insured Quarterly Notes due April 1, 2033; and (iv) the proposed redemption in April 2003 of $20,000,000 aggregate principal amount of Series B 7.50% Junior Subordinated Notes due June 30, 2037.

## RISK FACTORS

Investing in the securities and obligations of the Company involves risk. Please see the risk factors described in the Company's Annual Report on Form 10-K for the year ended December 31, 2002, which is incorporated by reference into this Official Statement. Before making an investment decision, an investor should carefully consider these risks as well as other information contained or incorporated by reference in this Official Statement. The risks and uncertainties described are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair its business operations, its financial results and the value of its securities.

# APPENDIX B

## AUCTION PROCEDURES

AUCTION PROCEDURES

**Definitions**

In addition to the words and terms elsewhere defined in this Official Statement, the following words and terms as used in this Appendix B and elsewhere in this Official Statement have the following meanings while the Bonds are in an Auction Rate Period unless the context or use indicates another or different meaning or intent:

"Agent Member" means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

"All Hold Rate" means, as of any Auction Date, 45% of the Reference Rate in effect on such Auction Date.

"Applicable Percentage" means, as of any Auction Date, (a) so long as there has not been more than one Failed Auction since the last Successful Auction, 300%; and (b) if there have been two or more consecutive Failed Auctions since the last Successful Auction, 400%.

"Auction" means each periodic implementation of the Auction Procedures.

"Auction Agent" means the auctioneer appointed in accordance with this Appendix B and shall initially be The Bank of New York.

"Auction Agreement" means an agreement among the Company, the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in this Appendix B with respect to the Bonds while bearing interest at an Auction Mode Rate, as such agreement may from time to time be amended or supplemented.

"Auction Date" means during any period in which the Auction Procedures are not suspended in accordance with the provisions hereof, (i) if the Bonds are in a daily Auction Period, each Business Day, and (ii) if the Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to the Bonds in an Auction Period other than a daily Auction Period shall be the earlier of (a) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Bonds and (b) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Bonds; and provided, further, that if the Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the Conversion Date for the Bonds and (y) the Business Day next preceding the final maturity date for the Bonds. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion. The first Auction Date for the Bonds is May 19, 2003.

"Auction Mode Rate" means the rate of interest to be borne by the Bonds during each Auction Period determined in accordance with this Appendix B; provided, however, in no event may the Auction Mode Rate exceed the Maximum Auction Rate.

"Auction Period" or "Auction Rate Period" means any period of less than 365 days during which the Bonds bear interest at a single Auction Mode Rate, as established pursuant to the Indenture.

"Auction Procedures" means the procedures for conducting Auctions for Bonds during an Auction Rate Period set forth in this Appendix B.

"Auction Rate" means for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the Bonds are the subject of Submitted Hold Orders, the All Hold Rate and (ii) if Sufficient Clearing Bids do not exist, the Maximum Auction Rate.

"Authorized Denominations" means $1,000 and integral multiples thereof, notwithstanding anything else in the Indenture to the contrary, so long as the Bonds bear interest at an Auction Mode Rate.

"Available Bonds" means on each Auction Date, the aggregate principal amount of Bonds that are not the subject of Submitted Hold Orders.

"Bid" has the meaning specified in this Appendix B.

"Bidder" means each Existing Owner and Potential Owner who places an Order.

"Broker-Dealer" means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Appendix B, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Company and that is a party to a Broker-Dealer Agreement with the Company and the Auction Agent.

"Broker-Dealer Agreement" means an agreement among the Auction Agent, the Company and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Appendix B, as such agreement may from to time be amended or supplemented.

"Business Day" in addition to any other definition of "Business Day" included in the Indenture while Bonds bear interest at an Auction Mode Rate, the term Business Day shall not include April 14 or 15 or December 30 or 31 or days on which the Auction Agent or any Broker-Dealer are not open for business.

"Conversion Date" means the date on which the Bonds begin to bear interest at a Daily Rate, a Weekly Rate, a Commercial Paper Rate, a Long-Term Interest Rate or an Index Rate.

"Existing Owner" means a Person who is listed from time to time as the beneficial owner of Bonds in the records of the Auction Agent.

"Failed Auction" means an Auction for which there were not Sufficient Clearing Bids.

"Hold Order" has the meaning specified in this Appendix B.

"Initial Period" means the period from the date of original issuance of the Bonds to but not including May 20, 2003.

"Interest Payment Date" with respect to Bonds bearing interest at Auction Mode Rates, means May 20, 2003 and thereafter (a) when used with respect to any Auction Period of fewer than 92 days (other than a daily Auction Period), the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to an Auction Period of 92 or more days, each 13th Thursday after the first day of such Auction Period or the next Business Day if such Thursday is not a Business Day and on the Business Day immediately following such Auction Period, (d) each Conversion Date and (e) the Maturity Date.

"Maximum Auction Rate" means, as of any Auction Date, the product of the Reference Rate multiplied by the Applicable Percentage; provided, however, that if there have been two or more consecutive Failed Auctions since the last Successful Auction and there has not been a Successful Auction for a period of greater than 90 days after the first of such Failed Auctions, the Maximum Auction Rate shall be the Maximum Interest Rate; provided, further that in no event shall the Maximum Auction Rate exceed the Maximum Interest Rate.

"Maximum Interest Rate" means 15% on the date hereof and, to the extent the maximum rate permitted by applicable law shall become less than 15%, then the maximum rate permitted by applicable law.

"Moody's" means Moody's Investors Service, Inc and its successors and assigns.

"Order" means a Hold Order, Bid or Sell Order.

"Potential Owner" means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Bonds in addition to the Bonds currently owned by such Person, if any.

"Principal Office" means, with respect to the Auction Agent, the office thereof designated in writing to the Company, the Trustee and each Broker-Dealer.

"Rating Agencies" means Moody's and S&P.

"Reference Rate" shall have the meaning specified in this Appendix B.

"S&P" means Standard & Poor's, a division of The McGraw-Hill Companies, and its successors and assigns.

"Securities Depository" means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Company which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

"Sell Order" has the meaning specified in this Appendix B.

"Submission Deadline" means 1:00 p.m., New York City time, on each Auction Date not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent.

"Submitted Bid" has the meaning specified in this Appendix B.

"Submitted Hold Order" has the meaning specified in this Appendix B.

"Submitted Order" has the meaning specified in this Appendix B.

"Submitted Sell Order" has the meaning specified in this Appendix B.

"Successful Auction" means an Auction for which there were Sufficient Clearing Bids.

"Sufficient Clearing Bids" means an Auction for which the aggregate principal amount of Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Interest Rate is not less than the aggregate principal amount of Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Interest Rate.

"Winning Bid Rate" means the lowest rate specified in any Submitted Bid which if selected by the Auction Agent as the Auction Rate, subject to the All Hold Rate, would cause the aggregate principal amount of Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Bonds.

## AUCTION PROCEDURES

### General Procedures

While the Bonds bear interest at the Auction Mode Rate, Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding each Auction Rate Period commencing after the ownership of the Bonds is no longer maintained in the book-entry system described in the Indenture). If there is an Auction Agent on such Auction Date, Auctions shall be conducted in the manner set forth in this Appendix B.

**Orders by Existing Owners and Potential Owners**

(a) Prior to the Submission Deadline on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, information as to:

(A) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period,

(B) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period shall not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner irrevocably offers to sell on the next succeeding Auction Date (or the same day in the case of a daily Auction Period) if the rate determined by the Auction Procedures for the next succeeding Auction Period shall be less than the rate per annum then specified by such Existing Owner), and/or

(C) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably offers to sell on the next succeeding Auction Date (or on the same day in the case of a daily Auction Period) without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period; and

(ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the Bonds, the Broker-Dealers shall contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of Bonds, if any, which each such Potential Owner irrevocably offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof an Order containing the information referred to in clause (i)(A) above is herein referred to as a "Hold Order," an Order containing the information referred to in clause (i)(B) or (ii) above is herein referred to as a "Bid" and an Order containing the information referred to in clause (i)(C) above is herein referred to as a "Sell Order."

(b) (i) Subject to the provisions of this Appendix B, a Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds to be determined as set forth herein if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate; or

(C) a lesser principal amount of Bonds to be determined as set forth herein if such specified rate shall be higher than the Maximum Auction Rate and Sufficient Clearing Bids do not exist.

(ii) Subject to the provisions of this Appendix B, a Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of Bonds as set forth herein if Sufficient Clearing Bids do not exist.

(iii) Subject to the provisions of this Appendix B, a Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(A) the principal amount of Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds as set forth herein if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies Bonds to be held, purchased or sold in a principal amount which is not $1,000 or an integral multiple thereof shall be rounded down to the nearest $1,000, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) for purposes of any Auction other than during a daily Auction Period, any portion of an Order of an Existing Owner which relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted; and

(iii) for purposes of any Auction other than during a daily Auction Period, no portion of a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction.

**Submission of Orders by Broker-Dealers to Auction Agent**

(a) Each Broker-Dealer shall submit to the Auction Agent in writing or by such other method as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and specifying, with respect to each Order:

(i) the name of the Bidder placing such Order;

(ii) the aggregate principal amount of Bonds, if any, that are the subject of such Order;

(iii) to the extent that such Bidder is an Existing Owner:

(A) the principal amount of Bonds, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of Bonds, if any, subject to any Sell Order placed by such Existing Owner; and

(iv) to the extent such Bidder is a Potential Owner, the rate and amount specified in such Potential Owner's Bid.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If an Order or Orders covering all of the Bonds held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds held by such Existing Owner and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to another Auction Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of Bonds to be converted held by such Existing Owner, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds to be converted held by such Existing Owner not subject to Orders submitted to the Auction Agent.

(d) If one or more Orders covering in the aggregate more than the principal amount of outstanding Bonds held by any Existing Owner are submitted to the Auction Agent, such Orders shall be considered valid as follows and in the following order of priority:

(i) all Hold Orders shall be considered valid Hold Orders, but only up to and including in the aggregate the principal amount of Bonds held by such Existing Owner, and if the aggregate principal amount of Bonds subject to such Hold Orders exceeds the aggregate principal amount of Bonds held by such Existing Owner, the aggregate principal amount of Bonds subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of outstanding Bonds held by such Existing Owner;

(ii) (A) any Bid of an Existing Owner shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of Bonds held by such Existing Owner over the aggregate principal amount of the Bonds subject to Hold Orders referred to in paragraph (i) above;

(B) subject to sub-clause (A) of this paragraph (ii), all Bids of an Existing Owner with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of Bonds held by such Existing Owner over the principal amount of Bonds held by such Existing Owner subject to Hold Orders referred to in sub-paragraph (i) of this paragraph (d);

(C) subject to sub-clause (A) of this paragraph (ii), if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of Bonds held by such Existing Owner over the principal amount of Bonds held by such Existing Owner subject to Hold Orders referred to in sub-paragraph (i) of this paragraph (d); and

(D) the principal amount, if any, of such Bonds subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Owner at the rate specified therein; and

(iii) all Sell Orders shall be considered valid Sell Orders, but only up to and including a principal amount of Bonds equal to the excess of the principal amount of Bonds held by such Existing Owner over the sum of the principal amount of the Bonds considered to be subject to Hold Orders pursuant to sub-paragraph (i) of this paragraph (d) and the principal amount of Bonds considered to be subject to Bids of such Existing Owner pursuant to sub-paragraph (ii) of this paragraph (d).

(e) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate shall be aggregated and considered a single Bid and each Bid submitted with a different rate shall be considered a separate Bid with the rate and the principal amount of Bonds specified therein.

(f) Any Bid submitted by an Existing Owner or a Potential Owner specifying a rate lower than the All Hold Rate shall be treated as a Bid specifying the All Hold Rate, and any such Bid shall be considered as valid and shall be selected in ascending order of the respective rates in the Submitted Bids.

(g) Neither the County, the Company, the Trustee, the Remarketing Agent nor the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

**Determination of Auction Mode Rate**

(a) Not later than 9:30 a.m., New York City time, on each Auction Date, the Auction Agent shall advise the Broker-Dealers and the Trustee by telephone or other electronic means of the All Hold Rate, the Maximum Auction Rate and the Reference Rate.

(b) Promptly after the Submission Deadline on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids and (iii) the Auction Rate.

(c) Promptly after the Auction Agent has made the determinations pursuant to subsection (b) above, the Auction Agent shall advise the Trustee and the Company by telex, facsimile or other electronic transmission of the Auction Rate for the next succeeding Auction Period and the Trustee shall promptly notify DTC of such Auction Rate.

(d) In the event the Auction Agent fails to calculate or, for any reason, fails to timely provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a period of 35 days or less, the new Auction Period shall be the same as the preceding Auction Period and the Auction Mode Rate for the New Auction Period shall be the same as the Auction Mode Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 35 days, the preceding Auction Period shall be extended to the seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the Auction Mode Rate in effect for the preceding Auction Period will continue in effect for the Auction Period as so extended. In the event an Auction Period is extended as set forth in clause (ii) of the preceding sentence, an Auction shall be held on the last Business Day of the Auction Period as so extended to take effect for an Auction Period beginning on the Business Day immediately following the last day of the Auction Period as extended which Auction Period will end on the date it would otherwise have ended on had the prior Auction Period not been extended.

(e) In the event of a failed conversion from an Auction Mode Rate Determination Method to another Determination Method or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Mode Rate for the next Auction Period shall be the Maximum Auction Rate and the Auction Period shall be a seven-day Auction Period.

(f) If the Bonds are not rated or if the Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the Auction Mode Rate shall be the Maximum Auction Rate.

**Allocation of the Bonds**

(a) In the event of Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted, and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Bonds outstanding which are not the subject of Submitted Hold Orders described in sub-paragraph (i) of this paragraph (a) or of Submitted Bids described in sub-paragraphs (iii) and (iv) of this paragraph (a) by (B) a fraction the numerator of which shall be the principal amount of Bonds outstanding held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of Bonds outstanding subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Bonds outstanding which are not the subject of Submitted Hold Orders described in sub-paragraph (i) of this paragraph (a) or of Submitted Bids described in sub-paragraphs (iii), (iv) or (v) of this paragraph (a) by (B) a fraction the numerator of which shall be the principal amount of Bonds outstanding subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of Bonds outstanding subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Auction Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Auction Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Auction Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Bonds subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the principal amount of Bonds outstanding held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of Bonds outstanding subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Auction Rate shall be rejected.

(c) If, as a result of the procedures described in subsection (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of Bonds which is not an integral multiple of $1,000 on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of $1,000, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Bonds on such Auction Date.

(d) If, as a result of the procedures described in subsection (a) above, any Potential Owner would be required to purchase less than $1,000 in principal amount of Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate Bonds for purchase among Potential Owners so that the principal amount of Bonds purchased on such Auction Date by any Potential Owner shall be an integral multiple of $1,000, even if such allocation results in one or more of such Potential Owners not purchasing Bonds on such Auction Date.

**Notice of Auction Mode Rate**

(a) On each Auction Date, the Auction Agent shall notify by telephone or other electronic means or in writing each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Owner or Potential Owner of the following:

(i) the Auction Mode Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of the Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other

Broker-Dealer) and the principal amount of Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Mode Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected and (C) the immediately succeeding Auction Date;

(ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of Bonds to be purchased pursuant to such Bid (including, with respect to the Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Bonds; and

(iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected in whole or in part to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

**Reference Rate**

(a) The Reference Rate on any Auction Date with respect to Bonds in any Auction Period of 35 days or less shall be the greater of (a) the offered rate for deposits in U.S. dollars for a one-month period (LIBOR) which appears on the MoneyLine Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market, or (b) the BMA Index at approximately 9:30 a.m., New York City time, on such date. The Reference Rate with respect to Bonds in any Auction Period of more than 35 days shall be the rate on Treasury securities having a maturity which most closely approximates the length of the Auction Period, as last published in The Wall Street Journal. If either rate is unavailable, the Reference Rate shall be an index or rate agreed to by all Broker-Dealers and consented to by the Company.

(b) If for any reason on any Auction Date the Reference Rate shall not be determined as hereinabove provided in this section, the Reference Rate shall be the Reference Rate for the Auction Period ending on such Auction Date.

(c) The determination of the Reference Rate as provided herein shall be conclusive and binding upon the County, the Company, the Trustee, the Remarketing Agent, the Broker-Dealers, the Auction Agent and the Owners and Beneficial Owners of the Bonds.

**Miscellaneous Provisions Regarding Auctions**

(a) In this Appendix B, each reference to the purchase, sale or holding of Bonds shall refer to beneficial interests in Bonds, unless the context clearly requires otherwise.

(b) During an Auction Rate Period, the provisions of the Indenture and the definitions contained therein and described in this Appendix B, including, without limitation, the definitions of All Hold Rate, Interest Payment Date, Maximum Auction Rate, Reference Rate, Applicable Percentage and Auction Mode Rate, may be amended pursuant to the Indenture by obtaining the consent of the owners of all Bonds bearing interest at a Auction

Mode Rate, as follows. If, on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the registered owners of the Bonds as required by the Indenture, (i) the Auction Mode Rate which is determined on such date is the Winning Bid Rate and (ii) there is delivered to the Company and the Trustee an Opinion of Tax Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income tax to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the owners of all affected Bonds affected by such amendment.

(c) During an Auction Rate Period, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the Existing Owner of such Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this section if such Broker-Dealer remains the Existing Owner of the Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

**Changes in Auction Period or Auction Date**

(a) Changes in Auction Period.

(i) During any Auction Rate Period, the Company may, from time to time on any Interest Payment Date, change the length of the Auction Period with respect to all of the Bonds in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Bonds. Any such change in the Auction Period shall be deemed to be a change in Determination Method. The Company shall initiate the change in the length of the Auction Period by giving a conversion notice pursuant to Section 2.02(b)(1) of the Indenture.

(ii) The change in the length of the Auction Period shall not be effective unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this subsection (a) and the Auction immediately preceding the proposed change.

(iii) The change in length of the Auction Period shall take effect only if (i) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period and (ii) on the proposed effective date, the Company provides the Trustee with a Favorable Opinion of Tax Counsel as to such change in the Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds except to the extent such Existing Owner submits an Order with respect to such Bonds. If the conditions referred to in the first sentence of this sub-paragraph (iii) are not met, the Trustee shall notify the Auction Agent and then the Auction Mode Rate for the next Auction Period shall be the Maximum Auction Rate and the Auction Period shall be a seven-day Auction Period.

(iv) On the conversion date of the Bonds selected for conversion from one Auction Period to another, any Bonds which are not the subject of a specific Hold Order or Bid will be deemed to be subject to a Sell Order.

(b) Changes in Auction Date. During any Auction Rate Period, the Auction Agent, with the written consent of the Company, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the Bonds. The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed

changed Auction Date to the Trustee, the County, the Company, the Broker-Dealers, the Remarketing Agent and the Securities Depository.

**Auction Agent**

(a) The Auction Agent shall be The Bank of New York, or any successor appointed by the Company to perform the functions specified herein. The Auction Agent shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument, delivered to the Company, the Trustee, the County and each Broker-Dealer which shall set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to the County, the Company and the Trustee.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in Bonds with the same rights as if such entity were not the Auction Agent.

**Qualifications of Auction Agent; Resignation; Removal**

The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least $30,000,000 or (b) a member of NASD having a capitalization of at least $30,000,000 and, in either case, authorized by law to perform all the duties and obligations imposed upon it by the Indenture and a member of or a participant in the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least 90 days' notice to the Company, the County and the Trustee. The Auction Agent may be removed at any time by the Company by written notice, delivered to the Auction Agent, the County and the Trustee. Upon any such resignation or removal, the Company shall appoint a successor Auction Agent meeting the requirements of this section. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties hereunder until its successor has been appointed by the Company. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving forty-five (45) days' notice to the Company, the County and the Trustee even if a successor Auction Agent has not been appointed.

BEGGS & LANE
A REGISTERED LIMITED LIABILITY PARTNERSHIP
ATTORNEYS AND COUNSELLORS AT LAW
POST OFFICE BOX 12950
PENSACOLA, FLORIDA 32591-2950

501 COMMENDENCIA STREET
PENSACOLA, FLORIDA 32501-5641
TELEPHONE (850) 432-2451
TELECOPIER (850) 469-3330

JAMES M WEBER
JOHN F WINDHAM
J NIXON DANIEL, III
RALPH A PETERSON
GARY B LEUCHTMAN
JOHN P DANIEL
JEFFREY A STONE
JAMES S CAMPBELL
RUSSELL F VAN SICKLE
RUSSELL A BADDERS
MARY JANE THIES
DAVID L MCGEE
CHARLES T WIGGINS
THOMAS F GONZALEZ
DAVID E HIGHTOWER
WILLIAM H MITCHEM
PETER J MOUGEY
R ANDREW KENT
ELIZABETH C CALLAHAN
TERRIE L DIDIER

W SPENCER MITCHEM
*Of Counsel*

E DIXIE BEGGS
1908-2001

BERT H LANE
1917-1981

April 15, 2003

Banc of America Securities LLC
Charlotte, North Carolina

Board of County Commissioners
Escambia County, Florida

The Bank of New York Trust Company of Florida, N.A., as Trustee
Atlanta, Georgia

Re: $32,550,000 Escambia County, Florida Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with the purchase by Banc of America Securities LLC (the "Underwriter") of $32,550,000 aggregate principal amount of Escambia County, Florida Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003 (the "Bonds"), pursuant to the Purchase Contract dated April 11, 2003 (the "Purchase Contract"), between Escambia County, Florida (the "County") and the Underwriter.

We have examined (i) the Official Statement dated April 11, 2003 relating to the Bonds, including Appendix A thereto (the "Official Statement"), which incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002, and the Current Report on Form 8-K of the Company dated March 21, 2003, (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) the Trust Indenture relating to the Bonds, dated as of April 1, 2003 (the "Trust Indenture") between the County and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"); (iii) the Loan Agreement dated as of April 1, 2003 (the "Agreement") between the County and the Company; (iv) the promissory note dated April 15, 2003 (the "Note") in the aggregate principal amount of $32,550,000 issued by the Company pursuant to the Agreement; (v) the Purchase Contract; (vi) the Letter of Representation dated April 11, 2003 (the "Letter of

Representation") among the Company, the County and the Underwriter; (vii) the Auction Agreement (the "Auction Agreement") dated as of April 1, 2003, among the Company, the Trustee and The Bank of New York, as auction agent (the "Auction Agent"); and (viii) the Broker-Dealer Agreement dated as of April 1, 2003 (the "Broker-Dealer Agreement") among the Company, the Auction Agent and Banc of America Securities LLC, as the broker-dealer. In addition, we have examined, and have relied as to matters of fact upon, the documents delivered at the closing (except the Bonds of which we have examined a specimen), and upon originals or copies, certified or otherwise identified to our satisfaction, of such corporate records, agreements, documents and other instruments and such certificates or comparable documents of public officials and of officers and representatives of the County and the Company, and have made such other and further investigations, as we deemed relevant and hereinafter set forth.

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Georgia law and the federal law of the United States upon the opinion dated the date hereof of Troutman Sanders LLP and relying as to matters of New York law upon the opinion dated the date hereof rendered by Dewey Ballantine LLP, that:

1. The Company is a corporation duly organized and existing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged to own and operate the properties owned and used by it in such business.

2. The Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Letter of Representation and the Note have been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery thereof by other parties thereto, constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Letter of Representation and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) and by any principles of public policy limiting the right to enforce the indemnification provisions contained in the Broker-Dealer Agreement and the Letter of Representation.

3. The statements made in the Official Statement under the captions "The Bonds," "The Agreement" and "The Indenture," insofar as they purport to constitute summaries of the terms of documents referred to therein, constitute accurate summaries of the terms of such documents in all material respects; provided that no opinion is expressed with respect to the information contained under the heading "The Bonds -- Book-Entry System."

4. All orders, consents or other authorizations or approvals of the Securities and Exchange Commission (the "Commission") and the Florida Public Service Commission legally required for the issuance of the Note and with respect to the authorization, execution and delivery of the Agreement by the Company have been obtained; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance of the Note or the authorization, execution and delivery of the Agreement by the Company.

5. The execution and delivery of the Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Note and the Letter of Representation by the Company will not result in a breach of or constitute a default under the Charter or by-laws of the Company or any indenture, mortgage, deed of trust, agreement or other instrument, of which we have knowledge, to which the Company is a party or by which is or any of its property is bound or any order, rule or regulation applicable to the Company of any court or other governmental body having jurisdiction over the Company or any of its property.

We have no knowledge of any material litigation or proceedings pending or threatened which challenge the validity of the Note, the Agreement, the Auction Agreement, the Broker-Dealer Agreement or the Letter of Representation, or which seek to enjoin the performance of the Company's obligations thereunder.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Official Statement or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraph 3 above. In the course of the preparation by the County and the Company of the Official Statement, we participated in conferences with certain officers and employees of the Company, with representatives of Deloitte & Touche LLP, with other counsel for the Company, with your counsel and with Bond Counsel. In addition, in the course of the preparation by the Company of the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with your counsel and with representatives of Deloitte & Touche LLP. Based upon our examination of the Official Statement and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion or belief as to the financial statements or other financial or statistical data contained or incorporated by reference in the Exchange Act Documents, and (ii) we have no reason to believe that the Official Statement (including the Exchange Act Documents) contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Official Statement or the Exchange Act

Documents or with respect to the information in the Official Statement under the captions "The County," "The Bonds -- Book-Entry System," "Underwriting" and "Tax Exemption."

We are members of the Florida Bar and we do not express any opinion herein concerning any law other than the law of the States of Florida, Mississippi and Maine, and, to the extent set forth herein, the laws of the States of Georgia and New York and the federal law of the United States.

This opinion is rendered to you in connection with the above described transaction. This opinion may not be relied upon by you for any other purpose, or relied upon by, or furnished to, any other person, firm or corporation without our prior written consent, except that Dewey Ballantine LLP and Troutman Sanders LLP may rely on this opinion in giving their opinions pursuant to Section 6 of the Purchase Contract insofar as such opinions relate to matters of Florida, Mississippi and Maine law.

Very truly yours,

Beggs & Lane

BEGGS & LANE

TROUTMAN SANDERS LLP
ATTORNEYS AT LAW
A LIMITED LIABILITY PARTNERSHIP

BANK OF AMERICA PLAZA
600 PEACHTREE STREET, N.E. - SUITE 5200
ATLANTA, GEORGIA 30308-2216
www.troutmansanders.com
TELEPHONE 404-885-3000
FACSIMILE 404-885-3900

April 15, 2003

Banc of America Securities LLC
Charlotte, North Carolina

Board of Commissioners
Escambia County, Florida

The Bank of New York Trust Company of Florida, N.A., as Trustee
Atlanta, Georgia

Re: $32,550,000, Escambia County, Florida Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with the purchase by Banc of America Securities LLC (the "Underwriter") of $32,550,000 aggregate principal amount of Escambia County, Florida Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003 (the "Bonds"), pursuant to the Purchase Contract dated April 11, 2003 (the "Purchase Contract"), between Escambia County, Florida (the "County") and the Underwriter.

We have examined (i) the Official Statement dated April 11, 2003 relating to the Bonds, including Appendix A thereto (the "Official Statement"), which incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002 and the Current Report on Form 8-K of the Company dated March 21, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) the Trust Indenture relating to the Bonds, dated as of April 1, 2003 (the "Trust Indenture") between the County and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"); (iii) the Loan Agreement dated as of April 1, 2003 (the "Agreement") between the County and the Company; (iv) the promissory note dated April 15, 2003 (the "Note") in the aggregate principal amount of $32,550,000 issued by the Company pursuant to the Agreement; (v) the Purchase Contract; (vi) the Letter of Representation dated April 11, 2003 (the "Letter of Representation") among the Company, the County and the

Underwriter; (vii) the Auction Agreement (the "Auction Agreement") dated as of April 1, 2003, among the Company, the Trustee and The Bank of New York, as auction agent (the "Auction Agent"); and (viii) the Broker-Dealer Agreement dated as of April 1, 2003 (the "Broker-Dealer Agreement") among the Company, the Auction Agent and Banc of America Securities LLC, as the broker-dealer. In addition, we have examined, and have relied as to matters of fact upon, the documents delivered at the closing (except the Bonds of which we have examined a specimen), and upon originals or copies, certified or otherwise identified to our satisfaction, of such corporate records, agreements, documents and other instruments and such certificates or comparable documents of public officials and of officers and representatives of the County and the Company, and have made such other and further investigations, as we deemed relevant and hereinafter set forth.

In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Maine, Mississippi and Florida law upon the opinion dated the date hereof rendered to you by Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane") and relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP, that:

1. The Company is a corporation duly organized and existing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged and to own and operate the properties used by it in such business.

2. The Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Letter of Representation and the Note have been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery thereof by other parties thereto, constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Letter of Representation and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) and by any principles of public policy limiting the right to

enforce the indemnification provisions contained in the Broker-Dealer Agreement and the Letter of Representation.

3. The statements made in the Official Statement under the captions "The Bonds," "The Agreement" and "The Indenture," insofar as they purport to constitute summaries of the terms of documents referred to therein, constitute accurate summaries of the terms of such documents in all material respects; provided that no opinion is expressed with respect to the information contained under the heading "The Bonds — Book-Entry System."

4. All orders, consents or other authorizations or approvals of the Securities and Exchange Commission (the "Commission") and the Florida Public Service Commission legally required for the issuance of the Note and with respect to the authorization, execution and delivery of the Agreement by the Company have been obtained; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance of the Note or the authorization, execution and delivery of the Agreement by the Company.

5. The Bonds are exempted securities within the meaning of Section 3(a)(2) of the Securities Act of 1933, as amended (the "Act"), and it is not necessary in connection with the sale of the Bonds to the public to register the Bonds or the Note under the Act or to qualify the Trust Indenture under the Trust Indenture Act of 1939, as amended.

In rendering the opinion expressed in paragraph 5 above, we have relied upon the legal opinion dated the date hereof, rendered by Balch & Bingham LLP, Co-Bond Counsel, pursuant to the Purchase Contract as to the exclusion from gross income for federal income tax purposes of interest on the Bonds and have made no independent investigation with respect to such exclusion.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Official Statement or the Exchange Act Documents and take no responsibility therefor except as and to the extent set forth in paragraph 3 above. In the course of the preparation by the County and the Company of the Official Statement, we participated in conferences with certain officers and employees of the Company, with representatives of Deloitte & Touche LLP, with other counsel for the Company, with your counsel and with Co-Bond Counsel. In addition, in the course of the preparation by the Company of the Exchange Act Documents, we participated in conferences with certain officers

and employees of the Company, with other counsel for the Company, with your counsel and with representatives of Deloitte & Touche LLP. Based upon our examination of the Official Statement and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in this case we express no opinion or belief as to the financial statements or other financial or statistical data contained or incorporated by reference in the Exchange Act Documents, and (ii) we have no reason to believe that the Official Statement (including the Exchange Act Documents) contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Official Statement or the Exchange Act Documents or with respect to the information in the Official Statement under the captions "The County," "The Bonds — Book-Entry System," "Underwriting" and "Tax Exemption."

We are members of the State Bar of Georgia and we do not express any opinion herein concerning any law other than the law of the State of Georgia and the federal law of the United States and, to the extent set forth herein, the laws of the States of Florida, Mississippi, Maine and New York.

This opinion is rendered to the addressees hereto in connection with the above described transaction. This opinion may not be relied upon by the addressees hereto for any other purpose, or relied upon by, or furnished to, any other person, firm or corporation without our prior written consent except that Dewey Ballantine LLP and Beggs & Lane may rely on this opinion in giving their opinions pursuant to Section 6 of the Purchase Contract insofar as such opinions relate to matters of Georgia law and except that Beggs & Lane may rely on this opinion in giving its opinion pursuant to Section 6 of the Purchase Contract insofar as such opinion relates to the federal law of the United States.

Very truly yours,

Troutman Sanders LLP

TROUTMAN SANDERS LLP

BALCH & BINGHAM LLP
Alabama • Mississippi • Washington, DC

Attorneys and Counselors
1901 Sixth Avenue North, Suite 2600
P.O. Box 306 (35201-0306)
Birmingham, Alabama 35203-2628
(205) 251-8100
(205) 226-8799 Fax
www.balch.com

April 15, 2003

Banc of America Securities LLC
Charlotte, North Carolina

Board of County Commissioners
Escambia County, Florida

Gulf Power Company
Pensacola, Florida

The Bank of New York Trust Company of Florida, N.A.
Atlanta, Georgia

**Re: $32,550,000 Escambia County, Florida Pollution Control Revenue Refunding Bonds (Gulf Power Company Project) Series 2003**

Ladies and Gentlemen:

We have acted as Co-Bond Counsel in connection with the issuance by Escambia County, Florida (the "County") of $32,550,000 aggregate principal amount of its Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003 (the "Series 2003 Bonds"). The Series 2003 Bonds are being issued pursuant to the Florida Industrial Development Financing Act, which, as amended, appears as Part II of Chapter 159, Florida Statutes, Sections 159.25 to 159.431, inclusive (the "Act"). The proceeds of the Series 2003 Bonds are to be used for the purpose of refunding certain pollution control revenue bonds previously issued by the County to finance the acquisition, construction, installation and equipping of certain air and water pollution control and solid waste disposal facilities (the "Project") located at the Crist Steam Plant in Escambia County, Florida and the Lansing Smith Steam Plant in Bay County, Florida.

The County has entered into a Loan Agreement, dated as of April 1, 2003 (the "Agreement"), with Gulf Power Company (the "Company") pursuant to which the County will loan the proceeds of the sale of the Series 2003 Bonds to the Company, which loan is to be evidenced by the Company's promissory note (the "Note").

All of the Series 2003 Bonds are issued or are to be issued under and pursuant to a Trust Indenture dated as of April 1, 2003 (the "Indenture") by and between the County and The Bank of New York Trust Company of Florida, N.A., as trustee (said banking corporation and any bank or trust company becoming successor trustee under the Indenture being herein called "Trustee"), to be executed and delivered on or prior to the Closing Date (as hereinafter defined).

In our capacity as Co-Bond Counsel, we have examined such documents, records of the County and other instruments as we deem necessary to enable us to express the opinions set forth

below, including original counterparts or certified copies of the Indenture, the Agreement and certain other documents. Our opinions regarding authority and actions by the County are based upon direct inquiries by us, examination of a certified copy of the proceedings of the County relating to the authorization and issuance of the Series 2003 Bonds and an opinion of Janet Lander, Counsel for the County, of even date herewith as to the authority, procedures and actions of the County in the authorization and issuance of the Series 2003 Bonds.

We have examined the single fully executed and authenticated Series 2003 Bond executed and authenticated on the date hereof.

Based on the foregoing, it is our opinion that, under existing law:

1. The County is a political subdivision of the State of Florida validly existing under Florida law, with full authority to issue the Series 2003 Bonds, to loan the proceeds of the sale of Series 2003 Bonds to the Company, and to execute, deliver and perform its obligations under the Agreement and the Indenture.

2. The Agreement has been duly authorized, executed and delivered by the County and the Company and constitutes a legal, valid and binding obligation of the County in accordance with its terms.

3. The Indenture has been duly authorized, executed and delivered by the County and constitutes a legal, valid and binding obligation of the County in accordance with its terms.

4. By the terms of the Indenture, the County's right in the Agreement and in all revenues and receipts received or to be received thereunder (except for rights to indemnification) have been effectively assigned to the Trustee as security for the Series 2003 Bonds. The Indenture creates a valid lien on the trust estate described therein.

5. The issuance and sale of the Series 2003 Bonds have been duly authorized by the County; the Series 2003 Bonds have been duly executed and delivered by the County and authenticated by the Trustee; and the Series 2003 Bonds are legal, valid and binding limited obligations of the County, payable in accordance with the terms of the Indenture and entitled to the benefit and security of the Indenture.

6. Under the Act, the Series 2003 Bonds and the interest thereon are exempt from all present Florida taxation, except estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations.

7. The interest on the Series 2003 Bonds is excludable from gross income for federal income tax purposes, except for interest on any Series 2003 Bond for any period during which it is held by a "substantial user" of a Project or a "related person"

within the meaning of section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Series 2003 Bonds is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations, but such interest is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations. The opinion set forth in the first sentence of this paragraph is rendered in reliance upon certain certifications and representations of the County, the Trustee and the Company made at the time of issuance of the Series 2003 Bonds, and is subject to the condition that the County, the Trustee and the Company comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2003 Bonds in order that interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the Series 2003 Bonds to be included in gross income retroactively to the date of issuance. The County, the Trustee and the Company have covenanted to comply with such requirements. We express no opinion regarding other federal tax consequences arising with respect to the Series 2003 Bonds.

On the date of issuance of the Series 2003 Bonds, the Mississippi Business Finance Corporation (the "Mississippi Authority") will issue and deliver its Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) in the aggregate principal amount of $29,075,000 (the "Mississippi Bonds"). The proceeds of the Mississippi Bonds will be loaned by the Mississippi Authority to the Company to redeem certain bonds previously issued by the Mississippi Authority to finance or refinance facilities owned by the Company and located in the State of Mississippi. Under the provisions of the Code, the Series 2003 Bonds and the Mississippi Bonds may be aggregated and treated as a single issue of bonds for federal income tax purposes and the exclusion of the interest on the Series 2003 Bonds from gross income for federal income tax purposes may be dependent upon whether the interest on the Mississippi Bonds is excluded from gross income for federal income tax purposes. Contemporaneously with the issuance and delivery of the Mississippi Bonds, McGlinchey Stafford, PLLC, Jackson, Mississippi, will deliver its opinion as bond counsel to the effect that the interest on the Mississippi Bonds is excludable from gross income for federal income tax purposes. We express no opinion relating to the Mississippi Bonds.

The obligations of the parties with respect to the documents described above are subject, in part, to the provisions of the Federal Bankruptcy Code and any applicable bankruptcy, insolvency, reorganization, moratorium or similar law relating to or affecting the enforcement of creditors' rights now or hereafter in effect. Such obligations are also subject to equity principles which may limit the specific enforcement of certain remedies, but which do not affect the validity of such documents and do not make inadequate other remedies available to the holders of the Series 2003 Bonds for the enforcement of such obligations.

Respectfully submitted,

Balch & Bingham LLP

EXHIBIT B.12.

Founded in 1852
By Sidney Davy Miller

Sidney T. Miller (1864-1940)
George L. Canfield (1866-1928)
Lewis H. Paddock (1866-1935)
Ferris D. Stone (1882-1945)

RICHARD I. LOTT
E-MAIL: lottr@millercanfield.com

PATRICIA D. LOTT
E-MAIL: plott@prodigy.net

DAVID G. TUCKER
E-MAIL: tucker@millercanfield.com

MILLER CANFIELD
MILLER, CANFIELD, PADDOCK AND STONE, P.L.C.

25 West Cedar Street, Suite 500
Pensacola, Florida 32501
TEL: (850) 469-1088
FAX: (850) 432-0677
www.millercanfield.com

MICHIGAN: Ann Arbor
Detroit • Grand Rapids
Howell • Kalamazoo
Lansing • Monroe •
Troy

New York, NY
Pensacola, FL
Washington, DC

CANADA: Windsor, ON
POLAND: Gdynia
Katowice • Warsaw

ANNA HOLLIDAY BENSON
E-MAIL: benson@millercanfield.com

April 15, 2003

Banc of America Securities LLC
Charlotte, North Carolina

Board of County Commissioners
Escambia County, Florida

Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida

The Bank of New York Trust Company of Florida, N.A.
Atlanta, Georgia

Ladies and Gentlemen:

We have acted as Co-Bond Counsel in connection with the issuance by Escambia County, Florida (the "County") of $32,550,000 aggregate principal amount of its Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003 (the "Series 2003 Bonds"). The Series 2003 Bonds are being issued pursuant to the Florida Industrial Development Financial Act, which, as amended, appears as Part II of Chapter 159, Florida Statutes, Sections 159.25 to 159.431, inclusive (the "Act"). The proceeds of the Series 2003 Bonds are to be used for the purpose of refunding certain pollution control revenue bonds previously issued by the County to finance the acquisition, construction, installation and equipping of certain air and water pollution control and solid waste disposal facilities (the "Project") located at the Crist Steam Plant in Escambia County, Florida and the Lansing Smith Steam Plant in Bay County, Florida.

The County has entered into a Loan Agreement, dated as of April 1, 2003 (the "Agreement"), with Gulf Power Company (the "Company") pursuant to which the County will loan the proceeds of the sale of the Series 2003 Bonds to the Company, which loan is to be evidenced by the Company's promissory note (the "Note").

All of the Series 2003 Bonds are issued or are to be issued under and pursuant to a Trust Indenture, dated as of April 1, 2003 (the "Indenture") by and between the County and The Bank of New York Trust Company of Florida, N.A., as trustee (said banking corporation and any bank or trust company becoming successor trustee under the Indenture being herein called "Trustee"), to be executed and delivered on or prior to the date of issuance of the Series 2003 Bonds.

In our capacity as Bond Counsel we have examined such documents, records of the County and other instruments as we deem necessary to enable us to express the opinions set forth below, including original counterparts or certified copies of the Indenture, the Agreement and certain other documents. Our opinions regarding authority and actions by the County are based upon direct inquiries by us, examination of a certified copy of the proceedings of the County relating to the authorization and issuance of the Series 2003 Bonds and an opinion of Janet Lander, County Attorney, of even date herewith as to the authority, procedures and actions of the County in the authorization and issuance of the Series 2003 Bonds.

We have examined the single fully executed and authenticated Series 2003 Bond executed and authenticated on the date hereof.

The Series 2003 Bonds are being issued contemporaneously with $29,075,000 Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) (the "Mississippi Bonds"). The proceeds of the Mississippi Bonds will be loaned by the Mississippi Authority to the Company to redeem certain bonds previously issued by the Mississippi Authority to finance or refinance facilities owned by the Company and located in the State of Mississippi. We understand that the Series 2003 Bonds are being sold at substantially the same time and pursuant to the same plan of financing as the Mississippi Bonds. Therefore, under applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the Series 2003 Bonds and the Mississippi Bonds may be aggregated and treated as a single issue of bonds for federal income tax purposes and the exclusion of the interest on the Series 2003 Bonds from gross income for federal income tax purposes may be dependent upon whether the interest on the Mississippi Bonds is excluded from gross income for federal income tax purposes. McGlinchey Stafford, PLLC, Jackson, Mississippi ("McGlinchey Stafford"), has delivered an opinion concerning the exclusion of interest on the Mississippi Bonds from gross income for federal income tax purposes. With your permission, in rendering the opinion set forth in numbered paragraph seven (7) below, we have relied (among other things described in said paragraph) upon the opinion of McGlinchey Stafford to the effect that interest on the aforesaid Mississippi Bonds is excluded from gross income for federal income tax purposes (subject only to the qualifications expressed in said opinion). We offer no opinion relating to the Mississippi Bonds.

Based on the foregoing, it is our opinion that, under existing law:

1. The County is a political subdivision of the State of Florida validly existing under Florida law, with full authority to issue the Series 2003 Bonds, to loan the proceeds of the sale of Series 2003 Bonds to the Company, and to execute, deliver and perform its obligations under the Agreement and the Indenture.

2. The Agreement has been duly authorized, executed and delivered by the County and the Company and constitutes a legal, valid and binding obligation of the County in accordance with its terms.

3. The Indenture has been duly authorized, executed and delivered by the County and constitutes a legal, valid and binding obligation of the County in accordance with its terms.

4. By the terms of the Indenture, the County's right in the Agreement and in all revenues and receipts received or to be received thereunder (except for rights to indemnification) have been effectively assigned to the Trustee as security for the Series 2003 Bonds. The Indenture creates a valid lien on the trust estate described therein.

5. The issuance and sale of the Series 2003 Bonds have been duly authorized by the County; the Series 2003 Bonds have been duly executed and delivered by the County and authenticated by the Trustee; and the Series 2003 Bonds are legal, valid and binding limited obligations of the County, payable in accordance with the terms of the Indenture and entitled to the benefit and security of the Indenture.

6. Under the Act, the Series 2003 Bonds and the interest thereon are exempt from all present Florida taxation, except estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations.

7. The interest on the Series 2003 Bonds is excluded from gross income for federal income tax purposes, except for the interest on any Series 2003 Bond during any period while it is held by a "substantial user" of a Project or a "related person" within the meaning of section 147(a) of the Code. Interest on the Series 2003 Bonds will not be treated as a specific preference item for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations, but such interest will be included in adjusted current earnings when computing the federal alternative minimum tax imposed on certain corporations. The opinion set forth in the first sentence of this paragraph is rendered in reliance upon certain certifications and representations of the County, the Trustee and the Company made at the time of issuance of the Series 2003 Bonds, and is subject to the condition that the County, the Trustee and the Company comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2003 Bonds in order that interest thereon be and continue to be excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the Series 2003 Bonds to be included in gross income retroactively to the date of issuance. The County, the Trustee and the Company have covenanted to comply with such requirements. We express no opinion regarding other federal tax consequences arising with respect to the Series 2003 Bonds.

The obligations of the parties with respect to the documents described above are subject, in part, to the provisions of the Federal Bankruptcy Code and any applicable bankruptcy, insolvency, reorganization, moratorium or similar law relating to or affecting the enforcement of creditors' rights now or hereafter in effect. Such

obligations are also subject to equity principles which may limit the specific enforcement of certain remedies, but which do not affect the validity of such documents and do not make inadequate other remedies available to the holders of the Series 2003 Bonds for the enforcement of such obligations.

Respectfully submitted,

Miller, Canfield, Paddock and Stone, P.L.C.

EXHIBIT B.13.

JANET LANDER
County Attorney
Board Certified City, County, and Local Government Law

CHARLES V. PEPPLER
Chief Litigation Attorney
Board Certified Civil Trial Attorney

MICHAEL C. GODWIN
Assistant County Attorney
Board Certified City, County, and Local Government Law

ALISON PERDUE
Assistant County Attorney

STEPHEN G. WEST
Assistant County Attorney

**BOARD OF COUNTY COMMISSIONERS**
ESCAMBIA COUNTY, FLORIDA
OFFICE OF THE COUNTY ATTORNEY

14 WEST GOVERNMENT STREET, ROOM 411
PENSACOLA, FLORIDA 32501

TELEPHONE: (850) 595-4970
TELEFAX: (850) 595-4979

April 15, 2003

Chairman
Escambia County, Florida

Miller, Canfield, Paddock and Stone, P.L.C.
Pensacola, Florida

Balch & Bingham LLP
Birmingham, Alabama

**$32,550,000**
**ESCAMBIA COUNTY, FLORIDA**
**POLLUTION CONTROL REVENUE REFUNDING BONDS**
**(GULF POWER COMPANY PROJECT) SERIES 2003**

Ladies and Gentlemen:

I have acted as the attorney for Escambia County, a political subdivision of the State of Florida (the "Issuer"), in connection with the issuance by the Issuer of its $32,550,000 aggregate principal amount of Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003 (the "2003 Bonds"). The 2003 Bonds are issued pursuant to the Constitution and laws of the State of Florida, particularly Chapter 159, Florida Statutes, as amended; and Resolution No. R2003-35, duly adopted by the Issuer on April 3, 2003 (the "Resolution") and other applicable provisions of law.

In connection therewith, I have examined all proceedings of the Issuer, including originals or copies certified or otherwise identified to my satisfaction of (i) the Resolution; (ii) the Preliminary Official Statement dated April 8, 2003 (the "Preliminary Official Statement") and the Official Statement dated as of April 11, 2003 (the "Official Statement"), relating to the 2003 Bonds; (iii) the Purchase Contact, dated April 11, 2003 (the "Purchase Contract"), between the Issuer and the Underwriters; (iv) a Loan Agreement, dated as of April 1, 2003 (the "Agreement"), between the Issuer and the Gulf Power Company (the "Company"); (v) a Blanket Letter of Representations (the "DTC Letter") covering the 2003 Bonds to The Depository Trust Company; (vi) a Trust Indenture, dated as of April 1, 2003 (the "Indenture"), by and between the Issuer and The Bank of New York Trust Company of Florida, N.A., as trustee ; and (vii) such other documents, certificates and instruments and records as I have considered necessary or appropriate for purposes of this opinion. Capitalized terms not defined herein shall have the meanings ascribed to them in the Resolution or in the Purchase Contact.

Based on the foregoing, I am of the opinion that:

1. The Issuer is a duly constituted political subdivision of the State of Florida, and in good standing under such laws and is authorized to exercise the powers under the Act.

2. The Issuer has full legal right, power and authority (i) to adopt the Resolution, (ii) to enter into the Purchase Contract, the Agreement, the DTC Letter and the Indenture, (iii) to issue and deliver the 2003 Bonds to the Underwriter as provided in the Purchase Contract, and (iv) to carry out and consummate all other transactions contemplated by each of the aforesaid documents, and the Issuer has complied with the provisions of the Act in all matters relating to such transaction.

3. The Issuer has duly authorized (i) the execution, delivery and due performance of the Purchase Contract, the 2003 Bonds, the Agreement, the DTC Letter and the Indenture, (ii) the execution and delivery of the Official Statement and (iii) the taking of any and all such action as may be required on the part of the Issuer to carry out, give effect to and consummate the transactions contemplated by such instruments.

4. The Indenture, the Agreement, the DTC Letter and the Purchase Contract have been duly authorized, executed and delivered by the Issuer and, assuming the due authorization, execution and delivery by the other respective parties thereto, the Indenture, the Agreement, the DTC Letter and the Purchase Contract constitute valid, legally binding and enforceable obligations of the Issuer, except to the extent that their enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and principles of equity affecting the availability of specific performance or other equitable relief.

5. The Note has been duly assigned to the Trustee.

6. The Resolution has been duly adopted by the Issuer and constitutes the legal, valid and binding act of the Issuer and has not been in any way amended, modified, rescinded or revoked.

7. The adoption of the Resolution, the execution and delivery of the Purchase Contract, the 2003 Bonds, the DTC Letter, the Agreement and the Indenture, the acceptance of the Letter of Representation and compliance with the provisions of each of such instruments will not conflict with or constitute a breach of, or default under, any commitment, agreement or other instrument to which the Issuer is a party or by which it is bound, or under any existing law, rule, regulation, ordinance, judgment, order of decree to which the Issuer is subject.

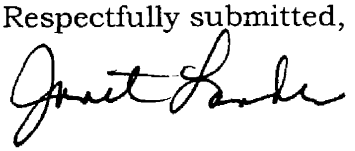
8. To my knowledge, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body, pending against or affecting the Issuer, wherein an unfavorable decision, ruling or finding would materially adversely affect the transactions contemplated by the Purchase Contract or the transactions contemplated by the Official Statement, or

which in any way would adversely affect the validity of the Resolution or the validity or enforceability of the 2003 Bonds, the Indenture, the Agreement or the Purchase Contract.

9 The Issuer has pledged and assigned to the Trustee pursuant to the Indenture all of the Issuer's right and interest in the Agreement (except for certain payments for indemnification and expenses). The County has granted no other security interests in and to such rights and interest or in and to the trust funds created and held by the Trustee under the Indenture.

10. The statements in the Official Statement under the caption "The County", insofar as they relate to the Issuer purport to constitute summaries of the matters referred to therein, fairly and accurately summarize the matters summarized therein.

Respectfully submitted,



Janet Lander

County Attorney

File No. 70-8949

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM U-1

APPLICATION OR DECLARATION
under
The Public Utility Holding Company Act of 1935

GULF POWER COMPANY
500 Bayfront Parkway
Pensacola, Florida 32501

(Name of company or companies filing this statement
and addresses of principal executive offices)

THE SOUTHERN COMPANY

(Name of top registered holding company parent of each applicant or declarant)

Warren E. Tate
Secretary and Treasurer
Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32501

(Names and addresses of agents for service)

The Commission is requested to mail signed copies of all orders, notices and communications to the above agents for service and to:

W. L. Westbrook
Financial Vice President
The Southern Company
270 Peachtree Street, N.W.
Atlanta, Georgia 30303

John D. McLanahan, Esq.
Troutman Sanders LLP
600 Peachtree Street, N.E.
Suite 5200
Atlanta, Georgia 30308-2216

INFORMATION REQUIRED

Item 1. Description of Proposed Transactions.

1.1 Gulf Power Company ("Gulf") is a wholly-owned subsidiary of The Southern Company ("Southern"), a registered holding company under the Public Utility Holding Act of 1935, as amended (the "Act").

Gulf proposes to incur, from time to time or at any time on or before December 31, 2003, obligations in connection with the issuance and sale by public instrumentalities of one or more series of pollution control revenue bonds in an aggregate principal amount of up to $200,000,000.

Gulf further proposes to issue and sell, from time to time or at any time on or before December 31, 2003, one or more series of its first mortgage bonds and one or more series of its preferred stock in an aggregate amount of up to $400,000,000 in any combination of issuance.

1.2 Each issue of the proposed pollution control revenue bonds will be issued for the financing or refinancing of the costs of certain air and water pollution control facilities and sewage and solid waste disposal facilities at one or more of Gulf's electric generating plants or other facilities located in various counties. It is proposed that each such county or the otherwise appropriate public body or instrumentality (the "County") will issue its revenue bonds (the "Revenue Bonds") to finance or refinance the costs of the acquisition, construction, installation and equipping of said facilities at the plant or other facility located in its jurisdiction (the "Project"). Each County is authorized by relevant state law to issue its Revenue Bonds for such purposes.

While the actual amount of Revenue Bonds to be issued by each County has not yet been determined, such amount will be based upon the cost of refunding outstanding bonds or the cost of the Project located in its jurisdiction.

Gulf proposes to enter into a Loan or Installment Sale Agreement with the County, substantially in the form of Exhibit B-1 hereto, relating to each issue of the Revenue Bonds (the "Agreement"). Under the Agreement, the County will loan to Gulf the proceeds of the sale of the County's Revenue Bonds, and Gulf may issue a non-negotiable promissory note therefor (the "Note"), or the County will undertake to purchase and sell the related Project to Gulf. The installment sale structure may be used because it is required by applicable state law or to the extent it affords transactional advantages to Gulf. Such proceeds will be deposited with a Trustee (the "Trustee") under an indenture to be entered into between the County and such Trustee (the "Trust Indenture"), pursuant to which such Revenue Bonds are to be issued and secured, and will be applied by Gulf to payment of the Cost of Construction (as defined in the Agreement) of the Project or to refund outstanding pollution control revenue obligations.

The Note or the Agreement will provide for payments to be made by Gulf at times and in amounts which shall correspond to the payments with respect to the principal of, premium, if any, and interest on the related Revenue Bonds whenever and in whatever manner the same shall become due, whether at stated maturity, upon redemption or declaration or otherwise.

The Agreement will provide for the assignment to the Trustee of the County's interest in, and of the moneys receivable by the County under, the Agreement and the Note.

The Agreement will also obligate Gulf to pay the fees and charges of the Trustee and may provide that Gulf may at any time, so long as it is not in default thereunder, prepay the amount due under the Agreement or the Note, including interest thereon, in whole or in part, such payment to be sufficient to redeem or purchase outstanding Revenue Bonds in the manner and to the extent provided in the Trust Indenture.

The Trust Indenture will provide that the Revenue Bonds issued thereunder will be redeemable (i) at any time on or after a specified date from the date of issuance, in whole or in part, at the option of Gulf, and may require the payment of a premium at a specified percentage of the principal amount which may decline annually thereafter, and (ii) in whole, at the option of Gulf, in certain other cases of undue burdens or excessive liabilities imposed with respect to the related Project, its destruction or damage beyond practicable or desirable repairability or condemnation or taking by eminent domain, or if operation of the related facility is enjoined and Gulf determines to discontinue operation thereof, such redemption of all such outstanding Revenue Bonds to be at the principal amount thereof plus accrued interest, but without premium. It is proposed that the Revenue Bonds will mature not more than 40 years from the first day of the month in which they are initially issued and may, if it is deemed advisable for purposes of the marketability of the Revenue Bonds, be entitled to the benefit of a mandatory redemption sinking fund calculated to retire a portion of the aggregate principal amount of the Revenue Bonds prior to maturity.

The Trust Indenture and the Agreement may give the holders of the Revenue Bonds the right, during such time as the Revenue Bonds bear interest at a fluctuating rate or otherwise, to require Gulf to purchase the Revenue Bonds from time

to time, and arrangements may be made for the remarketing of any such Revenue Bonds through a remarketing agent. Gulf also may be required to purchase the Revenue Bonds, or the Revenue Bonds may be subject to mandatory redemption, at any time if the interest thereon is determined to be subject to federal income tax. Also in the event of taxability, interest on the Revenue Bonds may be effectively converted to a higher variable or fixed rate, and Gulf also may be required to indemnify the bondholders against any other additions to interest, penalties, and additions to tax; such terms are not considered to constitute the issuance of a separate security under Sections 6(a) and 7 of the Act, but rather possible additional terms of the Revenue Bonds and Gulf's obligations with respect thereto.

In order to obtain the benefit of ratings for the Revenue Bonds equivalent to the rating of Gulf's first mortgage bonds outstanding under the indenture dated as of September 1, 1941 between Gulf and The Chase Manhattan Bank, as trustee, as supplemented and amended (the "Mortgage"), which ratings Gulf has been advised may be thus attained, Gulf may determine to secure its obligations under the Note and the related Agreement by delivering to the Trustee, to be held as collateral, a series of its first mortgage bonds (the "Collateral Bonds") in principal amount either (i) equal to the principal amount of the Revenue Bonds or (ii) equal to the sum of such principal amount of the Revenue Bonds plus interest payments thereon for a specified period. Such series of Collateral Bonds will be issued under an indenture supplemental to the Mortgage (the "Supplemental Indenture"), will mature on the maturity date of such Revenue Bonds and will be non-transferable by the Trustee. The Collateral Bonds, in the case of clause (i) above, would bear interest at a rate or rates equal to the interest

rate or rates to be borne by the related Revenue Bonds and, in the case of clause (ii) above, would be non-interest bearing.

The Supplemental Indenture will provide, however, that the obligation of Gulf to make payments with respect to the Collateral Bonds will be satisfied to the extent that payments are made under the Note or the Agreement sufficient to meet payments when due in respect of the related Revenue Bonds. The Supplemental Indenture will provide that, upon acceleration by the Trustee of the principal amount of all related outstanding Revenue Bonds under the Trust Indenture, the Trustee may demand the mandatory redemption of the related Collateral Bonds then held by it as collateral at a redemption price equal to the principal amount thereof plus accrued interest, if any, to the date fixed for redemption. The Supplemental Indenture may also provide that, upon the optional redemption of the Revenue Bonds, in whole or in part, a related principal amount of the Collateral Bonds will be redeemed at the redemption price of the Revenue Bonds.

In the case of interest bearing Collateral Bonds, because interest accrues in respect of such Collateral Bonds until satisfied by payments under the Note or the Agreement, "annual interest charges" in respect of such Collateral Bonds will be included in computing the "interest earnings requirement" of the Mortgage which restricts the amount of first mortgage bonds which may be issued and sold to the public in relation to Gulf's net earnings. In the case of non-interest bearing Collateral Bonds, since no interest would accrue in respect of such Collateral Bonds, the "interest earnings requirement" would be unaffected.

The Trust Indenture will provide that, upon deposit with the Trustee of funds sufficient to pay or redeem all or any part of the related Revenue Bonds, or upon

direction to the Trustee by Gulf to so apply funds available therefor, or upon delivery of such outstanding Revenue Bonds to the Trustee by or for the account of Gulf, the Trustee will be obligated to deliver to Gulf the Collateral Bonds then held as collateral in an aggregate principal amount as they relate to the aggregate principal amount of such Revenue Bonds for the payment or redemption of which such funds have been deposited or applied or which shall have been so delivered.

As an alternative to or in conjunction with Gulf's securing its obligations through the issuance of the Collateral Bonds as above described, Gulf may cause an irrevocable Letter of Credit or other credit facility (the "Letter of Credit") of a bank or other financial institution (the "Bank") to be delivered to the Trustee. The Letter of Credit would be an irrevocable obligation of the Bank to pay to the Trustee, upon request, up to an amount necessary in order to pay principal of and accrued interest on the Revenue Bonds when due. Pursuant to a separate agreement with the Bank, Gulf would agree to pay to the Bank, on demand or pursuant to a borrowing under such agreement, all amounts that are drawn under the Letter of Credit, as well as certain fees and expenses. Such delivery of the Letter of Credit to the Trustee would obtain for the Revenue Bonds the benefit of a rating equivalent to the credit rating of the Bank. In the event that the Letter of Credit is delivered to the Trustee as an alternative to the issuance of the Collateral Bonds, Gulf may also convey to the County a subordinated security interest in the Project or other property of Gulf as further security for Gulf's obligations under the Agreement and the Note. Such subordinated security interest would be assigned by the County to the Trustee.

As a further alternative to, or in conjunction with, securing its obligations under the Agreement and Note as above described, and in order to obtain a "AAA"

rating for the Revenue Bonds by one or more nationally recognized securities rating services, Gulf may cause an insurance company to issue a policy of insurance guaranteeing the payment when due of the principal of and interest on such series of the Revenue Bonds. Such insurance policy would extend for the term of the related Revenue Bonds and would be non-cancelable by the insurance company for any reason. Gulf's payment of the premium with respect to said insurance policy could be in various forms, including a non-refundable, one-time insurance premium paid at the time the policies are issued, and/or an additional interest percentage to be paid to said insurer in correlation with regular interest payments. In addition, Gulf may be obligated to make payments of certain specified amounts into separate escrow funds and to increase the amounts on deposit in such funds under certain circumstances. The amount in each escrow fund would be payable to the insurance company as indemnity for any amounts paid pursuant to the related insurance policy in respect of principal of or interest on the related Revenue Bonds. In the event that an insurance policy is issued as an alternative to the issuance of the Collateral Bonds, Gulf may also convey to the County a subordinated security interest in the Project or other property of Gulf as further security for Gulf's obligations under the Agreement and the Note. Such subordinated security interest would be assigned by the County to the Trustee.

If, due to insufficiency of coverages or for other reasons, Gulf is unable or determines not to issue the Collateral Bonds or to deliver the Letter of Credit to the Trustee as above described or to cause an insurance policy to be issued, the Revenue Bonds would be issued without the benefit of such security. In that event Gulf may convey to the County a subordinated security interest in the Project or other property of Gulf as security for its obligations under the Agreement and the Note. Such

subordinated security interest would be assigned by the County to the Trustee. Gulf also may guarantee the payment of the principal of, premium, if any, and interest on the Revenue Bonds.

It is contemplated that the Revenue Bonds will be sold by the County pursuant to arrangements with one or more purchasers, placement agents or underwriters. In accordance with applicable state laws, the interest rate to be borne by the Revenue Bonds will be approved by the County and will be either a fixed rate, which fixed rate may be convertible to a rate which will fluctuate in accordance with a specified prime or base rate or rates or may be determined pursuant to certain remarketing or auction procedures, or a fluctuating rate, which fluctuating rate may be convertible to a fixed rate. While Gulf may not be party to the purchase, placement or underwriting arrangements for the Revenue Bonds, such arrangements will provide that the terms of the Revenue Bonds and their sale by the County shall be satisfactory to Gulf. Bond Counsel will issue an opinion that, based upon existing law, interest on the Revenue Bonds will generally be excludable from gross income for federal income tax purposes. Gulf has been advised that the interest rates on obligations, the interest on which is tax exempt, recently have been and can be expected at the time of issue of the Revenue Bonds to be approximately one to three percentage points lower than the rates on obligations of like tenor and comparable quality, interest on which is fully subject to federal income taxation.

Gulf also proposes that it may enter into arrangements providing for the delayed or future delivery of Revenue Bonds to one or more purchasers or underwriters. The obligations of the purchasers or underwriters to purchase Revenue

Bonds under any such arrangements may be secured by U.S. Treasury securities, letters of credit or other collateral.

The effective cost to Gulf of any series of the Revenue Bonds will not exceed the yield on U.S. Treasury securities having a maturity comparable to that of such series of Revenue Bonds. Such effective cost will reflect the applicable interest rate or rates and any underwriters' discount or commission.

The premium (if any) payable upon the redemption of any Revenue Bonds at the option of Gulf will not exceed the greater of (i) 5% of the principal amount of the Revenue Bonds so to be redeemed, or (ii) a percentage of such principal amount equal to the rate of interest per annum borne by such Revenue Bonds.

The purchase price payable by or on behalf of Gulf in respect of Revenue Bonds tendered for purchase at the option of the holders thereof will not exceed 100% of the principal amount thereof, plus accrued interest to the purchase date.

Any Letter of Credit issued as security for the payment of Revenue Bonds will be issued pursuant to a Reimbursement Agreement between Gulf and the financial institution issuing such Letter of Credit. Pursuant to the Reimbursement Agreement, Gulf will agree to pay or cause to be paid to the financial institution, on each date that any amount is drawn under such institution's Letter of Credit, an amount equal to the amount of such drawing, whether by cash or by means of a borrowing from such institution pursuant to the Reimbursement Agreement. Any such borrowing may have a term of up to 10 years and will bear interest at the lending institution's prevailing rate offered to corporate borrowers of similar quality which will not exceed (i) the London Interbank Offered Rate plus up to 2%, (ii) the lending institution's certificate of deposit

rate plus up to 1-3/4%, or (iii) a rate not to exceed the prime rate plus 1%, to be established by agreement with the lending institution prior to the borrowing.

1.3 If any part of said $400,000,000 is used to issue Gulf's first mortgage bonds (the "new Bonds"), it is proposed that each series of new Bonds will have a term of not more than 40 years and will be sold for the best price obtainable but for a price to Gulf of not less than 98% nor more than 101-3/4% of the principal amount thereof, plus accrued interest (if any).

The new Bonds will be issued under the Mortgage as heretofore supplemented by various indentures supplemental thereto, and as to be further supplemented by a Supplemental Indenture providing for each series of the new Bonds to be issued.

Gulf may provide that none of the new Bonds of any series will be redeemed for a five-year or other period commencing on or about the first day of the month of issuance at a regular redemption price if such redemption is for the purpose or in anticipation of refunding such new Bonds through the use, directly or indirectly, of funds borrowed by Gulf at an effective interest cost to Gulf (computed in accordance with generally accepted financial practice) of less than the effective interest cost to Gulf of the new Bonds of such series. Such limitation will not apply to redemptions at a special redemption price by operation of the improvement fund or the replacement provisions of the Mortgage or by the use of proceeds of released property.

Gulf may covenant that it will not redeem the new Bonds of any series, in any year prior to the fifth or other specified year after the issuance of such series, through the operation of the improvement fund provisions of the Mortgage in a principal amount which would exceed 1% of the initial aggregate principal amount of such series.

Gulf also may covenant that it will not, in any calendar year, redeem the new Bonds of any series through the operation of the replacement provisions of the Mortgage in a principal amount which would exceed 1% of the initial aggregate principal amount of such series.

In addition, Gulf may make provision for a mandatory cash sinking fund for the benefit of any series of the new Bonds. In connection therewith, Gulf may have the non-cumulative option in any year of making an optional sinking fund payment in an amount not exceeding such mandatory sinking fund payment.

In order to enhance the marketability of the new Bonds, it may be desirable to cause an insurance company to issue a policy of insurance for the payment when due of the new Bonds of a particular series. It also may be desirable that the terms of the new Bonds, or any series thereof, provide for an adjustable interest rate thereon to be determined on a periodic basis, rather than a fixed interest rate. In such event, it is proposed that the rate of interest on such new Bonds for an initial period would be a fixed rate per annum. Periodically thereafter, the interest rate would be adjusted by periodic auction or remarketing procedures, or in accordance with a formula or formulae based upon certain reference rates, or by other predetermined methods.

In connection with any such adjustable rate issue, it is proposed that such series of the new Bonds may not be redeemable at the option of Gulf during certain short-term interest periods. It is further proposed that the non-refunding limitation described above, as well as the restriction on redemptions through operation of the improvement fund provisions, may apply with respect to each long-term interest period commencing with the first day of the month in which any such interest period begins. To the extent the foregoing redemption provisions may constitute a deviation from the

Commission's Statement of Policy Regarding First Mortgage Bonds, Gulf hereby requests approval of such deviation.

Gulf desires the flexibility, in connection with the issuance of the new Bonds of any series, to deviate from the provisions of the Statement of Policy Regarding First Mortgage Bonds with respect to (i) redemption and refunding provisions by, for example, providing refunding limitations for periods of more than five years or prohibiting redemptions for specified periods of time (including as long as the life of any series of the new Bonds), and (ii) limitations on payment of common stock dividends by, for example, including a less restrictive provision or no such provision in the supplemental indenture relating to a particular series, all as determined in light of market conditions and other relevant considerations at the time of issuance.

1.4 If any part of said $400,000,000 is used in connection with the issuance of Gulf's preferred stock, par or stated value of up to $100 per share (the "new Preferred Stock"), it is proposed that such securities will be sold for the best price obtainable (after giving effect to the purchasers' compensation) but for a price to Gulf (before giving effect to such purchasers' compensation) of not less than 100% of the par or stated value per share.

The authorized number of shares of preferred stock of Gulf may be increased by amendment to the Articles of Incorporation of Gulf and the new Preferred Stock of each series will be created, and its terms established, by resolution of the board of directors of Gulf which when filed with the Secretary of State of the State of Maine will constitute an amendment to the charter of Gulf. Gulf may make provision for a cumulative sinking fund for the benefit of a particular series of the new Preferred Stock which would retire a certain number of shares of such series annually,

commencing at a specified date after the sale. In connection therewith, Gulf may have the non-cumulative option of redeeming up to an additional like number of shares of such series annually.

Gulf may provide that no share of a particular series of the new Preferred Stock will be redeemed for a five-year or other period commencing on or about the first day of the month of issuance, if such redemption is for the purpose or in anticipation of refunding such share directly or indirectly through the incurring of debt, or through the issuance of stock ranking equally with or prior to the new Preferred Stock as to dividends or assets, if such debt has an effective interest cost to Gulf (computed in accordance with generally accepted financial practice) or such stock has an effective dividend cost to Gulf (so computed) of less than the effective dividend cost to Gulf of the respective series of the new Preferred Stock.

Gulf may determine that, in light of the current market conditions at the time any series of the new Preferred Stock is offered, it is in the best interest of Gulf and its investors and consumers that the terms of such new Preferred Stock provide for an adjustable dividend rate thereon to be determined on a periodic basis, rather than a fixed rate dividend. In such event, it is proposed that the rate of dividends on such new Preferred Stock for an initial period would be a fixed amount or rate per annum. Periodically thereafter, the rate would be adjusted by periodic auction or remarketing procedures, or in accordance with a formula or formulae based upon certain reference rates, or by other predetermined methods.

In connection with any such adjustable rate issue, it is proposed that such series of the new Preferred Stock may be redeemable at the option of Gulf only on dividend payment dates. To the extent that such provision would constitute a deviation

from the Commission's Statement of Policy Regarding Preferred Stock, Gulf hereby requests approval for such deviation.

Gulf also proposes that, in connection with any issuance of new Preferred Stock, it may deviate from the provisions of the Statement of Policy Regarding Preferred Stock with respect to redemptions and refunding provisions by, for example, providing refunding limitations for periods of more than five years or prohibiting redemptions for specified periods of time, as to be determined in light of market conditions and other relevant considerations at the time of issuance.

1.5 Gulf may determine to use the proceeds from the sale of the Revenue Bonds, the new Bonds and the new Preferred Stock to redeem or otherwise retire its outstanding first mortgage bonds, pollution control bonds and/or preferred stock if such use is considered advisable. Such outstanding first mortgage bonds, pollution control bonds and/or preferred stock retired or redeemed by Gulf may be purchased on the open market or by tender offer as authorized by HCAR No. 35-25751, dated February 26, 1993, or pursuant to subsequent authorization. To the extent that the redemption or other retirement of outstanding preferred stock using the proceeds from security sales as proposed herein may require authorization under Section 12(c) of the Act, Gulf hereby requests such authorization. Gulf also proposes that it may use the proceeds from the sale of the new Bonds and new Preferred Stock, along with other funds, to pay a portion of its cash requirements to carry on its electric utility business.

Gulf will not use the proceeds from securities sales proposed herein to refund outstanding securities unless the estimated present value savings derived from the net difference between interest or dividend payments on any securities to be issued for refunding purposes and the specific securities to be refunded is, on an after-tax

basis, greater than the present value of all redemption and issuing costs, assuming an appropriate discount rate. Such discount rate is based on the estimated after-tax interest or dividend rate on the securities issued for refunding purposes.

1.6 Pursuant to orders of the Commission, Gulf has authority to issue and sell $265,500,000 of first mortgage bonds and/or preferred stock (of which, $30,000,000 of first mortgage bonds and $35,000,000 of preferred stock have been sold) and $200,000,000 of pollution control revenue bonds (of which, the record was completed and a supplemental order has been issued relating to $83,153,000) as set forth in Commission File No. 70-8229 (HCAR No. 35-25894, dated September 27, 1993, HCAR No. 35-25945, dated December 15, 1993, HCAR No. 35-26132, dated September 26, 1994 and HCAR No. 35-26478, dated February 23, 1996). Gulf hereby requests that the authority described in the above-mentioned orders remain in effect until December 31, 1996 or until such time as the order with respect to the matters requested herein is issued.

Item 2. Fees, Commissions and Expenses.

The fees and expenses to be paid or incurred by Gulf, directly or indirectly, in connection with each issuance of Collateral Bonds (as distinguished from and excluding fees, commissions and expenses incurred or to be incurred in connection with the sale of Revenue Bonds by a County and in connection with the determination of the tax status of the Revenue Bonds) are as follows:

| | |
|---|---|
| Fee of counsel for Gulf | $ 40,000 |
| Fee of accountants, Arthur Andersen LLP | 25,000 |
| Fee of trustee, including counsel | 25,000 |
| Services of Southern Company Services, Inc. | 25,000 |
| Miscellaneous, including telephone charges and traveling expenses | 5,000 |
| TOTAL | $120,000 |

Fees and expenses incurred or to be incurred by Gulf in connection with the issuance and sale of the new Bonds and the new Preferred Stock are as follows:

| | New Bonds | | New Preferred Stock | |
|---|---|---|---|---|
| | Initial Sale | Each Additional Sale | Initial Sale | Each Additional Sale |
| Florida Documentary Stamp Tax | $ 893,000 | $ — | $ — | $ — |
| Florida intangible personal property tax | 40,000 | — | — | — |
| Filing fees - Securities and Exchange Commission - Registration statement | 79,688 | — | — | — |
| Charges of Trustee (including counsel) | 30,000 | 30,000 | — | — |
| Charges of Transfer Agent and Registrar | — | — | 5,000 | 5,000 |
| Cost of definitive bond and stock certificates | 5,000 | 5,000 | 5,000 | 5,000 |
| Printing and preparation of registration statement, prospectus, etc | 30,000 | 18,000 | 20,000 | 15,000 |
| Rating fees – | | | | |
| Moody's Investors Service, Inc. | 15,000 | 15,000 | 15,000 | 15,000 |
| Standard & Poor's Corporation | 21,000 | 12,000 | 12,000 | 12,000 |
| Services of Southern Company Services, Inc. | 30,000 | 15,000 | 30,000 | 15,000 |
| Fees of counsel – | | | | |
| Beggs & Lane | 10,000 | 10,000 | 10,000 | 10,000 |
| Troutman Sanders LLP | 30,000 | 20,000 | 30,000 | 20,000 |
| Fee of accountants, Arthur Andersen LLP | 28,000 | 22,000 | 28,000 | 22,000 |
| Miscellaneous, including telephone charges and traveling expenses | 5,812 | 5,500 | 4,000 | 3,000 |
| Total | $1,217,500 | $152,500 | $159,000 | $122,000 |

Item 3. Applicable Statutory Provisions.

Gulf considers that the issuance of the Notes and Collateral Bonds is subject to Sections 6(a), 7 and 12(c) of the Act and Rule 42 thereunder.

Gulf further considers that the sale or granting of subordinated security interests in the Projects or other property of Gulf, as set forth under Item 1.2 above, may be subject to Section 12(d) of the Act, and that the exception afforded by subparagraph (b)(3) of Rule 44 thereunder may be applicable.

Gulf considers that any guarantee of payment of the Revenue Bonds may be subject to Sections 6(a) and 7 of the Act.

Gulf considers that Sections 9(a) and 10 of the Act may be applicable to any purchase of Revenue Bonds by Gulf as described herein and to the extent that the

transactions contemplated herein in connection with the Revenue Bonds involve an Installment Sale Agreement or Agreements pursuant to which the County undertakes to sell the related Project to Gulf.

Gulf considers that the issuance and sale of new Bonds and new Preferred Stock are subject to the provisions of Sections 6(a) and 7 of the Act.

Gulf considers that the acquisition, retirement or redemption of new Bonds and new Preferred Stock in connection with any sinking fund provisions with respect thereto (including any optional redemptions included as part of such sinking fund provisions) may be subject to Section 12(c) of the Act and Rule 42 thereunder, except to the extent excepted from the requirements of Rule 42(a) by subsections (b)(2) and (b)(4) of such Rule.

Gulf proposes that it may deviate from the Statements of Policy Regarding First Mortgage Bonds and Preferred Stock as described in Items 1.3 and 1.4 hereof.

The proposed transactions will be carried out in accordance with the procedure specified in Rule 23 and pursuant to an order or orders of the Commission in respect thereto.

Rule 54 Analysis. The proposed transactions are also subject to Rule 54, which provides that, in determining whether to approve an application which does not relate to any "exempt wholesale generator" ("EWG") or "foreign utility company" ("FUCO"), the Commission shall not consider the effect of the capitalization or earnings of any such EWG or FUCO which is a subsidiary of a registered holding company if the requirements of Rule 53(a), (b) and (c) are satisfied.

Southern currently meets all of the conditions of Rule 53(a). At September 30, 1996, Southern's "aggregate investment," as defined in Rule 53(a)(1), in EWGs and

FUCOs was approximately $889.5 million, or about 25% of Southern's "consolidated retained earnings," also as defined in Rule 53(a)(1), for the four quarters ended June 30, 1996 ($3.523 billion). In addition, Southern has complied and will continue to comply with the record-keeping requirements of Rule 53(a)(2), the limitation under Rule 53(a)(3) on the use of Operating Company personnel to render services to EWGs and FUCOs, and the requirements of Rule 53(a)(4) concerning the submission of copies of certain filings under the Act to retail rate regulatory commissions. Accordingly, since the requirements of Rule 53(a) are currently met and none of the circumstances described in Rule 53(b) has occurred, the provisions of Rule 53(c) are currently inapplicable.

Moreover, even if the effect of the capitalization and earnings of EWGs and FUCOs in which Southern has an ownership interest upon the Southern holding company system were considered, there is no basis for the Commission to withhold or deny approval for the proposal made in this Application-Declaration. The action requested in the instant filing (*viz.* approval for certain financing transactions by Gulf) would not, by itself, or even considered in conjunction with the effect of the capitalization and earnings of Southern's EWGs and FUCOs, have a material adverse effect on the financial integrity of the Southern system, or an adverse impact on Southern's public-utility subsidiaries, their customers, or the ability of State commissions to protect such public-utility customers.

Item 4. Regulatory Approval.

Gulf's obligations with respect to the Collateral Bonds, the borrowings under the Agreements, the issuance of the Notes in respect thereof and the issuance and

sale of the new Bonds and the new Preferred Stock will have been expressly authorized by the Florida Public Service Commission, which has jurisdiction over the issuance of stocks, bonds and certain evidence of indebtedness by public utility companies operating in Florida.

The transactions by Gulf proposed herein are not subject to the jurisdiction of any federal commission other than the Commission.

Item 5. Procedure.

Gulf requests that the Commission's order herein be issued as soon as the rules allow and that there be no 30-day waiting period between the issuance of the Commission's order and the date on which it is to become effective. Gulf hereby waives a recommended decision by a hearing officer or other responsible officer of the Commission and hereby consents that the Division of Investment Management may assist in the preparation of the Commission's decision and/or order in this matter unless such Division opposes the matters covered hereby.

Item 6. Exhibits and Financial Statements.

(a) Exhibits.

A-1(a) - Indenture dated as of September 1, 1941, between Gulf and The Chase Manhattan Bank, as Trustee, and indentures supplemental thereto through February 1, 1996. (Designated in Registration Nos. 2-4833 as Exhibit B-3, 2-62319 as Exhibit 2(a)-3, 2-63765 as Exhibit 2(a)-3, 2-66260 as Exhibit 2(a)-3, 33-2809 as Exhibit 4(a)-2, 33-43739 as Exhibit 4(a)-2, in GULF's Form 10-K for the year ended December 31, 1991, File No. 0-2429, as Exhibit 4(b), in Form 8-K dated August 18, 1992, File No. 0-2429, as Exhibit 4(a)-3, in Registration No. 33-50165 as Exhibit 4(a)-2, in Form 8-K dated July 12, 1993, File No. 0-2429, as Exhibit 4, in Certificate of Notification, File No. 70-8229, as Exhibit A, in Certificate of Notification, File No. 70-8229, as

Exhibits E and F, in Form 8-K dated January 17, 1996, File No. 0-2429, as Exhibit 4 and in Certificate of Notification, File No. 70-8229, as Exhibit A.)

A-1(b) - Draft of Supplemental Indenture with respect to the new Bonds, between Gulf and The Chase Manhattan Bank, as Trustee. (To be filed by amendment.)

A-2(a) - Restated Articles of Incorporation of GULF and amendments thereto through November 8, 1993. (Designated in Registration No. 33-43739 as Exhibit 4(b)-1, in Form 8-K dated January 15, 1992, File No. 0-2429, as Exhibit 1(b), in Form 8-K dated August 18, 1992, File No. 0-2429, as Exhibit 4(b)-2, in Form 8-K dated September 22, 1993, File No. 0-2429, as Exhibit 4 and in Form 8-K dated November 3, 1993, File No. 0-2429, as Exhibit 4.)

A-2(b) - Draft of proposed certificate of resolution of the Board of Directors of Gulf establishing and designating the new Preferred Stock. (To be filed by amendment.)

A-2(c) - By-laws of Gulf as amended effective July 26, 1996, and as presently in effect.

B-1 - Form of Loan or Installment Sale Agreement between Gulf and the County relating to the Revenue Bonds. (To be filed by amendment.)

B-2 - Form of Trust Indenture between the County and the Trustee relating to the Revenue Bonds. (To be filed by amendment.)

C - Registration statement filed under the Securities Act of 1933 with respect to the new Bonds and new Preferred Stock. (Filed electronically September 3, 1993, File No. 33-50165.)

D-1 - Petition of Gulf to the Florida Public Service Commission. (To be filed by amendment.)

D-2 - Copy of order of Florida Public Service Commission.

E - None.

F - Opinion of Beggs & Lane, counsel for Gulf. (To be filed by amendment.)

G - Form of Notice.

Exhibits heretofore filed with the Securities and Exchange Commission and designated as set forth above are hereby incorporated herein by reference and made a part hereof with the same effect as if filed herewith.

(b) Financial Statements.

Balance sheet of Gulf at June 30, 1996. (Designated in Gulf's Form 10-Q for the quarter ended June 30, 1996, File No. 0-2429.)

Statements of income and cash flows of Gulf for the six months ended June 30, 1996. (Designated in Gulf's Form 10-Q for the quarter ended June 30, 1996, File No. 0-2429.)

Since June 30, 1996, there have been no material adverse changes, not in the ordinary course of business, in the financial condition of Gulf from that set forth in or contemplated by the foregoing financial statements.

Item 7. Information as to Environmental Effects.

(a) The proposed transactions are strictly financial in nature in the ordinary course of Gulf's business. Accordingly, the Commission's action in these matters will not constitute any major federal action significantly affecting the quality of the human environment within the meaning of the National Environmental Policy Act.

(b) No other federal agency has prepared or is preparing an environmental impact statement with regard to the proposed transactions.

SIGNATURE

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned company has duly caused this statement to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 1, 1996

GULF POWER COMPANY

By: _____
Wayne Boston
Assistant Secretary

File No. 70-8949

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

AMENDMENT NO. 1
TO
FORM U-1

APPLICATION OR DECLARATION
under
The Public Utility Holding Company Act of 1935

GULF POWER COMPANY
500 Bayfront Parkway
Pensacola, Florida 32501

(Name of company or companies filing this statement
and addresses of principal executive offices)

THE SOUTHERN COMPANY

(Name of top registered holding company parent of each applicant or declarant)

Warren E. Tate
Secretary and Treasurer
Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32501

(Names and addresses of agents for service)

The Commission is requested to mail signed copies of all orders, notices and communications to the above agents for service and to:

W. L. Westbrook
Financial Vice President
The Southern Company
270 Peachtree Street, N.W.
Atlanta, Georgia 30303

John D. McLanahan, Esq.
Troutman Sanders LLP
600 Peachtree Street, N.E.
Suite 5200
Atlanta, Georgia 30308-2216

INFORMATION REQUIRED

Item 3. Applicable Statutory Provisions.

Item 3 is hereby amended by adding thereto the following:

"Rule 54 Analysis: The proposed transaction is also subject to Rule 54, which provides that, in determining whether to approve an application which does not relate to any "exempt wholesale generator" ("EWG") or "foreign utility company" ("FUCO"), the Commission shall not consider the effect of the capitalization or earnings of any such EWG or FUCO which is a subsidiary of a registered holding company if the requirements of Rule 53(a), (b) and (c) are satisfied.

The Southern Company ("Southern") currently meets all of the conditions of Rule 53(a), except for clause (1). At March 31, 1997, Southern's "aggregate investment," as defined in Rule 53(a)(1), in EWGs and FUCOs is approximately $2.481 billion, or about 67.6% of Southern's "consolidated retained earnings," also as defined in Rule 53(a)(1), for the four quarters ended December 31, 1996 ($3,671 million). With respect to Rule 53(a)(1), however, the Commission has determined that Southern's financing of investments in EWGs and FUCOs in an amount greater than the amount that would otherwise be allowed by Rule 53(a)(1) would not have either of the adverse effects set forth in Rule 53(c). See The Southern Company, Holding Company Act Release Nos. 26501 and 26646, dated April 1, 1996 and January 15, 1997, respectively.

In addition, Southern has complied and will continue to comply with the record-keeping requirements of Rule 53(a)(2), the limitation under Rule 53(a)(3) on the

use of Operating Company personnel to render services to EWGs and FUCOs, and the requirements of Rule 53(a)(4) concerning the submission of copies of certain filings under the Act to retail rate regulatory commissions. Further, none of the circumstances described in Rule 53(b) has occurred.

Moreover, even if the effect of the capitalization and earnings of EWGs and FUCOs in which Southern has an ownership interest upon the Southern holding company system were considered, there is no basis for the Commission to withhold or deny approval for the proposal made in this Application-Declaration. The action requested in the instant filing (*viz.* approval for certain financing transactions by Gulf) would not, by itself, or even considered in conjunction with the effect of the capitalization and earnings of Southern's EWGs and FUCOs, have a material adverse effect on the financial integrity of the Southern system, or an adverse impact on Southern's public-utility subsidiaries, their customers, or the ability of State commissions to protect such public-utility customers."

Item 6. Exhibits and Financial Statements.

(a) Exhibits.

D-2 - Copy of order of Florida Public Service Commission.

SIGNATURE

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned company has duly caused this amendment to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: April 30, 1997

GULF POWER COMPANY

By: _____
Wayne Boston
Assistant Secretary

File No. 70-8949

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

AMENDMENT NO. 1
TO
FORM U-1

APPLICATION OR DECLARATION
under
The Public Utility Holding Company Act of 1935

GULF POWER COMPANY
500 Bayfront Parkway
Pensacola, Florida 32501

(Name of company or companies filing this statement
and addresses of principal executive offices)

THE SOUTHERN COMPANY

(Name of top registered holding company parent of each applicant or declarant)

Warren E. Tate
Secretary and Treasurer
Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32501

(Names and addresses of agents for service)

The Commission is requested to mail signed copies of all orders, notices and communications to the above agents for service and to:

W. L. Westbrook
Financial Vice President
The Southern Company
270 Peachtree Street, N.W.
Atlanta, Georgia 30303

John D. McLanahan, Esq.
Troutman Sanders LLP
600 Peachtree Street, N.E.
Suite 5200
Atlanta, Georgia 30308-2216

INFORMATION REQUIRED

Item 3. Applicable Statutory Provisions.

Item 3 is hereby amended by adding thereto the following:

"Rule 54 Analysis: The proposed transaction is also subject to Rule 54, which provides that, in determining whether to approve an application which does not relate to any "exempt wholesale generator" ("EWG") or "foreign utility company" ("FUCO"), the Commission shall not consider the effect of the capitalization or earnings of any such EWG or FUCO which is a subsidiary of a registered holding company if the requirements of Rule 53(a), (b) and (c) are satisfied.

The Southern Company ("Southern") currently meets all of the conditions of Rule 53(a), except for clause (1). At March 31, 1997, Southern's "aggregate investment," as defined in Rule 53(a)(1), in EWGs and FUCOs is approximately $2.481 billion, or about 67.6% of Southern's "consolidated retained earnings," also as defined in Rule 53(a)(1), for the four quarters ended December 31, 1996 ($3,671 million). With respect to Rule 53(a)(1), however, the Commission has determined that Southern's financing of investments in EWGs and FUCOs in an amount greater than the amount that would otherwise be allowed by Rule 53(a)(1) would not have either of the adverse effects set forth in Rule 53(c). See The Southern Company, Holding Company Act Release Nos. 26501 and 26646, dated April 1, 1996 and January 15, 1997, respectively.

In addition, Southern has complied and will continue to comply with the record-keeping requirements of Rule 53(a)(2), the limitation under Rule 53(a)(3) on the

use of Operating Company personnel to render services to EWGs and FUCOs, and the requirements of Rule 53(a)(4) concerning the submission of copies of certain filings under the Act to retail rate regulatory commissions. Further, none of the circumstances described in Rule 53(b) has occurred.

Moreover, even if the effect of the capitalization and earnings of EWGs and FUCOs in which Southern has an ownership interest upon the Southern holding company system were considered, there is no basis for the Commission to withhold or deny approval for the proposal made in this Application-Declaration. The action requested in the instant filing (*viz.* approval for certain financing transactions by Gulf) would not, by itself, or even considered in conjunction with the effect of the capitalization and earnings of Southern's EWGs and FUCOs, have a material adverse effect on the financial integrity of the Southern system, or an adverse impact on Southern's public-utility subsidiaries, their customers, or the ability of State commissions to protect such public-utility customers."

Item 6. Exhibits and Financial Statements.

(a) Exhibits.

D-2 - Copy of order of Florida Public Service Commission.

SIGNATURE

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned company has duly caused this amendment to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: April 30, 1997

GULF POWER COMPANY

By: _____
Wayne Boston
Assistant Secretary

File No. 70-8949

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

AMENDMENT NO. 2
TO
FORM U-1

APPLICATION OR DECLARATION
under
The Public Utility Holding Company Act of 1935

GULF POWER COMPANY
500 Bayfront Parkway
Pensacola, Florida 32501

(Name of company or companies filing this statement
and addresses of principal executive offices)

THE SOUTHERN COMPANY

(Name of top registered holding company parent of each applicant or declarant)

Warren E. Tate
Secretary and Treasurer
Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32501

(Names and addresses of agents for service)

The Commission is requested to mail signed copies of all orders, notices and communications to the above agents for service and to:

W. L. Westbrook
Financial Vice President
The Southern Company
270 Peachtree Street, N.W.
Atlanta, Georgia 30303

John D. McLanahan, Esq.
Troutman Sanders LLP
600 Peachtree Street, N.E.
Suite 5200
Atlanta, Georgia 30308-2216

## INFORMATION REQUIRED

Item 3. Applicable Statutory Provisions.

Rule 54 Analysis: The proposed transaction is also subject to Rule 54, which provides that, in determining whether to approve an application which does not relate to any "exempt wholesale generator" ("EWG") or "foreign utility company" ("FUCO"), the Commission shall not consider the effect of the capitalization or earnings of any such EWG or FUCO which is a subsidiary of a registered holding company if the requirements of Rule 53(a), (b) and (c) are satisfied.

Southern currently meets all of the conditions of Rule 53(a), except for clause (1). At May 31, 1997, Southern's "aggregate investment," as defined in Rule 53(a)(1), in EWGs and FUCOs was approximately $2.117 billion, or about 56.78% of Southern's "consolidated retained earnings," also as defined in Rule 53(a)(1), for the four quarters ended March 31, 1997 ($3,728 million). With respect to Rule 53(a)(1), however, the Commission has determined that Southern's financing of investments in EWGs and FUCOs in an amount greater than the amount that would otherwise be allowed by Rule 53(a)(1) would not have either of the adverse effects set forth in Rule 53(c). See *The Southern Company*, Holding Company Act Release No. 16501, dated April 1, 1996 (the "Rule 53(c) Order"); and Holding Company Act Release No. 26646, dated January 15, 1997 (order denying request for reconsideration and motion to stay).

In addition, Southern has complied and will continue to comply with the record-keeping requirements of Rule 53(a)(2), the limitation under Rule 53(a)(3) on the use of Operating Company personnel to render services to EWGs and FUCOs, and the requirements of Rule 53(a)(4) concerning the submission of copies of certain filings

under the Act to retail rate regulatory commissions. Further, none of the circumstances described in Rule 53(b) has occurred.

Moreover, even if the effect of the capitalization and earnings of EWGs and FUCOs in which Southern has an ownership interest upon the Southern holding company system were considered, there is no basis for the Commission to withhold or deny approval for the proposal made in this Application-Declaration. The action requested in the instant filing (*viz.* certain financing transactions by Gulf) would not, by itself, or even considered in conjunction with the effect of the capitalization and earnings of Southern's EWGs and FUCOs, have a material adverse effect on the financial integrity of the Southern system, or an adverse impact on Southern's public-utility subsidiaries, their customers, or the ability of State commissions to protect such public-utility customers.

The Rule 53(c) Order was predicated, in part, upon an assessment of Southern's overall financial condition. On a consolidated pro forma basis, the proposed issuance of Revenue Bonds, new Bonds, and new Preferred Stock by Gulf Power would have no significant effect on Southern Company consolidated capitalization. In addition, in January 1997 Standard & Poor's assigned Southern Company its corporate credit rating of 'A' which was consistent with the implied corporate rating previously held by Southern. This implied rating had been in effect since May 1995. Therefore, since the April 1996 issue of the Rule 53(c) Order, the Southern consolidated credit rating has remained at 'A' thereby demonstrating Southern's consistent strong financial integrity.

Southern's consolidated retained earnings grew on average approximately 8.8% per year from 1991 through 1995. In 1996, consolidated retained earnings increased $280,365,000, or slightly more than 8%. The small reduction in the rate of earnings

growth was primarily attributable to reduced domestic utility sales due to mild weather conditions throughout most of 1996 in the southeastern United States. Earnings attributable to Southern's investments in EWGs and FUCOs continued to contribute modestly to consolidated retained earnings.

Accordingly, since the date of the Rule 53(c) Order, the capitalization and earnings attributable to Southern's investments in EWGs and FUCOs has not had any adverse impact on Southern's financial integrity.

Reference is made to Exhibit G filed herewith which reflects capitalization at March 31, 1997 and the Statement of Income for the twelve months ended March 31, 1997 for The Southern Company and subsidiaries consolidated. In addition, the exhibit is adjusted to give effect to, among other things, the proposed issuance of the Revenue Bonds, the new Bonds and the new Preferred Stock by Gulf.

Item 6. Exhibits and Financial Statements.

(a) Exhibits.

| | | |
|---|---|---|
| B-1 | - | Form of Loan or Installment Sale Agreement between Gulf and the County relating to the Revenue Bonds. |
| B-2 | - | Form of Trust Indenture between the County and the Trustee relating to the Revenue Bonds. |
| F | - | Opinion of Beggs & Lane, counsel for Gulf. |
| G | - | Capitalization and Income Statement of The Southern Company and Subsidiary Companies after giving effect to, among other things, the issuance of the new Bonds, the new Preferred Stock and the Revenue Bonds. |

SIGNATURE

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned company has duly caused this statement to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: June 25, 1997

GULF POWER COMPANY

By: _____
Wayne Boston
Assistant Secretary

Exhibit G

# THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES

## Capitalization Ratios at March 31, 1997

| | Consolidated per 10-Q | Pro Forma Amounts (C) | Equity | Debt |
|---|---|---|---|---|
| **Capitalization (in thousands of dollars):** | | | | |
| **Common stock** | $3,405,594 | $0 | $3,405,594 | |
| **Paid-in capital** | 2,125,534 | 0 | 2,125,534 | |
| **Retained earnings** | 3,730,782 | 0 | 3,730,782 | |
| **Preferred stock** | 833,372 | 200,000 (A) | 1,033,372 | |
| **Capital & preferred securities** | 1,353,500 | 189,250 (A) | 1,542,750 | |
| **Long-term debt** | 9,699,757 | 400,000 (A) | | $10,099,757 |
| **Preferred due within one year** | 116,155 | 0 | 116,155 | |
| **Long-term debt due within one year** | 466,515 | 0 | | 466,515 |
| **Notes payable & commercial paper** | 2,024,235 | 0 | | 2,024,235 |
| **Total (Incl Amts Due in 1 Year)** | $23,755,444 | $789,250 | $11,954,187 | $12,590,507 |
| **Actual Amounts in Millions of Dollars** | **$23,756** | | **$11,565** | **$12,191** |
| **Actual Capitalization Ratios** | **100.0%** | | **48.7%** | **51.3%** |
| **Pro Forma Amounts in Millions of Dollars** | **$24,545** | | **$11,954** | **$12,591** |
| **Pro Forma Capitalization Ratios** | **100.0%** | | **48.7%** | **51.3%** |

## Pro Forma Consolidated Statements of Income (Unaudited)

*(Stated in Thousands of Dollars)*

| | For the Twelve Months Ended March 31, 1997 | Pro Forma (C) | As Adjusted |
|---|---|---|---|
| **OPERATING REVENUES** | $ 10,512,948 | - | 10,512,948 |
| **OPERATING EXPENSES:** | | | |
| Operation-- | | | |
| Fuel | 2,228,043 | - | 2,228,043 |
| Purchased power | 1,289,336 | - | 1,289,336 |
| Other | 1,834,924 | - | 1,834,924 |
| Maintenance | 786,664 | - | 786,664 |
| Depreciation and amortization | 1,041,171 | - | 1,041,171 |
| Amortization of deferred Plant Vogtle costs | 140,518 | - | 140,518 |
| Taxes other than income taxes | 617,085 | - | 617,085 |
| Income taxes | 732,834 | (16,281) (B) | 716,553 |
| Total operating expenses | 8,670,575 | (16,281) | 8,654,294 |
| **OPERATING INCOME** | 1,842,373 | 16,281 | 1,858,654 |
| **OTHER INCOME:** | | | |
| Allowance for equity funds used during construction | 3,862 | - | 3,862 |
| Interest income | 66,245 | - | 66,245 |
| Other, net | 34,269 | - | 34,269 |
| Income taxes applicable to other income | (2,764) | - | (2,764) |
| **INCOME BEFORE INTEREST CHARGES** | 1,943,985 | 16,281 | 1,960,266 |
| **INTEREST CHARGES AND OTHER:** | | | |
| Interest on long-term debt | 542,498 | 27,500 (B) | 569,998 |
| Allowance for debt funds used during construction | (18,357) | - | (18,357) |
| Interest on notes payable | 113,778 | - | 113,778 |
| Amortization of debt discount, premium and expense, net | 27,733 | - | 27,733 |
| Other interest charges | 48,100 | - | 48,100 |
| Minority interest in subsidiaries | 29,258 | - | 29,258 |
| Distributions on capital and preferred securities of subsidiary companies | 39,597 | 14,667 (B) | 54,264 |
| Preferred dividends of subsidiary companies | 80,178 | 14,000 (B) | 94,178 |
| Interest charges and other, net | 862,785 | 56,167 | 918,952 |
| **CONSOLIDATED NET INCOME** | $ 1,081,200 | (39,886) | 1,041,314 |

(See Notes on Following Page)

## NOTES

(A) To give effect to (i) the issuance by Georgia Power Capital Trust III of $189,250,000 of preferred securities, and (ii) the proposed issuance by Gulf Power Company of $200,000,000 of first mortgage bonds, $200,000,000 of preferred stock and $200,000,000 of pollution control obligations.

(B) To give effect to (i) the issuance by Georgia Power Capital Trust III of $189,250,000 of preferred securities at an annual rate of 7.75% and (ii) the proposed issuance by Gulf Power Company of $200,000,000 of first mortgage bonds at an assumed rate of 7.75%, $200,000,000 of preferred stock at an assumed rate of 7%, and $200,000,000 of pollution control obligations at an assumed rate of 6%.

(C) The amounts and types of the securities to be issued by Gulf Power Company will be dependent upon, among other things, market conditions prevailing at the time of issuance. The amounts estimated to be issued are the maximum amounts requested in the subject application and are used solely for the purpose of illustrating the effec upon Southern Company consolidated capitalization and earnings. In addition, no assumptions are made in connection with possible refundings.

File No. 70-8949

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

AMENDMENT NO. 3
TO
FORM U-1

APPLICATION OR DECLARATION
under
The Public Utility Holding Company Act of 1935

GULF POWER COMPANY
500 Bayfront Parkway
Pensacola, Florida 32501

(Name of company or companies filing this statement
and addresses of principal executive offices)

THE SOUTHERN COMPANY

(Name of top registered holding company parent of each applicant or declarant)

Warren E. Tate
Secretary and Treasurer
Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32501

(Names and addresses of agents for service)

The Commission is requested to mail signed copies of all orders, notices and communications to the above agents for service and to:

W. L. Westbrook
Financial Vice President
The Southern Company
270 Peachtree Street, N.W.
Atlanta, Georgia 30303

John D. McLanahan, Esq.
Troutman Sanders LLP
600 Peachtree Street, N.E.
Suite 5200
Atlanta, Georgia 30308-2216

INFORMATION REQUIRED

Item 3. Applicable Statutory Provisions.

Item 3 is hereby amended by replacing the Rule 54 Analysis with the following:

Rule 54 Analysis: The proposed transaction is also subject to Rule 54, which provides that, in determining whether to approve an application which does not relate to any "exempt wholesale generator" ("EWG") or "foreign utility company" ("FUCO"), the Commission shall not consider the effect of the capitalization or earnings of any such EWG or FUCO which is a subsidiary of a registered holding company if the requirements of Rule 53(a), (b) and (c) are satisfied.

Southern currently meets all of the conditions of Rule 53(a), except for clause (1). At May 31, 1997, Southern's "aggregate investment," as defined in Rule 53(a)(1), in EWGs and FUCOs was approximately $2.117 billion, or about 56.78% of Southern's "consolidated retained earnings," also as defined in Rule 53(a)(1), for the four quarters ended March 31, 1997 ($3,728 million). With respect to Rule 53(a)(1), however, the Commission has determined that Southern's financing of investments in EWGs and FUCOs in an amount greater than the amount that would otherwise be allowed by Rule 53(a)(1) would not have either of the adverse effects set forth in Rule 53(c). See *The Southern Company*, Holding Company Act Release No. 16501, dated April 1, 1996 (the "Rule 53(c) Order"); and Holding Company Act Release No. 26646, dated January 15, 1997 (order denying request for reconsideration and motion to stay).

In addition, Southern has complied and will continue to comply with the record-keeping requirements of Rule 53(a)(2), the limitation under Rule 53(a)(3) on the use of Operating Company personnel to render services to EWGs and FUCOs, and the requirements of Rule 53(a)(4) concerning the submission of copies of certain filings

under the Act to retail rate regulatory commissions. Further, none of the circumstances described in Rule 53(b) has occurred.

Moreover, even if the effect of the capitalization and earnings of EWGs and FUCOs in which Southern has an ownership interest upon the Southern holding company system were considered, there is no basis for the Commission to withhold or deny approval for the proposal made in this Application-Declaration. The action requested in the instant filing (*viz.* certain financing transactions by Gulf) would not, by itself, or even considered in conjunction with the effect of the capitalization and earnings of Southern's EWGs and FUCOs, have a material adverse effect on the financial integrity of the Southern system, or an adverse impact on Southern's public-utility subsidiaries, their customers, or the ability of State commissions to protect such public-utility customers.

The Rule 53(c) Order was predicated, in part, upon an assessment of Southern's overall financial condition which took into account, among other factors, Southern's consolidated capitalization ratio and the recent growth trend in Southern's retained earnings. As of December 31, 1995, the most recent fiscal year preceding the Rule 53(c) Order, Southern's consolidated capitalization consisted of 49.3% equity (including mandatorily redeemable preferred securities) and 50.7% debt (including $1.68 billion of long-term, non-recourse debt and short-term debt related to EWGs and FUCOs). As of year-end 1996, that ratio was 52.9% equity and 47.1% debt (including $1.74 billion of long-term, non-recourse debt and short-term debt related to EWGs and FUCOs); and as of March 31, 1997, following completion of Southern's acquisition of a controlling interest in Consolidated Electric Power Asia Ltd., the comparable ratio was 48.7% equity and 51.3% debt (including $3.82 billion of long-term, non-recourse debt

and short-term debt related to EWGs and FUCOs). On a *pro forma* basis, taking into consideration, among other things, the proposed issuance of Revenue Bonds, new Bonds and new Preferred Stock by Gulf Power Company, there is no significant effect on consolidated capitalization. The common equity component of Southern's pro forma consolidated capitalization represents 37.7% of total capitalization at March 31, 1997. Thus, since the date of the Rule 53(c) Order, there has been no material change in Southern's consolidated capitalization ratio, which remains within acceptable ranges and limits of rating agencies as evident by the continued "A" corporate credit rating of Southern Company. Specifically, in January 1997 Standard & Poor's assigned Southern Company its corporate credit rating of "A" which was consistent with the implied corporate rating previously held by Southern. This implied rating had been in effect since May 1995. Therefore, since the April 1996 issue of the Rule 53(c) Order, the Southern consolidated credit rating has remained at "A" thereby demonstrating Southern's continued strong financial integrity. In addition, the underlying ratings of the affiliated operating companies, which have a strong influence on the Southern Company corporate rating, are all "A+". As a point of reference, the consolidated pro forma percentage of debt in the total capital structure of the Southern domestic operating utility companies is 42.8%, which is solidly below the median total debt ratio of the Standard & Poor's "A" rated vertically integrated utilities.[1]

Southern's consolidated retained earnings grew on average approximately 8.8% per year from 1991 through 1995. In 1996, consolidated retained earnings increased $280,365,000, or slightly more than 8%. The small reduction in the rate of earnings

---

[1] Currently, capitalization ratios, including short-term debt, for "A" rated vertically integrated electric utilities have a median total debt to total capital ratio of 45% as noted by Standard & Poor's in May 1997 for companies rated both publicly and confidentially. Prior to issuing this rating standard, the Standard & Poor's total debt to total capital benchmark for an "A" rated vertically integrated investor-owned-utility having an average business position was 47%.

growth was primarily attributable to reduced domestic utility sales due to mild weather conditions throughout most of 1996 in the southeastern United States. Earnings attributable to Southern's investments in EWGs and FUCOs continued to contribute modestly to consolidated retained earnings.

Accordingly, since the date of the Rule 53(c) Order, the capitalization and earnings attributable to Southern's investments in EWGs and FUCOs has not had any adverse impact on Southern's financial integrity.

Reference is made to Exhibit G filed herewith which reflects capitalization at March 31, 1997 and the Statement of Income for the twelve months ended March 31, 1997 for The Southern Company and subsidiaries consolidated. In addition, the exhibit is adjusted to give effect to, among other things, the proposed issuance of the Revenue Bonds, the new Bonds and the new Preferred Stock by Gulf.

SIGNATURE

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned company has duly caused this amendment to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: June 27, 1997

GULF POWER COMPANY

By: _____
Wayne Boston
Assistant Secretary

CERTIFICATE OF NOTIFICATION

Filed by

GULF POWER COMPANY

Pursuant to order of the Securities and Exchange Commission dated June 30, 1997 in the matter of File No. 70-8949.

Gulf Power Company (the "Company") hereby certifies to said Commission, pursuant to Rule 24, as follows:

1. A Loan Agreement dated as of July 1, 1997 was made and entered into by and between the Company and Escambia County, Florida ("Escambia County"), and all transactions relating thereto (including the issuance by the Company of its promissory note dated July 1, 1997 in the principal amount of $37,000,000 pursuant thereto) were carried out in accordance with the terms and conditions of and for the purposes represented by the application, as amended, and of said order with respect thereto.

2. A Loan Agreement dated as of July 1, 1997 was made and entered into by and between the Company and Jackson County, Florida ("Jackson County"), and all transactions relating thereto (including the issuance by the Company of its promissory note dated July 1, 1997 in the principal amount of $3,930,000 pursuant thereto) were carried out in accordance with the terms and conditions of and for the purposes represented by the application, as amended, and of said order with respect thereto.

3. Filed herewith are the following exhibits.

Exhibit A - Loan Agreement between Escambia County and the Company, dated as of July 1, 1997.

Exhibit B - Loan Agreement between Jackson County and the Company, dated as of July 1, 1997.

Exhibit C - Trust Indenture of Escambia County, dated as of July 1, 1997.

Exhibit D - Trust Indenture of Jackson County, dated as of July 1, 1997.

Exhibit E - Subordinate Land Deed of Trust among the Company, Ben H. Stone, as trustee, and Escambia County, dated July 1, 1997.

Exhibit F - Subordinate Land Deed of Trust among the Company, Ben H. Stone, as trustee, and Jackson County, dated July 1, 1997.

Exhibit G - Opinion of Beggs & Lane dated July 14, 1997.

Dated: July 14, 1997

GULF POWER COMPANY

By _____
Wayne Boston
Assistant Secretary

EXHIBIT B.15.

**Description of Holder**

*$32,550,000 Auction Rate Escambia County, Florida*
*Pollution Control Revenue Refunding Bonds*

| **Name of Underwriters** | **Principal Amount of Bonds** |
|---|---|
| Banc of America LLC<br>600 Peachtree Street, 9th FL<br>Atlanta, Georgia 30308 | $ 32,550,000 |

Underwriters Fees: $113,925

GULF POWER COMPANY

EXHIBIT B.16.

Summary of Debt Expenses in Conjunction with the
Issuance and Sale of $32,550,000 Principal Amount
Escambia County Pollution Control Revenue Refunding Bonds

| Item Number | Issuance Expenses For: | Amount $ |
|---|---|---|
| 1 | Charges of Trustee | 5,642.31 |
| 2 | Printing and Preparation of Registration Statement, Financial Statements, Prospectus, Competitive Bidding Papers, Supplemental Indenture, etc. | 5,175.22 |
| 3 | Fees and Expenses of Counsel | 114,031.56 |
| 4 | Fees of Accountants | 22,620.00 |
| 5 | Rating Fees | 23,662.50 |
| 6 | Expenses of Southern Company Services, Inc. | 2,268.51 |
| 7 | Miscellaneous Expenses | 395.30 |
| | Total Expenses of Issue | 173,795.40 |
| | Unamortized Discount Expense | 113,925.00 |
| | Total Cost of Issue | $287,720.40 |

EXHIBIT C.1.

MISSISSIPPI BUSINESS FINANCE CORPORATION

to

THE BANK OF NEW YORK TRUST COMPANY OF FLORIDA, N.A.,

as Trustee

# TRUST INDENTURE

Dated as of April 1, 2003

Relating to

$29,075,000
Pollution Control Revenue Refunding Bonds,
Series 2003
(Gulf Power Company Project)

TABLE OF CONTENTS


ARTICLE I: DEFINITIONS AND RULES OF CONSTRUCTION ..... 3
Section 1.01. Definitions ..... 3
Section 1.02. Rules of Construction ..... 8

ARTICLE II: THE BONDS ..... 9
Section 2.01. Issuance of Bonds; Form; Dating ..... 9
Section 2.02. Interest on the Bonds ..... 9
Section 2.03. Changes to and from Auction Mode Rate Determination Method ..... 17
Section 2.04. Execution and Authentication ..... 20
Section 2.05. Bond Register ..... 20
Section 2.06. Registration and Exchange of Bonds; Persons Treated as Owners ..... 20
Section 2.07. Mutilated, Lost, Stolen, Destroyed or Undelivered Bonds ..... 21
Section 2.08. Cancellation of Bonds ..... 21
Section 2.09. Temporary Bonds ..... 21

ARTICLE III: REDEMPTION, MANDATORY TENDER AND REMARKETING ..... 22
Section 3.01. Notices to Trustee ..... 22
Section 3.02. Redemption Dates ..... 22
Section 3.03. Selection of Bonds to Be Redeemed ..... 22
Section 3.04. Redemption Notices ..... 22
Section 3.05. Payment of Bonds Called for Redemption ..... 23
Section 3.06. Bonds Redeemed in Part ..... 24
Section 3.07. Mandatory Tender ..... 24
Section 3.08. Disposition of Purchased Bonds ..... 25

ARTICLE IV: APPLICATION OF PROCEEDS AND PAYMENT OF BONDS ..... 27
Section 4.01. Application of Proceeds ..... 27
Section 4.02. Payment of Bonds ..... 27
Section 4.03. Investments of Moneys ..... 28
Section 4.04. Creation of Bond Fund ..... 28
Section 4.05. Payments into the Bond Fund ..... 29
Section 4.06. Use of Moneys in the Bond Fund ..... 29
Section 4.07. Custody of the Bond Fund ..... 29
Section 4.08. Non-presentment of Bonds ..... 30
Section 4.09. Moneys to Be Held in Trust ..... 30
Section 4.10. Repayment to the Company from the Bond Fund ..... 30
Section 4.11. Moneys Held in Trust; Unclaimed Funds ..... 30
Section 4.12. Rebate Fund ..... 31

ARTICLE V: BOOK-ENTRY SYSTEM ..... 31
Section 5.01. Book-Entry System ..... 31

ARTICLE VI: COVENANTS ..... 32
Section 6.01. Payment of Bonds ..... 32
Section 6.02. Performance of Covenants; Issuer ..... 33
Section 6.03. Recording and Filing; Further Assurances ..... 33
Section 6.04. Tax Covenants ..... 33
Section 6.05. Rights Under Agreement ..... 34
Section 6.06. Designation of Additional Paying Agents ..... 34
Section 6.07. Existence of Issuer ..... 34

ARTICLE VII: DISCHARGE OF INDENTURE ..... 35
Section 7.01. Bonds Deemed Paid; Discharge of Indenture ..... 35
Section 7.02. Application of Trust Money ..... 36
Section 7.03. Repayment to Company ..... 36

ARTICLE VIII: DEFAULTS AND REMEDIES ..... 36
Section 8.01. Events of Default ..... 36
Section 8.02. Acceleration ..... 36
Section 8.03. Other Remedies ..... 37
Section 8.04. Legal Proceeding by Trustee ..... 38
Section 8.05. Appointment of Receivers ..... 38
Section 8.06. Waiver of Past Defaults ..... 39
Section 8.07. Control by Majority ..... 39
Section 8.08. Limitation on Suits ..... 39
Section 8.09. Rights of Holders to Receive Payment ..... 39
Section 8.10. Collection Suit by Trustee ..... 40
Section 8.11. Trustee May File Proofs of Claim ..... 40
Section 8.12. Priorities ..... 40
Section 8.13. Undertaking for Costs ..... 40

ARTICLE IX: TRUSTEE AND REMARKETING AGENT ..... 41
Section 9.01. Acceptance of the Trusts ..... 41
Section 9.02. Fees, Charges and Expenses of Trustee ..... 43
Section 9.03. Notice to Bondholders if an Event of Default Occurs ..... 43
Section 9.04. Intervention by Trustee ..... 43
Section 9.05. Successor Trustee ..... 44
Section 9.06. Resignation by Trustee ..... 44
Section 9.07. Removal of Trustee ..... 44
Section 9.08. Appointment of Successor Trustee ..... 44
Section 9.09. Concerning Any Successor Trustee ..... 44
Section 9.10. Successor Trustee as Bond Registrar, Custodian of the Bond Fund and Paying Agent ..... 45
Section 9.11. Trustee and Issuer Required to Accept Directions and Actions of Company ..... 45
Section 9.12. No Transfer of Note Held by the Trustee; Exception ..... 45
Section 9.13. Filing of Certain Continuation Statements ..... 45
Section 9.14. Duties of Remarketing Agent ..... 46
Section 9.15. Eligibility of Remarketing Agent ..... 46
Section 9.16. Replacement of Remarketing Agent ..... 46
Section 9.17. Compensation of Remarketing Agent ..... 46
Section 9.18. Successor Remarketing Agent ..... 46
Section 9.19. Inapplicability of Remarketing Agent ..... 47

ARTICLE X: AMENDMENTS OF AND SUPPLEMENTS TO INDENTURE ..... 47
Section 10.01. Without Consent of Bondholders ..... 47
Section 10.02. With Consent of Bondholders ..... 48
Section 10.03. Effect of Consents ..... 48
Section 10.04. Notation on or Exchange of Bonds ..... 48
Section 10.05. Signing by Trustee of Amendments and Supplements ..... 48
Section 10.06. Company and Insurer Consent Required ..... 49
Section 10.07. Notice to Bondholders ..... 49

ARTICLE XI AMENDMENTS OF AND SUPPLEMENTS TO THE AGREEMENT ..... 49
Section 11.01. Without Consent of Bondholders ..... 49
Section 11.02. With Consent of Bondholders ..... 49
Section 11.03. Consents by Trustee to Amendments or Supplements ..... 49

ARTICLE XII MISCELLANEOUS ..... 50
Section 12.01. Notices ..... 50
Section 12.02. Bondholders' Consent ..... 50
Section 12.03. Appointment of Separate Paying Agent and/or Tender Agent ..... 51
Section 12.04. Limitation of Rights ..... 51
Section 12.05. Severability ..... 51
Section 12.06. Payments Due on Non-Business Days ..... 51
Section 12.07. Governing Law ..... 51
Section 12.08. Captions ..... 52
Section 12.09. No Liability of Officers ..... 52
Section 12.10. Counterparts ..... 52
Section 12.11. Regarding Insurer Provisions ..... 52

Exhibit A - Form of Bond
Exhibit B - Auction Procedures
Exhibit C - Resolution

# TRUST INDENTURE

THIS INDENTURE made and entered into as of April 1, 2003, by and between the MISSISSIPPI BUSINESS FINANCE CORPORATION, a public corporation duly created and validly existing pursuant to the Constitution and laws of the State of Mississippi (the "Issuer"), and THE BANK OF NEW YORK TRUST COMPANY OF FLORIDA, N.A., a national banking association duly organized, existing and authorized to accept and execute trusts of the character herein set out under and by virtue of the laws of the United States, with its principal corporate trust office located in Atlanta, Georgia, as trustee (the "Trustee").

## RECITALS

A. The Issuer is authorized by the provisions of Sections 57-10-201 *et seq.*, Mississippi Code of 1972, as amended and supplemented (the "Act"), including particularly Section 57-10-213, among other things, to provide financial assistance to businesses in the State of Mississippi by providing loans and to issue refunding bonds for the purpose of financing and refinancing the projects of "eligible businesses" under the Act.

B. In furtherance of its statutory purposes, the Issuer has entered into a Loan Agreement dated as of April 1, 2003 (the "Agreement") with Gulf Power Company (the "Company") providing for the undertaking by the Issuer to loan amounts to the Company in order to currently refund the Prior Bonds (as hereinafter defined) heretofore issued to refinance the Project (as hereinafter defined).

C. The Agreement provides that, for the purposes therein set forth, the Issuer will issue and sell its Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project), in the aggregate principal amount of $29,075,000 (the "Bonds"); that the Issuer will loan the proceeds of the Bonds to the Company; that the Company will cause the Prior Bonds to be currently redeemed; and that to evidence the Loan (as hereinafter defined) the Company will execute and deliver, concurrently with the issuance of the Bonds, a non-negotiable promissory note in a like principal amount bearing interest at the rate or rates borne by the Bonds.

D. The execution and delivery of this Indenture (as hereinafter defined) and the Agreement and the issuance and sale of the Bonds have been in all respects duly and validly authorized by the Resolution (as hereinafter defined) duly adopted by the Issuer.

E. All acts, conditions and things required by the Constitution and laws of the State of Mississippi to happen, exist and be performed precedent to and in connection with the execution and delivery of this Indenture and the Agreement have happened, exist and have been performed as so required, in order to make this Indenture a valid and binding trust indenture for the security of the Bonds in accordance with its terms and in order to make the Agreement a valid and binding agreement in accordance with its terms.

F. The Company has agreed to make payments on the aforementioned promissory note to the Issuer in amounts sufficient to pay the principal, purchase price, premium, if any, and interest on the Bonds, all as hereinafter provided.

G. The Trustee has accepted the trusts created by this Indenture and in evidence thereof has joined in the execution hereof.

Accordingly, the Issuer and the Trustee agree as follows for the benefit of each other and for the benefit of the holders of the Bonds issued pursuant to this Indenture.

## GRANTING CLAUSE

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that in consideration of the premises, of the acceptance by the Trustee of the trusts hereby created, and the purchase and acceptance of the Bonds by the holders thereof, and also for and in consideration of the sum of One Dollar ($1.00) to the Issuer in hand paid by the Trustee at or before the execution and delivery of this Indenture, the receipt of which is hereby acknowledged, and for the purpose of fixing and declaring the terms and conditions upon which the Bonds are to be issued, authenticated, delivered, secured and accepted by all persons who shall from time to time be or become holders thereof, and in order to secure the payment of all Bonds at any time issued and outstanding hereunder and the interest and the premiums, if any, payable upon redemption or mandatory tender thereon according to their tenor, purport and effect, and in order to secure the performance and observance of all the covenants, agreements and conditions therein or herein contained; the Issuer has executed and delivered this Indenture, and will cause the Company to deliver to the Trustee the Note (as hereinafter defined); the Issuer does hereby bargain, sell, convey, assign and pledge to the Trustee, and grant to the Trustee a security interest in, all rights, title and interest of the Issuer in, to and under the Note and all payments, if any, made and to be made thereunder as security for the payment of all outstanding Bonds and the interest and the premium, if any, thereon and does hereby bargain, sell, convey, assign and pledge to the Trustee, and grant to the Trustee a security interest in, all other rights, title and interest of the Issuer in, to and under the Agreement and all moneys receivable thereunder (except for Unassigned Rights, as hereinafter defined) as security for the satisfaction of any other obligation assumed by it in connection with all outstanding Bonds at any time issued hereunder;

TO HAVE AND TO HOLD the same unto the Trustee and its successors in trust forever;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth, for the equal and proportionate benefit and security of all and singular present and future holders of the Bonds issued under this Indenture, without preference, priority or distinction as to lien or otherwise, except as otherwise hereinafter provided, of any one Bond over any other Bond, by reason of priority in the issue, sale or negotiation thereof or otherwise;

PROVIDED, HOWEVER, that if the Issuer, its successors or assigns shall pay or cause to be paid the principal of, purchase price, premium, if any, and interest on the Bonds due or to become due thereon, at the times and in the manner mentioned in the Bonds, and shall perform

all the covenants and conditions required of it by this Indenture, and shall pay or cause to be paid to the Trustee and any additional paying agents and tender agents all sums of money due or to become due to them in accordance with the terms and provisions hereof, then upon such final payments this Indenture and the rights hereby granted shall terminate and the Trustee shall release this Indenture and shall execute such documents to evidence such termination and release as may be reasonably required by the Issuer or the Company; otherwise this Indenture to be and remain in full force and effect.

THIS INDENTURE FURTHER WITNESSETH, and it is expressly declared, that all Bonds from time to time issued and secured hereunder are to be issued, authenticated and delivered, and all said property, rights and interests, including, without limitation, the amounts hereby assigned and pledged, are to be dealt with and disposed of subject to the terms of this Indenture, and the Issuer agrees with the Trustee and with the respective owners, from time to time, of said Bonds, or part thereof, as follows:

## ARTICLE I

## DEFINITIONS AND RULES OF CONSTRUCTION

**Section 1.01. Definitions.** For all purposes of this Indenture, unless the context requires otherwise, words or terms defined in the preamble and recitals of this Indenture shall have the meanings specified therein, and the following terms shall have the following meanings; provided, however, that any terms used herein relating to Bonds in the Auction Mode Rate Determination Method or Auction Procedures that are not expressly defined below shall be deemed to have the meanings provided in *Exhibit B, Auction Procedures,* attached hereto:

"*Act*" means the provisions of Sections 57-10-201 et seq., Mississippi Code of 1972, as amended and supplemented.

"*Agreement*" means the Loan Agreement dated as of April 1, 2003, between the Issuer and the Company, as amended and supplemented from time to time.

"*Arbitrage Rebate Agreement*" means that certain agreement dated as of April 1, 2003, among the Issuer, the Company and the Trustee, as amended and supplemented from time to time.

"*Auction Rate Period*" means each period of time when the Bonds bear interest at an Auction Mode Rate.

"*Beneficial Owner*" means the purchaser of a beneficial interest in the Bonds when the Bonds are held by the Securities Depository in the Book-Entry System, and otherwise means a Bondholder.

"*BMA Index*" means, as of any date, the rate calculated according to the Bond Market Association Municipal Swap Index as of the most recent date for which such index was

published or such other weekly, high-grade index composed of weekly, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc. or any successor thereto, or as otherwise designated by the Bond Market Association.

"*BMA Margin*" is defined in Section 2.02(a)(6)(i).

"*Bond Fund*" means the trust fund created by Section 4.04 of this Indenture.

"*Bondholder*" or "*holder*" means the registered owner of any Bond.

"*Bonds*" means the Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project), issued by the Issuer hereunder in the aggregate principal amount of $29,075,000.

"*Book-Entry System*" means the system maintained by the Securities Depository described in Section 5.01.

"*Business Day*" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York, Gulfport, Mississippi, or the city in which the principal corporate trust office of the Trustee is located, are authorized by law to close or (iii) a day on which the New York Stock Exchange is closed; provided, however, that during an Auction Rate Period the definition of "Business Day" shall be supplemented as provided in Exhibit B attached hereto.

"*Code*" means the Internal Revenue Code of 1986, as amended, and the applicable Treasury Regulations promulgated thereunder as the same may be applicable to the Bonds.

"*Commercial Paper Mode*" means each period of time, comprised of Commercial Paper Periods, during which Commercial Paper Rates are in effect.

"*Commercial Paper Period*" means, with respect to any Bond, each period set under Section 2.02(a)(3).

"*Commercial Paper Rate*" means an interest rate on each Bond set under Section 2.02(a)(3).

"*Company*" means Gulf Power Company, a Maine corporation, and its successors and assigns, and any surviving, resulting or transferee entity as provided in Section 4.4 of the Agreement.

"*Conversion Notice*" is defined in Section 2.02(b)(1).

"*corporation*" includes corporations, partnerships, limited partnership, limited liability partnerships, limited liability companies, associations, companies, statutory trusts and business trusts.

"*Daily Rate*" means an interest rate on the Bonds set under Section 2.02(a)(1).

"*Determination Method*" is defined in Section 2.02(a) hereof.

"*Event of Default*" is defined in Section 8.01.

"*Favorable Opinion of Tax Counsel*" means an Opinion of Tax Counsel addressed to the Issuer and to the Trustee to the effect that the action proposed to be taken is permitted by the laws of the State and by this Indenture and will not adversely affect any exclusion from gross income for federal income tax purposes of interest on the Bonds.

"*Government Obligations*" means (i) noncallable direct obligations of the United States for which its full faith and credit are pledged, (ii) noncallable obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States, or (iii) securities or receipts evidencing ownership interests in obligations or specified portions (such as principal or interest) of obligations described in (i) or (ii).

"*Indenture*" means this Trust Indenture, as it may be amended or supplemented from time to time in accordance with its terms.

"*Index*" means the BMA Index or LIBOR Index, as applicable.

"*Index Adjustment Date*" is defined in Section 2.02(a)(6)(i).

"*Index Period*" means any period of time established by the Company pursuant to Section 2.02(b)(1) during which the Bonds bear interest at the Index Rate.

"*Index Rate*" means an interest rate on the Bonds set under 2.02(a)(6).

"*Index Rate Determination Date*" means (i) if the applicable Index is the LIBOR Index, the second London Business Day immediately preceding the first day of the relevant Index Period, or if the applicable Index is the BMA Index, the Business Day immediately preceding the first day of the relevant Index Period; and (ii) the second London Business Day or the Business Day, as the case may be, preceding each Thursday during the relevant Index Period thereafter.

"*Interest Payment Date*" is defined in the form of the Bonds appearing in Exhibit A hereto.

"*Interest Period*" is defined in the form of the Bonds appearing in Exhibit A hereto.

"*Insurer*" means the issuer of a Policy, if any, with respect to the Bonds.

"*LIBOR Index*" for any Index Rate Determination Date will be the Reported Rate for deposits in U.S. dollars having an index maturity of one month for a period commencing on the second London Business Day immediately following the Index Rate Determination Date in

amounts of not less than $1,000,000, at approximately 11:00 a.m., London time on the Index Rate Determination Date.

"*LIBOR Percentage*" is defined in Section 2.02(a)(6)(i).

"*London Business Day*" means a day that is a Business Day and a day on which dealings in deposits in U.S. dollars are transacted, or with respect to any future date are expected to be transacted, in the London interbank market.

"*Long-Term Interest Rate*" means an interest rate on the Bonds set under Section 2.02(a)(4).

"*Long-Term Interest Rate Period*" means any period as defined in Section 2.02(a)(4).

"*Maturity Date*" means the stated maturity for the Bonds as set forth in Section 2.01.

"*1954 Code*" means the Internal Revenue Code of 1954, as amended and the Treasury Regulations promulgated thereunder as the same may be applicable for the Bonds.

"*Note*" means the promissory note executed and delivered by the Company in the form attached to the Agreement concurrently with the issuance of the Bonds in a like principal amount bearing interest at the rate or rates borne by the Bonds.

"*Opinion of Counsel*" means a written opinion of counsel selected by the Company who is acceptable to the Issuer and the Trustee. Such counsel may be an employee of or counsel to the Issuer, the Trustee or the Company.

"*Opinion of Tax Counsel*" means an Opinion of Counsel by counsel of nationally recognized standing in matters relating to the exclusion of interest from gross income on obligations issued by or on behalf of states and their political subdivisions.

The term "*outstanding*" when used with reference to Bonds, or "*Bonds outstanding*" means all Bonds which have been authenticated and delivered by the Trustee under this Indenture, except the following:

a. Bonds canceled or purchased by or delivered to the Trustee for cancellation.

b. Bonds that have become due (at maturity or on redemption, acceleration or otherwise) and for the payment, including interest accrued to the due date, of which sufficient moneys are held by the Trustee.

c. Bonds deemed paid by Section 7.01.

d. Bonds in lieu of which others have been authenticated under Section 2.06 (relating to registration and exchange of Bonds) or Section 2.07 (relating to mutilated, lost, stolen, destroyed or undelivered Bonds).

Bonds purchased pursuant to tenders and not delivered to the Trustee for payment are not outstanding, but there will be outstanding Bonds authenticated and delivered in lieu of such undelivered Bonds as provided in the second paragraph of Section 2.07.

"*Participant*" means one of the entities which deposit securities, directly or indirectly, in the Book-Entry System.

"*Person*" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, estate, unincorporated organization or government or any agency or political subdivision thereof.

"*Plant*" means the Victor J. Daniel, Jr. steam electric generating plant located in Jackson County, Mississippi.

"*Policy*" means a bond insurance policy or similar agreement, if any, issued by the Insurer with respect to the Bonds.

"*Principal*," when used with reference to any Bonds, includes any premium payable on those Bonds.

"*Prior Bonds*" shall have the meaning assigned to it in the Resolution.

"*Prior Bonds Trustee*" means Hancock Bank, in its capacity as trustee for the Prior Bonds.

"*Prior Indenture*" means the trust indentures, as supplemented and amended, under which the Prior Bonds were issued.

"*Project*" shall have the meaning assigned to it in the Resolution.

"*Rebate Requirement*" shall have the meaning set forth in the Arbitrage Rebate Agreement.

"*Record Date*" is defined in the form of the Bonds appearing as Exhibit A hereto, except when the Bonds bear interest at an Auction Mode Rate, the Record Date will be the second Business Day immediately preceding an Interest Payment Date.

"*Remarketing Agent*" means the Person appointed as Remarketing Agent pursuant to Section 9.15 hereof, and its successors under this Indenture.

"*Reported Rate*" means the rate that appears on Telerate Page 3750 or a successor reporter of such rates selected by the Remarketing Agent and acceptable to the Company.

*"Resolution"* means the resolutions of the Issuer adopted on February 19, 2003 and March 19, 2003 in connection with the sale and issuance of the Bonds and the current refunding of the Prior Bonds.

"*Responsible Officer*" means any officer or trust officer of the Trustee assigned by the Trustee to administer its corporate trust matters.

"*Securities Depository*" means The Depository Trust Company, New York, New York or its nominee, and its successors and assigns, or any successor appointed under Section 5.01.

*"Spread"* is defined in Section 2.02(a)(6)(i).

"*State*" means the State of Mississippi.

"*Telerate Page 3750*" means the display designated on page 3750 on Moneyline Telerate, Inc. (or such other page as may replace the 3750 page on that service or such other service as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits).

"*Trustee*" means the entity identified as such in the heading of this Indenture and its successors under this Indenture.

"*Unassigned Rights*" means the rights of the Issuer under Section 4.2 and Section 5.3 of the Agreement.

*"Weekly Index Period"* means, while the Bonds bear interest at an Index Rate, each weekly period beginning on a Thursday and ending on a Wednesday.

"*Weekly Rate*" means an interest rate on the Bonds set under Section 2.02(a)(2).

**Section 1.02. Rules of Construction.** Unless the context otherwise requires,

a. an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles,

b. references to Articles and Sections are to the Articles and Sections of this Indenture, and

c. the singular form of any word, including the terms defined in Section 1.01, includes the plural, and vice versa, and a word of any gender includes all genders.

## ARTICLE II

## THE BONDS

**Section 2.01. Issuance of Bonds; Form; Dating.** The Bonds shall be designated "Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project)." The total principal amount of Bonds that may be outstanding shall not exceed $29,075,000. The Bonds shall be substantially in the form of *Exhibit A* attached hereto, which is part of this Indenture, in the denominations provided for in the Bonds. The Bonds may have notations, legends or endorsements required by law or usage.

All Bonds will be dated the date of original issuance and delivery, will bear interest from that date and shall mature, subject to prior redemption or mandatory tender, on February 1, 2026. Bonds will be numbered as determined by the Trustee.

Upon the execution and delivery of this Indenture, the Issuer will execute and deliver to the Trustee and the Trustee will authenticate the Bonds and deliver them to the purchaser or purchasers as directed by the Issuer.

**Section 2.02. Interest on the Bonds.** Interest on the Bonds will be payable as provided in the Bonds and in this Section. The Determination Method may be changed by the Company as described in subsection (b) below. The methods of determining the various interest rates are as provided in subsection (a) below.

(a) *Interest Rate Determination Methods.* In accordance with the notification requirements described herein, the Company shall determine the applicable interest rate determination method (each a "Determination Method") on the Bonds. The interest rate on the Bonds shall be determined by one of the following Determination Methods; provided, however, that while there exists an Event of Default under the Indenture, the interest rate on the Bonds will be the rate on the Bonds on the day before the Event of Default occurred, except that if interest on any Bond was then payable at a Commercial Paper Rate, the interest rate for all Bonds then bearing interest at a Commercial Paper Rate will be the highest Commercial Paper Rate then in effect for any Bond.

(1) *Daily Rate.* When interest on the Bonds is payable at a Daily Rate, the Remarketing Agent will set a Daily Rate on or before 11:00 a.m., New York City time, on each Business Day for that Business Day. Each Daily Rate will be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the Bonds on the day the rate is set at their principal amount (without regard to accrued interest). The Daily Rate for any non-Business Day will be the rate for the last day for which a rate was set.

(2) *Weekly Rate.* When interest on the Bonds is payable at a Weekly Rate, the Remarketing Agent will set a Weekly Rate on or before 5:00 p.m., New York City time,

on the last Business Day before the commencement of a period during which the Bonds bear interest at a Weekly Rate and on each Tuesday thereafter so long as interest on the Bonds is to be payable at a Weekly Rate or, if any Tuesday is not a Business Day, on the next preceding Business Day. Each Weekly Rate will be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) for the Remarketing Agent to sell the Bonds on the date the rate is set at their principal amount (without regard to accrued interest). Thereafter, each Weekly Rate shall apply to (i) the period beginning on the Wednesday after the Weekly Rate is set and ending on the following Tuesday or, if earlier, ending on the day before the effective date of a new method of determining the interest rate on the Bonds or (ii) the period beginning on the effective date of the change to a Weekly Rate and ending on the next Tuesday.

(3) *Commercial Paper Rate.* During a Commercial Paper Mode, each Bond will bear interest during the Commercial Paper Period for such Bond at the Commercial Paper Rate for such Bond. Different Commercial Paper Periods may apply to different Bonds at any time and from time to time. Except as otherwise described in this subsection (3), the Commercial Paper Period and Commercial Paper Rate for each Bond will be determined by the Remarketing Agent no later than 12:15 p.m., New York City time, on the first day of each Commercial Paper Period.

(i) *Determination of Commercial Paper Periods.* Subject to Section 2.02(b)(2)(vii), each Commercial Paper Period will be a period of at least 1 day and not more than 270 days, determined by the Remarketing Agent to be the period which, together with all other Commercial Paper Periods for all Bonds then outstanding, will, in the judgment of the Remarketing Agent, result in the lowest overall interest expense on the Bonds over the next 270 days. Each Commercial Paper Period will end on either the day before a Business Day or on the day before the Maturity Date for such Bond. However, any Bond purchased on behalf of the Company and remaining unsold by the Remarketing Agent as of the close of business on the first day of the Commercial Paper Period for that Bond will have a Commercial Paper Period of 1 day or, if that Commercial Paper Period would not end on a day before a Business Day, a Commercial Paper Period of the shortest possible duration greater than 1 day ending on a day before a Business Day.

In determining the number of days in each Commercial Paper Period, the Remarketing Agent shall take into account the following factors: (I) existing short-term tax-exempt market rates and indices of such short-term rates, (II) the existing market supply and demand for short-term tax-exempt securities, (III) existing yield curves for short-term and long-term tax-exempt securities for obligations of credit quality comparable to the Bonds, (IV) general economic conditions, (V) industry economic and financial conditions that may affect or be relevant to the Bonds, (VI) the number of days in other Commercial Paper Periods applicable to the Bonds and (VII) such other facts, circumstances

and conditions as the Remarketing Agent, in its sole discretion, shall determine to be relevant.

(ii) *Determination of Commercial Paper Rates.* The Commercial Paper Rate for each Commercial Paper Period for each Bond shall be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell such Bond on the date and at the time of such determination at its principal amount (without regard to accrued interest).

(4) *Long-Term Interest Rate.* The Remarketing Agent will set a Long-Term Interest Rate on a date not less than three Business Days before the beginning of any period (a "*Long-Term Interest Rate Period*") in which interest on any of the Bonds will be payable at a Long-Term Interest Rate. The last day of each such Long-Term Interest Rate Period shall be determined by the Company in accordance with Section 2.02(b)(1). Each Long-Term Interest Rate will be the minimum rate necessary (as determined by the Remarketing Agent with respect to any Long-Term Interest Rate Period based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the Bonds for delivery on the effective date of the Long-Term Interest Rate at their principal amount (without regard to accrued interest).

(5) *Auction Mode Rate.* During an Auction Rate Period, the Auction Mode Rate will be determined by the Auction Agent in accordance with the provisions set forth in *Exhibit B* attached hereto which is part of this Indenture.

(6) *Index Rate.* During an Index Period, the Bonds will bear interest at the Index Rate to be determined as follows:

(i) On the first day of the applicable Index Period and on the first Index Rate Determination Date following each six month anniversary of such day until the end of the Index Period (each, an "Index Adjustment Date"), the Remarketing Agent shall (A) depending on the Index, determine the minimum percentage of the LIBOR Index (the "LIBOR Percentage") or the minimum number of basis points above or below the BMA Index (the "BMA Margin;" the BMA Margin and the LIBOR Percentage are hereinafter sometimes referred to as the "Spread"), as applicable, that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on the date and at the time of such determination at their principal amount (without regard to accrued interest) if such Bonds were being

sold on such date, and (B) notify the Trustee and the Company of the applicable Spread for such six month period.

(ii) On each Index Rate Determination Date, (A) the Remarketing Agent shall, no later than 11:00 a.m., New York City time, on such date, notify the Trustee, depending on the applicable Index, of the LIBOR Index or the BMA Index to apply for the next succeeding Weekly Index Period. The applicable Index as determined by the Remarketing Agent, adjusted by the applicable Spread, will be the interest rate to be borne by the Bonds from the first Thursday after such date through the following Wednesday; provided that, if the applicable Index Rate Determination Date is a day following the Thursday in any week, the Index Rate so determined will be in effect from the next preceding Thursday through the following Wednesday.

(iii) Promptly upon the determination of the Index Rate by the Remarketing Agent, the Remarketing Agent will notify the Company and the Trustee of the Index Rate for the applicable period.

(iv) If the following circumstances exist on any Index Rate Determination Date, the Index Rate shall be determined as follows:

(A) In the event that the applicable Index on such Index Rate Determination Date is the BMA Index and the BMA Index has not been published or set, the Index Rate for the succeeding Weekly Index Period shall be the minimum percentage of LIBOR Index that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on the date and at the time of such determination at its principal amount (without regard to accrued interest) if the Bonds were being sold on such date.

(B) In the event that the applicable Index on such Index Rate Determination Date is LIBOR Index and no Reported Rate appears on Telerate Page 3750 as of approximately 11:00 a.m., London time, on an Index Rate Determination Date, the Index Rate for the succeeding Weekly Index Period shall be based on the Reported Rate for the preceding week; provided, however, that if no Reported Rate appears in Telerate Page 3750 for two consecutive weeks, the Index Rate shall be determined by the Remarketing Agent and shall be the minimum percentage of four week Treasury Bills that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on such date and at the time of such determination at its

principal amount (without regard to accrued interest) if the Bonds were being sold on such date.

(C) In the event that neither Index is available, the Index Rate for the succeeding Weekly Index Period shall be the minimum percentage of a referenced Treasury security selected by the Remarketing Agent that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on such date and at the time of such determination at its principal amount (without regard to accrued interest) if the Bonds were being sold on such date.

(v) The foregoing notwithstanding, the interest rate to be borne by the Bonds from the date of the commencement of the Index Period until the commencement of the first succeeding Weekly Index Period shall be a rate determined by the Remarketing Agent prior to the commencement of such Index Period, and such rate shall be the rate that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on such date and at the time of such determination at their principal amount (without regard to accrued interest) if the Bonds were being sold on such date.

(7) *Failure of Remarketing Agent to Announce Interest Rates or Spread on the Bonds*. Except as set forth in Exhibit B, if the appropriate interest rate, Spread or Commercial Paper Period is not or cannot be determined for any reason, the method of determining interest on the Bonds shall be automatically converted to the Weekly Rate (without the necessity of complying with the requirements of Section 2.02(b)) and the interest rate shall be equal to the BMA Index plus the BMA Margin or, if the BMA Index is unavailable, the LIBOR Index multiplied by the LIBOR Percentage, or if the LIBOR Index is unavailable, 90% of the 30-day Treasury rate, until such time as the Determination Method can be changed in accordance with Section 2.02(b); provided, however, during an Index Period, if the applicable Index is not available, clause (iv)(A), (iv)(B) or (iv)(C), as applicable, of Section 2.02(a)(6) shall be effective instead of this clause (7); provided further, that if the Bonds are then in a Long-Term Interest Rate Period, the Bonds shall bear interest at a Weekly Rate, but only if a Favorable Opinion of Tax Counsel with respect to the change to a Weekly Rate has been delivered to the Trustee and the Issuer. If such Favorable Opinion of Tax Counsel has not been delivered, the Bonds shall remain in a Long-Term Interest Rate Period with an interest rate equal to the interest rate for the prior Long-Term Interest Rate Period and with a duration equal to the prior Long-Term Interest Rate Period (or, if earlier, a Long-Term Interest Rate Period ending on the day before the Maturity Date for such Bond). The Trustee shall promptly notify the Bondholders of any such automatic change as set forth in Section 3.07(b).

While Bonds are in a Commercial Paper Mode, during any transition period caused by an automatic conversion of such Bonds to a Weekly Rate in accordance with this subsection (7), Bonds bearing interest at a Weekly Rate and Bonds bearing interest at a Commercial Paper Rate, as applicable, shall be governed by the provisions of this Indenture applicable to such methods of determining interest on the Bonds.

(b) (1) *Initial Interest Rate Determination Method; Change in Interest Rate Determination Method.* The Bonds shall bear interest as of the effective date of this Indenture at an Auction Mode Rate. The initial Auction Mode Rate shall be determined in accordance with this Indenture on or prior to the effective date of this Indenture by the Broker-Dealer as the minimum rate required to sell the Bonds on the date of issuance at a purchase price of par. The Company may change the Determination Method from time to time by notifying, as applicable, the Issuer, the Trustee, the Remarketing Agent, the Auction Agent and the Broker Dealer(s) in writing. Such notice (a "Conversion Notice") shall contain (a) the effective date of such change, (b) the proposed Determination Method, and (c) if the change is to a Long-Term Interest Rate or Rates, the last day of the first such Long-Term Interest Rate Period and, at the option of the Company, the effective date and last day of any successive Long-Term Interest Rate Periods (which last day for each Long-Term Interest Rate Period must be either the day before the Maturity Date for such Bonds or a day which next precedes a Business Day and is at least 365 days after the effective date); provided, however, that if the change is (x) to or from an Auction Rate Period, the notice shall be given in accordance with Sections 2.03(a) or 2.03(b), as applicable, and (y) if such change is to an Index Period, such notice shall also specify the applicable Index for the Index Period and the length of such Index Period. The Long-Term Interest Rate Period shall be the same duration for all of the Bonds. The notice must be accompanied by a Favorable Opinion of Tax Counsel. If the Company's notice complies with this paragraph, and if the Company shall deliver to the Trustee and the Issuer a confirming Favorable Opinion of Tax Counsel on the effective date as specified in the notice, the interest rate on the Bonds will be determined on the basis of the new rate on the effective date specified in the notice until there is another change as provided in this Section.

If the Company wishes to designate successive Long-Term Interest Rate Periods without specifying the effective dates and last days as described in the preceding paragraph for the second or any subsequent Long-Term Interest Rate Periods, it may do so by following the same procedure as for a change in the Determination Method as provided in the preceding paragraph.

If the Company wishes to change the Determination Method to or from an Auction Mode Rate, the Company must comply with Section 2.03 as well as this Section 2.02(b)(1).

If, 30 days before the end of a Long-Term Interest Rate Period, the Company has not provided for the next interest rate period, a new Long-Term Interest Rate Period of the same duration will follow (or if shorter, a Long-Term Interest Rate Period ending on the day before the Maturity Date for the Bonds).

When one Long-Term Interest Rate Period follows another, all provisions of this Indenture applying to a change in the Determination Method will apply, except:

(A) the mandatory tender described under "Mandatory Tender Upon a Change in the Determination Method" in the Bonds;

(B) the Company will not be required to deliver a Favorable Opinion of Tax Counsel if a new Long-Term Interest Rate Period begins as a result of the Company failing to provide for the next interest rate period; and

(C) the Company will not be required to deliver a Favorable Opinion of Tax Counsel if (i) the Company has previously designated a series of successive Long-Term Interest Rate Periods which, together with the current Long-Term Interest Rate Period, are substantially equal in length, (ii) a Favorable Opinion of Tax Counsel was delivered before the first such Long-Term Interest Rate Period in that series which applies to each such successive Long-Term Interest Rate Period, and (iii) no other change in the security for the Bonds or in this Indenture or the terms of the Bonds is made which is effective as of, or agreed to in connection with, the effective date of such subsequent Long-Term Interest Rate Period.

(2) *Limitations*. Any change in the Determination Method pursuant to subsection (b)(1) above must comply with the following:

(i) the effective date of a change (or each effective date in the case of a change from a Commercial Paper Mode) shall be a Business Day which is at least 15 days (30 days if a Long-Term Interest Rate is then in effect and the effective date is before the day after the last day of a Long-Term Interest Rate Period) after receipt by the Trustee of the Company's Conversion Notice;

(ii) if a Long-Term Interest Rate is then in effect, the effective date of any change must be either the day after the last day of the then current Long-Term Interest Rate Period or, except as described in clause (iii) below, a day on which the Bonds would otherwise be subject to redemption under the paragraph "Optional Redemption During Long-Term Interest Rate Period" in paragraph 9 of the Bonds if the change did not occur;

(iii) if the Company has previously designated successive Long-Term Interest Rate Periods, the effective date of each Long-Term Interest Rate Period must be the day after the last day of the previous Long-Term Interest Rate Period;

(iv) if a Commercial Paper Mode is then in effect, the effective date of any change must be either the day after the last day of the Commercial Paper Mode or, as to any Bond, the day after the last day of the Commercial Paper Period then in effect (or to be in effect) with respect to that Bond;

(v) if any Bonds have been called for redemption and the redemption has not yet occurred, the effective date of the change cannot be before such redemption date;

(vi) if a Long-Term Interest Rate or a Daily Rate is then in effect, the effective date of any change cannot occur during the period after a Record Date and to, but not including, the related Interest Payment Date;

(vii) if a Commercial Paper Mode is then in effect, the Remarketing Agent shall determine Commercial Paper Periods of such duration that will, in the judgment of the Remarketing Agent, best promote an orderly transition on the effective date. After the receipt by the Trustee of the Company's Conversion Notice, the day after the last day of each Commercial Paper Period shall be, with respect to such Bond, not later than the effective date of the change. The Remarketing Agent shall promptly give written notice of each such last date and each such effective date with respect to each Bond to the Issuer, the Company, and the Trustee;

(viii) if an Auction Mode Rate is then in effect, the effective date of any change must be the day after the last day of the Auction Period then in effect;

(ix) if an Index Rate is then in effect, the effective date of any change must be the day after the last day of the Index Period then in effect;

(x) any change in the Auction Period with respect to a Bond in an Auction Rate Determination Method or in the Index applicable to Bonds in an Index Rate Determination Method shall be deemed to be a change in the Determination Method for purposes of this Indenture; and

(xi) in the event of a conversion to an Auction Rate Determination Method from Commercial Paper Mode, the effective date of such conversion may not be earlier than the day following the last day of the longest Commercial Paper Period then in effect.

During any such transition period, Bonds bearing interest at a Commercial Paper Rate shall be governed by the provisions of this Indenture applicable to a Commercial Paper Mode and Bonds bearing interest at a Daily Rate, Weekly Rate, Long-Term Interest Rate, Auction Mode Rate or Index Rate, as applicable, shall be governed by the provisions of this Indenture applicable to such Determination Methods.

(c) *Calculation of Interest.* The Remarketing Agent, and in the case of subsection (c)(5) below, the Auction Agent, shall provide the Trustee and the Company with notice in writing or by other written electronic means or by telephone (any such notice by telephone to be delivered to a Responsible Officer of the Trustee) promptly confirmed by facsimile transmission by 12:30 p.m., New York City time,

(1) on the first Business Day after a month in which interest on the Bonds was payable at a Daily Rate, of the Daily Rate for each day in such month,

(2) on each day on which a Weekly Rate becomes effective, of the Weekly Rate,

(3) on the first day of each Commercial Paper Period, of the length thereof and the Commercial Paper Rate, and, if there is more than one Commercial Paper Rate then in effect, of the related applicable principal amounts,

(4) on the first Business Day of a Long-Term Interest Rate Period, of the Long-Term Interest Rate or Long-Term Interest Rates set for that period,

(5) on the first Business Day of each Auction Period, of the Auction Mode Rate set for that period,

(6) on each Index Adjustment Date, the Spread,

(7) on each Index Rate Determination Date during an Index Period, depending on the applicable Index, the LIBOR Index or BMA Index for such date, and

(8) on any Business Day preceding any redemption or purchase date, any interest rate requested by the Trustee in order to enable it to calculate the accrued interest, if any, due on such redemption or purchase date.

Using the rates supplied by this notice, the Trustee will calculate the interest payable on the Bonds. The Remarketing Agent or the Auction Agent, as the case may be, will inform the Trustee and the Company orally at the oral request of either of them of any interest rate so set. The Trustee will confirm the effective interest rate by telephone or in writing to any Bondholder who requests it in any manner.

Absent manifest error, the setting of the rates by the Remarketing Agent or the Auction Agent, as applicable, and the determination of Commercial Paper Periods and the Spread by the Remarketing Agent and the calculation of interest payable on the Bonds by the Trustee as provided in this Indenture will be conclusive and binding on the Issuer, the Company, the Trustee, the Beneficial Owners and the Bondholders.

(d) *Change in Rate Determination Method-Opinions of Counsel.* Notwithstanding any provision of this Section 2.02, no change shall be made in the Determination Method at the direction of the Company pursuant to Section 2.02(b)(1) hereof if the Company shall fail to deliver a Favorable Opinion of Tax Counsel and confirmation thereof if required under Section 2.02(b)(1). If the Trustee shall have sent any notice to the Bondholders regarding a change in rate pursuant to Section 3.07(b), then in the event of such failure to deliver such opinion or confirmation, the Trustee shall promptly notify all Bondholders of such failure.

**Section 2.03. Changes to and from Auction Mode Rate Determination Method.**

(a) *Changes to Auction Mode Rate.* At the option of the Company, all of the Bonds may be converted from another Determination Method to the Auction Mode Rate Determination Method. Any such conversion shall be made as follows:

(1) In any such conversion from another Determination Method, the effective date for the Auction Rate Period shall be a regularly scheduled Interest Payment Date on which interest is payable for the Interest Period from which the conversion is to be made.

(2) The Company shall give written notice of any such conversion to the Remarketing Agent, the Issuer, the Trustee, the Auction Agent, and the Broker-Dealer not less than 15 days prior to the proposed effective date for the change. Such notice shall specify the information required pursuant to Section 2.02(b)(1) and the length of the Auction Period for such Auction Rate Period. Together with such notice, the Company shall file with the Issuer and the Trustee an Opinion of Tax Counsel to the effect that the conversion of the Bonds to an Auction Mode Rate Determination Method shall not adversely affect the validity of the Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Bonds would otherwise be entitled. No such change to an Auction Mode Rate Determination Method shall become effective unless the Company shall also file, with the Issuer and the Trustee, an Opinion of Tax Counsel to the same effect dated the effective date for the Auction Mode Rate.

(3) At least 15 days prior to the effective date for the Auction Mode Rate, the Trustee shall mail a written notice of the conversion to the owners of all Bonds to be converted.

(4) The initial Auction Mode Rate for the Auction Period commencing on the effective date for the Auction Mode Rate shall be the lowest rate which, in the judgment of the Broker-Dealer, is necessary to enable the Bonds to be remarketed at a price equal to the principal amount thereof, plus accrued interest, if any, on the effective date for the Auction Mode Rate. Such determination shall be conclusive and binding upon the Issuer, the Company, the Trustee, the Auction Agent and the Beneficial Owners of the Bonds to which such rate will be applicable.

(5) Not later than 5:00 p.m., New York City time, on the date of determination of the Auction Mode Rate, the Broker-Dealer shall notify the Trustee and the Company of the Auction Mode Rate by telephone, promptly confirmed in writing.

(6) Interest on the Bonds in an Auction Period of 180 days or less will be computed on the basis of actual days over 360 and in an Auction Period greater than 180 days on the basis of a 360-day year of twelve 30-day months.

(7) The Company may revoke its election to effect a conversion of the interest rate on any Bonds to an Auction Mode Rate by giving written notice of such revocation to the Trustee, the Remarketing Agent, the Auction Agent and the Broker-Dealer at any time prior to the setting of the Auction Mode Rate by the Broker-Dealer.

(8) No Bonds may be converted to the Auction Mode Rate Determination Method when the Bonds are not held by a Securities Depository.

(b) *Conversions from Auction Mode Rate Determination Method.* At the option of the Company, all of the Bonds may be converted from an Auction Rate Period to another Determination Method. Any such conversion shall be made as follows:

(1) The effective date for the new Determination Method shall be the second regularly scheduled Interest Payment Date following the final Auction Date.

(2) The Company shall give written notice of any such conversion to the Issuer, the Trustee, the Remarketing Agent, the Auction Agent and the Broker-Dealer(s) not less than 15 days prior to the proposed effective date for the change. Such notice shall specify the effective date for the new Determination Method, the Determination Method to which the conversion will be made and any additional information required pursuant to Section 2.02(b)(1). Together with such notice, the Company shall file with the Issuer and the Trustee an Opinion of Tax Counsel to the effect that the conversion of the Bonds to be converted will not adversely affect the validity of the Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Bonds would otherwise be entitled. No change to the new Determination Method shall become effective unless the Company shall also file, with the Issuer and the Trustee, an Opinion of Tax Counsel to the same effect dated the effective date for the new Determination Method.

(3) At least 15 days prior to the effective date for the new Determination Method, the Trustee shall mail a written notice of the conversion to the owners of all Bonds to be converted, specifying the effective date for the new Determination Method.

(4) If on the effective date for the new Determination Method any condition precedent to such conversion required under the Indenture is not satisfied, the Trustee will give written notice by first class mail postage prepaid as soon as practicable, and in any event not later than the next succeeding Business Day, to the Bondholders to have been converted, that such conversion has not occurred, that Bonds will not be purchased on the failed effective date for the new Determination Method, that the Auction Agent will continue to implement the Auction Procedures on the Auction Dates with respect to such Bonds which otherwise would have been converted excluding however, the Auction Date falling on the Business Day next preceding the failed effective date for the new Determination Method, and that the interest rate will continue to be the Auction Mode Rate; *provided, however*, that the interest rate borne by such Bonds during the Auction Period commencing on such failed effective date for the new Determination Method will be the Maximum Auction Rate, and the Auction Period will be the seven-day Auction Period.

(5) On the conversion date applicable to the Bonds to be converted, the Bonds to be converted shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The purchase price of such Bonds so tendered shall be payable solely from the proceeds of the remarketing of such Bonds. In the event that the conditions of a conversion are not satisfied, including the failure to remarket all applicable Bonds on a mandatory tender date, the Bonds to have been

converted will not be subject to mandatory tender, will be returned to their owners, will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Auction Rate.

**Section 2.04. Execution and Authentication.** The Bonds shall be signed on behalf of the Issuer with the manual or facsimile signature of its Executive Director and attested by the manual or facsimile signature of its Secretary or Assistant Secretary, and the seal of the Issuer shall be impressed or imprinted on the Bonds by facsimile or otherwise. All authorized facsimile signatures shall have the same effect as if manually signed. If an officer of the Issuer whose signature is on a Bond no longer holds that office at the time the Trustee authenticates the Bond, the Bond shall nevertheless be valid. Also, if a person signing a Bond is the proper officer on the actual date of execution, the Bond shall be valid even if that person is not the proper officer on the nominal date of action.

A Bond shall not be valid for any purpose under this Indenture until the Trustee manually signs the certificate of authentication on the Bond. Such signature shall be conclusive evidence that the Bond has been authenticated under this Indenture.

As a precondition to the initial authentication and delivery of the Bonds, the Trustee shall receive a request and authorization to the Trustee from the Issuer, signed by the Executive Director of the Issuer, to authenticate and deliver the Bonds to the persons and in the manner therein described.

**Section 2.05. Bond Register.** Bonds must be presented at the principal corporate trust office of the Trustee for registration of transfer, exchange and, except as otherwise provided herein, payment. The Trustee shall keep a register of Bonds and of their registration of transfer and exchange, which register shall be open to inspection by the Issuer and the Company during normal business hours.

**Section 2.06. Registration and Exchange of Bonds; Persons Treated as Owners.** Bonds may be registered as transferred only on the register maintained by the Trustee. Upon surrender for registration of transfer of any Bond to the Trustee, duly endorsed for transfer or accompanied by an assignment duly executed by the holder or the holder's attorney duly authorized in writing, the Trustee will authenticate a new Bond or Bonds of the same maturity, in an equal total principal amount and registered in the name of the transferee.

Bonds may be exchanged for an equal total principal amount of Bonds of the same maturity but of different authorized denominations. The Trustee will authenticate and deliver Bonds that the Bondholder making the exchange is entitled to receive, bearing numbers not then outstanding.

Except in connection with the purchase of Bonds tendered for purchase, the Trustee will not be required to register the transfer of or to exchange any Bond called for redemption or during the period beginning 15 days before the mailing of notice calling the Bonds or any portion of the Bonds for redemption and ending on the redemption date.

The registered owner of a Bond shall be treated as the absolute owner of the Bond for all purposes, and payment of principal, interest, premium, if any, or purchase price shall be made only to or upon the written order of the Bondholder or the Bondholder's legal representative, notwithstanding any notice, actual or constructive, to the contrary.

The Trustee will require the payment by a Bondholder requesting exchange or registration of transfer of any tax or other governmental charge required to be paid in respect of the exchange or registration of transfer, but will not impose any other charge.

**Section 2.07. Mutilated, Lost, Stolen, Destroyed or Undelivered Bonds.** If any Bond is mutilated, lost, stolen or destroyed, the Trustee will authenticate a new Bond of the same denomination with similar terms if any mutilated Bond shall first be surrendered to the Trustee, and if, in the case of any lost, stolen or destroyed Bond, there shall first be furnished to the Issuer, the Trustee and the Company evidence of such loss, theft or destruction, together with indemnity satisfactory to them. If the Bond has matured or become subject to redemption or tender, instead of issuing a replacement Bond, the Trustee may with the consent of the Company pay the Bond or the Company may purchase the Bond without requiring surrender of the Bond and make such requirements as the Trustee deems fit for its protection, including a lost instrument bond. The Issuer and the Trustee may charge the Bondholder their reasonable fees and expenses in this connection.

If a Bond is tendered for purchase as provided in Article III, or if the holder of a Bond gives irrevocable instructions to the Remarketing Agent for purchase, and in each case funds are deposited with the Trustee sufficient for the purchase, the Trustee upon request of the Company or the Remarketing Agent will authenticate a new Bond in the same maturity and in the same denomination registered as the Company or the Remarketing Agent may direct and deliver it to the Company or upon the Company's order, whether or not the Bond purchased is ever delivered, and the undelivered Bonds shall be canceled on the books of the Trustee, whether or not said undelivered Bonds have been delivered to the Trustee. From and after the purchase date, interest on such Bond shall cease to be payable to the prior holder thereof, such holder shall cease to be entitled to the benefits or security of this Indenture and shall have recourse solely to the funds held by the Trustee for the purchase of such Bond and the Trustee shall not register any further transfer of such Bond by such prior holder. All funds held by the Trustee for the purchase of undelivered Bonds shall be held uninvested.

**Section 2.08. Cancellation of Bonds.** Whenever a Bond is delivered to the Trustee for cancellation (upon payment, redemption, tender or otherwise), or for registration of transfer, exchange or replacement pursuant to Section 2.06 or Section 2.07, the Trustee will promptly cancel and dispose of the Bond in accordance with the Trustee's policy of disposal. The Trustee may, but shall not be required to, destroy canceled Bonds.

**Section 2.09. Temporary Bonds**. Until definitive Bonds are ready for delivery, the Issuer may execute and the Trustee will authenticate temporary Bonds substantially in the form of the definitive Bonds, with appropriate variations. The Issuer will, without unreasonable delay, prepare and the Trustee will authenticate definitive Bonds in exchange for the temporary Bonds. Such exchange shall be made by the Trustee without charge.

## ARTICLE III

## REDEMPTION, MANDATORY TENDER AND REMARKETING

**Section 3.01. Notices to Trustee.** If the Company wishes that any Bonds be redeemed pursuant to any optional redemption provision in the Bonds, the Company will notify the Trustee of the applicable provision, the redemption date, the principal amount of the Bonds to be redeemed and other necessary particulars in accordance with Section 4.8 of the Agreement.

**Section 3.02. Redemption Dates.** The redemption date of Bonds to be redeemed pursuant to any optional redemption provision in the Bonds will be a date permitted by the Bonds and specified by the Company in the notice delivered pursuant to Section 4.8 of the Agreement. The redemption date for mandatory redemptions will be as specified in the Bonds to be redeemed or determined by the Trustee consistently with the provisions of the Bonds.

**Section 3.03. Selection of Bonds to Be Redeemed.** Except as provided in the Bonds, if fewer than all the Bonds are to be redeemed, the Trustee will select the Bonds to be redeemed by lot or other method it deems fair and appropriate, except that the Trustee will first select any Bonds owned by the Company or any of its nominees or held by the Trustee for the account of the Company or any of its nominees. The Trustee will make the selection from Bonds not previously called for redemption. For this purpose, the Trustee will consider each Bond in a denomination larger than the minimum denomination permitted by the Bonds at the time to be separate Bonds each in the minimum denomination. Provisions of this Indenture that apply to Bonds called for redemption also apply to portions of Bonds called for redemption.

**Section 3.04. Redemption Notices.**

(a) *Official Notice of Redemption.* The Trustee will give notice of each redemption as provided in the Bonds and will at the same time give a copy of the notice to the Remarketing Agent, the Auction Agent and the Broker-Dealer, as applicable. The notice shall identify the Bonds to be redeemed and shall state (1) the redemption date (and, if the Bonds provide that accrued interest will not be paid on the redemption date, the date it will be paid), (2) the redemption price, (3) that the Bonds called for redemption must be surrendered to collect the redemption price, (4) the address at which the Bonds must be surrendered and (5) that interest on the Bonds called for redemption ceases to accrue on the redemption date.

With respect to an optional redemption of any Bonds under "Optional Redemption During Long-Term Interest Rate Period," "Extraordinary Optional Redemption," "Optional Redemption During Daily or Weekly Rate Period" or "Optional Redemption During Auction Rate Period" in paragraph 9 of the form of the Bonds, unless moneys sufficient to pay the principal of, premium, if any, and interest on the Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice may state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for redemption. If such moneys are not received, such notice shall be of no force and

effect, the Issuer shall not redeem such Bonds, the redemption price shall not be due and payable, and the Trustee shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such Bonds will not be redeemed.

Failure to give any required notice of redemption as to any particular Bonds or any defect therein will not affect the validity of the call for redemption of any Bonds in respect of which no such failure or defect has occurred. Any notice mailed as provided in the Bonds shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by any holder.

(b) *Additional Notice of Redemption.* In addition to the redemption notice required above, further notice (the "*Additional Redemption Notice*") shall be given by the Trustee as set out below. No defect in the Additional Redemption Notice nor any failure to give all or any portion of the Additional Redemption Notice shall in any manner defeat the effectiveness of a call for redemption if notice is given as prescribed in subsection (a) above.

(1) Each Additional Redemption Notice shall contain the information required in subsection (a) above for an official notice of redemption plus (i) the CUSIP numbers of all Bonds being redeemed; (ii) the date of the Bonds as originally issued; (iii) the Determination Method for, or the rate of interest borne by each Bond being redeemed; (iv) the maturity date of each Bond being redeemed; and (v) any other descriptive information needed to identify accurately the Bonds being redeemed.

(2) Each Additional Redemption Notice shall be sent at least 30 days before the redemption date by registered or certified mail or overnight delivery service (or by such other means as the Trustee may have established with the Securities Depository or any information service) to all registered securities depositories then in the business of holding substantial amounts of obligations similar to the Bonds (such depositories now being The Depository Trust Company of New York, New York and Midwest Securities Trust Company of Chicago, Illinois) and to one or more national information services that disseminate notices of redemption of obligations such as the Bonds.

The information required in any redemption notice (including an Additional Redemption Notice) pursuant to this Section and the information required in any notice of tender (including an Additional Tender Notice) may be combined in a single notice if it is sent to Bondholders in the manner and at the time specified under "Notice of Redemption" in subsection 9 of the form of the Bonds.

**Section 3.05. Payment of Bonds Called for Redemption.** Upon surrender to the Trustee, Bonds called for redemption shall be paid as provided in this Article at the redemption price (including premium, if any) stated in the notice, plus interest accrued to the redemption date, or at a purchase price as provided in the form of Bond, except that interest payable on Bonds bearing interest at a Daily Rate will be paid on the fifth Business Day following the redemption date. Bonds called for redemption and purchased pursuant to a tender before the redemption date will not be redeemed but will be dealt with as provided below in this Article. Upon the payment of the redemption price of the Bonds being redeemed, each check or other

transfer of funds issued for such purpose shall bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

**Section 3.06. Bonds Redeemed in Part.** Subject to Article V, upon surrender of a Bond redeemed in part, the Trustee will authenticate for the holder a new Bond or Bonds in authorized denominations equal in principal amount to the unredeemed portion of the Bond surrendered.

**Section 3.07. Mandatory Tender.**

(a) *Mandatory Tender of Bonds.* The Bonds are subject to mandatory tender for purchase as provided in paragraph 7 of the form of the Bonds.

(b) *Notice to Bondholders of Change in Interest Rate Determination Method.* When a change in the Determination Method is to be made, or upon commencement of a new Long-Term Interest Rate Period or a new Index Period immediately after a prior Index Period, the Trustee will, upon notice from the Company pursuant to Section 2.02(b), notify the affected Bondholders by first class mail at least 15 days before the effective date of the change or the commencement of a new Long-Term Interest Rate Period or Index Period, except that (i) such notice shall be given at least 30 days prior to the effective date if a Long-Term Interest Rate Period is in effect and the effective date is on or before the end of the Long-Term Interest Rate Period and (ii) no notice shall be given with respect to a tender under "Mandatory Tender on Each Interest Payment Date During Commercial Paper Mode" in paragraph 7 of the form of the Bonds. The notice shall be effective when sent and shall state:

(1) the purchase date (and, if the Bonds provide that accrued interest will not be paid on the purchase date, the date it will be paid);

(2) the purchase price;

(3) that the Bonds to be tendered must be surrendered to collect the purchase price;

(4) the address at which or the manner in which the Bonds must be surrendered;

(5) that interest on the Bonds to be tendered ceases to accrue on the purchase date;

(6) that the interest rate determination method will be changed and what the new method will be;

(7) the proposed effective date of the new rate; and

(8) that a mandatory tender will result on the effective date of the change as provided in the Bonds.

Failure to give any required notice of tender as to any particular Bonds or any defect therein will not affect the validity of the tender of any Bonds in respect of which no such failure or defect has occurred. Any notice mailed as provided in the Bonds shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by any holder.

(c) *Additional Notice of Tender.* In addition to the tender notice required above, further notice (the "Additional Tender Notice") shall be given by the Trustee as set out below. No defect in the Additional Tender Notice nor any failure to give all or any portion of the Additional Tender Notice shall in any manner defeat the effectiveness of a tender notice if notice is given as prescribed in subsection (b) above.

(1) Each Additional Tender Notice shall contain the information required in subsection (c) above for an official notice of tender plus (i) the CUSIP numbers of all Bonds being tendered; (ii) the date of the Bonds as originally issued; (iii) the maturity date of each Bond being purchased; and (iv) any other descriptive information needed to identify accurately the Bonds being purchased.

(2) Each Additional Tender Notice shall be sent at least 30 days before the purchase date by registered or certified mail or overnight delivery service (or by such other means as the Trustee may have established with the Securities Depository or any information service) to all registered securities depositories then in the business of holding substantial amounts of obligations similar to the Bonds (such depositories now being The Depository Trust Company of New York, New York and Midwest Securities Trust Company of Chicago, Illinois) and to one or more national information services that disseminate notices of purchase of obligations such as the Bonds.

The information required in any tender notice (including an Additional Tender Notice) pursuant to this Section and the information required in any redemption notice (including an Additional Redemption Notice) may be combined in a single notice if it is sent to Bondholders in the manner and at the time specified under "Notice of Tender" in paragraph 7 of the form of the Bonds.

**Section 3.08. Disposition of Purchased Bonds.** (a) *Bonds to be Remarketed.* Bonds purchased pursuant to tenders as provided in the form of the Bonds or as provided in Section 3.07 will be offered for sale by the Remarketing Agent as provided in this Section 3.08 except as follows:

(1) Bonds required to be tendered as described under "Mandatory Tender Upon a Change in the Determination Method" in paragraph 7 of the form of the Bond, which are tendered between the date notice of mandatory tender is given and the mandatory tender date, may be remarketed before the mandatory tender date only if the buyer receives a copy of the mandatory tender notice from the Remarketing Agent; and

(2) Bonds will not be offered for sale under this Section during the continuance of an Event of Default under Section 8.01(a), (b), (c) or (d). Bonds will be offered for sale under this Section 3.08 during an event which with the passage of time or the giving of notice or both may become an Event of Default only in the sole discretion of the Remarketing Agent.

(b) *Remarketing Effort.* Except to the extent the Company directs the Remarketing Agent not to do so, the Remarketing Agent will offer for sale and use reasonable efforts to sell all Bonds to be sold as provided in subsection (a) above and, when directed by the Company, any Bonds held by the Company. The sale price of each Bond must be equal to the principal amount of each Bond plus accrued interest, if any, to the purchase date. The Company may direct the Remarketing Agent from time to time to cease and to resume sales efforts with respect to some of or all the Bonds. The Remarketing Agent may buy as principal any Bonds to be offered under this Section 3.08.

(c) *Notices in Respect of Tenders.* When the Trustee receives a notice from a Bondholder (or a Beneficial Owner through its Direct Participant) as specified in paragraph 6 of the form of the Bond for the Bondholder (or a Beneficial Owner through its Direct Participant) that Bonds are being tendered, the Trustee will promptly notify the Remarketing Agent and the Company by facsimile transmission or telephone, promptly confirmed in writing, of the receipt of such notice, but in no event later than the following times:

(i) when the Bonds bear interest at a Daily Rate, no later than 11:15 a.m. (New York City time) on the same Business Day; and

(ii) when the Bonds bear interest at a Weekly Rate, no later than 11:15 a.m. (New York City time) on the Business Day next succeeding receipt of such notice.

(d) *Delivery of Remarketed Bonds.*

(i) Except when a book-entry system of registration is in effect, the Trustee shall hold all Bonds delivered pursuant to this Section 3.08 in trust for the benefit of the owners thereof until moneys representing the purchase price of such Bonds shall have been delivered to or for the account of or to the order of such Bondholders, and thereafter, if such Bonds are remarketed, shall deliver replacement Bonds, prepared by the Trustee in accordance with the directions of the Remarketing Agent and authenticated by the Trustee, for any Bonds purchased in accordance with the written directions of the Remarketing Agent, to the Remarketing Agent for delivery to the purchasers thereof.

(ii) The Remarketing Agent or, in the case of Bonds bearing interest at an Auction Mode Rate, the Auction Agent, shall advise the Trustee and the Company in writing or by facsimile transmission of (A) the principal amount of Bonds which have been remarketed, and (B) except in the case of Bonds bearing interest at an Auction Mode Rate, the denominations and registration instructions (including taxpayer identification numbers), in each case, in accordance with the following schedule (all times of which are New York City time):

| CURRENT METHOD OF INTEREST RATE DETERMINATION OR, IN CONNECTION WITH A CHANGE IN SUCH METHOD, THE NEW METHOD OF INTEREST RATE DETERMINATION | TIME BY WHICH INFORMATION TO BE FURNISHED TO TRUSTEE |
|---|---|
| Commercial Paper Period | 12:15 p.m. on the purchase date |
| Daily Rate Period | 12:15 p.m. on the purchase date |
| Weekly Rate Period | 12:15 p.m. on the purchase date |
| Long-Term Interest Rate Period | 12:15 p.m. on the purchase date |
| Auction Rate Period | 12:15 p.m. on the date of the Auction |
| Index Period | 12:15 p.m. on the purchase date |

(iii) The terms of any sale by the Remarketing Agent shall provide for the authorization of the payment of the purchase price by the Remarketing Agent to the Trustee in exchange for Bonds registered in the name of the new Bondholder which shall be delivered by the Trustee to the Remarketing Agent at or before 2:00 p.m. (New York City time) on the purchase date if the purchase price has been received from the Remarketing Agent by the time set forth in Section 3.08(e) on the purchase date.

(e) *Delivery of Proceeds of Sale.* The Remarketing Agent shall deliver directly to the Trustee an amount equal to the principal amount thereof plus accrued interest, if any, of the Bonds which the Remarketing Agent has advised the Trustee have been remarketed pursuant to Section 3.08(d)(ii) no later than 12:30 p.m. (New York City time) on the purchase date.

## ARTICLE IV

## APPLICATION OF PROCEEDS AND PAYMENT OF BONDS

**Section 4.01. Application of Proceeds.** The Issuer will cause the proceeds of the initial sale of the Bonds to be deposited with the Trustee in a segregated trust account. On a date or dates to be designated by the Company, the Trustee will disburse the proceeds of the initial sale of the Bonds and any investment earnings thereon to each Prior Bonds Trustee for deposit in the bond fund created under the respective Prior Indenture, to be applied, along with any other necessary moneys of the Company, to pay the redemption price of each series of the Prior Bonds upon call for redemption in accordance with Section 3.1 of the Agreement.

The Trustee shall keep and maintain adequate records pertaining to the trust accounts and any disbursements therefrom.

**Section 4.02. Payment of Bonds.** The Trustee will make payments of principal of, premium, if any, and interest on the Bonds from moneys available to the Trustee under this Indenture for that purpose. The Trustee will pay the purchase price of tendered Bonds *first* from the proceeds of the sale of Bonds under Section 3.08 and *second* from other moneys available to the Trustee for that purpose; provided, however, that during an Auction Rate Period, payment of purchase price shall occur pursuant to Section 2.03(b)(5).

All moneys received as proceeds of remarketing the Bonds under Section 3.08 shall be held segregated by the Trustee in a separate and segregated trust account. To the extent that the payment of principal or interest on the Bonds is made from moneys as described in this Section, such payment shall also satisfy and discharge any payment obligation of the Company under the Note and the Trustee shall promptly notify the Company in writing if such payment requirement has not been satisfied. If any Bond is redeemed prior to maturity or if the Company surrenders any Bond to the Trustee for cancellation, the Trustee shall cancel such Bond.

**Section 4.03. Investments of Moneys.** The Trustee will invest and reinvest moneys held by the Trustee as directed by the Company to the extent permitted by law, in:

(a) Government Obligations;

(b) Bonds and notes of the Federal Land Bank;

(c) Obligations of the Federal Intermediate Credit Bank;

(d) Obligations of the Federal Bank for Cooperatives;

(e) Bonds and notes of Federal Home Loan Banks;

(f) Negotiable or non-negotiable certificates of deposit, time deposits or similar banking arrangements, issued by a bank or trust company (which may be the commercial banking department of the Trustee or any bank or trust company under common control with the Trustee) or savings and loan association which are insured by the Federal Deposit Insurance Corporation or secured as to principal by Government Obligations; or

(g) Other investments then permitted by law.

The Trustee may make investments permitted by this Article through its own bond department or the bond department of any bank or trust company under common control with the Trustee. Investments will be made so as to mature or be subject to redemption at the option of the holder on or before the date or dates that the Trustee anticipates that moneys from the investments will be required. The Trustee, when authorized by the Company, may trade with itself in the purchase and sale of securities for such investment. Investments will be registered in the name of the Trustee and held by or under the control of the Trustee. The Trustee will sell and reduce to cash a sufficient amount of investments whenever the cash held by the Trustee is insufficient. The Trustee shall not be liable for any loss from such investments to the extent directed by the Company and to the extent such directions have been complied with by the Trustee.

**Section 4.04. Creation of Bond Fund.** In addition to the trusts created under Section 4.01, there is hereby created and established with the Trustee a trust fund to be designated "Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) Bond Fund". Moneys deposited therein shall be used to

pay the principal of, purchase price and premium, if any, and interest on the Bonds as provided in this Indenture.

**Section 4.05. Payments into the Bond Fund.** There shall be deposited into the Bond Fund that portion, if any, of the proceeds from the sale of the Bonds consisting of accrued interest on the Bonds up to the date of their delivery. In addition, there shall be deposited into the Bond Fund, as and when received, (i) all payments of the amounts owed by the Company under the first paragraph of Section 3.2 of the Agreement; and (ii) all other moneys received by the Trustee under and pursuant to any of the provisions of the Agreement which are required, or which are accompanied by directions from the Company that such moneys are, to be paid into the Bond Fund. The Issuer hereby covenants and agrees that, so long as any of the Bonds are outstanding, it will deposit, or cause to be paid to the Trustee for deposit in the Bond Fund for its account, sufficient sums from revenues derived pursuant to the Agreement and the Note promptly to meet and pay the principal of, purchase price and premium, if any, and interest on the Bonds as the same become due and payable; provided, however, that nothing herein shall be construed as requiring the Issuer to use any funds or revenues from any source other than revenues derived pursuant to the Agreement or the Note. The Trustee is authorized to receive at any time payments or prepayments from the Company pursuant to the Agreement and the Note for deposit in the Bond Fund.

**Section 4.06. Use of Moneys in the Bond Fund.** All interest accruing on the Bonds up to the date of their delivery, if any, will be paid from the amounts, if any, deposited in the Bond Fund pursuant to the first sentence of Section 4.05. Except as provided in this Indenture, moneys in the Bond Fund shall be used solely for the payment of the principal of, purchase price and premium, if any, and interest on the Bonds. Upon receipt of a written notice from the Company pursuant to Section 4.8 of the Agreement and, in the case of a purchase of Bonds, upon the deposit of cash or Government Obligations in the Bond Fund sufficient, together with other amounts available therefor in the Bond Fund, to make the purchase of Bonds, the Issuer and the Trustee covenant and agree to take and cause to be taken the necessary steps to redeem or purchase such principal amount of Bonds as specified by the Company in such written notice; provided, however, that any available moneys in the Bond Fund may be used on direction of the Company to redeem a part of the Bonds outstanding and then redeemable or to purchase Bonds for cancellation so long as the Company is not in default with respect to any payments required pursuant to Section 3.2 of the Agreement and to the extent said moneys are in excess of the amount required for payment of the Bonds theretofore matured or called for redemption and interest accrued and payable in respect of outstanding Bonds.

**Section 4.07. Custody of the Bond Fund.** The Bond Fund shall be in the custody of the Trustee but in the name of the Issuer, and the Issuer hereby authorizes and directs the Trustee to withdraw sufficient funds from the Bond Fund to pay the principal of, purchase price and premium, if any, and interest on the Bonds as the same become due and payable and to make said funds so withdrawn available to the paying agents hereunder at their principal office, for the purpose of paying said principal, purchase price and premium, if any, and interest, which authorization and direction the Trustee hereby accepts.

**Section 4.08. Non-presentment of Bonds.** In the event any Bond shall not be presented for payment when the principal thereof becomes due, either at maturity or at the date fixed for redemption thereof, if funds sufficient to pay such Bond shall have been deposited in the Bond Fund or otherwise made available to the Trustee through deposit therein as provided in Section 4.05, all liability of the Issuer to the holder thereof for the payment of such Bond shall forthwith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Trustee to hold such funds within a separate account in the Bond Fund, subject to the provisions of Section 4.11, without liability for interest thereon, for the benefit of the holder of such Bond, which shall thereafter (subject to the provisions of Section 4.11) be restricted exclusively to such funds for any claim of whatever nature on his part under this Indenture or on, or with respect to, said Bond.

**Section 4.09. Moneys to Be Held in Trust.** All moneys required to be deposited with or paid to the Trustee for the account of the Bond Fund under any provision of this Indenture shall be held by the Trustee in trust, and except for moneys deposited with or paid to the Trustee for the redemption of Bonds or the payment of Bonds, including Bonds which are deemed to be paid within the meaning of Section 7.01, shall, while held by the Trustee, constitute part of the trust estate and be subject to the security interest created hereby.

**Section 4.10. Repayment to the Company from the Bond Fund.** Any amounts remaining in the Bond Fund (other than moneys, if any, set aside as provided herein), after payment in full of the Bonds (or provision for payment thereof having been made in accordance with this Indenture), the fees and expenses of the Trustee and any additional paying agent and tender agent and all other amounts required to be paid hereunder shall be repaid to the Company as provided in Section 6.10 of the Agreement.

**Section 4.11. Moneys Held in Trust; Unclaimed Funds**. Money received by the Remarketing Agent or the Trustee from the sale of a Bond under Section 3.08 or for the purchase of a Bond will be held segregated from other funds of the Remarketing Agent or the Trustee in trust for the benefit of the person from whom such Bond was purchased or the person delivering such purchase money, as the case may be, and will not be invested. The Trustee shall promptly, but in no event later than 30 days of their original deposit, apply moneys received from the Company in accordance with this Indenture, or if not directed herein, as directed by the Company.

Notwithstanding the provisions of the immediately preceding paragraph, any moneys which shall be set aside by the Trustee or deposited by the Trustee with the paying agents and which shall remain unclaimed by the holders of such Bonds for a period of six (6) years after the date on which such Bonds shall have become due and payable shall upon request in writing be paid to the Company or to such officer, board or body as may then be entitled by law to receive the same, and thereafter the holders of such Bonds shall look only to the Company or to such officer, board or body, as the case may be, for payment and then only to the extent of the amount so received without any interest thereon, and the Trustee, the Issuer and the paying agents shall have no responsibility with respect to such moneys.

**Section 4.12. Rebate Fund.** There is hereby created and established a Rebate Fund which shall be administered by the Trustee in accordance with the provisions of this Indenture and the Arbitrage Rebate Agreement and which Rebate Fund shall not be part of the trust established under this Indenture. The Trustee shall transfer moneys, from the Bond Fund to the Rebate Fund to satisfy the requirements of the Arbitrage Rebate Agreement.

## ARTICLE V

## BOOK-ENTRY SYSTEM

**Section 5.01. Book-Entry System.** The Bonds shall be initially issued in the name of Cede & Co., as nominee for The Depository Trust Company as the initial Securities Depository and registered owner of such Bonds, and held in the custody of the Securities Depository. A single certificate will be issued and delivered to the Securities Depository, or a custodian thereof, for the Bonds. The Beneficial Owners will not receive physical delivery of Bond certificates except as provided herein. For so long as the Securities Depository shall continue to serve as securities depository for such Bonds as provided herein, all transfers of beneficial ownership interests will be made by book-entry only on the records of the Securities Depository, and no investor or other party purchasing, selling or otherwise transferring beneficial ownership of such Bonds is to receive, hold or deliver any Bond certificate. The Issuer, the Company and the Trustee will recognize the Securities Depository or its nominee as the Bondholder of such Bonds for all purposes, including payment, notices and voting.

The Issuer and the Trustee covenant and agree, so long as The Depository Trust Company shall continue to serve as Securities Depository for the Bonds, to meet the requirements of The Depository Trust Company with respect to required notices and other provisions of the Issuer's Blanket Letter of Representations.

The Issuer, the Trustee, the Company and the Remarketing Agent may conclusively rely upon (i) a certificate of the Securities Depository as to the identity of the Participants in the Book-Entry System and (ii) a certificate of any such Participant as to the identity of, and the respective principal amount of Bonds beneficially owned by, the Beneficial Owners.

Whenever, during the term of the Bonds, the beneficial ownership thereof is determined by a book-entry at the Securities Depository, the requirements in this Indenture of holding, delivering or transferring Bonds shall be deemed modified to require the appropriate person to meet the requirements of the Securities Depository as to registering or registering the transfer of the book-entry to produce the same effect. Any provision hereof permitting or requiring delivery of Bonds shall, while the Bonds are in a Book-Entry System, be satisfied by the notation on the books of the Securities Depository in accordance with applicable law.

The Trustee and the Issuer, at the direction and expense of the Company and with the consent of the Remarketing Agent, may from time to time appoint a successor Securities Depository and enter into an agreement with such successor Securities Depository to establish procedures with respect to the Bonds consistent with current industry practice. Any successor

Securities Depository shall be a "clearing agency" registered under Section 17A of the Securities Exchange Act of 1934, as amended.

None of the Issuer, the Company, the Trustee, any Broker-Dealer nor the Remarketing Agent will have any responsibility or obligation to any Securities Depository, any Participants in the Book-Entry System or the Beneficial Owners with respect to (i) the accuracy of any records maintained by the Securities Depository or any Participant; (ii) the payment by the Securities Depository or by any Participant of any amount due to any Beneficial Owner in respect of the principal amount or redemption or purchase price of, or interest on, any Bonds; (iii) the delivery of any notice by the Securities Depository or any Participant; (iv) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; or (v) any other action taken by the Securities Depository or any Participant.

Bond certificates are required to be delivered to and registered in the name of the Beneficial Owner, under the following circumstances:

(a) The Securities Depository determines to discontinue providing its service with respect to the Bonds and no successor Securities Depository is appointed as described above. Such a determination may be made at any time by giving 30 days' notice to the Issuer, the Company, the Remarketing Agent and the Trustee and discharging its responsibilities with respect thereto under applicable law.

(b) The Company determines not to continue the Book-Entry System through a Securities Depository.

The Trustee is hereby authorized to make such changes to the form of bond attached hereto as Exhibit A which are necessary or appropriate to reflect whether the Book-Entry System is in effect, that a successor Securities Depository has been appointed or that an additional or co-paying agent or tender agent has been designated pursuant to Section 12.03 hereof.

If at any time, the Securities Depository ceases to hold the Bonds, all references herein to the Securities Depository shall be of no further force or effect.

## ARTICLE VI

## COVENANTS

**Section 6.01. Payment of Bonds**. The Issuer will promptly pay the principal of, premium, if any, and interest on, and other amounts due with respect to, the Bonds on the dates and in the manner provided in the Bonds, but only from the amounts assigned to and held by the Trustee under this Indenture. The Bonds and the interest thereon shall not be deemed to constitute a debt, liability or obligation of the Issuer or the State or any political subdivision thereof, or a pledge of the faith and credit of the Issuer or the State or any political subdivision thereof, but the Bonds shall be payable solely from the revenues provided therefor as herein described and the Issuer is not obligated to pay the Bonds or the interest thereon except from the

revenues and proceeds pledged therefor and neither the faith and credit of the Issuer or the State nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal of or the premium, if any, or interest on this Bond.

**Section 6.02. Performance of Covenants; Issuer**. The Issuer covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Indenture, in any and every Bond executed, authenticated and delivered hereunder and in all of its proceedings pertaining hereto. The Issuer covenants that it is duly authorized under the Constitution and laws of the State, including particularly and without limitation the Act, to issue the Bonds authorized hereby and to execute this Indenture, to accept, assign and pledge the Note and the Agreement and the amounts payable under the Note and to pledge the amounts hereby pledged in the manner and to the extent herein set forth; that all action on its part necessary for the issuance of the Bonds and the execution and delivery of this Indenture and the Agreement has been duly and effectively taken; and that the Bonds in the hands of the owners thereof are and will be valid and enforceable obligations of the Issuer according to the terms thereof and hereof.

**Section 6.03. Recording and Filing; Further Assurances**. The Issuer will execute and deliver such supplemental indentures and such further instruments, and do such further acts, as the Trustee may reasonably require for the better assuring, assigning and confirming to the Trustee the amounts assigned under this Indenture for the payment of the Bonds. The Issuer further covenants that it will not create or suffer to be created any lien, encumbrance or charge upon its interest in the Note or the Agreement, if any, except the lien of this Indenture.

**Section 6.04. Tax Covenants.**

(a) The Issuer covenants that it shall take no action nor make any investment or use of the proceeds of the Bonds or any other moneys which would cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code to the extent that the same may be applicable or proposed to be applicable to the Bonds at the time of such action, investment or use or which would cause any Bond to be treated as an obligation not described in Section 103(a) of the Code or Section 103 of the 1954 Code by reason of its failure to meet any of the requirements contained in Section 148 of the Code.

Notwithstanding any provision of this Indenture to the contrary, the Trustee shall not be liable or responsible for any calculation or determination which may be required in connection with, or for the purpose of complying with, Section 148 of the Code, or any successor statute or any regulation, ruling or other judicial or administrative interpretation thereof, including, without limitation, the calculation of amounts required to be paid to the United States of America or the determination of the maximum amount which may be invested in obligations having a yield higher than the yield on the Bonds, and the Trustee shall not be liable or responsible for monitoring the compliance by the Issuer or the Company with any of the requirements of Section 148 of the Code or any applicable regulation, ruling or other judicial or administrative interpretation thereof; it being acknowledged and agreed that the sole obligation of the Trustee with respect to the investment of monies held under any fund or account created

hereunder shall be to invest such monies in accordance with Section 4.03 in each case pursuant to the instructions received by the Trustee in accordance with Section 4.03.

(b) The Issuer and the Company covenant and agree that they shall take all necessary or desirable steps to comply with the requirements of the Arbitrage Rebate Agreement and this Section in order to ensure that interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Code and Section 103 of the 1954 Code; provided, however, the Issuer and the Company shall not be required to comply with any such requirement in the event the Issuer or the Company, as the case may be, receives a Favorable Opinion of Tax Counsel that compliance with such requirement is not required to maintain the federal income tax exclusion of interest on the Bonds, or in the event the Issuer or the Company, as the case may be, receives a Favorable Opinion of Tax Counsel that compliance with some other requirement in lieu of such requirement will meet the requirements of Section 148(f) of the Code, in which case compliance with such other requirement specified in the Favorable Opinion of Tax Counsel shall constitute compliance with such requirement. To that end, the Issuer and the Company will comply with all requirements of the Code and the 1954 Code to the extent applicable to the Bonds.

(c) The Company covenants and agrees that it shall calculate or cause to be calculated the Rebate Requirement with respect to the Bonds as required by the Arbitrage Rebate Agreement.

(d) The obligations imposed upon the Company by this Section 6.04 have been acknowledged and accepted by the Company in Section 4.9 of the Agreement.

**Section 6.05. Rights Under Agreement**. The Agreement, a duly executed counterpart of which has been filed with the Trustee, sets forth the covenants and obligations of the Issuer and the Company, and reference is hereby made to the same for a detailed statement of said covenants and obligations of the Company thereunder; and the Issuer agrees that the Trustee in its own name or in the name of the Issuer may enforce all rights of the Issuer and all obligations of the Company under and pursuant to the Agreement for and on behalf of the Bondholders, whether or not the Issuer is in default hereunder.

**Section 6.06. Designation of Additional Paying Agents**. The Issuer may cause, with the consent of the Company, the necessary arrangements to be made through the Trustee and to be thereafter continued for the designation of additional paying agents and for providing for the payment of such of the Bonds as shall be presented when due at the corporate trust office of the Trustee, or its successor in trust hereunder, or at the principal office of said additional paying agents. All such funds held by said additional paying agents shall be held by each of them in trust and shall constitute a part of the trust estate and shall be subject to the security interest created hereby.

**Section 6.07. Existence of Issuer**. The Issuer covenants that it will at all times maintain its corporate existence and will duly procure any necessary renewals and extensions thereof; will use its best efforts to maintain, preserve and renew all the rights, powers, privileges and

franchises owned by it; and will comply with all valid acts, rules, regulations and orders of any legislative, executive, judicial or administrative body applicable to the Bonds.

## ARTICLE VII

## DISCHARGE OF INDENTURE

**Section 7.01. Bonds Deemed Paid; Discharge of Indenture.** Any Bond will be deemed paid for all purposes of this Indenture when (a) payment of the principal of and interest (which, except for Bonds which bear interest at a Long-Term Interest Rate, shall be calculated at the Maximum Interest Rate) on the Bond to the due date of such principal and interest (whether at maturity, upon redemption or otherwise) or the payment of the purchase price either (1) has been made in accordance with the terms of the Bonds or (2) has been provided for by depositing with the Trustee in trust (A) moneys in an amount which are sufficient to make such payment and/or (B) Government Obligations maturing as to principal and interest in such amounts and at such times as will insure, without any further reinvestment, the availability of sufficient moneys to make such payment, and (b) all compensation and reasonable expenses of the Trustee pertaining to each Bond in respect of which such deposit is made have been paid or provided for to the Trustee's satisfaction. When a Bond is deemed paid, it will no longer be secured by or entitled to the benefits of this Indenture or be an obligation of the Issuer, and shall be payable solely from the moneys or Government Obligations under (a)(2) above, except that such Bond may be tendered if and as provided in the Bonds and it may be registered as transferred, exchanged, registered, discharged from registration or replaced as provided in Article II.

Notwithstanding the foregoing, upon the deposit of funds or Government Obligations under clause (a)(2) of the first paragraph of this Section 7.01, the purchase price of tendered Bonds shall be paid from the sale of Bonds under Section 3.08. If payment of such purchase price is not made from the sale of Bonds pursuant to Section 3.08, payment shall be made from funds (or Government Obligations) on deposit pursuant to this Section without the need of any further instruction or direction by the Company, in which case such Bonds shall be surrendered to the Trustee and canceled.

Notwithstanding the foregoing, no deposit under clause (a)(2) of the first paragraph of this Section 7.01 shall be deemed a payment of a Bond until (1) the Company has furnished the Trustee an Opinion of Tax Counsel to the effect that the deposit of such cash or Government Obligations will not cause the Bonds to become "arbitrage bonds" under Section 148 of the Code and (2) (a) notice of redemption of the Bond is given in accordance with Article III or, if the Bond is not to be redeemed or paid within the next 60 days, until the Company has given the Trustee, in form satisfactory to the Trustee, irrevocable instructions (i) to notify, as soon as practicable, the owner of the Bond, in accordance with Article III, that the deposit required by (a)(2) above has been made with the Trustee and that the Bond is deemed to be paid under this Article and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of the Bond, and premium, if any, and interest on such Bond, if the Bond is to be redeemed rather than paid and (ii) to give notice of redemption not less than 30

nor more than 60 days prior to the redemption date for such Bond or (b) the maturity of the Bond.

When all outstanding Bonds are deemed paid under the foregoing provisions of this Section, the Trustee will upon request acknowledge the discharge of the lien of this Indenture, provided, however that the obligations relating to the tender for purchase as provided in the Bonds, the obligations under Section 6.04 and obligations under Article II in respect of the registration of transfer, exchange, registration, discharge from registration and replacement of Bonds shall survive the discharge of the lien of this Indenture.

**Section 7.02. Application of Trust Money**. The Trustee shall hold in trust money or Government Obligations deposited with it pursuant to the preceding Section and shall apply the deposited money and the money from the Government Obligations in accordance with this Indenture only to the payment of principal of, premium, if any, and interest on the Bonds and to the payment of the purchase price of tendered Bonds.

**Section 7.03. Repayment to Company**. The Trustee shall promptly pay to the Company upon request any excess money or securities held by the Trustee at any time under this Article VII.

## ARTICLE VIII

## DEFAULTS AND REMEDIES

**Section 8.01. Events of Default.** An "Event of Default" is any of the following:

(a) Default in the payment of any interest on any Bond when due and as the same shall become due and payable, which default continues for five days;

(b) Default in the due and punctual payment of principal on any Bond when due and payable, whether at maturity, upon redemption, or by declaration or otherwise;

(c) Default in the due and punctual payment of the purchase price of any Bond required to be purchased in accordance with its terms; or

(d) An event of default has occurred and is continuing under the Agreement.

**Section 8.02. Acceleration.** Upon the occurrence of an Event of Default the Trustee may (with the prior written consent of the Insurer if a Policy is in effect and the Insurer is not in default of its obligations thereunder) and upon

(a) receipt of (x) the written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding and (y) the prior written consent of the Insurer if a Policy is in effect and the Insurer is not in default of its obligations thereunder, or

(b) receipt of the written request of the Insurer if a Policy is in effect and the Insurer is not in default of its obligations thereunder,

shall, by notice in writing delivered to the Issuer, the Insurer and the Company, declare the principal of all Bonds then outstanding and the interest accrued thereon immediately due and payable; and such principal and interest shall thereupon become and be immediately due and payable.

If after the principal of the Bonds and the accrued interest thereon have been so declared to be due and payable, all arrears of interest and interest on overdue installments of interest (if lawful) and the principal and premium, if any, on all Bonds then outstanding which shall have become due and payable otherwise than by acceleration and all other sums payable under this Indenture or upon the Bonds, except the principal of, and interest on, the Bonds which by such declaration shall have become due and payable, are paid by the Issuer, and the Issuer also performs all other things in respect of which it may have been in default hereunder and pays the reasonable charges of the Trustee, the Bondholders and any trustee appointed under law, including the Trustee's reasonable attorneys' fees, then, and in every such case, the Trustee shall annul such declaration and its consequences, and such annulment shall be binding upon all holders of Bonds issued hereunder; but no such annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon. The Trustee shall forward a copy of any such annulment notice pursuant to this paragraph to the Issuer, the Insurer and the Company.

**Section 8.03. Other Remedies.** If an Event of Default occurs and is continuing, subject to Section 8.06, the Trustee, before or after declaring the principal of the Bonds and the interest accrued thereon immediately due and payable, may (with the prior written consent of the Insurer if a Policy is in effect and the Insurer is not in default of its obligations thereunder) and upon

(a) receipt of (x) the written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding and (y) the prior written consent of the Insurer if a Policy is in effect and the Insurer is not in default of its obligations thereunder, or

(b) receipt of the written request of the Insurer if a Policy is in effect and the Insurer is not in default of its obligations thereunder,

shall by notice in writing delivered to the Issuer, the Insurer and the Company, pursue any available remedy by proceeding at law or in equity available to the Trustee under the Agreement and the Note to collect the principal of or interest on the Bonds or to enforce the performance of any provision of the Bonds, the Note, this Indenture or the Agreement.

The Trustee, as the assignee of all the right, title and interest of the Issuer in and to the Agreement and the Note, may enforce each and every right granted to the Issuer under the Agreement and the Note. In exercising such rights and the rights given the Trustee under this Article VIII, the Trustee shall take such action as, in the judgment of the Trustee applying the standards described in Section 9.01(a), would best serve the interests of the Bondholders.

**Section 8.04. Legal Proceeding by Trustee.** If any Event of Default has occurred and is continuing, the Trustee may (with the prior written consent of the Insurer if a Policy is in effect and the Insurer is not in default of its obligations thereunder) and upon

(a) receipt of (x) the written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding and (y) the prior written consent of the Insurer if a Policy is in effect and the Insurer is not in default of its obligations thereunder, or

(b) receipt of the written request of the Insurer if a Policy is in effect and the Insurer is not in default of its obligations thereunder,

shall by notice in writing delivered to the Issuer, the Insurer and the Company, and receipt of indemnity to its satisfaction shall, in its own name:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, including the right to require the Issuer to enforce any rights under the Agreement and the Note and to require the Issuer to carry out any other provisions of this Indenture for the benefit of the Bondholder and to perform its duties under the Act;

(b) bring suit upon the Bonds;

(c) by action or suit in equity require the Issuer to account as if it were the trustee of an express trust for the Bondholders; or

(d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

No remedy conferred upon or reserved to the Trustee or to the Bondholders by the terms of this Indenture is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bondholders hereunder or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time as often as may be deemed expedient.

No waiver of any default or Event of Default hereunder, whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

**Section 8.05. Appointment of Receivers.** Upon the occurrence and continuance of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to

enforce the rights of the Trustee and of the Bondholders under this Indenture, the Trustee shall be entitled as a matter of right to the appointment of a receiver or receivers of the trust estate with such powers as the court making such appointment shall confer.

**Section 8.06. Waiver of Past Defaults.** The holders of a majority in principal amount of the Bonds then outstanding, with the consent of the Insurer if a Policy is in effect and the Insurer has not defaulted in its payment obligations thereunder, by notice to the Trustee, may waive an existing Event of Default and its consequences. When an Event of Default is waived, it is cured and stops continuing, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent to it.

**Section 8.07. Control by Majority.** The holders of a majority in principal amount of the Bonds then outstanding, with the consent of the Insurer if a Policy is in effect and the Insurer has not defaulted in its payment obligations thereunder, may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture or, subject to Section 9.01, that the Trustee determines is unduly prejudicial to the rights of other Bondholders, or would involve the Trustee in personal liability.

**Section 8.08. Limitation on Suits.** A Bondholder may not pursue any remedy with respect to this Indenture or the Bonds unless (a) the holder gives the Trustee notice stating that an Event of Default is continuing, (b) the holders of at least 25% in principal amount of the Bonds then outstanding make a written request to the Trustee to pursue the remedy, (c) such holder or holders offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense and (d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; it being understood and intended that no one or more holders of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of this Indenture by its, his or their action or to enforce any right hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal and ratable benefit of the holders of all Bonds then outstanding. Nothing in the Indenture contained shall, however, affect or impair the right of any Bondholder to enforce the payment of the principal of and premium, if any, and interest on any Bond at and after the maturity thereof, or the obligation of the Issuer to pay the principal of and premium, if any, and interest on each of the Bonds issued hereunder to the respective holders thereof at the time and place, from the source and in the manner in the Bonds expressed.

A Bondholder may not use this Indenture to prejudice the rights of another Bondholder or to obtain a preference or priority over the other Bondholders.

**Section 8.09. Rights of Holders to Receive Payment.** Notwithstanding any other provision of this Indenture, the right of any holder to receive payment of principal of and interest on a Bond, on or after the due dates expressed in the Bond, or the purchase price of a Bond on or after the date for its purchase as provided in the Bond, or to bring suit for the enforcement of any such payment on or after such dates, shall not be impaired or affected without the consent of the holder.

**Section 8.10. Collection Suit by Trustee.** If an Event of Default under Section 8.01(a), (b) or (c) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount remaining unpaid under the Note and the Agreement.

**Section 8.11. Trustee May File Proofs of Claim.** The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and the Bondholders allowed in any judicial proceedings relative to the Company, its creditors or its property and, unless prohibited by law or applicable regulations, may vote on behalf of the holders in any election of a trustee in bankruptcy or other person performing similar functions. In the event of a bankruptcy or reorganization of the Company, the Trustee may file a proof of claim on behalf of all Bondholders with respect to the obligations of the Company pursuant to the Agreement and the Note.

**Section 8.12. Priorities.** If the Trustee collects any money pursuant to this Article, it shall be deposited into the Bond Fund and paid out in the following order:

FIRST: To the Rebate Fund, any amounts necessary to meet the Rebate Requirement.

SECOND: To the Trustee for amounts to which it is entitled under Section 9.02.

THIRD: To Bondholders for amounts due and unpaid on the Bonds for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Bonds for principal and interest, respectively.

FOURTH: To the Company.

The Trustee may fix a payment date for any such payment to the Bondholders under this Section 8.12.

**Section 8.13. Undertaking for Costs.** In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee or the Issuer, a suit by a holder pursuant to Section 8.07 or a suit by holders of more than 10% in principal amount of the Bonds then outstanding.

## ARTICLE IX

## TRUSTEE AND REMARKETING AGENT

**Section 9.01. Acceptance of the Trusts.** The Trustee hereby accepts the trusts imposed upon it by this Indenture, and agrees to perform such trusts, but only upon and subject to the following express terms and conditions:

(a) The Trustee, prior to the occurrence of any Event of Default and after the curing or waiver of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default has occurred (which has not been cured or waived), the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent corporate trustee would exercise or use under the circumstances in the enforcement of a corporate indenture.

(b) The Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, agents, receivers or employees selected by it with reasonable care and the Trustee shall not be responsible for the conduct of such attorneys, agents, receivers or employees, if selected with reasonable care, and shall be entitled to advice of counsel concerning all matters relating to the trusts hereof and the duties hereunder, and may in all cases pay such reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trusts hereof. The Trustee may act upon the opinion or advice of any attorney (who may be the attorney or attorneys for the Issuer or the Company), approved by the Trustee in the exercise of reasonable care. The Trustee shall not be responsible for any loss or damage resulting from any action or inaction in good faith in reliance upon such opinion or advice.

(c) The Trustee shall not be responsible for any recital herein, or in the Bonds (except in respect to the certificate of the Trustee endorsed on the Bonds), or for the recording or re-recording, filing or re-filing of this Indenture, or any other instrument required by this Indenture to secure the Bonds, or for insuring the Project or collecting any insurance moneys, or for validity of the execution by the Issuer of this Indenture or of any supplements hereto or instruments of further assurance, or for the sufficiency of the security for the Bonds issued hereunder or intended to be secured hereby.

(d) The Trustee shall not be accountable for the use of any Bonds authenticated or delivered hereunder. The Trustee may become the owner of Bonds secured hereby with the same rights which it would have if not the Trustee. To the extent permitted by law, the Trustee may also receive tenders and purchase in good faith Bonds from itself, including any department, affiliate or subsidiary, with like effect as if it were not the Trustee.

(e) The Trustee shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document believed by it to

be genuine and correct and to have been signed or sent by the proper person or persons. Any action taken by the Trustee pursuant to this Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the owner of any Bond, shall be conclusive and binding upon all future owners of the same Bond and upon owners of Bonds issued in exchange therefor or in place thereof.

(f) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to rely upon a certificate signed by the Issuer or the Company as sufficient evidence of the facts therein contained; and prior to the occurrence of a default of which the Trustee has been notified as provided in subsection (h) of this Section 9.01, or of which by said subsection it is deemed to have notice, the Trustee shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a certificate of the Secretary or Assistant Secretary of the Issuer under the Issuer's seal to the effect that a resolution in the form therein set forth has been adopted by the Issuer as conclusive evidence that such resolution has been duly adopted, and is in full force and effect.

(g) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty, and it shall not be answerable for other than its negligence or willful default.

(h) The Trustee shall not be required to take notice or be deemed to have notice of any Event of Default hereunder except failure by the Issuer to cause to be made any of the payments to the Trustee required to be made by Article IV hereof, unless the Trustee shall be specifically notified in writing of such Event of Default by the Insurer, the Issuer or by the holders of at least 25% in aggregate principal amount of Bonds then outstanding; and all notices or other instruments required by this Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the principal corporate trust office of the Trustee, and in the absence of such notice so delivered the Trustee may conclusively assume there is no default except as aforesaid.

(i) At any and all reasonable times the Trustee and its duly authorized agents, attorneys, experts, engineers, accountants and representatives shall have the right fully to inspect any and all parts of the Project, including all books, papers and records of the Issuer pertaining to the Project and the Bonds and to take such memoranda from and in regard thereto as may be desired.

(j) The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(k) Notwithstanding anything elsewhere in this Indenture contained, the Trustee shall have the right, but shall not be required, to demand, in respect of the

authentication of any Bonds, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of this Indenture, any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, in addition to that by the terms hereof required as a condition of such action by the Trustee, which the Trustee in its discretion may deem desirable for the purpose of establishing the right of the Issuer to the authentication of any Bonds, the withdrawal of any cash, or the taking of any other action by the Trustee.

(l) Before taking any action referred to in Section 8.02, 8.03, 8.04, 8.05, 8.08, 8.09 or 9.04, the Trustee may require that a satisfactory indemnity bond be furnished for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful default by reason of any action so taken.

(m) All moneys received by the Trustee or any paying agent shall, until used or applied or invested as herein provided, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required herein or by law. Neither the Trustee nor any paying agent shall be under any liability for interest on any moneys received hereunder except such as may be mutually agreed upon.

(n) No provision of the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers.

**Section 9.02. Fees, Charges and Expenses of Trustee**. The Trustee shall be entitled to payment and reimbursement for reasonable fees for its services rendered hereunder and all advances, counsel fees and other expenses reasonably and necessarily made or incurred by the Trustee in connection with such services. Upon an Event of Default, but only upon an Event of Default, the Trustee shall have a first lien, with right of payment prior to payment on account of principal of and premium, if any, and interest on any Bond, upon the trust estate for the foregoing fees, charges and expenses incurred by it other than moneys paid pursuant to the Policy.

**Section 9.03. Notice to Bondholders if an Event of Default Occurs**. If an Event of Default occurs of which the Trustee is by Section 9.01(h) required to take notice or if notice of an Event of Default be given as in Section 9.01(h) provided, then the Trustee shall promptly give written notice thereof by registered or certified mail to each owner of Bonds then outstanding and to the Insurer.

**Section 9.04. Intervention by Trustee**. In any judicial proceeding to which the Issuer is a party and which in the opinion of the Trustee and its counsel has a substantial bearing on the interests of the owners of the Bonds, the Trustee may intervene on behalf of the Bondholders and shall do so if requested in writing by the owners of at least 25% of the aggregate principal amount of Bonds then outstanding. The rights and obligations of the Trustee under this Section 9.04 are subject to the approval of a court of competent jurisdiction.

**Section 9.05. Successor Trustee**. Any corporation or association into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, ipso facto, shall be and become successor Trustee hereunder and vested with all of the title to the trust estate and all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

**Section 9.06. Resignation by Trustee.** The Trustee and any successor Trustee may at any time resign from the trusts hereby created by giving thirty days' written notice to the Issuer and the Company, served personally or sent by registered or certified mail, and to each owner of Bonds then outstanding, sent by registered or certified mail, and such resignation shall take effect at the end of such thirty days, or upon the earlier appointment of a successor Trustee pursuant to Section 9.08 hereof.

**Section 9.07. Removal of Trustee.** The Trustee may be removed at any time, by an instrument or concurrent instruments in writing delivered to (a) the Trustee, the Issuer and the Company, and signed by the owners of a majority in aggregate principal amount of Bonds then outstanding, or (b) the Trustee and the owners of the Bonds then outstanding, and signed by the Issuer and the Company.

**Section 9.08. Appointment of Successor Trustee**. In case the Trustee hereunder shall resign or be removed, or be dissolved, or shall be in course of dissolution or liquidation, or otherwise become incapable of acting hereunder, or in case it shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor shall be appointed by the Issuer at the direction of the Company. The Issuer shall cause notice of such appointment to be given in the same manner as the giving of notices of redemption as set forth in Section 3.04. If the Issuer fails to make such appointment promptly, a successor may be appointed by the owners of a majority in aggregate principal amount of Bonds then outstanding, with the written consent of the Insurer if a Policy is in effect and the Insurer is not in default thereunder. Every such successor Trustee appointed pursuant to the provisions of this Section 9.08 shall be a trust company or bank in good standing having a reported capital, surplus and undivided profits of not less than $25,000,000, if there be such an institution willing, qualified and able to accept the trusts upon reasonable and customary terms.

**Section 9.09. Concerning Any Successor Trustee**. Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to the Issuer an instrument in writing accepting such appointment hereunder, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all of the estates, properties, rights, powers, trusts, duties and obligations of its predecessor; but such predecessor shall, nevertheless, on the written request of the Issuer, or of its successor, execute and deliver an instrument transferring to such successor Trustee all the estates, properties, rights, powers and trusts of such predecessor hereunder, and every predecessor Trustee shall deliver all securities and moneys held by it as Trustee hereunder to its successor. Should any instrument in writing

from the Issuer be required by any successor Trustee for more fully and certainly vesting in such successor the estate, rights, powers and duties hereby vested or intended to be vested in the predecessor, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Issuer. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor hereunder, together with all other instruments provided for in this Article IX, shall be filed and/or recorded by the successor Trustee in each recording office where the Indenture shall have been filed and/or recorded and the successor Trustee shall bear the cost thereof.

**Section 9.10. Successor Trustee as Bond Registrar and Paying Agent.** In the event of a change of Trustee, the Trustee which has resigned or been removed shall cease to be bond registrar and a paying agent for principal of and premium, if any, and interest on the Bonds, and the successor Trustee shall become such bond registrar and a paying agent.

**Section 9.11. Trustee and Issuer Required to Accept Directions and Actions of Company**. Whenever, after a reasonable request by the Company, the Issuer shall fail, refuse or neglect to give any direction to the Trustee or to require the Trustee to take any action which the Issuer is required to have the Trustee take pursuant to the provisions of the Agreement or this Indenture, the Company as agent of the Issuer may give any such direction to the Trustee or require the Trustee to take any such action, and the Trustee is hereby irrevocably empowered and directed to accept such direction from the Company as sufficient for all purposes of this Indenture. The Company shall have the right as agent of the Issuer to cause the Trustee to comply with any of the Trustee's obligations under this Indenture to the same extent that the Issuer is empowered so to do.

Certain actions or failures to act by the Issuer under this Indenture may create or result in an Event of Default under this Indenture and the Company, as agent of the Issuer, may to the extent permitted by law, perform any and all acts or take such action as may be necessary for and on behalf of the Issuer to prevent or correct said Event of Default and the Trustee shall take or accept such performance by the Company as performance by the Issuer in such event.

The Issuer hereby makes, constitutes and appoints the Company irrevocably as its agent to give all directions, do all things and perform all acts provided, and to the extent so provided, by this Section 9.11.

**Section 9.12. No Transfer of Note Held by the Trustee; Exception.** Except as required to effect an assignment to a successor Trustee, the Trustee shall not sell, assign or transfer the Note or its rights under any Policy and the Trustee is authorized to enter into an agreement with the Company to such effect.

**Section 9.13. Filing of Certain Continuation Statements**. From time to time, the Trustee shall duly file, or cause to be filed, at the expense of the Company, continuation statements for the purpose of continuing without lapse the effectiveness of the filing of the financing statements with respect to the security interest created by this Indenture in the Agreement and the Note, at or prior to the issuance of the Bonds and any previously filed continuation statements which shall have been filed as herein required. The Issuer shall sign and

deliver to the Trustee or its designee such continuation statements as may be requested of it from time to time by the Trustee. Upon the filing of any such continuation statements the Trustee shall immediately notify the Issuer and the Company that the same has been accomplished.

**Section 9.14. Duties of Remarketing Agent.** Except as otherwise described herein, the Remarketing Agent will set the interest rates on the Bonds and perform the other duties provided for in Section 2.02 and will remarket the Bonds as provided in Section 3.08, subject to any provisions of a remarketing agreement between the Company and the Remarketing Agent. The Remarketing Agent may for its own account or as broker or agent for others deal in Bonds and may do anything any other Bondholder may do to the same extent as if the Remarketing Agent were not serving as such.

**Section 9.15. Eligibility of Remarketing Agent.** Unless a notice of redemption with respect to the Bonds has theretofore been issued by the Trustee pursuant to Section 3.04, upon any change in the Determination Method, the Company shall appoint a Remarketing Agent in sufficient time for such Remarketing Agent to establish the interest rate for such succeeding Interest Rate Period. The Company will give prompt notice of such appointment to the Issuer and the Trustee. The Remarketing Agent will be a bank, trust company or member of the National Association of Securities Dealers, Inc. organized and doing business under the laws of the United States or any state or the District of Columbia, will have a combined capital stock, surplus and undivided profits of at least $15,000,000 as shown in its most recent published annual report, will be a Participant in the Securities Depository and will be authorized by law to perform all the duties imposed upon it by this Indenture. Any successor Remarketing Agent shall be rated at least Baa3/P-3 or otherwise qualified by Moody's Investors Service, Inc. or have an equivalent rating of another rating agency.

**Section 9.16. Replacement of Remarketing Agent.** The Remarketing Agent may resign by notifying the Issuer, the Trustee and the Company. Such resignation will take effect on the day a successor Remarketing Agent appointed in accordance with this Section 9.16 has accepted the appointment or, if no successor has so accepted, 30 days after notice of resignation has been sent. The Company may remove the Remarketing Agent at any time by an instrument signed by the Company and filed with the Remarketing Agent, the Issuer and the Trustee at least 30 days prior to the effective date of such removal (which will not in any event occur prior to the appointment of a successor Remarketing Agent). A new Remarketing Agent may be appointed by the Company upon the resignation or removal of the Remarketing Agent. The Trustee shall promptly notify the Bondholders of any change in the Remarketing Agent.

**Section 9.17. Compensation of Remarketing Agent.** The Remarketing Agent will not be entitled to any compensation from the Issuer or the Trustee or to any property held under this Indenture but must make separate arrangements with the Company for compensation.

**Section 9.18. Successor Remarketing Agent.** If the Remarketing Agent consolidates with, merges or converts into, or transfers all or substantially all its assets (or, in the case of a bank or trust company, its corporate trust assets) to another corporation, the resulting, surviving or transferee corporation without any further act shall be the successor Remarketing Agent, provided that such successor shall be eligible under the applicable provisions in this Article.

**Section 9.19. Inapplicability of Remarketing Agent.** The provisions of this Indenture relating to the Remarketing Agent, including, but not limited to, Sections 9.14, 9.15, 9.16, 9.17 and 9.18, shall not apply when the Bonds are in an Auction Rate Period.

## ARTICLE X

## AMENDMENTS OF AND SUPPLEMENTS TO INDENTURE

**Section 10.01. Without Consent of Bondholders.** The Issuer and the Trustee may amend or supplement this Indenture or the Bonds without notice to or consent of any Bondholder:

(a) to cure any ambiguity, inconsistency, formal defect or omission;

(b) to grant to the Trustee for the benefit of the Bondholders additional rights, remedies, powers or authority;

(c) to subject to this Indenture additional collateral or to add other agreements of the Issuer;

(d) to modify this Indenture or the Bonds to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States;

(e) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to this Indenture regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature;

(f) to increase or decrease the number of days specified for the giving of notices in Section 3.07 and to make corresponding changes to the period for notice of redemption of the Bonds; provided that no decreases in any such number of days shall become effective except while the Bonds bear interest at a Daily Rate or a Weekly Rate and until 30 days after the Trustee has given notice to the owners of the Bonds;

(g) to provide for an uncertificated system of registering the Bonds or to provide for the change to or from a Book-Entry System for the Bonds;

(h) to evidence the succession of a new Trustee or the appointment by the Trustee or the Issuer of a co-trustee;

(i) to make any change (including a change in Section 4.01 to reflect any amendment to the Code or interpretations by the Internal Revenue Service of the Code and the 1954 Code) that does not materially adversely affect the rights of any Bondholder; or

(j) to make any other changes to this Indenture that take effect as to any or all remarketed Bonds following a mandatory tender.

**Section 10.02. With Consent of Bondholders.** If an amendment of or supplement to this Indenture or the Bonds without any consent of Bondholders is not permitted by the preceding Section, the Issuer and the Trustee may enter into such amendment or supplement without prior notice to any Bondholders but with the consent of the holders of at least a majority in aggregate principal amount of the Bonds then outstanding. However, without the consent of each Bondholder affected thereby, no amendment or supplement may (a) extend the maturity of the principal of, or interest on, any Bond, (b) reduce the principal amount of, or rate of interest on, any Bond, (c) effect a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (d) reduce the percentage of the principal amount of the Bonds required for consent to such amendment or supplement, (e) impair the exclusion from federal gross income of interest on any Bond, (f) eliminate the holders' rights to tender the Bonds, or any mandatory redemption of the Bonds, extend the due date for the purchase of Bonds tendered by the holders thereof or call for mandatory redemption or reduce the purchase or redemption price of such Bonds, (g) create a lien ranking prior to or on a parity with the lien of this Indenture on the property described in the Granting Clause of this Indenture or (h) deprive any Bondholder of the lien created by this Indenture on such property. In addition, if moneys or Government Obligations have been deposited or set aside with the Trustee pursuant to Article VII for the payment of Bonds and those Bonds shall not have in fact been actually paid in full, no amendment to the provisions of that Article shall be made without the consent of the holder of each of those Bonds affected.

**Section 10.03. Effect of Consents.** Any consent received pursuant to Section 10.02 will bind each Bondholder delivering such consent and each subsequent holder of a Bond or portion of a Bond evidencing the same debt as the consenting holder's Bond.

**Section 10.04. Notation on or Exchange of Bonds.** If an amendment or supplement changes the terms of a Bond, the Trustee may require the holder to deliver it to the Trustee. The Trustee may place an appropriate notation on the Bond about the changed terms and return it to the holder. Alternatively, if the Trustee, the Issuer and the Company determine, the Issuer in exchange for the Bond will issue and the Trustee will authenticate a new Bond that reflects the changed terms.

**Section 10.05. Signing by Trustee of Amendments and Supplements.** The Trustee will sign any amendment or supplement to the Indenture or the Bonds authorized by this Article if, the amendment or supplement does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, but need not, sign it. In signing an amendment or supplement, the Trustee will be entitled to receive and (subject to Section 9.01)

will be fully protected in relying on an Opinion of Counsel stating that such amendment or supplement is authorized by this Indenture.

**Section 10.06. Company and Insurer Consent Required.** An amendment or supplement to this Indenture or the Bonds shall not become effective unless the Company delivers to the Trustee its written consent to the amendment or supplement. The consent of the Insurer shall be required with respect to any amendments or supplements hereto or any amendment, change or modification of the Agreement or the Note requiring the consent of the Bondholders pursuant to Section 10.02 or Section 11.02 hereof or that materially adversely affects the rights of the Insurer.

**Section 10.07. Notice to Bondholders.** The Trustee shall cause notice of the execution of each supplement or amendment to this Indenture or the Agreement to be mailed to the Bondholders. The notice will at the option of the Trustee, either (i) briefly state the nature of the amendment or supplement and that copies of it are on file with the Trustee for inspection by Bondholders or (ii) enclose a copy of such amendment or supplement.

## ARTICLE XI

## AMENDMENTS OF AND SUPPLEMENTS TO THE AGREEMENT

**Section 11.01. Without Consent of Bondholders.** The Issuer, with the consent of the Insurer if a Policy is in effect and the Insurer is not in default in its payment obligations under the Policy, may enter into, and the Trustee may consent to, any amendment of or supplement to the Agreement or the Note, or may waive compliance by the Company of any provision of the Agreement or the Note, in each case without notice to or consent of any Bondholder, but with notice to the Insurer if the amendment, supplement or waiver is required or permitted (a) by the provisions of the Agreement or this Indenture, (b) to cure any ambiguity, inconsistency, formal defect or omission, (c) to identify more precisely the Project, (d) in connection with any authorized amendment of or supplement to this Indenture or (e) to make any change that in the judgment of the Trustee does not materially adversely affect the rights of any Bondholder.

**Section 11.02. With Consent of Bondholders.** If an amendment of or supplement to the Agreement or the Note without any consent of Bondholders is not permitted by Section 11.01, the Issuer may enter into, and/or the Trustee may consent to (as the case may be), such amendment or supplement, or may waive compliance by the Company of any provision of the Agreement, without notice to any Bondholder but with the consent of the holders of at least a majority in aggregate principal amount of the Bonds then outstanding. However, without the consent of each Bondholder affected thereby, no amendment, supplement or waiver may result in anything described in the lettered clauses of Section 10.02.

**Section 11.03. Consents by Trustee to Amendments or Supplements.** The Trustee will consent to any amendment or supplement to the Agreement or the Note authorized by this Article XI if the amendment or supplement does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, but need not, sign it. In signing a

consent to an amendment or supplement, the Trustee shall be entitled to receive and (subject to Section 9.01) shall be fully protected in relying on an Opinion of Counsel stating that such amendment or supplement is authorized or permitted by this Indenture.

## ARTICLE XII

## MISCELLANEOUS

**Section 12.01. Notices.** (a) Any notice, request, direction, designation, consent, acknowledgment, certification, appointment, waiver or other communication required or permitted by this Indenture or the Bonds must be in writing except as expressly provided otherwise in this Indenture or the Bonds.

(b) Any notice or other communication shall be sufficiently given and deemed given when delivered by hand or mailed by first-class mail, postage prepaid, addressed as follows: if to the Issuer, at 735 Riverside Drive, Suite 300, Jackson, Mississippi 39202, Attention: Executive Director; if to the Trustee, to The Bank of New York Trust Company of Florida, N.A., 100 Ashford Center North, Suite 120 Atlanta, Georgia 30338, Attention: Corporate Trust Services; if to the Company and via United States mail or facsimile at One Energy Place, Pensacola, Florida 32520-0100, Attention: Treasurer, Facsimile No. (850) 444-6026, with copies to Southern Company Services, Inc., 270 Peachtree Street, N.W., Atlanta, Georgia 30303, Attention: Corporate Finance Department; if to the Company and via hand delivery at 500 Bayfront Parkway, Pensacola, Florida 32501, Attention: Treasurer; if to the Remarketing Agent, to the address specified at the time of its acceptance of its duties; if to the Broker-Dealer, to the address specified at the time of its acceptance of its duties; and if to the Auction Agent, to the address specified at the time of its acceptance of its duties. Any addressee may designate additional or different addresses for purposes of this Section.

**Section 12.02. Bondholders' Consent.** Any consent or other instrument required by this Indenture to be signed by Bondholders may be in any number of concurrent documents and may be signed by a Bondholder or by the holder's agent appointed in writing. Proof of the execution of such instrument or of the instrument appointing an agent and of the ownership of Bonds, if made in the following manner, shall be conclusive for any purposes of this Indenture with regard to any action taken by the Trustee under the instrument:

(a) The fact and date of a person's signing an instrument may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within that jurisdiction that the person signing the writing acknowledged before the officer the execution of the writing, or by an affidavit of any witness to the signing.

(b) The fact of ownership of Bonds, the amount or amounts, numbers and other identification of such Bonds and the date of holding shall be proved by the registration books kept pursuant to this Indenture.

In determining whether the holders of the required principal amount of Bonds outstanding have taken any action under this Indenture, Bonds owned by the Company or any person controlling, controlled by or under common control with the Company shall be disregarded and deemed not to be outstanding unless all of the Bonds are so owned. In determining whether the Trustee shall be protected in relying on any such action, only Bonds which the Trustee knows to be so owned shall be disregarded.

Notwithstanding any provision of this Indenture, so long as the Insurer is not in default with respect to its payment obligations under the Policy, the Insurer shall be deemed to be the owner of the Bonds for purposes of any consents, directions or other actions under this Indenture, except for the purpose of consenting to anything described in the lettered clauses of Section 10.02.

Any consent or other instrument shall be irrevocable and shall bind any subsequent owner of such Bond or any Bond delivered in substitution therefor.

**Section 12.03. Appointment of Separate Paying Agent and/or Tender Agent.** If, at any time, the Securities Depository ceases to hold the Bonds, with the effect that the Bonds are no longer subject to the Book-Entry System, then the Issuer and the Trustee, acting at the request of the Company, may appoint one or more banks or trust companies to act as paying agent and/or tender agent for the Bonds hereunder. Any such paying agent or tender agent shall be a bank or trust company organized under the laws of the United States or any state thereof, shall have a reported capital and surplus of at least $100,000,000 and a corporate trust office located in New York, New York at which Bonds may be presented for payment or purchase and shall perform such duties and responsibilities as may be delegated to it hereunder. If such a paying agent or tender agent is appointed, then all references herein to the "Trustee" shall include such paying agent or tender agent to the extent of the duties performed by such entity.

**Section 12.04. Limitation of Rights.** Nothing expressed or implied in this Indenture or the Bonds shall give any person other than the Trustee, the Issuer, the Company, the Insurer, the Remarketing Agent and the Bondholders any right, remedy or claim under or with respect to this Indenture.

**Section 12.05. Severability.** If any provision of this Indenture shall be held or deemed to be or shall, in fact, be illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative or unenforceable to any extent whatsoever.

**Section 12.06. Payments Due on Non-Business Days.** If a payment date is not a Business Day at the place of payment, then payment may be made at that place on the next Business Day, and no interest shall accrue for the intervening period.

**Section 12.07. Governing Law.** This Indenture shall be governed exclusively by and construed in accordance with the applicable laws of the State.

**Section 12.08. Captions.** The captions in this Indenture are for convenience only and do not define or limit the scope or intent of any provisions or Sections of this Indenture.

**Section 12.09. No Liability of Officers.** No covenant or agreement contained in the Bonds or this Indenture shall be deemed to be a covenant or agreement of any director, agent or employee of the Issuer in his individual capacity, and neither the officers of the Issuer nor any official executing the Bonds or this Indenture shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance of the Bonds or the execution and delivery of this Indenture.

**Section 12.10. Counterparts.** This Indenture may be signed in several counterparts. Each will be an original, but all of them together constitute the same instrument.

**Section 12.11. Regarding Insurer Provisions.** At any time when a Policy is not in effect with respect to the Bonds, all references in this Indenture to the Insurer or the Policy shall be null and void and have no force or effect.

IN WITNESS WHEREOF, the Mississippi Business Finance Corporation has caused these presents to be signed in its name and behalf by its Executive Director, and its official seal to be hereunto affixed and attested by its Secretary and to evidence its acceptance of the trusts hereby created The Bank of New York Trust Company of Florida, N.A., as Trustee, has caused these presents to be signed in its name and behalf and its official seal to be hereunto affixed, all as of the day and year first above written.

[SEAL]

MISSISSIPPI BUSINESS FINANCE CORPORATION

By: _____
William T. Barry, Executive Director

Attest:

_____
James Vernon Smith, Sr., Secretary

[SEAL]

THE BANK OF NEW YORK TRUST COMPANY OF FLORIDA, N.A., as Trustee

By: _____
Elizabeth T. Wagner, Vice President

EXHIBIT A

*Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Issuer or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co. has an interest herein.*

UNITED STATES OF AMERICA

STATE OF MISSISSIPPI

No. R-__ $29,075,000

MISSISSIPPI BUSINESS FINANCE CORPORATION
POLLUTION CONTROL REVENUE REFUNDING BOND,
SERIES 2003
(GULF POWER COMPANY PROJECT)

| MATURITY DATE | DATED DATE | CUSIP |
|---|---|---|
| February 1, 2026 | April 15, 2003 | 605277AE2 |

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: $29,075,000

Mississippi Business Finance Corporation (the "*Issuer*"), a public corporation duly created and validly existing under the Constitution and laws of the State of Mississippi, for value received, hereby promises to pay, solely from the sources described in this Bond, to the Registered Owner identified above, or registered assigns, on the Maturity Date stated above (or if this Bond is called for earlier redemption as described herein, on the redemption date) the principal amount identified above and to pay interest as provided in this Bond.

1. *Indenture; Agreement.* This Bond is one of the bonds (the *"Bonds"*), limited to $29,075,000 in principal amount, issued under the Trust Indenture dated as of April 1, 2003 (the *"Indenture"*), between the Issuer and The Bank of New York Trust Company of Florida, N.A., as trustee (the *"Trustee"*). The terms of the Bonds include those in the Indenture and those contained herein. Bondholders are referred to the Indenture for a statement of certain of those terms. When used with reference to the Bonds, the term "principal" includes any premium

payable on those Bonds. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Indenture.

The Issuer has entered into a Loan Agreement dated as of April 1, 2003 (the "*Agreement*") with Gulf Power Company, a Maine corporation (the "*Company*"). Under the Agreement, the Issuer has loaned the proceeds of the Bonds to the Company (the "*Loan*"). In order to evidence the Loan and the Company's obligation to repay the same, the Company has executed and delivered its non-negotiable promissory note (the "*Note*"). The Note provides for the repayment by the Company of the Loan, including interest thereon, in installments sufficient to pay (i) the principal of, and premium, if any, and interest on the Bonds as the same shall become due and payable and (ii) the purchase price of certain tendered Bonds as required under the Indenture. The Note provides that the payments thereunder shall be paid directly to the Trustee as assignee of the Issuer. The Issuer has assigned its rights to such payments under the Agreement and the Note to the Trustee as security for the Bonds. The proceeds of the Bonds will be used to refund certain outstanding revenue bonds issued by the Issuer to refinance the interest of the Company in certain air and water pollution control facilities (the *"Project")* located at the Victor J. Daniel, Jr. steam electric generating plant in Jackson County, Mississippi.

The Indenture, the Agreement and the Note may be amended or supplemented as provided by their terms, and references to them include any amendments or supplements.

The Issuer has established a book-entry only system of registration for the Bonds (the *"Book-Entry System"*). Except as specifically provided otherwise in the Indenture, a Securities Depository (or its nominee) will be the registered owner of this Bond. By acceptance of a confirmation of purchase, delivery or transfer, the Beneficial Owner (if any) of this Bond shall be deemed to have agreed to this arrangement. If the Securities Depository (or its nominee) is the registered owner of this Bond, it shall be treated as the owner of it for all purposes.

2. *Source of Payments.* The principal of, premium, if any, and interest on, and any other amounts due with respect to, the Bonds are limited special obligations of the Issuer and, as provided in the Indenture, are payable solely and only from payments derived from the Agreement, the Note and from any other moneys held by the Trustee under the Indenture for such purpose. The Bonds are issued pursuant to and in full compliance with the Constitution and laws of the State of Mississippi, particularly the provisions of Sections 57-10-201 *et seq.*, Mississippi Code of 1972, as amended and supplemented, including particularly Section 57-10-213, and pursuant to resolutions adopted by the Issuer on February 19, 2003 and March 19, 2003, which resolutions authorize the execution and delivery of the Bonds, the Agreement and the Indenture. The Bonds and premium, if any, and interest thereon are limited special obligations of the Issuer and are payable solely from the revenues and other amounts derived from the Agreement and the Note and are secured as set forth in the Indenture. The Bonds and the interest thereon shall not be deemed to constitute a debt, liability or obligation of the Issuer or the State of Mississippi or any political subdivision thereof, or a pledge of the faith and credit of the Issuer or the State of Mississippi or any political subdivision thereof, but the Bonds shall be payable solely from the revenues provided therefor as herein described and the Issuer is not obligated to pay principal of the Bonds or premium, if any, or the interest thereon or other costs incident thereto except from the revenues and proceeds pledged therefor and neither the faith and credit of the Issuer or the State of Mississippi nor the taxing power of the State of Mississippi or any political subdivision thereof is pledged to the payment of the principal of or the premium, if any,

or interest on this Bond. No covenant or agreement contained in the Indenture shall be deemed to be a covenant or agreement of any member, officer, agent or employee of the Issuer in his individual capacity and no member of the Board of Directors of the Issuer nor any officer of the Issuer executing this Bond shall be liable personally on the Bonds or be subject to any personal liability in connection with the issuance of this Bond.

Payments under the Note sufficient for the prompt payment when due of the principal of and premium, if any, and interest on the Bonds are to be paid to the Trustee by the Company for the account of the Issuer and deposited in the Bond Fund as defined in and created under the Indenture which special fund is pledged to and charged with the payment of the principal of and premium, if any, and interest on the Bonds and such amounts to be paid thereunder have been duly pledged and assigned for that purpose. In addition, substantially all other rights of the Issuer under the Agreement have also been assigned to the Trustee to secure payment of the principal of and premium, if any, and interest on the Bonds issued under the Indenture.

3. *Interest Rate.* Interest on this Bond will be paid at the lesser of (a) a Daily Rate, a Weekly Rate, a Commercial Paper Rate, a Long-Term Interest Rate, an Auction Mode Rate or an Index Rate as selected by the Company and as determined in accordance with the Indenture and (b) 13% per annum. Interest will initially be payable at an Auction Mode Rate as set forth in the Indenture. The Company may change the Determination Method from time to time. A change in the Determination Method will result in mandatory tender of the Bonds (see *"Mandatory Tender for Purchase"* below). While there exists an Event of Default under the Indenture, the interest rate on the Bonds will be the rate on the Bonds on the day before the Event of Default occurred, except that if interest on any Bond was then payable at a Commercial Paper Rate, the interest rate for all Bonds then bearing interest at a Commercial Paper Rate will be the highest Commercial Paper Rate then in effect for any Bond.

When interest is payable at a Daily Rate, Weekly Rate, Commercial Paper Rate or Index Rate, it will be computed on the basis of the actual number of days elapsed over a year of 365 days (366 days in leap years), when payable at an Auction Mode Rate, on the basis of actual days over 360 (during Auction Periods of 180 days or less) and on the basis of a 360-day year of twelve 30-day months (during Auction Periods greater than 180 days), and when payable at a Long-Term Interest Rate, on the basis of a 360-day year of twelve 30-day months. Interest on overdue principal and, to the extent lawful, on overdue premium and interest will be payable at the rate on the Bonds on the day before the default occurred.

4. *Interest Payment and Record Dates.* Interest will accrue on the unpaid portion of the principal of this Bond from the Dated Date stated above and thereafter from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication hereof to which interest has been paid or duly provided for, unless the date of authentication hereof is an Interest Payment Date to which interest has been paid or duly provided for, in which case from the date of authentication hereof, or unless no interest has been paid or duly provided for on the Bonds, in which case from the Dated Date; provided, however, that if the date of authentication is between the Record Date (as hereinafter defined) for any Interest Payment Date and such Interest Payment Date, then interest will accrue from such Interest Payment Date or, if the Company shall default in payment of the interest due on such Interest Payment Date, then from the next preceding Interest Payment Date to which interest has been paid or duly provided for, or if no interest has been paid or duly provided for, then from the Dated Date. When interest is payable

at the rate in the first column below, interest accrued during the period (an *"Interest Period"*) shown in the second column will be paid on the date (an *"Interest Payment Date"*) in the third column to holders of record on the date (a *"Record Date"*) in the fourth column:

| RATE | INTEREST PERIOD | INTEREST PAYMENT DATE | RECORD DATE |
|---|---|---|---|
| Daily* | Calendar month | Fifth Business Day of the next month | Last Business Day of the month |
| Weekly* | Calendar month | First Business Day of the next month | Last Business Day before Interest Payment Date |
| Commercial Paper | From 1 to 270 days as determined for each Bond pursuant to the Indenture (*"Commercial Paper Period"*) | Day after the last day of Commercial Paper Period | Last Business Day before Interest Payment Date |
| Long-Term** | Six-month period or portion thereof ending the last day of January or July | Next day (February 1 and August 1) | Fifteenth of the month before the Interest Payment Date (January 15 and July 15)*** |
| Auction Mode | From 1 to 364 days as determined for each Bond pursuant to the Indenture | The Business Day immediately following each Auction Period, and, in addition, for an Auction Period of more than 91 days, each 13th Thursday after the first day of such Auction Period**** | The second Business Day preceding an Interest Payment Date therefore |
| Index | Calendar Month | First Business Day of the next month | Last Business Day before Interest Payment Date |

*"Business Day"* is defined in the Indenture. Payment of defaulted interest will be made to holders of record as of the fifth-to-last Business Day before payment.

---

* If there shall be a change from a Daily Rate or a Weekly Rate on a day other than the first day of a calendar month, the then current Interest Period relating to such Daily Rate or Weekly Rate shall end on the day immediately preceding the date on which the new interest rate on the Bonds shall become effective, which date in the case of a change from a Weekly Rate, shall be the Interest Payment Date for such Interest Period for which the Record Date shall be the immediately preceding Business Day; but in the case of a change from a Daily Rate, the Interest Payment Date for such Interest Period shall be the fifth Business Day after the last day of such Interest Period, for which the Record Date shall be the last Business Day of such Interest Period. If such new interest rate shall be a Daily Rate or a Weekly Rate, the first Interest Period relating thereto shall begin on the effective date of such new interest rate and end on the last day of the then current calendar month, for which the Interest Payment Date and the Record Date shall be as prescribed in this Table.

** If there shall be a change from a Long-Term Interest Rate on a day other than a regularly scheduled Interest Payment Date for a Long-Term Interest Rate Period, or if there shall be an early termination of such Long-Term Interest Rate Period and a new Long-Term Interest Rate shall be set, such Long-Term Interest Rate Period shall end on the day immediately preceding the date on which the new interest rate shall become effective, which date shall be the Interest Payment Date for such Long-Term Interest Rate Period, for which the Record Date shall be the last day of such Long-Term Interest Rate Period or, if sooner, the first day of such Long-Term Interest Rate Period. If such new interest rate shall be a Daily Rate or a Weekly Rate, the first Interest Period relating thereto shall begin on the effective date of such new interest rate and end on the last day of the then current calendar month, for which the Interest Payment Date and the Record Date shall be as prescribed in this Table.

*** If an Interest Payment Date occurs less than 15 days after the first day of a Long-Term Interest Rate Period, the first day of such Long-Term Interest Rate Period is the Record Date for such Interest Payment Date.

**** The Interest Payment Date with respect to a daily Auction Period shall be the first Business Day of the month immediately succeeding such Auction Period.

5. *Method of Payment.* Holders must surrender Bonds to the Trustee to collect principal at maturity or upon redemption. (See *"Optional Tenders"* and *"Mandatory Tender for Purchase"* below for the payment of purchase price of tendered Bonds.) Interest on Bonds bearing interest at a Commercial Paper Rate (other than Bonds in the Book-Entry System) is payable only upon presentation of such Bonds to the Trustee. Interest on Bonds bearing interest at a Daily, Weekly, Auction Mode, Index or Long-Term Interest Rate (other than Bonds in the Book-Entry System) will be paid to the registered holder hereof as of the Record Date by check mailed by first-class mail on the Interest Payment Date to such holder's registered address. A holder of $1,000,000 or more in principal amount of Bonds may be paid interest at a Daily, Weekly, Auction Mode, Index or Commercial Paper Rate by wire transfer in immediately available funds to an account in the continental United States if the holder makes a written request of the Trustee (in form satisfactory to the Trustee) at least two Business Days before the Record Date specifying the account address. The notice may provide that it will remain in effect for later interest payments until changed or revoked by another written notice. Principal and interest will be paid in money of the United States that at the time of payment is legal tender for payment of public and private debts or by checks or wire transfers payable in such money. If any payment on the Bonds is due on a non-Business Day, it will be made on the next Business Day, and no interest will accrue as a result.

6. *Optional Tenders. "Tender"* means to require, or the act of requiring, the Trustee to purchase a Bond at the holder's option under the provisions of this paragraph 6 at 100% of the principal amount plus interest accrued to (but excluding) the date of purchase. During a Daily Rate Interest Period, if a Bond is tendered after the Record Date and before the Interest Payment Date for that Interest Period, the Trustee will pay (but only from funds available therefor as provided in the Indenture) a purchase price of principal plus interest accruing after the last day of that Interest Period. While the Bonds bear interest at a Long-Term Interest Rate, a Commercial Paper Rate, an Auction Mode Rate or an Index Rate, the owner of a Bond does not have the option to require the Trustee to purchase its Bond.

*Daily Rate Tender.* When interest on the Bonds is payable at a Daily Rate and a Book-Entry System is in effect, a Beneficial Owner (through its Direct Participant in the Securities Depository) may tender his interest in a Bond (or portion of Bond) by delivering an irrevocable written notice or an irrevocable telephone notice, promptly confirmed in writing, to the Trustee (any such telephone notice to be delivered to a Responsible Officer of the Trustee) and an irrevocable notice by telephone, telegraph or facsimile transmission to the Remarketing Agent, in each case prior to 11:00 a.m., New York City time, on a Business Day, stating the principal amount of the Bond (or portion of Bond) being tendered, payment instructions for the purchase price and the Business Day (which may be the date the notice is delivered) the Bond (or portion of Bond) is to be purchased. The Beneficial Owner shall effect delivery of such Bond by causing such direct Participant to transfer its interest in the Bond equal to such Beneficial Owner's interest on the records of the Securities Depository to the participant account of the Trustee with the Securities Depository. Any notice received by the Trustee after 11:00 a.m., New York City time, shall be deemed to have been given on the next Business Day.

When interest on the Bonds is payable at a Daily Rate and a Book-Entry System is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering the notices as described above (which shall include the certificate number of the Bond), and shall also deliver

the Bond to the Trustee by 1:00 p.m., New York City time, on the date of purchase (see additional requirements below).

*Weekly Rate Tender.* When interest on the Bonds is payable at a Weekly Rate and a Book-Entry System is in effect, a Beneficial Owner (through its direct Participant in the Securities Depository) may tender his interest in a Bond (or portion of Bond) by delivering an irrevocable written notice or an irrevocable telephone notice, promptly confirmed in writing, to the Trustee (any such telephone notice to be delivered to a Responsible Officer of the Trustee) and an irrevocable notice by telephone, telegraph or facsimile transmission to the Remarketing Agent, in each case prior to 5:00 p.m., New York City time, on a Business Day, stating the principal amount of the Bond (or portion of Bond) being tendered, payment instructions for the purchase price, and the date, which must be a Business Day at least seven days after the notice is delivered, on which the Bond (or portion of Bond) is to be purchased. The Beneficial Owner shall effect delivery of such Bond by causing such direct Participant to transfer its interest in the Bond equal to such Beneficial Owner's interest on the records of the Securities Depository to the participant account of the Trustee or its agent with the Securities Depository.

When interest on the Bonds is payable at a Weekly Rate and a Book-Entry System is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering the notices as described above (which shall include the certificate number of the Bond), and shall also deliver the Bond to the Trustee by 1:00 p.m., New York City time, on the date of purchase (see additional requirements below).

*Payment of Purchase Price.* The purchase price for a tendered Bond will be paid in immediately available funds to the registered owner of the Bond by the close of business on the date of purchase. No purchase of Bonds by the Trustee shall be deemed to be a payment or redemption of the Bonds or of any portion thereof and such purchase will not operate to extinguish or discharge the indebtedness evidenced by such Bonds.

7. *Mandatory Tender for Purchase.* As provided below, the Bonds are subject to mandatory tender for purchase under certain circumstances. BY ACCEPTANCE OF THIS BOND, THE OWNER AGREES TO SELL AND SURRENDER THIS BOND, PROPERLY ENDORSED, UNDER THE CONDITIONS DESCRIBED BELOW. All purchases will be made in funds immediately available on the purchase date and will be at a purchase price of 100% of the principal amount of the Bonds being purchased (unless a premium is required as otherwise specified) plus interest accrued to (but excluding) the purchase date, except that interest accruing at a Daily Rate will be paid on the fifth Business Day following the purchase date. Bonds tendered for purchase on a date after a call for redemption but before the redemption date will be purchased pursuant to the tender. No purchase of Bonds shall be deemed to be a payment or redemption of the Bonds or of any portion thereof and such purchase will not operate to extinguish or discharge the indebtedness evidenced by such Bonds.

*Mandatory Tender at Beginning of a New Long-Term Interest Rate Period.* When the Bonds bear interest at a Long-Term Interest Rate and a new Long-Term Interest Rate is to be determined, the Bonds will be subject to mandatory tender for purchase on the effective date of the new Long-Term Interest Rate. In the case of a change prior to the day originally established as the day after the last day of a Long-Term Interest Rate Period, the Bonds will be purchased at

the percentage of their principal amount which would be payable upon the applicable redemption described under "Optional Redemption During Long-Term Interest Rate Period" below.

*Mandatory Tender on Each Interest Payment Date During Commercial Paper Mode.* When Bonds bear interest at a Commercial Paper Rate, each Bond must be tendered for purchase on the Interest Payment Date for such Bond.

*Mandatory Tender Upon a Change in the Determination Method.* Subject to the provisions of Section 2.03(b) of the Indenture, on the effective date of the change in the Determination Method (the methods being Daily, Weekly, Commercial Paper, Long-Term, Auction Mode or Index Interest Rates), the Bonds will be subject to mandatory tender for purchase on the effective date of such change. Any such purchase shall be at a price equal to 100% of the principal amount of the Bonds, plus accrued interest, except that in the case of change prior to the day originally established as the date after the last day of a Long-Term Interest Rate Period, the Bonds will be purchased at the percentage of their principal amount which would be payable upon the applicable redemption described under "Optional Redemption During Long-Term Interest Rate Period" below.

*Mandatory Tender Upon Expiration of Index Period.* When a new Index Period immediately follows the expiration of a prior Index Period, the Bonds will be subject to mandatory tender for purchase on the commencement date of the new Index Period.

*Notice of Tender.* At least 15 days before each mandatory tender (except for the tender described under "*Mandatory Tender on Each Interest Payment Date During Commercial Paper Mode*" described above, for which no notice will be given and except that such notice shall be given at least 30 days prior to the effective date if a Long-Term Interest Rate Period is in effect and the effective date is on or before the end of the Long-Term Interest Rate Period), the Trustee will mail a notice of tender by first-class mail to each Bondholder at the holder's registered address. Failure to give any required notice of tender as to any particular Bonds, or any defect therein, will not affect the validity of the tender of any Bonds in respect of which no failure or defect occurs. Any notice mailed as provided in this paragraph shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by the addressee.

*Effect of Notice.* When notice of tender is required and given, and when Bonds are to be tendered without notice, Bonds tendered become due and payable on the purchase date; in such case when funds are deposited with the Trustee sufficient for purchase, interest on the Bonds to be purchased ceases to accrue as of the date of purchase.

8. *Delivery Address; Additional Delivery Requirements.* Notices in respect of tenders and Bonds tendered must be delivered to the Trustee, and notices in respect of tenders must be delivered to the Remarketing Agent, as provided in the Indenture.

All tendered Bonds must be accompanied by an instrument of transfer satisfactory to the Trustee, executed in blank by the registered owner or his duly authorized attorney, with the signature guaranteed by an eligible guarantor institution.

*Limitation on Tenders.* Except as provided under "*Mandatory Tender Upon a Change in the Determination Method,*" "*Mandatory Tender Upon Expiration of Index Period,*" "*Mandatory Tender at Beginning of a New Long-Term Interest Rate Period*" and "*Mandatory Tender on Each Interest Payment Date During Commercial Paper Mode,*" no Bonds may be tendered while they bear interest at a Commercial Paper Rate, Auction Mode Rate, Index Rate or a Long-Term Interest Rate.

*Irrevocable Notice Deemed to be Tender of Bond; Undelivered Bonds.* The giving of notice by the registered owner of a Bond as provided in paragraph 6 or the occurrence of a mandatory tender for purchase as described in paragraph 7 constitutes the irrevocable tender for purchase of each Bond (or portion of Bond) with respect to which such notice was given, irrespective of whether such Bond was delivered as provided in paragraph 6 or paragraph 7. The determination of the Trustee as to whether a notice of tender has been properly sent shall be conclusive and binding upon the Bondholders.

The Trustee may refuse to accept delivery of any Bond for which a proper instrument of transfer has not been provided. If any owner of a Bond who gave notice of optional tender or which is subject to mandatory tender fails to deliver his Bond to the Trustee at the place and on the applicable date and time specified, or fails to deliver his Bond properly endorsed, and moneys for the payment of such Bond are on deposit with the Trustee, his Bond shall constitute an undelivered Bond as described in the Indenture and interest shall cease to accrue on his Bonds as of the tender date and such owner shall have no right under the Indenture other than the right to receive payment of the tender price thereof. BY ACCEPTANCE OF THIS BOND, THE OWNER AGREES TO SELL AND SURRENDER THIS BOND, PROPERLY ENDORSED, TO THE TRUSTEE AFTER THE GIVING OF IRREVOCABLE NOTICE OF TENDER FOR PURCHASE AS DESCRIBED ABOVE.

9. *Redemptions.* All redemptions will be made in funds immediately available on the redemption date and will be at a redemption price of 100% of the principal amount of the Bonds being redeemed (unless a premium is required as provided below) plus interest accrued to the redemption date, except that interest accruing at a Daily Rate will be paid on the fifth Business Day following the redemption date.

*Optional Redemption During Long-Term Interest Rate Period.* During any Long-Term Interest Rate Period, if the Long-Term Interest Rate Period is less than or equal to five years, the Bonds will not be redeemable pursuant to this provision during the Long-Term Interest Rate Period.

If the Long-Term Interest Rate Period is greater than five years, the Bonds will not be redeemable for five years after the date on which the Bonds begin to bear interest at the Long-Term Interest Rate. After the five year no-call period, the Bonds may be redeemed at any time in whole or in part at 100% of their principal amount plus accrued interest, if any.

As an alternative to and in lieu of the foregoing redemption provisions, if, with respect to any Long-Term Interest Rate Period, a Favorable Opinion of Tax Counsel is delivered to the Trustee not later than the date of the establishment of such Long-Term Interest Rate Period, the Bonds may be redeemed during such Long-Term Interest Rate Period at the option of the Company in whole or in part at any time after a no-call period, if any, established by the

Remarketing Agent, at the percentages of their principal amount, plus accrued interest, as follows: the Remarketing Agent shall, given the duration of the Long-Term Interest Rate Period, determine and inform the Trustee and the Company, on a date which is no later than the establishment of the Long-Term Interest Rate, the periods during which the Bonds shall not be subject to redemption (the *"Call Protection Period"*), the premium or premiums payable upon redemption (the *"Call Premiums"*), if any, applicable to the redemption of Bonds after the Call Protection Period, and the period or periods during which the Call Premiums shall be effective (the *"Call Premium Periods"*) necessary to establish the Long-Term Interest Rate. Such Call Protection Period, Call Premiums and Call Premium Periods shall be established in accordance with optional call redemption provisions which, in the judgment of the Remarketing Agent, are generally accepted at the time of determination as the standard features for obligations such as the Bonds, given the length of the Long-Term Interest Rate Period.

*Extraordinary Optional Redemption.* The Bonds are subject to redemption in whole without premium at any time upon receipt by the Trustee and the Issuer of a written notice from the Company stating that the Company has determined that:

(i) Any federal, state or local body exercising governmental or judicial authority has taken any action which results in the imposition of unreasonable burdens or excessive liabilities with respect to the Project or the Plant, rendering impracticable or uneconomical the operation of either, including, without limitation, the condemnation or taking by eminent domain of all or substantially all of the Project or the Plant; or

(ii) Changes in the economic availability of raw materials, operating supplies or facilities or technological or other changes have made the continued operation of the Plant as an efficient generating facility uneconomical; or

(iii) The Project or the Plant has been damaged or destroyed to such an extent that it is not practicable or desirable to rebuild, repair or restore the Project or the Plant.

If the Issuer shall have received such notice by the Company, the Issuer, upon request of the Company, shall give written notice to the Trustee directing the Trustee to take all action necessary to redeem the outstanding Bonds in whole and on a date specified in such notice, which date shall be not less than 45 nor more than 90 days from the date the notice is received by the Trustee.

*Optional Redemption During Daily or Weekly Rate Period.* When interest on the Bonds is payable at a Daily or Weekly Rate, the Bonds may be redeemed in whole or in part at the option of the Company, on any Business Day.

*Optional Redemption During Auction Rate Periods.* When interest on the Bonds is payable at an Auction Mode Rate, the Bonds may be redeemed in whole or in part at the option of the Company, on the first day after the last day of the Auction Period then in effect.

*Optional Redemption During Index Rate Periods.* During any Index Rate Period, the Bonds are not subject to optional redemption.

*Notice of Redemption.* At least 30 days before each redemption, the Trustee will mail a notice of redemption by first-class mail to each Bondholder with Bonds to be redeemed at such holder's registered address. Failure to give any required notice of redemption as to any particular Bonds, or any defect therein, will not affect the validity of the call for redemption of any Bonds in respect of which no failure or defect occurs. Any notice mailed as provided in this paragraph shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by the addressee.

*Effect of Notice.* When notice is required and given, Bonds called for redemption become due and payable on the redemption date; in such case when funds are deposited with the Trustee sufficient for redemption, interest on the Bonds to be redeemed ceases to accrue as of the date of redemption.

10. *Denominations; Transfer; Exchange.* The Bonds may be issued in registered form without coupons in denominations as follows: (1) when interest is payable at a Daily, Weekly or Commercial Paper Rate, $100,000 or any integral multiple thereof; (2) when interest is payable at a Long-Term Interest Rate, $5,000 and integral multiples of $5,000 thereafter; (3) when interest is payable at an Auction Mode Rate, $1,000 and integral multiples thereof; and (4) when interest is payable at an Index Rate, $100,000 and integral multiples of $5,000 thereafter. A holder may register the transfer of or exchange Bonds in accordance with the Indenture. The Trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. Except in connection with the purchase of Bonds tendered for purchase, the Trustee will not be required to register the transfer of or exchange any Bond which has been called for redemption or during the period beginning 15 days before the mailing of notice calling the Bonds or any portion of the Bonds for redemption and ending on the redemption date.

11. *Persons Deemed Owners.* The registered holder of this Bond shall be treated as the owner of it for all purposes.

12. *Funds in Trust; Unclaimed Funds.* All moneys which the Trustee shall have withdrawn from the Bond Fund or shall have received from any other source and set aside, or deposited with the paying agents, for the purpose of paying any of the Bonds hereby secured, either at the maturity thereof or upon call for redemption or tender, shall be held in trust for the respective holders of such Bonds. But any moneys which shall be so set aside or deposited by the Trustee and which shall remain unclaimed by the holders of such Bonds for a period of six years after the date on which such Bonds shall have become due and payable shall upon request in writing be paid to the Company or to such officer, board or body as may then be entitled by law to receive the same, and thereafter the holders of such Bonds shall look only to the Company or to such officer, board or body, as the case may be, for payment and then only to the extent of the amount so received without any interest thereon, and the Trustee, the Issuer and the paying agents shall have no responsibility with respect to such moneys.

13. *Discharge Before Redemption, Tender or Maturity.* If the Company at any time deposits with the Trustee money or Government Obligations as described in the Indenture sufficient to pay at redemption, tender or maturity principal of and interest on the outstanding Bonds, and if the Company also pays or provides for the payment of all other sums then payable by the Company under the Agreement or the Indenture, the lien of the Indenture will be

discharged. After discharge, Bondholders must look only to the deposited money and securities for payment except as otherwise specifically provided in the Indenture.

14. *Amendment, Supplement, Waiver.* Subject to certain exceptions, the Indenture, the Agreement, the Note or the Bonds may be amended or supplemented, and any past default or compliance with any provision may be waived, with the consent of the holders of a majority in principal amount of the Bonds then outstanding. Any such consent shall be irrevocable and shall bind any subsequent owner of this Bond or any Bond delivered in substitution for this Bond. Without the consent of any Bondholder, the Issuer may amend or supplement the Indenture, the Agreement, the Note or the Bonds as described in the Indenture, among other things, to cure any ambiguity, omission, defect or inconsistency, to provide for uncertificated Bonds in addition to or in place of certificated Bonds, to provide for a Book-Entry System for the Bonds or to make any change that does not materially adversely affect the rights of any Bondholder.

15. *Defaults and Remedies.* The Indenture provides that the occurrences of certain events constitute Events of Default. If an Event of Default occurs and is continuing, the Bonds may become or may be declared immediately due and payable, as provided in the Indenture. An Event of Default and its consequences may be waived as provided in the Indenture. Bondholders may not enforce the Indenture or the Bonds except as provided in the Indenture. Except as specifically provided in the Indenture, the Trustee may refuse to enforce the Indenture or the Bonds unless it receives indemnity satisfactory to it. Subject to certain limitations, holders of a majority in principal amount of the Bonds then outstanding may direct the Trustee in its exercise of any trust or power.

16. *No Recourse Against Others.* A member, director, officer or employee, as such, of the Issuer shall not have any liability for any obligations of the Issuer or the Company under the Bonds or the Indenture or for any claim based on such obligations or their creation. Each Bondholder by accepting a Bond waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Bond.

17. *Authentication.* This Bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Indenture until the certificate of authentication hereon shall have been duly executed by the Trustee.

A copy of the Indenture may be inspected at the corporate trust office of the Trustee located at 100 Ashford Center North, Suite 520, Atlanta, Georgia 30338.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required to exist, happen and be performed precedent to and in the execution and delivery of the Indenture and the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law.

IN WITNESS WHEREOF the Mississippi Business Finance Corporation has caused this Bond to be executed in its name by its Executive Director by his manual or facsimile signature and attested by the manual or facsimile signature of its Secretary and its corporate seal to be hereunto affixed or printed hereon.

MISSISSIPPI BUSINESS FINANCE CORPORATION

By: _____
William T. Barry, Executive Director

Attest:

_____
James Vernon Smith, Sr., Secretary

CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds of the series designated therein and issued under the provisions of the within-mentioned Indenture.

THE BANK OF NEW YORK TRUST COMPANY
OF FLORIDA, N.A.,
as Trustee

Date:_____ By: _____
Authorized Signature

STATE OF MISSISSIPPI
COUNTY OF HINDS

The undersigned, Secretary of the Issuer, hereby certifies that the within Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bond, Series 2003 (Gulf Power Company Project) was validated and confirmed by decree of the Chancery Court of the First Judicial District of Hinds County, Mississippi rendered on the 10th day of April, 2003.

(SEAL)

_____
Secretary of Mississippi
Business Finance Corporation

The following abbreviations, when used in the inscription on the face of the within Bond, shall be construed as though they were written out in full according to applicable laws or regulations:

| | | | |
|---|---|---|---|
| TEN COM- | as tenants common | UNIF GIFT MIN ACT- | _____ Custodian _____ (Cust) (Minor) |
| TEN ENT- | as tenants by the entireties | | under Uniform Gifts to Minors Act |
| JT TEN- | as joint tenants with right of survivorship and not as tenants in common | | _____ (State) |

Additional abbreviations may also be used though not in list above.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto

_____

PLEASE INSERT SOCIAL SECURITY OR
OTHER IDENTIFYING NUMBER OF ASSIGNEE

| |
|---|
| |

_____

(Name and Address of Assignee)

_____

the within Bond and does hereby irrevocably constitute and appoint _____ attorney to transfer the said Bond on the books kept for registration thereof with full power of substitution in the premises.

Dated:_____

Signature guaranteed:

_____

Medallion Number:_____

*Signature(s) must be guaranteed by an eligible guarantor institution which is a member of a recognized signature guarantee program, i.e. Securities Transfer Agents Medallion Program (STAMP), or New York Stock Exchange Medallion Signature Program (MSP) acceptable to the Trustee.

_____

NOTICE: The signature to this assignment must correspond with the name of the registered owner as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatever.

EXHIBIT B

TO

TRUST INDENTURE

Auction Procedures

## TABLE OF CONTENTS

**Page**


ARTICLE I Definitions....1

ARTICLE II Auction Procedures....7

Section 2.01. General Procedures....7

Section 2.02. Orders by Existing Owners and Potential Owners. ....7

Section 2.03. Submission of Orders by Broker-Dealers to Auction Agent. ....9

Section 2.04. Determination of Auction Mode Rate....11

Section 2.05. Allocation of Bonds.. ....12

Section 2.06. Notice of Auction Mode Rate. ....14

Section 2.07. Reference Rate. ....15

Section 2.08. Miscellaneous Provisions Regarding Auctions. ....16

Section 2.09. Changes in Auction Period or Auction Date....17

ARTICLE III Auction Agent....18

Section 3.01. Auction Agent. ....18

Section 3.02. Qualifications of Auction Agent; Resignation; Removal. ....18

## ARTICLE I

### Definitions

In addition to the words and terms elsewhere defined in this Indenture, the following words and terms as used in this *Exhibit B* and elsewhere in this Indenture have the following meanings while the Bonds are in an Auction Rate Period unless the context or use indicates another or different meaning or intent.

"Agent Member" means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

"All Hold Rate" means, as of any Auction Date, 45% of the Reference Rate in effect on such Auction Date.

"Applicable Percentage" means, as of any Auction Date, (a) so long as there has not been more than one Failed Auction since the last Successful Auction, 300%, and (b) if there have been two or more consecutive Failed Auctions since the last Successful Auction 400%.

"Auction" means each periodic implementation of the Auction Procedures.

"Auction Agent" means the auctioneer appointed in accordance with Section 3.01 or 3.02 of this Exhibit B and shall initially be The Bank of New York.

"Auction Agreement" means an agreement among the Company, the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in this Exhibit B with respect to the Bonds while bearing interest at an Auction Mode Rate, as such agreement may from time to time be amended or supplemented.

"Auction Date" means during any period in which the Auction Procedures are not suspended in accordance with the provisions hereof, (i) if the Bonds are in a daily Auction Period, each Business Day, and (ii) if the Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction shall be conducted on such date); *provided, however*, that the last Auction Date with respect to the Bonds in an Auction Period other than a daily Auction Period shall be the earlier of (a) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Bonds and (b) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Bonds; and *provided, further*, that if the Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the Conversion Date for the Bonds and (y) the Business Day next preceding the final maturity date for the Bonds. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion. The first Auction Date for the Bonds is May 19, 2003.

"Auction Mode Rate" means the rate of interest to be borne by the Bonds during each Auction Period determined in accordance with Section 2.04 of this Exhibit B; provided, however, in no event may the Auction Mode Rate exceed the Maximum Auction Rate.

"Auction Period" means any period of less than 365 days during which the Bonds bear interest at a single Auction Mode Rate, as established pursuant to the Indenture.

"Auction Procedures" means the procedures for conducting Auctions for Bonds during an Auction Rate Period set forth in this Exhibit B.

"Auction Rate" or "Auction Rate Period" means for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the Bonds are the subject of Submitted Hold Orders, the All Hold Rate and (ii) if Sufficient Clearing Bids do not exist, the Maximum Auction Rate.

"Authorized Denominations" means $1,000 and integral multiples thereof, notwithstanding anything else in this Indenture to the contrary, so long as the Bonds bear interest at an Auction Mode Rate.

"Available Bonds" means on each Auction Date, the aggregate principal amount of Bonds that are not the subject of Submitted Hold Orders.

"Bid" has the meaning specified in subsection (a) of Section 2.02 of this Exhibit B.

"Bidder" means each Existing Owner and Potential Owner who places an Order.

"Broker-Dealer" means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Exhibit B, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Company and the Insurer, and that is a party to a Broker-Dealer Agreement with the Company and the Auction Agent.

"Broker-Dealer Agreement" means an agreement among the Auction Agent, the Company and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Exhibit B, as such agreement may from to time be amended or supplemented.

"Business Day" in addition to any other definition of "Business Day" included in this Indenture while Bonds bear interest at an Auction Mode Rate, the term Business Day shall not include April 14 or 15 or December 30 or 31 or days on which the Auction Agent or any Broker-Dealer are not open for business.

"Conversion Date" means the date on which the Bonds begin to bear interest at a Daily Rate, a Weekly Rate, a Commercial Paper Rate, a Long-Term Interest Rate or an Index Rate.

"Existing Owner" means a Person who is listed from time to time as the beneficial owner of Bonds in the records of the Auction Agent.

"Failed Auction" means an Auction for which there were not Sufficient Clearing Bids.

"Hold Order" has the meaning specified in subsection (a) of Section 2.02 of this Exhibit B.

"Initial Period" means the period from the date of original issuance of the Bonds to but not including May 20, 2003.

"Interest Payment Date" with respect to Bonds bearing interest at Auction Mode Rates, means May 20, 2003 and thereafter (a) when used with respect to any Auction Period of less than 92 days (other than a daily Auction Period), the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to an Auction Period of 92 or more days, each 13th Thursday after the first day of such Auction Period or the next Business Day if such Thursday is not a Business Day and on the Business Day immediately following such Auction Period, (d) each Conversion Date, and (e) the Maturity Date.

"Maximum Auction Rate" means, as of any Auction Date, the product of the Reference Rate multiplied by the Applicable Percentage, provided, however, that if there have been two or more consecutive Failed Auctions since the last Successful Auction and there has not been a Successful Auction for a period of greater than 90 days after the first of such Failed Auctions, the Maximum Auction Rate shall be the Maximum Interest Rate; provided, further, that in no event shall the Maximum Auction Rate exceed the Maximum Interest Rate.

"Maximum Interest Rate" means, 13% on the date hereof and, to the extent the maximum rate permitted by applicable law shall become less than 13%, then the maximum rate permitted by applicable law.

"Moody's" means Moody's Investors Service, Inc and its successors and assigns.

"Order" means a Hold Order, Bid or Sell Order.

"Potential Owner" means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Bonds in addition to the Bonds currently owned by such Person, if any.

"Principal Office" means, with respect to the Auction Agent, the office thereof designated in writing to the Company, the Trustee, the Insurer and each Broker-Dealer.

"Rating Agencies" means Moody's and S&P.

"Reference Rate" shall have the meaning specified in Section 2.07 of this Exhibit B.

"S&P" means Standard & Poor's, a division of The McGraw-Hill Companies, and its successors and assigns.

"Securities Depository" means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Company which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

"Sell Order" has the meaning specified in subsection (a) of Section 2.02 of this Exhibit B.

"Submission Deadline" means 1:00 p.m., New York City time, on each Auction Date not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent.

"Submitted Bid" has the meaning specified in subsection (b) of Section 2.04 of this Exhibit B.

"Submitted Hold Order" has the meaning specified in subsection (b) of Section 2.04 of this Exhibit B.

"Submitted Order" has the meaning specified in subsection (b) of Section 2.04 of this Exhibit B.

"Submitted Sell Order" has the meaning specified in subsection (b) of Section 2.04 of this Exhibit B.

"Successful Auction" means an Auction for which there were Sufficient Clearing Bids.

"Sufficient Clearing Bids" means an Auction for which the aggregate principal amount of Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Interest Rate is not less than the aggregate principal amount of Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Interest Rate.

"Winning Bid Rate" means the lowest rate specified in any Submitted Bid which if selected by the Auction Agent as the Auction Rate, subject to the All Hold Rate, would cause the aggregate principal amount of Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Bonds.

## ARTICLE II

## Auction Procedures

*Section 2.01. General Procedures.* While the Bonds bear interest at the Auction Mode Rate, Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding each Auction Rate Period commencing after the ownership of the Bonds is no longer maintained in the Book-Entry System pursuant to this Indenture. If there is an Auction Agent on such Auction Date, Auctions shall be conducted in the manner set forth in this Exhibit B.

*Section 2.02. Orders by Existing Owners and Potential Owners.*

(a) Prior to the Submission Deadline on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, information as to:

(A) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period,

(B) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period shall not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner irrevocably offers to sell on the next succeeding Auction Date (or the same day in the case of a daily Auction Period) if the rate determined by the Auction Procedures for the next succeeding Auction Period shall be less than the rate per annum then specified by such Existing Owner), and/or

(C) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably offers to sell on the next succeeding Auction Date (or on the same day in the case of a daily Auction Period) without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period; and

(ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the Bonds, the Broker-Dealers shall contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of Bonds, if any, which each such Potential Owner irrevocably offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof an Order containing the information referred to in clause (i)(A) above is herein referred to as a "Hold Order", an Order containing the information referred to in clause (i)(B) or (ii) above is herein referred to as a "Bid", and an Order containing the information referred to in clause (i)(C) above is herein referred to as a "Sell Order."

(b) (i) Subject to the provisions of Section 2.03 of this Exhibit B, a Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds to be determined as set forth in subsection (a)(v) of Section 2.05 hereof if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate; or

(C) a lesser principal amount of Bonds to be determined as set forth in subsection (b)(iv) of Section 2.05 hereof if such specified rate shall be higher than the Maximum Auction Rate and Sufficient Clearing Bids do not exist.

(ii) Subject to the provisions of Section 2.03 of this Exhibit B, a Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of Bonds as set forth in subsection (b)(iv) of Section 2.05 hereof if Sufficient Clearing Bids do not exist.

(iii) Subject to the provisions of Section 2.03 of this Exhibit B, a Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(A) the principal amount of Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds as set forth in subsection (a)(vi) of Section 2.05 hereof if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies Bonds to be held, purchased or sold in a principal amount which is not $1,000 or an integral multiple thereof shall be rounded down to the nearest $1,000, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) for purposes of any Auction other than during a daily Auction Period, any portion of an Order of an Existing Owner which relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted; and

(iii) for purposes of any Auction other than during a daily Auction Period, no portion of a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction.

*Section 2.03. Submission of Orders by Broker-Dealers to Auction Agent.*

(a) Each Broker-Dealer shall submit to the Auction Agent in writing or by such other method as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and specifying, with respect to each Order:

(i) the name of the Bidder placing such Order;

(ii) the aggregate principal amount of Bonds, if any, that are the subject of such Order;

(iii) to the extent that such Bidder is an Existing Owner:

(A) the principal amount of Bonds, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of Bonds, if any, subject to any Sell Order placed by such Existing Owner; and

(iv) to the extent such Bidder is a Potential Owner, the rate and amount specified in such Potential Owner's Bid.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If an Order or Orders covering all of the Bonds held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds held by such Existing Owner and not subject to Orders submitted to the Auction Agent; *provided, however*, that if there is a conversion from one Auction Period to another Auction Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of Bonds to be converted held by such Existing Owner, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds to be converted held by such Existing Owner not subject to Orders submitted to the Auction Agent.

(d) If one or more Orders covering in the aggregate more than the principal amount of outstanding Bonds held by any Existing Owner are submitted to the Auction Agent, such Orders shall be considered valid as follows and in the following order of priority:

(i) all Hold Orders shall be considered valid Hold Orders, but only up to and including in the aggregate the principal amount of Bonds held by such Existing Owner, and if the aggregate principal amount of Bonds subject to such Hold Orders exceeds the aggregate principal amount of Bonds held by such Existing Owner, the aggregate principal amount of Bonds subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of outstanding Bonds held by such Existing Owner;

(ii) (A) any Bid of an Existing Owner shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of Bonds held

by such Existing Owner over the aggregate principal amount of the Bonds subject to Hold Orders referred to in paragraph (i) above;

(B) subject to sub-clause (A) of this paragraph (ii), all Bids of an Existing Owner with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of Bonds held by such Existing Owner over the principal amount of Bonds held by such Existing Owner subject to Hold Orders referred to in sub-paragraph (i) of this paragraph (d);

(C) subject to sub-clause (A) of this paragraph (ii), if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of Bonds held by such Existing Owner over the principal amount of Bonds held by such Existing Owner subject to Hold Orders referred to in sub-paragraph (i) of this paragraph (d); and

(D) the principal amount, if any, of such Bonds subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Owner at the rate specified therein; and

(iii) all Sell Orders shall be considered valid Sell Orders, but only up to and including a principal amount of Bonds equal to the excess of the principal amount of Bonds held by such Existing Owner over the sum of the principal amount of the Bonds considered to be subject to Hold Orders pursuant to sub-paragraph (i) of this paragraph (d) and the principal amount of Bonds considered to be subject to Bids of such Existing Owner pursuant to sub-paragraph (ii) of this paragraph (d).

(e) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate shall be aggregated and considered a single Bid and each Bid submitted with a different rate shall be considered a separate Bid with the rate and the principal amount of Bonds specified therein.

(f) Any Bid submitted by an Existing Owner or a Potential Owner specifying a rate lower than the All Hold Rate shall be treated as a Bid specifying the All Hold Rate, and any such Bid shall be considered as valid and shall be selected in ascending order of the respective rates in the Submitted Bids (as defined in Section 2.04).

(g) Neither the Issuer, the Insurer, the Company, the Trustee, the Remarketing Agent nor the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

*Section 2.04. Determination of Auction Mode Rate.*

(a) Not later than 9:30 a.m., New York City time, on each Auction Date, the Auction Agent shall advise the Broker-Dealers and the Trustee by telephone of the All Hold Rate, the Maximum Auction Rate and the Reference Rate.

(b) Promptly after the Submission Deadline on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) Promptly after the Auction Agent has made the determinations pursuant to subsection (b) of this Section 2.04, the Auction Agent shall advise the Trustee and the Company by telex, facsimile or other electronic transmission of the Auction Rate for the next succeeding Auction Period and the Trustee shall promptly notify DTC of such Auction Rate.

(d) In the event the Auction Agent fails to calculate or, for any reason, fails to timely provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a period of 35 days or less, the new Auction Period shall be the same as the preceding Auction Period and the Auction Mode Rate for the New Auction Period shall be the same as the Auction Mode Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 35 days, the preceding Auction Period shall be extended to the seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the Auction Mode Rate in effect for the preceding Auction Period will continue in effect for the Auction Period as so extended. In the event an Auction Period is extended as set forth in clause (ii) of the preceding sentence, an Auction shall be held on the last Business Day of the Auction Period as so extended to take effect for an Auction Period beginning on the Business Day immediately following the last day of the Auction Period as extended which Auction Period will end on the date it would otherwise have ended on had the prior Auction Period not been extended.

(e) In the event of a failed conversion from an Auction Mode Rate Determination Method to another Determination Method or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Mode Rate for the next Auction Period shall be the Maximum Auction Rate and the Auction Period shall be a seven-day Auction Period.

(f) If the Bonds are not rated or if the Bonds are no longer maintained in book-entry-only form by the Securities Depository then the Auction Mode Rate shall be the Maximum Auction Rate.

*Section 2.05. Allocation of Bonds.*

(a) In the event of Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted, and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Bonds outstanding which are not the subject of Submitted Hold Orders described in sub-paragraph (i) of this paragraph (a) or of Submitted Bids described in sub-paragraphs (iii) and (iv) of this paragraph (a) by (B) a fraction the numerator of which shall be the principal amount of Bonds outstanding held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of Bonds outstanding subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Bonds outstanding which are not the subject of Submitted Hold Orders described in sub-paragraph (i) of this paragraph (a) or of Submitted Bids described in sub-paragraphs (iii), (iv) or (v) of this paragraph (a) by (B) a fraction the numerator of which shall be the principal amount of Bonds outstanding subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of Bonds outstanding subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Auction Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Auction Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Auction Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Bonds subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the principal amount of Bonds outstanding held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of Bonds outstanding subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Auction Rate shall be rejected.

(c) If, as a result of the procedures described in subsection (a) or (b) of this Section 2.05, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of Bonds which is not an integral multiple of $1,000 on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of $1,000, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Bonds on such Auction Date.

(d) If, as a result of the procedures described in subsection (a) of this Section 2.05, any Potential Owner would be required to purchase less than $1,000 in principal amount of Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate Bonds for purchase among Potential Owners so that the principal amount of Bonds purchased on such Auction Date by any Potential Owner shall be an integral multiple of $1,000, even if such allocation results in one or more of such Potential Owners not purchasing Bonds on such Auction Date.

*Section 2.06. Notice of Auction Mode Rate.*

(a) On each Auction Date, the Auction Agent shall notify by telephone or other electronic means or in writing each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Owner or Potential Owner of the following:

(i) the Auction Mode Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of the Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Mode Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected and (C) the immediately succeeding Auction Date;

(ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of Bonds to be purchased pursuant to such Bid (including, with respect to the Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Bonds; and

(iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

*Section 2.07. Reference Rate.*

(a) The Reference Rate on any Auction Date with respect to Bonds in any Auction Period of 35 days or less shall be the greater of (a) the offered rate for deposits in U.S. dollars for a one-month period (LIBOR) which appears on the MoneyLine Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market, or (b) the BMA Index at approximately 9:30 a.m., New York City time, on such date. The Reference Rate with respect to Bonds in any Auction Period of more than 35 days shall be the rate on Treasury securities having a maturity which most closely approximates the length of the Auction Period, as last published in *The Wall Street Journal.* If either rate is unavailable, the Reference Rate shall be an index or rate agreed to by all Broker-Dealers and consented to by the Company.

(b) If for any reason on any Auction Date the Reference Rate shall not be determined as hereinabove provided in this section, the Reference Rate shall be the Reference Rate for the Auction Period ending on such Auction Date.

(c) The determination of the Reference Rate as provided herein shall be conclusive and binding upon the Issuer, the Company, the Trustee, the Remarketing Agent, the Broker-Dealers, the Auction Agent and the Owners and Beneficial Owners of the Bonds.

*Section 2.08. Miscellaneous Provisions Regarding Auctions.*

(a) In this Exhibit B, each reference to the purchase, sale or holding of Bonds shall refer to beneficial interests in Bonds, unless the context clearly requires otherwise.

(b) During an Auction Rate Period, the provisions of the Indenture and the definitions contained therein and described in this Exhibit B, including without limitation the definitions of All Hold Rate, Interest Payment Date, Maximum Auction Rate, Reference Rate, Applicable Percentage and Auction Mode Rate, may be amended pursuant to the Indenture by obtaining the consent of (i) the owners of all Bonds bearing interest at a Auction Mode Rate, and (ii) the Insurer, as follows. If, on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the registered owners of the

Bonds as required by the Indenture, (i) the Auction Mode Rate which is determined on such date is the Winning Bid Rate and (ii) there is delivered to the Company and the Trustee an Opinion of Tax Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income tax to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the owners of all affected Bonds affected by such amendment.

(c) During an Auction Rate Period, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, *provided that* (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the Existing Owner of such Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this Section 2.08 if such Broker-Dealer remains the Existing Owner of the Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

*Section 2.09. Changes in Auction Period or Auction Date.*

(a) Changes in Auction Period.

(i) During any Auction Rate Period, the Company, may, from time to time on any Interest Payment Date, change the length of the Auction Period with respect to all of the Bonds in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Bonds. Any such change in the Auction Period shall be deemed to be a change in Determination Method. The Company shall initiate the change in the length of the Auction Period by giving a Conversion Notice pursuant to Section 2.02(b)(1) of the Indenture.

(ii) The change in the length of the Auction Period shall not be effective unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this subsection (a) and the Auction immediately preceding the proposed change.

(iii) The change in length of the Auction Period shall take effect only if (i) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period and (ii) on the proposed effective date, the Company provides the Trustee with a Favorable Opinion of Tax Counsel as to such change in the Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds except to the extent such Existing Owner submits an Order with respect to such Bonds. If the conditions referred to in the first sentence of this sub-paragraph (iii) are not met, the Trustee shall notify the Auction Agent and then the Auction Mode Rate for the next Auction Period shall be the Maximum Auction Rate, and the Auction Period shall be a seven-day Auction Period.

(iv) On the conversion date of the Bonds selected for conversion from one Auction Period to another, any Bonds which are not the subject of a specific Hold Order or Bid will be deemed to be subject to a Sell Order.

(b) Changes in Auction Date. During any Auction Rate Period, the Auction Agent, with the written consent of the Company, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the Bonds. The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Issuer, the Insurer, the Company, the Broker-Dealers, the Remarketing Agent and the Securities Depository.

## ARTICLE III

### Auction Agent

*Section 3.01. Auction Agent.*

(a) The Auction Agent shall be The Bank of New York, or any successor appointed by the Company with the consent of the Insurer, to perform the functions specified herein. The Auction Agent shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument, delivered to the Company, the Trustee, the Issuer and each Broker-Dealer which shall set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to the Issuer, the Company and the Trustee.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in Bonds with the same rights as if such entity were not the Auction Agent.

*Section 3.02. Qualifications of Auction Agent; Resignation; Removal.* The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least $30,000,000, or (b) a member of NASD having a capitalization of at least $30,000,000 and, in either case, authorized by law to perform all the duties and obligations imposed upon it by this Indenture and a member of or a participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by this Indenture by giving at least 90 days notice to the Company, the Issuer, the Insurer and the Trustee. The Auction Agent may be removed at any time by the Company with the consent of the Insurer by written notice, delivered to the Auction Agent, the Issuer, the Insurer and the Trustee. Upon any such resignation or removal, the Company with the consent of the Insurer shall appoint a successor Auction Agent meeting the requirements of this section. In the event of the resignation

or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties hereunder until its successor has been appointed by the Company. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving forty-five (45) days notice to the Company, the Issuer, the Insurer and the Trustee even if a successor Auction Agent has not been appointed.

MISSISSIPPI BUSINESS FINANCE CORPORATION

and

GULF POWER COMPANY

---

# LOAN AGREEMENT

---

Dated as of April 1, 2003

Relating to

$29,075,000
Pollution Control Revenue Refunding Bonds,
Series 2003
(Gulf Power Company Project)

LOAN AGREEMENT

TABLE OF CONTENTS

(This Table of Contents is for convenience of reference only and is not a part of this Loan Agreement)


PAGE

ARTICLE I: DEFINITIONS ..... 1

ARTICLE II: ACQUISITION AND COMPLETION OF THE PROJECT; ISSUANCE OF THE BONDS ..... 2
SECTION 2.1. Acquisition and Completion of the Project ..... 2
SECTION 2.2. Issuance of the Bonds ..... 2

ARTICLE III: LOAN BY ISSUER; PROVISIONS FOR PAYMENT ..... 2
SECTION 3.1. Loan by Issuer ..... 2
SECTION 3.2. Delivery of Note by Company; Other Amounts Payable ..... 2
SECTION 3.3. Obligation of the Company Unconditional ..... 3
SECTION 3.4. Assignment and Pledge of Payments and Rights Under the Note and the Agreement ..... 3

ARTICLE IV: SPECIAL COVENANTS ..... 4
SECTION 4.1. Use of Project ..... 4
SECTION 4.2. Indemnity Against Claims ..... 4
SECTION 4.3. Inspection of the Project ..... 4
SECTION 4.4. The Company to Maintain Its Corporate Existence; Conditions Under Which Exceptions Permitted ..... 4
SECTION 4.5. Annual Statement ..... 5
SECTION 4.6. Further Assurances and Corrective Instruments ..... 5
SECTION 4.7. Maintenance of Project by Company ..... 5
SECTION 4.8. Redemption or Purchase of Bonds ..... 5
SECTION 4.9. Tax Covenants ..... 6
SECTION 4.10. Compliance with Indenture ..... 6
SECTION 4.11. Compliance with Prior Indenture ..... 6
SECTION 4.12. No Warranty of Suitability by the Issuer ..... 6

ARTICLE V: EVENTS OF DEFAULT AND REMEDIES ..... 6
SECTION 5.1. Events of Default ..... 6
SECTION 5.2. Remedies on Default ..... 7
SECTION 5.3. Agreement to Pay Attorneys' Fees and Expenses ..... 8
SECTION 5.4. No Additional Waiver Implied by One Waiver ..... 8

ARTICLE VI: MISCELLANEOUS ..... 8
SECTION 6.1. Term of This Agreement ..... 8
SECTION 6.2. Notices ..... 8
SECTION 6.3. Binding Effect ..... 9
SECTION 6.4. Severability ..... 9
SECTION 6.5. Amendments ..... 9
SECTION 6.6. Execution in Counterparts ..... 9
SECTION 6.7. Applicable Law ..... 9
SECTION 6.8. Captions ..... 9
SECTION 6.9. Other Financing ..... 9
SECTION 6.10. Amounts Remaining in the Bond Fund ..... 9

LOAN AGREEMENT dated as of April 1, 2003 between the MISSISSIPPI BUSINESS FINANCE CORPORATION, a public corporation duly created and validly existing pursuant to the Constitution and laws of the State of Mississippi (the "Issuer"), and GULF POWER COMPANY, a corporation organized and existing under the laws of the State of Maine (the "Company"), evidencing the agreement of the parties hereto.

In consideration of the respective representations and agreements hereinafter contained, the parties hereto agree as follows (provided that in the performance of the agreements of the Issuer herein contained, any obligation it may thereby incur for the payment of money shall not be a general debt, liability or obligation of the Issuer, or of the State of Mississippi or any political subdivision thereof but shall be payable solely out of the revenues and proceeds derived from this Agreement and the Note (as hereinafter defined) and the sale of the Bonds referred to herein:

## ARTICLE I

## DEFINITIONS

"Arbitrage Rebate Agreement", "Bond Fund", "Bondholder", "Bonds", "Business Day", "Code", "Government Obligations", "1954 Code", "Prior Indenture", "Rebate Requirement", "Prior Bonds Trustee", "Remarketing Agent" and "Trustee" have the same meanings given and assigned to such words in Article I of the Indenture (as hereinafter defined).

"Agreement" means this Loan Agreement and any amendments and supplements hereto.

"corporation" includes corporations, partnerships, limited partnerships, limited liability partnerships, limited liability companies, associations, companies, statutory trusts and business trusts.

"Event of Default" means any of the occurrences enumerated in Section 5.1 of this Agreement.

"Indenture" means the Trust Indenture dated as of April 1, 2003, relating to $29,075,000 Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project), between the Issuer and The Bank of New York Trust Company of Florida, N.A., as Trustee, pursuant to which the Bonds are authorized to be issued, and including any indenture supplemental thereto.

"Loan" means the loan to be made by the Issuer to the Company of the proceeds (which shall be deemed to include the underwriting discounts, if any, and original issue discount, if any) of the sale of the Bonds, exclusive of any accrued interest paid by the initial purchasers of the Bonds upon the delivery thereof.

"Note" means the non-negotiable promissory note of the Company issued pursuant to Section 3.2 hereof, in the form set forth in Exhibit A hereto.

"Prior Bonds" has the same meaning given and assigned to it in the Resolution.

"Project" has the same meaning given and assigned to it in the Resolution.

"Resolution" means the resolutions of the Issuer adopted on February 19, 2003 and March 19, 2003 in connection with the sale and issuance of the Bonds and the current refunding of the Prior Bonds.

## ARTICLE II

## ACQUISITION AND COMPLETION OF THE PROJECT; ISSUANCE OF THE BONDS

SECTION 2.1. Acquisition and Completion of the Project. The Company represents that it has caused the acquisition, construction, installation and equipping of the Project to be completed substantially in accordance with the plans for the Project.

SECTION 2.2. Issuance of the Bonds. In order to provide funds for the purposes set forth in Section 3.1 hereof, the Issuer agrees that it will initially issue and deliver the Bonds to the purchasers thereof at a price to be approved in advance by the Company and apply and deposit the proceeds thereof in accordance with the terms of the Indenture and Section 3.1 hereof. The Indenture shall be satisfactory in form and substance to the Company and shall provide the manner in which, and the purposes for which, proceeds of Bonds may be used and invested.

## ARTICLE III

## LOAN BY ISSUER; PROVISIONS FOR PAYMENT

SECTION 3.1. Loan by Issuer. The Issuer hereby agrees to make the Loan to the Company in order to currently refund all of the outstanding Prior Bonds. The Company hereby agrees to cause the proceeds of the Bonds to be applied exclusively to such purpose and to cause the current redemption of all of the outstanding Prior Bonds to be effected within 90 days after the date of initial issuance of the Bonds. The Company agrees to pay to the Prior Bonds Trustee the amount in excess of the proceeds of the Bonds needed to pay the redemption price of the Prior Bonds.

SECTION 3.2. Delivery of Note by Company; Other Amounts Payable. In order to evidence the Loan and the obligation of the Company to repay the same, the Company shall execute and deliver the Note in a principal amount equal to the aggregate principal amount of the Bonds and providing for payments which correspond in time and amount with payments due on the Bonds. The Note shall be dated the date of the initial authentication of, and mature on the same maturity date as, the Bonds. If (i) on the date any payments on the Bonds are due, there are any available moneys on deposit with the Trustee which are not being held for the payment of

Bonds due and payable but which have not been presented for payment, or (ii) on any date on which Bonds are required to be purchased pursuant to the Bonds or Article III of the Indenture, there are available moneys on deposit with the Trustee held for the payment of the purchase price which are not being held for the payment of Bonds which have not been presented for payment, then, in each case, such moneys shall be credited against the payment then due under the Note, first in respect of interest and then, to the extent of remaining moneys, in respect of principal.

The Company will also pay: (i) the fees, charges and reasonable expenses of the Trustee and any paying agents and tender agents under the Indenture, such fees, charges and reasonable expenses to be paid directly to the Trustee or paying agents or tender agents, as the case may be, for their respective accounts as and when such fees, charges and reasonable expenses become due and payable, (ii) the fees, charges and reasonable expenses of the Issuer, (iii) any expenses and costs incurred or to be incurred in connection with the sale and issuance of the Bonds, (iv) all amounts owed under the Arbitrage Rebate Agreement, including but not limited to the Rebate Requirement, and (v) any expenses in connection with any redemption of the Bonds and the Prior Bonds.

SECTION 3.3. Obligation of the Company Unconditional. The obligation of the Company to make payments as provided in the Note and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional notwithstanding any change in the tax or other laws of the United States of America or of the State of Mississippi or any political subdivision of either thereof or any failure of the Issuer to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Agreement. Nothing contained in this Section 3.3 shall be construed to release the Issuer from the performance of any of the agreements on its part herein contained; and, in the event the Issuer should fail to perform any such agreement on its part, the Company may institute such action against the Issuer as the Company may deem necessary to compel performance or recover damages for nonperformance so long as such action shall not violate the agreements on the part of the Company contained in the preceding sentence, but in no event shall the Company be entitled to any diminution of the amounts payable under the Note and as provided in Section 3.2 hereof.

SECTION 3.4. Assignment and Pledge of Payments and Rights Under the Note and the Agreement. The Issuer shall assign to the Trustee as security under the Indenture all rights, title and interests of the Issuer in and to (i) the Note and all payments thereunder and (ii) this Agreement and all moneys receivable hereunder (except for payments to the Issuer under the second paragraph of Section 3.2 and under Sections 4.2 and 5.3 hereof). The Company assents to such assignment and hereby agrees that, as to the Trustee, its obligations to make such payments shall be absolute and shall not be subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach by the Issuer or the Trustee of any obligation to the Company, whether hereunder or otherwise, or out of any indebtedness or liability at any time owing to the Company by the Issuer or the Trustee.

## ARTICLE IV

## SPECIAL COVENANTS

SECTION 4.1. Use of Project. The Issuer hereby acknowledges that it shall have no rights to the use or possession of the Project. The Issuer hereby further acknowledges that the Project will not constitute any part of the security for the Bonds.

SECTION 4.2. Indemnity Against Claims. The Company will pay and discharge and will indemnify and hold harmless the Issuer and the Trustee and their respective officers, employees and agents from (a) any lien or charge upon payments by the Company to the Issuer under the Note or hereunder, (b) any taxes, assessments, impositions and other charges upon payments by the Company to the Issuer under the Note or hereunder and (c) any and all liability, damages, costs and expenses arising out of or resulting from the transactions contemplated by this Agreement and the Indenture or in connection with the Project, including the reasonable fees and expenses of counsel (in each case provided in this Section with respect to the Trustee and its officers, employees and agents, only in the absence of negligence or willful misconduct). If any such lien or charge is sought to be imposed upon payments, or any such taxes, assessments, impositions or other charges are sought to be imposed, or any such liability, damages, costs and expenses are sought to be imposed, the Issuer or the Trustee, as the case may be, will give prompt written notice to the Company, and the Company shall have the sole right and duty to assume, and will assume, the defense thereof, with full power to litigate, compromise or settle the same in its sole discretion.

SECTION 4.3. Inspection of the Project. The Company agrees that the Issuer and its duly authorized agents may at reasonable times enter upon the Project site and examine and inspect the Project and the books and records of the Company with respect to the Project.

SECTION 4.4. The Company to Maintain Its Corporate Existence; Conditions Under Which Exceptions Permitted. The Company agrees that during the term of this Agreement it will maintain its corporate existence and qualification to do business in the State of Mississippi, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it; provided, that the Company may, without violating the agreements contained in this Section 4.4, consolidate with or merge into another domestic corporation (i.e., a corporation incorporated and existing under the laws of one of the states of the United States of America or under the laws of the United States of America) or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another domestic corporation all or substantially all of its assets as an entirety and thereafter dissolve, provided that, in the event the Company is not the surviving, resulting or transferee corporation, as the case may be, (i) the surviving, resulting or transferee corporation assumes, accepts and agrees in writing to pay and perform all of the obligations of the Company herein and under the Note and is a Mississippi corporation or is qualified to do business in Mississippi as a foreign corporation and (ii) such consolidation, merger or transfer of assets does not result in the loss of the exclusion from gross income for federal income tax purposes of interest on the Bonds.

SECTION 4.5. Annual Statement. The Company agrees to have an annual audit made by its regular independent public accountants and within 180 days after the close of each fiscal year to timely furnish the Trustee and any Bondholder who may so request a balance sheet and statement of income and surplus showing the financial condition of the Company and its consolidated subsidiaries, if any, at the close of such fiscal year and the results of operations of the Company and its consolidated subsidiaries, if any, for such fiscal year, accompanied by a certificate or opinion of said accountants. The requirements of this Section 4.5 may be satisfied by the submission to the Trustee and each Bondholder who may request such information of the Company's annual report to its shareholders, provided such annual report contains the information required by the preceding sentence.

SECTION 4.6. Further Assurances and Corrective Instruments. The Issuer and the Company agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Project and for carrying out the intention or facilitating the performance of this Agreement.

SECTION 4.7. Maintenance of Project by Company. The Company agrees that during the term of this Agreement it will pay all costs of operating, maintaining and repairing the Project; provided, however, that the Company shall not be under any obligation to renew, repair or replace any inadequate, obsolete, worn-out, unsuitable, undesirable or unnecessary portion of the Project. In any instance where the Company determines that any portion of the Project has become inadequate, obsolete, worn-out, unsuitable, undesirable or unnecessary, the Company may remove such portion of the Project and sell, trade-in, exchange or otherwise dispose of such removed portion without any notice to or responsibility or accountability to the Issuer, the Trustee or the Bondholders therefor.

SECTION 4.8. Redemption or Purchase of Bonds. The Issuer shall take all steps then necessary under the applicable provisions of the Indenture for the redemption or purchase of Bonds upon receipt, not less than ten days (or such shorter period as is acceptable to the Trustee and the Issuer) prior to the day on which the Trustee is required to give notice (if any) thereof pursuant to the Indenture, by the Issuer and the Trustee from the Company of a written notice specifying:

(a) the principal amount of Bonds to be redeemed or purchased;

(b) the date of such redemption or purchase; and

(c) in the case of a redemption of Bonds, directions to mail a notice of redemption.

In the case of a purchase of Bonds, the written notice to the Trustee shall, if available moneys on deposit with the Trustee are insufficient to purchase the principal amount of Bonds specified in (a) above, be accompanied by a deposit with the Trustee of cash or Government Obligations sufficient, together with other available moneys on deposit with the Trustee, to make the directed purchase of Bonds.

SECTION 4.9. Tax Covenants. The Company covenants and agrees that it will not use or permit the use by any person of the Project or any of the funds provided by the Issuer hereunder or any other of its funds, directly or indirectly, or direct the Trustee to invest any funds held by it under the Indenture or this Agreement, in such manner as would, or enter into, or allow any "related person" (as defined in Section 103(b)(13) of the 1954 Code) to enter into, any arrangement, formal or informal, that would, or take or omit to take any other action that would, cause any Bond to be an "arbitrage bond" within the meaning of Section 148(a) of the Code or result in the loss of the exclusion from gross income for federal income tax purposes of the interest paid on the Bonds to the extent afforded under the Code and the 1954 Code. The Company acknowledges Section 6.04 of the Indenture and agrees to perform all duties imposed upon it by such Section including but not limited to its obligations under the Arbitrage Rebate Agreement. Insofar as said Section imposes duties and responsibilities on the Company, it is specifically incorporated herein by reference.

SECTION 4.10. Compliance with Indenture. The Company agrees to perform and comply with all provisions of the Indenture applicable to it. In addition, the Company shall have and enjoy all rights and options granted to it by the Indenture.

SECTION 4.11. Compliance with Prior Indenture. The Company certifies that it is in full compliance in all material respects with the terms and provisions applicable to it of the Prior Indenture and that no Event of Default (as defined in the Prior Indenture) has occurred thereunder.

SECTION 4.12. No Warranty of Suitability by the Issuer. The Issuer makes no warranty either express or implied as to the Project, including its suitability for the Company's purposes or needs.

## ARTICLE V

## EVENTS OF DEFAULT AND REMEDIES

SECTION 5.1. Events of Default. Each of the following shall be an "Event of Default" under this Agreement:

(a) Failure by the Company to pay when due the amounts required to be paid pursuant to the Note which failure, in the case of such amounts in respect of interest on any Bond, continues for five days, or the failure by the Company to pay within 30 days of the date due any other amounts required to be paid pursuant to this Agreement.

(b) Failure by the Company to observe and perform any covenant, condition or agreement on its part to be observed or performed hereunder, other than as referred to in subsection (a) of this Section 5.1, for a period of 90 days after written notice, specifying such failure and requesting that it be remedied, is given to the Company by the Issuer or the Trustee, unless the Issuer and the Trustee shall agree in writing to an extension of such period prior to its expiration; provided, however, if the failure stated in

the notice cannot be corrected within the applicable period, the Issuer and the Trustee will not unreasonably withhold their consent to an extension of such period if corrective action is instituted by the Company within the applicable period and diligently pursued.

(c) The dissolution or liquidation of the Company, except as permitted by Section 4.4 hereof, or the commencement by the Company of any case or proceeding seeking to have an order for relief entered on its behalf as a debtor or to adjudicate it as bankrupt or insolvent or seeking reorganization, liquidation, dissolution, winding-up, arrangement, composition, readjustment of its debts or any other relief under any bankruptcy, insolvency, reorganization or other similar law of the United States or any state, or adjudication of the Company as bankrupt, or an assignment by the Company for the benefit of its creditors, or the entry by the Company into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Company in any proceeding for its reorganization instituted under the provisions of Title 11 of the United States Code, as amended, or under any similar statutory provision which may hereafter be enacted.

The foregoing provisions of Section 5.1(b) are subject to the limitation that, if by reason of force majeure the Company is unable in whole or in part to carry out its agreements herein contained other than those set forth in Sections 4.4 and 4.9 hereof, an Event of Default shall not be deemed to have occurred during the continuance of such inability. The term "force majeure" as used herein shall mean the following: acts of God; strikes; lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State of Mississippi or any of their departments, agencies or officials or of any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fire; hurricanes; tornadoes; storms; floods; washouts; droughts; arrests; restraints of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission lines, pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Company. The Company agrees, however, to remedy to the extent practicable with all reasonable dispatch the effects of any force majeure preventing the Company from carrying out its agreements; provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Company unfavorable to the Company.

SECTION 5.2. Remedies on Default. Whenever any Event of Default shall have occurred and be continuing, the Issuer may, in addition to any other remedy now or hereafter existing at law, in equity or by statute, take either or both of the following remedial steps:

(a) By written notice to the Company, the Issuer may declare all amounts payable pursuant to the Note to be immediately due and payable, whereupon the same shall become immediately due and payable; and

(b) The Issuer may take whatever action at law or in equity may appear necessary or desirable to collect the amounts referred to in (a) above then due and

thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company under this Agreement.

Any amounts collected pursuant to action taken under this Section 5.2 shall be deposited with the Trustee and applied in accordance with the provisions of the Indenture or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the provisions of the Indenture) and the fees and expenses of the Trustee and any paying agents and tender agents and all other amounts required to be paid under the Indenture shall have been paid, to the Company.

SECTION 5.3. Agreement to Pay Attorneys' Fees and Expenses. In the event the Company should breach any of the provisions of the Note or this Agreement and the Issuer or the Trustee should employ attorneys or incur other expenses for the collection of amounts payable hereunder or the enforcement of performance or observance of any obligation or agreement on the part of the Company herein contained, the Company agrees that it will on demand therefor pay to the Issuer or the Trustee, as the case may be, the reasonable fees of such attorneys and such other reasonable expenses so incurred by the Issuer or the Trustee.

SECTION 5.4. No Additional Waiver Implied by One Waiver. In the event any agreement contained in the Note or in this Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

## ARTICLE VI

## MISCELLANEOUS

SECTION 6.1. Term of This Agreement. This Agreement shall remain in full force and effect from the date hereof until such time as all of the outstanding Bonds shall have been fully paid or provision made therefor in accordance with the provisions of the Indenture, whichever shall first occur, and the fees and expenses of the Trustee, the Issuer and any paying agents and tender agents and all other amounts payable by the Company under this Agreement and the Note shall have been paid.

SECTION 6.2. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when delivered or mailed by registered or certified mail, postage prepaid, addressed as follows: if to the Issuer, at 735 Riverside Drive, Suite 300, Jackson, Mississippi 39202, Attention: Executive Director; if to the Company and via United States mail or facsimile at One Energy Place, Pensacola, Florida 32520-0100, Attention: Treasurer, Facsimile No. (850) 444-6026, with copies to Southern Company Services, Inc., 270 Peachtree Street, N.W., Atlanta, Georgia 30303, Attention: Corporate Finance Department; if to the Company and via hand delivery at 500 Bayfront Parkway, Pensacola, Florida 32501, Attention: Treasurer, with copies to Southern Company Services, Inc., 270 Peachtree Street, N.W., Atlanta, Georgia 30303, Attention: Corporate Finance Department; and if to the Trustee, at 100 Ashford Center North, Suite 520, Atlanta, Georgia 30338, Attention: Corporate Trust

Department. A duplicate copy of each notice, certificate or other communication given hereunder by either the Issuer or the Company to the other shall also be given to the Trustee. The Issuer, the Company and the Trustee may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 6.3. Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon the Issuer, the Company and their respective successors and assigns, subject, however, to the limitations contained in Section 4.4 hereof, and shall inure to the benefit of the Trustee to the extent stated herein.

SECTION 6.4. Severability. In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

SECTION 6.5. Amendments. This Agreement may not be effectively terminated except in accordance with the provisions hereof and may not be effectively amended except by a written agreement in accordance with Article XI of the Indenture and signed by the parties hereto.

SECTION 6.6. Execution in Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 6.7. Applicable Law. This Agreement and the Note shall be governed by and construed in accordance with the laws of the State of Mississippi.

SECTION 6.8. Captions. The captions or headings in this Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Agreement.

SECTION 6.9. Other Financing. Notwithstanding anything in this Agreement to the contrary, the Issuer and the Company may hereafter enter into agreements to provide for the financing or refinancing of costs of the Project or any portion thereof.

SECTION 6.10. Amounts Remaining in the Bond Fund. Any amounts remaining in the Bond Fund upon termination of this Agreement shall, to the extent provided in Section 4.10 of the Indenture, belong to and be paid to the Company by the Trustee.

IN WITNESS WHEREOF, the Issuer and the Company have caused this Agreement to be executed in their respective corporate names and their respective corporate seals to be hereunto affixed and attested by their duly authorized officers, all as of the date first above written.

MISSISSIPPI BUSINESS FINANCE CORPORATION

[SEAL]

By: _____
William T. Barry, Executive Director

ATTEST:

_____
James Vernon Smith, Sr., Assistant Secretary

GULF POWER COMPANY

[SEAL]

By: _____
Warren E. Tate, Vice President, Secretary and Treasurer

ATTEST:

_____
Wayne Boston, Assistant Secretary

EXHIBIT A

GULF POWER COMPANY
PROMISSORY NOTE

$29,075,000 April 15, 2003

GULF POWER COMPANY (the "Company"), a corporation organized and existing under the laws of the State of Maine, acknowledges itself indebted and for value received hereby promises to pay to the order of the Mississippi Business Finance Corporation (the "Issuer"), and its successors and assigns, the principal sum of TWENTY-NINE MILLION SEVENTY-FIVE THOUSAND DOLLARS ($29,075,000) together with interest on the unpaid principal balance thereof from the date hereof until the Company's obligations with respect to the payment of such sum shall be discharged at the rate or rates borne by the Bonds referred to below. As additional interest hereon there shall be payable, and the Company promises to pay when due, amounts which shall equal the premium, if any, due on such Bonds in connection with the redemption thereof. The Company further promises to pay the purchase price of such Bonds as hereinbelow provided.

This Note is issued to evidence the Loan (as defined in the Agreement hereinafter referred to) of the Issuer to the Company and the obligation of the Company to repay the same and shall be governed by and be payable in accordance with the terms and conditions of a loan agreement (the "Agreement") between the Issuer and the Company dated as of April 1, 2003, pursuant to which the Issuer has loaned to the Company the proceeds of the sale of the Issuer's $29,075,000 of Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) (the "Bonds"). This Note (together with the Agreement) has been assigned to The Bank of New York Trust Company of Florida, N.A. (the "Trustee"), acting pursuant to a trust indenture dated as of April 1, 2003 (the "Indenture") between the Issuer and the Trustee, and may not be assigned by the Trustee except to a successor Trustee pursuant to the terms of the Indenture. Such assignment is made as security for the Bonds. The Bonds are dated and bear interest in accordance with the provisions of the Indenture, and mature on February 1, 2026. The Bonds are subject to redemption prior to maturity as provided therein.

Subject to the provisions of the Agreement, payments hereon are to be made by paying to the Trustee, as assignee of the Issuer, in funds which will be immediately available on the day payment is due, amounts which, and at or before times which, shall correspond to the payments with respect to the principal of and premium, if any, and interest on the Bonds whenever and in whatever manner the same shall become due, whether at stated maturity, upon redemption or declaration or otherwise, and the purchase price of Bonds required to be purchased under the Indenture. If (i) on the date any payments on the Bonds are due, there are any available moneys on deposit with the Trustee which are not being held for the payment of Bonds due and payable but which have not been presented for payment, or (ii) on any date on which Bonds are required to be purchased pursuant to the Bonds or Article III of the Indenture, there are available moneys on deposit with the Trustee held for the payment of the purchase price which are not being held

for the payment of Bonds which have not been presented for payment, then, in each case, such moneys shall be credited against the payment then due hereunder, first in respect of interest and then, to the extent of remaining moneys, in respect of principal. Upon the occurrence of an Event of Default, as defined in the Agreement, the principal of and interest on this Note may be declared immediately due and payable as provided in the Agreement.

Neither the officers of the Company nor any persons executing this Note shall be liable personally or shall be subject to any personal liability or accountability by reason of the issuance hereof.

IN WITNESS WHEREOF, Gulf Power Company has caused this Note to be executed in its corporate name and on its behalf by its President, its Treasurer or a Vice President by his manual signature, and its corporate seal to be impressed hereon and attested by the manual signature of its Secretary or an Assistant Secretary, all as of the date first above written.

GULF POWER COMPANY

By: _____
Vice President, Secretary and Treasurer

Attest: _____
Assistant Secretary

ASSIGNMENT

For value received, pay this promissory note to the order of The Bank of New York, as Trustee under the Trust Indenture, dated as of April 1, 2003, between the Mississippi Business Finance Corporation and The Bank of New York Trust Company of Florida, N.A., as Trustee, securing the payment of Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project), in the original principal amount of $29,075,000 without recourse.

MISSISSIPPI BUSINESS FINANCE CORPORATION

By: _____
Executive Director

*The holder hereof has agreed not to transfer this Note except to a successor Trustee under the Trust Indenture dated as of April 1, 2003 of the Mississippi Business Finance Corporation relating to the Bonds (hereinafter referred to).*

GULF POWER COMPANY
PROMISSORY NOTE

$29,075,000 April 15, 2003

GULF POWER COMPANY (the "Company"), a corporation organized and existing under the laws of the State of Maine, acknowledges itself indebted and for value received hereby promises to pay to the order of the Mississippi Business Finance Corporation (the "Issuer"), and its successors and assigns, the principal sum of TWENTY-NINE MILLION SEVENTY-FIVE THOUSAND DOLLARS ($29,075,000) together with interest on the unpaid principal balance thereof from the date hereof until the Company's obligations with respect to the payment of such sum shall be discharged at the rate or rates borne by the Bonds referred to below. As additional interest hereon there shall be payable, and the Company promises to pay when due, amounts which shall equal the premium, if any, due on such Bonds in connection with the redemption thereof. The Company further promises to pay the purchase price of such Bonds as hereinbelow provided.

This Note is issued to evidence the Loan (as defined in the Agreement hereinafter referred to) of the Issuer to the Company and the obligation of the Company to repay the same and shall be governed by and be payable in accordance with the terms and conditions of a loan agreement (the "Agreement") between the Issuer and the Company dated as of April 1, 2003, pursuant to which the Issuer has loaned to the Company the proceeds of the sale of the Issuer's $29,075,000 of Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) (the "Bonds"). This Note (together with the Agreement) has been assigned to The Bank of New York Trust Company of Florida, N.A. (the "Trustee"), acting pursuant to a trust indenture dated as of April 1, 2003 (the "Indenture") between the Issuer and the Trustee, and may not be assigned by the Trustee except to a successor Trustee pursuant to the terms of the Indenture. Such assignment is made as security for the Bonds. The Bonds are dated and bear interest in accordance with the provisions of the Indenture, and mature on February 1, 2026. The Bonds are subject to redemption prior to maturity as provided therein.

Subject to the provisions of the Agreement, payments hereon are to be made by paying to the Trustee, as assignee of the Issuer, in funds which will be immediately available on the day payment is due, amounts which, and at or before times which, shall correspond to the payments with respect to the principal of and premium, if any, and interest on the Bonds whenever and in whatever manner the same shall become due, whether at stated maturity, upon redemption or declaration or otherwise, and the purchase price of Bonds required to be purchased under the Indenture. If (i) on the date any payments on the Bonds are due, there are any available moneys on deposit with the Trustee which are not being held for the payment of Bonds due and payable but which have not been presented for payment, or (ii) on any date on which Bonds are required to be purchased pursuant to the Bonds or Article III of the Indenture, there are available moneys on deposit with the Trustee held for the payment of the purchase price which are not being held

for the payment of Bonds which have not been presented for payment, then, in each case, such moneys shall be credited against the payment then due hereunder, first in respect of interest and then, to the extent of remaining moneys, in respect of principal. Upon the occurrence of an Event of Default, as defined in the Agreement, the principal of and interest on this Note may be declared immediately due and payable as provided in the Agreement.

SPECIMEN

Neither the officers of the Company nor any persons executing this Note shall be liable personally or shall be subject to any personal liability or accountability by reason of the issuance hereof.

IN WITNESS WHEREOF, Gulf Power Company has caused this Note to be executed in its corporate name and on its behalf by its President, its Treasurer or a Vice President by his manual signature, and its corporate seal to be impressed hereon and attested by the manual signature of its Secretary or an Assistant Secretary, all as of the date first above written.

GULF POWER COMPANY

By: _____
Vice President, Secretary and Treasurer

Attest: _____
Assistant Secretary

SPECIMEN

ASSIGNMENT

For value received, pay this promissory note to the order of The Bank of New York Trust Company of Florida, N.A., as Trustee under the Trust Indenture, dated as of April 1, 2003, between the Mississippi Business Finance Corporation and The Bank of New York Trust Company of Florida, N.A., as Trustee, securing the payment of Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project), in the original principal amount of $29,075,000 without recourse.

MISSISSIPPI BUSINESS FINANCE CORPORATION

By: _____
Executive Director

SPECIMEN

ASSIGNMENT

For value received, pay this promissory note to the order of The Bank of New York Trust Company of Florida, N.A., as Trustee under the Trust Indenture, dated as of April 1, 2003, between the Mississippi Business Finance Corporation and The Bank of New York Trust Company of Florida, N.A., as Trustee, securing the payment of Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project), in the original principal amount of $29,075,000 without recourse.

MISSISSIPPI BUSINESS FINANCE CORPORATION

By: _____
Executive Director

# AUCTION AGREEMENT

Dated as of April 1, 2003

among

Gulf Power Company

and

The Bank of New York Trust Company of Florida, N.A.,

as Trustee

and

The Bank of New York,

as Auction Agent

Relating to

$29,075,000

Mississippi Business Finance Corporation

Pollution Control Revenue Refunding Bonds,

Series 2003

(Gulf Power Company Project)

## TABLE OF CONTENTS


SECTION 1. DEFINITIONS AND RULES OF CONSTRUCTION ..... 1

1.1 Terms Defined by Reference to the Indenture ..... 1

1.2 Terms Defined Herein ..... 1

1.3 Rules of Construction ..... 2

SECTION 2. AUCTION ..... 2

2.1 Purpose; Appointment; Incorporation by Reference of Auction Procedures and Settlement Procedures. ..... 2

2.2 Preparation for each Auction; Maintenance of Registry of Beneficial Owners. ..... 3

2.3 Auction Schedule ..... 5

2.4 Notice of Auction Results ..... 5

2.5 Notices to Existing Owners ..... 5

2.6 Broker-Dealers. ..... 6

2.7 Ownership of the Bonds ..... 6

2.8 Access to and Maintenance of Auction Records ..... 6

SECTION 3. THE AUCTION AGENT. ..... 6

3.1 Duties and Responsibilities of the Auction Agent. ..... 6

3.2 Rights of the Auction Agent. ..... 7

3.3 Auction Agent's Disclaimer ..... 8

3.4 Compensation, Expenses and Indemnification of the Auction Agent ..... 8

3.5 Broker-Dealer Fee ..... 9

SECTION 4. REPRESENTATIONS AND WARRANTIES OF THE TRUSTEE ..... 10

SECTION 5. MISCELLANEOUS. ..... 10

5.1 Term of Agreement. ..... 10

5.2 Communications ..... 11

5.3 Entire Agreement ..... 12

5.4 Benefits; Successors and Assigns ..... 12

5.5 Amendment, Waiver. ..... 12

5.6 Severability ..... 12

5.7 Execution in Counterparts ..... 12

5.8 Governing Law ..... 12

AUCTION AGREEMENT

THIS AUCTION AGREEMENT, dated as of April 1, 2003 (the "Auction Agreement"), among GULF POWER COMPANY, a Maine corporation (the "Company"), THE BANK OF NEW YORK, as Auction Agent (the "Auction Agent"), and THE BANK OF NEW YORK TRUST COMPANY OF FLORIDA, N.A., as trustee (the "Trustee").

WITNESSETH

WHEREAS, concurrently with the execution and delivery of this Auction Agreement, the Mississippi Business Finance Corporation (the "Issuer") is offering $29,075,000 in aggregate principal amount of its Pollution Control Revenue Bonds, Series 2003 (Gulf Power Company Project) (the "Bonds") pursuant to the Trust Indenture dated as of April 1, 2003 (the "Indenture") by and between the Issuer and the Trustee;

WHEREAS, the Trustee is entering into this Auction Agreement as agent for the Bondholders pursuant to the Indenture; and

WHEREAS, the Auction Agent is to perform certain duties set forth herein;

NOW, THEREFORE, the Company, the Trustee and the Auction Agent hereby agree as follows:

Section 1. Definitions and Rules of Construction

1.1 Terms Defined by Reference to the Indenture. Capitalized terms used herein and not defined herein shall have the respective meanings specified in the Indenture, including the Exhibits thereto.

1.2 Terms Defined Herein. As used herein and in the exhibits hereto, the following terms shall have the following meanings, unless the context otherwise requires:

(a) "Auction Agent Acceptance Fee" means an acceptance fee as set forth in a written agreement signed by the Auction Agent and the Company.

(b) "Auction Agent Fee" means the fees, other than the Auction Agent Acceptance Fee, set forth in a written agreement signed by the Auction Agent and the Company.

(c) "Authorized Officer" shall mean (i) in the case of the Auction Agent, each Vice President, Assistant Vice President and Assistant Treasurer of the Auction Agent assigned to its Dealing and Trading Group of its Corporate Trust Department and every other officer or employee of the Auction Agent designated an "Authorized Officer" for purposes hereof in a written communication delivered to the Trustee, (ii) in the case of the Company, its Chief Financial Officer and every other officer or employee of the Company designated an "Authorized Officer" for purposes hereof in a written communication delivered to the Trustee, and (iii) in the case of the Trustee, every officer or employee of the Trustee designated as an

"Authorized Officer" for purposes hereof in a written communication delivered to the Auction Agent.

(d) "Bond Register" is defined in Section 2.2(c)(i) hereof.

(e) "Broker-Dealer Agreement" shall mean each agreement among the Auction Agent, the Company and a Broker-Dealer substantially in the form attached hereto as EXHIBIT A.

(f) "Closing Date" shall mean April 15, 2003.

(g) "Company" shall mean Gulf Power Company.

(h) "Existing Owner" shall mean the owner of any beneficial interest in any Bonds as shown on the Bond Register.

(i) "Settlement Procedures" shall mean the Settlement Procedures attached hereto as EXHIBIT B.

1.3 Rules of Construction. Unless the context or use indicates another or different meaning or intent, the following rules shall apply to the construction of this Auction Agreement.

(a) Words importing the singular number shall include the plural number and vice versa.

(b) The captions and headings herein are solely for the convenience of reference and shall not constitute a part of this Auction Agreement nor shall they affect its meaning, construction or effect.

(c) The words "hereof," "herein" and other words of similar import refer to this Auction Agreement as a whole.

(d) All references herein to a particular time of day shall be to New York City time.

(e) Each reference to the purchase, sale or holding of Bonds shall refer to beneficial ownership interests in the Bonds unless the context clearly requires otherwise.

Section 2. Auction.

2.1 Purpose; Appointment; Incorporation by Reference of Auction Procedures and Settlement Procedures.

(a) The Indenture provides that the interest rate on the Bonds for each Auction Period shall be the Auction Mode Rate which shall be, except as otherwise provided therein, the rate per annum that the Auction Agent determines to have resulted from the implementation of the Auction Procedures.

(b) Pursuant to Section 3.01 of Exhibit B to the Indenture, the Company hereby appoints The Bank of New York to act as Auction Agent. The Bank of New York hereby accepts such appointment to perform the Auction Procedures, Settlement Procedures and other duties herein, in each Broker-Dealer Agreement and in Exhibit B to the Indenture specified to be performed by the Auction Agent.

(c) The Auction Procedures contained in Exhibit B to the Indenture are hereby incorporated herein by reference in their entirety and shall be deemed to be a part hereof to the same extent as if such provisions were expressly set forth herein. No amendment of any provision of the Auction Procedures or any other provision of the Indenture that adversely affects any right, duty or obligation of the Auction Agent shall be binding upon the Auction Agent without its consent.

2.2 Preparation for each Auction; Maintenance of Registry of Beneficial Owners.

(a) Not later than seven days prior to any Auction Date for which any change in Broker-Dealers is to be effective, the Trustee shall notify or cause to be notified the Auction Agent and the Company in writing of such change and, if such change is the addition of a Broker-Dealer, the Company shall cause to be delivered to the Auction Agent, for execution by the Auction Agent pursuant to Section 2.6(a) hereof, a Broker-Dealer Agreement manually signed by such Broker-Dealer. The Auction Agent shall have entered into a Broker-Dealer Agreement with each Broker-Dealer prior to the participation of any such Broker-Dealer in any Auction. The Auction Agent shall be entitled to assume that there has been no change in the Broker-Dealers unless and until it has actual receipt of such notification from an Authorized Officer of the Trustee.

(b) On each Auction Date, the Auction Agent shall determine the All Hold Rate, the Maximum Auction Rate and the Reference Rate. Not later than 9:30 A.M. on each Auction Date, the Auction Agent shall notify the Trustee and the Broker-Dealers by telephone (confirmed to the Trustee in writing or by facsimile transmission after the Auction) or other electronic communication acceptable to the parties of the All Hold Rate, the Maximum Auction Rate and the Reference Rate.

(c) (i) The Auction Agent shall maintain a registry of the beneficial owners of Bonds (the "Bond Register") based on information provided to it from the Broker-Dealers who shall constitute Existing Owners for purposes of Auctions and shall indicate thereon the identity of the respective Broker-Dealer of each Existing Owner, if any, on whose behalf such Broker-Dealer submitted the most recent Order in any Auction which resulted in such Existing Owner continuing to hold or purchase such Bonds. The Auction Agent shall keep such Bond Register current and accurate. Each Broker-Dealer is required under the Broker-Dealer Agreement to which it is a party to deliver to the Auction Agent on the Closing Date a list of the initial Existing Owners that purchased such Bonds through such Broker-Dealer. The Auction Agent may conclusively rely upon, as evidence of the identities of the Existing Owners, the following: such lists; the results of Auctions; notices from DTC regarding the results of redemptions or mandatory tenders; notices from any Existing Owner, the Agent Member of any Existing Owner or the Broker-Dealer of any Existing Owner with respect to such Existing Owner's transfer of the Bonds to another Person.

(ii) The Trustee shall provide to the Auction Agent any notice of redemption, conversion or mandatory tender of the Bonds at or before the time any such notice is first given by the Trustee to any Existing Owner thereof. In the event of any partial redemption or mandatory tender of the Bonds, the Auction Agent shall promptly request DTC to notify the Auction Agent of the Agent Members whose Bonds have been called for redemption or mandatory tender and the person or department at such Agent Member to contact regarding such redemption or mandatory tender and, within two Business Days, request each such Agent Member to disclose to the Auction Agent (upon selection by such Agent Member of the Existing Owners whose Bonds are to be redeemed) the principal amount of Bonds of each such Existing Owner, if any, which are subject to such redemption or mandatory tender, provided the Auction Agent shall have been furnished with the name and telephone number of a person or department at such Agent Member from which it is to request such information. In the absence of receiving any such information with respect to an Existing Owner from such Existing Owner's Agent Member (or otherwise), the Auction Agent may continue to treat such Existing Owner as the beneficial owner of the principal amount of Bonds shown in the Auction Agent's registry.

(iii) The Auction Agent may refuse to register a transfer of beneficial ownership of Bonds from an Existing Owner to another person unless (a) such transfer is pursuant to an Auction or (b) the Auction Agent has been notified in writing (I) in a notice in the form of EXHIBIT C to the Broker-Dealer Agreements by such Existing Owner, the Broker-Dealer or an Agent Member of such Existing Owner of such transfer, (II) in a notice in the form of EXHIBIT D to the Broker-Dealer Agreements by the Broker-Dealer of any Person that purchased or sold such Bonds in an Auction of the failure of such Bonds to be transferred as a result of such Auction, or (III) in a notice from DTC regarding the results of mandatory tenders. In the event a notice referred to in the preceding clause (II) is received, the Auction Agent shall register the beneficial ownership of the Bonds covered thereby in the name of the Existing Owner thereof prior to the Auction referred to in such notice. The Auction Agent shall not be required to accept any notice delivered pursuant to the terms of the foregoing sentence if received by the Auction Agent after 3:00 P.M. on the Business Day next preceding an Auction Date.

(iv) The Auction Agent may, but shall have no obligation to, request a Broker-Dealer, as set forth in the applicable Broker-Dealer Agreement, to provide the Auction Agent with a list of their respective customers that such Broker-Dealer believes are Existing Owners of Bonds. The Auction Agent shall not disclose such information so provided to any Person other than the Trustee, the Company and the Broker-Dealer that provided the same; provided, however, that the Auction Agent reserves the right and is authorized to disclose any such information if (A) it is ordered to do so by a court of competent jurisdiction or a regulatory, judicial or quasi judicial agency or authority having the authority to compel such disclosure, (B) it is advised by such counsel that its failure to do so would be unlawful or (C) failure to do so would expose the Auction Agent to loss, liability, claim, damage or expense for which it has not received indemnity satisfactory to it.

(d) In the event that the notice referred to in clause (vi) of paragraph (a) of the Settlement Procedures states an Auction Date that is subsequently changed, the Auction Agent, by such means as the Auction Agent deems practicable, shall give notice of the new Auction Date not later than 9:15 A.M. on the earlier of the new Auction Date or the old Auction Date.

(e) The Auction Agent shall deliver a copy of any notice received by it from the Trustee pursuant to clause (ii) of the foregoing paragraph (c) to the effect that an Event of Default has been cured or waived to the Broker-Dealers on the Business Day following its receipt thereof by telecopy or other electronic communication acceptable to the parties.

2.3 Auction Schedule. The Auction Agent shall conduct Auctions for the Bonds in accordance with the schedule set forth below. Such schedule may be changed by the Auction Agent if directed in writing by the Company to reflect then currently accepted market practices for similar auctions. The Auction Agent shall give written notice of any such change to the Trustee, the Company and each Broker-Dealer. Such notice shall be given prior to the close of business on the Business Day next preceding the first Auction Date on which any such change shall be effective.

| Time | Event |
|---|---|
| By 9:30 A.M. | Auction Agent advises the Broker-Dealers of the All Hold Rate, the Maximum Auction Rate and the Reference Rate, as set forth in Section 2.2(b) hereof. |
| 9:30 A.M. – 1:00 P.M. (11:00 A.M. in the case of a daily Auction Period). | Auction Agent assembles information communicated to it by Broker-Dealers as provided in Section 2.03 of Exhibit B to the Indenture. Submission Deadline is 1:00 P.M. (11:00 A.M. in the case of a daily Auction Period). |
| As soon as practical after 1:00 P.M. (11:30 A.M. in the case of a daily Auction Period). | Auction Agent makes determination pursuant to Section 2.04 of Exhibit B to the Indenture. |
| By approximately 3:00 P.M. but not later than the close of business (by 12:00 Noon in the case of a daily Auction Period). | Submitted Bids and Submitted Sell Orders are accepted and rejected and the Bonds allocated as provided in Section 2.05 of Exhibit B to the Indenture. Auction Agent gives notice of Auction results as set forth in Section 2.4 hereof. |

2.4 Notice of Auction Results. Following such Auction, the Auction Agent shall follow the notification procedures set forth in paragraph (a) of the Settlement Procedures. In addition, promptly after making the determinations required by Section 2.04 of EXHIBIT B to the Indenture on each Auction Date, the Auction Agent shall give notice of the Auction Rate to the Trustee by telephone (promptly confirmed in writing) or by telecopy or other electronic communication acceptable to the parties and the Trustee shall promptly give notice to DTC of such Auction Rate.

2.5 Notices to Existing Owners. The Auction Agent shall be entitled to conclusively rely upon the address of each Existing Owner delivered by such Existing Owner in connection with any notice to Existing Owners required to be given by the Auction Agent pursuant to this Section 2.

2.6 Broker-Dealers.

(a) On the Closing Date the Auction Agent shall enter into a Broker-Dealer Agreement with J.P. Morgan Securities Inc. The Auction Agent shall from time to time enter into such other Broker-Dealer Agreements (substantially in the form set forth in EXHIBIT A hereto) as the Company shall request and with written notice to the Trustee and the Auction Agent and the written consent of J.P. Morgan Securities Inc., so long as J.P. Morgan Securities Inc. is a Broker-Dealer.

(b) The Auction Agent shall terminate any Broker-Dealer Agreement as set forth therein if so directed by the Company in writing with prior written notice to the Trustee.

2.7 Ownership of the Bonds. Neither the Issuer nor the Company nor any Person controlled by any thereof may submit any Order or Bid, directly or indirectly, in any Auction. The Auction Agent shall have no duty to monitor compliance with this Section 2.7.

2.8 Access to and Maintenance of Auction Records. The Auction Agent shall afford to the Trustee and its agents, independent public accountants and counsel, access at reasonable times during normal business hours to all books, records, documents and other information concerning the conduct and results of Auctions; provided that any such agent, accountant or counsel of the Trustee shall furnish the Auction Agent with a letter from an Authorized Officer of the Trustee requesting that the Auction Agent afford such person access. Except as provided in Sections 3.1(d) and 5.1(b) hereof, the Auction Agent shall maintain records relating to any Auction for a period of two years after such Auction and such records shall, in reasonable detail, accurately and fairly reflect the actions taken by the Auction Agent hereunder. At the end of such two-year period the Auction Agent shall deliver such records to the Trustee if the Trustee so requests. The Auction Agent shall provide the Trustee with copies of any report the Auction Agent provides DTC concerning discrepancies between the records of the Auction Agent and DTC of the aggregate portions registered in each CUSIP number. The Auction Agent shall not be responsible for any actions of the Trustee or its agents, accountants or counsel for passing on confidential information as a result of access to the records of the Auction Agent.

Section 3. The Auction Agent.

3.1 Duties and Responsibilities of the Auction Agent.

(a) The Auction Agent is acting solely as agent of the Trustee and owes no duties, fiduciary or otherwise, to any other person by reason of this Auction Agreement, except as otherwise stated herein, and no implied duties, fiduciary or otherwise, shall be read into this Auction Agreement.

(b) The Auction Agent and the Trustee undertake to perform such duties and only such duties as are expressly set forth herein, or expressly incorporated herein by reference pursuant to Section 2.1 hereof, to be performed by it, and no implied covenants or obligations shall be read into this Auction Agreement against the Auction Agent or the Trustee.

(c) In the absence of bad faith, gross negligence or willful misconduct on its part, the Auction Agent, whether acting directly or through agents or attorneys as provided in

Section 3.2(d) hereof, shall not be liable for any action taken, suffered, or omitted or for any error of judgment made by it in the performance of its duties hereunder. The Auction Agent shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been grossly negligent in ascertaining the pertinent facts necessary to make such judgment. In no event shall the Auction Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including, but not limited to, lost profit), even if the Auction Agent has been advised of the likelihood of such loss or damage and regardless of the form of action.

(d) Upon termination of this Auction Agreement, the Auction Agent shall promptly deliver to the Company, the Auction records and accompanying documentation and any other documents referred to in Section 2.8 hereof to the extent not previously delivered to the Trustee.

(e) The Auction Agent shall: (i) not be required to and shall make no representations and have no responsibilities as to the validity, accuracy, value or genuineness of any signatures or endorsements, other than its own, or any document delivered pursuant to or as contemplated by this Auction Agreement; (ii) not be obligated to take any legal action hereunder that might, in its judgment, involve any expense or liability, unless it has been furnished with reasonable indemnity; and (iii) not be responsible for or liable in any respect on account of the identity, authority or rights of any person executing or delivering or purporting to execute or deliver any document under this Auction Agreement or any Broker-Dealer Agreement.

(f) The Auction Agent shall not be responsible or liable for any failure or delay in the performance of its obligations under this Auction Agreement arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including without limitation, acts of God; earthquakes; fires; floods; wars; civil or military disturbances; terrorism; sabotage; epidemics; riots; interruptions; loss or malfunction of utilities, computer (hardware or software) or communications service; accidents; labor disputes; acts of civil or military authority or governmental actions; it being understood that the Auction Agent shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

(g) To the extent the maximum interest rate allowable by applicable law is reduced to less than the Maximum Interest Rate or Maximum Auction Rate on the date hereof, the Company shall notify, in writing, the Auction Agent, or instruct the Trustee to do the same, of such reduced maximum interest rate allowable by applicable law.

3.2 Rights of the Auction Agent.

(a) The Auction Agent may conclusively rely upon, and shall be fully protected in acting or refraining from acting upon, any communication authorized hereby and upon any such written instruction, notice, request, direction, consent, report, certificate, share certificate or other instrument, paper or other document believed by it to be genuine. The Auction Agent shall not be liable for acting in good faith upon any such communication made by telephone or other electronic communication acceptable to the parties which the Auction Agent reasonably believes to have been given by the particular party or parties. To the extent permitted

by law, the Auction Agent may record telephone communications with the Company, the Issuer, the Trustee and the Broker-Dealers, and each of such parties may record telephone communications with the Auction Agent.

(b) The Auction Agent may consult with counsel of its choice (provided such selection is made with reasonable care) and the advice of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(c) The Auction Agent shall not be required to advance, expend or risk its own funds or otherwise incur or become exposed to financial liability in the performance of its duties hereunder, except as may be required as a result of its own gross negligence, willful misconduct or bad faith.

(d) The Auction Agent may perform its duties and exercise its rights hereunder either directly or by or through agents or attorneys and shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed by it with due care.

(e) The Auction Agent shall have no obligation or liability in respect of the registration or exemption therefrom of the Bonds under federal or state securities laws in respect of the sufficiency or the conformity of any transfer of the Bonds pursuant to the terms of this Auction Agreement, any Broker-Dealer Agreement, the Indenture or any other document contemplated by any thereof.

3.3 Auction Agent's Disclaimer. The Auction Agent makes no representations and assumes no responsibility for the validity, accuracy or adequacy of this Auction Agreement, any Broker-Dealer Agreement, the Indenture or any offering material used in connection with the offer and sale of the Bonds.

3.4 Compensation, Expenses and Indemnification of the Auction Agent. The Company shall pay (i) the Auction Agent Acceptance Fee on the date of payment for and delivery of the Bonds, (ii) the Auction Agent Fee for the Bonds on the first Interest Payment Date following the Closing Date and annually thereafter, and (iii) upon request of the Auction Agent, reasonable expenses, disbursements and advances reasonably incurred or made by the Auction Agent in accordance with this Agreement and any Broker-Dealer Agreement (including the reasonable compensation, expenses and disbursements of its agents and counsel), except any expense, disbursement or advance attributable to the bad faith, gross negligence or willful misconduct of the Auction Agent. The Auction Agent Fee represents compensation for the services of the Auction Agent in conducting Auctions for the benefit of the beneficial owners of the Bonds. The Auction Agent Fee may be adjusted from time to time with the approval of the Company upon a written request of the Auction Agent delivered to the Company. The Company shall indemnify the Auction Agent, its directors, officers, agents and employees for, and hold them harmless against any loss, liability or expense incurred without bad faith, gross negligence or willful misconduct on their part arising out of or in connection with its agency under this Auction Agreement and any Broker-Dealer Agreement, including the costs and expenses of defending itself, its directors, officers, agents and employees against any claim of liability in connection with their exercise or performance of any of their duties thereunder (including the

enforcement of this provision), except such as may result from their bad faith, gross negligence or willful misconduct. The Trustee shall have no responsibility for payment of the fees and expenses of the Auction Agent.

3.5 Broker-Dealer Fee. While the Bonds are in an Auction Period other than a daily Auction Period, on each Interest Payment Date following each Auction Date, each Broker-Dealer shall be entitled to receive an amount (the "Broker-Dealer Fee") equal to the product of (x) .25 of 1% multiplied by (y)(A) if an Auction was held on such Auction Date, the sum of the aggregate principal amount of the Bonds that were (1) the subject of a valid Hold Order of an Existing Owner submitted by such Broker-Dealer, (2) the subject of a Submitted Bid of an Existing Owner submitted by such Broker-Dealer and continued to be held by such Existing Owner as a result of such Auction, (3) the subject of a Submitted Bid of a Potential Owner and were purchased by such Potential Owner as a result of such Auctions and (4) deemed to be the subject of a Hold Order by an Existing Owner that were acquired by such Existing Owner from such Broker-Dealer or (B) if an Auction was not held on such Auction Date, the aggregate principal amount of Outstanding Bonds that were acquired by an Existing Owner through such Broker-Dealer, multiplied by (z) a fraction, the numerator of which is the actual number of days in the Auction Period next succeeding such Auction Date and the denominator of which is 360. If the Bonds are in a daily Auction Period each Broker-Dealer shall be entitled to receive on each Interest Payment Date an amount equal to the sum calculated for each Auction Period in the preceding month of the product of (x) .25 of 1% multiplied by (y) the aggregate principal amount of Bonds for each Auction Period that were (1) the subject of a valid Hold Order submitted by such Broker-Dealer, (2) the subject of a Submitted Bid of an Existing Owner submitted by such Broker-Dealer and continued to be held by such Existing Owner as a result of such Auction, (3) the subject of a Submitted Bid of a Potential Owner submitted by such Broker-Dealer and were purchased by such Potential Owner as a result of such Auction, (4) deemed to be the subject of a Hold Order by an Existing Owner that were acquired by such Existing Owner from such Broker-Dealer and (5) if an Auction was not held for any Auction Period, the aggregate principal amount of Outstanding Bonds that were acquired by an Existing Owner through such Broker-Dealer, multiplied by (z) a fraction, the numerator of which is the number of days in the Auction Period and denominator of which is 360. The Broker-Dealer Fee shall be calculated by the Auction Agent, which shall be conclusive absent manifest error. Such amounts shall be communicated by the Auction Agent to the Company and the Trustee by 4:00 P.M. on the Business Day immediately preceding each Interest Payment Date. On or before 10:00 A.M. on each Interest Payment Date, the Company shall pay to the Trustee the amount due to the Broker-Dealer. By noon on each Interest Payment Date, to the extent of its receipt of adequate funds from the Company, the Trustee shall deliver to the Auction Agent the amount constituting the Broker-Dealer Fee, by wire transfer of immediately available funds to such account as the Auction Agent may designate. The amount constituting the Broker-Dealer Fee shall be held by the Auction Agent on behalf of the Broker-Dealer, and immediately upon receipt of such Fee, the Auction Agent shall deliver such Fee to the Broker-Dealer, pursuant to the written instructions of the Broker-Dealer. If any Existing Owner who acquired Bonds through a Broker-Dealer transfers any such Bonds to another Person other than pursuant to an Auction, the Broker-Dealer for the Bonds so transferred shall continue to be the Broker-Dealer with respect to such Bonds; provided, however, that if the transfer was effected by, or if the transferee is, another Person who has met the requirements specified in the definition of "Broker-Dealer" contained in the Bonds

and executed a Broker-Dealer Agreement, such Person shall be the Broker-Dealer for such Bonds.

Section 4. Representations and Warranties of the Trustee. The Trustee hereby represents and warrants that:

(a) this Auction Agreement has been duly and validly authorized, executed and delivered by the Trustee and constitutes the legal, valid and binding limited obligation of the Trustee;

(b) neither the execution and delivery of this Auction Agreement, the consummation of the transactions contemplated hereby nor the fulfillment of or compliance with the terms and conditions of this Auction Agreement will conflict with, or violate or result in a breach of the terms, conditions or provisions of, or constitute a default under the organizational documents of the Trustee, any law or regulation, any order or decree of any court or public corporation having jurisdiction over such party, or any mortgage, resolution, contract, agreement or undertaking to which the Trustee is a party or by which it is bound; and

(c) any approvals, consents and orders of any governmental corporation, legislative body, board, agency or commission having jurisdiction over the Trustee which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the Trustee of its obligations under this Auction Agreement have been obtained.

Section 5. Miscellaneous.

5.1 Term of Agreement.

(a) This Auction Agreement shall remain in effect until (i) all Bonds are redeemed, paid or purchased and cancelled, (ii) the Bonds are no longer held by DTC in book-entry form, (iii) this Auction Agreement shall be terminated as provided in this Section 5.1, (iv) the Auction Agent resigns upon forty-five (45) days notice due to non-payment of the Auction Agent Fee or (v) the Auction Agent is removed as provided in this Section 5.1. The Trustee shall, upon the written direction of the Company, remove the Auction Agent by giving at least fifteen (15) days' prior written notice to the Auction Agent and each Broker Dealer; provided that a successor Auction Agent has been appointed. The Auction Agent may terminate this Auction Agreement by giving at least ninety (90) days notice to the Company, the Issuer and the Trustee, who shall give notice of the same to each Broker-Dealer. In the event the Auction Agent has not been compensated for its services rendered hereunder, the Auction Agent may terminate this Auction Agreement by giving at least forty-five (45) days notice to the Company, the Issuer and the Trustee (who shall give notice of the same to each Broker-Dealer), and upon the expiration of such forty-five (45) days, the Auction Agent may resign even if a successor Auction Agent has not been appointed.

(b) Except as otherwise provided in this paragraph (b), the respective rights and duties of the Trustee and the Auction Agent under this Auction Agreement shall cease upon termination of this Auction Agreement. The representations and warranties of the Trustee contained herein, and the rights of the Auction Agent under Sections 3.2 and 3.4 hereof, shall

survive the termination hereof. Upon termination of this Auction Agreement, the Auction Agent shall be deemed to have resigned as Auction Agent under the Broker-Dealer Agreement and shall promptly deliver to the Company copies of all books and records maintained by it in connection with its duties hereunder.

5.2 Communications. Except for (a) communications authorized to be by telephone pursuant to this Auction Agreement or the Auction Procedures and (b) communications in connection with Auctions (other than those expressly required to be in writing), all notices, requests and other communications to any party hereunder shall be in writing (including telecopy or other electronic communication acceptable to the parties) and shall be given to such party, addressed to it, at its address, telecopy number or e-mail address set forth below:

| | |
|---|---|
| If to the Trustee, addressed: | The Bank of New York Trust Company of Florida, N.A.<br>100 Ashford Center North<br>Suite 520<br>Atlanta, Georgia 30338<br>FAX: (770) 698-5195<br>PHONE: (770) 698-5188 |
| If to the Auction Agent, addressed: | The Bank of New York<br>100 Church Street, 8th Floor<br>New York, New York 10286<br>Attention: Corporate Trust Administration – Dealing and Trading Group<br>FAX: (212) 437-6123<br>PHONE: (212) 437-6166 |
| If to the Issuer, addressed: | Mississippi Business Finance Corporation<br>735 Riverside Drive, Suite 300<br>Jackson, Mississippi 39202<br>Attention: Executive Director |
| If to the Company, addressed: | Gulf Power Company<br>500 Bayfront Parkway<br>Pensacola, Florida 32501<br>if by mail:<br>One Energy Place<br>Pensacola, Florida 32520<br>Attention: Treasurer<br><br>*with copies to*<br>Southern Company Services, Inc.<br>270 Peachtree Street, N.W.<br>Atlanta, Georgia 30303<br>Attention: Corporate Finance Department |

or such other address, telecopier number or e-mail address as such party may hereafter specify for such purpose by notice to the other parties. Each such notice, request or communication shall be effective (a) if given by telecopy, when such telecopy is transmitted to the telecopier number specified herein or (b) if given by any other means, when delivered at the address specified herein. Communications shall be given on behalf of the parties hereto by one of their respective Authorized Officers.

5.3 Entire Agreement. This Auction Agreement contains the entire agreement between the parties relating to the subject matter hereof, and there are no other representations, endorsements, promises, agreements or understandings, oral, written or inferred, between the parties relating to the subject matter hereof.

5.4 Benefits; Successors and Assigns. This Auction Agreement shall be binding upon, inure to the benefit of and be enforceable by the Trustee and the Auction Agent and their respective successors and assigns. Nothing herein, express or implied, shall give to any person, other than the Trustee and the Auction Agent and their respective successors or assigns, any benefit of any legal or equitable right, remedy or claim hereunder, except as otherwise expressly stated, other than the rights expressly granted to the Company herein.

5.5 Amendment, Waiver.

(a) This Auction Agreement shall not be deemed or construed to be modified, amended, rescinded, cancelled or waived, in whole or in part, except by written instrument signed by a duly authorized representative of all the parties hereto.

(b) The failure of any party hereto to exercise any right or remedy hereunder in the event of a breach hereof by any party shall not constitute a waiver of any such right or remedy with respect to any subsequent breach.

5.6 Severability. If any clause, provision or section hereof shall be ruled invalid or unenforceable by any court or competent jurisdiction, the invalidity or unenforceability of such clause, provision or section shall not affect any of the remaining clauses, provisions or sections hereof.

5.7 Execution in Counterparts. This Auction Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

5.8 Governing Law. This Auction Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to conflict of laws principles.

IN WITNESS WHEREOF, the parties hereto have caused this Auction Agreement to be duly executed and delivered by their proper and duly Authorized Officers as of the date first above written.

THE BANK OF NEW YORK TRUST COMPANY
OF FLORIDA, N.A.
as Trustee

By: _____
Name: Elizabeth T. Wagner
Title: Vice President

GULF POWER COMPANY

By: _____
Name: W. E. Tate
Title: Vice President, Secretary and Treasurer

THE BANK OF NEW YORK
as Auction Agent

By: _____
Name: JOSEPH PANEPINTO
Title: VICE PRESIDENT

EXHIBIT A

Form of Broker-Dealer Agreement

[See separate Broker-Dealer Agreement]

EXHIBIT B

SETTLEMENT PROCEDURES

(a) On each Auction Date, the Auction Agent shall notify by telephone or other electronic means or in writing each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Owner or Potential Owner of the following:

(i) the Auction Mode Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more other Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such other Broker-Dealers submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Mode Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected and (C) the immediately succeeding Auction Date;

(ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member)

through the Securities Depository the amount necessary to purchase the principal amount of Bonds to be purchased pursuant to such Bid (including, with respect to Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bonds) against receipt of such Bonds; and

(iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through DTC the principal amount of Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order shall allocate any funds received by it pursuant to subparagraph (b) (ii) above, and any Bonds received by it pursuant to (b) (iii) above, among the Potential Owners, if any, on whose behalf such Broker-Dealer submitted Bids and the Existing Owners, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders and any Broker-Dealer identified to it by the Auction Agent pursuant to subparagraph (a)(v) above.

(d) On the Business Day after the Auction Date or, in the case of Bonds in a daily Auction Period, on such Auction Date, DTC shall execute the transactions described above, debiting and crediting the accounts of the respective Agent Members as necessary to effect the purchase and sale of Bonds as determined in the Auction.

# BROKER-DEALER AGREEMENT

Dated as of April 1, 2003

among

THE BANK OF NEW YORK
as Auction Agent

and

J.P. MORGAN SECURITIES INC.
as Broker-Dealer

and

GULF POWER COMPANY

relating to

$29,075,000

Mississippi Business Finance Corporation

Pollution Control Revenue Refunding Bonds,

Series 2003

(Gulf Power Company Project)

## TABLE OF CONTENTS


SECTION 1. DEFINITIONS AND RULES OF CONSTRUCTION. ..... 2

1.1 Terms Defined by Reference to the Indenture ..... 2

1.2 Terms Defined Herein ..... 2

1.3 Rules of Construction ..... 3

1.4 Warranties of BD ..... 3

SECTION 2. THE AUCTION ..... 4

2.1 Purpose; Incorporation by Reference of Auction Procedures and Settlement Procedures ..... 4

2.2 Preparation for Each Auction ..... 4

2.3 Auction Schedule; Method of Submission of Orders. ..... 5

2.4 Notices. ..... 6

2.5 Compensation. ..... 6

2.6 Settlement. ..... 7

SECTION 3. THE AUCTION AGENT. ..... 8

3.1 Duties and Responsibilities of the Auction Agent. ..... 8

3.2 Rights of the Auction Agent. ..... 9

SECTION 4. DISCLOSURE; INDEMNIFICATION. ..... 10

4.1 Disclosure. ..... 10

4.2 Indemnification. ..... 10

SECTION 5. MISCELLANEOUS. ..... 12

5.1 Termination ..... 12

5.2 Participant ..... 12

5.3 Communications ..... 12

5.4 Entire Agreement ..... 13

5.5 Benefits; Successors and Assigns ..... 13

5.6 Amendment; Waiver. ..... 13

5.7 Severability ..... 14

5.8 Execution in Counterparts ..... 14

5.9 Governing Law ..... 14

5.10 No Implied Duties ..... 14

BROKER-DEALER AGREEMENT

THIS BROKER-DEALER AGREEMENT, dated as of April 1, 2003 (the "Broker-Dealer Agreement"), among (i) THE BANK OF NEW YORK (the "Auction Agent"), not in its individual capacity but solely as agent of THE BANK OF NEW YORK TRUST COMPANY OF FLORIDA, N.A., as trustee (the "Trustee"), pursuant to authority granted to the Auction Agent in the Auction Agreement, dated as of April 1, 2003 (the "Auction Agreement"), among the Trustee, the Auction Agent and the Company, as hereinafter defined; (ii) J.P. MORGAN SECURITIES INC. as Broker-Dealer ("BD"); and (iii) GULF POWER COMPANY (the "Company").

WITNESSETH

WHEREAS, the Mississippi Business Finance Corporation (the "Issuer") is offering $29,075,000 in aggregate principal amount of its Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) (the "Bonds"); and

WHEREAS, BD is to perform certain duties set forth herein; and

WHEREAS, the Trust Indenture dated as of April 1, 2003 between the Issuer and the Trustee, providing for the issuance of the Bonds (the "Indenture") provides that, except as provided therein, the interest rate on the Bonds shall be the Auction Mode Rate which shall be, except as otherwise provided therein, the rate per annum that the Auction Agent determines to have resulted from the implementation of the Auction Procedures; and

WHEREAS, The Bank of New York has been appointed as Auction Agent for purposes of the Auction Agreement, and pursuant to Section 2.6(a) of the Auction Agreement, the Company has requested and directed the Auction Agent to execute and deliver this Broker-Dealer Agreement; and

WHEREAS, the Auction Procedures require the participation of one or more Broker-Dealers;

NOW, THEREFORE, the Auction Agent, as agent for the Trustee, BD for the benefit of the Existing Owners and the Potential Owners of the Bonds, and the Company agree as follows:

SECTION 1. DEFINITIONS AND RULES OF CONSTRUCTION.

1.1 *Terms Defined by Reference to the Indenture.* Capitalized terms used herein and not defined herein shall have the respective meanings specified in the Indenture. Unless otherwise specified, Section references to the Auction Agreement refer to such Sections in the Auction Agreement.

1.2 *Terms Defined Herein.* As used herein and in the exhibits hereto, the following terms shall have the following meanings, unless the context otherwise requires.

(a) "Authorized Officers" shall mean (i) in the case of the Auction Agent, each Vice President, Assistant Vice President and Assistant Treasurer of the Auction Agent assigned to its Dealing and Trading Group of its Corporate Trust Department and every other officer or employee of the Auction Agent designated an "Authorized Officer" for purposes hereof in a written communication delivered to the Trustee, (ii) in the case of the Company, its Chief Financial Officer and every other officer or employee of the Company designated an "Authorized Officer" for purposes hereof in a written communication delivered to the Trustee, and (iii) in the case of the Trustee, every officer or employee of the Trustee designated as an "Authorized Officer" for purposes hereof in a written communication delivered to the Auction Agent.

(b) "BD Officer" shall mean each officer or employee of BD designated as a "BD Officer" for purposes of this Broker-Dealer Agreement in a communication to the Auction Agent.

(c) "Broker-Dealer Agreement" shall mean this Broker-Dealer Agreement and any substantially similar agreement among the Company, the Auction Agent and a Broker-Dealer.

(d) "Closing Date" shall mean April 15, 2003.

(e) "Settlement Procedures" shall mean the Settlement Procedures for the Bonds and shall be substantially in the form attached hereto as EXHIBIT A.

1.3 *Rules of Construction.* Unless the context or rules indicates another or different meaning or intent, the following rules shall apply to the construction of this Broker-Dealer Agreement:

(a) Words importing the singular number shall include the plural number and vice versa.

(b) The captions and headings herein are solely for the convenience of reference and shall not constitute a part of this Broker-Dealer Agreement nor shall they affect its meaning, construction or effect.

(c) The words "hereof," "herein," "hereto" and other words of similar import refer to this Broker-Dealer Agreement as a whole.

(d) All references herein to a particular time of day shall be to New York City time.

(e) Each reference to the purchase, sale or holding of Bonds shall refer to beneficial ownership interests in Bonds unless the context clearly requires otherwise.

1.4 *Warranties of BD.* BD hereby represents and warrants that this Broker-Dealer Agreement has been duly authorized, executed and delivered by BD and that, assuming the due authorization, execution and delivery hereof by the Auction Agent and the Company, this

Broker-Dealer Agreement constitutes a valid and binding agreement of BD, enforceable against it in accordance with its terms.

SECTION 2. THE AUCTION.

2.1 *Purpose; Incorporation by Reference of Auction Procedures and Settlement Procedures.*

(a) The Auction Procedures will be followed by the Auction Agent for the purpose of determining the Auction Mode Rate for each Auction Period after the Initial Period for the Bonds. Each periodic implementation of such procedures is hereinafter referred to as an "Auction."

(b) All of the provisions contained in the Auction Procedures and the Settlement Procedures are incorporated herein by reference in their entirety and shall be deemed to be a part of this Broker-Dealer Agreement to the same extent as if such provisions were fully set forth herein.

(c) BD agrees to act as, and assumes the obligations of, and limitations and restrictions placed upon, a Broker-Dealer under this Broker-Dealer Agreement. BD understands that other Persons meeting the requirements specified in the definition of "Broker-Dealer" contained in the Indenture may execute Broker-Dealer Agreements and participate as Broker-Dealers in Auctions. BD agrees to handle customer orders in accordance with its respective duties under applicable securities laws and rules.

(d) BD and other Broker-Dealers may participate in Auctions for their own accounts. The Company may, however, by notice to BD and all other Broker-Dealers, prohibit all of the Broker-Dealers from submitting Bids in Auctions for their own accounts, provided that Broker-Dealers may continue to submit Hold Orders and Sell Orders. Notwithstanding the foregoing, if BD is an affiliate of the Company it may not submit Bids to purchase Bonds in Auctions for its own account, but may submit Hold Orders and Sell Orders in Auctions with respect to Bonds otherwise acquired for its own account. The Auction Agent shall be under no duty or liability with respect to monitoring compliance with this Section 2.1(d).

2.2 *Preparation for Each Auction.*

(a) Not later than 9:30 A.M. on each Auction Date, the Auction Agent shall advise the Broker-Dealers by telephone or other electronic communication acceptable to the parties of the All Hold Rate, the Maximum Auction Rate and the Reference Rate.

(b) On the Closing Date and from time to time thereafter as the Auction Agent may request, BD shall provide the Auction Agent with a list, substantially in the form of EXHIBIT E hereto, of the names of its customers that it believes are Existing Owners of the Bonds and the principal amount of Bonds held by each of such customers. The Auction Agent shall not disclose any such information so provided to any Person other than the Trustee, the Issuer, the Company or BD except as otherwise required by law.

(c) Not later than 3:00 P.M. on the Record Date preceding each Auction Date, the Auction Agent shall notify BD of any change in the aggregate principal amount of Bonds, as of the opening of business on such Record Date by delivering a notice to BD by telecopy or other electronic communication acceptable to the parties.

2.3 *Auction Schedule; Method of Submission of Orders.*

(a) The Auction Agent shall conduct Auctions for the Bonds in accordance with the schedule set forth below. Such schedule may be changed at any time by the Auction Agent at the written direction of the Company to reflect then currently accepted market practices for similar auctions. The Auction Agent shall give notice of any such change to BD, the Issuer, the Company and the Trustee, which notice shall be given prior to the close of business on the Business Day next preceding the first Auction Date on which any such change shall be effective.

| Time | Event |
|---|---|
| By 9:30 A.M. | Auction Agent advises the Broker-Dealers of the All Hold Rate, the Maximum Auction Rate and the Reference Rate, as set forth in Section 2.2(a) hereof. |
| 9:30 A.M.- 1:00 P.M. (11:00 A.M. in the case of a daily Auction Period). | Auction Agent assembles information communicated to it by Broker-Dealers as provided in Section 2.03 of Exhibit B to the Indenture. Submission Deadline is 1:00 P.M. (11:00 A.M. in the case of a daily Auction Period). |
| As soon as practical after 1:00 P.M. (by 11:30 A.M. in the case of a daily Auction Period). | Auction Agent makes determinations pursuant to Section 2.04 of Exhibit B to the Indenture. |
| By approximately 3:00 P.M. but not later than the close of business (by 12:00 Noon in the case of a daily Auction Period). | Submitted Bids and Submitted Sell Orders are accepted and rejected and Bonds allocated as provided in Section 2.05 of Exhibit B to the Indenture. Auction Agent gives notice of the Auction results as set forth in Section 2.4(a) hereof. |

(b) BD agrees, for the purpose of implementing the Auctions (and thereby achieving the lowest possible interest rate on the Bonds), to contact Potential Owners, including Persons that are not Existing Owners, prior to the Submission Deadline on each Auction Date to determine the principal amount of Bonds, if any, that each such Potential Owner offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum requested by such Potential Owner. BD further agrees, upon request, to deliver a copy of the Auction Procedures and other relevant documents prepared for the purpose of disclosure to Potential Owners by the Issuer and the

Company relating to the Bonds to each Potential Owner prior to such Potential Owner's participation in any Auction.

(c) In each Auction in which BD submits one or more Orders, BD shall submit a separate Order to the Auction Agent for each Potential Owner or Existing Owner on whose behalf BD is submitting an Order and shall not net the Orders of different Potential Owners or Existing Owners on whose behalf BD is submitting Orders. Each Order shall be in writing in substantially the form attached hereto as EXHIBIT B or in such other form as may be reasonably acceptable to the Auction Agent.

(d) BD shall deliver to the Auction Agent (i) a written notice, substantially in the form attached hereto as EXHIBIT C, of transfers of Bonds made through BD by an Existing Owner to another Person other than pursuant to an Auction, and (ii) a written notice, substantially in the form attached hereto as EXHIBIT D, of the failure of any Bond to be transferred to or by any Person that purchased or sold Bonds through BD pursuant to an Auction. The Auction Agent is not required to accept any such notice specified in this Subsection (d) for an Auction if it is received by it after 3:00 P.M. on the Business Day preceding such Auction.

2.4 *Notices.*

(a) On each Auction Date, the Auction Agent shall notify BD by telephone or other electronic communication acceptable to the parties of the results of the Auction as set forth in paragraph (a) of the Settlement Procedures. As soon as reasonably practicable thereafter, the Auction Agent shall notify BD, if so requested, in writing of the disposition of all Orders submitted by BD in the Auction held on such Auction Date.

(b) The Auction Agent shall notify BD of any change in the Auction schedule set forth in Section 2.3(a) hereof.

(c) BD shall notify each Existing Owner or Potential Owner on whose behalf BD has submitted an Order as set forth in paragraph (b) of the Settlement Procedures, and take such other action as is required of BD pursuant to the Settlement Procedures.

(d) The Auction Agent shall deliver to BD after receipt all notices and certificates which the Auction Agent is required to deliver to BD pursuant to Section 2 of the Auction Agreement at the times and in the manner set forth in the Auction Agreement.

2.5 *Compensation.*

(a) The initial rate of Broker-Dealer compensation (the "Broker-Dealer Fee Rate") shall equal .25 of 1% per annum. The Broker-Dealer Fee (hereinafter defined) for the Bonds shall be paid by the Company and represents compensation for the services of the Broker-Dealer in facilitating Auctions for the benefit of the beneficial owners of the Bonds. The Broker-Dealer Fee Rate may be adjusted from time to time with the approval of the Company upon a written request of the Broker-Dealer delivered to the Company.

(b) While the Bonds are in an Auction Period on each Interest Payment Date following each Auction Date, each Broker-Dealer shall be entitled to receive an

amount (the "Broker-Dealer Fee") equal to the product of (x) .25 of 1% multiplied by (y)(A) if an Auction was held on such Auction Date, the sum of the aggregate principal amount of Bonds that were (1) the subject of a valid Hold Order of an Existing Owner submitted by such Broker-Dealer, (2) the subject of a Submitted Bid of an Existing Owner submitted by such Broker-Dealer and continued to be held by such Existing Owner as a result of such Auction, (3) the subject of a Submitted Bid of a Potential Owner submitted by such Broker-Dealer and were purchased by such Potential Owner as a result of such Auction and (4) deemed to be the subject of a Hold Order by an Existing Owner that were acquired by such Existing Owner from such Broker-Dealer or (B) if an Auction was not held on such Auction Date, the aggregate principal amount of Outstanding Bonds that were acquired by an Existing Owner through such Broker-Dealer, multiplied by (z) a fraction, the numerator of which is the actual number of days in the Auction Period next succeeding such Auction Date and the denominator of which is 360. If the Bonds are in a daily Auction Period each Broker-Dealer shall be entitled to receive on each Interest Payment Date an amount equal to the sum calculated for each Auction Period in the preceding month of the product of (x) .25 of 1% multiplied by (y) the aggregate principal amount of Bonds for each Auction Period that were (1) the subject of a valid Hold Order submitted by such Broker-Dealer, (2) the subject of a Submitted Bid of an Existing Owner submitted by such Broker-Dealer and continued to be held by such Existing Owner as a result of such Auction, (3) the subject of a Submitted Bid of a Potential Owner submitted by such Broker-Dealer and were purchased by such Potential Owner as a result of such Auction, (4) deemed to be the subject of a Hold Order by an Existing Owner that were acquired by such Existing Owner from such Broker-Dealer and (5) if an Auction was not held for any Auction Period, the aggregate principal amount of Outstanding Bonds that were acquired by an Existing Owner through such Broker-Dealer, multiplied by (z) a fraction, the numerator of which is the number of days in the Auction Period and denominator of which is 360. The Broker-Dealer Fee shall be calculated by the Auction Agent, which shall be conclusive absent manifest error. Such amounts shall be communicated by the Auction Agent to the Company and the Trustee by 4:00 P.M. on the Business Day immediately preceding each Interest Payment Date. On or before 10:00 A.M. on each Interest Payment Date, the Company shall pay to the Trustee the amount due to the Broker-Dealer. By noon on each Interest Payment Date, to the extent of receipt of adequate funds from the Company, the Trustee shall deliver to the Auction Agent the amount constituting the Broker-Dealer Fee, by wire transfer of immediately available funds to such account as the Auction Agent may designate. The amount constituting the Broker-Dealer Fee shall be held by the Auction Agent on behalf of the Broker- Dealer, and immediately upon receipt of such Fee, the Auction Agent shall deliver such Fee to the Broker-Dealer, pursuant to the written instructions of the Broker-Dealer. If any Existing Owner who acquired Bonds through a Broker-Dealer transfers any such Bonds to another Person other than through an Auction, the Broker-Dealer for the Bonds so transferred shall continue to be the Broker-Dealer with respect to such Bonds, provided, however, that if the transfer was effected by, or if the transferee is, another Person who has met the requirements specified in the definition of "Broker-Dealer" contained in the Indenture and executed a Broker-Dealer Agreement, such Person shall be the Broker-Dealer for such Bonds.

2.6 *Settlement.*

(a) If any Potential Owner on whose behalf BD has submitted an Order fails to deliver funds with respect to any Auction, BD shall promptly deliver such funds to

the party entitled to receive such funds. If any Existing Owner on whose behalf BD has submitted an Order fails to instruct its Agent Member to deliver Bonds subject to such Order against payment therefor, BD shall instruct such Agent Member to deliver such Bonds against payment therefor. The delivery of funds by BD for the purchase of Bonds by a Potential Owner, as provided above, shall not relieve such Potential Owner of any liability to BD for payment for such Bonds. Notwithstanding the foregoing provisions of this Section 2.6(a), any delivery or nondelivery of Bonds which represents any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or non-delivery in accordance with the terms of Section 2.3(d) hereof. The Auction Agent shall have no duty or liability with respect to enforcement of this Section 2.6(a).

(b) The Auction Agent, the Trustee, the Company and the Issuer shall have no responsibility or liability with respect to the failure of an Existing Owner, a Potential Owner or its respective Agent Member to deliver Bonds or to pay for Bonds sold or purchased pursuant to the Auction Procedures or otherwise.

SECTION 3. THE AUCTION AGENT.

3.1 *Duties and Responsibilities of the Auction Agent.*

(a) The Auction Agent is acting solely as agent of the Trustee and owes no duties, fiduciary or otherwise, to any other person by reason of this Broker-Dealer Agreement, except as expressly set forth herein or in the Auction Agreement and the Indenture, and no implied duties, fiduciary or otherwise, shall be read into this Broker-Dealer Agreement.

(b) Each of the Auction Agent and the Company undertake to perform such duties and only such duties as are expressly set forth in this Broker-Dealer Agreement, or expressly incorporated herein by reference pursuant to Section 2.1 hereof, to be performed by each of the Auction Agent and the Company, and no implied covenants or obligations shall be read into this Broker-Dealer Agreement against the Auction Agent or the Company.

(c) In the absence of bad faith, gross negligence or willful misconduct on its part, the Auction Agent, whether acting directly or through agents or attorneys as provided in Section 3.2(d) hereof, shall not be liable for any action taken, suffered, or omitted or for any error of judgment made by it in the performance of its duties hereunder. The Auction Agent shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been grossly negligent in ascertaining the pertinent facts necessary to make such judgment. In no event shall the Auction Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profit), even if the Auction Agent has been advised of the likelihood of such loss or damage and regardless of the form of action.

(d) Upon termination of the Auction Agreement, the Auction Agent shall promptly deliver to the Company the Auction records and accompanying documentation and any other documents referred to in Section 2.8 therein to the extent not previously delivered to the Trustee.

(e) The Auction Agent shall: (i) not be required to and shall make no representations and have no responsibilities as to the validity, accuracy, value or genuineness of any signatures or endorsements, other than its own; or any document delivered pursuant to or as contemplated by this Broker-Dealer Agreement; (ii) not be obligated to take any legal action hereunder that might, in its judgment, involve any expense or liability, unless it has been furnished with reasonable indemnity; and (iii) not be responsible for or liable in any respect on account of the identity, authority or rights of any person executing or delivering or purporting to execute or deliver any document under this Broker-Dealer Agreement or any Broker-Dealer Agreement.

(f) The Auction Agent shall not be responsible or liable for any failure or delay in the performance of its obligations under this Broker-Dealer Agreement arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including without limitation, acts of God; earthquakes; fires; floods; wars; civil or military disturbances; terrorism; sabotage; epidemics; riots; interruptions; loss or malfunction of utilities, computer (hardware or software) or communications service; accidents; labor disputes; acts of civil or military authority or governmental actions; it being understood that the Auction Agent shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

3.2 *Rights of the Auction Agent.*

(a) The Auction Agent may conclusively rely upon, and shall be fully protected in acting or refraining from acting upon, any communication authorized hereby and upon any such written instruction, notice, request, direction, consent, report, certificate, share certificate or other instrument, paper or other document believed by it to be genuine. The Auction Agent shall not be liable for acting in good faith upon any such communication made by telephone or other electronic communication acceptable to the parties which the Auction Agent reasonably believes to have been given by the particular party or parties. To the extent permitted by law, the Auction Agent may record telephone communications with the Company, the Issuer, the Trustee and the Broker-Dealers, and each of such parties may record telephone communications with the Auction Agent.

(b) The Auction Agent may consult with counsel of its choice (provided such selection is made with reasonable care) and the advice of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(c) The Auction Agent shall not be required to advance, expend or risk its own funds or otherwise incur or become exposed to financial liability in the performance of its duties hereunder, except as may be required as a result of its own gross negligence, willful misconduct or bad faith.

(d) The Auction Agent may perform its duties and exercise its rights hereunder either directly or by or through agents or attorneys and shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed by it with due care.

(e) The Auction Agent shall have no obligation or liability in respect of the registration or exemption therefrom of the Bonds under federal or state securities laws in respect of the sufficiency or the conformity of any transfer of the Bonds pursuant to the terms of this Broker-Dealer Agreement, any other Broker-Dealer Agreement, the Indenture or any other document contemplated by any thereof.

SECTION 4. DISCLOSURE; INDEMNIFICATION.

4.1 *Disclosure.*

(a) The Company agrees to supply to BD, at the Company's expense, such number of copies of the Official Statement, dated April 9, 2003 (the "Official Statement"), as BD shall reasonably request from time to time and, upon request of BD, to amend the Official Statement so that the Official Statement will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

(b) If BD determines (upon consultation and mutual agreement with the Company) that it is necessary or desirable to use a disclosure statement (other than the Official Statement), relating specifically to the Bonds (a "Disclosure Statement") in connection with the solicitation of Orders for the Bonds, BD will notify the Company, and the Company will provide BD with a Disclosure Statement reasonably satisfactory to BD and its counsel. The Company will supply BD, at the Company's expense, with such number of copies of such Disclosure Statement as BD requests from time to time and will, upon request of BD, amend such Disclosure Statement (as well as the documents incorporated by reference therein) so that such Disclosure Statement will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. In connection with the use of any Disclosure Statement by BD in its solicitation of Orders for the Bonds (other than the Official Statement), the Company will furnish to BD such certificates, accountants' letters and opinions of counsel as would be customary in a public offering of tax-exempt securities underwritten by BD. In addition, the Company will, at its own expense, take all steps reasonably requested by BD that BD or its counsel may consider necessary or desirable to effect compliance with applicable federal or state securities laws.

4.2 *Indemnification.*

(a) The Company agrees to indemnify and hold harmless BD and each person, if any, who controls BD, within the meaning of Section 15 of the Securities Act of 1933, as amended (the "Securities Act"), against any and all losses, claims, damages, liabilities, joint or several, and expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Official Statement or the Disclosure Statement, or in any amendment or supplement thereto, or arising out of any omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect, except insofar as such losses, claims, damages, liabilities or expenses arise out of any such untrue statement or omission or any alleged untrue statement or omission made in any such documents in reliance

upon and in conformity with written information furnished to the Company by the BD specifically for use therein; provided, however, that the indemnity agreement contained in this Section 4.2 shall not inure to the benefit of BD (or of any person so controlling BD) to the extent of any losses, claims, damages, liabilities or expenses arising from the sale of the Bonds to any person if a copy of the Official Statement (exclusive of the documents incorporated by reference therein), as amended or supplemented at the time of such sale, shall not have been given or sent to such person by or on behalf of BD with or prior to the written confirmation of the sale involved.

(b) BD agrees to indemnify and hold harmless the Company, its directors and officers and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act against any and all losses, claims, damages, liabilities and expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Official Statement or the Disclosure Statement, or in any amendment or supplement thereto, or any omission or alleged omission to state therein any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, but only to the extent that such untrue statement or alleged untrue statement or omission or alleged omission was made in any such document in reliance upon and in conformity with written information furnished to the Company by BD specifically for use therein.

(c) The Company agrees with respect to any action against it, any of its directors or officers or any person controlling it as aforesaid, and BD agrees with respect to any action against it or any person controlling it as aforesaid, in respect of which indemnity may be sought hereunder, that it will promptly give written notice of the commencement of such action to the party or parties against whom indemnity may be sought; but the omission so to notify any indemnifying party will not relieve such indemnifying party from any liability which it may have to the indemnified party which failed to give such notice otherwise than under this Section 4.2 nor affect any rights such indemnifying party may have otherwise than under this Section 4.2 to participate in or assume the defense of any action brought against such indemnified party. Upon receipt of any such notice by an indemnifying party, such indemnifying party shall be entitled to assume the defense of such action, including the employment of counsel and the payment of all expenses in connection with such defense, and will have the right to negotiate and consent to settlement. Any indemnified party shall have the right to employ separate counsel in any such action against it and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless the employment of such counsel shall have been specifically authorized in writing by the indemnifying party or the indemnifying party shall have elected not to assume the defense of such action. No indemnifying party shall be liable for any settlement of any such action effected without its consent; but if any such action is settled with the consent of an indemnifying party or if there be a final judgment for the plaintiff in any such action (of which an indemnifying party shall have been notified as aforesaid), such indemnifying party shall indemnify and hold harmless each indemnified party from and against any losses, claims, damages, liabilities or expenses incurred or suffered by reason of such settlement or judgment.

SECTION 5. MISCELLANEOUS.

5.1 *Termination.* BD may be removed by the Auction Agent at the written direction of the Company, or may resign at any time, upon five Business Days' notice to the Auction Agent, the Trustee and the Company; provided, however, that BD may resign immediately if it determines, in its reasonable judgment, that for any reason, including, without limitation, (i) a pending or proposed change in applicable tax laws, (ii) a material adverse change in the financial condition of the Issuer or the Company, (iii) hostilities involving the United States, (iv) a down-rating of the Bonds, or (v) an imposition of material restrictions on the Bonds or similar obligations, it is not advisable to attempt to Auction the Bonds. The Auction Agent upon the written direction of the Company may terminate this Broker-Dealer Agreement at any time on five Business Days' notice to the other parties hereto; provided that this Broker-Dealer Agreement shall terminate upon the resignation or removal of the BD pursuant to this Section 5.1 or termination of the Auction Agreement.

5.2 *Participant.* BD is and for the term of this Broker-Dealer Agreement shall remain a member of, a participant in, or an affiliate of such a member or participant in DTC; and will give the Auction Agent, each other Broker-Dealer, the Company and the Trustee two Business Days' notice if it ceases to be so or if it changes its participation or affiliation to a different Securities Depository.

5.3 *Communications.* Except for (i) communications authorized to be by telephone pursuant to this Broker-Dealer Agreement or the Auction Procedures and (ii) communications in connection with Auctions (other than those expressly required to be in writing) all notices, requests and other communications to any party hereunder shall be in writing (including telecopy or similar writing or other electronic communication acceptable to the parties) and shall be given to such party, addressed to it, at its address, telecopy number or e-mail address set forth below and, where appropriate, reference the particular Auction to which such notice relates:

If to BD addressed:

J.P. Morgan Securities Inc.
270 Park Avenue, 7th Floor
New York, New York 10017
Attention: Kevin O'Connor
FAX: (212) 834-6737
Phone: (212) 834-7182

If to the Auction Agent addressed:

The Bank of New York
100 Church Street, 8th Floor
New York, New York 10286
Attention: Corporate Trust Administration – Dealing & Trading Group
FAX: (212) 437-6123
PHONE: (212) 437-6166

If to the Issuer addressed:

Mississippi Business Finance Corporation
735 Riverside Drive, Suite 300

Jackson, Mississippi 39202
Attention: Executive Director

If to the Company addressed:

Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 30501
*if by mail*:
One Energy Place
Pensacola, Florida 32520-0102
Attention: Treasurer

*with copies to*
Southern Company Services, Inc.
270 Peachtree Street, N.W.
Atlanta, Georgia 30303
Attention: Corporate Finance Department

or such other address, telecopy number or e-mail address as such party may hereafter specify for such purpose by notice to the other party. Each such notice, request or communication shall be effective (i) if given by telecopier, when such telecopy is transmitted to the telecopy number specified herein or (ii) if given by any other means, when delivered at the address specified herein. Communications shall be given on behalf of BD by a BD Officer and on behalf of the Auction Agent by an Authorized Officer.

5.4 *Entire Agreement.* This Broker-Dealer Agreement, and the other agreements and instruments executed and delivered in connection with the issuance of the Bonds, contain the entire agreement between the parties relating to the subject matter hereof, and there are no other representations, endorsements, promises, agreements or understandings, oral, written or inferred, between the parties relating to the subject matter hereof.

5.5 *Benefits; Successors and Assigns.* This Broker-Dealer Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the respective successors and assigns of BD and the Auction Agent. Nothing in this Broker-Dealer Agreement, express or implied, shall give to any person, other than the Auction Agent and BD and their respective successors and assigns, any benefit of any legal or equitable right, remedy or claim under this Broker-Dealer Agreement, other than the rights expressly granted to the Company herein.

5.6 *Amendment; Waiver.*

(a) This Broker-Dealer Agreement shall not be deemed or construed to be modified, amended, rescinded, canceled or waived, in whole or in part, except by a written instrument signed by a duly authorized representative of the parties hereto and consented to in writing by a duly authorized officer of the Trustee.

(b) Failure of any party to this Broker-Dealer Agreement to exercise any right or remedy hereunder in the event of a breach of this Broker-Dealer Agreement by any

other party shall not constitute a waiver of any such right or remedy with respect to any subsequent breach.

5.7 *Severability.* *If* any clause, provision or section of this Broker-Dealer Agreement shall be ruled invalid or unenforceable by any court of competent jurisdiction, the invalidity or unenforceability of such clause, provision or section shall not affect any of the remaining clauses, provisions or sections hereof.

5.8 *Execution in Counterparts.* This Broker-Dealer Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

5.9 *Governing Law.* This Broker-Dealer Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to conflict of laws principles.

5.10 *No Implied Duties.* Nothing contained in this Broker-Dealer Agreement, the Indenture or the Auction Agreement shall be deemed to imply any duties, covenants or obligations on the part of the Company not otherwise expressly set forth herein or therein.

IN WITNESS WHEREOF, the parties hereto have caused this Broker-Dealer Agreement to be duly executed and delivered by their proper and duly authorized officers as of the date first above written.

THE BANK OF NEW YORK
as Auction Agent

By: _____
Name:
Title: JOSEPH PANEFINTO
VICE PRESIDENT

J.P. MORGAN SECURITIES INC.
as Broker-Dealer

By: _____
Name: Paul W. Neuhardel
Title: Vice President

GULF POWER COMPANY

By: _____
Name: W. E. Tate
Title: Vice President, Secretary and Treasurer

EXHIBIT A

SETTLEMENT PROCEDURES FOR BONDS

(a) On each Auction Date, the Auction Agent shall notify by telephone or other electronic means or in writing each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Owner or Potential Owner of the following:

(i) the Auction Mode Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more other Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such other Broker-Dealers submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Mode Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected and (C) the immediately succeeding Auction Date;

(ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of Bonds to be purchased pursuant to such Bid (including, with respect to Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bonds) against receipt of such Bonds; and

(iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through DTC the principal amount of Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order shall allocate any funds received by it pursuant to subparagraph (b) (ii) above, and any Bonds received by it pursuant to (b) (iii) above, among the Potential Owners, if any, on whose behalf such Broker-Dealer submitted Bids and the Existing Owners, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders and any Broker-Dealer identified to it by the Auction Agent pursuant to subparagraph (a)(v) above.

(d) On the Business Day after the Auction Date or, in the case of Bonds in a daily Auction Period, on such Auction Date, DTC shall execute the transactions described above, debiting and crediting the accounts of the respective Agent Members as necessary to effect the purchase and sale of Bonds as determined in the Auction.

EXHIBIT B

(Submit only one Order on this Order Form)
$29,075,000

Mississippi Business Finance Corporation
Pollution Control Revenue Refunding Bonds,
Series 2003
(Gulf Power Company Project)
(the "Bonds")

Attention:

_____
Date of Auction

The undersigned Broker-Dealer submits the following Order on behalf of the Bidder listed below:

Name of Bidder:_____

Bidder places the Order listed below covering the Bonds indicated (complete only one blank):

$_____ Bonds now held by Bidder (an Existing Owner), and the Order is a (check one):

_____ Hold Order; or

_____ Bid at rate of ____%; or

_____ Sell Order.

or

$_____ Bonds not now held by Bidder (a Potential Owner), and the Order is a Bid at a rate of _____%.

Notes: (1) If submitting more than one Order for one Bidder, use additional Order Forms.

(2) If one or more Orders covering in the aggregate more than the number of Outstanding Bonds held by any Existing Owner are submitted, such Orders shall be considered valid in the order or priority set forth in the Auction Procedures.

(3) A Hold Order may be placed only by an Existing Owner covering a

number of Outstanding Bonds not greater than the number of Outstanding Bonds currently held.

(4) Potential Owners may make only Bids, each of which must specify a rate. If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted shall be a separate Bid with the rate specified.

(5) Bids may contain no more than three figures to the right of the decimal point.

(6) An Order must be submitted in integral multiples of $1,000.

Name of Broker-Dealer:_____

By_____

EXHIBIT C

(To be used only for transfers of Bonds made
other than pursuant to an Auction)

$29,075,000

Mississippi Business Finance Corporation
Pollution Control Revenue Refunding Bonds,
Series 2003
(Gulf Power Company Project)
(the "Bonds")

TRANSFER FORM

_____
_____
_____
Attention:

_____, _____

Check I, II or III

I. We are the Existing Owner named below.

II. We are the Agent Member for such Existing Owner.

III. We are a Broker-Dealer for such Existing Owner.

We hereby notify you that the Existing Owner named below has transferred:

$_____ Bonds to_____

Complete either I or II

I. Corporate Name of Existing Owner:

By:_____

Printed Name:
Title:

II. Corporate Name of Existing Owner:

_____

Name of Agent Member or Broker-Dealer Submitting this notice:

By:_____

Printed Name:

Title:

_____

Bonds may only be transferred in integral multiples of $1,000.

EXHIBIT D
(To be used for failure to deliver Bonds
sold pursuant to an Auction)
$29,075,000

Mississippi Business Finance Corporation
Pollution Control Revenue Refunding Bonds,
Series 2003
(Gulf Power Company Project)
(the "Bonds")

NOTICE OF FAILURE TO DELIVER

_____
_____
_____
Attention:_____

Complete either I or II _____,____ _____,_____

I. We are a Broker-Dealer for _____ (the "Purchaser"), who was to purchase $_____ in the Auction held on _____.

II. We are a Broker-Dealer for _____ (the "Seller"), who was to sell $_____ Bonds in the Auction held on _____.

We hereby notify you that (check one) -

_____ the Seller failed to deliver such Bonds to us.

_____ the Purchaser failed to make payment to us upon delivery of such Bonds.

_____ the following Broker-Dealer failed to deliver to us such Bonds.

_____ the following Broker-Dealer failed to make payment to us upon delivery of such Bonds:

Name:_____

(Name of Broker-Dealer submitting this notice)

By:_____
Printed Name:
Title:

*Bonds may only be transferred in integral multiples of $1,000.

EXHIBIT E

TO BROKER - DEALER AGREEMENT

LISTING OF EXISTING OWNERS

of

$29,075,000

Mississippi Business Finance Corporation
Pollution Control Revenue Refunding Bonds,
Series 2003
(Gulf Power Company Project)
(the "Bonds")

_____
_____
_____
Attention:

The undersigned Broker-Dealer hereby provides the names and related principal amounts of each of its customers that it believes is an Existing Owner of Bonds:

| Name of Existing Owner | Principal Amount of Bonds |
|---|---|

Name of Broker-Dealer:

_____
By:_____
Name:
Title:

GULF POWER COMPANY

Letter of Representation

April 14, 2003

Mississippi Business Finance Corporation
Jackson, Mississippi

J.P. Morgan Securities Inc.
New York, New York,

Ladies and Gentlemen:

Gulf Power Company (the "Company") delivers this Letter of Representation in order to induce J.P. Morgan Securities Inc., as underwriter (the "Underwriter") and the Mississippi Business Finance Corporation (the "Issuer") to enter into a Purchase Contract, to be dated the date hereof (the "Purchase Contract"), with the Issuer relating to the purchase by the Underwriter from the Issuer of $29,075,000 aggregate principal amount of its Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) (the "Bonds"). The Bonds will be issued under and secured by a Trust Indenture, dated as of April 1, 2003 (the "Indenture"), between the Issuer and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"). The proceeds of the Bonds are to be used, pursuant to the terms of a Loan Agreement, dated as of April 1, 2003 (the "Agreement"), between the Issuer and the Company, to provide funds to refinance the acquisition and construction of the Company's interest in certain air and water pollution control facilities (the "Project") located at the Victor J. Daniel, Jr. Steam Electric Generating Plant in Jackson County, Mississippi. The Company's payment obligations with respect to the Bonds under the Agreement will be evidenced by a non-negotiable promissory note equal in principal amount to the Bonds and bearing interest at the rate or rates borne by the Bonds (the "Note"). In addition, in connection with the issuance of the Bonds, the Company and the Trustee will enter into an Auction Agreement related to the Bonds dated as of April 1, 2003 (the "Auction Agreement") with The Bank of New York, as auction agent (the "Auction Agent"), providing, among other things, that the Auction Agent will follow certain auction procedures (each implementation thereof, an "Auction") for the purpose of determining the rate of interest which the Bonds will bear when such rate is to be determined by an Auction (the "Auction Rate"). The Company and the Auction Agent will also enter into a Broker-Dealer Agreement, dated as of April 1, 2003 (the "Broker-Dealer Agreement"), with J.P. Morgan Securities Inc., as the broker-dealer. As used in this Letter of Representation the term "Official Statement" means the Official Statement of the Issuer, dated April 9, 2003 relating to the Bonds and certain other obligations described therein, including the Appendices thereto and the documents incorporated in Appendix A by reference.

1. In consideration of the execution and delivery of the Purchase Contract, the Company represents, warrants and covenants to and with the Underwriter and the Issuer that:

(a) The Official Statement does not, and at the Closing Date (as defined in the Purchase Contract) the Official Statement, as it may be amended or supplemented, will not, include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that none of the representations and warranties in this Letter of Representation shall apply to statements in or omissions from the Official Statement under the captions "MBFC," "The Bonds-Book-Entry System," "Tax Exemption" or "Underwriting" or in the statements on the cover page with respect to the initial public offering price, tax exemption and terms of offering or on the Table of Contents page with respect to stabilization.

(b) The financial statements incorporated by reference in the Official Statement, together with the related schedules and notes, present fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of and for the dates indicated; said financial statements have been prepared in conformity with accounting principles generally accepted in the United States applied on a consistent basis throughout the periods involved and necessarily include amounts that are based on the best estimates and judgments of management. The selected financial data and the summary financial information, if any, included in the Official Statement present fairly the information shown therein and have been compiled on a basis consistent with that of the audited and unaudited financial statements incorporated by reference in the Official Statement.

(c) There has not been any material adverse change in the business, properties, or financial condition of the Company as a whole from that set forth in or contemplated by the Official Statement.

(d) The Company has not entered into any material transaction or incurred any material liability otherwise than in the ordinary course of business or as set forth in or contemplated by the Official Statement.

(e) This Letter of Representation has been, and the Agreement, the Auction Agreement, the Broker-Dealer Agreement and the Note, when executed and delivered by the Company, will be, duly authorized, executed and delivered by the Company, and assuming due authorization, execution and delivery thereof by the other parties thereto, will be legal, valid and binding obligations of the Company and will be enforceable in accordance with their respective terms except as limited by any principles of public policy limiting the right to enforce the indemnification provisions of this Letter of Representation and the Broker-Dealer Agreement; and the Undertaking (as defined in the Purchase Contract), when executed and delivered by the Company, will be duly authorized, executed and delivered by the Company.

(f) All necessary authorizations, approvals, consents or other orders of any governmental authority or agency for the execution and delivery by the Company of the Agreement, the Auction Agreement and the Broker-Dealer Agreement and for the issuance by the Company of the Note have been obtained and are in full force and effect.

(g) The execution of this Letter of Representation, the Auction Agreement, the Broker-Dealer Agreement, the Undertaking and the Agreement, the issuance and delivery of the Note, the consummation of the transactions herein and therein contemplated and the fulfillment of the terms hereof and thereof, did not or will not result in a breach of any of the terms and provisions of, or constitute a default under, any indenture, mortgage, deed of trust or other agreement or instrument to which the Company is a party (except for breaches or defaults which would not, individually or in the aggregate, be materially adverse to the Company or materially adverse to the transactions contemplated by the Purchase Contract and this Letter of Representation), or of the Company's charter or by-laws or, to the knowledge of the Company, any order, rule or regulation applicable to the Company of any court or of any Federal or State regulatory body or administrative agency or other governmental body having jurisdiction over the Company or over any of its activities or its properties.

(h) The Company is a corporation duly organized and existing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged and to own and operate the properties used by it in such business.

(i) To the best of the Company's knowledge, the Securities and Exchange Commission has not issued, and is not threatening to issue, any order preventing or suspending the use of the Preliminary Official Statement, dated April 8, 2003 relating to the Bonds and certain other obligations of the Company described therein (the "Preliminary Official Statement") or the Official Statement.

(j) Except as disclosed in or contemplated by the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body known to the Company to be pending or threatened against or directly affecting the Company, nor to the best of the knowledge of the Company is there any basis therefor, wherein an unfavorable decision, ruling or finding (i) would have a material adverse effect on the transactions contemplated by the Purchase Contract or the Official Statement (excluding transactions contemplated solely by Appendix A thereto and the documents incorporated in Appendix A by reference), or (ii) would adversely affect the validity or enforceability of the Bonds, the Indenture, the Agreement, the Note, the Purchase Contract or this Letter of Representation, or any agreement or instrument to which the Company is a party, used or contemplated for use in connection with the consummation by the Company of the transactions contemplated by the Purchase Contract or by the Official Statement (excluding transactions contemplated solely by Appendix A thereto and the documents incorporated in Appendix A by reference).

(k) The Company will not take or omit to take any action the taking or omission of which would cause the proceeds from the sale of the Bonds to be applied in a manner contrary to that provided for in the Indenture and the Agreement, as amended from time to time.

(l) The Company will cooperate with the Underwriter and its counsel in any endeavor to qualify the Bonds for offering and sale under the securities or "blue sky" laws of such jurisdictions of the United States as the Underwriter may request; provided, however, that the Company shall not be required with respect to the offering or sale of the Bonds to file written consent to suit or to file written consent to service of process in any jurisdiction in which the Bonds may be offered or sold.

(m) The Company acknowledges the terms of the Purchase Contract as they relate to it and the Company will pay the fees, costs and expenses to be paid by it pursuant to Section 8 of the Purchase Contract (subject to the terms and conditions set forth therein).

(n) The Bonds, the Indenture, the Agreement, the Auction Agreement, the Broker-Dealer Agreement and the Note conform in all material respects to the descriptions thereof in the Official Statement.

(o) If at any time prior to the completion of the sale of the Bonds by the Underwriter when in the judgment of the Underwriter, it is necessary or desirable to deliver an Official Statement in connection with the sale of the Bonds an event occurs as a result of which, in the opinion of Dewey Ballantine LLP, counsel for the Underwriter, Appendix A to the Official Statement as then amended and supplemented (including any documents incorporated therein by reference) would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, the Company promptly will prepare an amendment or supplement to said Appendix (or in its discretion, make an appropriate filing pursuant to Section 13 or 14 of the Securities Exchange Act of 1934, as amended) which will correct such statement or omission; provided that any such amendment or supplement which is requested by the Underwriter more than 90 days after the Closing Date shall be prepared at the Underwriter's expense.

(p) During such period (not to exceed nine months after the Closing Date) as the Underwriter believe delivery of the Official Statement is necessary or desirable in connection with the sales of the Bonds by the Underwriter or dealers, if any, the Company will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement, insofar as it shall be known to the Company, and the Company agrees not to effect any such amendment or supplementation of the Official Statement which is unsatisfactory in form to Dewey Ballantine LLP or in substance to the Underwriter; the Company will also advise the Underwriter promptly of the institution of any proceedings by the Securities and Exchange Commission or any other action or event of which the Company is aware and which may affect the use of the Official Statement in connection with the sale and distribution of the Bonds.

2. The acceptance and confirmation of this Letter of Representation by the Issuer shall constitute a representation and warranty by the Issuer to the Company that the representations and warranties contained in Section 4 of the Purchase Contract are true as of the date hereof and will be true in all material respects as of the Closing Date.

3. (a) The Company agrees to indemnify and hold harmless the Issuer, any official or employee of the Issuer, the Underwriter and each person, if any, who controls the Underwriter within the meaning of Section 15 of the Securities Act of 1933, as amended (the "Securities Act"), against any and all losses, claims, damages, liabilities and expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Official Statement or the Official Statement, or in any amendment or supplement thereto, or arising out of any omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect, except insofar as such losses, claims, damages, liabilities or expenses arise out of any such untrue statement or omission or alleged untrue statement or omission made in any such documents in reliance upon and in conformity with written information furnished to the Company by the Underwriter specifically for use therein; provided, however, that the indemnity agreement contained in this Section 3(a) shall not inure to the benefit of the Underwriter (or of any person so controlling the Underwriter) to the extent of any losses, claims, damages, liabilities or expenses arising from the sale of the Bonds to any person if a copy of the Official Statement (exclusive of the documents incorporated in Appendix A by reference), as amended or supplemented at the time of such sale, shall not have been given or sent to such person by or on behalf of the Underwriter with or prior to the written confirmation of the sale involved.

(b) The Underwriter agrees to indemnify and hold harmless the Company, its directors and officers and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act, the Issuer and any official or employee of the Issuer, against any and all losses, claims, damages, liabilities and expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Official Statement, or in any amendment or supplement thereto, or any omission or alleged omission to state therein any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, but only to the extent that such untrue statement or alleged untrue statement or omission or alleged omission was made in any such document in reliance upon and in conformity with written information furnished to the Company or the Issuer by the Underwriter specifically for use therein.

(c) The Company agrees with respect to any action against it, any of its directors or officers or any person controlling it as aforesaid, the Underwriter agrees with respect to any action against it or any person controlling it as aforesaid, and the Issuer agrees with respect to any action against it, or any of its officers or employees, in respect of which indemnity may be sought hereunder, that it will promptly give written notice of the commencement of such action to the party or parties against whom indemnity may be sought; but the omission so to notify any indemnifying party will not relieve such indemnifying party from any liability which it may have to the indemnified party which failed to give such notice otherwise than under this Section 3 nor affect any rights such indemnifying party may have otherwise than under this Section 3 to participate in or assume the defense of any action brought against such indemnified party. Upon

receipt of any such notice by an indemnifying party, such indemnifying party shall be entitled to assume the defense of such action, including the employment of counsel and the payment of all expenses in connection with such defense, and will have the right to negotiate and consent to settlement. Any indemnified party shall have the right to employ separate counsel in any such action against it and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless the employment of such counsel shall have been specifically authorized in writing by the indemnifying party or the indemnifying party shall have elected not to assume the defense of such action. No indemnifying party shall be liable for any settlement of any such action effected without its consent; but if any such action is settled with the consent of an indemnifying party or if there be a final judgment for the plaintiff in any such action (of which an indemnifying party shall have been notified as aforesaid), such indemnifying party shall indemnify and hold harmless each indemnified party from and against any losses, claims, damages, liabilities or expenses incurred or suffered by reason of such settlement or judgment.

4. The Company will deliver or cause to be delivered all opinions, certificates and other documents as provided for in the Purchase Contract to be delivered by it.

5. The representations and warranties of the Company and the Issuer contained herein, or in the certificates of officers of the Company or officials of the Issuer submitted to the Underwriter pursuant to the Purchase Contract, and the agreements of the Company and the Underwriter contained in Section 3 hereof shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Issuer or any of its officials or employees, the Underwriter or controlling person thereof, or the Company or any of its directors or officers or controlling persons, and shall survive the delivery of the Bonds to the Underwriter. The Company's agreement contained in Section 1(m) hereof to pay expenses shall survive the termination of the Purchase Contract and this Letter of Representation.

6. This Letter of Representation is made solely for the benefit of the Issuer, the Underwriter and the Company, and, to the extent expressly provided herein, any person referred to in Section 3 hereof, and their respective successors and assigns, and no other person, partnership, association or corporation shall acquire or have any right under or by virtue hereof. The terms "successors" and "assigns" shall not include any purchaser of Bonds from the Underwriter merely because of such purchase.

7. The execution and delivery of this Letter of Representation by the Company shall constitute the Company's approval of and consent to the Issuer's entering into, acceptance and execution of the Purchase Contract and the Indenture and performance thereunder.

8. This Letter of Representation shall be governed by and construed in accordance with the laws of the State of Mississippi.

9. Any notice or other communication to be given to the Company under this Letter of Representation may be given by delivering the same in writing to the Treasurer of the Company at its address set forth below. Any notice or other communication to be given to the Issuer may be given by delivering the same in writing to its address set forth in the Purchase

Contract. Any notice or other communication to be given to the Underwriter may be given by delivering the same in writing at the address of the Underwriter set forth in the Purchase Contract. The Company, the Issuer and the Underwriter shall each be fully entitled to rely upon notice given pursuant to this Section and to act thereon.

10. This Letter of Representation shall become effective upon execution thereof and the effectiveness of the Purchase Contract referred to herein. It shall terminate upon termination of the Purchase Contract.

11. This Letter of Representation may be executed in counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same instrument.

Very truly yours,

GULF POWER COMPANY
One Energy Place
Pensacola, Florida 32520-0102

By:_____
Name:
Title:

Accepted and confirmed as of the
date first above written

J.P. MORGAN SECURITIES INC.

By:_____
Name: Paul W. Neuhardt
Title: Vice President

MISSISSIPPI BUSINESS FINANCE CORPORATION
Jackson, Mississippi

By:_____
Name: William T. Barry
Title: Executive Director

**$29,075,000**

# MISSISSIPPI BUSINESS FINANCE CORPORATION

**Pollution Control Revenue Refunding Bonds,**
**Series 2003**
**(Gulf Power Company Project)**

## PURCHASE CONTRACT

Ladies and Gentlemen:

J.P. Morgan Securities Inc., as underwriter of the above-mentioned issuance (the "Underwriter"), hereby offers to enter into this Purchase Contract with you (the "Issuer") for the purchase by the Underwriter and sale by the Issuer of $29,075,000 aggregate principal amount of its Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) (the "Bonds").

Upon the effectiveness of this Purchase Contract, Gulf Power Company (the "Company") is executing and delivering concurrently therewith a Letter of Representation, dated the date hereof (the "Letter of Representation") and in the form of Exhibit H hereto, wherein the Company will undertake certain obligations with respect to this Purchase Contract. Defined terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in the Official Statement (as hereinafter defined).

1. Upon the terms and conditions and upon the basis of the representations, warranties and covenants set forth herein and in the Letter of Representation, (i) the Underwriter hereby agrees to purchase the Bonds from the Issuer for offering to the public, and the Issuer hereby agrees to sell the Bonds to the Underwriter for such purpose, for a purchase price of 100% of the principal amount of the Bonds and (ii) the Company agrees to pay $101,762.50 to the Underwriter as an underwriting fee (the "Fee"). The Underwriter agrees that the initial public offering price for the Bonds shall be 100% of the principal amount thereof.

2. The Bonds shall be as described in and shall be issued under and secured by a Trust Indenture, dated as of April 1, 2003 (the "Indenture"), by and between the Issuer and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"), to be executed and delivered on or prior to the Closing Date (as hereinafter defined). In addition, in connection with the issuance of the Bonds, the Company and the Trustee will enter into an Auction Agreement related to the Bonds, dated as of April 1, 2003 (the "Auction Agreement") with The Bank of New York, as auction agent (the "Auction Agent"), providing, among other things, that the Auction Agent will follow certain auction procedures (each implementation thereof, an "Auction") for the purpose of determining the rate of interest which the Bonds will bear when such rate is to be determined by an Auction (the "Auction Rate"). The Company and the Auction Agent will also enter into a Broker-Dealer Agreement, dated as of April 1, 2003 (the "Broker-Dealer Agreement") with J.P. Morgan Securities Inc., as broker-dealer (in such capacity, the "Broker-Dealer"). The

Issuer has previously executed and delivered a Blanket Letter of Representations (the "DTC Letter") covering the Bonds to The Depository Trust Company ("DTC").

The Bonds shall be issued as required by the provisions of a Loan Agreement, dated as of April 1, 2003 (the "Agreement"), between the Issuer and the Company to be executed and delivered on or prior to the Closing Date providing, among other things, for the undertaking by the Issuer to loan amounts to the Company in order to provide funds to refinance the acquisition and construction of the Company's interest in certain air and water pollution control facilities (collectively, the "Project") located at the Victor J. Daniel, Jr. Steam Electric Generating Plant in Jackson County, Mississippi. To evidence the loan made pursuant to the Agreement, the Company will execute and deliver, concurrently with the issuance of the Bonds, a non-negotiable promissory note (the "Note") in a like principal amount bearing interest at the rate or rates borne by the Bonds. The Bonds are more fully described in the Official Statement, dated April 9, 2003. As used in this Purchase Contract, the term "Official Statement" means such Official Statement, including the Appendices thereto (the "Appendices") and the documents incorporated by reference in Appendix A at such date.

3. At the time of or before the acceptance by the Issuer hereof, the Issuer shall deliver to the Underwriter a copy of the Official Statement executed on behalf of the Issuer by an authorized representative of the Issuer.

The Issuer authorizes the use of the Official Statement, the Agreement and the Indenture, and the information therein contained, by the Underwriter in connection with the public offering and sale of the Bonds. The Issuer ratifies and confirms the use by the Underwriter prior to the date hereof of the Preliminary Official Statement of the Issuer, dated April 8, 2003 (the "Preliminary Official Statement"), in connection with the public offering of the Bonds.

The Issuer deemed the Preliminary Official Statement "final" as of its date, as described in Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule"), for purposes of the Rule, except for the omission of no more than the following information: the offering prices, interest rates, selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the securities depending on such matters. The Issuer, at the cost of the Company, shall provide to the Underwriter sufficient quantities of the Official Statement which the Issuer deems complete as of its date, in the form executed by an authorized representative of the Issuer and in substantially the same form as the Preliminary Official Statement, subject to minor additions, deletions and revisions, within seven business days after the effective date of this Purchase Contract and in sufficient time to accompany any confirmation that requires payment from any customer. The Issuer agrees to notify the Underwriter and the Company of any material developments impacting the Issuer or the Bonds, of which the Issuer becomes aware, within 90 days after delivery of the Bonds.

4. The Issuer represents and warrants to the Underwriter and the Company that:

(a) The Issuer is a public corporation organized and existing under the laws of the State of Mississippi. The Issuer is authorized by the provisions of Sections 57-10-201 *et seq.*, Mississippi Code of 1972, as amended and supplemented (the "Act"), to issue the Bonds for the

purpose described in this Purchase Contract; to assign under the Indenture substantially all of its rights in and to the Note and the Agreement as security for the payment of the principal of, premium, if any, and interest on the Bonds; to enter into and comply with the provisions of the DTC Letter; to accept the Letter of Representation; to sell and deliver the Bonds to the Underwriter as provided herein; and to carry out and consummate all other transactions contemplated on the part of the Issuer by each of the aforesaid documents and the Official Statement.

(b) The Issuer has complied with all provisions of the Constitution of the State of Mississippi and the Act and has full power and authority to consummate all transactions contemplated on the part of the Issuer by the Official Statement, this Purchase Contract, the Bonds, the Indenture, the Agreement and any and all other agreements relating thereto.

(c) The Issuer has duly authorized all necessary action to be taken by it for: (i) the issuance and sale of the Bonds upon the terms set forth herein and in the Official Statement and the Indenture; (ii) the execution and delivery by it of the Indenture providing for the issuance of and security for the Bonds and the appointment of the Trustee as trustee, paying agent and bond registrar under the Indenture; (iii) the approval of the Official Statement and the signing of the Official Statement by its authorized representative; (iv) the lending of the proceeds of the Bonds to the Company; (v) the execution, delivery, receipt and due performance of this Purchase Contract, the Bonds, the Indenture, the Agreement, the DTC Letter and any and all such other agreements and documents as may be required to be executed, delivered and received by the Issuer in order to carry out, give effect to and consummate the transactions contemplated thereby and by the Official Statement; (vi) the acceptance of the Letter of Representation; and (vii) the carrying out, giving effect to and consummation of the transactions contemplated on the part of the Issuer by this Purchase Contract, the Official Statement, the Indenture and the Agreement.

(d) With respect to information contained under the captions "Introductory Statement," "MBFC," "Use of Bond Proceeds; Refunding of Outstanding Bonds" and "The Bonds," the Official Statement does not, and at the Closing Date the Official Statement, as it may be amended or supplemented, will not, include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(e) The Bonds, when issued, delivered and paid for as herein and in the Indenture provided, will have been duly authorized and issued and will constitute valid and binding obligations of the Issuer enforceable in accordance with their terms and entitled to the benefits and security of the Indenture and the Agreement. The Bonds and the interest thereon do not pledge the credit of the Issuer or the State of Mississippi, nor are they a charge against the general revenues of such entities or a lien against any of their property except as provided for in the Indenture. The Bonds are limited special obligations of the Issuer and no taxes will be levied for the payment of principal of, premium, if any, and interest on the Bonds, such principal, premium and interest being payable solely out of the moneys to be received by the Issuer from repayment of the Note.

(f) The Issuer will apply the proceeds from the sale of the Bonds as specified in the Indenture and the Agreement.

(g) The execution and delivery of the Official Statement, this Purchase Contract, the Bonds, the Indenture, the Agreement, the DTC Letter and the other agreements contemplated on the part of the Issuer hereby and by the Official Statement and compliance on the part of the Issuer with the provisions thereof and the pledge and assignment to the Trustee of the Note and the Agreement and acceptance of and compliance with the provisions of the Letter of Representation will not conflict with or constitute on the part of the Issuer a breach of or a default under any existing law, court or administrative regulation, decree or order or any agreement, indenture, mortgage, lease or other instrument to which the Issuer is subject or by which it is or may be bound, or to the knowledge of the Issuer, any order, rule or regulation applicable to the Issuer of any court or governmental agency or body having jurisdiction over the Issuer or any of its activities or properties; and all consents, approvals, authorizations and orders of governmental or regulatory authorities which are required for the consummation by the Issuer of the transactions contemplated on the part of the Issuer by said documents have been obtained.

(h) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending or, to the knowledge of the Issuer, threatened against or directly affecting the Issuer, except as disclosed in or contemplated by the Official Statement, (i) to restrain or enjoin the issuance and sale of the Bonds or the execution, delivery or performance by the Issuer of the Agreement or the Indenture or (ii) wherein an unfavorable decision, ruling or finding would (A) have a material adverse effect on the transactions contemplated hereby or by the Official Statement (excluding the Appendices thereto and the documents incorporated in Appendix A by reference), (B) adversely affect or put in question the validity or enforceability of the Bonds, the Indenture, the Agreement, the DTC Letter, this Purchase Contract, the Letter of Representation or any other agreement, instrument or document to which the Issuer is a party or by which it is bound relating to the consummation of the transactions contemplated hereby or by the Official Statement (excluding the Appendices thereto and the documents incorporated in Appendix A by reference), or (C) adversely affect the tax-exempt status of the Bonds.

(i) The Issuer will not take or omit to take any action the taking or omission of which will cause the proceeds from the sale of the Bonds to be applied in a manner contrary to that provided for in the Indenture and the Agreement, as amended from time to time.

(j) Any certificate signed by an authorized officer of the Issuer delivered to the Underwriter shall be deemed to be a representation and warranty by the Issuer to the Underwriter as to the statements made therein.

(k) The Issuer has not since December 31, 1975 defaulted in the payment of the principal of or interest on any of its bonds, notes, warrants or any other securities or any legally authorized obligation issued by the Issuer and is not currently in default in the payment of any such principal or interest.

(l) The Issuer has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that the Issuer is a bond issuer whose arbitrage certifications may not be relied upon.

(m) The issuance and sale of the Bonds to the Underwriter will not be subject to any State of Mississippi issuance, transfer or other documentary stamp taxes.

5. At 9:30 A.M. New York Time, on April 15, 2003, or at such other time or on such earlier or later business day as shall have been mutually agreed upon by the Issuer and the Underwriter with the consent of the Company (the "Closing Date"), the Issuer will deliver to the Underwriter the Bonds in definitive form, duly executed and authenticated, together with the other documents hereinafter mentioned, and the Underwriter will accept such delivery of the Bonds and pay the purchase price therefor in immediately available funds, payable to the order of the Trustee for the account of the Issuer. The Company shall pay the Fee to the Underwriter on the Closing Date in immediately available funds. The Bonds so delivered will be in form acceptable for deposit with DTC and shall be registered in such names as the Underwriter may request no less than two business days prior to the Closing Date and will be available for checking and packaging by the Underwriter at a place suitable therefor at least 20 hours prior to the Closing Date.

6. The Underwriter's obligations hereunder to purchase and pay for the Bonds shall be subject to the performance by the Issuer of its obligations to be performed hereunder at or prior to the Closing Date; to the performance by the Company of the other obligations and agreements to be performed by it at or prior to the Closing Date hereunder and under the Letter of Representation; and to the accuracy in all material respects of the representations and warranties of the Issuer and of the Company contained herein and in the Letter of Representation, respectively, as of the date hereof and as of the Closing Date, and shall also be subject to the following conditions:

(a) At the Closing Date, the Indenture, the Agreement, the Note and the Letter of Representation shall have been duly authorized, executed and delivered by the respective parties thereto and shall be in full force and effect, and shall not have been materially amended, modified or supplemented except as may have been agreed to in writing by the Underwriter; provided, however, that the acceptance of delivery of the Bonds by the Underwriter on the Closing Date shall be deemed to constitute such agreement pursuant to the foregoing.

(b) At the Closing Date, the Bonds shall have been duly authorized, executed and authenticated in accordance with the provisions of the Indenture.

(c) The Bonds shall have been validated and confirmed by the final decree of the Chancery Court of the First Judicial District of Hinds County, Mississippi.

(d) No amendment or supplement to the Official Statement filed subsequent to the date hereof (including any filing made by the Company pursuant to Section 13 or 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) shall be unsatisfactory in form to Dewey Ballantine LLP, counsel for the Underwriter, or shall contain information (other than with respect to an amendment or supplement relating solely to the activity of the Underwriter) which, in the reasonable judgment of the Underwriter, shall materially impair the marketability of the Bonds.

(e) At or prior to the Closing Date, no order, decree or injunction of any court of competent jurisdiction, nor any order, ruling, regulation or administrative proceeding by any governmental official, body or board, shall have been issued or commenced, nor shall any legislation have been enacted, with the purpose or effect of prohibiting the issuance, offering or sale of the Bonds as contemplated hereby or by the Official Statement or the execution or performance of the Indenture, the Agreement or the Note in accordance with their respective terms.

(f) At the Closing Date, there shall be in full force and effect all legally required orders of the Securities and Exchange Commission authorizing the participation of the Company in the transactions contemplated hereby and by the Official Statement (excluding the Appendices thereto and the documents incorporated in Appendix A by reference).

(g) At or prior to the Closing Date, the Underwriter shall have received the following documents:

(1) Executed counterparts, or certified copies, of the Agreement, the DTC Letter, the Indenture, the Auction Agreement, the Broker-Dealer Agreement, the Letter of Representation and the Note.

(2) Executed copies or photocopies of the applications to, including all amendments, and orders of, the Securities and Exchange Commission and the Florida Public Service Commission authorizing the participation of the Company in the transactions contemplated hereby and by the Official Statement.

(3) Opinions, dated the Closing Date, with such changes as the Underwriter shall approve, of (i) Balch & Bingham LLP, special counsel for the Company, substantially in the form annexed hereto as Exhibit A; (ii) McGlinchey Stafford, PLLC, Bond Counsel, substantially in the forms annexed hereto as Exhibits B-1 and B-2; (iii) Beggs & Lane, a Registered Limited Liability Partnership, General Counsel for the Company, substantially in the form annexed hereto as Exhibit C; (iv) Troutman Sanders LLP, Counsel for the Company, substantially in the form annexed hereto as Exhibit D; (v) Balch & Bingham LLP, Counsel to the Issuer, substantially in the form annexed hereto as Exhibit E; and (vi) Dewey Ballantine LLP, Counsel for the Underwriter, substantially in the form annexed hereto as Exhibit F; and such counsel shall have been furnished with such documents as they may request for the purpose of enabling them to pass upon the matters to be covered by their respective opinions.

(4) A letter, dated the Closing Date, of Deloitte & Touche LLP, substantially to the effect set forth in Exhibit G hereto.

(5) A certificate, satisfactory to the Underwriter, of a duly authorized officer of the Issuer satisfactory to the Underwriter, dated the Closing Date, to the effect that: (A) the Issuer has duly performed all of its obligations to be performed in connection with the issuance and sale of the Bonds at or prior to the Closing Date and each of the representations and warranties of the Issuer contained herein is true and correct as of the Closing Date; (B) the Issuer has authorized, by all necessary action, the execution, delivery,

receipt and due performance of the Indenture, the Agreement, this Purchase Contract, the Letter of Representation and any and all such other agreements and documents as may be required to be executed, delivered, received and/or performed by the Issuer in order to carry out, give effect to and consummate the transactions contemplated on its part by the Indenture, the Agreement and the Official Statement; (C) no litigation is pending, or to the best of his knowledge threatened, to restrain or enjoin the issuance or sale of the Bonds or in any way affecting any authority for or the validity of the Bonds, the Indenture or the Agreement or the existence or powers of the Issuer or the right of the Issuer to loan the proceeds of the Bonds to the Company or the collection of receipts and revenues pledged or to be pledged to pay the principal of, premium, if any, and interest on the Bonds, including, without limitation, payments under the Agreement or the Note; and (D) neither the execution, delivery, receipt or due performance of the Indenture, the Agreement, this Purchase Contract or the other agreements contemplated hereby or by the Official Statement under the circumstances contemplated hereby or thereby, nor the compliance by the Issuer with the provisions thereof, nor acceptance of the Letter of Representation, will conflict with or constitute on the part of the Issuer a breach of or a default under any existing law, court or administrative regulation, decree or order or any agreement or other instrument to which the Issuer is subject or by which it is or may be bound.

(6) A certificate, dated the Closing Date, of the President or any Vice President and the Treasurer or an Assistant Treasurer of the Company to the effect that:

(i) the representations and warranties contained in Section 1 of the Letter of Representation are true and correct at and as of the Closing Date and that the Company has satisfied all conditions therein contained to be satisfied at or prior to the Closing Date; and

(ii) there has not been any material adverse change in the business, properties or financial condition of the Company from that set forth in or contemplated by the Official Statement.

(7) An undertaking, dated the Closing Date, from the Issuer and the Company (in form and substance satisfactory to the Underwriter) as required by paragraph (b)(5) of the Rule (the "Undertaking").

(8) Evidence satisfactory to the Underwriter that the Bonds have been rated "A2" by Moody's Investors Service, Inc.

(9) Such additional certificates, instruments and other documents as the Underwriter or its counsel may deem necessary to evidence the accuracy as of the Closing Date of the representations of the Issuer and the Company contained herein and in the Letter of Representation, respectively, and the due performance or satisfaction by the Issuer and the Company at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the Issuer and the Company in connection with the issuance of the Bonds.

If the Issuer or the Company shall be unable to satisfy the conditions of the obligations of the Underwriter contained in this Purchase Contract, or if the obligations of the Underwriter shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriter nor the Issuer shall be under further obligation hereunder except as otherwise provided in Section 8 hereof.

7. The Issuer agrees to cooperate with the Underwriter and its counsel and the Company (i) in arranging for the qualification of the Bonds for offer and sale under the securities or "blue sky" laws of such jurisdictions as the Underwriter may request; provided, however, that the Issuer will not be required to execute a special or general consent to service of process or qualify as a foreign corporation in connection with any such qualification in any jurisdiction, and (ii) in applying for and securing ratings on the Bonds by Moody's Investors Service, Inc. and Standard & Poor's, a division of The McGraw-Hill Companies.

8. All expenses and costs incident to the authorization, issuance, printing, sale and delivery, as the case may be, of the Bonds, the Indenture, the Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Note, the DTC Letter, the Preliminary Official Statement, the Official Statement, the Letter of Representation and this Purchase Contract, including, without limitation, (i) fees and disbursements of Counsel for the Underwriter in connection with the qualification of the Bonds for sale under the securities or "blue sky" laws of various jurisdictions; (ii) the preparation and printing of the "blue sky" survey; (iii) any documentary, stamp or other taxes in connection with the issuance and sale of the Bonds hereunder; (iv) all filing, registration and recording fees and expenses; (v) fees of the Trustee, the Auction Agent and the Broker-Dealer; (vi) the fees and disbursements of Bond Counsel, Counsel for the Underwriter and Counsel for the Issuer; and (vii) the Fee, shall be paid directly by the Company pursuant to the Letter of Representation. Nothing herein shall be construed to relieve the Underwriter of its liability for its default hereunder. The Underwriter shall pay all advertising expenses in connection with the public offering of the Bonds.

9. The Underwriter may terminate this Purchase Contract by written notification to the Issuer and the Company if at any time at or prior to the Closing Date (i) legislation shall be enacted by the Congress or adopted by either house thereof or a decision shall be rendered by a federal court, including the Tax Court of the United States, or a ruling, regulation or official statement by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency shall be made, which has the purpose or effect of imposing federal taxation upon receipts, revenues or other income of the general character expected to be derived by the Issuer, including, without limitation, payments under the Note, or upon interest received on bonds of the same kind and character as the Bonds which would have the effect of changing directly or indirectly the federal income tax consequences of interest on bonds of the same kind and character as the Bonds in the hands of the holders thereof, (ii) trading in securities on the New York Stock Exchange shall have been generally suspended or there shall have been a material disruption in settlement in securities generally, (iii) minimum or maximum ranges for prices shall have been generally established on the New York Stock Exchange by the Commission or by the New York Stock Exchange, (iv) a general banking moratorium shall have been declared by federal or New York State authorities or (v) there shall have occurred any outbreak or escalation of major hostilities in which the United States is involved, any declaration of war by the United States

Congress or any other substantial national or international calamity or emergency (including, without limitation, acts of terrorism) affecting the United States, in any such case provided for in clauses (i) through (v) with the result that, in the opinion of the Underwriter, the marketability of the Bonds shall have been materially and adversely affected thereby.

10. This Purchase Contract shall be governed by and construed in accordance with the laws of the State of Mississippi.

11. Any notice or other communication to be given to the Issuer under this Purchase Contract may be given by delivering the same in writing to it at 735 Riverside Drive, Suite 300, Jackson, Mississippi 39202, Attention: Executive Director. Any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to it at J.P. Morgan Securities Inc., 270 Park Avenue, 7th Floor, New York, New York 10017, Attention: Kevin O'Connor.

12. This Purchase Contract will inure to the benefit of the Issuer, the Underwriter and the Company and their respective successors and assigns, and no other person will have any right or obligation hereunder. The terms "successors" and "assigns" shall not include any purchaser of Bonds from the Underwriter solely by reason of such purchase.

13. The representations and warranties of the Issuer contained herein, or in the certificates of officials of the Issuer submitted to the Underwriter pursuant hereto, shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Underwriter and shall survive the delivery of the Bonds to the Underwriter.

14. This Purchase Contract may be executed in counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same instrument.

Dated: April 14, 2003

J.P. MORGAN SECURITIES INC.

By:

By: Juan Naguit
Name: JUAN NAGUIT
Title: VICE PRESIDENT

Accepted as of the date hereof:

MISSISSIPPI BUSINESS FINANCE CORPORATION
Jackson, Mississippi

By: Bill Barry
Name: William T. Barry
Title: Executive Director

EXHIBIT A
to the Purchase Contract

[LETTERHEAD OF BALCH & BINGHAM LLP]

April ____, 2003

J.P. Morgan Securities Inc.
New York, New York

Mississippi Business Finance Corporation
Jackson, Mississippi

The Bank of New York Trust Company of Florida, N.A., as Trustee
Atlanta, Georgia

McGlinchey Stafford, PLLC
Jackson, Mississippi

Ladies and Gentleman:

We have acted as special counsel to Gulf Power Company (the "Company") in connection with the sale by the Mississippi Business Finance Corporation (the "Issuer"), of $29,075,000 aggregate principal amount of its Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) (the "Bonds") to the Underwriter named in the Purchase Contract (the "Purchase Contract") and in connection with the (i) Trust Indenture, dated as of April 1, 2003 (the "Indenture") between the Issuer and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"), (ii) Loan Agreement dated as of April 1, 2003 (the "Agreement") between the Company and the Issuer, (iii) promissory note dated April 15, 2003 (the "Note") in the principal amount of $29,075,000 issued by the Company pursuant to the Agreement, (iv) Letter of Representation, dated April 14, 2003, from the Company to the Issuer and the Underwriter (the "Letter of Representation"), (v) the Auction Agreement (the "Auction Agreement") dated as of April 1, 2003 among the Company, the Trustee and The Bank of New York, as the auction agent (the "Auction Agent"); and (vi) the Broker-Dealer Agreement dated as of April 1, 2003 (the "Broker-Dealer Agreement") among the Company, the Auction Agent and J.P. Morgan Securities Inc., as broker-dealer. We have examined, among other things, the documents described in the closing memorandum as having been delivered to you by the Company at the closing and such other documents and papers as we deemed relevant to enable us to express the opinions herein set forth.

We are of the opinion that:

1. The Company is duly qualified and in good standing to carry on its business as a foreign corporation in the State of Mississippi.

2. The Agreement, the Letter of Representation, the Auction Agreement, the Broker-Dealer Agreement and the Note have been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery thereof by other parties thereto, constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement, the Letter of Representation, the Auction Agreement, the Broker-Dealer Agreement and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) and by any principles of public policy limiting the right to enforce the indemnification provisions contained in the Letter of Representation.

Very truly yours,

BALCH & BINGHAM LLP

EXHIBIT B-1
to the Purchase Contract

[LETTERHEAD OF McGLINCHEY STAFFORD, PLLC]

_____, 2003

J.P. Morgan Securities Inc.
New York, New York

Mississippi Business Finance Corporation
Jackson, Mississippi

Gulf Power Company
Pensacola, Florida

The Bank of New York Trust Company of Florida, N.A., as Trustee
Atlanta, Georgia

Ladies and Gentlemen:

This is to certify that we have examined the validity of an issue of Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project), of the Mississippi Business Finance Corporation (the "Issuer"), in the principal amount of $29,075,000 (the "Bonds"). The Bonds are dated as of their date of original issue and delivery, bear interest initially at the Auction Rate (as defined in the Indenture) and mature on February 1, 2026 unless earlier redeemed or purchased in lieu of redemption.

The Bonds are issued to provide funds to refinance the acquisition and construction of the Company's interest in certain air and water pollution control facilities (the "Project") located at the Victor J. Daniel, Jr. Steam Electric Generating Plant in Jackson County, Mississippi.

The Bonds are issued under the authority of the Constitution and laws of the State of Mississippi, including Sections 57-10-201 *et seq.*, Mississippi Code of 1972, as amended (the "Act"), and by the further authority of the proceedings duly held by the Board of Directors of the Issuer.

The Bonds are issued pursuant to a Trust Indenture (the "Indenture"), dated as of April 1, 2003, between the Issuer and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee") for the benefit of the owners and holders from time to time of the Bonds.

The Bonds are subject to optional and extraordinary optional and redemption and to mandatory and optional tender, and payment prior to their stated maturity under the circumstances and conditions set out on the face of the Bonds and in the Indenture.

On the date of issuance and delivery of the Bonds, Escambia County, Florida (the "County") will issue and deliver its Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003 in the aggregate principal amount of $32,550,000 (the "County Bonds"). The proceeds of the sale of the County Bonds will be loaned to the Company and applied to the current refunding of certain obligations of the County which were issued to provide funds to refinance the acquisition, construction, installation and equipping of the interest of the Company in certain air and water pollution control and sewage and solid waste disposal facilities (collectively, the "Project") located at the Crist Steam Generating Plant in the County. Under the provisions of the Code (as hereinafter defined), the Bonds and the County Bonds may be aggregated and treated as a single issue of bonds for federal income tax purposes and the exclusion of the interest on the Bonds from gross income for federal income tax purposes may be dependent upon whether the interest on the County Bonds is excluded from gross income for federal income tax purposes. Contemporaneously with the issuance and delivery of the County Bonds, Balch & Bingham LLP, Birmingham, Alabama will deliver its opinion as bond counsel in connection with the County Bonds substantially to the same effect as this opinion.

We have examined the appropriate provisions of the laws of the State of Mississippi, a certified transcript of the proceedings of the Board of Directors of the Issuer relative to the Bonds, executed counterparts of the Loan Agreement, dated as of April 1, 2003 (the "Agreement"), between the Issuer and the Company, executed counterparts of the Indenture, executed Bond Number One and such other documents, proceedings, and matters as we considered necessary to enable us to render this opinion, including certificates and other assurances from officers of the Issuer and officers of the Company and the Trustee. On the basis of the foregoing examination and in reliance thereon, and on all such other matters of fact and conclusions of law as we deem relevant under the circumstances, we are of the opinion that:

1. The Issuer is a public corporation duly created and validly existing pursuant to the Constitution and laws of the State of Mississippi and is in good standing under such laws, and is authorized to exercise the powers conferred by the Act.

2. The Agreement has been duly authorized, executed and delivered by, and constitutes a valid and legally binding obligation of the Issuer and is enforceable against the Issuer, in accordance with its terms.

3. The Indenture has been duly authorized, executed and delivered by, and constitutes a valid and legally binding obligation of the Issuer and is enforceable against the Issuer, in accordance with its terms.

4. The Issuer has pledged and assigned to the Trustee pursuant to the Indenture all of the Issuer's rights and interests in the Agreement (except for certain payments for indemnification and expenses). The Indenture creates a valid security interest in favor of the Trustee in and to such rights and interests and in and to the trust funds created and held by the Trustee under the Indenture.

5. All approvals or consents of governmental authorities which are requisite in connection with the execution and delivery by the Issuer of the Agreement and the Indenture and the valid sale and issuance of the Bonds by the Issuer have been obtained.

6. The Bonds have been duly and validly authorized, executed, authenticated and delivered and have been duly issued under the Indenture and the Bonds are valid, legal and binding limited obligations of the Issuer, enforceable in accordance with their terms and secured by the Indenture in accordance with the terms thereof.

7. The Bonds are limited special obligations of the Issuer, do not constitute an indebtedness of the Issuer or the State of Mississippi within the meaning of any constitutional provisions or statutory limitation of the State of Mississippi, shall never constitute nor give rise to any pecuniary liability of the Issuer or the State of Mississippi or a charge against their general credit, nor shall the Issuer be obligated to pay the Bonds or the interest or premium, if any, thereon except from revenue to be derived under the Agreement and from any other sums which may be made available to the Trustee under the Indenture.

8. Under existing statutes, rulings and court decisions, the interest on the Bonds is excluded from gross income for federal income tax purposes, except for interest on any Bond during any period while it is held by a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(13) of the Internal Revenue Code of 1954, as amended (the "1954 Code"). Interest on the Bonds will not be treated as a specific preference item for purpose of calculating the federal alternative minimum tax imposed on individuals and corporations, but such interest will be includable in adjusted current earnings in computing the federal alternative minimum tax imposed on certain corporations. The opinion set forth in the first sentence of this paragraph is rendered in reliance upon certain certifications and representations of the Issuer, the Trustee and the Company made at the time of issuance of the Bonds, and is subject to the condition that the Issuer, the Trustee and the Company comply with all requirements of the 1954 Code and the Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be and continue to be excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactively to the date of original issuance. The Issuer, the Trustee and the Company have covenanted to comply with such requirements. We express no opinion regarding other federal tax consequences arising with respect to the Bonds. We are further of the opinion that, under the Act, the Bonds and interest thereon are exempt from all income taxes imposed by the State of Mississippi and any county, municipality and other political subdivision of the State of Mississippi.

Insofar as this opinion relates to the enforceability of any instrument, it is subject to (a) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the enforcement of creditors' rights generally from time to time in effect, (b) applicable laws which may affect the remedies provided therein (which laws, as presently in effect, do not make the remedies in such instruments inadequate for the realization of the benefits provided thereby) and (c) principles of equity applicable to the enforcement of the remedy of specific performance.

Yours very truly,

McGLINCHEY STAFFORD, PLLC

EXHIBIT B-2
to the Purchase Contract

[LETTERHEAD OF McGLINCHEY STAFFORD, PLLC]

__, 2003

J.P. Morgan Securities Inc.
New York, New York

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Mississippi Business Finance Corporation (the "Issuer"), a public corporation duly created and validly existing pursuant to the Constitution and laws of the State of Mississippi, of $29,075,000 aggregate principal amount of its Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) (the "Bonds"), pursuant to the Purchase Contract between the Underwriter named therein and the Issuer dated April 14, 2003 (the "Purchase Contract"). Terms defined in the Purchase Contract are used herein with the meanings assigned to them in the Purchase Contract. The Bonds are issued under and pursuant to the Constitution and laws of the State of Mississippi, including Sections 57-10-201 *et seq.*, Mississippi Code of 1972, as amended and the Indenture.

We have examined the appropriate provisions of the Constitution and laws of the State of Mississippi, a certified transcript of the proceedings of the Board of Directors of the Issuer relative to the Bonds, an executed counterpart of the Agreement, an executed counterpart of the Indenture, executed Bond Number One and such other documents, proceedings, and matters as we considered necessary to enable us to render this opinion, including certificates and other assurances from officers of the Issuer and officers of the Company and the Trustee. On the basis of the foregoing examination and in reliance thereon, and on all such other matters of fact and conclusions of law as we deem relevant under the circumstances, we are of the opinion that:

1. The Issuer has full legal right, power and authority (a) to enter into the Purchase Contract, (b) to sell and deliver the Bonds to you as provided in the Purchase Contract and (c) to carry out and consummate all other transactions contemplated by the Purchase Contract.

2. The Purchase Contract has been duly authorized and accepted by the Issuer and constitutes the legal, valid and binding obligation of the Issuer enforceable in accordance with its terms.

3. The Letter of Representation attached as Exhibit H to the Purchase Contract has been duly accepted by the Issuer.

4. The Issuer has duly authorized the execution and delivery of the Official Statement by the Issuer and the distribution of the Preliminary Official Statement.

5. The statements in the Official Statement under the headings "Introductory Statement", "MBFC," "Use of Bond Proceeds; Refunding of Outstanding Bonds," "The Bonds," "The Agreement," "The Indenture" and "Tax Exemption" are, insofar as they pertain to the Issuer, the Bonds, the Agreement and the Indenture, accurate statements or summaries of the matters therein set forth and fairly present the information purported to be shown.

6. The Bonds are exempted securities within the meaning of Section 3(a)(2) of the Securities Act of 1933, as amended, and it is not necessary in connection with the sale of the Bonds to the public to register the Bonds under the Securities Act of 1933, as amended, or to qualify the Indenture under the Trust Indenture Act of 1939, as amended.

7. A Uniform Commercial Code financing statement with respect to the security interest created by the Indenture in the collateral described therein has been duly filed in proper form to perfect such security interest. No other filing, registration or recording is required in order to perfect such security interest; provided, however, that in order to continue the effectiveness of the financing statement which has been filed, continuation statements with respect to such financing statement should be filed in the manner and at the times prescribed by the Uniform Commercial Code of the State of Mississippi.

8. There are no stamp or transfer taxes in Mississippi which would be applicable to the original issue and subsequent transfers of the Bonds.

Except insofar as the heading "Legal Matters" relates to us and as set out in paragraph 5 above, we express no opinion as to the accuracy and completeness of the statements made and information included in the Official Statement; however, nothing has come to our attention during the course of the performance of our duties as bond counsel which would give us reason to believe that the statements in the Official Statement under the headings "Introductory Statement", "MBFC," "Use of Bond Proceeds; Refunding of Outstanding Bonds," "The Bonds," "The Agreement," "The Indenture" and "Tax Exemption," on the date the Official Statement was issued, contained an untrue statement of a material fact or omitted to state a material fact necessary to make such statements, in light of the circumstances under which they were made, not misleading, or on the date hereof, contain an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

Very truly yours,

McGLINCHEY STAFFORD, PLLC

EXHIBIT C
to the
Purchase Contract

[LETTERHEAD OF BEGGS & LANE]

_____, 2003

J.P. Morgan Securities Inc.
New York, New York

Mississippi Business Finance Corporation
Jackson, Mississippi

The Bank of New York Trust Company of Florida, N.A., as Trustee
Atlanta, Georgia

McGlinchey Stafford, PLLC
Jackson, Mississippi

Re: $29,075,000 Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project)

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with the purchase by J.P. Morgan Securities Inc. (the "Underwriter") of $29,075,000 aggregate principal amount of Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) (the "Bonds"), pursuant to the Purchase Contract dated April 14, 2003 (the "Purchase Contract"), between the Mississippi Business Finance Corporation (the "Issuer") and the Underwriter.

We have examined (i) the Official Statement dated April 9, 2003 relating to the Bonds, including Appendix A thereto (the "Official Statement"), which incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002 and the Current Report on Form 8-K of the Company dated March 21, 2003, (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) the Trust Indenture relating to the Bonds, dated as of April 1, 2003 (the "Trust Indenture") between the Issuer and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"); (iii) the Loan Agreement dated as of April 1, 2003 (the "Agreement") between the Issuer and the Company; (iv) the promissory note dated April 15, 2003 (the "Note") in the aggregate principal amount of $29,075,000 issued by the Company pursuant to the Agreement; (v) the Purchase Contract; (vi) the Letter of Representation dated April 14, 2003

(the "Letter of Representation") among the Company, the Issuer and the Underwriter; (vii) the Auction Agreement (the "Auction Agreement") dated as of April 1, 2003, among the Company, the Trustee and The Bank of New York, as auction agent (the "Auction Agent"); and (viii) the Broker-Dealer Agreement dated as of April 1, 2003 (the "Broker-Dealer Agreement") among the Company, the Auction Agent and J.P. Morgan Securities Inc., as the broker-dealer. In addition, we have examined, and have relied as to matters of fact upon, the documents delivered at the closing (except the Bonds of which we have examined a specimen), and upon originals or copies, certified or otherwise identified to our satisfaction, of such corporate records, agreements, documents and other instruments and such certificates or comparable documents of public officials and of officers and representatives of the Issuer and the Company, and have made such other and further investigations, as we deemed relevant and hereinafter set forth.

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Georgia law and the federal law of the United States upon the opinion dated the date hereof rendered to you by Troutman Sanders LLP, relying as to matters of Mississippi law upon the opinion dated the date hereof rendered to you by Balch & Bingham LLP and relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP, that:

1. The Company is a corporation duly organized and existing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged to own and operate the properties owned and used by it in such business.

2. The Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Letter of Representation and the Note have been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery thereof by other parties thereto, constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Letter of Representation and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) and by any principles of public policy limiting the right to enforce the indemnification provisions contained in the Broker-Dealer Agreement and the Letter of Representation.

3. The statements made in the Official Statement under the captions "The Bonds", "The Agreement" and "The Indenture", insofar as they purport to constitute summaries of the terms of documents referred to therein, constitute accurate summaries of the terms of such documents in all material respects; provided that no opinion is expressed with respect to the information contained under the heading "The Bonds - Book-Entry System."

4. All orders, consents or other authorizations or approvals of the Securities and Exchange Commission (the "Commission") and the Florida Public Service Commission legally

required for the issuance of the Note and with respect to the authorization, execution and delivery of the Agreement by the Company have been obtained; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance of the Note or the authorization, execution and delivery of the Agreement by the Company.

5. The execution and delivery of the Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Note and the Letter of Representation by the Company will not result in a breach of or constitute a default under the Charter or by-laws of the Company or any indenture, mortgage, deed of trust, agreement or other instrument, of which we have knowledge, to which the Company is a party or by which is or any of its property is bound or any order, rule or regulation applicable to the Company of any court or other governmental body having jurisdiction over the Company or any of its property.

We have no knowledge of any material litigation or proceedings pending or threatened which challenge the validity of the Note, the Agreement, the Auction Agreement, the Broker-Dealer Agreement or the Letter of Representation, or which seek to enjoin the performance of the Company's obligations thereunder.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Official Statement or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraph 3 above. In the course of the preparation by the Issuer and the Company of the Official Statement, we participated in conferences with certain officers and employees of the Company, with representatives of Deloitte & Touche LLP, with other counsel for the Company, with your counsel and with Bond Counsel. In addition, in the course of the preparation by the Company of the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with your counsel and with representatives of Deloitte & Touche LLP. Based upon our examination of the Official Statement and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion or belief as to the financial statements or other financial or statistical data contained or incorporated by reference in the Exchange Act Documents, and (ii) we have no reason to believe that the Official Statement (including the Exchange Act Documents) contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Official Statement or the Exchange Act Documents or with respect to the information in the Official Statement under the captions "MBFC," "The Bonds – Book-Entry System," "Underwriting" and "Tax Exemption".

We are members of the Florida Bar and we do not express any opinion herein concerning any law other than the law of the States of Florida and Maine, and to the extent set

forth herein, the laws of the States of Georgia, Mississippi, New York and the federal law of the United States.

This opinion is rendered to you in connection with the above described transaction. This opinion may not be relied upon by you for any other purpose, or relied upon by, or furnished to, any other person, firm or corporation without our prior written consent, except that Dewey Ballantine LLP and Troutman Sanders LLP may rely on this opinion in giving their opinions pursuant to Section 6 of the Purchase Contract insofar as such opinions relate to matters of Florida and Maine law.

Very truly yours,

BEGGS & LANE

EXHIBIT D
to the
Purchase Contract

[LETTERHEAD OF TROUTMAN SANDERS LLP]

_____, 2003

J.P. Morgan Securities Inc.
New York, New York

Mississippi Business Finance Corporation
Jackson, Mississippi

The Bank of New York Trust Company of Florida, N.A., as Trustee
Atlanta, Georgia

McGlinchey Stafford PLLC
Jackson, Mississippi

Re: $29,075,000 Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project)

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with the purchase by J.P. Morgan Securities Inc. (the "Underwriter") of $29,075,000 aggregate principal amount of Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) (the "Bonds"), pursuant to the Purchase Contract dated April 14, 2003 (the "Purchase Contract"), between the Mississippi Business Finance Corporation (the "Issuer") and the Underwriter.

We have examined (i) the Official Statement dated April 9, 2003 relating to the Bonds, including Appendix A thereto (the "Official Statement"), which incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002 and the Current Report on Form 8-K of the Company dated March 21, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) the Trust Indenture relating to the Bonds, dated as of April 1, 2003 (the "Trust Indenture") between the Issuer and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"); (iii) the Loan Agreement dated as of April 1, 2003 (the "Agreement") between the Issuer and the Company; (iv) the promissory note dated April 15, 2003

(the "Note") in the aggregate principal amount of $29,075,000 issued by the Company pursuant to the Agreement; (v) the Purchase Contract; (vi) the Letter of Representation dated April 14, 2003 (the "Letter of Representation") among the Company, the Issuer and the Underwriter; (vii) the Auction Agreement (the "Auction Agreement") dated as of April 1, 2003, among the Company, the Trustee and The Bank of New York, as auction agent (the "Auction Agent"); and (viii) the Broker-Dealer Agreement dated as of April 1, 2003 (the "Broker-Dealer Agreement") among the Company, the Auction Agent and J.P. Morgan Securities Inc., as the broker-dealer. In addition, we have examined, and have relied as to matters of fact upon, the documents delivered at the closing (except the Bonds of which we have examined a specimen), and upon originals or copies, certified or otherwise identified to our satisfaction, of such corporate records, agreements, documents and other instruments and such certificates or comparable documents of public officials and of officers and representatives of the Issuer and the Company, and have made such other and further investigations, as we deemed relevant and hereinafter set forth.

In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Maine and Florida law upon the opinion dated the date hereof rendered to you by Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane"), relying as to matters of Mississippi law upon the opinion dated the date hereof rendered by Balch & Bingham LLP and relying as to matters of New York law upon the opinion dated the date hereof rendered by Dewey Ballantine LLP, that:

1. The Company is a corporation duly organized and existing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged and to own and operate the properties used by it in such business.

2. The Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Letter of Representation and the Note have been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery thereof by other parties thereto, constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement, the Letter of Representation, the Broker-Dealer Agreement, the Auction Agreement and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) and by any principles of public policy limiting the right to enforce the indemnification provisions contained in the Broker-Dealer Agreement and the Letter of Representation.

3. The statements made in the Official Statement under the captions "The Bonds," "The Agreement" and "The Indenture", insofar as they purport to constitute summaries of the terms of documents referred to therein, constitute accurate summaries of the terms of such documents in all material respects; provided that no opinion is expressed with respect to the information contained under the heading "The Bonds - Book-Entry System."

4. All orders, consents or other authorizations or approvals of the Securities and Exchange Commission (the "Commission") and the Florida Public Service Commission legally required for the issuance of the Note and with respect to the authorization, execution and delivery of the Agreement by the Company have been obtained; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance of the Note or the authorization, execution and delivery of the Agreement by the Company.

5. The Bonds are exempted securities within the meaning of Section 3(a)(2) of the Securities Act of 1933, as amended (the "Act"), and it is not necessary in connection with the sale of the Bonds to the public to register the Bonds or the Note under the Act or to qualify the Trust Indenture under the Trust Indenture Act of 1939, as amended.

In rendering the opinion expressed in paragraph 5 above, we have relied upon the legal opinion dated the date hereof, rendered by McGlinchey Stafford, PLLC, Bond Counsel, pursuant to the Purchase Contract as to the exclusion from gross income for federal income tax purposes of interest on the Bonds and have made no independent investigation with respect to such exclusion.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Official Statement or the Exchange Act Documents and take no responsibility therefor except as and to the extent set forth in paragraph 3 above. In the course of the preparation by the Issuer and the Company of the Official Statement, we participated in conferences with certain officers and employees of the Company, with representatives of Deloitte & Touche LLP, with other counsel for the Company, with your counsel and with Bond Counsel. In addition, in the course of the preparation by the Company of the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with your counsel and with representatives of Deloitte & Touche LLP. Based upon our examination of the Official Statement and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in this case we express no opinion or belief as to the financial statements or other financial or statistical data contained or incorporated by reference in the Exchange Act Documents, and (ii) we have no reason to believe that the Official Statement (including the Exchange Act Documents) contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the

light of circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Official Statement or the Exchange Act Documents or with respect to the information in the Official Statement under the captions "MBFC," "The Bonds-Book-Entry System," "Underwriting" and "Tax Exemption."

We are members of the State Bar of Georgia and we do not express any opinion herein concerning any law other than the law of the State of Georgia and the federal law of the United States and, to the extent set forth herein, the laws of the States of Florida, Mississippi, Maine and New York.

This opinion is rendered to the addressees hereto in connection with the above described transaction. This opinion may not be relied upon by the addressees hereto for any other purpose, or relied upon by, or furnished to, any other person, firm or corporation without our prior written consent except that Dewey Ballantine LLP and Beggs & Lane may rely on this opinion in giving their opinions pursuant to Section 6 of the Purchase Contract insofar as such opinions relate to matters of Georgia law and except that Beggs & Lane may rely on this opinion in giving their opinion pursuant to Section 6 of the Purchase Contract insofar as such opinion relates to laws and regulations administered by the Commission.

Very truly yours,

TROUTMAN SANDERS LLP

EXHIBIT E
to the Purchase Contract

[LETTERHEAD OF BALCH & BINGHAM LLP]

_____, 2003

J.P. Morgan Securities Inc.
New York, New York

Mississippi Business Finance Corporation
Jackson, Mississippi

McGlinchey Stafford PLLC
Jackson, Mississippi

The Bank of New York Trust Company of Florida, N.A., as Trustee
Atlanta, Georgia

Re: $29,075,000 Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project)

Ladies and Gentlemen:

We are the attorneys for the Mississippi Business Finance Corporation (the "Issuer") and have represented the same in connection with the sale by the Issuer of $29,075,000 aggregate principal amount of its Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) (the "Bonds") to the Underwriter named in the Purchase Contract dated April 14, 2003, between the Underwriter and the Issuer (the "Purchase Contract"). In connection therewith, we have examined: (i) resolutions of the Issuer adopted on February 19, 2003 and March 19, 2003 (collectively, the "Resolution"), relating to the issuance and sale of the Bonds, (ii) Trust Indenture, dated as of April 1, 2003 (the "Indenture") between the Issuer and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"), relating to the issuance of the Bonds, (iii) Loan Agreement, dated as of April 1, 2003 (the "Agreement") between Gulf Power Company (the "Company") and the Issuer and (iv) promissory note dated April 15, 2003 (the "Note") in the principal amount of $29,075,000 issued by the Company pursuant to the Agreement. In addition to the above, we have examined the documents delivered to the Underwriter by the Issuer at the closing, except the Bonds.

Further, we have reviewed the authority pursuant to which the Bonds are being issued, Sections 57-10-201 *et seq.*, Mississippi Code of 1972, as amended and supplemented (the "Act") and have concluded that the proceedings, documents, and resolutions referred to herein have met the requirements of the Act.

Based upon the foregoing and our review of such other information, papers and documents as we believe necessary to enable us to render this opinion, we are of the opinion that:

1. The Issuer is a public corporation organized and existing under the laws of the State of Mississippi and is authorized to exercise the powers conferred by the Act.

2. The Issuer has full legal right, power and authority (i) to adopt the Resolution, (ii) to enter into the Purchase Contract, the Agreement and the Indenture, (iii) to issue, sell and deliver the Bonds to the Underwriter as provided in the Purchase Contract, (iv) to accept the Letter of Representation from the Company dated April 14, 2003 (the "Letter of Representation") and (v) to carry out and consummate all other transactions contemplated by each of the aforesaid documents, and the Issuer has complied with the provisions of the Act in all matters relating to such transactions.

3. The Issuer has duly authorized (i) the execution, delivery and due performance of the Purchase Contract, the Bonds, the Agreement, and the Indenture, (ii) the execution and delivery of the Official Statement dated April 9, 2003 relating to the Bonds by the Issuer, (iii) the lending of the proceeds of the Bonds to the Company under the terms of the Agreement, (iv) the acceptance of the Letter of Representation, and (v) the taking of any and all such actions as may be required on the part of the Issuer to carry out, give effect to and consummate the transactions contemplated by such instruments.

4. The Resolution has been duly adopted by the Issuer and constitutes the legal, valid and binding act of the Issuer and has not been in any way amended, modified, rescinded or revoked.

5. The adoption of the Resolution, the execution and delivery of the Purchase Contract, the Bonds, the Agreement and the Indenture and the endorsement of the Note and the acceptance of the Letter of Representation, and compliance with the provisions of each of such instruments, will not conflict with or constitute a breach of, or default under, any commitment, agreement or other instrument to which the Issuer is a party or by which it is bound, or under any existing law, rule, regulation, ordinance judgment, order or decree to which the Issuer is subject.

6. There is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body, pending against or

affecting the Issuer, wherein an unfavorable decision, ruling or finding, would materially adversely affect the transactions contemplated by the Purchase Contract or the transactions contemplated by the Official Statement, or which in any way would adversely affect the validity of the Resolution or the validity or enforceability of the Bonds, the Indenture, the Agreement or the Purchase Contract.

7. The Issuer has pledged and assigned to the Trustee pursuant to the Indenture all of the Issuer's rights and interests in the Agreement (except for certain payments for indemnification and expenses). The Indenture creates a valid security interest in favor of the Trustee in and to such rights and interests and in and to the trust funds created and held by the Trustee under the Indenture, subject to no prior security interest.

Insofar as this opinion relates to the enforceability of any instrument, it is subject to (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the enforcement of creditors' rights generally from time to time in effect, (ii) applicable laws which may affect the remedies provided therein (which laws, as presently in effect, do not make the remedies in such instruments inadequate for the realization of the benefits provided thereby), and (iii) principles of equity applicable to the enforcement of the remedy of specific performance.

Very truly yours,

Balch & Bingham LLP

EXHIBIT F
to the Purchase Contract

[LETTERHEAD OF DEWEY BALLANTINE LLP]

_____, 2003

J.P. Morgan Securities Inc.
270 Park Avenue
7th Floor
New York, New York 10017

Re: $29,075,000 Principal Amount of Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project)

Ladies and Gentlemen:

We have acted as counsel to the Underwriter in connection with the purchase by the Underwriter of $29,075,000 aggregate principal amount of Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) (the "Bonds"), pursuant to the Purchase Contract dated April 14, 2003 (the "Purchase Contract") between the Underwriter and the Mississippi Business Finance Corporation (the "Issuer").

We have examined (i) the Official Statement dated April 9, 2003 relating to the Bonds, including the Appendices thereto (the "Official Statement"), which incorporates by reference the Annual Report on Form 10-K of Gulf Power Company (the "Company") for the fiscal year ended December 31, 2002 and the Current Report on Form 8-K of the Company dated March 21, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) the Trust Indenture relating to the Bonds, dated as of April 1, 2003 (the "Indenture") between the Issuer and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"); (iii) the Loan Agreement, dated as of April 1, 2003 (the "Agreement") between the Company and the Issuer; (iv) the promissory note dated April 15, 2003 (the "Note") in the aggregate principal amount of $29,075,000 issued by the Company pursuant to the Agreement; (v) the Purchase Contract; (vi) the Letter of Representation dated April 14, 2003 (the "Letter of Representation") among the Company, the Issuer and you; (vii) the Auction Agreement (the "Auction Agreement") dated as of April 1, 2003, among the Company, the Trustee and The Bank of New York, as auction agent (the "Auction Agent"); and (viii) the Broker-Dealer Agreement dated as of April 1, 2003 (the "Broker-Dealer Agreement") among the Company, the Auction Agent and J.P. Morgan Securities Inc., as the broker-dealer. In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to us at the closing (except the Bonds of which we have examined a specimen), and upon originals or copies, certified or otherwise identified to our satisfaction, of such corporate records, agreements, documents and

other instruments and such certificates or comparable documents of public officials and of officers and representatives of the Issuer and the Company, and have made such other and further investigations, as we deemed relevant and necessary as a basis for the opinions hereinafter set forth.

In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

We understand that included among the opinions you are receiving concurrently herewith are opinions dated the date hereof of Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane"), general counsel to the Company, Balch & Bingham LLP, special counsel for the Company and Troutman Sanders LLP, counsel for the Company. In rendering this opinion, we have, with your consent, relied on said opinions of Beggs & Lane, Balch & Bingham LLP and Troutman Sanders LLP, to the extent that they relate to matters of conformity to the laws of the States of Maine, Florida, Georgia and Mississippi. With respect to the opinion expressed in paragraph (5) below, we have, with your consent, relied on an opinion of even date herewith rendered by McGlinchey Stafford, PLLC in its capacity as Bond Counsel, to the effect, among other things, that interest on the Bonds, to the extent set forth in such opinion, is excluded from gross income for federal income tax purposes.

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion that:

1. The Company is a corporation duly organized and existing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged and to own and operate the properties used by it in such business.

2. The Agreement, the Auction Agreement, the Broker-Dealer Agreement, Letter of Representation and the Note have been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery thereof by other parties thereto, constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Letter of Representation and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) and by any principles of public policy affecting the right to enforce the indemnification provisions contained in the Broker-Dealer Agreement and the Letter of Representation.

3. The statements made in the Official Statement under the captions "The Bonds," "The Agreement" and "The Indenture", insofar as they purport to constitute

summaries of the terms of documents referred to therein, constitute accurate summaries of the terms of such documents in all material respects; provided that no opinion is expressed with respect to the information contained under the heading "The Bonds-Book-Entry System."

4. All orders, consents or other authorizations or approvals of the Securities and Exchange Commission (the "Commission") and the Florida Public Service Commission legally required for the issuance of the Note and with respect to the authorization, execution and delivery of the Agreement by the Company have been obtained; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance of the Note or the authorization, execution and delivery of the Agreement by the Company.

5. The Bonds are exempted securities within the meaning of Section 3(a)(2) of the Securities Act of 1933, as amended (the "Act"), and it is not necessary in connection with the sale of the Bonds to the public to register the Bonds or the Note under the Act or to qualify the Indenture under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Official Statement or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraph 3 above. In the course of the preparation by the Issuer and the Company of the Official Statement, we participated in conferences with certain officers and employees of the Company, with representatives of Deloitte & Touche LLP, with counsel for the Company and with Bond Counsel. In addition, in the course of the preparation by the Company of the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with representatives of Deloitte & Touche LLP and with counsel for the Company. Based upon our examination of the Official Statement and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion or belief as to the financial statements or other financial or statistical data contained or incorporated by reference in the Exchange Act Documents, and (ii) we have no reason to believe that the Official Statement (including the Exchange Act Documents) contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Official Statement or the Exchange Act Documents or with respect to the information in the Official Statement under the captions "MBFC," "The Bonds-Book-Entry System," "Underwriting" and "Tax Exemption."

We are members of the State Bar of New York and we do not express any opinion herein concerning any law other than the law of the State of New York and the federal law of the

United States and, to the extent set forth herein, the laws of the States of Maine, Florida, Georgia and Mississippi.

This opinion is rendered to you in connection with the above described transaction. This opinion may not be relied upon by you for any other purpose, or relied upon by, or furnished to, any other person, firm or corporation without our prior written consent except that Beggs & Lane and Troutman Sanders LLP may rely on this opinion in giving their opinions pursuant to the Purchase Contract insofar as such opinions relate to matters of New York law.

Very truly yours,

DEWEY BALLANTINE LLP

EXHIBIT G
to the Purchase Contract

[LETTERHEAD OF DELOITTE & TOUCHE LLP]

This letter will be to the effect that:

(A) Deloitte & Touche LLP are independent certified public accountants with respect to Gulf Power Company (the "Company") under Rule 101 of the American Institute of Certified Public Accountant's Code of Professional Conduct and its interpretations and rulings; (B) at the Underwriter's request, Deloitte & Touche LLP have performed, and will report their findings as a result of performing, certain limited procedures performed through a specified date not more than five business days prior to the date of such letter, namely (i) reading of the minute books of the Company; (ii) reading of the unaudited financial statements, if any, of the Company incorporated by reference in Appendix A to the Official Statement (the "Appendix") and agreeing the amounts contained therein with the Company's accounting records; (iii) reading the unaudited financial statements of the Company, from which the unaudited amounts for Operating Revenues, Earnings Before Income Taxes, Net Income After Dividends on Preferred Stock and the unaudited Ratio of Earnings to Fixed Charges included in the Appendix are derived and agreeing the amounts contained therein with the Company's accounting records; (iv) reading the latest available unaudited financial statements of the Company, if any, for any calendar quarter subsequent to that set forth in (iii) above and agreeing the amounts contained therein and the unaudited amounts of Operating Revenues, Earnings Before Income Taxes, Net Income After Dividends on Preferred Stock and the unaudited Ratio of Earnings to Fixed Charges for the period covered by such financial statements, which amounts and ratio shall be set forth in such letter, to the Company's accounting records; and (v) making inquiries of certain officials of the Company who have responsibility for financial and accounting matters regarding whether (a) the unaudited financial statements described in (ii) are in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited financial statements incorporated by reference in the Appendix; (b) the unaudited financial statements described in (iii) and (iv) are stated on a basis substantially consistent with that of the audited financial statements incorporated by reference in the Appendix; (c) the specified unaudited amounts or ratios described in (iii) and (iv) are stated on a basis substantially consistent with that of the corresponding audited amounts and ratios included or incorporated by reference in the Appendix; and (d) there has been any change in the capital stock or long-term debt or any decrease in net assets of the Company as compared with amounts shown in the latest audited balance sheet incorporated by reference in the Appendix, except in each case for changes or decreases which (i) the Appendix discloses have occurred or may occur, (ii) are occasioned by the declaration of dividends, (iii) are occasioned by draw-downs or regularly scheduled payments of capitalized lease obligations, (iv) are occasioned by the purchase or redemption of bonds or stock to satisfy mandatory or optional redemption provisions relating thereto, or (v) are disclosed in such letter (it being understood that the foregoing procedures do not constitute an audit performed in accordance with generally accepted auditing standards and they would not necessarily reveal matters of significance with respect to the

comments made in such letter, nor would they necessarily disclose changes in specified financial statement line items, inconsistencies in the application of generally accepted accounting principles, or other matters, and accordingly that Deloitte & Touche LLP make no representations as to the sufficiency of such procedures for the Underwriter's purposes).

EXHIBIT H
to the Purchase Contract

GULF POWER COMPANY

Letter of Representation

_____, 2003

Mississippi Business Finance Corporation
Jackson, Mississippi

J.P Morgan Securities Inc.
New York, New York

Ladies and Gentlemen:

Gulf Power Company (the "Company") delivers this Letter of Representation in order to induce J.P. Morgan Securities Inc., as underwriter (the "Underwriter") and the Mississippi Business Finance Corporation (the "Issuer") to enter into a Purchase Contract, to be dated the date hereof (the "Purchase Contract"), with the Issuer relating to the purchase by the Underwriter from the Issuer of $29,075,000 aggregate principal amount of its Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) (the "Bonds"). The Bonds will be issued under and secured by a Trust Indenture, dated as of April 1, 2003 (the "Indenture"), between the Issuer and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"). The proceeds of the Bonds are to be used, pursuant to the terms of a Loan Agreement, dated as of April 1, 2003 (the "Agreement"), between the Issuer and the Company, to provide funds to refinance the acquisition and construction of the Company's interest in certain air and water pollution control facilities (the "Project") located at the Victor J. Daniel, Jr. Steam Electric Generating Plant in Jackson County, Mississippi. The Company's payment obligations with respect to the Bonds under the Agreement will be evidenced by a non-negotiable promissory note equal in principal amount to the Bonds and bearing interest at the rate or rates borne by the Bonds (the "Note"). In addition, in connection with the issuance of the Bonds, the Company and the Trustee will enter into an Auction Agreement related to the Bonds dated as of April 1, 2003 (the "Auction Agreement") with The Bank of New York, as auction agent (the "Auction Agent"), providing, among other things, that the Auction Agent will follow certain auction procedures (each implementation thereof, an "Auction") for the purpose of determining the rate of interest which the Bonds will bear when such rate is to be determined by an Auction (the "Auction Rate"). The Company and the Auction Agent will also enter into a Broker-Dealer Agreement, dated as of April 1, 2003 (the "Broker-Dealer Agreement"), with J.P. Morgan Securities Inc., as the broker-dealer. As used in this Letter of Representation the term "Official Statement" means the Official Statement of the Issuer, dated April 9, 2003 relating to the Bonds

and certain other obligations described therein, including the Appendices thereto and the documents incorporated in Appendix A by reference.

1. In consideration of the execution and delivery of the Purchase Contract, the Company represents, warrants and covenants to and with the Underwriter and the Issuer that:

(a) The Official Statement does not, and at the Closing Date (as defined in the Purchase Contract) the Official Statement, as it may be amended or supplemented, will not, include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that none of the representations and warranties in this Letter of Representation shall apply to statements in or omissions from the Official Statement under the captions "MBFC," "The Bonds-Book-Entry System," "Tax Exemption" or "Underwriting" or in the statements on the cover page with respect to the initial public offering price, tax exemption and terms of offering or on the Table of Contents page with respect to stabilization.

(b) The financial statements incorporated by reference in the Official Statement, together with the related schedules and notes, present fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of and for the dates indicated; said financial statements have been prepared in conformity with accounting principles generally accepted in the United States applied on a consistent basis throughout the periods involved and necessarily include amounts that are based on the best estimates and judgments of management. The selected financial data and the summary financial information, if any, included in the Official Statement present fairly the information shown therein and have been compiled on a basis consistent with that of the audited and unaudited financial statements incorporated by reference in the Official Statement.

(c) There has not been any material adverse change in the business, properties, or financial condition of the Company as a whole from that set forth in or contemplated by the Official Statement.

(d) The Company has not entered into any material transaction or incurred any material liability otherwise than in the ordinary course of business or as set forth in or contemplated by the Official Statement.

(e) This Letter of Representation has been, and the Agreement, the Auction Agreement, the Broker-Dealer Agreement and the Note, when executed and delivered by the Company, will be, duly authorized, executed and delivered by the Company, and assuming due authorization, execution and delivery thereof by the other parties thereto, will be legal, valid and binding obligations of the Company and will be enforceable in accordance with their respective terms except as limited by any principles of public policy limiting the right to enforce the indemnification provisions of this Letter of Representation and the Broker-Dealer Agreement; and the Undertaking (as defined in the Purchase

Contract), when executed and delivered by the Company, will be duly authorized, executed and delivered by the Company.

(f) All necessary authorizations, approvals, consents or other orders of any governmental authority or agency for the execution and delivery by the Company of the Agreement, the Auction Agreement and the Broker-Dealer Agreement and for the issuance by the Company of the Note have been obtained and are in full force and effect.

(g) The execution of this Letter of Representation, the Auction Agreement, the Broker-Dealer Agreement, the Undertaking and the Agreement, the issuance and delivery of the Note, the consummation of the transactions herein and therein contemplated and the fulfillment of the terms hereof and thereof, did not or will not result in a breach of any of the terms and provisions of, or constitute a default under, any indenture, mortgage, deed of trust or other agreement or instrument to which the Company is a party (except for breaches or defaults which would not, individually or in the aggregate, be materially adverse to the Company or materially adverse to the transactions contemplated by the Purchase Contract and this Letter of Representation), or of the Company's charter or by-laws or, to the knowledge of the Company, any order, rule or regulation applicable to the Company of any court or of any Federal or State regulatory body or administrative agency or other governmental body having jurisdiction over the Company or over any of its activities or its properties.

(h) The Company is a corporation duly organized and existing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged and to own and operate the properties used by it in such business.

(i) To the best of the Company's knowledge, the Securities and Exchange Commission has not issued, and is not threatening to issue, any order preventing or suspending the use of the Preliminary Official Statement, dated April 8, 2003 relating to the Bonds and certain other obligations of the Company described therein (the "Preliminary Official Statement") or the Official Statement.

(j) Except as disclosed in or contemplated by the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body known to the Company to be pending or threatened against or directly affecting the Company, nor to the best of the knowledge of the Company is there any basis therefor, wherein an unfavorable decision, ruling or finding (i) would have a material adverse effect on the transactions contemplated by the Purchase Contract or the Official Statement (excluding transactions contemplated solely by Appendix A thereto and the documents incorporated in Appendix A by reference), or (ii) would adversely affect the validity or enforceability of the Bonds, the Indenture, the Agreement, the Note, the Purchase Contract or this Letter of Representation, or any agreement or instrument to which the Company is a party, used or contemplated for use in connection with the consummation by the Company of the transactions contemplated by the Purchase Contract

or by the Official Statement (excluding transactions contemplated solely by Appendix A thereto and the documents incorporated in Appendix A by reference).

(k) The Company will not take or omit to take any action the taking or omission of which would cause the proceeds from the sale of the Bonds to be applied in a manner contrary to that provided for in the Indenture and the Agreement, as amended from time to time.

(l) The Company will cooperate with the Underwriter and its counsel in any endeavor to qualify the Bonds for offering and sale under the securities or "blue sky" laws of such jurisdictions of the United States as the Underwriter may request; provided, however, that the Company shall not be required with respect to the offering or sale of the Bonds to file written consent to suit or to file written consent to service of process in any jurisdiction in which the Bonds may be offered or sold.

(m) The Company acknowledges the terms of the Purchase Contract as they relate to it and the Company will pay the fees, costs and expenses to be paid by it pursuant to Section 8 of the Purchase Contract (subject to the terms and conditions set forth therein).

(n) The Bonds, the Indenture, the Agreement, the Auction Agreement, the Broker-Dealer Agreement and the Note conform in all material respects to the descriptions thereof in the Official Statement.

(o) If at any time prior to the completion of the sale of the Bonds by the Underwriter when in the judgment of the Underwriter, it is necessary or desirable to deliver an Official Statement in connection with the sale of the Bonds an event occurs as a result of which, in the opinion of Dewey Ballantine LLP, counsel for the Underwriter, Appendix A to the Official Statement as then amended and supplemented (including any documents incorporated therein by reference) would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, the Company promptly will prepare an amendment or supplement to said Appendix (or in its discretion, make an appropriate filing pursuant to Section 13 or 14 of the Securities Exchange Act of 1934, as amended) which will correct such statement or omission; provided that any such amendment or supplement which is requested by the Underwriter more than 90 days after the Closing Date shall be prepared at the Underwriter's expense.

(p) During such period (not to exceed nine months after the Closing Date) as the Underwriter believe delivery of the Official Statement is necessary or desirable in connection with the sales of the Bonds by the Underwriter or dealers, if any, the Company will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement, insofar as it shall be known to the Company, and the Company agrees not to effect any such amendment or supplementation of the Official Statement which is unsatisfactory in form to Dewey Ballantine LLP or in substance to the Underwriter; the Company will also advise the Underwriter promptly of the institution of any proceedings by the Securities and Exchange Commission or any other action or event

of which the Company is aware and which may affect the use of the Official Statement in connection with the sale and distribution of the Bonds.

2. The acceptance and confirmation of this Letter of Representation by the Issuer shall constitute a representation and warranty by the Issuer to the Company that the representations and warranties contained in Section 4 of the Purchase Contract are true as of the date hereof and will be true in all material respects as of the Closing Date.

3. (a) The Company agrees to indemnify and hold harmless the Issuer, any official or employee of the Issuer, the Underwriter and each person, if any, who controls the Underwriter within the meaning of Section 15 of the Securities Act of 1933, as amended (the "Securities Act"), against any and all losses, claims, damages, liabilities and expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Official Statement or the Official Statement, or in any amendment or supplement thereto, or arising out of any omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect, except insofar as such losses, claims, damages, liabilities or expenses arise out of any such untrue statement or omission or alleged untrue statement or omission made in any such documents in reliance upon and in conformity with written information furnished to the Company by the Underwriter specifically for use therein; provided, however, that the indemnity agreement contained in this Section 3(a) shall not inure to the benefit of the Underwriter (or of any person so controlling the Underwriter) to the extent of any losses, claims, damages, liabilities or expenses arising from the sale of the Bonds to any person if a copy of the Official Statement (exclusive of the documents incorporated in Appendix A by reference), as amended or supplemented at the time of such sale, shall not have been given or sent to such person by or on behalf of the Underwriter with or prior to the written confirmation of the sale involved.

(b) The Underwriter agrees to indemnify and hold harmless the Company, its directors and officers and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act, the Issuer and any official or employee of the Issuer, against any and all losses, claims, damages, liabilities and expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Official Statement, or in any amendment or supplement thereto, or any omission or alleged omission to state therein any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, but only to the extent that such untrue statement or alleged untrue statement or omission or alleged omission was made in any such document in reliance upon and in conformity with written information furnished to the Company or the Issuer by the Underwriter specifically for use therein.

(c) The Company agrees with respect to any action against it, any of its directors or officers or any person controlling it as aforesaid, the Underwriter agrees with respect to any action against it or any person controlling it as aforesaid, and the Issuer agrees with respect to any action against it, or any of its officers or employees, in respect of which indemnity may be sought hereunder, that it will promptly give written notice of the commencement of such action to the party or parties against whom indemnity may be sought; but the omission so to notify any indemnifying party will not relieve such indemnifying party from any liability which it may have

to the indemnified party which failed to give such notice otherwise than under this Section 3 nor affect any rights such indemnifying party may have otherwise than under this Section 3 to participate in or assume the defense of any action brought against such indemnified party. Upon receipt of any such notice by an indemnifying party, such indemnifying party shall be entitled to assume the defense of such action, including the employment of counsel and the payment of all expenses in connection with such defense, and will have the right to negotiate and consent to settlement. Any indemnified party shall have the right to employ separate counsel in any such action against it and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless the employment of such counsel shall have been specifically authorized in writing by the indemnifying party or the indemnifying party shall have elected not to assume the defense of such action. No indemnifying party shall be liable for any settlement of any such action effected without its consent; but if any such action is settled with the consent of an indemnifying party or if there be a final judgment for the plaintiff in any such action (of which an indemnifying party shall have been notified as aforesaid), such indemnifying party shall indemnify and hold harmless each indemnified party from and against any losses, claims, damages, liabilities or expenses incurred or suffered by reason of such settlement or judgment.

4. The Company will deliver or cause to be delivered all opinions, certificates and other documents as provided for in the Purchase Contract to be delivered by it.

5. The representations and warranties of the Company and the Issuer contained herein, or in the certificates of officers of the Company or officials of the Issuer submitted to the Underwriter pursuant to the Purchase Contract, and the agreements of the Company and the Underwriter contained in Section 3 hereof shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Issuer or any of its officials or employees, the Underwriter or controlling person thereof, or the Company or any of its directors or officers or controlling persons, and shall survive the delivery of the Bonds to the Underwriter. The Company's agreement contained in Section 1(m) hereof to pay expenses shall survive the termination of the Purchase Contract and this Letter of Representation.

6. This Letter of Representation is made solely for the benefit of the Issuer, the Underwriter and the Company, and, to the extent expressly provided herein, any person referred to in Section 3 hereof, and their respective successors and assigns, and no other person, partnership, association or corporation shall acquire or have any right under or by virtue hereof. The terms "successors" and "assigns" shall not include any purchaser of Bonds from the Underwriter merely because of such purchase.

7. The execution and delivery of this Letter of Representation by the Company shall constitute the Company's approval of and consent to the Issuer's entering into, acceptance and execution of the Purchase Contract and the Indenture and performance thereunder.

8. This Letter of Representation shall be governed by and construed in accordance with the laws of the State of Mississippi.

9. Any notice or other communication to be given to the Company under this Letter of Representation may be given by delivering the same in writing to the Treasurer of the Company at its address set forth below. Any notice or other communication to be given to the Issuer may be given by delivering the same in writing to its address set forth in the Purchase Contract. Any notice or other communication to be given to the Underwriter may be given by delivering the same in writing at the address of the Underwriter set forth in the Purchase Contract. The Company, the Issuer and the Underwriter shall each be fully entitled to rely upon notice given pursuant to this Section and to act thereon.

10. This Letter of Representation shall become effective upon execution thereof and the effectiveness of the Purchase Contract referred to herein. It shall terminate upon termination of the Purchase Contract.

11. This Letter of Representation may be executed in counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same instrument.

Very truly yours,

GULF POWER COMPANY
One Energy Place
Pensacola, Florida 32520-0102

By:_____
Name:
Title:

Accepted and confirmed as of the
date first above written

J.P. MORGAN SECURITIES INC.

By:_____
Name:
Title:

MISSISSIPPI BUSINESS FINANCE CORPORATION
Jackson, Mississippi

By:_____
Name: William T. Barry
Title: Executive Director

## NEW ISSUE — BOOK-ENTRY ONLY

*In the opinion of McGlinchey Stafford, PLLC, Bond Counsel, assuming the accuracy of certain representations and certifications and compliance with certain tax covenants by MBFC and the Company, interest on the Bonds is excluded from gross income for federal income tax purposes under existing statutes, regulations and court decisions, and under applicable regulations and proposed regulations, except for interest on any such Bond for any period during which such Bond is held by a person who is a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(13) of the Internal Revenue Code of 1954, as amended See "TAX EXEMPTION" below for a description of the alternative minimum tax imposed on individuals and corporations and certain other federal tax consequences of ownership of the Bonds In the opinion of Bond Counsel, the Bonds and the interest thereon are exempt from all income taxes imposed by the State of Mississippi and any county, municipality and other political subdivision of the State of Mississippi.*

# $29,075,000

**Mississippi Business Finance Corporation**
**Pollution Control Revenue Refunding Bonds,**
**Series 2003**
**(Gulf Power Company Project)**

---

**THE BONDS ARE BEING ISSUED UNDER A TRUST INDENTURE FOR CURRENT REFUNDING PURPOSES AND ARE THE LIMITED SPECIAL OBLIGATIONS OF THE MISSISSIPPI BUSINESS FINANCE CORPORATION ("MBFC") AND ARE PAYABLE SOLELY FROM THE LOAN REPAYMENTS UNDER A NOTE ISSUED PURSUANT TO A LOAN AGREEMENT WITH**

GULF POWER
A SOUTHERN COMPANY

Dated: Date of original issuance and delivery Due February 1, 2026

The Bonds will bear interest from their date of original issuance and delivery (the "Issue Date") for the period to but not including May 20, 2003 (the "Initial Period") at a rate established by the Broker-Dealer prior to the Issue Date and thereafter at the Auction Mode Rate for each Auction Period. Interest on the Bonds will be adjusted based upon 35-day Auction Periods (or, at the option of Gulf Power Company (the "Company"), any period having a length between 1 and 364 days). The first Auction Date for the Bonds shall be May 19, 2003, the last Business Day of the Initial Period. Generally, the Interest Payment Date for an Auction Period will be the Business Day immediately following each Auction Period and, in addition, for an Auction Period of more than 91 days, each 13th Thursday after the first day of such Auction Period. The length of the Auction Period with respect to the Bonds may be changed in accordance with the Indenture.

The Bonds are subject to mandatory tender and redemption as described under "THE BONDS — Mandatory Tender," THE BONDS — Optional Redemption" and "THE BONDS — Extraordinary Optional Redemption" below.

Subject to satisfaction of certain conditions in the Indenture pursuant to which the Bonds are issued, the Company may from time to time change the method of determining the interest rate on the Bonds to a Daily, Weekly, Commercial Paper, Long-Term Interest or Index Rate, as more fully described under "THE BONDS — Determination Methods" below

The Bonds will be offered as fully registered bonds and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC acts as securities depository for the Bonds During an Auction Rate Period, the Bonds will be issued in denominations of $1,000 and integral multiples thereof Purchases will be made in book-entry form through DTC participants and no physical delivery of Bonds will be made to purchasers, except as otherwise described herein. Payments of principal and premium, if any, and interest on the Bonds will be made by The Bank of New York Trust Company of Florida, N.A., as Trustee and Paying Agent, to Cede & Co., as nominee for DTC, as registered owner of the Bonds, to be subsequently disbursed to DTC participants and thereafter to the beneficial owners of the Bonds See "THE BONDS" — Book-Entry System" below

---

**PRICE: 100%**

---

The Bonds are offered subject to prior sale, when, as and if issued and received by the Underwriter, subject to the approval of legality by McGlinchey Stafford, PLLC, Jackson, Mississippi, Bond Counsel, and certain other conditions Certain legal matters, other than the validity of the Bonds and the exclusion from gross income for federal income tax purposes of interest thereon, will be passed on for the Company by its counsel, Beggs & Lane, a Registered Limited Liability Partnership, Pensacola, Florida, and Troutman Sanders LLP, Atlanta, Georgia, for the Underwriter by its counsel, Dewey Ballantine LLP, New York, New York, and for MBFC by its counsel, Balch & Bingham LLP, Gulfport, Mississippi The Bonds are expected to be delivered through the facilities of DTC in New York, New York on or about April 15, 2003.

---

**JPMorgan**

April 9, 2003

The information contained in this Official Statement has been obtained from the Company, DTC or other sources deemed reliable by MBFC. No representation or warranty is made as to the accuracy or completeness of such information, and nothing contained in this Official Statement is, or shall be relied upon as, a promise or representation by the Underwriter. This Official Statement is submitted in connection with the sale of securities as referred to herein, and may not be reproduced or be used, in whole or in part, for any other purpose. The delivery of this Official Statement at any time does not imply that information herein or in the Appendices hereto (including the documents incorporated therein by reference) is correct as of any time subsequent to its date.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

No broker, dealer, salesman or any other person has been authorized by MBFC, by the Company or by the Underwriter to give any information or to make any representation other than as contained in this Official Statement or in the Appendices hereto (including the documents incorporated therein by reference) in connection with the offering described herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer of any securities other than those described on the cover page or an offer to sell or a solicitation of an offer to buy in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

**IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE COMPANY AND THE TERMS OF THE OFFERING INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING REGULATORY AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE BONDS, INCLUDING BY ENTERING STABILIZING BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING" HEREIN.**

---

## TABLE OF CONTENTS

**OFFICIAL STATEMENT** **Page**


*Introductory Statement* ..... 1

*MBFC* ..... 2

*Use of Bond Proceeds; Refunding of Outstanding Bonds* ..... 2

*The Bonds* ..... 2

*The Agreement* ..... 8

*The Indenture* ..... 10

*The Trustee and the Auction Agent* ..... 13

*Underwriting* ..... 13

*Tax Exemption* ..... 14

*Secondary Market Information* ..... 15

*Legal Matters* ..... 15

*Miscellaneous* ..... 16

*APPENDIX A-GULF POWER COMPANY* ..... A-1

*APPENDIX B-AUCTION PROCEDURES* ..... B-1

*OFFICIAL STATEMENT*

# $29,075,000

Mississippi Business Finance Corporation
Pollution Control Revenue Refunding Bonds,
Series 2003
(Gulf Power Company Project)

## INTRODUCTORY STATEMENT

This Official Statement of MBFC, including the cover page and Appendices, is provided to furnish information in connection with the sale of $29,075,000 aggregate principal amount of Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) (the "Bonds"). The Bonds are to be dated as of the date of their initial issuance and, subject to prior redemption as hereinafter set forth, will mature on the date set forth on the cover page hereof.

The Bonds are to be issued pursuant to a Trust Indenture dated as of April 1, 2003 (the "Indenture") between MBFC and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"), to provide funds to refinance the acquisition, construction, installation and equipping of the interest of the Company in certain air and water pollution control facilities (the "Project"). The Project is located at the Victor J. Daniel, Jr. steam electric generating plant in Jackson County, Mississippi (the "Plant"). The Plant consists of two units in which the Company owns a 50% undivided interest. The total installed (nameplate) capacity of the portion of the Plant owned by the Company is 500,000 kilowatts.

MBFC will loan to the Company the proceeds of the Bonds pursuant to a Loan Agreement dated as of April 1, 2003 (the "Agreement"). In order to evidence the loan from MBFC (the "Loan") and to provide for its repayment, the Company will issue a nonnegotiable promissory note (the "Note") pursuant to the Agreement. Payments required under the Note will be sufficient to pay when due the principal of, premium, if any, and interest on the Bonds.

The Bonds initially will bear interest at an Auction Mode Rate. The Initial Period for the Bonds shall be from the Issue Date to but not including May 20, 2003. Thereafter, the Bonds have a 35-day Auction Period unless changed at the option of the Company, as provided in the Indenture. See "THE BONDS" and Appendix B — "AUCTION PROCEDURES" below. The interest rate on the Bonds can be converted from the Auction Mode Rate to Daily, Weekly, Commercial Paper, Index or Long-Term Interest Rates or the duration of the Auction Period may be changed in accordance with the Indenture, in each case following mandatory tender for purchase upon not less than 15 days' prior written notice to the owners of the Bonds. THIS OFFICIAL STATEMENT DOES NOT PROVIDE ANY INFORMATION REGARDING THE BONDS AFTER THE DATE, IF ANY, ON WHICH THE BONDS CONVERT TO BEAR INTEREST AT AN INTEREST RATE OTHER THAN AN AUCTION MODE RATE.

The Bonds will be limited special obligations of MBFC payable solely from and secured by revenues and proceeds to be received by MBFC pursuant to the Note. The Bonds will be secured by an assignment and pledge to the Trustee of substantially all MBFC's right, title and interest in and to the Note and Agreement.

There follow brief descriptions of MBFC, the use of the proceeds of the Bonds, the Bonds, the Agreement and the Indenture. Information with respect to the Company, including certain financial statements, is set forth or incorporated by reference in Appendix A hereto. Information with respect to the Auction Procedures is set forth in Appendix B hereto.

*The descriptions and summaries herein do not purport to be complete, and reference is made to each document for the complete details of all of its terms and conditions. Terms not defined herein have the meanings set forth in the Agreement and the Indenture, copies of which are available for inspection, during the initial offering period of the Bonds, at the offices of Southern Company Services, Inc., 241 Ralph McGill Boulevard, N.E., Atlanta,*

*Georgia 30308-3374, Attention: Wayne Boston. The statements made herein are qualified in their entirety by reference to each such document.*

## MBFC

MBFC is a public corporation of the State of Mississippi organized and chartered for the purpose of furthering economic development in the State of Mississippi. MBFC is composed of 25 members from which there is elected a nine-member Board of Directors. MBFC is authorized to exercise the powers conferred by Sections 57-10-201 et seq., Mississippi Code of 1972, as amended and supplemented (the "Act"), including the issuance of the Bonds.

## USE OF BOND PROCEEDS; REFUNDING OF OUTSTANDING BONDS

All of the proceeds received by MBFC from the sale of the Bonds will be used to currently redeem (i) $7,875,000 aggregate principal amount of Mississippi Business Finance Corporation Water Pollution Control Revenue Refunding Bonds, Series 1993 (Gulf Power Company Project), and (ii) $21,200,000 aggregate principal amount of Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 1996 (Gulf Power Company Project) (collectively, the "Prior Bonds"). The redemption price of the Prior Bonds will be 100% of the principal amount thereof plus accrued interest to the redemption date. Accrued interest on the Prior Bonds will be paid by the Company and not from proceeds of the Bonds.

It is anticipated that a total of approximately $250,000 will be expended by the Company from its own funds for legal, accounting, printing and other fees in connection with the issuance of the Bonds. See also "UNDERWRITING" below.

## THE BONDS

### General

**This Official Statement does not provide any information regarding the Bonds after the date, if any, on which the Bonds convert to bear interest, as permitted by the Indenture, at interest rates other than an Auction Mode Rate. The Bonds are subject to mandatory tender in the event of any such conversion. See "— Mandatory Tender" below. See also Appendix B hereto for definitions relating to the Auction Mode Rate and for Auction Procedures.**

The Bonds will mature on the date set forth on the cover page of this Official Statement. The Bonds will bear interest from the Issue Date for the Initial Period at a rate established prior to that date by J.P. Morgan Securities Inc. as the minimum rate required to sell the Bonds for delivery on the Issue Date at a price of par. The Initial Period for the Bonds shall be from the Issue Date to but not including May 20, 2003. Following the Initial Period, the Bonds will bear interest for 35-day Auction Periods (unless changed at the option of the Company pursuant to the terms of the Indenture). Upon (i) a conversion from an Auction Mode Rate Determination Method to a Daily Rate, Weekly Rate, Index Rate, Commercial Paper Rate or Long-Term Interest Rate Determination Method or (ii) a change in the length of the Auction Period, the Bonds will be subject to mandatory tender on any such Conversion Date or the date of such change at a price equal to 100% of the principal amount thereof, plus accrued interest; provided, however, that such mandatory tender price is payable solely from the proceeds of the remarketing of such Bonds, and if all such Bonds are not remarketed, such mandatory tender will be cancelled with the effect described under "— Conversion from Auction Mode Rate Determination Method" below. The first Auction Date for the Bonds shall be the last Business Day of the Initial Period. Interest will be payable with respect to the Bonds on each Interest Payment Date (as defined below). During any Auction Rate Period, interest on the Bonds in an Auction Period of 180 days or less will be computed on the basis of actual days over 360 and in an Auction Period greater than 180 days on the basis of a 360-day year of twelve 30-day months.

The Bonds will be issued as fully registered bonds without coupons and in authorized denominations of $1,000 and any integral multiples thereof. The Bonds will be registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC acts as securities depository for the Bonds and individual purchases of Bonds may be made in book-entry form only. So long as the Bonds are in book-entry only form, purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner of such Bonds, as nominee of DTC, references herein to the Bondholders or registered owners or holders shall mean Cede & Co. and shall not mean the Beneficial Owners (as defined below) of the Bonds.

So long as Cede & Co. is the registered owner of Bonds, principal of, premium, if any, and interest on the Bonds are payable to Cede & Co., as nominee for DTC, which will, in turn, remit such amounts to the DTC Participants (as defined below) for subsequent disbursement to the Beneficial Owners. See "— Book-Entry System" below.

The Bank of New York Trust Company of Florida, N.A. is the trustee under the Indenture. The principal corporate trust office of The Bank of New York Trust Company of Florida, N.A. is currently located in Atlanta, Georgia. The Trustee may be removed at any time by the holders of a majority in aggregate principal amount of the Bonds at the time outstanding. Any resignation of the Trustee will become effective upon the acceptance of appointment by the successor Trustee. See "THE TRUSTEE AND THE AUCTION AGENT" below.

**Interest**

During any Auction Rate Period, interest shall be payable to the registered holder of the Bonds as of the Record Date (as defined below) by check mailed by first-class mail on the Interest Payment Date to such holder's registered address. When the Bonds are held in book-entry form, such payments will be made to DTC as record owner (see "— Book-Entry System" below).

"Interest Payment Date" means, except as otherwise provided in Appendix B, with respect to Bonds in an Auction Rate Period, the Business Day immediately following each Auction Period, and, in addition, for an Auction Period of more than 91 days, each 13th Thursday after the first day of such Auction Period. "Record Date" means, for Bonds bearing interest at an Auction Mode Rate, the second Business Day immediately preceding an Interest Payment Date.

**Auction Agent**

The Trustee and the Company will enter into the Auction Agreement initially with The Bank of New York, pursuant to which, The Bank of New York, as agent for the Trustee, shall perform the duties of Auction Agent. The Auction Agreement will provide, among other things, that the Auction Agent will determine the Auction Mode Rate for each Auction in accordance with the Auction Procedures.

**Auction Date**

An Auction to determine the interest rate with respect to the Bonds for the next succeeding Auction Period will be held (i) on each Business Day while such Bonds are in a one-day Auction Period and (ii) if the Bonds are in an Auction Period of any other length, on the Business Day next preceding each Interest Payment Date for such Bonds. The first Auction for the Bonds will take place on May 19, 2003.

**Orders by Existing Owners and Potential Owners**

The procedure for submitting orders prior to the Submission Deadline on each Auction Date is described in Appendix B, as are the particulars with regard to the determination of the Auction Mode Rate and the allocation of Bonds bearing interest at an Auction Mode Rate (collectively, the "Auction Procedures").

**Amendment of Auction Procedures**

During any Auction Rate Period, the provisions of the Indenture concerning the Auction Procedures including, without limitation, the definitions of All Hold Rate, Interest Payment Date, Maximum Auction Rate,

Reference Rate, Applicable Percentage and Auction Mode Rate, may be amended by obtaining the consent of the owners of all the Bonds bearing interest at an Auction Mode Rate. All owners of Bonds affected by an amendment will be deemed to have consented thereto if, on the first Auction Date occurring at least 20 days after the Trustee mailed notice to such owners, (i) the Auction Mode Rate determined for such date is the Winning Bid Rate and (ii) there is delivered to the Company and the Trustee an Opinion of Tax Counsel to the effect that such amendment will not adversely affect the validity of the Bonds or any exemption from federal income tax to which the interest on the Bonds would otherwise be entitled.

**Conversion from Auction Mode Rate Determination Method**

At the option of the Company, the Bonds may be converted to bear interest at a Daily Rate, a Weekly Rate, a Commercial Paper Rate, an Index Rate or a Long-Term Interest Rate. On the Conversion Date applicable to the Bonds, the Bonds shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The purchase price of the Bonds so tendered is payable solely from the proceeds of the remarketing of such Bonds. In the event that the conditions of a conversion are not satisfied, including the failure to remarket all such Bonds, the Bonds will not be subject to mandatory tender, will be returned to their owners, will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Auction Rate. It is currently anticipated that, should any of the Bonds be converted to bear interest at a Daily Rate, a Weekly Rate, a Commercial Paper Rate, an Index Rate or a Long-Term Interest Rate, a new reoffering memorandum or reoffering circular will be distributed describing the Bonds while they bear interest at any such interest rate.

**Conversion from One Auction Period to Another**

During any Auction Rate Period, the Company may, from time to time, on an Interest Payment Date, change the length of the Auction Period with respect to all of the Bonds. Any such change in the Auction Period shall be deemed to be a change in Determination Method and will cause the Bonds to be subject to mandatory tender as described under "— Conversion from Auction Mode Rate Determination Method" above. In the event of a failed conversion to another Auction Period due to the lack of Sufficient Clearing Bids in accordance with the Indenture or the Company's failure to deliver a Favorable Opinion of Tax Counsel, the Bonds will not be subject to mandatory tender, will be returned to their owners, will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Auction Rate. In connection with a change in the length of the Auction Period, written notice of such change will be given in accordance with the Auction Procedures.

**Special Considerations Relating to the Bonds Bearing Interest at an Auction Mode Rate**

The Auction Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days' notice or 45 days' notice, if it has not been paid, to MBFC, the Company and the Trustee and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon five Business Days' notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible to hold Auctions.

The Broker-Dealer Agreement provides that a Broker-Dealer may submit an Order in Auctions for its own account. If a Broker-Dealer submits an Order for its own account in any Auction, it might have an advantage over other Bidders in that it would have knowledge of Orders placed through it in that Auction; such Broker-Dealer, however, would not have knowledge of Orders submitted by other Broker-Dealers (if any) in that Auction. In the Broker-Dealer Agreement, Broker-Dealers agree to handle customer orders in accordance with their respective duties under applicable securities laws and rules. Initially J.P. Morgan Securities Inc. is the only Broker-Dealer. The Company may retain other Broker-Dealers from time to time or terminate any Broker-Dealer upon not less than five Business Days' notice.

During an Auction Rate Period, a beneficial owner of a Bond may sell, transfer or dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures (see "Appendix B — AUCTION PROCEDURES") or through a Broker-Dealer. The ability to sell a Bond in an Auction may be adversely affected if

there are not sufficient buyers willing to purchase all the Bonds at a rate equal to or less than the Maximum Auction Rate. J.P. Morgan Securities Inc. has advised MBFC and the Company that it intends initially to make a market in the Bonds between Auctions; however, J.P. Morgan Securities Inc. is not obligated to make or maintain such markets, and no assurance can be given that secondary markets therefor will develop.

**Security**

The Bonds are limited special obligations of MBFC, payable by MBFC solely from and secured by an assignment and pledge by MBFC to the Trustee of its right to payments by the Company pursuant to the Note.

MBFC has assigned to the Trustee, for the benefit of the holders of the Bonds, all its right, title and interest in and to the Agreement and the Note and all amounts payable thereunder (except for certain amounts payable under the Agreement in respect of indemnification and certain fees and expenses). The payments by the Company under the Note are required to be made to the Trustee and to be equal, together with other moneys available therefor, to the amount of principal, premium, if any, and interest required to be paid on the Bonds, whether at stated maturity, upon redemption or declaration, or otherwise.

The Bonds and the interest thereon shall not be deemed to constitute a debt or general obligation or a pledge of the faith and credit of the State of Mississippi or any political subdivision thereof. Neither the State of Mississippi nor any political subdivision thereof nor MBFC shall be obligated to pay the principal of the Bonds, the interest thereon or other costs incident thereto except from the revenues and receipts pledged therefor, and neither the faith and credit nor the taxing power of the State of Mississippi or any political subdivision thereof is pledged to the payment of the principal of the Bonds or the interest thereon or other costs incident thereto.

**Determination Methods**

Pursuant to the Indenture, the Bonds may bear interest at a Daily Rate, Weekly Rate, Commercial Paper Rate, Long-Term Interest Rate, Auction Mode Rate or Index Rate. The Bonds shall bear interest at an Auction Mode Rate, or, upon conversion as described above under "— Conversion from Auction Mode Rate Determination Method," at another interest rate as provided by the Indenture.

THIS OFFICIAL STATEMENT DOES NOT PROVIDE ANY INFORMATION REGARDING THE BONDS AFTER THE DATE, IF ANY, ON WHICH THE BONDS CONVERT TO BEAR INTEREST AT INTEREST RATES OTHER THAN AN AUCTION MODE RATE.

**Optional Tender**

While the Bonds bear interest at an Auction Mode Rate, the owner of a Bond does not have the option to require the purchase of his Bonds.

**Mandatory Tender**

The Bonds are subject to mandatory tender upon 15 days' prior written notice to each Bondholder at a purchase price equal to 100% of the principal amount of the Bonds, plus accrued interest, on the effective date of any change in Determination Method, subject to the successful remarketing of such Bonds. See "— Conversion from Auction Mode Rate Determination Method" above.

**Optional Redemption**

During an Auction Rate Period, the Bonds may be redeemed in whole or in part at the option of the Company, on the first day after the last day of the Auction Period then in effect.

**Extraordinary Optional Redemption**

The Bonds are subject to redemption in whole at any time prior to maturity at the redemption price equal to the principal amount thereof plus accrued interest to the redemption date, but without premium at any time, upon

receipt by the Trustee and MBFC of a written notice from the Company stating that the Company has determined that:

(a) any federal, state or local body exercising governmental or judicial authority has taken any action which results in the imposition of unreasonable burdens or excessive liabilities with respect to the Project or the Plant, rendering impracticable or uneconomical the operation by the Company of either the Project or the Plant, including, without limitation, the condemnation or taking by eminent domain of all or substantially all of the Project or the Plant; or

(b) changes in the economic availability of raw materials, operating supplies or facilities or technological or other changes have made the continued operation of the Plant as an efficient generating facility uneconomical; or

(c) the Project or the Plant has been damaged or destroyed to such an extent that it is not practicable or desirable to rebuild, repair or restore the Project or the Plant.

**Notice of Redemption**

At least 30 days before the redemption date of any Bonds, the Trustee shall cause a notice of any such redemption to be mailed first-class, postage prepaid, to all registered owners of Bonds to be redeemed at their addresses as they appear on the registration books maintained by the Trustee. No further interest will accrue on the principal of any Bonds called for redemption after the redemption date if notice has been duly given and payment of the redemption price thereof and accrued interest has been duly provided for, and the owners of such Bonds will have no rights with respect to such Bonds except to receive payment of the redemption price thereof and interest accrued to the redemption date.

**Book-Entry System**

DTC will act as securities depository (the "Securities Depository") for the Bonds. The Bonds will be offered as fully-registered bonds registered in the name of Cede & Co., DTC's partnership nominee, or such other name as may be requested by an authorized representative of DTC. One fully-registered global Bond certificate will be issued in the aggregate principal amount of the Bonds, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants ("Participants") deposit with DTC. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission (the "Commission"). More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co, or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any DTC nominee) will consent or vote with respect to Bonds. Under its usual procedures, DTC would mail an Omnibus Proxy to MBFC as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Company or the Trustee on the relevant payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with the securities held for the account of customers registered in "street name," and will be the responsibility of such Participant and not of DTC, the Company, the Trustee or MBFC, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

The requirement for physical delivery of the Bonds in connection with a mandatory tender for purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Underwriter's DTC account.

DTC may discontinue providing its services as Securities Depository with respect to the Bonds at any time by giving reasonable notice to MBFC or the Trustee. Under such circumstances, in the event that a successor Securities Depository is not obtained, Bond certificates are required to be printed and delivered. Additionally, the Company may decide to discontinue use of the system of book-entry transfers through DTC (or any successor Securities Depository) with respect to the Bonds. In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that MBFC, the Company and the Trustee believe to be reliable, but neither MBFC, the Company, the Trustee nor the Underwriter takes any responsibility for the accuracy thereof. Neither MBFC, the Company nor the

Trustee has any responsibility for the performance of DTC or its Participants of their respective obligations as described herein or under the rules and procedures governing their respective operations.

In the event that the book-entry system is discontinued, a holder may transfer or exchange the Bonds in accordance with the Indenture. The Trustee will require a holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture.

Except in connection with the purchase of Bonds tendered for purchase, the Trustee is not required to transfer or exchange any Bond which has been called for redemption or during the period beginning 15 days before mailing a notice of redemption of the Bonds or any portion of the Bonds and ending on the redemption date. In addition, in case of such discontinuance, an additional or co-paying agent may be designated.

## THE AGREEMENT

### Issuance of the Bonds

MBFC will issue the Bonds and loan the proceeds of the sale thereof to the Company, which proceeds will be applied as described under "USE OF BOND PROCEEDS; REFUNDING OF OUTSTANDING BONDS" above.

### Repayment of the Loan and Other Amounts Payable

In order to evidence the Loan and the Company's obligation to repay the same, the Company will issue a Note in the same principal amount as the Bonds and having the same stated maturity and interest rate. Pursuant to the Note, the Company will pay to the Trustee, as assignee of MBFC, amounts which, and at or before times which, shall correspond to the payments in respect of principal of, premium, if any, and interest on the Bonds whenever and in whatever manner the same shall become due, whether at stated maturity, upon redemption or declaration or otherwise. The Company will also pay the purchase price of Bonds required to be purchased under the terms of the Indenture. In the event there are available moneys on deposit with the Trustee on any payment date, such moneys shall be credited against the payment then due.

The Company will also pay: (i) the fees, charges and reasonable expenses of the Trustee and any paying agents and tender agents under the Indenture; (ii) the fees, charges and reasonable expenses of MBFC; (iii) all amounts owed under the Arbitrage Rebate Agreement, including, without limitation, the Rebate Requirement; and (iv) any expenses in connection with any redemption of the Bonds and the Prior Bonds.

### Term of Agreement

The Agreement shall continue in full force and effect until such time as all of the outstanding Bonds have been fully paid or provision has been made for such payment in accordance with the Indenture, whichever shall be earlier, and the fees and expenses of the Trustee, MBFC and any paying agents and all other amounts payable by the Company under the Agreement and the Note shall have been paid.

### Obligations of the Company Unconditional

The Company agrees that its obligations to make payments pursuant to the Note and to perform and observe the other agreements on its part contained in the Agreement are absolute and unconditional notwithstanding, among other things, changes in the tax law or other law of the United States of America or the State of Mississippi or failure by MBFC to perform its obligations under the Agreement.

### Assignment and Pledge

MBFC will assign the Note and the Agreement and all amounts payable thereunder (except for certain payments under the Agreement in respect of indemnification and certain fees and expenses) to the Trustee as security for the Bonds. The Company will assent to such assignment and will agree that, as to the Trustee, its obligation to make payments will be absolute and not subject to any defense or any right of set-off, counterclaim or

recoupment arising out of any breach by MBFC or the Trustee of any obligation to the Company, whether under the Agreement or otherwise, or out of any indebtedness or liability at any time owing to the Company by MBFC or the Trustee.

**Consolidation, Merger or Sale of Assets**

The Company may consolidate with or merge into another domestic corporation (i.e., a corporation incorporated and existing under the laws of one of the states of the United States of America or under the laws of the United States of America) or permit other corporations to consolidate with or merge into it, or sell or otherwise transfer to another domestic corporation all or substantially all of its assets as an entirety and thereafter dissolve, provided, in the event the Company is not the surviving, resulting or transferee corporation, that the surviving, resulting or transferee corporation assumes, accepts and agrees in writing to pay and perform all of the obligations of the Company under the Agreement and the Note and is incorporated in or qualified to do business in Mississippi and that such consolidation, merger or transfer of assets does not result in the loss of the exclusion from gross income for federal income tax purposes of interest on the outstanding Bonds.

**Defaults and Remedies; Force Majeure**

The Agreement provides that the happening of one or more of the following events will constitute an "Event of Default": (a) failure by the Company to pay when due the amounts required to be paid pursuant to the Note, which failure, in the case of such amounts in respect of interest on any Bond, continues for five days; (b) failure by the Company to pay within 30 days of the date due any other amounts required to be paid pursuant to the Agreement; (c) failure by the Company to observe and perform any other of its covenants, conditions or agreements under the Agreement for a period of 90 days after written notice from MBFC or the Trustee, unless extended; and (d) certain events of bankruptcy, insolvency, dissolution, liquidation, winding-up, reorganization or other similar events of the Company.

Under the terms of the Agreement, certain of the Company's obligations referred to in clause (c) of the preceding paragraph may be suspended if by reason of force majeure (as defined in the Agreement) the Company is unable to carry out such obligations.

Whenever an Event of Default shall have occurred and be continuing, the Trustee may (a) declare all amounts payable pursuant to the Note to be immediately due and payable and (b) take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due under the Note, or to enforce performance and observance of any obligation, agreement or covenant of the Company under the Agreement.

Any amounts collected pursuant to any above action taken will be deposited with the Trustee and applied in accordance with the provisions of the Indenture, or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the provisions of the Indenture) and the fees and expenses of the Trustee, paying agents and tender agents and all other amounts required to be paid under the Indenture shall have been paid, to the Company.

**Amendment of the Agreement**

Prior to the payment of the Bonds in full (or provision for the payment thereof having been made in accordance with the provisions of the Indenture), the Agreement may not be terminated and may not be effectively amended, changed or modified except in accordance with the Indenture. See "THE INDENTURE — Amendment of the Agreement" below.

**Permitted Investments**

Except as otherwise provided in the Indenture, any moneys held by the Trustee shall be invested and reinvested by the Trustee, at the direction of the Company, in: (a) Government Obligations (as defined under "— Defeasance" below); (b) bonds and notes of the Federal Land Bank; (c) obligations of the Federal Intermediate Credit Bank; (d) obligations of the Federal Bank for Cooperatives; (e) bonds and notes of Federal Home Loan Banks; (f) negotiable or non-negotiable certificates of deposit, time deposits or similar banking arrangements, issued by a bank or trust company (which may be the commercial banking department of the Trustee or any bank or trust company under common control with the Trustee) or savings and loan association which are insured by the Federal Deposit Insurance Corporation or secured as to principal by Government Obligations; or (g) other investments then permitted by law.

**Default Under the Indenture**

The following shall be "Events of Default" under the Indenture: (a) default in the payment of any interest on any Bond outstanding under the Indenture when due and as the same shall become due and payable, which default continues for five days; (b) default in the due and punctual payment of principal on any Bond when due and payable, whether at maturity, upon redemption, or by declaration or otherwise; (c) default in the due and punctual payment of the purchase price of any Bond required to be purchased in accordance with its terms; and (d) the occurrence and continuance of an "Event of Default" under the Agreement.

**Remedies Under the Indenture**

Upon the occurrence of an Event of Default, the Trustee may, and upon written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding shall, by notice in writing to MBFC and the Company, declare the principal of all Bonds then outstanding and the interest accrued thereon immediately due and payable and such principal and interest shall thereupon become and be immediately due and payable.

If, after the principal of the Bonds has been declared due and payable, all arrears of interest and principal and premium, if any, having become due other than by acceleration are paid by MBFC, and MBFC also performs all other things in respect of which it may have been in default under the Indenture and pays the reasonable charges of the Trustee and other costs, the Trustee shall annul such declaration and such annulment shall be binding upon all holders of the Bonds issued under the Indenture; but no such annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

If an Event of Default occurs and is continuing, subject to the Indenture, the Trustee before or after declaring the principal of the Bonds and the interest accrued thereon immediately due and payable may, and upon request of the holders of at least 25% in principal amount of the Bonds then outstanding shall, pursue any available remedy by proceeding at law or in equity available to the Trustee under the Agreement or the Note to collect the principal of or interest on the Bonds or to enforce the performance of any provision of the Bonds, the Indenture, the Agreement or the Note. The Trustee, as the assignee of all the right, title and interest of MBFC in and to the Agreement and the Note, may enforce each and every right granted to MBFC under the Agreement and the Note. In exercising such rights and the rights given the Trustee under the Indenture, the Trustee shall take such action as, in the judgment of the Trustee applying the standards described in the Indenture, would best serve the interests of the Bondholders. If any Event of Default has occurred and is continuing, the Trustee in its discretion may, and upon the written request of the holders of not less than 25% in principal amount of all Bonds then outstanding and receipt of indemnity to its satisfaction shall in its own name: (a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, including the right to require MBFC to enforce any rights under the Agreement and the Note and to require MBFC to carry out any other provisions of the Indenture for the benefit of the Bondholders and to perform its duties under the Act; (b) bring suit upon the Bonds; (c) by action or suit in equity require MBFC to account as if it were the trustee of an express trust for the Bondholders; or (d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

No remedy conferred upon or reserved to the Trustee or to the Bondholders by the terms of the Indenture is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bondholders under the Indenture or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time as often as may be deemed expedient. No waiver of any default or Event of Default under the Indenture, whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

Upon the occurrence and continuance of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bondholders under the Indenture, the Trustee shall be entitled as a matter of right to the appointment of a receiver or receivers of the trust estate with such powers as the court making such appointment shall confer.

In the event of a bankruptcy or reorganization of the Company, the Trustee may file a proof of claim on behalf of all Bondholders with respect to the obligations of the Company pursuant to the Agreement and the Note.

A Bondholder may not pursue any remedy with respect to the Indenture of the Bonds unless (a) the holder gives the Trustee notice stating that an Event of Default is continuing, (b) the holders of at least 25% in principal amount of the Bonds then outstanding make a written request to the Trustee to pursue the remedy, (c) such holder or holders offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense and (d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity. Nothing contained in the Indenture shall, however, affect or impair the right of any Bondholder to enforce the payment of the principal of, premium, if any, and interest on any Bond after the stated maturity thereof.

A Bondholder may not use the Indenture to prejudice the rights of another Bondholder or to obtain a preference or priority over the other Bondholders.

Notwithstanding any other provision of the Indenture, the right of any holder to receive payment of principal of and interest on a Bond, on or after the due dates expressed in the Bond, or the purchase price of a Bond on or after the date for its purchase as provided in the Bond, or to bring suit for the enforcement of any such payment on or after such dates, shall not be impaired or affected without the consent of the holder.

**Waivers of Events of Default**

The holders of a majority in principal amount of the Bonds then outstanding, by notice to the Trustee, may waive an existing Event of Default and its consequences. When an Event of Default is waived, it is cured and stops continuing, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent to it. The holders of a majority in principal amount of the Bonds then outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of other Bondholders or would involve the Trustee in personal liability.

**Defeasance**

Any Bond will be deemed paid for all purposes of the Indenture when (a) payment of the principal of and interest on the Bond to the due date of such principal and interest at the Maximum Interest Rate (whether at maturity, upon redemption or otherwise) or the payment of the purchase price either (1) has been made in accordance with the terms of the Bonds or (2) has been provided for by depositing with the Trustee in trust (A) moneys in an amount which are sufficient to make such payment and/or (B) Government Obligations maturing as to principal and interest in such amounts and at such times as will insure, without any further investment, the availability of sufficient moneys to make such payment and (b) all compensation and reasonable expenses, without any further reinvestment, of the Trustee pertaining to each Bond in respect of which such deposit is made have been paid or provided for to the Trustee's satisfaction. When a Bond is deemed paid, it will no longer be secured by or

entitled to the benefits of the Indenture or be an obligation of MBFC and shall be payable solely from the moneys or Government Obligations described above, except that such Bond may be tendered if and as provided in the Bonds and it may be registered as transferred, exchanged, registered, discharged from registration or replaced as provided in the Indenture.

Notwithstanding the foregoing, upon the deposit of funds or Government Obligations under clause (a)(2) above, the purchase price of tendered Bonds shall be paid from the sale of Bonds under the Indenture. If payment of such purchase price is not made from the sale of Bonds pursuant to the Indenture, payment shall be made from funds (or Government Obligations) on deposit pursuant to the Indenture without the need of any further instruction or direction by the Company, in which case such Bonds shall be surrendered to the Trustee and cancelled.

Notwithstanding the foregoing, no deposit under clause (a)(2) above shall be deemed a payment of a Bond until (1) the Company has furnished the Trustee an Opinion of Tax Counsel to the effect that the deposit of such cash or Government Obligations will not cause the Bonds to become "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), and (2) (a) notice of redemption of the Bond is given in accordance with the Indenture or, if the Bond is not to be redeemed or paid within the next 60 days, until the Company has given the Trustee, in form satisfactory to the Trustee, irrevocable instructions (i) to notify, as soon as practicable, the owner of the Bond, in accordance with the Indenture, that the deposit required by (a)(2) above has been made with the Trustee and that the Bond is deemed to be paid under the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of the Bond, and premium, if any, and interest on such Bond, if the Bond is to be redeemed rather than paid and (ii) to give notice of redemption not less than 30 nor more than 60 days prior to the redemption date for such Bond or (b) the maturity of the Bond.

"Government Obligations" means (i) noncallable direct obligations of the United States for which its full faith and credit are pledged, (ii) noncallable obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States or (iii) securities or receipts evidencing ownership interests in obligations or specified portions (such as principal or interest) of obligations described in (i) or (ii).

**Amendment of the Indenture**

Any amendment of the Indenture will be effected by a supplemental indenture entered into by MBFC and the Trustee. MBFC and the Trustee may enter into supplemental indentures without notice to or the consent of any Bondholder for the following purposes: (a) to cure any ambiguity, inconsistency, formal defect or omission; (b) to grant to the Trustee for the benefit of the Bondholders additional rights, remedies, powers or authority; (c) to subject to the Indenture additional collateral or to add other agreements of MBFC; (d) to modify the Indenture or the Bonds to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States; (e) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to the Indenture regarding exchangeability of the Bonds of different authorized denominations, redemptions of portions of the Bonds of particular authorized denominations and similar amendments and modifications of a technical nature; (f) to increase the number of days specified for the giving of notices of mandatory tender and to make corresponding changes to the period for notice of redemption of the Bonds; (g) to provide for an uncertificated system of registering the Bonds or to provide for the change to or from a Book-Entry System for the Bonds; (h) to evidence the succession of a new Trustee or the appointment by the Trustee or MBFC of a co-trustee; (i) to make any change that does not materially adversely affect the rights of any Bondholder; or (j) to make any other changes to the Indenture that take effect as to any or all remarketed Bonds following a mandatory tender.

Except for supplemental indentures entered into for the purposes described in the preceding paragraph, the Indenture will not be modified or amended without the consent of the holders of at least a majority in aggregate principal amount of Bonds at the time outstanding thereunder; provided that without the consent of each Bondholder affected thereby, no amendment or supplement may (a) extend the maturity of the principal of, or interest on, any Bond, (b) reduce the principal amount of, or rate of interest on, any Bond, (c) effect a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (d) reduce the percentage of the principal amount of the Bonds required for consent to such amendment or supplement, (e) impair the exclusion from federal gross income of

interest on any Bond, (f) eliminate the holders' rights to tender the Bonds, or any mandatory redemption or tender of the Bonds, extend the due date for the purchase of Bonds tendered by the holders thereof or call for mandatory redemption or tender or reduce the purchase or redemption price of such Bonds, (g) create a lien ranking prior to or on a parity with the lien of the Indenture on the property described in the Granting Clause of the Indenture or (h) deprive any Bondholder of the lien created by the Indenture on such property. In addition, if moneys or Government Obligations have been deposited or set aside with the Trustee for the payment of Bonds as described under "— Defeasance" above and those Bonds shall not have in fact been actually paid in full, no amendment to the defeasance provisions of the Indenture shall be made without the consent of the holder of each of those Bonds affected.

**Amendment of the Agreement**

MBFC may enter into, and the Trustee may consent to, any amendment of or supplement to the Agreement or the Note, or may waive compliance by the Company of any provision of the Agreement or the Note, in each case without notice to or consent of any Bondholder if the amendment, supplement or waiver is required or permitted: (a) by the provisions of the Agreement or the Indenture; (b) to cure any ambiguity, inconsistency, formal defect or omission; (c) to identify more precisely the Project; (d) in connection with any authorized amendment of or supplement to the Indenture or (e) to make any change that in the judgment of the Trustee does not materially adversely affect the rights of any Bondholder.

Any other amendment, change or supplement of the Agreement or the terms of the Note may be entered into with the consent of the holders of at least a majority in aggregate principal amount of the Bonds at the time outstanding.

## THE TRUSTEE AND THE AUCTION AGENT

The Bank of New York Trust Company of Florida, N.A. serves as trustee under other indentures providing for certain tax-exempt bonds for the benefit of the Company. The Bank of New York serves as the Auction Agent. The Company and certain of its affiliates maintain banking relationships with The Bank of New York and borrow from such bank from time to time. The Bank of New York Trust Company of Florida, N.A. and The Bank of New York serve as trustee under other indentures with, or for the benefit of, affiliates of the Company.

## UNDERWRITING

Pursuant to an agreement with MBFC, J.P. Morgan Securities Inc. (the "Underwriter") has agreed, subject to certain conditions, to purchase the Bonds from MBFC at a purchase price equal to 100% of the aggregate principal amount thereof.

In consideration of such purchase, the Company will pay to the Underwriter a fee of $101,762.50. The nature of the Underwriter's obligation is such that if it purchases any Bonds, it must purchase all the Bonds. After the Bonds are released for sale to the public, the offering price and other selling terms may from time to time be varied by the Underwriter and such Bonds may be offered and sold to certain dealers (including dealers depositing such Bonds into investment accounts) and others at prices lower than the public offering price set forth on the cover page hereof. The Company has agreed to indemnify the Underwriter and MBFC against certain liabilities relating to this Official Statement, including certain liabilities under federal securities laws.

In connection with this offering and in compliance with applicable law and industry practice, the Underwriter may overallot or effect transactions which stabilize, maintain or otherwise affect the market price of the Bonds at levels above those which might otherwise prevail in the open market, including by entering stabilizing bids. A stabilizing bid means the placing of any bid, or the effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of a security. In general, purchases of a security for the purpose of stabilization could cause the price of the security to be higher than it might be in the absence of such purchases.

None of MBFC, the Company or the Underwriter makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, none of MBFC, the Company or the Underwriter makes any representation that the Underwriter will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

In the ordinary course of their respective businesses, the Underwriter and its affiliates have engaged, and may in the future engage, in investment banking and commercial banking transactions with the Company and its affiliates.

## TAX EXEMPTION

The Code and the Internal Revenue Code of 1954, as amended (the "1954 Code"), establish certain requirements which must be met concurrently with, and subsequent to, the issuance of the Bonds, in order that the interest on the Bonds be and remain excludable from gross income under the Code and the 1954 Code. At the time of issuance and delivery of the Bonds, MBFC, the Company and the Trustee will make certain representations, certifications and covenants which are intended to evidence and assure that the interest on the Bonds is and will be excludable from gross income for federal income tax purposes. In the event of the inaccuracy of such representations and certifications, or the non-compliance with such covenants, interest on the Bonds may be required to be included in the gross income of the recipients thereof retroactively to the date of issuance of the Bonds.

On the date of issuance and delivery of the Bonds, McGlinchey Stafford, PLLC, Jackson, Mississippi, Bond Counsel, will deliver its opinion to the effect that the interest on the Bonds, under existing statutes, regulations and judicial decisions, is excluded from gross income for federal income tax purposes, except for interest on any Bond during any period while it is held by a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(13) of the 1954 Code. In addition, Bond Counsel's opinion will state that under existing laws interest on the Bonds will not be treated as a specific preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations, but such interest will be includable in adjusted current earnings in computing the federal alternative minimum tax imposed on certain corporations. The opinion of Bond Counsel will state its reliance upon the accuracy of the representations and certifications of MBFC, the Company and the Trustee made at the time of issuance of the Bonds, and the continued compliance with the covenants related to the exclusion of interest on the Bonds from gross income for federal income tax purposes. The opinion of Bond Counsel will not address any other federal tax consequences relating to the Bonds or the interest thereon.

Although Bond Counsel will deliver its opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, ownership of the Bonds and the accrual or receipt of interest thereon may otherwise affect a Bondholder's federal tax liability. The nature and extent of these other tax consequences will depend upon the Bondholder's particular status under the Code and the 1954 Code, and the Bondholder's other items of income or deduction.

On the date of the issuance of the Bonds, Escambia County, Florida ("Escambia County") will issue and deliver its Pollution Control Revenue Refunding Bonds (Gulf Power Company Project), Series 2003 in the aggregate principal amount of $32,550,000 (the "Escambia Bonds"). The proceeds of the Escambia Bonds will be loaned by Escambia County to the Company to currently redeem certain bonds previously issued by Escambia County to refinance facilities owned by the Company and located in the State of Florida. Under the provisions of the Code, the Bonds and the Escambia Bonds may be aggregated and treated as a single issue of bonds for federal income tax purposes and the exclusion of the interest on the Bonds from gross income for federal income tax purposes may be dependent upon whether the interest on the Escambia Bonds is excluded from gross income for federal income tax purposes. Contemporaneously with the issuance and delivery of the Escambia Bonds, Balch & Bingham LLP, Birmingham, Alabama, and Miller, Canfield, Paddock & Stone PLC, Pensacola, Florida, will deliver their opinions as co-bond counsel to the effect that the interest on the Escambia Bonds is excludable from gross income for federal income tax purposes. McGlinchey Stafford, PLLC, as Bond Counsel for the Bonds, will express no opinion relating to the Escambia Bonds.

In the opinion of Bond Counsel, under the Act, the Bonds and interest thereon are exempt from all income taxes imposed by the State of Mississippi and any county, municipality and other political subdivision of the State of Mississippi. Bond Counsel will be paid by the Company.

## SECONDARY MARKET INFORMATION

No financial statements or operating data concerning MBFC are included in this Official Statement and MBFC has not undertaken to provide any such information in the future.

Solely for the purpose of enabling the Underwriter to comply with the requirements of Rule 15c2-12(b)(5) under the Securities Exchange Act of 1934, as in effect on the date hereof (the "Rule"), the Company has undertaken (but only to the extent required for compliance with valid and effective provisions of the Rule), for the benefit of the holders of the Bonds, to provide the persons specified below (i) not later than 100 days after the end of each fiscal year of the Company, the Company's Annual Report to the Commission on Form 10-K (or any successor form), excluding any exhibits or documents incorporated by referenced therein, other than (if applicable) the audited financial statements appearing in the Company's annual report to shareholders (the "Form 10-K"), or, if the Form 10-K is no longer required, audited annual financial statements of the Company of the type incorporated by reference in Appendix A hereto (the "Audited Financial Statements"), and (ii) in a timely manner, notice of the occurrence of certain events enumerated in the Rule, if material (the "Company's Undertaking").

The Form 10-K (or, if required, the Audited Financial Statements) shall be provided to each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") recognized by the Commission for purposes of the Rule and to the Mississippi State Information Depository ("MSID"), if one shall be established for the purposes of the Rule, and the notices of certain events shall be provided to each NRMSIR or to the Municipal Securities Rulemaking Board and to the MSID, if any.

Neither MBFC nor its members, officers or employees have any responsibility or liability for the sufficiency, performance or enforcement of the Company's Undertaking. The Company and its directors, officers, employees and shareholders shall have no liability under the Company's Undertaking for any act or failure to act; a failure to perform the Company's Undertaking shall not constitute an Event of Default under the Agreement, an event of default under the Indenture or a default under the Note or any Bond; and the sole remedy shall be specific enforcement of the Company's Undertaking by the Trustee or by such persons, if any, as the Rule may require to be entitled to enforce the same. The Company reserves the right to (a) contest the validity of the Rule and (b) modify its performance of the Company's Undertaking, to the extent not inconsistent with valid and effective provisions of the Rule.

## LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving opinion of McGlinchey Stafford, PLLC, Jackson, Mississippi, as Bond Counsel. Copies of such opinion will be available at the time of delivery of the Bonds. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income for federal income tax purposes of interest thereon, will be passed upon for the Company by its counsel, Beggs & Lane, a Registered Limited Liability Partnership, Pensacola, Florida, and Troutman Sanders LLP, Atlanta, Georgia, for the Underwriter by its counsel, Dewey Ballantine LLP, New York, New York, and for MBFC by its counsel, Balch & Bingham LLP, Gulfport, Mississippi.

The Bonds will be validated by a decree rendered by the Chancery Court of the First Judicial District of Hinds County, Mississippi.

## MISCELLANEOUS

Information, including certain financial statements, relating to the business and properties of the Company is contained or incorporated by reference in Appendix A to this Official Statement and is hereby made a part hereof.

This Official Statement has been duly approved by:

MISSISSIPPI BUSINESS FINANCE CORPORATION

By _____/s/ William T. Barry_____
Executive Director

# APPENDIX A

## GULF POWER COMPANY

**THE INFORMATION CONTAINED HEREIN AS AN APPENDIX TO THE OFFICIAL STATEMENT HAS BEEN OBTAINED FROM GULF POWER COMPANY**

## GULF POWER COMPANY

Gulf Power Company (the "Company") is a wholly-owned subsidiary of The Southern Company ("Southern"), a holding company registered under the Public Utility Holding Company Act of 1935, as amended. The Company was incorporated under the laws of the State of Maine on November 2, 1925 and admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976 and in Georgia on November 20, 1984. The Company is engaged, within the northwestern portion of Florida, in generation and purchase of electricity and the distribution and sale of such electricity at retail in 71 communities as well as in rural areas, at wholesale to a nonaffiliated utility and to a municipality. The mailing address of the Company's principal executive offices is One Energy Place, Pensacola, Florida 32520-0100, and the telephone number is (850) 444-6111.

## AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "SEC"). Such reports and other information can be inspected and copied upon payment of a fee set by the SEC at a public reference room of the SEC in Washington, D.C. (450 Fifth Street, N.W., 20549). The SEC may be contacted at 1-800-732-0330 for information on the public reference room. Reports of the Company are also available on the internet through the SEC's EDGAR database at the SEC's website at http://www.sec.gov. Certain securities of the Company are listed on the New York Stock Exchange, and reports and other information concerning the Company can be inspected at the office of such Exchange.

## INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents, which have heretofore been filed by the Company with the SEC pursuant to the Exchange Act, are incorporated by reference in this Appendix and shall be deemed to be a part hereof:

1. Annual Report on Form 10-K for the year ended December 31, 2002.

2. Current Report on Form 8-K dated March 21, 2003.

All documents subsequently filed by the Company with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the termination of the offering hereunder shall be deemed to be incorporated by reference in this Appendix and to be made a part hereof from their respective dates of filing. Any statement contained in a document incorporated or deemed to be incorporated by reference herein as aforesaid shall be deemed to be modified or superseded for purposes of this Appendix to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Appendix.

**The Company hereby undertakes to provide without charge to each person to whom a copy of this Official Statement has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated by reference in this Appendix, other than exhibits to such documents. Requests for such copies should be directed to W. E. Tate, Vice President, Secretary and Treasurer, Gulf Power Company, One Energy Place, Pensacola, Florida 32520-0100, (850) 444-6111.**

## SELECTED INFORMATION

The following material, which is presented herein solely to furnish limited introductory information regarding the Company, has been selected from, or is based upon, the detailed information and financial statements appearing in the documents incorporated herein by reference or elsewhere in this Appendix, is qualified in its entirety by reference thereto and, therefore, should be read together therewith.

### Gulf Power Company

| | |
|---|---|
| Business | Generation, transmission, distribution and sale of electric energy |
| Service Area | Approximately 7,400 square miles within the northwestern portion of Florida |
| Customers at December 31, 2002 | 383,923 |
| Generating Capacity at December 31, 2002 (kilowatts) | 2,808,550 |
| Sources of Generation during 2002 (kilowatt-hours) | Coal (82%), Gas (18%) |

### Selected Financial Information

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 |
| | (Thousands, Except Ratios) | | | | |
| Operating Revenues | $650,518 | $647,099 | $714,319 | $725,203 | $820,467 |
| Earnings Before Income Taxes | 89,356 | 86,515 | 82,607 | 89,716 | 104,397 |
| Net Income After Dividends on Preferred Stock | 56,521 | 53,667 | 51,843 | 58,307 | 67,036 |
| Ratio of Earnings to Fixed Charges (1) | 3.83 | 3.62 | 3.38 | 3.64 | 3.52 |

| | Capitalization as of December 31, 2002 | | |
|---|---|---|---|
| | Actual | As Adjusted(2) | |
| | (Thousands, Except Percentages) | | |
| Common Stock Equity | $549,505 | $559,505 | 47 6% |
| Cumulative Preferred Stock | 4,236 | 4,236 | 0.4 |
| Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Company Junior Subordinated Notes | 155,000 | 115,000 | 9.8 |
| Senior Notes | 216,757 | 281,757 | 24.0 |
| Other Long-Term Debt | 235,283 | 215,283 | 18.2 |
| Total, excluding amounts due within one year | $1,160,781 | $1,175,781 | 100.0% |

(1) This ratio is computed as follows: (i) "Earnings" have been calculated by adding to "Earnings Before Income Taxes" "Interest Expense, Net of Amounts Capitalized," "Distributions on Preferred Securities of Subsidiary" and the debt portion of allowance for funds used during construction; and (ii) "Fixed Charges" consist of "Interest Expense, Net of Amounts Capitalized," "Distributions on Preferred Securities of Subsidiary" and the debt portion of allowance for funds used during construction.

(2) Reflects (i) the receipt in January 2003 of $10,000,000 in capital contributions from Southern; (ii) the redemption in January 2003 of $40,000,000 aggregate liquidation amount of Gulf Power Capital Trust I 7.625% Cumulative Quarterly Income Preferred Securities; (iii) the issuance in March 2003 of $65,000,000 aggregate principal amount of Series F 5.60% Senior Insured Quarterly Notes due April 1, 2033; and (iv) the proposed redemption in April 2003 of $20,000,000 aggregate principal amount of Series B 7.50% Junior Subordinated Notes due June 30, 2037.

## RISK FACTORS

Investing in the securities and obligations of the Company involves risk. Please see the risk factors described in the Company's Annual Report on Form 10-K for the year ended December 31, 2002, which is incorporated by reference into this Official Statement. Before making an investment decision, an investor should carefully consider these risks as well as other information contained or incorporated by reference in this Official Statement. The risks and uncertainties described are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair its business operations, its financial results and the value of its securities.

# APPENDIX B

## AUCTION PROCEDURES

**Definitions**

In addition to the words and terms elsewhere defined in this Official Statement, the following words and terms as used in this Appendix B and elsewhere in this Official Statement have the following meanings while the Bonds are in an Auction Rate Period unless the context or use indicates another or different meaning or intent:

"Agent Member" means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

"All Hold Rate" means, as of any Auction Date, 45% of the Reference Rate in effect on such Auction Date.

"Applicable Percentage" means, as of any Auction Date, (a) so long as there has not been more than one Failed Auction since the last Successful Auction, 300%; and (b) if there have been two or more consecutive Failed Auctions since the last Successful Auction, 400%.

"Auction" means each periodic implementation of the Auction Procedures.

"Auction Agent" means the auctioneer appointed in accordance with this Appendix B and shall initially be The Bank of New York.

"Auction Agreement" means an agreement among the Company, the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in this Appendix B with respect to the Bonds while bearing interest at an Auction Mode Rate, as such agreement may from time to time be amended or supplemented.

"Auction Date" means during any period in which the Auction Procedures are not suspended in accordance with the provisions hereof, (i) if the Bonds are in a daily Auction Period, each Business Day, and (ii) if the Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to the Bonds in an Auction Period other than a daily Auction Period shall be the earlier of (a) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Bonds and (b) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Bonds; and provided, further, that if the Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the Conversion Date for the Bonds and (y) the Business Day next preceding the final maturity date for the Bonds. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion. The first Auction Date for the Bonds is May 19, 2003.

"Auction Mode Rate" means the rate of interest to be borne by the Bonds during each Auction Period determined in accordance with this Appendix B; provided, however, in no event may the Auction Mode Rate exceed the Maximum Auction Rate.

"Auction Period" or "Auction Rate Period" means any period of less than 365 days during which the Bonds bear interest at a single Auction Mode Rate, as established pursuant to the Indenture.

"Auction Procedures" means the procedures for conducting Auctions for Bonds during an Auction Rate Period set forth in this Appendix B.

"Auction Rate" means for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the Bonds are the subject of Submitted Hold Orders, the All Hold Rate and (ii) if Sufficient Clearing Bids do not exist, the Maximum Auction Rate.

"Authorized Denominations" means $1,000 and integral multiples thereof, notwithstanding anything else in the Indenture to the contrary, so long as the Bonds bear interest at an Auction Mode Rate.

"Available Bonds" means on each Auction Date, the aggregate principal amount of Bonds that are not the subject of Submitted Hold Orders.

"Bid" has the meaning specified in this Appendix B.

"Bidder" means each Existing Owner and Potential Owner who places an Order.

"Broker-Dealer" means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Appendix B, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Company and that is a party to a Broker-Dealer Agreement with the Company and the Auction Agent.

"Broker-Dealer Agreement" means an agreement among the Auction Agent, the Company and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Appendix B, as such agreement may from to time be amended or supplemented.

"Business Day" in addition to any other definition of "Business Day" included in the Indenture while Bonds bear interest at an Auction Mode Rate, the term Business Day shall not include April 14 or 15 or December 30 or 31 or days on which the Auction Agent or any Broker-Dealer are not open for business.

"Conversion Date" means the date on which the Bonds begin to bear interest at a Daily Rate, a Weekly Rate, a Commercial Paper Rate, a Long-Term Interest Rate or an Index Rate.

"Existing Owner" means a Person who is listed from time to time as the beneficial owner of Bonds in the records of the Auction Agent.

"Failed Auction" means an Auction for which there were not Sufficient Clearing Bids.

"Hold Order" has the meaning specified in this Appendix B.

"Initial Period" means the period from the date of original issuance of the Bonds to but not including May 20, 2003.

"Interest Payment Date" with respect to Bonds bearing interest at Auction Mode Rates, means May 20, 2003 and thereafter (a) when used with respect to any Auction Period of fewer than 92 days (other than a daily Auction Period), the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to an Auction Period of 92 or more days, each 13th Thursday after the first day of such Auction Period or the next Business Day if such Thursday is not a Business Day and on the Business Day immediately following such Auction Period, (d) each Conversion Date and (e) the Maturity Date.

"Maximum Auction Rate" means, as of any Auction Date, the product of the Reference Rate multiplied by the Applicable Percentage; provided, however, that if there have been two or more consecutive Failed Auctions since the last Successful Auction and there has not been a Successful Auction for a period of greater than 90 days after the first of such Failed Auctions, the Maximum Auction Rate shall be the Maximum Interest Rate; provided, further that in no event shall the Maximum Auction Rate exceed the Maximum Interest Rate.

"Maximum Interest Rate" means 13% on the date hereof and, to the extent the maximum rate permitted by applicable law shall become less than 13%, then the maximum rate permitted by applicable law.

"Moody's" means Moody's Investors Service, Inc and its successors and assigns.

"Order" means a Hold Order, Bid or Sell Order.

"Potential Owner" means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Bonds in addition to the Bonds currently owned by such Person, if any.

"Principal Office" means, with respect to the Auction Agent, the office thereof designated in writing to the Company, the Trustee and each Broker-Dealer.

"Rating Agencies" means Moody's and S&P.

"Reference Rate" shall have the meaning specified in this Appendix B.

"S&P" means Standard & Poor's, a division of The McGraw-Hill Companies, and its successors and assigns.

"Securities Depository" means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Company which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

"Sell Order" has the meaning specified in this Appendix B.

"Submission Deadline" means 1:00 p.m., New York City time, on each Auction Date not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent.

"Submitted Bid" has the meaning specified in this Appendix B.

"Submitted Hold Order" has the meaning specified in this Appendix B.

"Submitted Order" has the meaning specified in this Appendix B.

"Submitted Sell Order" has the meaning specified in this Appendix B.

"Successful Auction" means an Auction for which there were Sufficient Clearing Bids.

"Sufficient Clearing Bids" means an Auction for which the aggregate principal amount of Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Interest Rate is not less than the aggregate principal amount of Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Interest Rate.

"Winning Bid Rate" means the lowest rate specified in any Submitted Bid which if selected by the Auction Agent as the Auction Rate, subject to the All Hold Rate, would cause the aggregate principal amount of Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Bonds.

## AUCTION PROCEDURES

### General Procedures

While the Bonds bear interest at the Auction Mode Rate, Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding each Auction Rate Period commencing after the ownership of the Bonds is no longer maintained in the book-entry system described in the Indenture). If there is an Auction Agent on such Auction Date, Auctions shall be conducted in the manner set forth in this Appendix B.

### Orders by Existing Owners and Potential Owners

(a) Prior to the Submission Deadline on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, information as to:

(A) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period,

(B) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period shall not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner irrevocably offers to sell on the next succeeding Auction Date (or the same day in the case of a daily Auction Period) if the rate determined by the Auction Procedures for the next succeeding Auction Period shall be less than the rate per annum then specified by such Existing Owner), and/or

(C) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably offers to sell on the next succeeding Auction Date (or on the same day in the case of a daily Auction Period) without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period; and

(ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the Bonds, the Broker-Dealers shall contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of Bonds, if any, which each such Potential Owner irrevocably offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof an Order containing the information referred to in clause (i)(A) above is herein referred to as a "Hold Order," an Order containing the information referred to in clause (i)(B) or (ii) above is herein referred to as a "Bid" and an Order containing the information referred to in clause (i)(C) above is herein referred to as a "Sell Order."

(b) (i) Subject to the provisions of this Appendix B, a Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds to be determined as set forth herein if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate; or

(C) a lesser principal amount of Bonds to be determined as set forth herein if such specified rate shall be higher than the Maximum Auction Rate and Sufficient Clearing Bids do not exist.

(ii) Subject to the provisions of this Appendix B, a Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of Bonds as set forth herein if Sufficient Clearing Bids do not exist.

(iii) Subject to the provisions of this Appendix B, a Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(A) the principal amount of Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds as set forth herein if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies Bonds to be held, purchased or sold in a principal amount which is not $1,000 or an integral multiple thereof shall be rounded down to the nearest $1,000, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) for purposes of any Auction other than during a daily Auction Period, any portion of an Order of an Existing Owner which relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted; and

(iii) for purposes of any Auction other than during a daily Auction Period, no portion of a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction.

**Submission of Orders by Broker-Dealers to Auction Agent**

(a) Each Broker-Dealer shall submit to the Auction Agent in writing or by such other method as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and specifying, with respect to each Order:

(i) the name of the Bidder placing such Order;

(ii) the aggregate principal amount of Bonds, if any, that are the subject of such Order;

(iii) to the extent that such Bidder is an Existing Owner:

(A) the principal amount of Bonds, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of Bonds, if any, subject to any Sell Order placed by such Existing Owner; and

(iv) to the extent such Bidder is a Potential Owner, the rate and amount specified in such Potential Owner's Bid.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If an Order or Orders covering all of the Bonds held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds held by such Existing Owner and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to another Auction Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of Bonds to be converted held by such Existing Owner, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds to be converted held by such Existing Owner not subject to Orders submitted to the Auction Agent.

(d) If one or more Orders covering in the aggregate more than the principal amount of outstanding Bonds held by any Existing Owner are submitted to the Auction Agent, such Orders shall be considered valid as follows and in the following order of priority:

(i) all Hold Orders shall be considered valid Hold Orders, but only up to and including in the aggregate the principal amount of Bonds held by such Existing Owner, and if the aggregate principal amount of Bonds subject to such Hold Orders exceeds the aggregate principal amount of Bonds held by such Existing Owner, the aggregate principal amount of Bonds subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of outstanding Bonds held by such Existing Owner;

(ii) (A) any Bid of an Existing Owner shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of Bonds held by such Existing Owner over the aggregate principal amount of the Bonds subject to Hold Orders referred to in paragraph (i) above;

(B) subject to sub-clause (A) of this paragraph (ii), all Bids of an Existing Owner with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of Bonds held by such Existing Owner over the principal amount of Bonds held by such Existing Owner subject to Hold Orders referred to in sub-paragraph (i) of this paragraph (d);

(C) subject to sub-clause (A) of this paragraph (ii), if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of Bonds held by such Existing Owner over the principal amount of Bonds held by such Existing Owner subject to Hold Orders referred to in sub-paragraph (i) of this paragraph (d); and

(D) the principal amount, if any, of such Bonds subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Owner at the rate specified therein; and

(iii) all Sell Orders shall be considered valid Sell Orders, but only up to and including a principal amount of Bonds equal to the excess of the principal amount of Bonds held by such Existing Owner over the sum of the principal amount of the Bonds considered to be subject to Hold Orders pursuant to sub-paragraph (i) of this paragraph (d) and the principal amount of Bonds considered to be subject to Bids of such Existing Owner pursuant to sub-paragraph (ii) of this paragraph (d).

(e) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate shall be aggregated and considered a single Bid and each Bid submitted with a different rate shall be considered a separate Bid with the rate and the principal amount of Bonds specified therein.

(f) Any Bid submitted by an Existing Owner or a Potential Owner specifying a rate lower than the All Hold Rate shall be treated as a Bid specifying the All Hold Rate, and any such Bid shall be considered as valid and shall be selected in ascending order of the respective rates in the Submitted Bids.

(g) Neither MBFC, the Company, the Trustee, the Remarketing Agent nor the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

**Determination of Auction Mode Rate**

(a) Not later than 9:30 a.m., New York City time, on each Auction Date, the Auction Agent shall advise the Broker-Dealers and the Trustee by telephone or other electronic means of the All Hold Rate, the Maximum Auction Rate and the Reference Rate.

(b) Promptly after the Submission Deadline on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids and (iii) the Auction Rate.

(c) Promptly after the Auction Agent has made the determinations pursuant to subsection (b) above, the Auction Agent shall advise the Trustee and the Company by telex, facsimile or other electronic transmission of the Auction Rate for the next succeeding Auction Period and the Trustee shall promptly notify DTC of such Auction Rate.

(d) In the event the Auction Agent fails to calculate or, for any reason, fails to timely provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a period of 35 days or less, the new Auction Period shall be the same as the preceding Auction Period and the Auction Mode Rate for the New Auction Period shall be the same as the Auction Mode Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 35 days, the preceding Auction Period shall be extended to the seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the Auction Mode Rate in effect for the preceding Auction Period will continue in effect for the Auction Period as so extended. In the event an Auction Period is extended as set forth in clause (ii) of the preceding sentence, an Auction shall be held on the last Business Day of the Auction Period as so extended to take effect for an Auction Period beginning on the Business Day immediately following the last day of the Auction Period as extended which Auction Period will end on the date it would otherwise have ended on had the prior Auction Period not been extended.

(e) In the event of a failed conversion from an Auction Mode Rate Determination Method to another Determination Method or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Mode Rate for the next Auction Period shall be the Maximum Auction Rate and the Auction Period shall be a seven-day Auction Period.

(f) If the Bonds are not rated or if the Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the Auction Mode Rate shall be the Maximum Auction Rate.

**Allocation of the Bonds**

(a) In the event of Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted, and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of Bonds obtained by

multiplying (A) the aggregate principal amount of Bonds outstanding which are not the subject of Submitted Hold Orders described in sub-paragraph (i) of this paragraph (a) or of Submitted Bids described in sub-paragraphs (iii) and (iv) of this paragraph (a) by (B) a fraction the numerator of which shall be the principal amount of Bonds outstanding held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of Bonds outstanding subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Bonds outstanding which are not the subject of Submitted Hold Orders described in sub-paragraph (i) of this paragraph (a) or of Submitted Bids described in sub-paragraphs (iii), (iv) or (v) of this paragraph (a) by (B) a fraction the numerator of which shall be the principal amount of Bonds outstanding subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of Bonds outstanding subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Auction Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Auction Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Auction Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Bonds subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the principal amount of Bonds outstanding held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of Bonds outstanding subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Auction Rate shall be rejected.

(c) If, as a result of the procedures described in subsection (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of Bonds which is not an integral multiple of $1,000 on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of Bonds purchased or sold

by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of $1,000, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Bonds on such Auction Date.

(d) If, as a result of the procedures described in subsection (a) above, any Potential Owner would be required to purchase less than $1,000 in principal amount of Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate Bonds for purchase among Potential Owners so that the principal amount of Bonds purchased on such Auction Date by any Potential Owner shall be an integral multiple of $1,000, even if such allocation results in one or more of such Potential Owners not purchasing Bonds on such Auction Date.

**Notice of Auction Mode Rate**

(a) On each Auction Date, the Auction Agent shall notify by telephone or other electronic means or in writing each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Owner or Potential Owner of the following:

(i) the Auction Mode Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of the Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Mode Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected and (C) the immediately succeeding Auction Date;

(ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of Bonds to be purchased pursuant to such Bid (including, with respect to the Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Bonds; and

(iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected in whole or in part to instruct such Existing Owner's Agent

Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

**Reference Rate**

(a) The Reference Rate on any Auction Date with respect to Bonds in any Auction Period of 35 days or less shall be the greater of (a) the offered rate for deposits in U.S. dollars for a one-month period (LIBOR) which appears on the MoneyLine Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market, or (b) the BMA Index at approximately 9:30 a.m., New York time, on such date. The Reference Rate with respect to Bonds in any Auction Period of more than 35 days shall be the rate on Treasury securities having a maturity which most closely approximates the length of the Auction Period, as last published in The Wall Street Journal. If either rate is unavailable, the Reference Rate shall be an index or rate agreed to by all Broker-Dealers and consented to by the Company.

(b) If for any reason on any Auction Date the Reference Rate shall not be determined as hereinabove provided in this section, the Reference Rate shall be the Reference Rate for the Auction Period ending on such Auction Date.

(c) The determination of the Reference Rate as provided herein shall be conclusive and binding upon MBFC, the Company, the Trustee, the Remarketing Agent, the Broker-Dealers, the Auction Agent and the Owners and Beneficial Owners of the Bonds.

**Miscellaneous Provisions Regarding Auctions**

(a) In this Appendix B, each reference to the purchase, sale or holding of Bonds shall refer to beneficial interests in Bonds, unless the context clearly requires otherwise.

(b) During an Auction Rate Period, the provisions of the Indenture and the definitions contained therein and described in this Appendix B, including, without limitation, the definitions of All Hold Rate, Interest Payment Date, Maximum Auction Rate, Reference Rate, Applicable Percentage and Auction Mode Rate, may be amended pursuant to the Indenture by obtaining the consent of the owners of all Bonds bearing interest at a Auction Mode Rate, as follows. If, on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the registered owners of the Bonds as required by the Indenture, (i) the Auction Mode Rate which is determined on such date is the Winning Bid Rate and (ii) there is delivered to the Company and the Trustee an Opinion of Tax Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income tax to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the owners of all affected Bonds affected by such amendment.

(c) During an Auction Rate Period, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the Existing Owner of such Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this section if such Broker-Dealer remains the Existing Owner of the Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

**Changes in Auction Period or Auction Date**

(a) Changes in Auction Period.

(i) During any Auction Rate Period, the Company, may, from time to time on any Interest Payment Date, change the length of the Auction Period with respect to all of the Bonds in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Bonds. Any such change in the Auction Period shall be deemed

to be a change in Determination Method. The Company shall initiate the change in the length of the Auction Period by giving a conversion notice pursuant to Section 2.02(b)(1) of the Indenture.

(ii) The change in the length of the Auction Period shall not be effective unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this subsection (a) and the Auction immediately preceding the proposed change.

(iii) The change in length of the Auction Period shall take effect only if (i) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period and (ii) on the proposed effective date, the Company provides the Trustee with a Favorable Opinion of Tax Counsel as to such change in the Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds except to the extent such Existing Owner submits an Order with respect to such Bonds. If the conditions referred to in the first sentence of this sub-paragraph (iii) are not met, the Trustee shall notify the Auction Agent and then the Auction Mode Rate for the next Auction Period shall be the Maximum Auction Rate and the Auction Period shall be a seven-day Auction Period.

(iv) On the conversion date of the Bonds selected for conversion from one Auction Period to another, any Bonds which are not the subject of a specific Hold Order or Bid will be deemed to be subject to a Sell Order.

(b) Changes in Auction Date. During any Auction Rate Period, the Auction Agent, with the written consent of the Company, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the Bonds. The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, MBFC, the Company, the Broker-Dealers, the Remarketing Agent and the Securities Depository.

**Auction Agent**

(a) The Auction Agent shall be The Bank of New York, or any successor appointed by the Company to perform the functions specified herein. The Auction Agent shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument, delivered to the Company, the Trustee, MBFC and each Broker-Dealer which shall set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to MBFC, the Company and the Trustee.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in Bonds with the same rights as if such entity were not the Auction Agent.

**Qualifications of Auction Agent; Resignation; Removal**

The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least $30,000,000 or (b) a member of NASD having a capitalization of at least $30,000,000 and, in either case, authorized by law to perform all the duties and obligations imposed upon it by the Indenture and a member of or a participant in the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least 90 days' notice to the Company, MBFC and the Trustee. The Auction Agent may be removed at any time by the Company by written notice, delivered to the Auction Agent, MBFC and the Trustee. Upon any such resignation or removal, the Company shall appoint a successor Auction Agent meeting the requirements of this section. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties hereunder until its successor has been appointed by the Company. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving

forty-five (45) days' notice to the Company, MBFC and the Trustee even if a successor Auction Agent has not been appointed.

EXHIBIT C.9.


BEGGS & LANE
A REGISTERED LIMITED LIABILITY PARTNERSHIP
ATTORNEYS AND COUNSELLORS AT LAW
POST OFFICE BOX 12950
PENSACOLA, FLORIDA 32591-2950

501 COMMENDENCIA STREET
PENSACOLA, FLORIDA 32501-5641
TELEPHONE (850) 432-2451
TELECOPIER (850) 469-3330

JAMES M WEBER
JOHN F WINDHAM
J NIXON DANIEL, III
RALPH A PETERSON
GARY B LEUCHTMAN
JOHN P DANIEL
JEFFREY A STONE
JAMES S CAMPBELL
RUSSELL F VAN SICKLE
RUSSELL A BADDERS
MARY JANE THIES
DAVID L McGEE
CHARLES T WIGGINS
THOMAS F GONZALEZ
DAVID E HIGHTOWER
WILLIAM H MITCHEM
PETER J MOUGEY
R ANDREW KENT
ELIZABETH C CALLAHAN
TERRIE L DIDIER

W SPENCER MITCHEM
*Of Counsel*

E DIXIE BEGGS
1908-2001

BERT H LANE
1917-1981


April 15, 2003

J.P. Morgan Securities Inc.
New York, New York

Mississippi Business Finance Corporation
Jackson, Mississippi

The Bank of New York Trust Company of Florida, N.A., as Trustee
Atlanta, Georgia

McGlinchey Stafford, PLLC
Jackson, Mississippi

Re: $29,075,000 Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project)

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with the purchase by J.P. Morgan Securities Inc. (the "Underwriter") of $29,075,000 aggregate principal amount of Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) (the "Bonds"), pursuant to the Purchase Contract dated April 14, 2003 (the "Purchase Contract"), between the Mississippi Business Finance Corporation (the "Issuer") and the Underwriter.

We have examined (i) the Official Statement dated April 9, 2003 relating to the Bonds, including Appendix A thereto (the "Official Statement"), which incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002 and the Current Report on Form 8-K of the Company dated March 21, 2003, (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) the Trust Indenture relating to the Bonds, dated as of April 1, 2003 (the "Trust Indenture") between the Issuer and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"); (iii) the Loan Agreement dated as of April 1, 2003 (the "Agreement") between the Issuer and the Company; (iv) the promissory note dated April 15, 2003

(the "Note") in the aggregate principal amount of $29,075,000 issued by the Company pursuant to the Agreement; (v) the Purchase Contract; (vi) the Letter of Representation dated April 14, 2003 (the "Letter of Representation") among the Company, the Issuer and the Underwriter; (vii) the Auction Agreement (the "Auction Agreement") dated as of April 1, 2003, among the Company, the Trustee and The Bank of New York, as auction agent (the "Auction Agent"); and (viii) the Broker-Dealer Agreement dated as of April 1, 2003 (the "Broker-Dealer Agreement") among the Company, the Auction Agent and J.P. Morgan Securities Inc., as the broker-dealer. In addition, we have examined, and have relied as to matters of fact upon, the documents delivered at the closing (except the Bonds of which we have examined a specimen), and upon originals or copies, certified or otherwise identified to our satisfaction, of such corporate records, agreements, documents and other instruments and such certificates or comparable documents of public officials and of officers and representatives of the Issuer and the Company, and have made such other and further investigations, as we deemed relevant and hereinafter set forth.

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Georgia law and the federal law of the United States upon the opinion dated the date hereof rendered to you by Troutman Sanders LLP, relying as to matters of Mississippi law upon the opinion dated the date hereof rendered to you by Balch & Bingham LLP and relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP, that:

1. The Company is a corporation duly organized and existing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged to own and operate the properties owned and used by it in such business.

2. The Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Letter of Representation and the Note have been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery thereof by other parties thereto, constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Letter of Representation and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) and by any principles of public policy limiting the right to enforce the indemnification provisions contained in the Broker-Dealer Agreement and the Letter of Representation.

3. The statements made in the Official Statement under the captions "The Bonds", "The Agreement" and "The Indenture", insofar as they purport to constitute summaries of the terms of documents referred to therein, constitute accurate summaries of the terms of such documents in all material respects; provided that no opinion is expressed with respect to the information contained under the heading "The Bonds - Book-Entry System."

4. All orders, consents or other authorizations or approvals of the Securities and Exchange Commission (the "Commission") and the Florida Public Service Commission legally required for the issuance of the Note and with respect to the authorization, execution and delivery of the Agreement by the Company have been obtained; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance of the Note or the authorization, execution and delivery of the Agreement by the Company.

5. The execution and delivery of the Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Note and the Letter of Representation by the Company will not result in a breach of or constitute a default under the Charter or by-laws of the Company or any indenture, mortgage, deed of trust, agreement or other instrument, of which we have knowledge, to which the Company is a party or by which is or any of its property is bound or any order, rule or regulation applicable to the Company of any court or other governmental body having jurisdiction over the Company or any of its property.

We have no knowledge of any material litigation or proceedings pending or threatened which challenge the validity of the Note, the Agreement, the Auction Agreement, the Broker-Dealer Agreement or the Letter of Representation, or which seek to enjoin the performance of the Company's obligations thereunder.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Official Statement or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraph 3 above. In the course of the preparation by the Issuer and the Company of the Official Statement, we participated in conferences with certain officers and employees of the Company, with representatives of Deloitte & Touche LLP, with other counsel for the Company, with your counsel and with Bond Counsel. In addition, in the course of the preparation by the Company of the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with your counsel and with representatives of Deloitte & Touche LLP. Based upon our examination of the Official Statement and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion or belief as to the financial statements or other financial or statistical data contained or incorporated by reference in the Exchange Act Documents, and (ii) we have no reason to believe that the Official Statement (including the Exchange Act Documents) contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Official Statement or the Exchange Act Documents or with respect to the information in the Official Statement under the captions "MBFC," "The Bonds – Book-Entry System," "Underwriting" and "Tax Exemption".

We are members of the Florida Bar and we do not express any opinion herein concerning any law other than the law of the States of Florida and Maine, and to the extent set forth herein, the laws of the States of Georgia, Mississippi, New York and the federal law of the United States.

This opinion is rendered to you in connection with the above described transaction. This opinion may not be relied upon by you for any other purpose, or relied upon by, or furnished to, any other person, firm or corporation without our prior written consent, except that Dewey Ballantine LLP and Troutman Sanders LLP may rely on this opinion in giving their opinions pursuant to Section 6 of the Purchase Contract insofar as such opinions relate to matters of Florida and Maine law.

Very truly yours,

Beggs & Lane

BEGGS & LANE

TROUTMAN SANDERS LLP
ATTORNEYS AT LAW
A LIMITED LIABILITY PARTNERSHIP

BANK OF AMERICA PLAZA
600 PEACHTREE STREET, N E - SUITE 5200
ATLANTA, GEORGIA 30308-2216
www troutmansanders com
TELEPHONE 404-885-3000
FACSIMILE 404-885-3900

April 15, 2003

J.P. Morgan Securities Inc.
New York, New York

Mississippi Business Finance Corporation
Jackson, Mississippi

The Bank of New York Trust Company of Florida, N.A., as Trustee
Atlanta, Georgia

McGlinchey Stafford, PLLC
Jackson, Mississippi

Re: $29,075,000 Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project)

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with the purchase by J.P. Morgan Securities Inc. (the "Underwriter") of $29,075,000 aggregate principal amount of Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) (the "Bonds"), pursuant to the Purchase Contract dated April 14, 2003 (the "Purchase Contract"), between the Mississippi Business Finance Corporation (the "Issuer") and the Underwriter.

We have examined (i) the Official Statement dated April 9, 2003 relating to the Bonds, including Appendix A thereto (the "Official Statement"), which incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002 and the Current Report on Form 8-K of the Company dated March 21, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) the Trust Indenture relating to the Bonds, dated as of April 1, 2003 (the "Trust Indenture") between the Issuer and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"); (iii) the Loan Agreement dated as of April 1, 2003 (the "Agreement") between the Issuer and the Company; (iv) the promissory note dated April 15, 2003

(the "Note") in the aggregate principal amount of $29,075,000 issued by the Company pursuant to the Agreement; (v) the Purchase Contract; (vi) the Letter of Representation dated April 14, 2003 (the "Letter of Representation") among the Company, the Issuer and the Underwriter; (vii) the Auction Agreement (the "Auction Agreement") dated as of April 1, 2003, among the Company, the Trustee and The Bank of New York, as auction agent (the "Auction Agent"); and (viii) the Broker-Dealer Agreement dated as of April 1, 2003 (the "Broker-Dealer Agreement") among the Company, the Auction Agent and J.P. Morgan Securities Inc., as the broker-dealer. In addition, we have examined, and have relied as to matters of fact upon, the documents delivered at the closing (except the Bonds of which we have examined a specimen), and upon originals or copies, certified or otherwise identified to our satisfaction, of such corporate records, agreements, documents and other instruments and such certificates or comparable documents of public officials and of officers and representatives of the Issuer and the Company, and have made such other and further investigations, as we deemed relevant and hereinafter set forth.

In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Maine and Florida law upon the opinion dated the date hereof rendered to you by Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane"), relying as to matters of Mississippi law upon the opinion dated the date hereof rendered to you by Balch & Bingham LLP and relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP, that:

1. The Company is a corporation duly organized and existing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged and to own and operate the properties used by it in such business.

2. The Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Letter of Representation and the Note have been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery thereof by other parties thereto, constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement, the Letter of Representation, the Broker-Dealer Agreement, the Auction Agreement and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws

relating to or affecting creditors' rights generally, by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) and by any principles of public policy limiting the right to enforce the indemnification provisions contained in the Broker-Dealer Agreement and the Letter of Representation.

3. The statements made in the Official Statement under the captions "The Bonds," "The Agreement" and "The Indenture," insofar as they purport to constitute summaries of the terms of documents referred to therein, constitute accurate summaries of the terms of such documents in all material respects; provided that no opinion is expressed with respect to the information contained under the heading "The Bonds — Book-Entry System."

4. All orders, consents or other authorizations or approvals of the Securities and Exchange Commission (the "Commission") and the Florida Public Service Commission legally required for the issuance of the Note and with respect to the authorization, execution and delivery of the Agreement by the Company have been obtained; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance of the Note or the authorization, execution and delivery of the Agreement by the Company.

5. The Bonds are exempted securities within the meaning of Section 3(a)(2) of the Securities Act of 1933, as amended (the "Act"), and it is not necessary in connection with the sale of the Bonds to the public to register the Bonds or the Note under the Act or to qualify the Trust Indenture under the Trust Indenture Act of 1939, as amended.

In rendering the opinion expressed in paragraph 5 above, we have relied upon the legal opinion dated the date hereof, rendered by McGlinchey Stafford, PLLC, Bond Counsel, pursuant to the Purchase Contract as to the exclusion from gross income for federal income tax purposes of interest on the Bonds and have made no independent investigation with respect to such exclusion.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Official Statement or the Exchange Act Documents and take no responsibility therefor except as and to the extent set forth in paragraph 3 above. In the course of the preparation by the Issuer and the Company of the Official Statement, we participated in conferences with certain officers and employees of the Company, with representatives of Deloitte & Touche LLP, with other counsel for the Company, with your counsel and with Bond Counsel. In addition, in the course of the preparation by the Company of the Exchange Act Documents, we

participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with your counsel and with representatives of Deloitte & Touche LLP. Based upon our examination of the Official Statement and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in this case we express no opinion or belief as to the financial statements or other financial or statistical data contained or incorporated by reference in the Exchange Act Documents, and (ii) we have no reason to believe that the Official Statement (including the Exchange Act Documents) contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Official Statement or the Exchange Act Documents or with respect to the information in the Official Statement under the captions "MBFC," "The Bonds — Book-Entry System," "Underwriting" and "Tax Exemption."

We are members of the State Bar of Georgia and we do not express any opinion herein concerning any law other than the law of the State of Georgia and the federal law of the United States and, to the extent set forth herein, the laws of the States of Florida, Mississippi, Maine and New York.

This opinion is rendered to the addressees hereto in connection with the above described transaction. This opinion may not be relied upon by the addressees hereto for any other purpose, or relied upon by, or furnished to, any other person, firm or corporation without our prior written consent except that Dewey Ballantine LLP and Beggs & Lane may rely on this opinion in giving their opinions pursuant to Section 6 of the Purchase Contract insofar as such opinions relate to matters of Georgia law and except that Beggs & Lane may rely on this opinion in giving its opinion pursuant to Section 6 of the Purchase Contract insofar as such opinion relates to the federal law of the United States.

Very truly yours,

Troutman Sanders LLP

TROUTMAN SANDERS LLP

McGLINCHEY STAFFORD PLLC

ATTORNEYS AT LAW

JACKSON
NEW ORLEANS
HOUSTON
BATON ROUGE
CLEVELAND
MONROE



April 15, 2003

Gulf Power Company
Pensacola, Florida

The Bank of New York Trust
Company of Florida, N.A., as Trustee
Atlanta, Georgia

J.P. Morgan Securities Inc.
New York, New York

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the sale and issuance by the Mississippi Business Finance Corporation (the "Issuer"), a public corporation duly created and validly existing pursuant to the Constitution and laws of the State of Mississippi, of its Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) in the aggregate principal amount of $29,075,000 (the "Series 2003 Bonds"). In connection therewith, we have examined (a) the Trust Indenture, dated as of November 1, 1993 (the "1993 Indenture"), between the Issuer and Hancock Bank, as Trustee (the "Prior Trustee"), (b) the Trust Indenture, dated as of February 1, 1996 (the "1996 Indenture"), between the Issuer and the Prior Trustee, (c) the Company's Irrevocable Letter of Instructions Concerning the 1993 Bonds, dated the date hereof, from Gulf Power Company (the "Company") to the Issuer and the Prior Trustee relating to the use of a portion of the proceeds of the Series 2003 Bonds delivered to the Prior Trustee for deposit in a special trust fund in accordance with the 1993 Indenture (the "1993 Bond Fund"), (d) the Company's Irrevocable Letter of Instructions Concerning the 1996 Bonds, dated the date hereof, from the Company to the Issuer and the Prior Trustee relating to the use of a portion of the proceeds of the Series 2003 Bonds delivered to the Prior Trustee for deposit in a special trust fund in accordance with the 1996 Indenture (the "1996 Bond Fund"), (e) the Company's Irrevocable Direction to Redeem the 1993 Bonds, dated the date hereof, from the Company to the Issuer and the Prior Trustee and (f) the Company's Irrevocable Direction to Redeem 1996 Bonds, dated the date hereof, from the Company to the Issuer and the Prior Trustee.

As to the adequacy or sufficiency of the money held by the Prior Trustee in the 1993 Bond Fund to pay amounts due on the $7,875,000 Mississippi Business Finance Corporation Water Pollution Control Revenue Refunding Bonds, Series 1993 (Gulf Power Company Project) (the "1993 Bonds") on their redemption on May 15, 2003, we express no view, but with your permission, we have relied as to such matters on the Company's Certificate Concerning the 1993 Bonds, dated the date hereof, and on representations made by the Company concerning the payment from Company funds of the interest payment due on the 1993 Bonds on May 1, 2003.

As to the adequacy or sufficiency of the money held by the Prior Trustee in the 1996 Bond Fund to pay amounts due on the $21,200,000 Mississippi Business Finance Corporation Pollution Control

Revenue Refunding Bonds, Series 1996 (Gulf Power Company Project) (the "1996 Bonds") on their redemption on May 15, 2003, we express no view, but with your permission, we have relied as to such matters on the Company's Certificate Concerning the 1996 Bonds, dated the date hereof.

Based upon our examination, it is our opinion that the requirements in Section 7.01 of the 1993 Indenture for the release of the lien of the 1993 Indenture with respect to the 1993 Bonds have been met.

Based upon our examination, it is our opinion that the requirements in Section 7.01 of the 1996 Indenture for the release of the lien of the 1996 Indenture with respect to the 1996 Bonds have been met.

This opinion is furnished by us to use solely for your benefit and it is not to be used, circulated, quoted or otherwise referred to for any purpose other than in connection with the current refunding of the 1993 Bonds and the 1996 Bonds on May 15, 2003.

Very truly yours,

McGlinchey Stafford, PLLC

ODMA\PCDOCS\JACKSON\129738\7
April 11, 2003/#70583 006

EXHIBIT C.12.

BALCH & BINGHAM LLP
ATTORNEYS AND COUNSELORS
POST OFFICE BOX 130
GULFPORT, MISSISSIPPI 39502-0130
(228) 864-9900

WRITER'S OFFICE
1310 TWENTY FIFTH AVENUE
GULFPORT, MISSISSIPPI 39501-7748
FACSIMILE (228) 864-8221

DIRECT DIAL TELEPHONE

April 15, 2003

J.P. Morgan Securities Inc.
New York, New York

Mississippi Business Finance Corporation
Jackson, Mississippi

McGlinchey Stafford PLLC
Jackson, Mississippi

The Bank of New York Trust Company of Florida, N.A., as Trustee
Atlanta, Georgia

Re: $29,075,000 Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project)

Ladies and Gentlemen:

We are the attorneys for the Mississippi Business Finance Corporation (the "Issuer") and have represented the same in connection with the sale by the Issuer of $29,075,000 aggregate principal amount of its Pollution Control Revenue Refunding Bonds, Series 2003 (Gulf Power Company Project) (the "Bonds") to the Underwriter named in the Purchase Contract dated April 14, 2003, between the Underwriter and the Issuer (the "Purchase Contract"). In connection therewith, we have examined: (i) resolutions of the Issuer adopted on February 19, 2003 and March 19, 2003 (collectively, the "Resolution"), relating to the issuance and sale of the Bonds, (ii) Trust Indenture, dated as of April 1, 2003 (the "Indenture") between the Issuer and The Bank of New York Trust Company of Florida, N.A., as trustee (the "Trustee"), relating to the issuance of the Bonds, (iii) Loan Agreement, dated as of April 1, 2003 (the "Agreement") between Gulf Power Company (the "Company") and the Issuer and (iv) promissory note dated April 15, 2003 (the "Note") in the principal amount of $29,075,000 issued by the Company pursuant to the Agreement. In addition to the above, we have examined the documents delivered to the Underwriter by the Issuer at the closing, except the Bonds.

Further, we have reviewed the authority pursuant to which the Bonds are being issued, Sections 57-10-201 *et seq.*, Mississippi Code of 1972, as amended and supplemented (the "Act") and have

concluded that the proceedings, documents, and resolutions referred to herein have met the requirements of the Act.

Based upon the foregoing and our review of such other information, papers and documents as we believe necessary to enable us to render this opinion, we are of the opinion that:

1. The Issuer is a public corporation organized and existing under the laws of the State of Mississippi and is authorized to exercise the powers conferred by the Act.

2. The Issuer has full legal right, power and authority (i) to adopt the Resolution, (ii) to enter into the Purchase Contract, the Agreement and the Indenture, (iii) to issue, sell and deliver the Bonds to the Underwriter as provided in the Purchase Contract, (iv) to accept the Letter of Representation from the Company dated April 14, 2003 (the "Letter of Representation") and (v) to carry out and consummate all other transactions contemplated by each of the aforesaid documents, and the Issuer has complied with the provisions of the Act in all matters relating to such transactions.

3. The Issuer has duly authorized (i) the execution, delivery and due performance of the Purchase Contract, the Bonds, the Agreement, and the Indenture, (ii) the execution and delivery of the Official Statement dated April 9, 2003 relating to the Bonds by the Issuer, (iii) the lending of the proceeds of the Bonds to the Company under the terms of the Agreement, (iv) the acceptance of the Letter of Representation, and (v) the taking of any and all such actions as may be required on the part of the Issuer to carry out, give effect to and consummate the transactions contemplated by such instruments.

4. The Resolution has been duly adopted by the Issuer and constitutes the legal, valid and binding act of the Issuer and has not been in any way amended, modified, rescinded or revoked.

5. The adoption of the Resolution, the execution and delivery of the Purchase Contract, the Bonds, the Agreement and the Indenture and the endorsement of the Note and the acceptance of the Letter of Representation, and compliance with the provisions of each of such instruments, will not conflict with or constitute a breach of, or default under, any commitment, agreement or other instrument to which the Issuer is a party or by which it is bound, or under any existing law, rule, regulation, ordinance judgment, order or decree to which the Issuer is subject.

6. There is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body, pending against or affecting the Issuer, wherein an unfavorable decision, ruling or finding, would materially adversely affect the transactions contemplated by the Purchase Contract or the transactions contemplated by the Official Statement, or which in any way would adversely affect the validity of the Resolution or the validity or enforceability of the Bonds, the Indenture, the Agreement or the Purchase Contract.

7. The Issuer has pledged and assigned to the Trustee pursuant to the Indenture all of the Issuer's rights and interests in the Agreement (except for certain payments for indemnification and expenses). The Indenture creates a valid security interest in favor of the Trustee in and to such rights and interests and in and to the trust funds created and held by the Trustee under the Indenture, subject to no prior security interest.

Insofar as this opinion relates to the enforceability of any instrument, it is subject to (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the enforcement of creditors' rights generally from time to time in effect, (ii) applicable laws which may affect the remedies provided therein (which laws, as presently in effect, do not make the remedies in such instruments inadequate for the realization of the benefits provided thereby), and (iii) principles of equity applicable to the enforcement of the remedy of specific performance.

Very truly yours,

Balch & Bingham

Balch & Bingham LLP

EXHIBIT C.14.

**Description of Holder**

*$29,075,000 Auction Rate Mississippi Business Finance Corporation*
*Pollution Control Revenue Refunding Bonds*

| **Name of Underwriters** | **Principal Amount of Bonds** |
|---|---|
| J. P. Morgan Securities, Inc.<br>270 Park Avenue<br>New York, New York 10017 | $ 29,075,000 |

Underwriters Fees: $101,762.50

GULF POWER COMPANY EXHIBIT C.15.

Summary of Debt Expenses in Conjunction with the
Issuance and Sale of $29,075,000 Principal Amount
Mississippi Business Finance Corp. Pollution Control Revenue Refunding Bonds

| Item Number | Issuance Expenses For: | Amount $ |
|---|---|---|
| 1 | Charges of Trustee | 7,294.81 |
| 2 | Printing and Preparation of Registration Statement, Financial Statements, Prospectus, Competitive Bidding Papers, Supplemental Indenture, etc. | 4,890.52 |
| 3 | Fees and Expenses of Counsel | 107,992.39 |
| 4 | Fees of Accountants | 22,620.00 |
| 5 | Rating Fees | 23,662.50 |
| 6 | Expenses of Southern Company Services, Inc. | 2,400.42 |
| 7 | Issuer's Fee and Expenses | 30,530.59 |
| 8 | Miscellaneous Expenses | 386.59 |
| | Total Expenses of Issue | 199,777.82 |
| | Unamortized Discount Expense | 101,762.50 |
| | Total Cost of Issue | $301,540.32 |

$60,000,000 Series G 4.35% Senior Notes

due July 15, 2013

**GULF POWER COMPANY**

UNDERWRITING AGREEMENT

July 14, 2003

Lehman Brothers Inc.
745 Seventh Avenue
New York, New York 10019

Scotia Capital (USA) Inc.
1 Liberty Plaza, 25th Floor
New York, New York 10006

As Representatives of the Underwriters listed on Schedule I hereto.

Ladies and Gentlemen:

Gulf Power Company, a Maine corporation (the "Company"), confirms its agreement (the "Agreement") with you and the other Underwriter named in Schedule I hereto (collectively, the "Underwriters", which term shall also include any underwriter substituted as hereinafter provided in Section 10 hereof) for whom you are acting as representatives (in such capacity you shall hereinafter be referred to as the "Representatives"), with respect to the sale by the Company and the purchase by the Underwriters, acting severally and not jointly, of $60,000,000 aggregate principal amount of the Series G 4.35% Senior Notes due July 15, 2013 (the "Senior Notes") as set forth in Schedule I hereto.

The Company understands that the Underwriters are making a public offering of the Senior Notes pursuant to this Agreement. The Senior Notes will be issued pursuant to an indenture, dated as of January 1, 1998, as heretofore supplemented (the "Base Indenture"), between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), and as further supplemented by a seventh supplemental indenture, dated as of July 22, 2003, to the Base Indenture relating to the Senior Notes (the "Supplemental Indenture" and, together with the Base Indenture and any other amendments or supplements thereto, the "Indenture"), between the Company and the Trustee.

SECTION 1. REPRESENTATIONS AND WARRANTIES. The Company represents and warrants to the Underwriters as follows:

(a) A registration statement on Form S-3 (File Nos. 333-104449, 333-104449-01 and 333-104449-02) in respect of the Senior Notes and certain other securities has been prepared and filed in accordance with the provisions of the Securities Act of 1933, as amended (the "1933 Act"), with the Securities and Exchange Commission (the "Commission"); such registration statement and any post-effective amendment thereto, each in the form heretofore delivered or to be delivered to the Underwriters, has been declared effective by the Commission in such form (except that copies of the registration statement and any post-effective amendment delivered to the Underwriters need not include exhibits but shall include all documents incorporated by reference therein); and no stop order suspending the effectiveness of such registration statement has been issued and no proceeding for that purpose has been initiated or, to the best knowledge of the Company, threatened by the Commission (any preliminary prospectus, as supplemented by a preliminary prospectus supplement, included in such registration statement or filed with the Commission pursuant to Rule 424(a) of the rules and regulations of the Commission under the 1933 Act, being hereinafter called a "Preliminary Prospectus"); such registration statement, as it became effective, including the exhibits thereto and all documents incorporated by reference therein pursuant to Item 12 of Form S-3 at the time such registration statement became effective, being hereinafter called the "Registration Statement"; the prospectus relating to the Senior Notes, in the form in which it was included in the Registration Statement at the time it became effective, being hereinafter called the "Prospectus"; any reference herein to any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the 1933 Act, as of the date of such Preliminary Prospectus or Prospectus, as the case may be; any reference to any amendment or supplement to any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include any documents filed after the date of such Preliminary Prospectus or Prospectus, as the case may be, under the Securities Exchange Act of 1934, as amended (the "1934 Act"), and incorporated by reference in such Preliminary Prospectus or Prospectus, as the case may be; any reference to any amendment to the Registration Statement shall be deemed to refer to and include any annual report of the Company filed pursuant to Section 13(a) or 15(d) of the 1934 Act after the effective date of the Registration Statement that is incorporated by reference in the Registration Statement; and the Prospectus as amended or supplemented in final form by a prospectus supplement relating to the Senior Notes in the form in which it is filed with the Commission, pursuant to Rule 424(b) under the 1933 Act in accordance with Section 3(e) hereof, including any documents incorporated by reference therein as of the date of such filing, being hereinafter called the "Final Supplemented Prospectus".

(b) The documents incorporated by reference in the Registration Statement or Prospectus, when they were filed with the Commission, complied in all material respects with the applicable provisions of the 1934 Act and the rules and regulations of the Commission thereunder, and as of such time of filing, when read together with the Prospectus, none of such documents contained an untrue statement of a material fact or omitted to state a material fact required to be stated

therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and any further documents so filed and incorporated by reference in the Prospectus or any further amendment or supplement thereto, when such documents are filed with the Commission, will comply in all material respects with the applicable provisions of the 1934 Act and the rules and regulations of the Commission thereunder and, when read together with the Prospectus as it otherwise may be amended or supplemented, will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the Company makes no warranty or representation to the Underwriters with respect to: (A) any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by the Underwriters through the Representatives expressly for use in the Final Supplemented Prospectus; or (B) any information set forth in the Final Supplemented Prospectus under the caption "Description of the Series G Senior Notes — Book-Entry Only Issuance — The Depository Trust Company".

(c) The Registration Statement, the Prospectus and the Final Supplemented Prospectus comply, and any amendments or supplements to the Registration Statement or the Prospectus, when any such post-effective amendments are declared effective or supplements are filed with the Commission, as the case may be, will comply, in all material respects with the applicable provisions of the 1933 Act, the 1934 Act, the 1939 Act (hereinafter defined) and the General Rules and Regulations of the Commission thereunder and do not and will not, (i) as of the applicable effective date as to the Registration Statement and any amendment thereto and (ii) as of the applicable filing date of the Final Supplemented Prospectus and any Prospectus as further amended or supplemented, contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in the case of the Registration Statement and any amendment thereto, and, in the light of the circumstances under which they were made, not misleading in the case of the Final Supplemented Prospectus and any Prospectus as further amended or supplemented; except that the Company makes no warranties or representations with respect to: (A) that part of the Registration Statement which shall constitute the Statements of Eligibility (Form T-1) under the Trust Indenture Act of 1939, as amended (the "1939 Act"); (B) statements or omissions made in the Registration Statement or the Final Supplemented Prospectus in reliance upon and in conformity with information furnished in writing to the Company by the Underwriters through the Representatives expressly for use therein; or (C) any information set forth in the Final Supplemented Prospectus under the caption "Description of the Series G Senior Notes — Book-Entry Only Issuance — The Depository Trust Company".

(d) With respect to the Registration Statement, the conditions for use of Form S-3, as set forth in the General Instructions thereof, have been satisfied.

(e) Since the respective dates as of which information is given in the Registration Statement and the Final Supplemented Prospectus, except as otherwise stated therein, there has been no material adverse change in the business, properties or financial condition of the Company.

(f) The Company is a corporation duly organized and existing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi, and has due corporate authority to carry on the public utility business in which it is engaged and to own and operate the properties used by it in such business, to enter into and perform its obligations under this Agreement and the Indenture and to issue and sell the Senior Notes to the Underwriters.

(g) This Agreement has been duly authorized, executed and delivered by the Company.

(h) The Indenture has been duly authorized by the Company and, on the Closing Date (as hereinafter defined), will have been duly executed and delivered by the Company, and, assuming due authorization, execution and delivery of the Indenture by the Trustee, the Indenture will, on the Closing Date, constitute a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent that enforcement thereof may be limited by (1) bankruptcy, insolvency, reorganization, receivership, liquidation, fraudulent conveyance, moratorium or other similar laws affecting creditors' rights generally or (2) general principles of equity (regardless of whether enforcement is considered in a proceeding at law or in equity) (the "Enforceability Exceptions"); the Indenture will conform in all material respects to all statements relating thereto contained in the Final Supplemented Prospectus; and, on the Closing Date, the Indenture will have been duly qualified under the 1939 Act.

(i) The issuance and delivery of the Senior Notes have been duly authorized by the Company and, on the Closing Date, the Senior Notes will have been duly executed by the Company and, when authenticated in the manner provided for in the Indenture and delivered against payment therefor as described in the Final Supplemented Prospectus, will constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms, except to the extent that enforcement thereof may be limited by the Enforceability Exceptions, will be in the form contemplated by, and entitled to the benefits of, the Indenture and will conform in all material respects to all statements relating thereto in the Final Supplemented Prospectus.

(j) The execution, delivery and performance by the Company of this Agreement, the Indenture and the Senior Notes and the consummation by the Company of the transactions contemplated herein and therein and compliance by the Company with its obligations hereunder and thereunder shall have been duly authorized by all necessary corporate action on the part of the Company and do not and will not result in any violation of the charter or bylaws of the Company,

and do not and will not conflict with, or result in a breach of any of the terms or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company under (A) any contract, indenture, mortgage, loan agreement, note, lease or other agreement or instrument to which the Company is a party or by which it may be bound or to which any of its properties may be subject (except for conflicts, breaches or defaults which would not, individually or in the aggregate, be materially adverse to the Company or materially adverse to the transactions contemplated by this Agreement), or (B) any existing applicable law, rule, regulation, judgment, order or decree of any government, governmental instrumentality or court, domestic or foreign, or any regulatory body or administrative agency or other governmental body having jurisdiction over the Company, or any of its properties.

(k) No authorization, approval, consent or order of any court or governmental authority or agency is necessary in connection with the issuance and sale by the Company of the Senior Notes or the transactions by the Company contemplated in this Agreement, except (A) such as may be required under the 1933 Act or the rules and regulations thereunder; (B) such as may be required under the Public Utility Holding Company Act of 1935, as amended; (C) the qualification of the Indenture under the 1939 Act; (D) the approval of the Florida Public Service Commission (the "Florida Commission"); and (E) such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or "blue sky" laws.

(l) The financial statements incorporated by reference in the Registration Statement and the Final Supplemented Prospectus, together with the related schedules and notes, present fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of and for the dates indicated; said financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP") applied on a consistent basis (except that the unaudited financial statements may be subject to normal year-end adjustments) throughout the periods involved and necessarily include amounts that are based on the best estimates and judgments of management. The selected financial data and the summary financial information included in the Registration Statement and the Final Supplemented Prospectus present fairly the information shown therein and have been compiled on a basis consistent with that of the audited and unaudited financial statements incorporated by reference in the Registration Statement.

SECTION 2. SALE AND DELIVERY TO THE UNDERWRITERS; CLOSING.

(a) On the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company agrees to sell to each Underwriter, severally and not jointly, and each Underwriter, severally and

not jointly, agrees to purchase from the Company, the principal amount of Senior Notes set forth in Schedule I to this Agreement opposite the name of such Underwriter (plus any additional amount of Senior Notes that such Underwriter may become obligated to purchase pursuant to the provisions of Section 10 hereof), at a price equal to 99.142% of the principal amount thereof.

(b) Payment for and delivery of certificates for the Senior Notes shall be made at the offices of Dewey Ballantine LLP, 1301 Avenue of the Americas, New York, New York 10019 at 10:00 A.M., New York City time, on July 22, 2003 (unless postponed in accordance with the provisions of Section 10) or such other time, place or date as shall be agreed upon by the Representatives and the Company (such time and date of payment and delivery being herein called the "Closing Date"). Payment shall be made to the Company by wire transfer in federal funds at the Closing Date against delivery of the Senior Notes to the Representatives. It is understood that each Underwriter has authorized the Representatives, for each Underwriter's account, to accept delivery of, receipt for, and make payment of the principal amount of the Senior Notes which each Underwriter has agreed to purchase. The Representatives, individually and not as representatives of the Underwriters, may (but shall not be obligated to) make payment of the principal amount of the Senior Notes to be purchased by any Underwriter whose payment has not been received by the Closing Date, but such payment shall not relieve such Underwriter from its obligations hereunder.

The delivery of the Senior Notes shall be made in fully registered form, registered in the name of CEDE & CO., to the offices of The Depository Trust Company in New York, New York or its designee, and the Underwriters shall accept such delivery.

The certificate(s) for the Senior Notes will be made available for examination by the Representatives not later than 12:00 Noon, New York City time, on the last business day prior to the Closing Date.

SECTION 3. COVENANTS OF THE COMPANY. The Company covenants with the Underwriters as follows:

(a) The Company, on or prior to the Closing Date, will deliver to the Underwriters conformed copies of the Registration Statement as originally filed and of all amendments thereto, heretofore or hereafter made, including any post-effective amendment (in each case including all exhibits filed therewith, and including unsigned copies of each consent and certificate included therein or filed as an exhibit thereto, except exhibits incorporated by reference, unless specifically requested). As soon as the Company is advised thereof, it will advise the Representatives orally of the issuance of any stop order under the 1933 Act with respect to the Registration Statement, or the institution of any proceedings therefor, of which the Company shall have received notice, and will use its best efforts to prevent the issuance of any such stop order and to secure the prompt removal thereof, if issued. The Company will deliver to the Representatives sufficient conformed copies of the Registration Statement, the Prospectus and the

Final Supplemented Prospectus and of all supplements and amendments thereto (in each case without exhibits) for distribution to the Underwriters and, from time to time, as many copies of the Prospectus and the Final Supplemented Prospectus as the Underwriters may reasonably request for the purposes contemplated by the 1933 Act or the 1934 Act.

(b) The Company will furnish the Underwriters with copies of each amendment and supplement to the Final Supplemented Prospectus relating to the offering of the Senior Notes in such quantities as the Underwriters may from time to time reasonably request. If, during the period (not exceeding nine months) when the delivery of a prospectus shall be required by law in connection with the sale of any Senior Notes by an Underwriter, any event relating to or affecting the Company, or of which the Company shall be advised in writing by the Underwriters, shall occur, which in the opinion of the Company or of Underwriters' counsel should be set forth in a supplement to or an amendment of the Final Supplemented Prospectus in order to make the Final Supplemented Prospectus not misleading in the light of the circumstances when it is delivered, or if for any other reason it shall be necessary during such period to amend or supplement the Final Supplemented Prospectus or to file under the 1934 Act any document incorporated by reference in the Preliminary Prospectus or Prospectus in order to comply with the 1933 Act or the 1934 Act, the Company forthwith will (i) notify the Underwriters to suspend solicitation of purchases of the Senior Notes and (ii) at its expense, make any such filing or prepare and furnish to the Underwriters a reasonable number of copies of a supplement or supplements or an amendment or amendments to the Final Supplemented Prospectus which will supplement or amend the Final Supplemented Prospectus so that, as supplemented or amended, it will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances when the Final Supplemented Prospectus is delivered, not misleading or which will effect any other necessary compliance. In case any Underwriter is required to deliver a prospectus in connection with the sale of any Senior Notes after the expiration of the period specified in the preceding sentence, the Company, upon the request of such Underwriter, will furnish to such Underwriter, at the expense of such Underwriter, a reasonable quantity of a supplemented or amended prospectus, or supplements or amendments to the Final Supplemented Prospectus, complying with Section 10(a) of the 1933 Act. During the period specified in the second sentence of this subsection, the Company will continue to prepare and file with the Commission on a timely basis all documents or amendments required under the 1934 Act and the rules and regulations thereunder; provided, that the Company shall not file such documents or amendments without also furnishing copies thereof prior to such filing to the Representatives and Dewey Ballantine LLP.

(c) The Company will endeavor, in cooperation with the Underwriters, to qualify the Senior Notes for offering and sale under the applicable securities laws of such states and the other jurisdictions of the United States as the Representatives may designate; provided, however, that the Company shall not be

obligated to qualify as a foreign corporation in any jurisdiction in which it is not so qualified or to file a consent to service of process or to file annual reports or to comply with any other requirements in connection with such qualification deemed by the Company to be unduly burdensome.

(d) The Company will make generally available to its security holders as soon as practicable but not later than 45 days after the close of the period covered thereby, an earnings statement of the Company (in form complying with the provisions of Rule 158 of the rules and regulations under the 1933 Act) covering a twelve-month period beginning not later than the first day of the Company's fiscal quarter next following the "effective date" (as defined in Rule 158) of the Registration Statement.

(e) As soon as practicable after the date of this Agreement, and in any event within the time prescribed by Rule 424 under the 1933 Act, to file the Final Supplemented Prospectus with the Commission and to advise the Representatives of such filing and to confirm such advice in writing.

(f) During a period of 15 days from the date of this Agreement, the Company will not, without the Representatives' prior written consent, directly or indirectly, sell, offer to sell, grant any option for the sale of, or otherwise dispose of, any Senior Notes or any security convertible into or exchangeable into or exercisable for the Senior Notes or any debt securities substantially similar to the Senior Notes (except for the Senior Notes issued pursuant to this Agreement and the Series H 5.25% Senior Notes due July 15, 2033). The Representatives agree that commercial paper or other debt securities with scheduled maturities of less than one year are not subject to this Section 3(f).

SECTION 4. PAYMENT OF EXPENSES. The Company will pay all expenses incidental to the performance of its obligations under this Agreement, including but not limited to, the expenses of (i) the printing and filing of the Registration Statement as originally filed and of each amendment thereto, (ii) the preparation, issuance and delivery of the certificate(s) for the Senior Notes, (iii) the fees and disbursements of the Company's counsel and accountants, (iv) the qualification of the Senior Notes under securities laws in accordance with the provisions of Section 3(c) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Underwriters in connection therewith and in connection with the preparation of any blue sky survey (such fees and disbursements of counsel shall not exceed $3,500), (v) the printing and delivery to the Underwriters of copies of the Registration Statement as originally filed and of each amendment thereto and of the Prospectus, the Final Supplemented Prospectus and any amendments or supplements thereto, (vi) the printing and delivery to the Underwriters of copies of any blue sky survey, (vii) the fee of the National Association of Securities Dealers, Inc. in connection with its review of the offering contemplated by this Agreement, if applicable, (viii) the fees and expenses of the Trustee, including the fees and disbursements of counsel for the Trustee in connection with the Indenture and the Senior Notes, (ix) any fees payable in connection with the rating of the Senior Notes, (x)

the cost and charges of any transfer agent or registrar and (xi) the cost of qualifying the Senior Notes with The Depository Trust Company.

Except as otherwise provided in Section 9 hereof, the Underwriters shall pay all other expenses incurred by them in connection with their offering of the Senior Notes, including fees and disbursements of their counsel, Dewey Ballantine LLP.

SECTION 5. CONDITIONS OF UNDERWRITERS' OBLIGATIONS. The obligations of the Underwriters to purchase and pay for the Senior Notes are subject to the following conditions:

(a) No stop order suspending the effectiveness of the Registration Statement shall be in effect on the Closing Date and no proceedings for that purpose shall be pending before, or to the knowledge of the Company threatened by, the Commission on such date. If filing of the Final Supplemented Prospectus, or any supplement thereto, is required pursuant to Rule 424, the Final Supplemented Prospectus, and any such supplement, shall have been filed in the manner and within the time period required by Rule 424.

(b) Any required orders of the Florida Commission and the Commission permitting the transactions contemplated hereby substantially in accordance with the terms and conditions hereof shall be in full force and effect and shall contain no provision unacceptable to the Underwriters or the Company (but all provisions of such order or orders heretofore entered, copies of which have heretofore been delivered to the Representatives, are deemed acceptable to the Underwriters and the Company and all provisions of such order or orders hereafter entered shall be deemed acceptable to the Underwriters and the Company unless within 24 hours after receiving a copy of any such order any party to this Agreement shall give notice to the other parties to the effect that such order contains an unacceptable provision).

(c) On the Closing Date, the Representatives shall have received:

(1) The opinion, dated the Closing Date, of Beggs & Lane, a Registered Limited Liability Partnership, general counsel for the Company, substantially in the form attached hereto as Schedule II-A.

(2) The opinion, dated the Closing Date, of Troutman Sanders LLP, counsel for the Company, substantially in the form attached hereto as Schedule II-B.

(3) The opinion, dated the Closing Date, of Cravath, Swaine & Moore LLP, counsel to the Trustee, substantially in the form attached hereto as Schedule III.

(4) The opinion, dated the Closing Date, of Dewey Ballantine LLP, counsel for the Underwriters, substantially in the form attached hereto as Schedule IV.

(5) At the Closing Date, there shall not have been, since the date hereof or since the respective dates as of which information is given in the Registration

Statement and the Final Supplemented Prospectus, any material adverse change in the business, properties or financial condition of the Company, whether or not arising in the ordinary course of business, and the Representatives shall have received a certificate of the President or any Vice President of the Company, and dated as of the Closing Date, to the effect that (i) there has been no such material adverse change, (ii) the representations and warranties in Section 1 hereof are true and correct with the same force and effect as though expressly made at and as of the Closing Date, (iii) the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied on or prior to the Closing Date, and (iv) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been initiated or, to the knowledge of the Company, threatened by the Commission.

(6) On the Closing Date, the Representatives shall have received from Deloitte & Touche LLP a letter dated the Closing Date to the effect that: (A) they are independent certified public accountants with respect to the Company within the meaning of the 1933 Act and the rules and regulations under the 1933 Act; (B) in their opinion, the financial statements audited by them and incorporated by reference in the Final Supplemented Prospectus comply as to form in all material respects with the applicable accounting requirements of the 1934 Act and the rules and regulations under the 1934 Act; and (C) on the basis of certain limited procedures performed through a specified date not more than five business days prior to the date of such letter, namely (i) reading the minute books of the Company; (ii) performing the procedures specified by the American Institute of Certified Public Accountants for a review of interim financial information as described in Statement on Auditing Standards No. 71, "Interim Financial Information" or Statement on Auditing Standards No. 100, "Interim Financial Information", as applicable, on the unaudited financial statements, if any, of the Company incorporated in the Prospectus and on the latest available unaudited financial statements of the Company, if any, for any calendar quarter subsequent to the date of those incorporated by reference in the Prospectus; and (iii) making inquiries of certain officials of the Company who have responsibility for financial and accounting matters regarding such unaudited financial statements or any specified unaudited amounts derived therefrom (it being understood that the foregoing procedures do not constitute an audit performed in accordance with generally accepted auditing standards and they would not necessarily reveal matters of significance with respect to the comments made in such letter, and accordingly that Deloitte & Touche LLP make no representations as to the sufficiency of such procedures for the Underwriters' purposes), nothing came to their attention that caused them to believe that: (1) any material modifications should be made to the unaudited condensed financial statements, if any, incorporated by reference in the Prospectus, for them to be in conformity with GAAP; (2) such unaudited condensed financial statements do not comply as to form in all material respects with the applicable accounting requirements of the 1934 Act as it applies to Form 10-Q and the related published rules and regulations thereunder; (3) the unaudited amounts for Operating Revenues, Earnings Before Income Taxes and Net Income After Dividends on Preferred Stock and the unaudited Ratio of Earnings to Fixed Charges set forth in the Prospectus do not agree with the amounts set forth in or derived from the unaudited financial statements for the same period; (4) as of a specified date not more than five business days prior to the date of delivery of such letter, there has been any change in the capital stock or long-term debt of the Company or any

decrease in net assets as compared with amounts shown in the latest audited balance sheet incorporated by reference in the Prospectus, except in each case for changes or decreases which (i) the Prospectus discloses have occurred or may occur, (ii) are occasioned by the declaration of dividends, (iii) are occasioned by draw-downs under existing pollution control financing arrangements, (iv) are occasioned by draw-downs and regularly scheduled payments of capitalized lease obligations, (v) are occasioned by the purchase or redemption of bonds or stock to satisfy mandatory or optional redemption provisions relating thereto, (vi) are occasioned by the reclassification of current maturities of long-term debt, or (vii) are disclosed in such letter; and (5) the unaudited amounts for Operating Revenues, Earnings Before Income Taxes and Net Income After Dividends on Preferred Stock and the unaudited Ratio of Earnings to Fixed Charges for any calendar quarter subsequent to those set forth in (3) above, which, if available, shall be set forth in such letter, do not agree with the amounts set forth in or derived from the unaudited financial statements for the same period or were not determined on a basis substantially consistent with that of the corresponding audited amounts or ratios included or incorporated by reference in the Prospectus.

(7) On the Closing Date, counsel for the Underwriters shall have been furnished with such documents and opinions as it may reasonably require for the purpose of enabling it to pass upon the issuance and sale of the Senior Notes as herein contemplated and related proceedings, or in order to evidence the accuracy of any of the representations or warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company in connection with the issuance and sale of the Senior Notes as herein contemplated shall be satisfactory in form and substance to the Representatives and Dewey Ballantine LLP, counsel for the Underwriters.

(8) That no amendment or supplement to the Registration Statement, or the Final Supplemented Prospectus filed subsequent to the date of this Agreement (including any filing made by the Company pursuant to Section 13 or 14 of the 1934 Act) shall be unsatisfactory in form to Dewey Ballantine LLP or shall contain information (other than with respect to an amendment or supplement relating solely to the activity of the Underwriters) which, in the reasonable judgment of the Representatives, shall materially impair the marketability of the Senior Notes.

(9) The Company shall have performed its obligations when and as provided under this Agreement.

If any condition specified in this Section shall not have been fulfilled when and as required to be fulfilled, this Agreement may be terminated by the Representatives by notice to the Company at any time prior to the Closing Date, and such termination shall be without liability of any party to any other party except as provided in Sections 4, 7 and 9(b) hereof.

SECTION 6. CONDITIONS OF THE OBLIGATIONS OF THE COMPANY. The obligations of the Company shall be subject to the conditions set forth in the first sentence of Section 5(a) and in Section 5(b). In case such conditions shall not

have been fulfilled, this Agreement may be terminated by the Company by mailing or delivering written notice thereof to the Representatives. Any such termination shall be without liability of any party to any other party except as otherwise provided in Sections 4, 7 and 9(b) hereof.

SECTION 7. INDEMNIFICATION.

(a) The Company agrees to indemnify and hold harmless each of the Underwriters and each person, if any, who controls any such Underwriter within the meaning of Section 15 of the 1933 Act or Section 20(a) of the 1934 Act, against any and all losses, claims, damages or liabilities, joint or several, to which they or any of them may become subject under the 1933 Act, 1934 Act or otherwise, and to reimburse any such Underwriter and such controlling person or persons, if any, for any legal or other expenses incurred by them in connection with defending any actions, insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement, the Prospectus or the Final Supplemented Prospectus or, if the Company shall furnish to the Underwriters any amendments or any supplements thereto, or shall make any filings pursuant to Section 13 or 14 of the 1934 Act which are incorporated therein by reference, in any Preliminary Prospectus, the Registration Statement, the Prospectus or the Final Supplemented Prospectus as so amended or supplemented, or arise out of or are based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon any such untrue statement or alleged untrue statement or omission or alleged omission which was made in such Registration Statement, Preliminary Prospectus, Prospectus or Final Supplemented Prospectus in reliance upon and in conformity with information furnished in writing to the Company by, or through the Representatives on behalf of, any Underwriter for use therein and except that this indemnity with respect to the Preliminary Prospectus, the Prospectus or the Final Supplemented Prospectus, if the Company shall have furnished any amendment or supplement thereto, shall not inure to the benefit of any Underwriter (or of any person controlling such Underwriter) on account of any losses, claims, damages, liabilities or actions arising from the sale of the Senior Notes to any person if a copy of the Preliminary Prospectus, the Prospectus or the Final Supplemented Prospectus (exclusive of documents incorporated therein by reference pursuant to Item 12 of Form S-3), as the same may then be amended or supplemented, shall not have been sent or given by or on behalf of such Underwriter to such person with or prior to the written confirmation of the sale involved and the untrue statement or alleged untrue statement or omission or alleged omission was corrected in the Preliminary Prospectus, the Prospectus or the Final Supplemented Prospectus as supplemented or amended at the time of such confirmation. Each Underwriter agrees, within ten days after the receipt by it of notice of the commencement of any action in respect of which indemnity may be sought by it, or by any person controlling it, from the Company on

account of its agreement contained in this Section 7, to notify the Company in writing of the commencement thereof but the omission of such Underwriter so to notify the Company of any such action shall not release the Company from any liability which it may have to such Underwriter or to such controlling person otherwise than on account of the indemnity agreement contained in this Section 7. In case any such action shall be brought against an Underwriter or any such person controlling such Underwriter and such Underwriter shall notify the Company of the commencement thereof as above provided, the Company shall be entitled to participate in (and, to the extent that it shall wish, including the selection of counsel, to direct) the defense thereof, at its own expense. In case the Company elects to direct such defense and select such counsel, any Underwriter or controlling person shall have the right to employ its own counsel, but, in any such case, the fees and expenses of such counsel shall be at the expense of such Underwriter or such controlling person unless the employment of such counsel has been authorized in writing by the Company in connection with defending such action. No indemnifying party shall, without the written consent of the indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification may be sought hereunder (whether or not the indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability arising out of such action or claim and (ii) does not include any statement as to, or an admission of, fault, culpability or a failure to act, by or on behalf of any indemnified party. In no event shall any indemnifying party have any liability or responsibility in respect of the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim effected without its prior written consent.

(b) Each Underwriter agrees severally and not jointly, to indemnify and hold harmless the Company, its directors and such of its officers who have signed the Registration Statement and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20(a) of the 1934 Act to the same extent and upon the same terms as the indemnity agreement of the Company set forth in Section 7(a) hereof, but only with respect to alleged untrue statements or omissions made in the Registration Statement, the Preliminary Prospectus, the Prospectus or the Final Supplemented Prospectus, or such documents as amended or supplemented, in reliance upon and in conformity with information furnished in writing to the Company by, or through the Representatives on behalf of, such Underwriter for use therein.

SECTION 8. REPRESENTATIONS, WARRANTIES AND AGREEMENTS TO SURVIVE DELIVERY. All representations, warranties and agreements contained in this Agreement, or contained in certificates of officers of the Company submitted pursuant hereto, shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of any Underwriter or controlling person, or by, or on behalf of the Company and shall survive delivery of the Senior Notes to the Underwriters.

SECTION 9. TERMINATION OF AGREEMENT.

(a) The Representatives may terminate this Agreement, by notice to the Company, at any time at or prior to the Closing Date if (i) trading in securities on the New York Stock Exchange shall have been generally suspended or there shall have been a material disruption in settlement of securities generally, (ii) minimum or maximum ranges for prices shall have been generally established on the New York Stock Exchange by the Commission or by the New York Stock Exchange, (iii) a general banking moratorium shall have been declared by federal or New York State authorities, or (iv) there shall have occurred any outbreak or escalation of major hostilities in which the United States is involved, any declaration of war by the United States Congress or any other substantial national or international calamity, crisis or emergency (including, without limitation, acts of terrorism) affecting the United States, in any such case provided for in clauses (i) through (iv) with the result that, in the reasonable judgment of the Representatives, the marketability of the Senior Notes shall have been materially impaired.

(b) If this Agreement shall be terminated by the Representatives pursuant to subsection (a) above or because of any failure or refusal on the part of the Company to comply with the terms or to fulfill any of the conditions of this Agreement, or if for any reason the Company shall be unable to perform its obligations under this Agreement, then in any such case, the Company will reimburse the Underwriters for the reasonable fees and disbursements of Dewey Ballantine LLP and for the out of pocket expenses (in an amount not exceeding $10,000) reasonably incurred by the Underwriters in making preparations for the purchase, sale and delivery of the Senior Notes and, upon such reimbursement, the Company shall be absolved from any further liability hereunder, except as provided in Sections 4 and 7.

SECTION 10. DEFAULT BY AN UNDERWRITER. If an Underwriter shall fail on the Closing Date to purchase the Senior Notes that it is obligated to purchase under this Agreement (the "Defaulted Securities"), the Representatives shall have the right, within 24 hours thereafter, to make arrangements for the non-defaulting Underwriters, or any other underwriters, to purchase all, but not less than all, of the Defaulted Securities in such amounts as may be agreed upon and upon the terms herein set forth. If, however, the Representatives shall not have completed such arrangements within such 24-hour period, then:

(a) if the principal amount of Defaulted Securities does not exceed 10% of the Senior Notes, the non-defaulting Underwriters shall be obligated, severally and not jointly, to purchase the full amount thereof in the proportions that their respective underwriting obligations hereunder bear to the underwriting obligations of all non-defaulting Underwriters, or

(b) if the principal amount of Defaulted Securities exceeds 10% of the Senior Notes, this Agreement shall terminate without liability on the part of any non-defaulting Underwriter.

No action taken pursuant to this Section shall relieve any defaulting Underwriter from liability in respect of its default.

In the event of any such default which does not result in a termination of this Agreement, either the Representatives or the Company shall have the right to postpone the Closing Date for a period not exceeding seven days in order to effect any required changes in the Registration Statement or Final Supplemented Prospectus or in any other documents or arrangements.

SECTION 11. NOTICES. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted by any standard form of telecommunication. Notices to the Underwriters shall be directed to the Underwriters at Lehman Brothers Inc., 745 Seventh Avenue, New York, New York 10019, Attention: Debt Capital Markets, Power Group (fax: 212-526-0943) and Scotia Capital (USA) Inc., 1 Liberty Plaza, 25th Floor, New York, New York, 10006, Attention: Simon Paradine (fax: 212-225-5285); notices to the Company shall be mailed to One Energy Place, Pensacola, Florida, 32520-0100, Attention: Corporate Secretary, with a copy to Southern Company Services, Inc., 270 Peachtree Street, N.W., Atlanta, Georgia 30303, Attention: David B. Brooks.

SECTION 12. PARTIES. This Agreement shall inure to the benefit of and be binding upon the Underwriters, the Company and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the Underwriters and the Company and their respective successors and the controlling persons and officers and directors referred to in Section 7 and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the Underwriters and the Company and their respective successors, and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation. No purchaser of Senior Notes from any of the Underwriters shall be deemed to be a successor by reason merely of such purchase.

SECTION 13. GOVERNING LAW AND TIME. This Agreement shall be governed by and construed in accordance with the laws of the State of New York

applicable to agreements made and to be performed in said State. Except as otherwise set forth herein, specified times of day refer to New York City time.

SECTION 14. COUNTERPARTS. This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such respective counterparts shall together constitute one and the same instrument.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the Underwriters and the Company in accordance with its terms.

Very truly yours,

GULF POWER COMPANY

By: _____
Name: Warren E. Tate
Title: Vice President, Secretary and Treasurer

CONFIRMED AND ACCEPTED,
as of the date first above written

As Representatives of the Several Underwriters
named in Schedule I hereto

LEHMAN BROTHERS INC.

By: _____
Name: Victor Forte
Title: Managing Director

SCOTIA CAPITAL (USA) INC.

By: _____
Name:
Title:

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the Underwriters and the Company in accordance with its terms.

Very truly yours,

GULF POWER COMPANY

By: _____
Name:
Title:

CONFIRMED AND ACCEPTED,
as of the date first above written

As Representatives of the Several Underwriters
named in Schedule I hereto

LEHMAN BROTHERS INC.

By: _____
Name:
Title:

SCOTIA CAPITAL (USA) INC.

By: _____
Name: Frank Pinon
Title: Managing Director

## SCHEDULE I

| NAME OF UNDERWRITER | Principal Amount of Series G Senior Notes |
|---|---|
| Lehman Brothers Inc. | $27,000,000 |
| Scotia Capital (USA) Inc. | $27,000,000 |
| KBC Financial Products USA Inc. | $ 6,000,000 |
| TOTAL | $ 60,000,000 |

Schedule II-A

[Letterhead of BEGGS & LANE]

July __, 2003

Lehman Brothers Inc.
745 Seventh Avenue
New York, New York 10019

Scotia Capital (USA) Inc.
1 Liberty Plaza, 25th Floor
New York, New York 10006

As Representatives of the Underwriters named in Schedule I
to the Underwriting Agreement.

GULF POWER COMPANY
Series G 4.35% Senior Notes due July 15, 2013

Ladies and Gentlemen:

We have acted as general counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance and sale of $60,000,000 aggregate principal amount of its Series G 4.35% Senior Notes due July 15, 2013 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, by and between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Seventh Supplemental Indenture dated as of July 22, 2003 (collectively, the "Indenture"); and (ii) the purchase by the Underwriters of the Notes pursuant to the terms of an Underwriting Agreement (the "Underwriting Agreement") dated July 14, 2003 among the Company and the Underwriters named in Schedule I thereof (the "Underwriters") for whom you are acting as Representatives. This opinion is being delivered to you pursuant to Section 5(c)(1) thereof.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (File Nos. 333-104449, 333-104449-01 and 333-104449-02) pertaining to the Notes (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act"), and the prospectus dated April 25, 2003, as supplemented by a final prospectus supplement relating to the Notes dated July 14, 2003 (the "Final Supplemented Prospectus"), which pursuant to Form S-3 incorporates

by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2003 and the Current Reports on Form 8-K of the Company dated March 21, 2003 and July 10, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to collectively as the "Agreements".

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Georgia law and the federal law of the United States upon the opinion dated the date hereof rendered to you by Troutman Sanders LLP and relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP, that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi, and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by the Underwriters pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP and with your counsel. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Registration Statement, as of its effective date, and the Final Supplemented Prospectus, as of July 14, 2003, complied as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by

reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of its effective date (including the Exchange Act Documents on file with the Commission as of such date), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contained, as of its date, or contains, on the date hereof, any untrue statement therein of a material fact or omitted, as of its date, or omits, on the date hereof, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the caption "Description of the Series G Senior Notes — Book-Entry Only Issuance — The Depository Trust Company".

We are members of the Florida Bar and we do not express any opinion herein concerning any law other than the law of the States of Maine, Florida and Mississippi and, to the extent set forth herein, the laws of the States of Georgia and New York and the federal law of the United States.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent, except that Troutman Sanders LLP and Dewey Ballantine LLP may rely on this opinion in giving their opinions pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinions relates to matters of Maine, Florida and Mississippi law.

Yours very truly,

BEGGS & LANE

Schedule II-B

[Letterhead of TROUTMAN SANDERS LLP]

July __, 2003

Lehman Brothers Inc.
745 Seventh Avenue
New York, New York 10019

Scotia Capital (USA) Inc.
1 Liberty Plaza, 25th Floor
New York, New York 10006

As Representatives of the Underwriters named in Schedule I
to the Underwriting Agreement.

GULF POWER COMPANY
Series G 4.35% Senior Notes due July 15, 2013

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance of $60,000,000 aggregate principal amount of its Series G 4.35% Senior Notes due July 15, 2013 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, by and between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Seventh Supplemental Indenture dated as of July 22, 2003 (collectively, the "Indenture"); and (ii) the purchase by you of the Notes pursuant to the terms of an Underwriting Agreement (the "Underwriting Agreement") dated July 14, 2003, among the Company and the Underwriters named in Schedule I thereof (the "Underwriters") for whom you are acting as Representatives. This opinion is being delivered to you pursuant to Section 5(c)(2) thereof.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (File Nos. 333-104449, 333-104449-01 and 333-104449-02) pertaining to the Notes (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act"), and the prospectus dated April 25, 2003, as supplemented by a final prospectus supplement dated July 14, 2003 (the "Final Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the

Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2003 and the Current Reports on Form 8-K of the Company dated March 21, 2003 and July 10, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to collectively as the "Agreements".

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Maine, Florida and Mississippi law upon the opinion dated the date hereof rendered to you by Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane"), and relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP, that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi, and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by the Underwriters pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP and with your counsel. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Registration Statement, as of its effective date, and the Final Supplemented Prospectus, as of July 14, 2003, complied as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the relevant requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by

reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of its effective date (including the Exchange Act Documents on file with the Commission as of such date), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contained, as of its date, or contains, on the date hereof, any untrue statement of a material fact or omitted, as of its date, or omits, as of the date hereof, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the caption "Description of the Series G Senior Notes — Book-Entry Only Issuance — The Depository Trust Company".

We are members of the State Bar of Georgia and we do not express any opinion herein concerning any law other than the law of the State of Georgia and the federal law of the United States and, to the extent set forth herein, the laws of the States of Maine, Florida, Mississippi and New York.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent, except that Beggs & Lane may rely on this opinion in giving its opinion pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinion relates to matters of Georgia law and the federal law of the United States and Dewey Ballantine LLP may rely on this opinion in giving its opinion pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinion relates to matters of Georgia law.

Yours very truly,

TROUTMAN SANDERS LLP

Schedule III

[Letterhead of Cravath, Swaine & Moore LLP]

July __, 2003

Lehman Brothers Inc.
745 Seventh Avenue
New York, New York 10019

Scotia Capital (USA) Inc.
1 Liberty Plaza, 25th Floor
New York, New York 10006

As Representatives of the Underwriters named in Schedule I
to the Underwriting Agreement.

Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32520

Gulf Power Company
Series G 4.35% Senior Notes
due July 15, 2013

Ladies and Gentlemen:

We have acted as counsel to JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank) (the "Bank") in connection with (a) the Senior Note Indenture, dated as of January 1, 1998 as heretofore supplemented (the "Original Indenture"), between Gulf Power Company (the "Company") and the Bank, as Trustee, and (b) the Seventh Supplemental Indenture dated as of July 22, 2003 (together with the Original Indenture, herein called the "Indenture"), between the Company and the Bank, as Trustee.

In that connection, we have examined originals, or copies certified or otherwise identified to our satisfaction, of such documents, records and other instruments as we have deemed necessary or appropriate for the purpose of this opinion, including copies of the Indenture and certain resolutions adopted by the Board of Directors of the Bank.

Based upon the foregoing, we are of the opinion that:

(i) the Bank has been duly incorporated and is validly existing as a banking corporation in good standing under the laws of the State of New York;

(ii) the Bank has the corporate trust power and authority to execute, deliver and perform its duties under the Indenture, has duly executed and delivered the Indenture, and, insofar as the laws governing the trust powers of the Bank are concerned and assuming due authorization, execution and delivery thereof by the Company, the Indenture constitutes a legal, valid and binding agreement of the Bank, enforceable against the Bank in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity (including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing), regardless of whether considered in a proceeding in equity or at law;

(iii) the execution, delivery and performance by the Bank of the Indenture do not conflict with or constitute a breach of the charter or bylaws of the Bank; and

(iv) no approval, authorization or other action by, or filing with, any governmental authority of the United States of America or the State of New York having jurisdiction over the trust powers of the Bank is required in connection with the execution and delivery by the Bank of the Indenture or the performance by the Bank of its duties thereunder, except such as have been obtained, taken or made.

We are admitted to practice only in the State of New York, and we express no opinion as to matters governed by any laws other than the laws of the State of New York and the Federal law of the United States of America. We are furnishing this opinion to you solely for your benefit. This opinion is not to be relied upon by any other person or used, circulated, quoted or otherwise referred to for any other purpose.

Very truly yours,

CRAVATH, SWAINE & MOORE LLP

Schedule IV

[Letterhead of DEWEY BALLANTINE LLP]

July __, 2003

Lehman Brothers Inc.
745 Seventh Avenue
New York, New York 10019

Scotia Capital (USA) Inc.
1 Liberty Plaza, 25th Floor
New York, New York 10006

As Representatives of the Underwriters named in Schedule I
to the Underwriting Agreement.

GULF POWER COMPANY
Series G 4.35% Senior Notes
due July 15, 2013

Ladies and Gentlemen:

We have represented the Underwriters (as hereinafter defined) in connection with (i) the issuance by Gulf Power Company (the "Company") of $60,000,000 of its Series G 4.35% Senior Notes due July 15, 2013 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, by and between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Seventh Supplemental Indenture dated as of July 22, 2003 (collectively, the "Indenture"); and (ii) the purchase by the Underwriters of the Notes pursuant to the terms of an Underwriting Agreement (the "Underwriting Agreement") dated July 14, 2003, among the Company and the underwriters named in Schedule I thereof (the "Underwriters") for whom you are acting as Representatives. This opinion is being delivered to you pursuant to Section 5(c)(4) thereof.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (File Nos. 333-104449, 333-104449-01 and 333-104449-02) pertaining to the Notes (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act"), and the prospectus dated April 25, 2003, as supplemented by a final prospectus supplement dated July 14, 2003 (the "Final Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2003 and the Current Reports on Form 8-K of the Company dated March 21, 2003 and July 10, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to as the "Agreements".

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as aforesaid and as to all matters covered hereby which are governed by or dependent upon the laws of the States of Maine, Florida and Mississippi upon the opinion of Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane"), dated the date hereof and addressed to you and as to all matters covered hereby which are governed by or dependent upon the law of the State of Georgia upon the opinion of Troutman Sanders LLP dated the date hereof and addressed to you, that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi, and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents, or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance

and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by the Underwriters pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with representatives of Deloitte & Touche LLP and with counsel to the Company. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement and the Final Supplemented Prospectus and our participation in the conferences referred to above, (i) we are of the opinion that the Registration Statement, as of its effective date, and the

Final Supplemented Prospectus, as of July 14, 2003, complied as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the relevant requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of its effective date (including the Exchange Act Documents on file with the Commission as of such date), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contained, as of its date, or contains, on the date hereof, any untrue statement of a material fact or omitted, as of its date, or omits, on the date hereof, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the caption "Description of the Series G Senior Notes —Book-Entry Only Issuance —The Depository Trust Company".

We are members of the State Bar of New York and we do not express any opinion herein concerning any law other than the law of the State of New York and the federal law of the United States, and to the extent set forth herein, the law of the States of Maine, Florida, Georgia and Mississippi.

This opinion is rendered solely to you in connection with the above matter. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent except that Beggs & Lane and Troutman Sanders LLP may rely on this opinion in giving their opinions pursuant to Section 5(c) of the Underwriting Agreement, insofar as such opinions relate to matters of New York law, and Troutman Sanders LLP may rely on this opinion in giving its opinion pursuant to Sections 102, 302 and 904 of the Indenture, insofar as such opinion relates to matters of New York law.

Very truly yours,

DEWEY BALLANTINE LLP

**GULF POWER COMPANY**

**TO**

**JPMORGAN CHASE BANK,**
**TRUSTEE**

# SEVENTH SUPPLEMENTAL INDENTURE

**DATED AS OF JULY 22, 2003**

$60,000,000

SERIES G 4.35% SENIOR NOTES

DUE JULY 15, 2013

## TABLE OF CONTENTS[1]


PAGE

ARTICLE 1 ..... 1

Series G Senior Notes ..... 1
SECTION 101. Establishment ..... 1
SECTION 102. Definitions ..... 2
SECTION 103. Payment of Principal and Interest ..... 2
SECTION 104. Denominations ..... 3
SECTION 105. Global Securities ..... 3
SECTION 106. Transfer ..... 4

ARTICLE 2 ..... 4

Miscellaneous Provisions ..... 4
SECTION 201. Recitals by Company ..... 4
SECTION 202. Ratification and Incorporation of Original Indenture ..... 4
SECTION 203. Executed in Counterparts ..... 4


[1]This Table of Contents does not constitute part of the Indenture or have any bearing upon the interpretation of any of its terms and provisions.

THIS SEVENTH SUPPLEMENTAL INDENTURE is made as of the 22nd day of July, 2003, by and between GULF POWER COMPANY, a Maine corporation, One Energy Place, Pensacola, Florida 32520-0100 (the "Company"), and JPMORGAN CHASE BANK, a New York banking corporation, 4 New York Plaza, New York, New York 10004 (the "Trustee").

W I T N E S S E T H:

WHEREAS, the Company has heretofore entered into a Senior Note Indenture, dated as of January 1, 1998 (the "Original Indenture"), with JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as heretofore supplemented;

WHEREAS, the Original Indenture is incorporated herein by this reference and the Original Indenture, as heretofore supplemented and as further supplemented by this Seventh Supplemental Indenture, is herein called the "Indenture";

WHEREAS, under the Original Indenture, a new series of Senior Notes may at any time be established pursuant to a supplemental indenture executed by the Company and the Trustee;

WHEREAS, the Company proposes to create under the Indenture a new series of Senior Notes;

WHEREAS, additional Senior Notes of other series hereafter established, except as may be limited in the Original Indenture as at the time supplemented and modified, may be issued from time to time pursuant to the Indenture as at the time supplemented and modified; and

WHEREAS, all conditions necessary to authorize the execution and delivery of this Seventh Supplemental Indenture and to make it a valid and binding obligation of the Company have been done or performed.

NOW, THEREFORE, in consideration of the agreements and obligations set forth herein and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

## ARTICLE 1

### Series G Senior Notes

SECTION 101. Establishment. There is hereby established a new series of Senior Notes to be issued under the Indenture, to be designated as the Company's Series G 4.35% Senior Notes due July 15, 2013 (the "Series G Notes").

There are to be authenticated and delivered $60,000,000 principal amount of Series G Notes, and such principal amount of the Series G Notes need not be issued at the same time and such series may be reopened at any time, without the consent of the Holders thereof, for issuance of additional Series G Notes. Any such additional Series G Notes will have the same interest rate,

maturity and other terms as those initially issued. No Series G Notes shall be authenticated and delivered except as provided by Sections 203, 303, 304 or 907 of the Original Indenture. The Series G Notes shall be issued in definitive fully registered form.

The Series G Notes shall be issued in the form of one or more Global Securities in substantially the form set out in Exhibit A hereto. The Depositary with respect to the Series G Notes shall be The Depository Trust Company.

The form of the Trustee's Certificate of Authentication for the Series G Notes shall be in substantially the form set forth in Exhibit B hereto.

Each Series G Note shall be dated the date of authentication thereof and shall bear interest from the date of original issuance thereof or from the most recent Interest Payment Date to which interest has been paid or duly provided for. The Series G Notes will not be redeemable at the option of the Company prior to maturity and will not have a sinking fund.

SECTION 102. Definitions. The following defined terms used herein shall, unless the context otherwise requires, have the meanings specified below. Capitalized terms used herein for which no definition is provided herein shall have the meanings set forth in the Original Indenture.

"Interest Payment Dates" means January 15 and July 15 of each year, commencing January 15, 2004.

"Original Issue Date" means July 22, 2003.

"Regular Record Date" means, with respect to each Interest Payment Date, the close of business on the 15th calendar day preceding such Interest Payment Date (whether or not a Business Day).

"Stated Maturity" means July 15, 2013.

SECTION 103. Payment of Principal and Interest. The principal of the Series G Notes shall be due at Stated Maturity. The unpaid principal amount of the Series G Notes shall bear interest at the rate of 4.35% per annum until paid or duly provided for. Interest shall be paid semi-annually in arrears on each Interest Payment Date to the Person in whose name the Series G Notes are registered on the Regular Record Date for such Interest Payment Date, *provided* that interest payable at the Stated Maturity of principal as provided herein will be paid to the Person to whom principal is payable. Any such interest that is not so punctually paid or duly provided for will forthwith cease to be payable to the Holders on such Regular Record Date and may either be paid to the Person or Persons in whose name the Series G Notes are registered at the close of business on a Special Record Date for the payment of such defaulted interest to be fixed by the Trustee, notice whereof shall be given to Holders of the Series G Notes not less than ten (10) days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange, if any, on which the Series G Notes shall be listed, and upon such notice as may be required by any such exchange, all as more fully provided in the Original Indenture.

Payments of interest on the Series G Notes will include interest accrued to but excluding the respective Interest Payment Dates. Interest payments for the Series G Notes shall be computed and paid on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on the Series G Notes is not a Business Day, then a payment of the interest payable on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay), with the same force and effect as if made on the date the payment was originally payable.

Payment of the principal and interest due at the Stated Maturity of the Series G Notes shall be made upon surrender of the Series G Notes at the Corporate Trust Office of the Trustee. The principal of and interest on the Series G Notes shall be paid in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. Payments of interest (including interest on any Interest Payment Date) will be made, subject to such surrender where applicable, at the option of the Company, (i) by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register or (ii) by wire transfer or other electronic transfer at such place and to such account at a banking institution in the United States as may be designated in writing to the Trustee at least sixteen (16) days prior to the date for payment by the Person entitled thereto.

SECTION 104. Denominations. The Series G Notes may be issued in the denominations of $1,000, or any integral multiple thereof.

SECTION 105. Global Securities. The Series G Notes will be issued in the form of one or more Global Securities registered in the name of the Depositary (which shall be The Depository Trust Company) or its nominee. Except under the limited circumstances described below, Series G Notes represented by one or more Global Securities will not be exchangeable for, and will not otherwise be issuable as, Series G Notes in definitive form. The Global Securities described above may not be transferred except by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary or to a successor Depositary or its nominee.

Owners of beneficial interests in such a Global Security will not be considered the Holders thereof for any purpose under the Indenture, and no Global Security representing a Series G Note shall be exchangeable, except for another Global Security of like denomination and tenor to be registered in the name of the Depositary or its nominee or to a successor Depositary or its nominee. The rights of Holders of such Global Security shall be exercised only through the Depositary.

A Global Security shall be exchangeable for Series G Notes registered in the names of persons other than the Depositary or its nominee only if (i) the Depositary notifies the Company that it is unwilling or unable to continue as a Depositary for such Global Security and no successor Depositary shall have been appointed by the Company, or if at any time the Depositary ceases to be a clearing agency registered under the Securities Exchange Act of 1934, as amended, at a time when the Depositary is required to be so registered to act as such Depositary and no successor Depositary shall have been appointed by the Company, in each case within 90 days after the Company receives such notice or becomes aware of such cessation, (ii) the Company in its sole discretion determines

that such Global Security shall be so exchangeable, or (iii) there shall have occurred an Event of Default with respect to the Series G Notes. Any Global Security that is exchangeable pursuant to the preceding sentence shall be exchangeable for Series G Notes registered in such names as the Depositary shall direct.

SECTION 106. Transfer. No service charge will be made for any transfer or exchange of Series G Notes, but payment will be required of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith.

## ARTICLE 2

### Miscellaneous Provisions

SECTION 201. Recitals by Company. The recitals in this Seventh Supplemental Indenture are made by the Company only and not by the Trustee, and all of the provisions contained in the Original Indenture in respect of the rights, privileges, immunities, powers and duties of the Trustee shall be applicable in respect of Series G Notes and of this Seventh Supplemental Indenture as fully and with like effect as if set forth herein in full.

SECTION 202. Ratification and Incorporation of Original Indenture. As heretofore supplemented and as supplemented hereby, the Original Indenture is in all respects ratified and confirmed, and the Original Indenture as heretofore supplemented and as supplemented by this Seventh Supplemental Indenture shall be read, taken and construed as one and the same instrument.

SECTION 203. Executed in Counterparts. This Seventh Supplemental Indenture may be simultaneously executed in several counterparts, each of which shall be deemed to be an original, and such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, each party hereto has caused this instrument to be signed in its name and behalf by its duly authorized officers, all as of the day and year first above written.

ATTEST:

By:_____
Warren E. Tate
Vice President, Secretary
and Treasurer

GULF POWER COMPANY

By:_____
Ronnie R. Labrato
Vice President, Comptroller and Chief
Financial Officer

ATTEST:

By:_____
Virginia Dominguez
Trust Officer

JPMORGAN CHASE BANK, as Trustee

By:_____
Carol Ng
Vice President

IN WITNESS WHEREOF, each party hereto has caused this instrument to be signed in its name and behalf by its duly authorized officers, all as of the day and year first above written.

ATTEST:

GULF POWER COMPANY

By:_____
Warren E. Tate
Vice President, Secretary
and Treasurer

By:_____
Ronnie R. Labrato
Vice President, Comptroller and Chief
Financial Officer

ATTEST:

JPMORGAN CHASE BANK, as Trustee

By:_____
Virginia Dominguez
Trust Officer

By:_____
Carol Ng
Vice President

EXHIBIT A

FORM OF SERIES G NOTE

NO. ____ CUSIP NO. 402479BT5

GULF POWER COMPANY
SERIES G 4.35% SENIOR NOTE
DUE JULY 15, 2013

| | |
|---|---|
| Principal Amount: | $_____ |
| Regular Record Date: | 15th calendar day prior to the applicable Interest Payment Date (whether or not a Business Day) |
| Original Issue Date: | July 22, 2003 |
| Stated Maturity: | July 15, 2013 |
| Interest Payment Dates: | January 15 and July 15 |
| Interest Rate: | 4.35% per annum |
| Authorized Denominations: | $1,000 or any integral multiple thereof |

Gulf Power Company, a Maine corporation (the "Company", which term includes any successor corporation under the Indenture referred to on the reverse hereof), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of _____DOLLARS ($_____) on the Stated Maturity shown above, and to pay interest thereon from the Original Issue Date shown above, or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually in arrears on each Interest Payment Date as specified above, commencing January 15, 2004, and on the Stated Maturity at the rate per annum shown above until the principal hereof is paid or made available for payment and on any overdue principal and on any overdue installment of interest. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date (other than an Interest Payment Date that is the Stated Maturity) will, as provided in such Indenture, be paid to the Person in whose name this Note (the "Note") is registered at the close of business on the Regular Record Date as specified above next preceding such Interest Payment Date, provided that any interest payable at Stated Maturity will be paid to the Person to whom principal is payable. Except as otherwise provided in the Indenture, any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Note is registered at the close of business on a Special Record Date for the payment of such defaulted interest to be fixed by the Trustee, notice whereof shall be given to Holders of Notes of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any

securities exchange, if any, on which the Notes of this series shall be listed, and upon such notice as may be required by any such exchange, all as more fully provided in the Indenture.

Payments of interest on this Note will include interest accrued to but excluding the respective Interest Payment Dates. Interest payments for this Note shall be computed and paid on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on this Note is not a Business Day, then payment of the interest payable on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay), with the same force and effect as if made on the date the payment was originally payable. A "Business Day" shall mean any day other than a Saturday or a Sunday or a day on which banking institutions in New York City are authorized or required by law or executive order to remain closed or a day on which the Corporate Trust Office of the Trustee is closed for business.

Payment of the principal of and interest due at the Stated Maturity of the Series G Notes shall be made upon surrender of the Series G Notes at the Corporate Trust Office of the Trustee. The principal of and interest on the Series G Notes shall be paid in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. Payment of interest (including interest on an Interest Payment Date) will be made, subject to such surrender where applicable, at the option of the Company, (i) by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register or (ii) by wire transfer or other electronic transfer at such place and to such account at a banking institution in the United States as may be designated in writing to the Trustee at least 16 days prior to the date for payment by the Person entitled thereto.

REFERENCE IS HEREBY MADE TO THE FURTHER PROVISIONS OF THIS NOTE SET FORTH ON THE REVERSE HEREOF, WHICH FURTHER PROVISIONS SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS IF SET FORTH AT THIS PLACE.

Unless the certificate of authentication hereon has been executed by the Trustee by manual signature, this Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

Dated:

GULF POWER COMPANY

By:_____
Title:

Attest:

_____
Title:

{Seal of GULF POWER COMPANY appears here}

CERTIFICATE OF AUTHENTICATION

This is one of the Senior Notes referred to in the within-mentioned Indenture.

JPMORGAN CHASE BANK,
as Trustee

By:_____
Authorized Officer

(Reverse Side of Note)

This Note is one of a duly authorized issue of Senior Notes of the Company (the "Notes"), issued and issuable in one or more series under a Senior Note Indenture, dated as of January 1, 1998, as supplemented (the "Indenture"), between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), Trustee (the "Trustee," which term includes any successor trustee under the Indenture), to which Indenture and all indentures incidental thereto reference is hereby made for a statement of the respective rights, limitation of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Notes issued thereunder and of the terms upon which said Notes are, and are to be, authenticated and delivered. This Note is one of the series designated on the face hereof as Series G 4.35% Senior Notes due July 15, 2013 (the "Series G Notes") which is unlimited in aggregate principal amount. Capitalized terms used herein for which no definition is provided herein shall have the meanings set forth in the Indenture.

The Series G Notes will not have a sinking fund.

The Series G Notes will not be redeemable at the option of the Company prior to the Stated Maturity.

If an Event of Default with respect to the Notes of this series shall occur and be continuing, the principal of the Notes of this series may be declared due and payable in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Notes of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of not less than a majority in principal amount of the Notes at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Notes of each series at the time Outstanding, on behalf of the Holders of all Notes of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Note shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest on this Note at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Note is registrable in the Security Register, upon surrender of this Note for registration of transfer at the office or agency of the Company for such purpose, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar

and duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Notes of this series, of authorized denominations and of like tenor and for the same aggregate principal amount, will be issued to the designated transferee or transferees. No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Note for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Note is registered as the owner hereof for all purposes, whether or not this Note be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

The Notes of this series are issuable only in registered form without coupons in denominations of $1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Notes of this series are exchangeable for a like aggregate principal amount of Notes of this series of a different authorized denomination, as requested by the Holder surrendering the same upon surrender of the Note or Notes to be exchanged at the office or agency of the Company.

This Note shall be governed by, and construed in accordance with, the internal laws of the State of New York.

## ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this instrument, shall be construed as though they were written out in full according to applicable laws or regulations:

| | | | |
|---|---|---|---|
| TEN COM- | as tenants in common | UNIF GIFT MIN ACT- | _____ Custodian _____ (Cust) (Minor) |
| TEN ENT- | as tenants by the entireties | | under Uniform Gifts to Minors Act |
| JT TEN- | as joint tenants with right of survivorship and not as tenants in common | | _____ (State) |

Additional abbreviations may also be used though not on the above list.

FOR VALUE RECEIVED, the undersigned hereby sell(s) and transfer(s) unto

_____

(please insert Social Security or other identifying number of assignee)

_____

PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING POSTAL ZIP CODE OF ASSIGNEE

_____

_____

the within Note and all rights thereunder, hereby irrevocably constituting and appointing

_____

_____

agent to transfer said Note on the books of the Company, with full power of substitution in the premises.

Dated: _____ _____

_____

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within instrument in every particular without alteration or enlargement, or any change whatever.

EXHIBIT B

CERTIFICATE OF AUTHENTICATION

This is one of the Senior Notes referred to in the within-mentioned Indenture.

JPMORGAN CHASE BANK,
as Trustee

By:_____
Authorized Officer

**Prospectus Supplement to Prospectus dated April 25, 2003**

# $60,000,000

GULF POWER
A SOUTHERN COMPANY

## Series G 4.35% Senior Notes due July 15, 2013

Gulf Power Company will pay interest on the Series G Senior Notes on January 15 and July 15 of each year. The first payment will be made on January 15, 2004. The Series G Senior Notes will be issued only in denominations of $1,000 and integral multiples of $1,000.

The Series G Senior Notes are not redeemable prior to maturity.

**Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this Prospectus Supplement or the accompanying Prospectus. Any representation to the contrary is a criminal offense.**

| | Per Series G Senior Note | Total |
|---|---|---|
| Initial Public Offering Price* | 99.792% | $59,875,200 |
| Underwriting Discounts and Commissions | 0.650% | $ 390,000 |
| Net Proceeds, before expenses, to Gulf Power Company | 99.142% | $59,485,200 |

* The initial public offering price set forth above does not include accrued interest, if any. Interest on the Series G Senior Notes will accrue from the date the Series G Senior Notes are issued.

*See "Risk Factors" on page S-3 of this Prospectus Supplement for information on certain risks related to the purchase of these securities.*

The underwriters expect to deliver the Series G Senior Notes in book-entry form only through the facilities of The Depository Trust Company against payment in New York, New York on July 22, 2003.

*Joint Book-Running Managers*

**Lehman Brothers** **Scotia Capital**

**KBC Financial Products**

The date of this Prospectus Supplement is July 14, 2003.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained or incorporated by reference in this Prospectus Supplement or the accompanying Prospectus. You must not rely on any unauthorized information or representations. This Prospectus Supplement and accompanying Prospectus is an offer to sell only the Series G Senior Notes and only under circumstances and in jurisdictions where it is lawful to do so. The information incorporated by reference or contained in this Prospectus Supplement and accompanying Prospectus is current only as of its date.

## Table of Contents

### Prospectus Supplement


| | Page |
|---|---|
| Risk Factors | S-3 |
| The Company | S-3 |
| Selected Financial Information | S-3 |
| Use of Proceeds | S-4 |
| Description of the Series G Senior Notes | S-4 |
| Underwriting | S-8 |


### Prospectus


| | |
|---|---|
| About this Prospectus | 2 |
| Risk Factors | 2 |
| Available Information | 2 |
| Incorporation of Certain Documents by Reference | 3 |
| Gulf Power Company | 3 |
| Selected Information | 4 |
| The Trusts | 5 |
| Accounting Treatment of Trusts | 5 |
| Use of Proceeds | 5 |
| Description of the Senior Notes | 6 |
| Description of the Junior Subordinated Notes | 10 |
| Description of the Preferred Securities | 15 |
| Description of the Guarantees | 16 |
| Relationship Among the Preferred Securities, the Junior Subordinated Notes and the Guarantees | 18 |
| Plan of Distribution | 19 |
| Legal Matters | 20 |
| Experts | 20 |

## RISK FACTORS

Investing in the Series G Senior Notes involves risk. Please see the risk factors in Gulf Power Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, which is incorporated by reference in this Prospectus Supplement. Before making an investment decision, you should carefully consider these risks as well as other information contained or incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. The risks and uncertainties not presently known to Gulf Power Company or that Gulf Power Company currently deems immaterial may also impair its business operations, its financial results and the value of the Series G Senior Notes.

## THE COMPANY

Gulf Power Company (the "Company") is a corporation organized under the laws of the State of Maine on November 2, 1925, and admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976 and in Georgia on November 20, 1984. The mailing address of the Company's principal executive offices is One Energy Place, Pensacola, Florida 32520-0100, and the telephone number is (850) 444-6111. The Company is a wholly owned subsidiary of The Southern Company.

The Company is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy within an approximately 7,400 square mile service area within the northwestern portion of the State of Florida.

## SELECTED FINANCIAL INFORMATION

The following selected financial data for the years ended December 31, 1998 through December 31, 2002 and the three months ended March 31, 2003 has been derived from the Company's financial statements and related notes, incorporated by reference in this Prospectus Supplement. The information set forth below is qualified in its entirety by reference to and, therefore, should be read together with management's discussion and analysis of results of operations and financial information, the financial statements and related notes and other financial information incorporated by reference in this Prospectus Supplement.

| | Year Ended December 31, | | | | | Three Months Ended March 31, |
|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
| | (Thousands, except ratios) | | | | | (unaudited) |
| Operating Revenues | $650,518 | $674,099 | $714,319 | $725,203 | $820,467 | $197,838 |
| Earnings Before Income Taxes | 89,356 | 86,515 | 82,607 | 89,716 | 104,397 | 22,291 |
| Net Income after Dividends on Preferred Stock | 56,521 | 53,667 | 51,843 | 58,307 | 67,036 | 13,972 |
| Ratio of Earnings to Fixed Charges(1) | 3.83 | 3.62 | 3.38 | 3.64 | 3.52 | 3.21 |

| | Capitalization As of March 31, 2003 | | |
|---|---|---|---|
| | Actual | As Adjusted(2) | |
| | (Thousands, except percentages) | | (unaudited) |
| Common Stock Equity | $ 556,870 | $ 556,870 | 46.4% |
| Cumulative Preferred Stock | 4,236 | 4,236 | 0.4 |
| Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Company Junior Subordinated Notes | 115,000 | 115,000 | 9.6 |
| Senior Notes | 281,725 | 310,000 | 25.8 |
| Other Long-Term Debt | 214,390 | 214,390 | 17.8 |
| Total | $1,172,221 | $1,200,496 | 100.0% |

(1) This ratio is computed as follows: (i) "Earnings" have been calculated by adding to "Earnings Before Income Taxes" "Interest Expense, Net of Amounts Capitalized," "Distributions on Preferred Securities of Subsidiary" and the debt portion of allowance for funds during construction, and (ii) "Fixed Charges" consist of "Interest Expense, Net of Amounts Capitalized," "Distribution on Preferred Securities of Subsidiary" and the debt portion of allowance for funds used during construction.

(2) Reflects (i) the redemption in April 2003 of $5,000, the redemption in July 2003 of $25,000 and the proposed redemption in August 2003 of $46,695,000 aggregate principal amount of Series A 6.70% Senior Insured Quarterly Notes due June 30, 2038; (ii) the redemption in May 2003 of $45,000,000 aggregate principal amount of Series E 6.00% Senior Notes due January 30, 2012; (iii) the proposed issuance in July 2003 of $60,000,000 aggregate principal amount of Series H 5.25% Senior Notes due July 15, 2033 (the "Series H Senior Notes"); and (iv) the issuance of the Series G Senior Notes offered hereby.

## USE OF PROCEEDS

The proceeds from the sale of the Series G Senior Notes will be applied by the Company to pay at maturity in August 2003 the $60,000,000 outstanding principal amount of its Series C 4.69% Senior Notes due August 1, 2003.

## DESCRIPTION OF THE SERIES G SENIOR NOTES

Set forth below is a description of the specific terms of the Series G 4.35% Senior Notes due July 15, 2013 (the "Series G Senior Notes"). This description supplements, and should be read together with, the description of the general terms and provisions of the senior notes set forth in the accompanying Prospectus under the caption "Description of the Senior Notes." The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the description in the accompanying Prospectus and the Senior Note Indenture dated as of January 1, 1998 (the "Senior Note Indenture") between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Senior Note Indenture Trustee").

### General

The Series G Senior Notes will be issued as a series of senior notes under the Senior Note Indenture. The Series G Senior Notes will initially be issued in the aggregate principal amount of $60,000,000. The Company may, without the consent of the holders of the Series G Senior Notes, issue additional notes having the same ranking and the same interest rate, maturity and other terms as the Series G Senior Notes, except for the public offering price and issue date. Any additional notes having such similar terms, together with the Series G Senior Notes, will constitute a single series of senior notes under the Senior Note Indenture.

The entire principal amount of the Series G Senior Notes will mature and become due and payable, together with any accrued and unpaid interest thereon, on July 15, 2013. The Series G Senior Notes are not subject to any

sinking fund provision. The Series G Senior Notes are available for purchase in denominations of $1,000 and any integral multiple thereof.

**Interest**

Each Series G Senior Note shall bear interest at the rate of 4.35% per annum from the date of original issuance, payable semiannually in arrears on January 15 and July 15 of each year to the person in whose name such Series G Senior Note is registered at the close of business on the fifteenth calendar day prior to such payment date (whether or not a Business Day). The initial interest payment date is January 15, 2004. The amount of interest payable will be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on the Series G Senior Notes is not a Business Day, then payment of the interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay), with the same force and effect as if made on such date. "Business Day" means a day other than (i) a Saturday or Sunday, (ii) a day on which banks in New York, New York are authorized or obligated by law or executive order to remain closed or (iii) a day on which the Senior Note Indenture Trustee's corporate trust office is closed for business.

**Ranking**

The Series G Senior Notes will be direct, unsecured and unsubordinated obligations of the Company ranking equally with all other unsecured and unsubordinated obligations of the Company. The Series G Senior Notes will be effectively subordinated to all secured debt of the Company, including its first mortgage bonds, aggregating approximately $170,000,000 outstanding at March 31, 2003. The Senior Note Indenture contains no restrictions on the amount of additional indebtedness that may be incurred by the Company.

**Redemption**

The Series G Senior Notes will not be redeemable at the option of the Company prior to maturity.

**Book-Entry Only Issuance—The Depository Trust Company**

The Depository Trust Company ("DTC") will act as the initial securities depositary for the Series G Senior Notes. The Series G Senior Notes will be issued only as fully-registered securities in the name of Cede & Co., DTC's nominee, or such other name as may be requested by an authorized representative of DTC. One or more fully registered global Series G Senior Notes certificates will be issued, representing in the aggregate the total principal amount of Series G Senior Notes, and will be deposited with DTC or a custodian therefor.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC

and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants" and, together with Direct Participants, "Participants"). The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www. dtcc.com.

Purchases of Series G Senior Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series G Senior Notes on DTC's records. The ownership interest of each actual purchaser of Series G Senior Notes ("Beneficial Owner") is in turn to be recorded on the Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Participants through which the Beneficial Owners purchased Series G Senior Notes. Transfers of ownership interests in the Series G Senior Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series G Senior Notes, except in the event that use of the book-entry system for the Series G Senior Notes is discontinued.

To facilitate subsequent transfers, all Series G Senior Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series G Senior Notes with DTC and their registration in the name Cede & Co. or such other DTC nominee do not effect any changes in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series G Senior Notes. DTC's records reflect only the identity of the Direct Participants to whose accounts such Series G Senior Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Although voting with respect to the Series G Senior Notes is limited, in those cases where a vote is required, neither DTC nor Cede & Co. (or such other DTC nominee) will itself consent or vote with respect to Series G Senior Notes. Under its usual procedures, DTC would mail an Omnibus Proxy to the Company as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s (or such other DTC nominee's) consenting or voting rights to those Direct Participants to whose accounts the Series G Senior Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Series G Senior Notes will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Company or the Senior Note Indenture Trustee on the relevant payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payments on such payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the account of customers registered in "street name," and will be the responsibility of such Participant and not of DTC or the Company, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Company, disbursement of such payments to Direct Participants is the responsibility of DTC), and disbursement of such payments to the Beneficial Owners is the responsibility of Participants.

Except as provided herein, a Beneficial Owner of a global Series G Senior Note will not be entitled to receive physical delivery of Series G Senior Notes. Accordingly, each Beneficial Owner must rely on the procedures of DTC to exercise any rights under the Series G Senior Notes. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of securities in definitive form. Such laws may impair the ability to transfer beneficial interests in a global Series G Senior Note.

DTC may discontinue providing its services as securities depositary with respect to the Series G Senior Notes at any time by giving reasonable notice to the Company. Under such circumstances, in the event that a successor securities depositary is not obtained, Series G Senior Notes certificates will be printed and delivered to the holders of record. Additionally, the Company may decide to discontinue use of the system of book-entry transfers through DTC (or a successor depositary) with respect to the Series G Senior Notes. In that event, certificates for the Series G Senior Notes will be printed and delivered to the holders of record.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Company believes to be reliable, but the Company takes no responsibility for the accuracy thereof. The Company has no responsibility for the performance by DTC or its Participants of their respective obligations as described herein or under the rules and procedures governing their respective operations.

## UNDERWRITING

Subject to the terms and conditions set forth in the Underwriting Agreement dated the date hereof, the Company has agreed to sell to each of the Underwriters named below (for whom Lehman Brothers Inc. and Scotia Capital (USA) Inc. are acting as Representatives) and each of the Underwriters severally has agreed to purchase the principal amount of Series G Senior Notes set forth opposite its name below:

| Name | Principal Amount of Series G Senior Notes |
|---|---|
| Lehman Brothers Inc. | $27,000,000 |
| Scotia Capital (USA) Inc. | $27,000,000 |
| KBC Financial Products USA Inc. | $ 6,000,000 |
| Total | $60,000,000 |

The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the Series G Senior Notes are subject to, among other things, the approval of certain legal matters by their counsel and certain other conditions. The Underwriters are obligated to take and pay for all the Series G Senior Notes if any are taken.

The Underwriters propose initially to offer all or part of the Series G Senior Notes to the public at the public offering price set forth on the cover page of this Prospectus Supplement and may offer the Series G Senior Notes to certain securities dealers at such price less a concession not in excess of 0.400% of the principal amount of the Series G Senior Notes. The Underwriters may allow, and such dealers may reallow, a discount not in excess of 0.200% of the principal amount of the Series G Senior Notes to certain brokers and dealers. After the initial public offering, the public offering price, concession and discount may be changed.

The Company has agreed, during the period of 15 days from the date of the Underwriting Agreement, not to sell, offer to sell, grant any option for the sale of or otherwise dispose of any Series G Senior Notes, any security convertible into or exchangeable into or exercisable for Series G Senior Notes or any debt securities substantially similar to the Series G Senior Notes (except for the Series G Senior Notes issued pursuant to the Underwriting Agreement and the Series H Senior Notes), without the prior written consent of the Representatives.

The underwriting discounts and commissions to be paid to the Underwriters by the Company with this offering will be 0.650% per Series G Senior Note, for a total of $390,000. In addition, the Company estimates that it will incur other offering expenses of approximately $230,000.

In order to facilitate the offering of the Series G Senior Notes, the Underwriters or their affiliates may engage in transactions that stabilize, maintain or otherwise affect the price of the Series G Senior Notes. Specifically, the Underwriters or their affiliates may over-allot in connection with this offering, creating short positions in the Series G Senior Notes for their own account. In addition, to cover over-allotments or to stabilize the price of the Series G Senior Notes, the Underwriters or their affiliates may bid for and purchase Series G Senior Notes in the open market. Finally, the Underwriters or their affiliates may reclaim selling concessions allowed to an underwriter or dealer for distributing Series G Senior Notes in this offering, if the Underwriters or their affiliates repurchase previously distributed Series G Senior Notes in transactions that cover syndicate short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the Series G Senior Notes above independent market levels. The Underwriters or their affiliates are not required to engage in these activities, and may end any of these activities at any time.

In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases. The imposition of a penalty bid might also have an effect on the price of a security to the extent that it were to discourage resales of the security.

Neither the Company nor any of the Underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Series G Senior Notes. In addition, neither the Company nor any of the Underwriters makes any representation that such transactions will be engaged in or that such transactions, once commenced, will not be discontinued without notice.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

The Underwriters and their affiliates engage in transactions with and perform services for the Company in the ordinary course of business and have engaged, and may in the future engage, in commercial banking and/or investment banking transactions with the Company or its affiliates.

The Series G Senior Notes will not have an established trading market when issued. There can be no assurance of a secondary market for the Series G Senior Notes or the continued liquidity of such market if one develops. It is not anticipated that the Series G Senior Notes will be listed on any securities exchange.

PROSPECTUS

**$360,000,000**

# Gulf Power Company

## Senior Notes

## Junior Subordinated Notes

---

# Gulf Power Capital Trust V
# Gulf Power Capital Trust VI

## Trust Preferred Securities

**Fully and unconditionally guaranteed, as set forth in this Prospectus, by**

# Gulf Power Company

**a subsidiary of The Southern Company**

---

We will provide the specific terms of these securities in supplements to this Prospectus. You should read this Prospectus and the applicable prospectus supplement carefully before you invest.

See "Risk Factors" on page 2 for information on certain risks related to the purchase of securities offered by this Prospectus.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**April 25, 2003**

## ABOUT THIS PROSPECTUS

This Prospectus is part of a registration statement filed with the Securities and Exchange Commission (the "Commission") using a "shelf" registration process under the Securities Act of 1933, as amended (the "1933 Act"). Under the shelf process, Gulf Power Company (the "Company") may sell, in one or more transactions,

- senior notes (the "Senior Notes")
- junior subordinated notes (the "Junior Subordinated Notes")

and Gulf Power Capital Trust V and Gulf Power Capital Trust VI (individually, a "Trust" and collectively, the "Trusts") may sell

- trust preferred securities or capital securities (the "Preferred Securities")

in one or more offerings up to a total dollar amount of $360,000,000. This Prospectus provides a general description of those securities. Each time the Company sells securities, the Company will provide a prospectus supplement that will contain specific information about the terms of that offering ("Prospectus Supplement"). The Prospectus Supplement may also add, update or change information contained in this Prospectus. You should read this Prospectus and the applicable Prospectus Supplement together with additional information under the heading "Available Information."

## RISK FACTORS

Investing in the Company's securities involves risk. Please see the risk factors described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, which is incorporated by reference in this Prospectus. Before making an investment decision, you should carefully consider these risks as well as other information contained or incorporated by reference in this Prospectus. The risks and uncertainties described are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair its business operations, its financial results and the value of its securities.

## AVAILABLE INFORMATION

The Company and the Trusts have filed with the Commission a combined registration statement on Form S-3 (the "Registration Statement," which term encompasses any amendments of the Registration Statement and exhibits to the Registration Statement) under the 1933 Act. As permitted by the rules and regulations of the Commission, this Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto, to which reference is made.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "1934 Act"), and in accordance with the 1934 Act files reports and other information with the Commission. Such reports and other information can be inspected and copied at the public reference facilities of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the Commission at 1-800-SEC-0330. The Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants including the Company that file electronically at http://www.sec.gov. In addition, reports and other material concerning the Company can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

No separate financial statements of any Trust are included in this Prospectus. The Company considers that such statements would not be material to holders of the Preferred Securities because each Trust has no

independent operations and exists for the sole purpose of investing the proceeds of the sale of its Trust Securities (as defined below) in Junior Subordinated Notes.

## INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents have been filed with the Commission pursuant to the 1934 Act and are incorporated by reference in this Prospectus and made a part of this Prospectus:

(a) the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002; and

(b) the Company's Current Report on Form 8-K dated March 21, 2003

All documents filed by the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act subsequent to the date of this Prospectus and prior to the termination of this offering shall be deemed to be incorporated by reference in this Prospectus and made a part of this Prospectus from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference in this Prospectus shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained in this Prospectus or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this Prospectus modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

**The Company will provide without charge to each person to whom this Prospectus is delivered, on the written or oral request of any such person, a copy of any or all documents incorporated herein by reference in this Prospectus (other than the exhibits to such documents unless such exhibits are specifically incorporated by reference in this Prospectus). Such requests should be directed to Warren E. Tate, Vice President, Secretary and Treasurer, Gulf Power Company, One Energy Place, Pensacola, Florida 32520, telephone: (850) 444-6111.**

## GULF POWER COMPANY

The Company is a corporation organized under the laws of the State of Maine on November 2, 1925, and was admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976 and in Georgia on November 20, 1984. The principal executive offices of the Company are located at 500 Bayfront Parkway, Pensacola, Florida 32501, and the telephone number is (850) 444-6111.

The Company is a wholly owned subsidiary of The Southern Company ("Southern"), a holding company registered under the Public Utility Holding Company Act of 1935, as amended. The Company is engaged, within the northwestern portion of the State of Florida, in the generation and purchase of electricity and the distribution and sale of such electricity at retail in 71 communities as well as in rural areas, and at wholesale to a nonaffiliated utility and to a municipality.

## SELECTED INFORMATION

*The following material, which is presented in this Prospectus solely to furnish limited introductory information regarding the Company, has been selected from, or is based upon, the detailed information and financial statements appearing in the documents incorporated in this Prospectus by reference or elsewhere in this Prospectus, is qualified in its entirety by reference to those documents and, therefore, should be read together with those documents.*

### Gulf Power Company

| | |
|---|---|
| Business | Generation, transmission, distribution and sale of electric energy |
| Service Area | Approximately 7,400 square miles within the northwestern portion of the State of Florida |
| Customers at December 31, 2002 | 383,923 |
| Generating Capacity at December 31, 2002 (kilowatts) | 2,808,550 |
| Sources of Generation during 2002 (kilowatt-hours) | Coal (82%), Gas (18%) |

### Certain Ratios

The following table sets forth the Ratios of Earnings to Fixed Charges and Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis) for the periods indicated.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 |
| Ratio of Earnings to Fixed Charges(1) | 3.83 | 3.62 | 3.38 | 3.64 | 3.52 |
| Ratio of Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis)(2) | 3.72 | 3.58 | 3.34 | 3.60 | 3.50 |

(1) This ratio is computed as follows: (i) "Earnings" have been calculated by adding to "Earnings Before Income Taxes" "Interest Expense, Net of Amounts Capitalized," "Distributions on Preferred Securities of Subsidiary" and the debt portion of allowance for funds used during construction, and (ii) "Fixed Charges" consist of "Interest Expense, Net of Amounts Capitalized," "Distributions on Preferred Securities of Subsidiary" and the debt portion of allowance for funds used during construction.

(2) In computing this ratio, "Preferred Dividend Requirements" represent the before tax earnings necessary to pay such dividends, computed at the effective tax rates for the applicable periods.

## THE TRUSTS

Each Trust is a statutory trust created under Delaware law pursuant to the filing of a certificate of trust with the Delaware Secretary of State on April 7, 2003. Each Trust's business is defined in a trust agreement, executed by the Company, as Depositor, and the Delaware Trustee of each Trust. This trust agreement of each Trust will be amended and restated in its entirety substantially in the form filed as an exhibit to the Registration Statement of which this Prospectus forms a part (the "Trust Agreement"). Each Trust Agreement will be qualified as an indenture under the Trust Indenture Act of 1939, as amended (the "1939 Act"). The Company will own all of the common securities (the "Common Securities" and, together with the Preferred Securities, the "Trust Securities") of each Trust. The Trust Securities represent undivided beneficial interests in the assets of the respective Trusts. Each Trust exists for the exclusive purposes of (i) issuing its Trust Securities representing undivided beneficial interests in the assets of such Trust, (ii) investing the gross proceeds of its Trust Securities in a related series of Junior Subordinated Notes, and (iii) engaging in only those other activities necessary, appropriate, convenient or incidental to these purposes. The payment of periodic cash distributions on the Preferred Securities of each Trust and payments on liquidation and redemption with respect to the Preferred Securities of each Trust, in each case to the extent each Trust has funds legally and immediately available for these purposes, will be guaranteed by the Company (individually, a "Guarantee" and collectively, the "Guarantees") to the extent set forth under "Description of the Guarantees."

Each Trust's business and affairs will be conducted by its trustees, which shall be appointed by the Company as the holder of the Common Securities: two officers of the Company as Administrative Trustees; JPMorgan Chase Bank as Property Trustee; and Chase Manhattan Bank USA, National Association as Delaware Trustee (collectively, the "Securities Trustees"). The Property Trustee of each Trust will act as the indenture trustee with respect to such Trust for purposes of compliance with the provisions of the 1939 Act.

The principal place of business of each Trust shall be c/o the Company, 500 Bayfront Parkway, Pensacola, Florida 32501, telephone (850) 444-6111, Attn: Treasurer.

Reference is made to the Prospectus Supplement relating to the Preferred Securities of a Trust for further information concerning such Trust.

## ACCOUNTING TREATMENT OF TRUSTS

For financial reporting purposes, the Trusts will be treated as subsidiaries of the Company and, accordingly, the accounts of the Trusts will be included in the consolidated financial statements of the Company. The Preferred Securities will be presented as a separate line item in the consolidated balance sheet of the Company, and appropriate disclosures concerning the Preferred Securities, the Guarantees and the Junior Subordinated Notes will be included in the notes to the consolidated financial statements. For financial reporting purposes, the Company will record distributions payable on the Preferred Securities as an expense.

## USE OF PROCEEDS

Each Trust will invest the proceeds received from the sale of its Preferred Securities in Junior Subordinated Notes. Except as may be otherwise described in an applicable Prospectus Supplement, the net proceeds received by the Company from such investment and any proceeds received from the sale of its Senior Notes or other sales of its Junior Subordinated Notes will be used in connection with its ongoing construction program, to pay scheduled maturities and/or refundings of its securities, to repay short-term indebtedness to the extent outstanding and for other general corporate purposes.

## DESCRIPTION OF THE SENIOR NOTES

Set forth below is a description of the general terms of the Senior Notes. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Senior Note Indenture, dated as of January 1, 1998, between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Senior Note Indenture Trustee"), as to be supplemented by a supplemental indenture to the Senior Note Indenture establishing the Senior Notes of each series (the Senior Note Indenture, as so supplemented, is referred to as the "Senior Note Indenture"), the forms of which are filed as exhibits to the Registration Statement of which this Prospectus forms a part. The terms of the Senior Notes will include those stated in the Senior Note Indenture and those made a part of the Senior Note Indenture by reference to the 1939 Act. Certain capitalized terms used in this Prospectus and not defined in this Prospectus are defined in the Senior Note Indenture.

### General

The Senior Notes will be issued as unsecured senior debt securities under the Senior Note Indenture and will rank equally with all other unsecured and unsubordinated debt of the Company. The Senior Notes will be effectively subordinated to all secured debt of the Company, including its first mortgage bonds, aggregating approximately $170,000,000 outstanding at December 31, 2002. The Senior Note Indenture does not limit the aggregate principal amount of Senior Notes that may be issued under the Senior Note Indenture and provides that Senior Notes may be issued from time to time in one or more series pursuant to an indenture supplemental to the Senior Note Indenture. The Senior Note Indenture gives the Company the ability to reopen a previous issue of Senior Notes and issue additional Senior Notes of such series, unless otherwise provided.

Reference is made to the Prospectus Supplement that will accompany this Prospectus for the following terms of the series of Senior Notes being offered by such Prospectus Supplement: (i) the title of such Senior Notes; (ii) any limit on the aggregate principal amount of such Senior Notes; (iii) the date or dates on which the principal of such Senior Notes is payable; (iv) the rate or rates at which such Senior Notes shall bear interest, if any, or any method by which such rate or rates will be determined, the date or dates from which such interest will accrue, the interest payment dates on which such interest shall be payable, and the regular record date for the interest payable on any interest payment date; (v) the place or places where the principal of (and premium, if any) and interest, if any, on such Senior Notes shall be payable; (vi) the period or periods within which, the price or prices at which and the terms and conditions on which such Senior Notes may be redeemed, in whole or in part, at the option of the Company or at the option of the holder prior to their maturity; (vii) the obligation, if any, of the Company to redeem or purchase such Senior Notes; (viii) the denominations in which such Senior Notes shall be issuable; (ix) if other than the principal amount of the Senior Notes, the portion of the principal amount of such Senior Notes which shall be payable upon declaration of acceleration of the maturity of such Senior Notes; (x) any deletions from, modifications of or additions to the Events of Default or covenants of the Company as provided in the Senior Note Indenture pertaining to such Senior Notes; (xi) whether such Senior Notes shall be issued in whole or in part in the form of a Global Security; and (xii) any other terms of such Senior Notes.

The Senior Note Indenture does not contain provisions that afford holders of Senior Notes protection in the event of a highly leveraged transaction involving the Company.

### Events of Default

The Senior Note Indenture provides that any one or more of the following described events with respect to the Senior Notes of any series, which has occurred and is continuing, constitutes an "Event of Default" with respect to the Senior Notes of such series:

(a) failure for 10 days to pay interest on the Senior Notes of such series, when due on an interest payment date other than at maturity or upon earlier redemption; or

(b) failure to pay principal or premium, if any, or interest on the Senior Notes of such series when due at maturity or upon earlier redemption; or

(c) failure for three Business Days to deposit any sinking fund payment when due by the terms of a Senior Note of such series; or

(d) failure to observe or perform any other covenant or warranty of the Company in the Senior Note Indenture (other than a covenant or warranty which has expressly been included in the Senior Note Indenture solely for the benefit of one or more series of Senior Notes other than such series) for 90 days after written notice to the Company from the Senior Note Indenture Trustee or the holders of at least 25% in principal amount of the outstanding Senior Notes of such series; or

(e) certain events of bankruptcy, insolvency or reorganization of the Company.

The holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of any series have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Senior Note Indenture Trustee with respect to the Senior Notes of such series. If a Senior Note Indenture Event of Default occurs and is continuing with respect to the Senior Notes of any series, then the Senior Note Indenture Trustee or the holders of not less than 25% in aggregate outstanding principal amount of the Senior Notes of such series may declare the principal amount of the Senior Notes due and payable immediately by notice in writing to the Company (and to the Senior Note Indenture Trustee if given by the holders), and upon any such declaration such principal amount shall become immediately due and payable. At any time after such a declaration of acceleration with respect to the Senior Notes of any series has been made and before a judgment or decree for payment of the money due has been obtained as provided in Article Five of the Senior Note Indenture, the holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of such series may rescind and annul such declaration and its consequences if the default has been cured or waived and the Company has paid or deposited with the Senior Note Indenture Trustee a sum sufficient to pay all matured installments of interest and principal due otherwise than by acceleration and all sums paid or advanced by the Senior Note Indenture Trustee, including reasonable compensation and expenses of the Senior Note Indenture Trustee.

The holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of any series may, on behalf of the holders of all the Senior Notes of such series, waive any past default with respect to such series, except (i) a default in the payment of principal or interest or (ii) a default in respect of a covenant or provision which under Article Nine of the Senior Note Indenture cannot be modified or amended without the consent of the holder of each outstanding Senior Note of such series affected.

**Registration and Transfer**

The Company shall not be required to (i) issue, register the transfer of or exchange Senior Notes of any series during a period of 15 days immediately preceding the date notice is given identifying the Senior Notes of such series called for redemption, or (ii) register the transfer of or exchange any Senior Notes so selected for redemption, in whole or in part, except the unredeemed portion of any Senior Note being redeemed in part.

**Payment and Paying Agent**

Unless otherwise indicated in an applicable Prospectus Supplement, payment of principal of any Senior Notes will be made only against surrender to the Paying Agent of such Senior Notes. Principal of and interest on Senior Notes will be payable subject to any applicable laws and regulations, at the office of such Paying Agent or Paying Agents as the Company may designate from time to time, except that, at the option of the Company, payment of any interest may be made by wire transfer or by check mailed to the address of the person entitled to an interest payment as such address shall appear in the Security Register with respect to the Senior Notes.

Payment of interest on Senior Notes on any interest payment date will be made to the person in whose name the Senior Notes (or predecessor security) are registered at the close of business on the record date for such interest payment.

Unless otherwise indicated in an applicable Prospectus Supplement, the Senior Note Indenture Trustee will act as Paying Agent with respect to the Senior Notes. The Company may at any time designate additional Paying Agents or rescind the designation of any Paying Agents or approve a change in the office through which any Paying Agent acts.

All moneys paid by the Company to a Paying Agent for the payment of the principal of or interest on the Senior Notes of any series which remain unclaimed at the end of two years after such principal or interest shall have become due and payable will be repaid to the Company, and the holder of such Senior Notes will from that time forward look only to the Company for payment of such principal and interest.

**Modification**

The Senior Note Indenture contains provisions permitting the Company and the Senior Note Indenture Trustee, with the consent of the holders of not less than a majority in principal amount of the outstanding Senior Notes of each series that is affected, to modify the Senior Note Indenture or the rights of the holders of the Senior Notes of such series; provided, that no such modification may, without the consent of the holder of each outstanding Senior Note that is affected, (i) change the stated maturity of the principal of, or any installment of principal of or interest on, any Senior Note, or reduce the principal amount of any Senior Note or the rate of interest on any Senior Note or any premium payable upon the redemption thereof, or change the method of calculating the rate of interest on any Senior Note, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity of any Senior Note (or, in the case of redemption, on or after the redemption date), or (ii) reduce the percentage of principal amount of the outstanding Senior Notes of any series, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the Senior Note Indenture or certain defaults under the Senior Note Indenture and their consequences) provided for in the Senior Note Indenture, or (iii) modify any of the provisions of the Senior Note Indenture relating to supplemental indentures, waiver of past defaults, or waiver of certain covenants, except to increase any such percentage or to provide that certain other provisions of the Senior Note Indenture cannot be modified or waived without the consent of the holder of each outstanding Senior Note that is affected.

In addition, the Company and the Senior Note Indenture Trustee may execute, without the consent of any holders of Senior Notes, any supplemental indenture for certain other usual purposes, including the creation of any new series of Senior Notes.

**Consolidation, Merger and Sale**

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any person, unless (1) such other corporation or person is a corporation organized and existing under the laws of the United States, any state in the United States or the District of Columbia and such other corporation or person expressly assumes, by supplemental indenture executed and delivered to the Senior Note Indenture Trustee, the payment of the principal of (and premium, if any) and interest on all the Senior Notes and the performance of every covenant of the Senior Note Indenture on the part of the Company to be performed or observed; (2) immediately after giving effect to such transactions, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and (3) the Company has delivered to the Senior Note Indenture Trustee an officers' certificate and an opinion of counsel, each stating that such transaction complies with the provisions of the Senior Note Indenture governing consolidation, merger, conveyance, transfer or lease and that all conditions precedent to the transaction have been complied with.

### Information Concerning the Senior Note Indenture Trustee

The Senior Note Indenture Trustee, prior to an Event of Default with respect to Senior Notes of any series, undertakes to perform, with respect to Senior Notes of such series, only such duties as are specifically set forth in the Senior Note Indenture and, in case an Event of Default with respect to Senior Notes of any series has occurred and is continuing, shall exercise, with respect to Senior Notes of such series, the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provision, the Senior Note Indenture Trustee is under no obligation to exercise any of the powers vested in it by the Senior Note Indenture at the request of any holder of Senior Notes of any series, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred by the Senior Note Indenture Trustee. The Senior Note Indenture Trustee is not required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties if the Senior Note Indenture Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

JPMorgan Chase Bank, the Senior Note Indenture Trustee, also serves as Subordinated Note Indenture Trustee, as Property Trustee and as Guarantee Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with JPMorgan Chase Bank. JPMorgan Chase Bank also serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

### Governing Law

The Senior Note Indenture and the Senior Notes will be governed by, and construed in accordance with, the internal laws of the State of New York.

### Miscellaneous

The Company will have the right at all times to assign any of its rights or obligations under the Senior Note Indenture to a direct or indirect wholly-owned subsidiary of the Company; provided, that, in the event of any such assignment, the Company will remain primarily liable for all such obligations. Subject to the foregoing, the Senior Note Indenture will be binding upon and inure to the benefit of the parties of the Senior Note Indenture and their respective successors and assigns.

## DESCRIPTION OF THE JUNIOR SUBORDINATED NOTES

Set forth below is a description of the general terms of the Junior Subordinated Notes. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Subordinated Note Indenture, dated as of January 1, 1997, between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Subordinated Note Indenture Trustee"), as to be supplemented by a supplemental indenture to the Subordinated Note Indenture establishing the Junior Subordinated Notes of each series (the Subordinated Note Indenture, as so supplemented, is referred to as the "Subordinated Note Indenture"), the forms of which are filed as exhibits to the Registration Statement of which this Prospectus forms a part. The terms of the Junior Subordinated Notes will include those stated in the Subordinated Note Indenture and those made a part of the Subordinated Note Indenture by reference to the 1939 Act. Certain capitalized terms used in this Prospectus and not defined in this Prospectus are defined in the Subordinated Note Indenture.

### General

The Junior Subordinated Notes will be issued as unsecured junior subordinated debt securities under the Subordinated Note Indenture. The Subordinated Note Indenture does not limit the aggregate principal amount of Junior Subordinated Notes that may be issued under the Subordinated Note Indenture and provides that Junior Subordinated Notes may be issued from time to time in one or more series pursuant to an indenture supplemental to the Subordinated Note Indenture. The Subordinated Note Indenture gives the Company the ability to reopen a previous issue of Junior Subordinated Notes and issue additional Junior Subordinated Notes of such series, unless otherwise provided.

Reference is made to the Prospectus Supplement that will accompany this Prospectus for the following terms of the series of Junior Subordinated Notes being offered by such Prospectus Supplement: (i) the title of such Junior Subordinated Notes; (ii) any limit on the aggregate principal amount of such Junior Subordinated Notes; (iii) the date or dates on which the principal of such Junior Subordinated Notes is payable; (iv) the rate or rates at which such Junior Subordinated Notes shall bear interest, if any, or any method by which such rate or rates will be determined, the date or dates from which such interest will accrue, the interest payment dates on which such interest shall be payable, and the regular record date for the interest payable on any interest payment date; (v) the place or places where the principal of (and premium, if any) and interest, if any, on such Junior Subordinated Notes shall be payable; (vi) the period or periods within which, the price or prices at which and the terms and conditions on which such Junior Subordinated Notes may be redeemed, in whole or in part, at the option of the Company or at the option of the holder prior to their maturity; (vii) the obligation, if any, of the Company to redeem or purchase such Junior Subordinated Notes; (viii) the denominations in which such Junior Subordinated Notes shall be issuable; (ix) if other than the principal amount of the Junior Subordinated Notes, the portion of the principal amount of such Junior Subordinated Notes which shall be payable upon declaration of acceleration of the maturity of such Junior Subordinated Notes; (x) any deletions from, modifications of or additions to the Events of Default or covenants of the Company as provided in the Subordinated Note Indenture pertaining to such Junior Subordinated Notes; (xi) whether such Junior Subordinated Notes shall be issued in whole or in part in the form of a Global Security; (xii) the right, if any, of the Company to extend the interest payment periods of such Junior Subordinated Notes; and (xiii) any other terms of such Junior Subordinated Notes. The terms of each series of Junior Subordinated Notes issued to a Trust will correspond to those of the related Preferred Securities of such Trust as described in the Prospectus Supplement relating to such Preferred Securities.

The Subordinated Note Indenture does not contain provisions that afford holders of Junior Subordinated Notes protection in the event of a highly leveraged transaction involving the Company.

### Subordination

The Junior Subordinated Notes are subordinated and junior in right of payment to all Senior Indebtedness (as defined below) of the Company. No payment of principal of (including redemption payments, if any), or premium,

if any, or interest on (including Additional Interest (as defined below)) the Junior Subordinated Notes may be made if (a) any Senior Indebtedness is not paid when due and any applicable grace period with respect to such default has ended with such default not being cured or waived or otherwise ceasing to exist, or (b) the maturity of any Senior Indebtedness has been accelerated because of a default, or (c) notice has been given of the exercise of an option to require repayment, mandatory payment or prepayment or otherwise. Upon any payment or distribution of assets of the Company to creditors upon any liquidation, dissolution, winding-up, reorganization, assignment for the benefit of creditors, marshalling of assets or liabilities, or any bankruptcy, insolvency or similar proceedings of the Company, the holders of Senior Indebtedness shall be entitled to receive payment in full of all amounts due or to become due on or in respect of all Senior Indebtedness before the holders of the Junior Subordinated Notes are entitled to receive or retain any payment or distribution. Subject to the prior payment of all Senior Indebtedness, the rights of the holders of the Junior Subordinated Notes will be subrogated to the rights of the holders of Senior Indebtedness to receive payments and distributions applicable to such Senior Indebtedness until all amounts owing on the Junior Subordinated Notes are paid in full.

The term "Senior Indebtedness" means, with respect to the Company, (i) any payment due in respect of indebtedness of the Company, whether outstanding at the date of execution of the Subordinated Note Indenture or incurred, created or assumed after the execution of the Subordinated Note Indenture, (a) in respect of money borrowed (including any financial derivative, hedging or futures contract or similar instrument) and (b) evidenced by securities, debentures, bonds, notes or other similar instruments issued by the Company that, by their terms, are senior or senior subordinated debt securities including, without limitation, all obligations under its indentures with various trustees; (ii) all capital lease obligations; (iii) all obligations issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations of the Company under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business and long-term purchase obligations); (iv) all obligations for the reimbursement of any letter of credit, banker's acceptance, security purchase facility or similar credit transaction; (v) all obligations of the type referred to in clauses (i) through (iv) above of other persons the payment of which the Company is responsible or liable as obligor, guarantor or otherwise; and (vi) all obligations of the type referred to in clauses (i) through (v) above of other persons secured by any lien on any property or asset of the Company (whether or not such obligation is assumed by the Company), except for (1) any such indebtedness that is by its terms subordinated to or *pari passu* with the Junior Subordinated Notes and (2) any unsecured indebtedness between or among the Company or its affiliates. Such Senior Indebtedness shall continue to be Senior Indebtedness and be entitled to the benefits of the subordination provisions contained in the Subordinated Note Indenture irrespective of any amendment, modification or waiver of any term of such Senior Indebtedness.

The Subordinated Note Indenture does not limit the aggregate amount of Senior Indebtedness that may be issued by the Company. As of December 31, 2002, Senior Indebtedness of the Company aggregated approximately $550,000,000.

**Additional Interest**

"Additional Interest" is defined in the Subordinated Note Indenture as (i) such additional amounts as may be required so that the net amounts received and retained by a holder of Junior Subordinated Notes (if the holder is a Trust) after paying taxes, duties, assessments or governmental charges of whatever nature (other than withholding taxes) imposed by the United States or any other taxing authority will not be less than the amounts the holder would have received had no such taxes, duties, assessments or other governmental charges been imposed; and (ii) any interest due and not paid on an interest payment date, together with interest on such interest due from such interest payment date to the date of payment, compounded quarterly, on each interest payment date.

**Certain Covenants**

The Company covenants in the Subordinated Note Indenture, for the benefit of the holders of each series of Junior Subordinated Notes, that, (i) if at such time the Company shall have given notice of its election to extend an interest payment period for such series of Junior Subordinated Notes and such extension shall be continuing,

(ii) if at such time the Company shall be in default with respect to its payment or other obligations under the Guarantee with respect to the Trust Securities, if any, related to such series of Junior Subordinated Notes, or (iii) if at such time an Event of Default under the Subordinated Note Indenture with respect to such series of Junior Subordinated Notes shall have occurred and be continuing, (a) the Company shall not declare or pay any dividend or make any distributions with respect to, or redeem, purchase, acquire or make a liquidation payment with respect to, any of its capital stock, and (b) the Company shall not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities (including guarantees other than the Guarantees) issued by the Company which rank equally with or junior to the Junior Subordinated Notes. None of the foregoing, however, shall restrict (i) any of the actions described in the preceding sentence resulting from any reclassifications of the Company's capital stock or the exchange or conversion of one class or series of the Company's capital stock for another class or series of the Company's capital stock, or (ii) the purchase of fractional interests in shares of the Company's capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged.

The Subordinated Note Indenture further provides that, for so long as the Trust Securities of any Trust remain outstanding, the Company covenants (i) to directly or indirectly maintain 100% ownership of the Common Securities of such Trust; provided, however, that any permitted successor of the Company under the Subordinated Note Indenture may succeed to the Company's ownership of such Common Securities, and (ii) to use its reasonable efforts to cause such Trust (a) to remain a statutory trust, except in connection with the distribution of Junior Subordinated Notes to the holders of Trust Securities in liquidation of such Trust, the redemption of all of the Trust Securities of such Trust, or certain mergers, consolidations or amalgamations, each as permitted by the related Trust Agreement, and (b) to otherwise continue to be classified as a grantor trust for United States federal income tax purposes.

**Events of Default**

The Subordinated Note Indenture provides that any one or more of the following described events with respect to the Junior Subordinated Notes of any series, which has occurred and is continuing, constitutes an "Event of Default" with respect to the Junior Subordinated Notes of such series:

(a) failure for 10 days to pay interest on the Junior Subordinated Notes of such series, including any Additional Interest (as defined in clause (ii) of the definition of Additional Interest in the Subordinated Note Indenture) in respect of the Junior Subordinated Notes, when due on an interest payment date other than at maturity or upon earlier redemption; provided, however, that a valid extension of the interest payment period by the Company shall not constitute a default in the payment of interest for this purpose; or

(b) failure for 10 days to pay Additional Interest (as defined in clause (i) of the definition of Additional Interest in the Subordinated Note Indenture); or

(c) failure to pay principal or premium, if any, or interest, including Additional Interest (as defined in clause (ii) of the definition of Additional Interest in the Subordinated Note Indenture), on the Junior Subordinated Notes of such series when due at maturity or upon earlier redemption; or

(d) failure for three Business Days to deposit any sinking fund payment when due by the terms of a Junior Subordinated Note of such series; or

(e) failure to observe or perform any other covenant or warranty of the Company in the Subordinated Note Indenture (other than a covenant or warranty which has expressly been included in the Subordinated Note Indenture solely for the benefit of one or more series of Junior Subordinated Notes other than such series) for 90 days after written notice to the Company from the Subordinated Note Indenture Trustee or the holders of at least 25% in principal amount of the outstanding Junior Subordinated Notes of such series; or

(f) certain events of bankruptcy, insolvency or reorganization of the Company.

The holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of any series have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Subordinated Note Indenture Trustee with respect to the Junior Subordinated Notes of such series. If a Subordinated Note Indenture Event of Default occurs and is continuing with respect to the Junior Subordinated Notes of any series, then the Subordinated Note Indenture Trustee or the holders of not less than

25% in aggregate outstanding principal amount of the Junior Subordinated Notes of such series may declare the principal amount of the Junior Subordinated Notes due and payable immediately by notice in writing to the Company (and to the Subordinated Note Indenture Trustee if given by the holders), and upon any such declaration such principal amount shall become immediately due and payable. At any time after such a declaration of acceleration with respect to the Junior Subordinated Notes of any series had been made and before a judgment or decree for payment of the money due has been obtained as provided in Article Five of the Subordinated Note Indenture, the holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of such series may rescind and annul such declaration and its consequences if the default has been cured or waived and the Company has paid or deposited with the Subordinated Note Indenture Trustee a sum sufficient to pay all matured installments of interest (including any Additional Interest) and principal due otherwise than by acceleration and all sums paid or advanced by the Subordinated Note Indenture Trustee, including reasonable compensation and expenses of the Subordinated Note Indenture Trustee.

A holder of Preferred Securities may institute a legal proceeding directly against the Company, without first instituting a legal proceeding against the Property Trustee or any other person or entity, for enforcement of payment to such holder of principal of or interest on the Junior Subordinated Notes of the related series having a principal amount equal to the aggregate stated liquidation amount of the Preferred Securities of such holder on or after the due dates specified in the Junior Subordinated Notes of such series.

The holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of any series may, on behalf of the holders of all the Junior Subordinated Notes of such series, waive any past default with respect to such series, except (i) a default in the payment of principal or interest or (ii) a default in respect of a covenant or provision which under Article Nine of the Subordinated Note Indenture cannot be modified or amended without the consent of the holder of each outstanding Junior Subordinated Note of such series affected.

**Registration and Transfer**

The Company shall not be required to (i) issue, register the transfer of or exchange Junior Subordinated Notes of any series during a period of 15 days immediately preceding the date notice is given identifying the Junior Subordinated Notes of such series called for redemption, or (ii) register the transfer of or exchange any Junior Subordinated Notes so selected for redemption, in whole or in part, except the unredeemed portion of any Junior Subordinated Note being redeemed in part.

**Payment and Paying Agent**

Unless otherwise indicated in an applicable Prospectus Supplement, payment of principal of any Junior Subordinated Notes will be made only against surrender to the Paying Agent of such Junior Subordinated Notes. Principal of and interest on Junior Subordinated Notes will be payable, subject to any applicable laws and regulations, at the office of such Paying Agent or Paying Agents as the Company may designate from time to time, except that, at the option of the Company, payment of any interest may be made by wire transfer or by check mailed to the address of the person entitled to an interest payment as such address shall appear in the Security Register with respect to the Junior Subordinated Notes. Payment of interest on Junior Subordinated Notes on any interest payment date will be made to the person in whose name the Junior Subordinated Notes (or predecessor security) are registered at the close of business on the record date for such interest payment.

Unless otherwise indicated in an applicable Prospectus Supplement, the Subordinated Note Indenture Trustee will act as Paying Agent with respect to the Junior Subordinated Notes. The Company may at any time designate additional Paying Agents or rescind the designation of any Paying Agents or approve a change in the office through which any Paying Agent acts.

All moneys paid by the Company to a Paying Agent for the payment of the principal of or interest on the Junior Subordinated Notes of any series which remain unclaimed at the end of two years after such principal or interest shall have become due and payable will be repaid to the Company, and the holder of such Junior Subordinated Notes will from that time forward look only to the Company for payment of such principal and interest.

**Modification**

The Subordinated Note Indenture contains provisions permitting the Company and the Subordinated Note Indenture Trustee, with the consent of the holders of not less than a majority in principal amount of the outstanding Junior Subordinated Notes of each series that is affected, to modify the Subordinated Note Indenture or the rights of the holders of the Junior Subordinated Notes of such series; provided, that no such modification may, without the consent of the holder of each outstanding Junior Subordinated Note that is affected, (i) change the stated maturity of the principal of, or any installment of principal of or interest on, any Junior Subordinated Note, or reduce the principal amount of any Junior Subordinated Note or the rate of interest (including Additional Interest) on any Junior Subordinated Note or any premium payable upon the redemption thereof, or change the method of calculating the rate of interest on any Junior Subordinated Note, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity of any Junior Subordinated Note (or, in the case of redemption, on or after the redemption date), or (ii) reduce the percentage of principal amount of the outstanding Junior Subordinated Notes of any series, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the Subordinated Note Indenture or certain defaults under the Subordinated Note Indenture and their consequences) provided for in the Subordinated Note Indenture, or (iii) modify any of the provisions of the Subordinated Note Indenture relating to supplemental indentures, waiver of past defaults, or waiver of certain covenants, except to increase any such percentage or to provide that certain other provisions of the Subordinated Note Indenture cannot be modified or waived without the consent of the holder of each outstanding Junior Subordinated Note that is affected, or (iv) modify the provisions of the Subordinated Note Indenture with respect to the subordination of the Junior Subordinated Notes in a manner adverse to such holder.

In addition, the Company and the Subordinated Note Indenture Trustee may execute, without the consent of any holders of Junior Subordinated Notes, any supplemental indenture for certain other usual purposes, including the creation of any new series of Junior Subordinated Notes.

**Consolidation, Merger and Sale**

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any person, unless (1) such other corporation or person is a corporation organized and existing under the laws of the United States, any state of the United States or the District of Columbia and such other corporation or person expressly assumes, by supplemental indenture executed and delivered to the Subordinated Note Indenture Trustee, the payment of the principal of (and premium, if any) and interest (including Additional Interest) on all the Junior Subordinated Notes and the performance of every covenant of the Subordinated Note Indenture on the part of the Company to be performed or observed; (2) immediately after giving effect to such transactions, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and (3) the Company has delivered to the Subordinated Note Indenture Trustee an officers' certificate and an opinion of counsel, each stating that such transaction complies with the provisions of the Subordinated Note Indenture governing consolidation, merger, conveyance, transfer or lease and that all conditions precedent to the transaction have been complied with.

**Information Concerning the Subordinated Note Indenture Trustee**

The Subordinated Note Indenture Trustee, prior to an Event of Default with respect to Junior Subordinated Notes of any series, undertakes to perform, with respect to Junior Subordinated Notes of such series, only such duties as are specifically set forth in the Subordinated Note Indenture and, in case an Event of Default with respect to Junior Subordinated Notes of any series has occurred and is continuing, shall exercise, with respect to Junior Subordinated Notes of such series, the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provision, the Subordinated Note Indenture Trustee is under no obligation to exercise any of the powers vested in it by the Subordinated Note Indenture at the request of any

holder of Junior Subordinated Notes of any series, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred by the Subordinated Note Indenture Trustee. The Subordinated Note Indenture Trustee is not required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties if the Subordinated Note Indenture Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

JPMorgan Chase Bank, the Subordinated Note Indenture Trustee, also serves as Senior Note Indenture Trustee, as Property Trustee and as Guarantee Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with JPMorgan Chase Bank. JPMorgan Chase Bank also serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

### Governing Law

The Subordinated Note Indenture and the Junior Subordinated Notes will be governed by, and construed in accordance with, the internal laws of the State of New York.

### Miscellaneous

The Company will have the right at all times to assign any of its rights or obligations under the Subordinated Note Indenture to a direct or indirect wholly-owned subsidiary of the Company; provided, that, in the event of any such assignment, the Company will remain primarily liable for all such obligations. Subject to the foregoing, the Subordinated Note Indenture will be binding upon and inure to the benefit of the parties to the Subordinated Note Indenture and their respective successors and assigns.

## DESCRIPTION OF THE PREFERRED SECURITIES

Each Trust may issue only one series of Preferred Securities having terms described in the Prospectus Supplement relating to the Preferred Securities. The Trust Agreement of each Trust will authorize the Administrative Trustees, on behalf of the Trust, to issue the Preferred Securities of such Trust. The Preferred Securities of each Trust will have such terms, including distributions, redemption, voting, liquidation rights and such other preferred, deferral or other special rights or such restrictions as shall be set forth in the Trust Agreement of such Trust. Reference is made to the Prospectus Supplement relating to the Preferred Securities of a Trust for specific terms, including (i) the distinctive designation of such Preferred Securities; (ii) the number of Preferred Securities issued by such Trust; (iii) the annual distribution rate (or method of determining such rate) for Preferred Securities of such Trust and the date or dates on which such distributions shall be payable; (iv) whether distributions on such Preferred Securities shall be cumulative and, in the case of Preferred Securities having cumulative distribution rights, the date or dates, or method of determining the date or dates, from which distributions on such Preferred Securities shall be cumulative; (v) the amount or amounts that shall be paid out of the assets of such Trust to the holders of the Preferred Securities of such Trust upon voluntary or involuntary dissolution, winding-up or termination of such Trust; (vi) the obligation, if any, of such Trust to purchase or redeem such Preferred Securities and the price or prices at which, the period or periods within which, and the terms and conditions upon which such Preferred Securities shall be purchased or redeemed, in whole or in part, pursuant to such obligation; (vii) the voting rights, if any, of such Preferred Securities in addition to those required by law, including the number of votes per Preferred Security and any requirement for the approval by the holders of Preferred Securities as a condition to specified action or amendments to the Trust Agreement of such Trust; (viii) the rights, if any, to defer distributions on the Preferred Securities by extending the interest payment period on the related Junior Subordinated Notes; and (ix) any other relative rights, preferences, privileges, limitations or restrictions of such Preferred Securities not inconsistent with the Trust Agreement of such Trust or applicable law. All Preferred Securities offered by this Prospectus will be guaranteed by the Company to the extent set forth under "Description of the Guarantees." Any material United States federal income tax considerations applicable to an offering of Preferred Securities will be described in the Prospectus Supplement relating to the Preferred Securities.

## DESCRIPTION OF THE GUARANTEES

Set forth below is a summary of information concerning the Guarantees that will be executed and delivered by the Company for the benefit of the holders of Preferred Securities of the respective Trusts from time to time. Each Guarantee will be qualified as an indenture under the 1939 Act. JPMorgan Chase Bank will act as indenture trustee under each Guarantee (the "Guarantee Trustee") for purposes of the 1939 Act. The terms of the respective Guarantees will be those set forth in such Guarantee and those made part of such Guarantee by the 1939 Act. The following summary does not purport to be complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the Guarantees, the form of which is filed as an exhibit to the Registration Statement of which this Prospectus forms a part, and the 1939 Act. Each Guarantee will be held by the Guarantee Trustee for the benefit of holders of the Preferred Securities to which it relates.

### General

Pursuant to each Guarantee, the Company will irrevocably and unconditionally agree, to the extent set forth in such Guarantee, to pay in full, to the holders of the related Preferred Securities, the Guarantee Payments (as defined below), to the extent not paid by, or on behalf of, the related Trust, regardless of any defense, right of set-off or counterclaim that the Company may have or assert against any person. The following payments or distributions with respect to the Preferred Securities of any Trust to the extent not paid or made by, or on behalf of, such Trust will be subject to the Guarantee related to the Preferred Securities (without duplication): (i) any accrued and unpaid distributions required to be paid on the Preferred Securities of such Trust but if and only if and to the extent that such Trust has funds legally and immediately available for these distributions, (ii) the redemption price, including all accrued and unpaid distributions to the date of redemption (the "Redemption Price"), with respect to any Preferred Securities called for redemption by such Trust, but if and only to the extent such Trust has funds legally and immediately available to pay such Redemption Price, and (iii) upon a dissolution, winding-up or termination of such Trust (other than in connection with the distribution of Junior Subordinated Notes to the holders of Trust Securities of such Trust or the redemption of all of the Preferred Securities of such Trust), the lesser of (a) the aggregate of the liquidation amount and all accrued and unpaid distributions on the Preferred Securities of such Trust to the date of payment, to the extent such Trust has funds legally and immediately available for such purpose, and (b) the amount of assets of such Trust remaining available for distribution to holders of Preferred Securities of such Trust in liquidation of such Trust (the "Guarantee Payments"). The Company's obligation to make a Guarantee Payment may be satisfied by direct payment of the required amounts by the Company to the holders of the related Preferred Securities or by causing the related Trust to pay such amounts to such holders.

Each Guarantee will be a guarantee of the Guarantee Payments with respect to the related Preferred Securities from the time of issuance of such Preferred Securities, but will not apply to the payment of distributions and other payments on such Preferred Securities when the related Trust does not have sufficient funds legally and immediately available to make such distributions or other payments. **If the Company does not make interest payments on the Junior Subordinated Notes held by the Property Trustee under any Trust, such Trust will not make distributions on its Preferred Securities.**

### Subordination

The Company's obligations under each Guarantee to make the Guarantee Payments will constitute an unsecured obligation of the Company and will rank (i) subordinate and junior in right of payment to all other liabilities of the Company, including the Junior Subordinated Notes, except those obligations or liabilities made equal or subordinate by their terms, (ii) equal to the most senior preferred or preference stock now issued by the Company or issued at a later date by the Company and with any guarantee now entered into by the Company or entered into at a later date by the Company in respect of any preferred or preference securities of any affiliate of the Company, and (iii) senior to all common stock of the Company. The terms of the Preferred Securities will provide that each holder of Preferred Securities by acceptance of the Preferred Securities agrees to the subordination

provisions and other terms of the Guarantee related thereto. The Company has outstanding preferred stock that ranks equal to the Guarantees and common stock that ranks junior to the Guarantees.

Each Guarantee will constitute a guarantee of payment and not of collection (that is, the guaranteed party may institute a legal proceeding directly against the guarantor to enforce its rights under the guarantee without first instituting a legal proceeding against any other person or entity).

**Amendments and Assignment**

Except with respect to any changes that do not materially and adversely affect the rights of holders of the related Preferred Securities (in which case no consent will be required), each Guarantee may be amended only with the prior approval of the holders of not less than 66⅔% in liquidation amount of such outstanding Preferred Securities. The manner of obtaining any such approval of holders of the Preferred Securities will be as set forth in an accompanying Prospectus Supplement. All guarantees and agreements contained in each Guarantee shall bind the successors, assigns, receivers, trustees and representatives of the Company and shall inure to the benefit of the holders of the related Preferred Securities then outstanding.

**Termination**

Each Guarantee will terminate and be of no further force and effect as to the related Preferred Securities upon full payment of the Redemption Price of all such Preferred Securities, upon distribution of Junior Subordinated Notes to the holders of such Preferred Securities, or upon full payment of the amounts payable upon liquidation of the related Trust. Each Guarantee will continue to be effective or will be reinstated, as the case may be, if at any time any holder of the related Preferred Securities must restore payment of any sums paid with respect to such Preferred Securities or under such Guarantee.

**Events of Default**

An event of default under each Guarantee will occur upon the failure by the Company to perform any of its payment obligations under such Guarantee. The holders of a majority in liquidation amount of the Preferred Securities to which any Guarantee relates have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Guarantee Trustee in respect of such Guarantee or to direct the exercise of any trust or power conferred upon the Guarantee Trustee under such Guarantee. Any holder of the related Preferred Securities may institute a legal proceeding directly against the Company to enforce its rights under such Guarantee without first instituting a legal proceeding against the Guarantee Trustee or any other person or entity. The holders of a majority in liquidation amount of Preferred Securities of any series may, by vote, on behalf of the holders of all the Preferred Securities of such series, waive any past event of default and its consequences.

**Information Concerning the Guarantee Trustee**

The Guarantee Trustee, prior to the occurrence of any event of default with respect to any Guarantee and after the curing or waiving of all events of default with respect to such Guarantee, undertakes to perform only such duties as are specifically set forth in such Guarantee and, in case an event of default has occurred, shall exercise the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provisions, the Guarantee Trustee is under no obligation to exercise any of the powers vested in it by any Guarantee at the request of any holder of the related Preferred Securities, unless offered reasonable indemnity against the costs, expenses and liabilities which might be incurred by the Guarantee Trustee.

JPMorgan Chase Bank, the Guarantee Trustee, also serves as Property Trustee, as Senior Note Indenture Trustee and as Subordinated Note Indenture Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with JPMorgan Chase Bank. JPMorgan Chase Bank serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

### Governing Law

Each Guarantee will be governed by, and construed in accordance with, the internal laws of the State of New York.

### The Agreements as to Expenses and Liabilities

Pursuant to an Agreement as to Expenses and Liabilities to be entered into by the Company under each Trust Agreement, the Company will irrevocably and unconditionally guarantee to each person or entity to whom each Trust becomes indebted or liable the full payment of any indebtedness, expenses or liabilities of such Trust, other than obligations of such Trust to pay to the holders of the related Preferred Securities or other similar interests in such Trust the amounts due such holders pursuant to the terms of such Preferred Securities or such other similar interests, as the case may be.

## RELATIONSHIP AMONG THE PREFERRED SECURITIES, THE JUNIOR SUBORDINATED NOTES AND THE GUARANTEES

As long as payments of interest and other payments are made when due on each series of Junior Subordinated Notes issued to a Trust, such payments will be sufficient to cover distributions and payments due on the related Trust Securities of such Trust primarily because (i) the aggregate principal amount of each series of Junior Subordinated Notes will be equal to the sum of the aggregate stated liquidation amount of the related Trust Securities; (ii) the interest rate and interest and other payment dates on each series of Junior Subordinated Notes will match the distribution rate and distribution and other payment dates for the related Preferred Securities; (iii) the Company shall pay for all costs and expenses of each Trust pursuant to the Agreements as to Expenses and Liabilities; and (iv) each Trust Agreement provides that the Securities Trustees thereunder shall not cause or permit the Trust to, among other things, engage in any activity that is not consistent with the purposes of the Trust.

Payments of distributions (to the extent funds for such purpose are legally and immediately available) and other payments due on the Preferred Securities (to the extent funds for such purpose are legally and immediately available) will be guaranteed by the Company as and to the extent set forth under "Description of the Guarantees." If the Company does not make interest payments on any series of Junior Subordinated Notes, it is not expected that the related Trust will have sufficient funds to pay distributions on its Preferred Securities. Each Guarantee is a guarantee from the time of its issuance, but does not apply to any payment of distributions unless and until the related Trust has sufficient funds legally and immediately available for the payment of such distributions.

If the Company fails to make interest or other payments on any series of Junior Subordinated Notes when due (taking into account any extension period as described in the applicable Prospectus Supplement), the Trust Agreement provides a mechanism that allows the holders of the related Preferred Securities to appoint a substitute Property Trustee. Such holders may also direct the Property Trustee to enforce its rights under the Junior Subordinated Notes of such series, including proceeding directly against the Company to enforce such Junior Subordinated Notes. If the Property Trustee fails to enforce its rights under any series of Junior Subordinated Notes, to the fullest extent permitted by applicable law, any holder of related Preferred Securities may institute a legal proceeding directly against the Company to enforce the Property Trustee's rights under such series of Junior Subordinated Notes without first instituting any legal proceeding against the Property Trustee or any other person or entity. Notwithstanding the foregoing, a holder of Preferred Securities may institute a legal proceeding directly against the Company, without first instituting a legal proceeding against the Property Trustee or any other person or entity, for enforcement of payment to such holder of principal of or interest on Junior Subordinated Notes of the related series having a principal amount equal to the aggregate stated liquidation amount of the Preferred Securities of such holder on or after the due dates specified in the Junior Subordinated Notes of such series.

If the Company fails to make payments under any Guarantee, such Guarantee provides a mechanism that allows the holders of the Preferred Securities to which such Guarantee relates to direct the Guarantee Trustee to enforce its rights under such Guarantee. In addition, any holder of Preferred Securities may institute a legal proceeding directly against the Company to enforce the Guarantee Trustee's rights under the related Guarantee without first instituting a legal proceeding against the Guarantee Trustee or any other person or entity.

Each Guarantee, the Subordinated Note Indenture, the Junior Subordinated Notes of the related series, the related Trust Agreement and the related Agreement as to Expenses and Liabilities, as described above, constitute a full and unconditional guarantee by the Company of the payments due on the related series of Preferred Securities.

Upon any voluntary or involuntary dissolution, winding-up or termination of any Trust, unless Junior Subordinated Notes of the related series are distributed in connection with such action, the holders of the Preferred Securities of such Trust will be entitled to receive, out of assets legally available for distribution to holders, a liquidation distribution in cash as described in the applicable Prospectus Supplement. Upon any voluntary or involuntary liquidation or bankruptcy of the Company, the Property Trustee, as holder of the related series of Junior Subordinated Notes, would be a subordinated creditor of the Company, subordinated in right of payment to all Senior Indebtedness, but entitled to receive payment in full of principal and interest, before any stockholders of the Company receive payments or distributions. Because the Company is guarantor under each Guarantee and has agreed to pay for all costs, expenses and liabilities of each Trust (other than the Trust's obligations to holders of the Preferred Securities) pursuant to the related Agreement as to Expenses and Liabilities, the positions of a holder of Preferred Securities and a holder of Junior Subordinated Notes of the related series relative to other creditors and to stockholders of the Company in the event of liquidation or bankruptcy of the Company would be substantially the same.

A default or event of default under any Senior Indebtedness would not constitute a default or Event of Default under the Subordinated Note Indenture. However, in the event of payment defaults under, or acceleration of, Senior Indebtedness, the subordination provisions of the Junior Subordinated Notes provide that no payments may be made in respect of the Junior Subordinated Notes until such Senior Indebtedness has been paid in full or any payment default of Senior Indebtedness has been cured or waived. Failure to make required payments on the Junior Subordinated Notes of any series would constitute an Event of Default under the Subordinated Note Indenture with respect to the Junior Subordinated Notes of such series except that failure to make interest payments on the Junior Subordinated Notes of such series will not be an Event of Default during an extension period as described in the applicable Prospectus Supplement.

## PLAN OF DISTRIBUTION

The Company may sell the Senior Notes and the Junior Subordinated Notes and the Trusts may sell the Preferred Securities in one or more of the following ways from time to time: (i) to underwriters for resale to the public or to institutional investors; (ii) directly to institutional investors; or (iii) through agents to the public or to institutional investors. The Prospectus Supplement with respect to each series of Senior Notes, Junior Subordinated Notes or Preferred Securities will set forth the terms of the offering of such Senior Notes, Junior Subordinated Notes or Preferred Securities, including the name or names of any underwriters or agents, the purchase price of such Senior Notes, Junior Subordinated Notes or Preferred Securities and the proceeds to the Company or the applicable Trust from such sale, any underwriting discounts or agency fees and other items constituting underwriters' or agents' compensation, any initial public offering price, any discounts or concessions allowed or reallowed or paid to dealers and any securities exchange on which such Senior Notes, Junior Subordinated Notes or Preferred Securities may be listed.

If underwriters participate in the sale, such Senior Notes, Junior Subordinated Notes or Preferred Securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale.

Unless otherwise set forth in the Prospectus Supplement, the obligations of the underwriters to purchase any series of Senior Notes, Junior Subordinated Notes or Preferred Securities will be subject to certain conditions precedent and the underwriters will be obligated to purchase all of such series of Senior Notes, Junior Subordinated Notes or Preferred Securities, if any are purchased.

Underwriters and agents may be entitled under agreements entered into with the Company and/or the applicable Trust to indemnification against certain civil liabilities, including liabilities under the 1933 Act. Underwriters and agents may engage in transactions with, or perform services for, the Company in the ordinary course of business.

Each series of Senior Notes, Junior Subordinated Notes or Preferred Securities will be a new issue of securities and will have no established trading market. Any underwriters to whom Senior Notes, Junior Subordinated Notes or Preferred Securities are sold for public offering and sale may make a market in such Senior Notes, Junior Subordinated Notes or Preferred Securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice. The Senior Notes, Junior Subordinated Notes or Preferred Securities may or may not be listed on a national securities exchange.

## LEGAL MATTERS

Certain matters of Delaware law relating to the validity of the Preferred Securities will be passed upon on behalf of the Company and the Trusts by Richards, Layton & Finger, P.A., Wilmington, Delaware, special Delaware counsel to the Company and the Trusts. The validity of the Senior Notes, the Junior Subordinated Notes, the Guarantees and certain matters relating to such securities will be passed upon on behalf of the Company by Beggs & Lane, a Registered Limited Liability Partnership, Pensacola, Florida, and by Troutman Sanders LLP, Atlanta, Georgia. Certain legal matters will be passed upon for the Underwriters by Dewey Ballantine LLP, New York, New York.

## EXPERTS

The financial statements and the related financial statement schedule as of and for the year ended December 31, 2002 incorporated by reference in this Prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report, which is incorporated by reference in this Prospectus, and has been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

Certain of the Company's financial statements incorporated by reference in this Prospectus have been audited by Arthur Andersen LLP ("Andersen"), independent public accountants, as indicated in their reports with respect to the financial statements, and are incorporated by reference in this Prospectus, in reliance upon the authority of Andersen as experts in giving such reports On March 28, 2002, Southern's Board of Directors, upon recommendation of its Audit Committee, decided not to engage Andersen as the Company's principal public accountants. The Company has not obtained a reissued report from Andersen and has been unable to obtain, after reasonable efforts, Andersen's written consent to incorporate by reference Andersen's reports on the financial statements. Under these circumstances, Rule 437a under the 1933 Act permits this Prospectus to be filed without a written consent from Andersen. The absence of such written consent from Andersen may limit a holder's ability to assert claims against Andersen under Section 11(a) of the 1933 Act for any untrue statement of a material fact contained in the financial statements audited by Andersen or any omissions to state a material fact required to be stated in the financial statements.

# $60,000,000




## Series G 4.35% Senior Notes
## due July 15, 2013

**PROSPECTUS SUPPLEMENT**

## Lehman Brothers
## Scotia Capital
## KBC Financial Products

July 14, 2003

EXHIBIT D.4.


BEGGS & LANE
A REGISTERED LIMITED LIABILITY PARTNERSHIP
ATTORNEYS AND COUNSELLORS AT LAW
POST OFFICE BOX 12950
PENSACOLA, FLORIDA 32591-2950

501 COMMENDENCIA STREET
PENSACOLA, FLORIDA 32501-5641
TELEPHONE (850) 432-2451
TELECOPIER (850) 469-3330

JAMES M. WEBER
JOHN F WINDHAM
J NIXON DANIEL, III
RALPH A PETERSON
GARY B LEUCHTMAN
JOHN P DANIEL
JEFFREY A STONE
JAMES S CAMPBELL
RUSSELL F VAN SICKLE
RUSSELL A BADDERS
MARY JANE THIES
DAVID L McGEE
CHARLES T WIGGINS
THOMAS F GONZALEZ
DAVID E HIGHTOWER
WILLIAM H MITCHEM
PETER J MOUGEY
R ANDREW KENT
ELIZABETH C CALLAHAN
TERRIE L DIDIER

W SPENCER MITCHEM
*Of Counsel*

E DIXIE BEGGS
1908-2001

BERT H LANE
1917-1981


July 22, 2003

Lehman Brothers Inc.
745 Seventh Avenue
New York, New York 10019

Scotia Capital (USA) Inc.
1 Liberty Plaza, 25th Floor
New York, New York 10006

GULF POWER COMPANY
SERIES G 4.35% SENIOR NOTES
DUE JULY 15, 2013

Ladies and Gentlemen:

We have acted as general counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance and sale of $60,000,000 aggregate principal amount of its Series G 4.35% Senior Notes due July 15, 2013 (the "Notes") pursuant to the Senior Note Indenture dated as of January 1, 1998, by and between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Seventh Supplemental Indenture dated as of July 22, 2003 (collectively, the "Indenture") and (ii) the purchase by the Underwriters (as defined below) of the Notes pursuant to the terms of an Underwriting Agreement dated July 14, 2003 (the "Underwriting Agreement"), among the Company and the Underwriters named in Schedule I thereto (the "Underwriters") for whom you are acting as Representatives. This opinion is being delivered to you as Representatives pursuant to Section 5(c)(1) of the Underwriting Agreement.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (File Nos. 333-104449, 333-104449-01 and 333-104449-02) pertaining to the Notes (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act"), and the prospectus of the Company dated April 25, 2003, as supplemented by a final prospectus

supplement relating to the Notes dated July 14, 2003 (the "Final Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2003 and the Current Reports on Form 8-K of the Company dated March 21, 2003 and July 10, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to collectively as the "Agreements."

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Georgia law and the federal law of the United States upon the opinion dated the date hereof rendered to you by Troutman Sanders LLP and relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP, that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other

Registration Statement, as of its effective date, and the Final Supplemented Prospectus, as of July 14, 2003, complied as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the relevant requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of its effective date (including the Exchange Act Documents on file with the Commission as of such date), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contained, as of its date, or contains, on the date hereof, any untrue statement of a material fact or omitted, as of its date, or omits, on the date hereof, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the caption "Description of the Series G Senior Notes – Book-Entry Only Issuance – The Depository Trust Company."

We are members of the Florida Bar and we do not express any opinion herein concerning any law other than the law of the States of Maine, Florida and Mississippi and, to the extent set forth herein, the laws of the States of Georgia and New York and the federal law of the United States.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent, except that Troutman Sanders LLP and Dewey Ballantine LLP may rely on this opinion in giving their opinions pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinions relate to matters of Maine, Florida and Mississippi law.

Yours very truly,

Beggs & Lane

BEGGS & LANE

TROUTMAN SANDERS LLP
ATTORNEYS AT LAW
A LIMITED LIABILITY PARTNERSHIP

BANK OF AMERICA PLAZA
600 PEACHTREE STREET, N.E. - SUITE 5200
ATLANTA, GEORGIA 30308-2216
www.troutmansanders.com
TELEPHONE 404-885-3000
FACSIMILE 404-885-3900

July 22, 2003

Lehman Brothers Inc.
745 Seventh Avenue
New York, New York 10019

Scotia Capital (USA) Inc.
1 Liberty Plaza, 25th Floor
New York, New York 10006

GULF POWER COMPANY
SERIES G 4.35% SENIOR NOTES
DUE JULY 15, 2013

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance and sale of $60,000,000 aggregate principal amount of its Series G 4.35% Senior Notes due July 15, 2013 (the "Notes") pursuant to the Senior Note Indenture dated as of January 1, 1998, by and between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Seventh Supplemental Indenture dated as of July 22, 2003 (collectively, the "Indenture") and (ii) the purchase by the Underwriters (as defined below) of the Notes pursuant to the terms of an Underwriting Agreement dated July 14, 2003 (the "Underwriting Agreement"), among the Company and the Underwriters named in Schedule I thereto (the "Underwriters") for whom you are acting as Representatives. This opinion is being delivered to you as Representatives pursuant to Section 5(c)(2) of the Underwriting Agreement.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (Nos. 333-104449, 333-104449-01 and 333-104449-02) pertaining to the Notes and certain other securities (the "Registration Statement") filed under the Securities Act of 1933, as

amended (the "Act"), and the prospectus of the Company dated April 25, 2003, as supplemented by the prospectus supplement dated July 14, 2003 (the "Final Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2003 and the Current Reports on Form 8-K of the Company dated March 21, 2003 and July 10, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to collectively as the "Agreements."

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP and as to matters of Maine, Florida and Mississippi law upon the opinion dated the date hereof rendered to you by Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane"), that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes

have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by the Underwriters pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP and with your counsel. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus

and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents and our participation in the conferences referred to above (i) we are of the opinion that the Registration Statement, as of its effective date, and the Final Supplemented Prospectus, as of July 14, 2003, complied as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the relevant requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of its effective date (including the Exchange Act Documents on file with the Commission as of such date), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contained, as of its date, or contains, on the date hereof, any untrue statement of a material fact or omitted, as of its date, or omits, on the date hereof, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the caption "Description of the Series G Senior Notes – Book-Entry Only Issuance – The Depository Trust Company."

We are members of the State Bar of Georgia and we do not express any opinion herein concerning any law other than the law of the State of Georgia and the federal law of the United States and, to the extent set forth herein, the laws of the States of Florida, Maine, Mississippi and New York.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent, except that Beggs & Lane may rely on this opinion in giving its opinion pursuant to Section 5(c) of the Underwriting Agreement insofar as

such opinion relates to matters of Georgia law and the federal law of the United States and Dewey Ballantine LLP may rely on this opinion in giving its opinion pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinion relates to matters of Georgia law.

Very truly yours,

Troutman Sanders LLP

TROUTMAN SANDERS LLP

File No. 70-10117

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM U-1

APPLICATION OR DECLARATION
under
The Public Utility Holding Company Act of 1935

GULF POWER COMPANY
One Energy Place
Pensacola, Florida 32520

(Name of company or companies filing this statement
and addresses of principal executive offices)

THE SOUTHERN COMPANY

(Name of top registered holding company parent of each applicant or declarant)

Warren E. Tate
Vice President, Secretary and Treasurer
Gulf Power Company
One Energy Place
Pensacola, Florida 32520
(Name and address of agent for service)

The Commission is requested to mail signed copies of all orders, notices and communications to the above agent for service and to:

Gale E. Klappa
Executive Vice President, Chief
Financial Officer and Treasurer
The Southern Company
270 Peachtree Street, N.W.
Atlanta, Georgia 30303

John D. McLanahan, Esq.
Troutman Sanders LLP
600 Peachtree Street, N.E.
Suite 5200
Atlanta, Georgia 30308-2216

INFORMATION REQUIRED

Item 1. Description of Proposed Transactions.

1.1 Gulf Power Company ("Gulf") is a wholly-owned subsidiary of The Southern Company ("Southern"), a registered holding company under the Public Utility Holding Company Act of 1935, as amended (the "Act").

Gulf proposes to incur, from time to time or at any time on or before March 31, 2006, obligations in connection with the issuance and sale by public instrumentalities of one or more series of pollution control revenue bonds in an aggregate principal amount of up to $180,000,000.

Gulf further proposes to issue and sell, from time to time or at any time on or before March 31, 2006, one or more series of its senior debentures, senior promissory notes or other senior debt instruments (individually a "Senior Note" and collectively the "Senior Notes"), one or more series of its first mortgage bonds and one or more series of its preferred stock in an aggregate amount of up to $450,000,000 in any combination of issuance.

1.2 Each issue of the proposed pollution control revenue bonds will be issued for the financing or refinancing of the costs of certain air and water pollution control facilities and sewage and solid waste disposal facilities at one or more of Gulf's electric generating plants or other facilities located in various counties. It is proposed that each such county or the otherwise appropriate public body or instrumentality (the "County") will issue its revenue bonds (the "Revenue Bonds") to finance or refinance the costs of the acquisition, construction, installation and equipping of said facilities at the plant or other facility located in its jurisdiction (the

"Project"). Each County is authorized by relevant state law to issue its Revenue Bonds for such purposes.

While the actual amount of Revenue Bonds to be issued by each County has not yet been determined, such amount will be based upon the cost of refunding outstanding bonds or the cost of the Project located in its jurisdiction.

Gulf proposes to enter into a Loan or Installment Sale Agreement with the County, substantially in the form of Exhibit B-1 hereto, relating to each issue of the Revenue Bonds (the "Agreement"). Under the Agreement, the County will loan to Gulf the proceeds of the sale of the County's Revenue Bonds, and Gulf may issue a non-negotiable promissory note therefor (the "Note"), or the County will undertake to purchase and sell the related Project to Gulf. The installment sale structure may be used because it is required by applicable state law or to the extent it affords transactional advantages to Gulf. Such proceeds will be deposited with a Trustee (the "Trustee") under an indenture to be entered into between the County and such Trustee (the "Trust Indenture"), pursuant to which such Revenue Bonds are to be issued and secured, and will be applied by Gulf to payment of the Cost of Construction (as defined in the Agreement) of the Project or to refund outstanding pollution control revenue obligations.

The Note or the Agreement will provide for payments to be made by Gulf at times and in amounts which shall correspond to the payments with respect to the principal of, premium, if any, and interest on the related Revenue Bonds whenever and in whatever manner the same shall become due, whether at stated maturity, upon redemption or declaration or otherwise.

The Agreement will provide for the assignment to the Trustee of the County's interest in, and of the moneys receivable by the County under, the Agreement and the Note.

The Agreement will also obligate Gulf to pay the fees and charges of the Trustee and may provide that Gulf may at any time, so long as it is not in default thereunder, prepay the amount due under the Agreement or the Note, including interest thereon, in whole or in part, such payment to be sufficient to redeem or purchase outstanding Revenue Bonds in the manner and to the extent provided in the Trust Indenture.

The Trust Indenture will provide that the Revenue Bonds issued thereunder (i) may be redeemable at any time on or after a specified date from the date of issuance, in whole or in part, at the option of Gulf, and may require the payment of a premium at a specified percentage of the principal amount which may decline annually thereafter, and (ii) will be redeemed in whole, at the option of Gulf, in certain other cases of undue burdens or excessive liabilities imposed with respect to the related Project, its destruction or damage beyond practicable or desirable repairability or condemnation or taking by eminent domain, or if operation of the related facility is enjoined and Gulf determines to discontinue operation thereof, such redemption of all such outstanding Revenue Bonds to be at the principal amount thereof plus accrued interest, but without premium. It is proposed that the Revenue Bonds will mature not more than 40 years from the first day of the month in which they are initially issued and may, if it is deemed advisable for purposes of the marketability of the Revenue Bonds, be entitled to the benefit of a mandatory redemption sinking fund calculated to retire a portion of the aggregate principal amount of the Revenue Bonds prior to maturity.

The Trust Indenture and the Agreement may give the holders of the Revenue Bonds the right, during such time as the Revenue Bonds bear interest at a fluctuating rate or otherwise, to require Gulf to purchase the Revenue Bonds from time to time, and arrangements may be made for the remarketing of any such Revenue Bonds through a remarketing agent. Gulf also

may be required to purchase the Revenue Bonds, or the Revenue Bonds may be subject to mandatory redemption, at any time if the interest thereon is determined to be subject to federal income tax. Also in the event of taxability, interest on the Revenue Bonds may be effectively converted to a higher variable or fixed rate, and Gulf also may be required to indemnify the bondholders against any other additions to interest, penalties and additions to tax; such terms are not considered to constitute the issuance of a separate security under Sections 6(a) and 7 of the Act, but rather possible additional terms of the Revenue Bonds and Gulf's obligations with respect thereto.

In order to obtain the benefit of ratings for the Revenue Bonds equivalent to the rating of Gulf's first mortgage bonds outstanding under the indenture dated as of September 1, 1941 between Gulf and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as trustee, as supplemented and amended (the "Mortgage"), which ratings Gulf has been advised may be thus attained, Gulf may determine to secure its obligations under the Note and the related Agreement by delivering to the Trustee, to be held as collateral, a series of its first mortgage bonds (the "Collateral Bonds") in principal amount either (i) equal to the principal amount of the Revenue Bonds or (ii) equal to the sum of such principal amount of the Revenue Bonds plus interest payments thereon for a specified period. Such series of Collateral Bonds will be issued under an indenture supplemental to the Mortgage (the "Supplemental Indenture"), will mature on the maturity date of such Revenue Bonds and will be non-transferable by the Trustee. The Collateral Bonds, in the case of clause (i) above, would bear interest at a rate or rates equal to the interest rate or rates to be borne by the related Revenue Bonds and, in the case of clause (ii) above, would be non-interest bearing.

The Supplemental Indenture will provide, however, that the obligation of Gulf to make payments with respect to the Collateral Bonds will be satisfied to the extent that payments are made under the Note or the Agreement sufficient to meet payments when due in respect of the related Revenue Bonds. The Supplemental Indenture will provide that, upon acceleration by the Trustee of the principal amount of all related outstanding Revenue Bonds under the Trust Indenture, the Trustee may demand the mandatory redemption of the related Collateral Bonds then held by it as collateral at a redemption price equal to the principal amount thereof plus accrued interest, if any, to the date fixed for redemption. The Supplemental Indenture may also provide that, upon the optional redemption of the Revenue Bonds, in whole or in part, a related principal amount of the Collateral Bonds will be redeemed at the redemption price of the Revenue Bonds.

In the case of interest bearing Collateral Bonds, because interest accrues in respect of such Collateral Bonds until satisfied by payments under the Note or the Agreement, "annual interest charges" in respect of such Collateral Bonds will be included in computing the "interest earnings requirement" of the Mortgage which restricts the amount of first mortgage bonds which may be issued and sold to the public in relation to Gulf's net earnings. In the case of non-interest bearing Collateral Bonds, since no interest would accrue in respect of such Collateral Bonds, the "interest earnings requirement" would be unaffected.

The Trust Indenture will provide that, upon deposit with the Trustee of funds sufficient to pay or redeem all or any part of the related Revenue Bonds, or upon direction to the Trustee by Gulf to so apply funds available therefor, or upon delivery of such outstanding Revenue Bonds to the Trustee by or for the account of Gulf, the Trustee will be obligated to deliver to Gulf the Collateral Bonds then held as collateral in an aggregate principal amount as

they relate to the aggregate principal amount of such Revenue Bonds for the payment or redemption of which such funds have been deposited or applied or which shall have been so delivered.

As an alternative to or in conjunction with Gulf's securing its obligations through the issuance of the Collateral Bonds as above described, Gulf may cause an irrevocable Letter of Credit or other credit facility (the "Letter of Credit") of a bank or other financial institution (the "Bank") to be delivered to the Trustee. The Letter of Credit would be an irrevocable obligation of the Bank to pay to the Trustee, upon request, up to an amount necessary in order to pay principal of and accrued interest on the Revenue Bonds when due. Pursuant to a separate agreement with the Bank, Gulf would agree to pay to the Bank, on demand or pursuant to a borrowing under such agreement, all amounts that are drawn under the Letter of Credit, as well as certain fees and expenses. Such delivery of the Letter of Credit to the Trustee would obtain for the Revenue Bonds the benefit of a rating equivalent to the credit rating of the Bank. In the event that the Letter of Credit is delivered to the Trustee as an alternative to the issuance of the Collateral Bonds, Gulf may also convey to the County a subordinated security interest in the Project or other property of Gulf as further security for Gulf's obligations under the Agreement and the Note. Such subordinated security interest would be assigned by the County to the Trustee.

As a further alternative to, or in conjunction with, securing its obligations under the Agreement and Note as above described, and in order to obtain a "AAA" rating for the Revenue Bonds by one or more nationally recognized securities rating services, Gulf may cause an insurance company to issue a policy of insurance guaranteeing the payment when due of the principal of and interest on such series of the Revenue Bonds. Such insurance policy would

extend for the term of the related Revenue Bonds and would be non-cancelable by the insurance company for any reason. Gulf's payment of the premium with respect to said insurance policy could be in various forms, including a non-refundable, one-time insurance premium paid at the time the policies are issued, and/or an additional interest percentage to be paid to said insurer in correlation with regular interest payments. In addition, Gulf may be obligated to make payments of certain specified amounts into separate escrow funds and to increase the amounts on deposit in such funds under certain circumstances. The amount in each escrow fund would be payable to the insurance company as indemnity for any amounts paid pursuant to the related insurance policy in respect of principal of or interest on the related Revenue Bonds.

It is contemplated that the Revenue Bonds will be sold by the County pursuant to arrangements with one or more purchasers, placement agents or underwriters. In accordance with applicable state laws, the interest rate to be borne by the Revenue Bonds will be approved by the County and will be either a fixed rate, which fixed rate may be convertible to a rate which will fluctuate in accordance with a specified prime or base rate or rates or may be determined pursuant to certain remarketing or auction procedures, or a fluctuating rate, which fluctuating rate may be convertible to a fixed rate. While Gulf may not be party to the purchase, placement or underwriting arrangements for the Revenue Bonds, such arrangements will provide that the terms of the Revenue Bonds and their sale by the County shall be satisfactory to Gulf. Bond Counsel will issue an opinion that, based upon existing law, interest on the Revenue Bonds will generally be excludable from gross income for federal income tax purposes. Gulf has been advised that the interest rates on obligations, the interest on which is tax exempt, recently have been and can be expected at the time of issue of the Revenue Bonds to be lower than the rates on obligations of like tenor and comparable quality, interest on which is fully subject to federal income taxation.

The effective cost to Gulf of any series of the Revenue Bonds will not exceed the greater of (i) 200 basis points over comparable term U.S. Treasury securities, or (ii) a gross spread over such Treasury securities which is consistent with comparable securities. Such effective cost will reflect the applicable interest rate or rates and any underwriters' discount or commission.

The premium (if any) payable upon the redemption of any Revenue Bonds at the option of Gulf will not exceed the greater of (i) 5% of the principal amount of the Revenue Bonds so to be redeemed, or (ii) a percentage of such principal amount equal to the rate of interest per annum borne by such Revenue Bonds.

The purchase price payable by or on behalf of Gulf in respect of Revenue Bonds tendered for purchase at the option of the holders thereof will not exceed 100% of the principal amount thereof, plus accrued interest to the purchase date.

Any Letter of Credit issued as security for the payment of Revenue Bonds will be issued pursuant to a Reimbursement Agreement between Gulf and the financial institution issuing such Letter of Credit. Pursuant to the Reimbursement Agreement, Gulf will agree to pay or cause to be paid to the financial institution, on each date that any amount is drawn under such institution's Letter of Credit, an amount equal to the amount of such drawing, whether by cash or by means of a borrowing from such institution pursuant to the Reimbursement Agreement. Any such borrowing may have a term of up to 10 years and will bear interest at the lending institution's prevailing rate offered to corporate borrowers of similar quality which will not exceed (i) the London Interbank Offered Rate plus up to 3%, (ii) the lending institution's certificate of deposit rate plus up to 2-3/4%, or (iii) a rate not to exceed the prime rate plus 1%, to be established by agreement with the lending institution prior to the borrowing.

1.3 It is proposed that each series of Senior Notes will have a maturity that will not exceed approximately 50 years.

The interest rate on each issue of Senior Notes may be either a fixed rate or an adjustable rate to be determined on a periodic basis by auction or remarketing procedures, in accordance with formula or formulae based upon certain reference rates, or by other predetermined methods.

The Senior Notes will be direct, unsecured and unsubordinated obligations of Gulf ranking pari passu with all other unsecured and unsubordinated obligations of Gulf. The Senior Notes will be effectively subordinated to all secured debt of Gulf, including its first mortgage bonds. The Senior Notes will be governed by an indenture or other document.

The underwriting fees, commissions or other similar expenses paid in connection with the issue, sale or distribution of the Senior Notes of each series will not exceed 5% of the aggregate principal amount of such series.

The effective cost of money on the Senior Notes will not exceed the greater of (i) 300 basis points over comparable term U.S. Treasury securities, or (ii) a gross spread over such Treasury securities which is consistent with comparable securities.

The Senior Notes will be sold in any of the following ways: (i) through underwriters or dealers; (ii) directly to a limited number of purchasers or to a single purchaser, or (iii) through agents or dealers. If underwriters are used in the sale of the Senior Notes, such Senior Notes will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The Senior Notes may be offered to the public either through underwriting syndicates (which may be represented by managing underwriters) or

directly by one or more underwriters acting alone. The Senior Notes may be sold directly by Gulf or through agents designated from time to time. If dealers are used in the sale of any Senior Notes, such Senior Notes will be sold to the dealers as principal. Any dealer may then resell such Senior Notes to the public at varying prices to be determined by such dealer at the time of resale.

Senior Notes may be sold pursuant to "delayed delivery contracts" which permit the underwriters to locate buyers who will agree to buy the Senior Notes at the same price but at a later date than the date of the closing of the sale to the underwriters. Senior Notes may also be sold through the use of medium-term note and similar programs, including in transactions covered by Rule 144A under the Securities Act of 1933, as amended.

Any Senior Notes would have such designations, aggregate principal amount, maturity, interest rate(s) or methods of determining the same, interest payment terms, redemption provisions, non-refunding provisions, sinking fund terms, conversion or put terms and other terms and conditions as Gulf may determine at the time of issuance.

1.4 It is proposed that each series of Gulf's first mortgage bonds (the "new Bonds") will have a term of not more than 40 years and will be sold for the best price obtainable but for a price to Gulf of not less than 98% nor more than 101-3/4% of the principal amount thereof, plus accrued interest (if any).

The new Bonds will be issued under the Mortgage as heretofore supplemented by various indentures supplemental thereto, and as to be further supplemented by a Supplemental Indenture providing for each series of the new Bonds to be issued.

Gulf may provide that none of the new Bonds of any series will be redeemed for a five-year or other period commencing on or about the first day of the month of issuance at a regular redemption price if such redemption is for the purpose or in anticipation of refunding

such new Bonds through the use, directly or indirectly, of funds borrowed by Gulf at an effective interest cost to Gulf (computed in accordance with generally accepted financial practice) of less than the effective interest cost to Gulf of the new Bonds of such series. Such limitation will not apply to redemptions at a special redemption price by operation of the improvement fund or the replacement provisions of the Mortgage or by the use of proceeds of released property.

Gulf may covenant that it will not redeem the new Bonds of any series, in any year prior to the fifth or other specified year after the issuance of such series, through the operation of the improvement fund provisions of the Mortgage in a principal amount which would exceed 1% of the initial aggregate principal amount of such series.

Gulf also may covenant that it will not, in any calendar year, redeem the new Bonds of any series through the operation of the replacement provisions of the Mortgage in a principal amount which would exceed 1% of the initial aggregate principal amount of such series.

In addition, Gulf may make provision for a mandatory cash sinking fund for the benefit of any series of the new Bonds. In connection therewith, Gulf may have the non-cumulative option in any year of making an optional sinking fund payment in an amount not exceeding such mandatory sinking fund payment.

In order to enhance the marketability of the new Bonds, it may be desirable to cause an insurance company to issue a policy of insurance for the payment when due of the new Bonds of a particular series. It also may be desirable that the terms of the new Bonds, or any series thereof, provide for an adjustable interest rate thereon to be determined on a periodic basis, rather than a fixed interest rate. In such event, it is proposed that the rate of interest on such new Bonds for an initial period would be a fixed rate per annum. Periodically thereafter, the interest rate

would be adjusted by periodic auction or remarketing procedures, or in accordance with a formula or formulae based upon certain reference rates, or by other predetermined methods.

In connection with any such adjustable rate issue, it is proposed that such series of the new Bonds may not be redeemable at the option of Gulf during certain short-term interest periods. It is further proposed that the non-refunding limitation described above, as well as the restriction on redemptions through operation of the improvement fund provisions, may apply with respect to each long-term interest period commencing with the first day of the month in which any such interest period begins.

1.5 It is proposed that each issuance of Gulf's preferred stock, par or stated value of up to $100 per share (the "new Preferred Stock"), will be sold for the best price obtainable (after giving effect to the purchasers' compensation) but for a price to Gulf (before giving effect to such purchasers' compensation) of not less than 100% of the par or stated value per share.

The authorized number of shares of preferred stock of Gulf may be increased by amendment to the Articles of Incorporation of Gulf and the new Preferred Stock of each series will be created, and its terms established, by resolution of the board of directors of Gulf which when filed with the Secretary of State of Maine will constitute an amendment to the charter of Gulf. Gulf may make provision for a cumulative sinking fund for the benefit of a particular series of the new Preferred Stock which would retire a certain number of shares of such series annually, commencing at a specified date after the sale. In connection therewith, Gulf may have the non-cumulative option of redeeming up to an additional like number of shares of such series annually.

Gulf may provide that no share of a particular series of the new Preferred Stock will be redeemed for a five-year or other period commencing on or about the first day of the month of

issuance, if such redemption is for the purpose or in anticipation of refunding such share directly or indirectly through the incurring of debt, or through the issuance of stock ranking equally with or prior to the new Preferred Stock as to dividends or assets, if such debt has an effective interest cost to Gulf (computed in accordance with generally accepted financial practice) or such stock has an effective dividend cost to Gulf (so computed) of less than the effective dividend cost to Gulf of the respective series of the new Preferred Stock.

Gulf may determine that, in light of the current market conditions at the time any series of the new Preferred Stock is offered, it is in the best interest of Gulf and its investors and consumers that the terms of such new Preferred Stock provide for an adjustable dividend rate thereon to be determined on a periodic basis, rather than a fixed rate dividend. In such event, it is proposed that the rate of dividends on such new Preferred Stock for an initial period would be a fixed amount or rate per annum. Periodically thereafter, the rate would be adjusted by periodic auction or remarketing procedures, or in accordance with a formula or formulae based upon certain reference rates, or by other predetermined methods.

1.6 Gulf may determine to use the proceeds from the sale of the Revenue Bonds, the Senior Notes, the new Bonds and the new Preferred Stock to redeem or otherwise retire its outstanding senior notes, first mortgage bonds, pollution control bonds and/or preferred stock if such use is considered advisable. To the extent that the redemption or other retirement of outstanding preferred stock using the proceeds from security sales as proposed herein may require authorization under Section 12(c) of the Act, Gulf hereby requests such authorization. Gulf also proposes that it may use the proceeds from the sale of the Senior Notes, the new Bonds and new Preferred Stock, along with other funds, to pay a portion of its cash requirements to carry on its electric utility business.

1.7 Gulf represents that it will maintain its common equity as a percentage of capitalization (inclusive of short-term debt) at no less than thirty percent. Gulf will not publicly issue any of the securities for which authorization by the Commission is requested herein unless such securities are rated (to the extent that they are rated at the time of issuance) at the investment grade level as established by at least one "nationally recognized statistical rating organization", as that term is used in paragraphs (c)(2)(vi) (E), (F) and (H) of Rule 15c3-1 under the Securities Exchange Act of 1934, as amended. Gulf requests that the Commission reserve jurisdiction over the issuance by Gulf of any such securities that are rated below investment grade.

1.8 Pursuant to orders of the Commission, Gulf has authority to issue and sell $350,000,000 of senior notes (of which, $280,000,000 has been sold), $400,000,000 of first mortgage bonds and/or preferred stock and $200,000,000 of pollution control revenue bonds (of which, $95,930,000 has been sold) as set forth in Commission File No. 70-9171 (HCAR No. 35-26870, dated May 14, 1998) and in Commission File No. 70-8949 (HCAR No. 35-26736, dated June 30, 1997). Gulf hereby requests that the authority described in the above-mentioned orders remain in effect until such time as the order with respect to the matters requested herein is issued.

Item 2. Fees, Commissions and Expenses.

The fees and expenses in connection with the proposed transactions (other than underwriting discounts and commissions) are estimated not to exceed $2,000,000. The prospectus supplement or offering circular relating to each offering will reflect the actual expenses based upon the amount of the related offering.

Item 3. Applicable Statutory Provisions.

Sections 6(a), 7 and 12(c) of the Act and Rules 23, 42 and 54 thereunder are applicable to the proposed transactions.

Gulf further considers that the sale or granting of subordinated security interests in the Projects or other property of Gulf, as set forth under Item 1.3 above, may be subject to Section 12(d) of the Act, and that the exception afforded by subparagraph (b)(3) of Rule 44 thereunder may be applicable.

Gulf considers that any guarantee of payment of the Revenue Bonds may be subject to Sections 6(a) and 7 of the Act.

Gulf considers that Sections 9(a) and 10 of the Act may be applicable to any purchase of Revenue Bonds by Gulf as described herein and to the extent that the transactions contemplated herein in connection with the Revenue Bonds involve an Installment Sale Agreement or Agreements pursuant to which the County undertakes to sell the related Project to Gulf.

Gulf considers that the acquisition, retirement or redemption of Senior Notes, new Bonds and new Preferred Stock in connection with any sinking fund provisions with respect thereto (including any optional redemptions included as part of such sinking fund provisions) are excepted from the requirements of Section 12(c) of the Act by Rule 42 thereunder.

The proposed transactions will be carried out in accordance with the procedure specified in Rule 23 and pursuant to an order or orders of the Commission in respect thereto.

Rule 54 Analysis: The proposed transactions are also subject to Rule 54, which provides that, in determining whether to approve an application which does not relate to any "exempt wholesale generator" ("EWG") or "foreign utility company" ("FUCO"), the

Commission shall not consider the effect of the capitalization or earnings of any such EWG or FUCO which is a subsidiary of a registered holding company if the requirements of Rule 53(a), (b) and (c) are satisfied.

Southern currently meets all of the conditions of Rule 53(a). At September 30, 2002, Southern's "aggregate investment," as defined in Rule 53(a)(1), in EWGs and FUCOs was approximately $231.3 million, or 4.99% of Southern's "consolidated retained earnings," also as defined in Rule 53(a)(1), as of September 30, 2002 ($4.640 billion).[1]

In addition, Southern has complied and will continue to comply with the record-keeping requirements of Rule 53(a)(2), the limitation under Rule 53(a)(3) on the use of operating company personnel to render services to EWGs and FUCOs, and the requirements of Rule 53(a)(4) concerning the submission of copies of certain filings under the Act to retail rate

---

[1] As discussed in Southern's Application on Form U-1 (File No. 70-9727) relating to the spin-off of Mirant Corporation ("Mirant"), Southern and Mirant reorganized certain energy-related and FUCO activities and Mirant completed a tax-free distribution to Southern of these activities on March 5, 2001 (the "Mini-Spin"). On April 2, 2001, Southern completed the spin-off of its remaining ownership interest in Mirant to Southern's shareholders. Therefore, the four indirect subsidiaries (EPZ Lease, Inc., Dutch Gas Lease, Inc., GAMOG Lease, Inc. and NUON Lease, Inc.) obtained through the Mini-Spin are the only remaining FUCO investments held by Southern. Although Southern now owns all of the equity in these companies as a result of the Mini-Spin, Southern has no direct or indirect investment or any aggregate investment within the meaning of Rule 53 in these FUCOs, including any direct or indirect guarantees or credit positions related to any capital or financing leases. Furthermore, the only remaining EWG investment held by Southern after the spin-off is Southern Company-Florida LLC, which was organized during the first quarter of 2001. Southern has executed limited keep-well commitments whereby Southern would be required to make capital contributions to Southern Energy Finance Capital Corp. or to Southern Energy Finance Company, Inc. in the event of a shortfall in the scheduled debt service resulting from certain changes in the payments due from Southern under the Southern Company Income Tax Allocation Agreement. The maximum potential capital contribution required under these commitments is the unamortized balance of the related loans, which totaled approximately $372 million as of September 30, 2002.

regulatory commissions. Further, none of the circumstances described in Rule 53(b) has occurred.

Item 4. Regulatory Approval.

Gulf's obligations with respect to the Collateral Bonds, the borrowings under the Agreements, the issuance of the Notes in respect thereof and the issuance and sale of the Senior Notes, the new Bonds and the new Preferred Stock will have been expressly authorized by the Florida Public Service Commission, which has jurisdiction over the issuance of stocks, bonds and certain evidence of indebtedness by public utility companies operating in Florida.

The transactions by Gulf proposed herein are not subject to the jurisdiction of any state commission or of any federal commission other than the Commission.

Item 5. Procedure.

Gulf requests that the Commission's order herein be issued as soon as the rules allow and that there be no 30-day waiting period between the issuance of the Commission's order and the date on which it is to become effective. Gulf hereby waives a recommended decision by a hearing officer or other responsible officer of the Commission and hereby consents that the Division of Investment Management may assist in the preparation of the Commission's decision and/or order in this matter unless such Division opposes the matters covered hereby.

Item 6. Exhibits and Financial Statements.

(a) Exhibits.

A-1(a) - Indenture dated as of September 1, 1941, between Gulf and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee, and indentures supplemental thereto through November 1, 1996. (Designated in Registration Nos. 2-4833 as Exhibit B-3, 2-62319 as Exhibit 2(a)-3, 2-63765 as Exhibit 2(a)-3, 2-66260 as Exhibit 2(a)-3, 33-2809 as Exhibit 4(a)-2, 33-43739 as Exhibit 4(a)-2, in Gulf's Form 10-K for the year ended December 31, 1991, File No. 0-2429, as Exhibit 4(b), in Form 8-K dated August 18, 1992, File No. 0-2429, as Exhibit 4(a)-3, in Registration No. 33-50165 as Exhibit 4(a)-2, in Form 8-K dated July 12, 1993, File No. 0-2429, as Exhibit 4, in Certificate of Notification, File No. 70-8229, as Exhibit A, in Certificate of Notification, File No. 70-8229, as Exhibits E and F, in Form 8-K dated January 17, 1996, File No. 0-2429, as Exhibit 4, in Certificate of Notification, File No. 70-8229, as Exhibit A, in Certificate of Notification, File No. 70-8229, as Exhibit A and in Form 8-K dated November 6, 1996, File No. 0-2429, as Exhibit 4.)

A-1(b) - Form of Supplemental Indenture with respect to the new Bonds, between Gulf and JPMorgan Chase Bank, as Trustee. (To be filed by amendment.)

A-2(a) - Senior Note Indenture dated as of January 1, 1998, between Gulf and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee, and indentures supplemental thereto through January 30, 2002. (Designated in Form 8-K dated June 17, 1998, File No. 0-2429, as Exhibits 4.1 and 4.2, in Form 8-K dated August 17, 1999, File No. 0-2429, as Exhibit 4.2, in Form 8-K dated July 31, 2001, File No. 0-2429, as Exhibit 4.2, in Form 8-K dated October 5, 2001, File No. 0-2429, as Exhibit 4.2 and in Form 8-K dated January 18, 2002, File No. 0-2429, as Exhibit 4.2.)

A-2(b) - Form of Supplemental Indenture to Senior Note Indenture between Gulf and JPMorgan Chase Bank . (To be filed by amendment.)

A-3(a) - Restated Articles of Incorporation of Gulf and amendments thereto through February 9, 2001. (Designated in Registration No. 33-43739 as Exhibit 4(b)-1, in Form 8-K dated January 15, 1992, File No. 0-2429, as Exhibit 1(b), in Form 8-K dated August 18, 1992, File No. 0-2429, as Exhibit 4(b)-2, in Form 8-K dated September 22, 1993, File No. 0-2429, as Exhibit 4, in Form 8-K dated November 3, 1993, File No. 0-2429, as Exhibit 4, in Gulf's Form 10-K for the year ended December 31, 1997,

File No. 0-2429, as Exhibit 3(d)2 and in Gulf's Form 10-K for the year ended December 31, 2000, File No. 0-2429, as Exhibit 3(d)2.)

A-3(b) - Form proposed amendment to articles of incorporation of Gulf increasing the amount of authorized preferred stock. (To be filed by amendment.)

A-3(c) - By-laws of Gulf as amended effective July 26, 2002, and as presently in effect.

B-1 - Form of Loan or Installment Sale Agreement between Gulf and the County relating to the Revenue Bonds. (To be filed by amendment.)

B-2 - Form of Trust Indenture between the County and the Trustee relating to the Revenue Bonds. (To be filed by amendment.)

C - Registration statement pursuant to the Securities Act of 1933, as amended. (Filed electronically May 1, 2001 File No. 333-59942.)

D - None.

E - None.

F - Opinion of Beggs & Lane, counsel for Gulf. (To be filed by amendment.)

G - Form of Notice.

Exhibits heretofore filed with the Securities and Exchange Commission and designated as set forth above are hereby incorporated herein by reference and made a part hereof with the same effect as if filed herewith.

(b) Financial Statements.

Balance sheet of Gulf at September 30, 2002. (Designated in Gulf's Form 10-Q for the quarter ended September 30, 2002, File No. 0-2429.)

Statements of Income of Gulf for the period ended September 30, 2002. (Designated in Gulf's Form 10-Q for the quarter ended September 30, 2002, File No. 0-2429.)

Since September 30, 2002, there have been no material adverse changes, not in the ordinary course of business, in the financial condition of Gulf from that set forth in or contemplated by the foregoing financial statements.

Item 7. Information as to Environmental Effects.

(a) The proposed transactions are strictly financial in nature in the ordinary course of Gulf's business. Accordingly, the Commission's action in these matters will not constitute any major federal action significantly affecting the quality of the human environment within the meaning of the National Environmental Policy Act.

(b) No other federal agency has prepared or is preparing an environmental impact statement with regard to the proposed transactions.

SIGNATURE

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned company has duly caused this Form U-1 to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: February 21, 2003

GULF POWER COMPANY

By: _____
Wayne Boston
Assistant Secretary

File No. 70-10117

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

AMENDMENT NO. 1
TO
FORM U-1

APPLICATION OR DECLARATION
under
The Public Utility Holding Company Act of 1935

GULF POWER COMPANY
One Energy Place
Pensacola, Florida 32520

(Name of company or companies filing this statement
and addresses of principal executive offices)

THE SOUTHERN COMPANY

(Name of top registered holding company parent of each applicant or declarant)

Warren E. Tate
Vice President, Secretary and Treasurer
Gulf Power Company
One Energy Place
Pensacola, Florida 32520
(Name and address of agent for service)

The Commission is requested to mail signed copies of all orders, notices and communications to the above agent for service and to:

Thomas A. Fanning
Executive Vice President, Chief
Financial Officer and Treasurer
The Southern Company
270 Peachtree Street, N.W.
Atlanta, Georgia 30303

John D. McLanahan, Esq.
Troutman Sanders LLP
600 Peachtree Street, N.E.
Suite 5200
Atlanta, Georgia 30308-2216

INFORMATION REQUIRED

Item 1. Description of Proposed Transactions.

1.1 Gulf Power Company ("Gulf") is a wholly-owned subsidiary of The Southern Company ("Southern"), a registered holding company under the Public Utility Holding Company Act of 1935, as amended (the "Act").

Gulf proposes to incur, from time to time or at any time on or before March 31, 2006, obligations in connection with the issuance and sale by public instrumentalities of one or more series of pollution control revenue bonds in an aggregate principal amount of up to $180,000,000.

Gulf further proposes to issue and sell, from time to time or at any time on or before March 31, 2006, one or more series of its senior debentures, senior promissory notes or other senior debt instruments (individually a "Senior Note" and collectively the "Senior Notes"), one or more series of its first mortgage bonds and one or more series of its preferred stock in an aggregate amount of up to $450,000,000 in any combination of issuance.

1.2 Each issue of the proposed pollution control revenue bonds will be issued for the financing or refinancing of the costs of certain air and water pollution control facilities and sewage and solid waste disposal facilities at one or more of Gulf's electric generating plants or other facilities located in various counties. It is proposed that each such county or the otherwise appropriate public body or instrumentality (the "County") will issue its revenue bonds (the "Revenue Bonds") to finance or refinance the costs of the acquisition, construction, installation and equipping of said facilities at the plant or other facility located in its jurisdiction (the

"Project"). Each County is authorized by relevant state law to issue its Revenue Bonds for such purposes.

While the actual amount of Revenue Bonds to be issued by each County has not yet been determined, such amount will be based upon the cost of refunding outstanding bonds or the cost of the Project located in its jurisdiction.

Gulf proposes to enter into a Loan or Installment Sale Agreement with the County, substantially in the form of Exhibit B-1 hereto, relating to each issue of the Revenue Bonds (the "Agreement"). Under the Agreement, the County will loan to Gulf the proceeds of the sale of the County's Revenue Bonds, and Gulf may issue a non-negotiable promissory note therefor (the "Note"), or the County will undertake to purchase and sell the related Project to Gulf. The installment sale structure may be used because it is required by applicable state law or to the extent it affords transactional advantages to Gulf. Such proceeds will be deposited with a Trustee (the "Trustee") under an indenture to be entered into between the County and such Trustee (the "Trust Indenture"), pursuant to which such Revenue Bonds are to be issued and secured, and will be applied by Gulf to payment of the Cost of Construction (as defined in the Agreement) of the Project or to refund outstanding pollution control revenue obligations.

The Note or the Agreement will provide for payments to be made by Gulf at times and in amounts which shall correspond to the payments with respect to the principal of, premium, if any, and interest on the related Revenue Bonds whenever and in whatever manner the same shall become due, whether at stated maturity, upon redemption or declaration or otherwise.

The Agreement will provide for the assignment to the Trustee of the County's interest in, and of the moneys receivable by the County under, the Agreement and the Note.

The Agreement will also obligate Gulf to pay the fees and charges of the Trustee and may provide that Gulf may at any time, so long as it is not in default thereunder, prepay the amount due under the Agreement or the Note, including interest thereon, in whole or in part, such payment to be sufficient to redeem or purchase outstanding Revenue Bonds in the manner and to the extent provided in the Trust Indenture.

The Trust Indenture will provide that the Revenue Bonds issued thereunder (i) may be redeemable at any time on or after a specified date from the date of issuance, in whole or in part, at the option of Gulf, and may require the payment of a premium at a specified percentage of the principal amount which may decline annually thereafter, and (ii) will be redeemed in whole, at the option of Gulf, in certain other cases of undue burdens or excessive liabilities imposed with respect to the related Project, its destruction or damage beyond practicable or desirable repairability or condemnation or taking by eminent domain, or if operation of the related facility is enjoined and Gulf determines to discontinue operation thereof, such redemption of all such outstanding Revenue Bonds to be at the principal amount thereof plus accrued interest, but without premium. It is proposed that the Revenue Bonds will mature not more than 40 years from the first day of the month in which they are initially issued and may, if it is deemed advisable for purposes of the marketability of the Revenue Bonds, be entitled to the benefit of a mandatory redemption sinking fund calculated to retire a portion of the aggregate principal amount of the Revenue Bonds prior to maturity.

The Trust Indenture and the Agreement may give the holders of the Revenue Bonds the right, during such time as the Revenue Bonds bear interest at a fluctuating rate or otherwise, to require Gulf to purchase the Revenue Bonds from time to time, and arrangements may be made for the remarketing of any such Revenue Bonds through a remarketing agent. Gulf also

may be required to purchase the Revenue Bonds, or the Revenue Bonds may be subject to mandatory redemption, at any time if the interest thereon is determined to be subject to federal income tax. Also in the event of taxability, interest on the Revenue Bonds may be effectively converted to a higher variable or fixed rate, and Gulf also may be required to indemnify the bondholders against any other additions to interest, penalties and additions to tax; such terms are not considered to constitute the issuance of a separate security under Sections 6(a) and 7 of the Act, but rather possible additional terms of the Revenue Bonds and Gulf's obligations with respect thereto.

In order to obtain the benefit of ratings for the Revenue Bonds equivalent to the rating of Gulf's first mortgage bonds outstanding under the indenture dated as of September 1, 1941 between Gulf and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as trustee, as supplemented and amended (the "Mortgage"), which ratings Gulf has been advised may be thus attained, Gulf may determine to secure its obligations under the Note and the related Agreement by delivering to the Trustee, to be held as collateral, a series of its first mortgage bonds (the "Collateral Bonds") in principal amount either (i) equal to the principal amount of the Revenue Bonds or (ii) equal to the sum of such principal amount of the Revenue Bonds plus interest payments thereon for a specified period. Such series of Collateral Bonds will be issued under an indenture supplemental to the Mortgage (the "Supplemental Indenture"), will mature on the maturity date of such Revenue Bonds and will be non-transferable by the Trustee. The Collateral Bonds, in the case of clause (i) above, would bear interest at a rate or rates equal to the interest rate or rates to be borne by the related Revenue Bonds and, in the case of clause (ii) above, would be non-interest bearing.

The Supplemental Indenture will provide, however, that the obligation of Gulf to make payments with respect to the Collateral Bonds will be satisfied to the extent that payments are made under the Note or the Agreement sufficient to meet payments when due in respect of the related Revenue Bonds. The Supplemental Indenture will provide that, upon acceleration by the Trustee of the principal amount of all related outstanding Revenue Bonds under the Trust Indenture, the Trustee may demand the mandatory redemption of the related Collateral Bonds then held by it as collateral at a redemption price equal to the principal amount thereof plus accrued interest, if any, to the date fixed for redemption. The Supplemental Indenture may also provide that, upon the optional redemption of the Revenue Bonds, in whole or in part, a related principal amount of the Collateral Bonds will be redeemed at the redemption price of the Revenue Bonds.

In the case of interest bearing Collateral Bonds, because interest accrues in respect of such Collateral Bonds until satisfied by payments under the Note or the Agreement, "annual interest charges" in respect of such Collateral Bonds will be included in computing the "interest earnings requirement" of the Mortgage which restricts the amount of first mortgage bonds which may be issued and sold to the public in relation to Gulf's net earnings. In the case of non-interest bearing Collateral Bonds, since no interest would accrue in respect of such Collateral Bonds, the "interest earnings requirement" would be unaffected.

The Trust Indenture will provide that, upon deposit with the Trustee of funds sufficient to pay or redeem all or any part of the related Revenue Bonds, or upon direction to the Trustee by Gulf to so apply funds available therefor, or upon delivery of such outstanding Revenue Bonds to the Trustee by or for the account of Gulf, the Trustee will be obligated to deliver to Gulf the Collateral Bonds then held as collateral in an aggregate principal amount as

they relate to the aggregate principal amount of such Revenue Bonds for the payment or redemption of which such funds have been deposited or applied or which shall have been so delivered.

As an alternative to or in conjunction with Gulf's securing its obligations through the issuance of the Collateral Bonds as above described, Gulf may cause an irrevocable Letter of Credit or other credit facility (the "Letter of Credit") of a bank or other financial institution (the "Bank") to be delivered to the Trustee. The Letter of Credit would be an irrevocable obligation of the Bank to pay to the Trustee, upon request, up to an amount necessary in order to pay principal of and accrued interest on the Revenue Bonds when due. Pursuant to a separate agreement with the Bank, Gulf would agree to pay to the Bank, on demand or pursuant to a borrowing under such agreement, all amounts that are drawn under the Letter of Credit, as well as certain fees and expenses. Such delivery of the Letter of Credit to the Trustee would obtain for the Revenue Bonds the benefit of a rating equivalent to the credit rating of the Bank. In the event that the Letter of Credit is delivered to the Trustee as an alternative to the issuance of the Collateral Bonds, Gulf may also convey to the County a subordinated security interest in the Project or other property of Gulf as further security for Gulf's obligations under the Agreement and the Note. Such subordinated security interest would be assigned by the County to the Trustee.

As a further alternative to, or in conjunction with, securing its obligations under the Agreement and Note as above described, and in order to obtain a "AAA" rating for the Revenue Bonds by one or more nationally recognized securities rating services, Gulf may cause an insurance company to issue a policy of insurance guaranteeing the payment when due of the principal of and interest on such series of the Revenue Bonds. Such insurance policy would

extend for the term of the related Revenue Bonds and would be non-cancelable by the insurance company for any reason. Gulf's payment of the premium with respect to said insurance policy could be in various forms, including a non-refundable, one-time insurance premium paid at the time the policies are issued, and/or an additional interest percentage to be paid to said insurer in correlation with regular interest payments. In addition, Gulf may be obligated to make payments of certain specified amounts into separate escrow funds and to increase the amounts on deposit in such funds under certain circumstances. The amount in each escrow fund would be payable to the insurance company as indemnity for any amounts paid pursuant to the related insurance policy in respect of principal of or interest on the related Revenue Bonds.

It is contemplated that the Revenue Bonds will be sold by the County pursuant to arrangements with one or more purchasers, placement agents or underwriters. In accordance with applicable state laws, the interest rate to be borne by the Revenue Bonds will be approved by the County and will be either a fixed rate, which fixed rate may be convertible to a rate which will fluctuate in accordance with a specified prime or base rate or rates or may be determined pursuant to certain remarketing or auction procedures, or a fluctuating rate, which fluctuating rate may be convertible to a fixed rate. While Gulf may not be party to the purchase, placement or underwriting arrangements for the Revenue Bonds, such arrangements will provide that the terms of the Revenue Bonds and their sale by the County shall be satisfactory to Gulf. Bond Counsel will issue an opinion that, based upon existing law, interest on the Revenue Bonds will generally be excludable from gross income for federal income tax purposes. Gulf has been advised that the interest rates on obligations, the interest on which is tax exempt, recently have been and can be expected at the time of issue of the Revenue Bonds to be lower than the rates on obligations of like tenor and comparable quality, interest on which is fully subject to federal income taxation.

The effective cost to Gulf of any series of the Revenue Bonds will not exceed the greater of (i) 200 basis points over comparable term U.S. Treasury securities, or (ii) a gross spread over such Treasury securities which is consistent with comparable securities. Such effective cost will reflect the applicable interest rate or rates and any underwriters' discount or commission.

The premium (if any) payable upon the redemption of any Revenue Bonds at the option of Gulf will not exceed the greater of (i) 5% of the principal amount of the Revenue Bonds so to be redeemed, or (ii) a percentage of such principal amount equal to the rate of interest per annum borne by such Revenue Bonds.

The purchase price payable by or on behalf of Gulf in respect of Revenue Bonds tendered for purchase at the option of the holders thereof will not exceed 100% of the principal amount thereof, plus accrued interest to the purchase date.

Any Letter of Credit issued as security for the payment of Revenue Bonds will be issued pursuant to a Reimbursement Agreement between Gulf and the financial institution issuing such Letter of Credit. Pursuant to the Reimbursement Agreement, Gulf will agree to pay or cause to be paid to the financial institution, on each date that any amount is drawn under such institution's Letter of Credit, an amount equal to the amount of such drawing, whether by cash or by means of a borrowing from such institution pursuant to the Reimbursement Agreement. Any such borrowing may have a term of up to 10 years and will bear interest at the lending institution's prevailing rate offered to corporate borrowers of similar quality which will not exceed (i) the London Interbank Offered Rate plus up to 3%, (ii) the lending institution's certificate of deposit rate plus up to 2-3/4%, or (iii) a rate not to exceed the prime rate plus 1%, to be established by agreement with the lending institution prior to the borrowing.

1.3 It is proposed that each series of Senior Notes will have a maturity that will not exceed approximately 50 years.

The interest rate on each issue of Senior Notes may be either a fixed rate or an adjustable rate to be determined on a periodic basis by auction or remarketing procedures, in accordance with formula or formulae based upon certain reference rates, or by other predetermined methods.

The Senior Notes will be direct, unsecured and unsubordinated obligations of Gulf ranking pari passu with all other unsecured and unsubordinated obligations of Gulf. The Senior Notes will be effectively subordinated to all secured debt of Gulf, including its first mortgage bonds. The Senior Notes will be governed by an indenture or other document.

The underwriting fees, commissions or other similar expenses paid in connection with the issue, sale or distribution of the Senior Notes of each series will not exceed 5% of the aggregate principal amount of such series.

The effective cost of money on the Senior Notes will not exceed the greater of (i) 300 basis points over comparable term U.S. Treasury securities, or (ii) a gross spread over such Treasury securities which is consistent with comparable securities.

The Senior Notes will be sold in any of the following ways: (i) through underwriters or dealers; (ii) directly to a limited number of purchasers or to a single purchaser, or (iii) through agents or dealers. If underwriters are used in the sale of the Senior Notes, such Senior Notes will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The Senior Notes may be offered to the public either through underwriting syndicates (which may be represented by managing underwriters) or

directly by one or more underwriters acting alone. The Senior Notes may be sold directly by Gulf or through agents designated from time to time. If dealers are used in the sale of any Senior Notes, such Senior Notes will be sold to the dealers as principal. Any dealer may then resell such Senior Notes to the public at varying prices to be determined by such dealer at the time of resale.

Senior Notes may be sold pursuant to "delayed delivery contracts" which permit the underwriters to locate buyers who will agree to buy the Senior Notes at the same price but at a later date than the date of the closing of the sale to the underwriters. Senior Notes may also be sold through the use of medium-term note and similar programs, including in transactions covered by Rule 144A under the Securities Act of 1933, as amended.

Any Senior Notes would have such designations, aggregate principal amount, maturity, interest rate(s) or methods of determining the same, interest payment terms, redemption provisions, non-refunding provisions, sinking fund terms, conversion or put terms and other terms and conditions as Gulf may determine at the time of issuance.

1.4 It is proposed that each series of Gulf's first mortgage bonds (the "new Bonds") will have a term of not more than 40 years and will be sold for the best price obtainable but for a price to Gulf of not less than 98% nor more than 101-3/4% of the principal amount thereof, plus accrued interest (if any).

The new Bonds will be issued under the Mortgage as heretofore supplemented by various indentures supplemental thereto, and as to be further supplemented by a Supplemental Indenture providing for each series of the new Bonds to be issued.

Gulf may provide that none of the new Bonds of any series will be redeemed for a five-year or other period commencing on or about the first day of the month of issuance at a regular redemption price if such redemption is for the purpose or in anticipation of refunding

such new Bonds through the use, directly or indirectly, of funds borrowed by Gulf at an effective interest cost to Gulf (computed in accordance with generally accepted financial practice) of less than the effective interest cost to Gulf of the new Bonds of such series. Such limitation will not apply to redemptions at a special redemption price by operation of the improvement fund or the replacement provisions of the Mortgage or by the use of proceeds of released property.

Gulf may covenant that it will not redeem the new Bonds of any series, in any year prior to the fifth or other specified year after the issuance of such series, through the operation of the improvement fund provisions of the Mortgage in a principal amount which would exceed 1% of the initial aggregate principal amount of such series.

Gulf also may covenant that it will not, in any calendar year, redeem the new Bonds of any series through the operation of the replacement provisions of the Mortgage in a principal amount which would exceed 1% of the initial aggregate principal amount of such series.

In addition, Gulf may make provision for a mandatory cash sinking fund for the benefit of any series of the new Bonds. In connection therewith, Gulf may have the non-cumulative option in any year of making an optional sinking fund payment in an amount not exceeding such mandatory sinking fund payment.

In order to enhance the marketability of the new Bonds, it may be desirable to cause an insurance company to issue a policy of insurance for the payment when due of the new Bonds of a particular series. It also may be desirable that the terms of the new Bonds, or any series thereof, provide for an adjustable interest rate thereon to be determined on a periodic basis, rather than a fixed interest rate. In such event, it is proposed that the rate of interest on such new Bonds for an initial period would be a fixed rate per annum. Periodically thereafter, the interest rate

would be adjusted by periodic auction or remarketing procedures, or in accordance with a formula or formulae based upon certain reference rates, or by other predetermined methods.

In connection with any such adjustable rate issue, it is proposed that such series of the new Bonds may not be redeemable at the option of Gulf during certain short-term interest periods. It is further proposed that the non-refunding limitation described above, as well as the restriction on redemptions through operation of the improvement fund provisions, may apply with respect to each long-term interest period commencing with the first day of the month in which any such interest period begins.

1.5 It is proposed that each issuance of Gulf's preferred stock, par or stated value of up to $100 per share (the "new Preferred Stock"), will be sold for the best price obtainable (after giving effect to the purchasers' compensation) but for a price to Gulf (before giving effect to such purchasers' compensation) of not less than 100% of the par or stated value per share.

The authorized number of shares of preferred stock of Gulf may be increased by amendment to the Articles of Incorporation of Gulf and the new Preferred Stock of each series will be created, and its terms established, by resolution of the board of directors of Gulf which when filed with the Secretary of State of Maine will constitute an amendment to the charter of Gulf. Gulf may make provision for a cumulative sinking fund for the benefit of a particular series of the new Preferred Stock which would retire a certain number of shares of such series annually, commencing at a specified date after the sale. In connection therewith, Gulf may have the non-cumulative option of redeeming up to an additional like number of shares of such series annually.

Gulf may provide that no share of a particular series of the new Preferred Stock will be redeemed for a five-year or other period commencing on or about the first day of the month of

issuance, if such redemption is for the purpose or in anticipation of refunding such share directly or indirectly through the incurring of debt, or through the issuance of stock ranking equally with or prior to the new Preferred Stock as to dividends or assets, if such debt has an effective interest cost to Gulf (computed in accordance with generally accepted financial practice) or such stock has an effective dividend cost to Gulf (so computed) of less than the effective dividend cost to Gulf of the respective series of the new Preferred Stock.

Gulf may determine that, in light of the current market conditions at the time any series of the new Preferred Stock is offered, it is in the best interest of Gulf and its investors and consumers that the terms of such new Preferred Stock provide for an adjustable dividend rate thereon to be determined on a periodic basis, rather than a fixed rate dividend. In such event, it is proposed that the rate of dividends on such new Preferred Stock for an initial period would be a fixed amount or rate per annum. Periodically thereafter, the rate would be adjusted by periodic auction or remarketing procedures, or in accordance with a formula or formulae based upon certain reference rates, or by other predetermined methods.

1.6 Gulf may determine to use the proceeds from the sale of the Revenue Bonds, the Senior Notes, the new Bonds and the new Preferred Stock to redeem or otherwise retire its outstanding senior notes, first mortgage bonds, pollution control bonds and/or preferred stock if such use is considered advisable. To the extent that the redemption or other retirement of outstanding preferred stock using the proceeds from security sales as proposed herein may require authorization under Section 12(c) of the Act, Gulf hereby requests such authorization. Gulf also proposes that it may use the proceeds from the sale of the Senior Notes, the new Bonds and new Preferred Stock, along with other funds, to pay a portion of its cash requirements to carry on its electric utility business.

1.7 Pursuant to orders of the Commission, Gulf has authority to issue and sell $350,000,000 of senior notes (of which, $345,000,000 has been sold), $400,000,000 of first mortgage bonds and/or preferred stock and $200,000,000 of pollution control revenue bonds (of which, $157,555,000 has been sold) as set forth in Commission File No. 70-9171 (HCAR No. 35-26870, dated May 14, 1998) and in Commission File No. 70-8949 (HCAR No. 35-26736, dated June 30, 1997). Gulf hereby requests that the authority described in the above-mentioned orders remain in effect until such time as the order with respect to the matters requested herein is issued.

1.8 Gulf represents that it will maintain its common equity as a percentage of capitalization (inclusive of short-term debt) at no less than thirty percent. Gulf further represents that no guarantees or other securities may be issued unless: (i) the security to be issued, if rated, is rated investment grade; (ii) all outstanding securities of Gulf that are rated are rated investment grade; and (iii) all outstanding securities of Southern that are rated are rated investment grade. For purposes of this condition, a security will be considered rated investment grade if it is rated investment grade by at least one "nationally recognized statistical rating organization", as that term is used in paragraphs (c)(2)(vi) (E), (F) and (H) of Rule 15c3-1 under the Securities Exchange Act of 1934, as amended. Gulf requests that it be permitted to issue a security that does not satisfy the foregoing condition if the requirements of Rule 52(a)(i) and Rule 52(a)(iii) are met and the issue and sale of the security have been expressly authorized by the Florida Public Service Commission.

1.9 The effective cost of money on the new Bonds and the new Preferred Stock will not exceed competitive market rates available at the time of issuance for securities having the

same or reasonably similar terms and conditions issued by similar companies of reasonably comparable credit quality; provided that in no event will such effective cost of money on the new Bonds exceed 300 basis points over comparable term U.S. Treasury securities. The credit ratings by Moody's Investors Services, Inc. ("Moody's") and Standard & Poor's, a division of The McGraw Hill Companies ("S&P"), on Gulf's outstanding securities which are rated are as follows:

| Type of Security | Moody's Rating | S&P Rating |
|---|---|---|
| First Mortgage Bonds | A+ | A1 |
| Preferred Stock | BBB+ | Baa1 |
| Senior Notes | A | A2 |
| Trust Preferred Securities | BBB+ | A3 |

1.10 As of March 31, 2003, Gulf's capital structure, excluding amounts due within one year, consisted of 47.5% ($556,870,000) common stock equity, 0.4% ($4,236,000) cumulative preferred stock, 9.8% ($115,000,000) company obligated mandatorily redeemable preferred securities of subsidiary trusts holding company junior subordinated notes, 24.0% ($281,725,000) senior notes and 18.3% ($214,390,000) other long-term debt.

As of March 31, 2003, Gulf's capital structure, including amounts due within one year, consisted of 43.5% ($556,870,000) common stock equity, 0.3% ($4,236,000) cumulative preferred stock, 9.0% ($115,000,000) company obligated mandatorily redeemable preferred securities of subsidiary trusts holding company junior subordinated notes, 26.7% ($341,725,000) senior notes and 20.5% ($262,381,000) other debt.

Item 2. Fees, Commissions and Expenses.

The fees and expenses in connection with the proposed transactions (other than underwriting discounts and commissions) are estimated not to exceed $2,000,000. The prospectus supplement or offering circular relating to each offering will reflect the actual expenses based upon the amount of the related offering.

Item 3. Applicable Statutory Provisions.

Sections 6(a), 7 and 12(c) of the Act and Rules 23, 42 and 54 thereunder are applicable to the proposed transactions.

Gulf further considers that the sale or granting of subordinated security interests in the Projects or other property of Gulf, as set forth under Item 1.3 above, may be subject to Section 12(d) of the Act, and that the exception afforded by subparagraph (b)(3) of Rule 44 thereunder may be applicable.

Gulf considers that any guarantee of payment of the Revenue Bonds may be subject to Sections 6(a) and 7 of the Act.

Gulf considers that Sections 9(a) and 10 of the Act may be applicable to any purchase of Revenue Bonds by Gulf as described herein and to the extent that the transactions contemplated herein in connection with the Revenue Bonds involve an Installment Sale Agreement or Agreements pursuant to which the County undertakes to sell the related Project to Gulf.

Gulf considers that the acquisition, retirement or redemption of Senior Notes, new Bonds and new Preferred Stock in connection with any sinking fund provisions with respect

thereto (including any optional redemptions included as part of such sinking fund provisions) are excepted from the requirements of Section 12(c) of the Act by Rule 42 thereunder.

The proposed transactions will be carried out in accordance with the procedure specified in Rule 23 and pursuant to an order or orders of the Commission in respect thereto.

Rule 54 Analysis: The proposed transactions are also subject to Rule 54, which provides that, in determining whether to approve an application which does not relate to any "exempt wholesale generator" ("EWG") or "foreign utility company" ("FUCO"), the Commission shall not consider the effect of the capitalization or earnings of any such EWG or FUCO which is a subsidiary of a registered holding company if the requirements of Rule 53(a), (b) and (c) are satisfied.

Southern currently meets all of the conditions of Rule 53(a). At March 31, 2003, Southern's "aggregate investment," as defined in Rule 53(a)(1), in EWGs and FUCOs was approximately $275.9 million, or 5.71% of Southern's "consolidated retained earnings," also as defined in Rule 53(a)(1), as of March 31, 2003 ($4.835 billion).[1]

---

[1] As discussed in Southern's Application on Form U-1 (File No. 70-9727) relating to the spin-off of Mirant Corporation ("Mirant"), Southern and Mirant reorganized certain energy-related and FUCO activities and Mirant completed a tax-free distribution to Southern of these activities on March 5, 2001 (the "Mini-Spin"). On April 2, 2001, Southern completed the spin-off of its remaining ownership interest in Mirant to Southern's shareholders. Therefore, the four indirect subsidiaries (EPZ Lease, Inc., Dutch Gas Lease, Inc., GAMOG Lease, Inc. and NUON Lease, Inc.) obtained through the Mini-Spin are the only remaining FUCO investments held by Southern. Although Southern now owns all of the equity in these companies as a result of the Mini-Spin, Southern has no direct or indirect investment or any aggregate investment within the meaning of Rule 53 in these FUCOs, including any direct or indirect guarantees or credit positions related to any capital or financing leases. Southern has executed limited keep-well commitments whereby Southern would be required to make capital contributions to Southern Energy Finance Capital Corp. or to Southern Energy Finance Company, Inc. in the event of a shortfall in the scheduled debt service resulting from certain changes in the payments due from Southern under the Southern Company Income Tax Allocation Agreement. The maximum

In addition, Southern has complied and will continue to comply with the record-keeping requirements of Rule 53(a)(2), the limitation under Rule 53(a)(3) on the use of operating company personnel to render services to EWGs and FUCOs, and the requirements of Rule 53(a)(4) concerning the submission of copies of certain filings under the Act to retail rate regulatory commissions. Further, none of the circumstances described in Rule 53(b) has occurred.

Item 4. Regulatory Approval.

Gulf's obligations with respect to the Collateral Bonds, the borrowings under the Agreements, the issuance of the Notes in respect thereof and the issuance and sale of the Senior Notes, the new Bonds and the new Preferred Stock will have been expressly authorized by the Florida Public Service Commission, which has jurisdiction over the issuance of stocks, bonds and certain evidence of indebtedness by public utility companies operating in Florida.

The transactions by Gulf proposed herein are not subject to the jurisdiction of any other state commission or of any federal commission other than the Commission.

Item 5. Procedure.

Gulf requests that the Commission's order herein be issued as soon as the rules allow and that there be no 30-day waiting period between the issuance of the Commission's order and the date on which it is to become effective. Gulf hereby waives a recommended decision by a

---

potential capital contribution required under these commitments is the unamortized balance of the related loans, which totaled approximately $422 million as of March 31, 2003.

hearing officer or other responsible officer of the Commission and hereby consents that the Division of Investment Management may assist in the preparation of the Commission's decision and/or order in this matter unless such Division opposes the matters covered hereby.

Item 6. Exhibits and Financial Statements.

(a) Exhibits.

A-1(a) - Indenture dated as of September 1, 1941, between Gulf and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee, and indentures supplemental thereto through November 1, 1996. (Designated in Registration Nos. 2-4833 as Exhibit B-3, 2-62319 as Exhibit 2(a)-3, 2-63765 as Exhibit 2(a)-3, 2-66260 as Exhibit 2(a)-3, 33-2809 as Exhibit 4(a)-2, 33-43739 as Exhibit 4(a)-2, in Gulf's Form 10-K for the year ended December 31, 1991, File No. 0-2429, as Exhibit 4(b), in Form 8-K dated August 18, 1992, File No. 0-2429, as Exhibit 4(a)-3, in Registration No. 33-50165 as Exhibit 4(a)-2, in Form 8-K dated July 12, 1993, File No. 0-2429, as Exhibit 4, in Certificate of Notification, File No. 70-8229, as Exhibit A, in Certificate of Notification, File No. 70-8229, as Exhibits E and F, in Form 8-K dated January 17, 1996, File No. 0-2429, as Exhibit 4, in Certificate of Notification, File No. 70-8229, as Exhibit A, in Certificate of Notification, File No. 70-8229, as Exhibit A and in Form 8-K dated November 6, 1996, File No. 0-2429, as Exhibit 4.)

A-1(b) - Form of Supplemental Indenture with respect to the new Bonds, between Gulf and JPMorgan Chase Bank, as Trustee.

A-2(a) - Senior Note Indenture dated as of January 1, 1998, between Gulf and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee, and indentures supplemental thereto through March 26, 2003. (Designated in Form 8-K dated June 17, 1998, File No. 0-2429, as Exhibits 4.1 and 4.2, in Form 8-K dated August 17, 1999, File No. 0-2429, as Exhibit 4.2, in Form 8-K dated July 31, 2001, File No. 0-2429, as Exhibit 4.2, in Form 8-K dated October 5, 2001, File No. 0-2429, as Exhibit 4.2, in Form 8-K dated January 18, 2002, File No. 0-2429, as Exhibit 4.2 and in Form 8-K dated March 21, 2003, File No. 0-2429, as Exhibit 4.2.)

A-2(b) - Form of Supplemental Indenture to Senior Note Indenture between Gulf and JPMorgan Chase Bank.

A-3(a) - Restated Articles of Incorporation of Gulf and amendments thereto through February 9, 2001. (Designated in Registration No. 33-43739 as Exhibit 4(b)-1, in Form 8-K dated January 15, 1992, File No. 0-2429, as Exhibit 1(b), in Form 8-K dated August 18, 1992, File No. 0-2429, as Exhibit 4(b)-2, in Form 8-K dated September 22, 1993, File No. 0-2429, as Exhibit 4, in Form 8-K dated November 3, 1993, File No. 0-2429, as Exhibit 4, in Gulf's Form 10-K for the year ended December 31, 1997, File No. 0-2429, as Exhibit 3(d)2 and in Gulf's Form 10-K for the year ended December 31, 2000, File No. 0-2429, as Exhibit 3(d)2.)

A-3(b) - Form proposed amendment to articles of incorporation of Gulf increasing the amount of authorized preferred stock.

A-3(c) - By-laws of Gulf as amended effective July 26, 2002, and as presently in effect. (Designated in Gulf's Form 10-K for the year ended December 31, 2002, File No. 0-2429, as Exhibit 3(d)2.)

B-1 - Form of Loan or Installment Sale Agreement between Gulf and the County relating to the Revenue Bonds.

B-2 - Form of Trust Indenture between the County and the Trustee relating to the Revenue Bonds.

C - Registration statement pursuant to the Securities Act of 1933, as amended. (Filed electronically April 11, 2003 File No. 333-104449.)

D - None.

E - None.

F - Opinion of Beggs & Lane, counsel for Gulf.

G - Form of Notice. (Previously Filed.)

Exhibits heretofore filed with the Securities and Exchange Commission and designated as set forth above are hereby incorporated herein by reference and made a part hereof with the same effect as if filed herewith.

(b) Financial Statements.

Balance sheet of Gulf at March 31, 2003. (Designated in Gulf's Form 10-Q for the quarter ended March 31, 2003, File No. 0-2429.)

Statements of Income of Gulf for the period ended March 31, 2003. (Designated in Gulf's Form 10-Q for the quarter ended March 31, 2003, File No. 0-2429.)

Since March 31, 2003, there have been no material adverse changes, not in the ordinary course of business, in the financial condition of Gulf from that set forth in or contemplated by the foregoing financial statements.

Item 7. Information as to Environmental Effects.

(a) The proposed transactions are strictly financial in nature in the ordinary course of Gulf's business. Accordingly, the Commission's action in these matters will not constitute any major federal action significantly affecting the quality of the human environment within the meaning of the National Environmental Policy Act.

(b) No other federal agency has prepared or is preparing an environmental impact statement with regard to the proposed transactions.

SIGNATURE

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned company has duly caused this amendment to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: June 27, 2003

GULF POWER COMPANY

By: _____
Wayne Boston
Assistant Secretary

EXHIBIT D.7.

As filed with the Securities and Exchange Commission on April 11, 2003.
Subject to Amendment.

Registration Nos. 333-104449
333-104449-01
333-104449-02

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

| | | |
|---|---|---|
| Gulf Power Company | Maine | 59-0276810 |
| Gulf Power Capital Trust V | Delaware | Applied for |
| Gulf Power Capital Trust VI | Delaware | Applied for |
| (Exact name of registrant as specified in its charter) | (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

500 Bayfront Parkway
Pensacola, Florida 32501
(850) 444-6111

(Address, including zip code, and telephone number, including area code, of each registrant's principal executive offices)

WARREN E. TATE
Vice President, Secretary and Treasurer
Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32501
(850) 444-6206

(Name, address, including zip code, and telephone number, including area code, of agent for service of each registrant)

**The Commission is requested to mail signed copies of all orders, notices and communications to:**

GALE E. KLAPPA
Executive Vice President
THE SOUTHERN COMPANY
270 Peachtree Street, N.W.
Atlanta, Georgia 30303

JOHN D. McLANAHAN, ESQ.
TROUTMAN SANDERS LLP
600 Peachtree Street, N.E.
Suite 5200
Atlanta, Georgia 30308-2216

**Approximate date of commencement of proposed sale to the public:** From time to time after the effective date of this registration statement

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box ☐

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box: ☒

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box ☐

## CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities to be Registered | Amount to be Registered(1) | Proposed Maximum Offering Price Per Unit(1)(2)(3) | Proposed Maximum Aggregate Offering Price(1)(2)(3) | Amount of Registration Fee(1) |
|---|---|---|---|---|
| Gulf Power Capital Trust V Preferred Securities | | | | |
| Gulf Power Capital Trust VI Preferred Securities | | | | |
| Gulf Power Company Senior Notes | | | | |
| Gulf Power Company Junior Subordinated Notes | | | | |
| Gulf Power Company Guarantees with respect to Preferred Securities of Gulf Power Capital Trust V and Gulf Power Capital Trust VI(4)(5) | | | | |
| Total | $325,000,000 | 100% | $325,000,000 | $26,325 |

(1) There are being registered hereunder such presently indeterminate number of Preferred Securities of Gulf Power Capital Trust V and Gulf Power Capital Trust VI and such presently indeterminate principal amount of Senior Notes and Junior Subordinated Notes of Gulf Power Company with an aggregate initial offering price not to exceed $325,000,000. Junior Subordinated Notes also may be issued to Gulf Power Capital Trust V or Gulf Power Capital Trust VI and later distributed upon dissolution and distribution of the assets thereof, which would include such Junior Subordinated Notes for which no separate consideration will be received. Pursuant to Rule 457(o) under the Securities Act of 1933, which permits the registration fee to be calculated on the basis of the maximum offering price of all the securities listed, the table does not specify by each class information as to the amount to be registered, proposed maximum offering price per unit or proposed maximum aggregate offering price.

(2) Estimated solely for the purpose of determining the registration fee.

(3) Exclusive of accrued interest and distributions, if any

(4) No separate consideration will be received for the Gulf Power Company Guarantees. Pursuant to Rule 457(n) no separate fee is payable in respect of the Gulf Power Company Guarantees

(5) Includes the obligations of Gulf Power Company under the respective Trust Agreements, the Subordinated Note Indenture, the related series of Junior Subordinated Notes, the respective Guarantees and the respective Agreements as to Expenses and Liabilities, which include the Company's covenant to pay any indebtedness, expenses or liabilities of the Trusts (other than obligations pursuant to the terms of the Preferred Securities or other similar interests), all as described in this registration statement.

**The registrants hereby amend this registration statement on such date or dates as may be necessary to delay its effective date until the registrants shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

**The within Prospectus contains the information required by Rule 429 of the Commission under the Securities Act of 1933 with respect to the $35,000,000 of securities remaining unsold under Registration Statement No. 333-59942.**

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION DATED APRIL 11, 2003

PROSPECTUS

**$360,000,000**

# Gulf Power Company

## Senior Notes

## Junior Subordinated Notes

---

# Gulf Power Capital Trust V
# Gulf Power Capital Trust VI

## Trust Preferred Securities

## Fully and unconditionally guaranteed, as set forth in this Prospectus, by

# Gulf Power Company

**a subsidiary of The Southern Company**

---

We will provide the specific terms of these securities in supplements to this Prospectus. You should read this Prospectus and the applicable prospectus supplement carefully before you invest.

See "Risk Factors" on page 2 for information on certain risks related to the purchase of securities offered by this Prospectus.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

, 2003

## ABOUT THIS PROSPECTUS

This Prospectus is part of a registration statement filed with the Securities and Exchange Commission (the "Commission") using a "shelf" registration process under the Securities Act of 1933, as amended (the "1933 Act"). Under the shelf process, Gulf Power Company (the "Company") may sell, in one or more transactions,

- senior notes (the "Senior Notes")
- junior subordinated notes (the "Junior Subordinated Notes")

and Gulf Power Capital Trust V and Gulf Power Capital Trust VI (individually, a "Trust" and collectively, the "Trusts") may sell

- trust preferred securities or capital securities (the "Preferred Securities")

in one or more offerings up to a total dollar amount of $360,000,000. This Prospectus provides a general description of those securities. Each time the Company sells securities, the Company will provide a prospectus supplement that will contain specific information about the terms of that offering ("Prospectus Supplement"). The Prospectus Supplement may also add, update or change information contained in this Prospectus. You should read this Prospectus and the applicable Prospectus Supplement together with additional information under the heading "Available Information."

## RISK FACTORS

Investing in the Company's securities involves risk. Please see the risk factors described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, which is incorporated by reference in this Prospectus. Before making an investment decision, you should carefully consider these risks as well as other information contained or incorporated by reference in this Prospectus. The risks and uncertainties described are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair its business operations, its financial results and the value of its securities.

## AVAILABLE INFORMATION

The Company and the Trusts have filed with the Commission a combined registration statement on Form S-3 (the "Registration Statement," which term encompasses any amendments of the Registration Statement and exhibits to the Registration Statement) under the 1933 Act. As permitted by the rules and regulations of the Commission, this Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto, to which reference is made.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "1934 Act"), and in accordance with the 1934 Act files reports and other information with the Commission. Such reports and other information can be inspected and copied at the public reference facilities of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the Commission at 1-800-SEC-0330. The Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants including the Company that file electronically at http://www.sec.gov. In addition, reports and other material concerning the Company can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

No separate financial statements of any Trust are included in this Prospectus. The Company considers that such statements would not be material to holders of the Preferred Securities because each Trust has no

independent operations and exists for the sole purpose of investing the proceeds of the sale of its Trust Securities (as defined below) in Junior Subordinated Notes.

## INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents have been filed with the Commission pursuant to the 1934 Act and are incorporated by reference in this Prospectus and made a part of this Prospectus:

(a) the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002; and

(b) the Company's Current Report on Form 8-K dated March 21, 2003.

All documents filed by the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act subsequent to the date of this Prospectus and prior to the termination of this offering shall be deemed to be incorporated by reference in this Prospectus and made a part of this Prospectus from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference in this Prospectus shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained in this Prospectus or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this Prospectus modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

**The Company will provide without charge to each person to whom this Prospectus is delivered, on the written or oral request of any such person, a copy of any or all documents incorporated herein by reference in this Prospectus (other than the exhibits to such documents unless such exhibits are specifically incorporated by reference in this Prospectus). Such requests should be directed to Warren E. Tate, Vice President, Secretary and Treasurer, Gulf Power Company, One Energy Place, Pensacola, Florida 32520, telephone: (850) 444-6111.**

## GULF POWER COMPANY

The Company is a corporation organized under the laws of the State of Maine on November 2, 1925, and was admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976 and in Georgia on November 20, 1984. The principal executive offices of the Company are located at 500 Bayfront Parkway, Pensacola, Florida 32501, and the telephone number is (850) 444-6111.

The Company is a wholly owned subsidiary of The Southern Company ("Southern"), a holding company registered under the Public Utility Holding Company Act of 1935, as amended. The Company is engaged, within the northwestern portion of the State of Florida, in the generation and purchase of electricity and the distribution and sale of such electricity at retail in 71 communities as well as in rural areas, and at wholesale to a nonaffiliated utility and to a municipality.

## SELECTED INFORMATION

*The following material, which is presented in this Prospectus solely to furnish limited introductory information regarding the Company, has been selected from, or is based upon, the detailed information and financial statements appearing in the documents incorporated in this Prospectus by reference or elsewhere in this Prospectus, is qualified in its entirety by reference to those documents and, therefore, should be read together with those documents.*

### Gulf Power Company

| | |
|---|---|
| Business | Generation, transmission, distribution and sale of electric energy |
| Service Area | Approximately 7,400 square miles within the northwestern portion of the State of Florida |
| Customers at December 31, 2002 | 383,923 |
| Generating Capacity at December 31, 2002 (kilowatts) | 2,808,550 |
| Sources of Generation during 2002 (kilowatt-hours) | Coal (82%), Gas (18%) |

### Certain Ratios

The following table sets forth the Ratios of Earnings to Fixed Charges and Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis) for the periods indicated.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 |
| Ratio of Earnings to Fixed Charges(1) | 3.83 | 3.62 | 3.38 | 3.64 | 3.52 |
| Ratio of Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis)(2) | 3.72 | 3.58 | 3.34 | 3.60 | 3.50 |

(1) This ratio is computed as follows: (i) "Earnings" have been calculated by adding to "Earnings Before Income Taxes" "Interest Expense, Net of Amounts Capitalized," "Distributions on Preferred Securities of Subsidiary" and the debt portion of allowance for funds used during construction, and (ii) "Fixed Charges" consist of "Interest Expense, Net of Amounts Capitalized," "Distributions on Preferred Securities of Subsidiary" and the debt portion of allowance for funds used during construction.

(2) In computing this ratio, "Preferred Dividend Requirements" represent the before tax earnings necessary to pay such dividends, computed at the effective tax rates for the applicable periods.

## THE TRUSTS

Each Trust is a statutory trust created under Delaware law pursuant to the filing of a certificate of trust with the Delaware Secretary of State on April 7, 2003. Each Trust's business is defined in a trust agreement, executed by the Company, as Depositor, and the Delaware Trustee of each Trust. This trust agreement of each Trust will be amended and restated in its entirety substantially in the form filed as an exhibit to the Registration Statement of which this Prospectus forms a part (the "Trust Agreement"). Each Trust Agreement will be qualified as an indenture under the Trust Indenture Act of 1939, as amended (the "1939 Act"). The Company will own all of the common securities (the "Common Securities" and, together with the Preferred Securities, the "Trust Securities") of each Trust. The Trust Securities represent undivided beneficial interests in the assets of the respective Trusts. Each Trust exists for the exclusive purposes of (i) issuing its Trust Securities representing undivided beneficial interests in the assets of such Trust, (ii) investing the gross proceeds of its Trust Securities in a related series of Junior Subordinated Notes, and (iii) engaging in only those other activities necessary, appropriate, convenient or incidental to these purposes. The payment of periodic cash distributions on the Preferred Securities of each Trust and payments on liquidation and redemption with respect to the Preferred Securities of each Trust, in each case to the extent each Trust has funds legally and immediately available for these purposes, will be guaranteed by the Company (individually, a "Guarantee" and collectively, the "Guarantees") to the extent set forth under "Description of the Guarantees."

Each Trust's business and affairs will be conducted by its trustees, which shall be appointed by the Company as the holder of the Common Securities: two officers of the Company as Administrative Trustees; JPMorgan Chase Bank as Property Trustee; and Chase Manhattan Bank USA, National Association as Delaware Trustee (collectively, the "Securities Trustees"). The Property Trustee of each Trust will act as the indenture trustee with respect to such Trust for purposes of compliance with the provisions of the 1939 Act.

The principal place of business of each Trust shall be c/o the Company, 500 Bayfront Parkway, Pensacola, Florida 32501, telephone (850) 444-6111, Attn: Treasurer.

Reference is made to the Prospectus Supplement relating to the Preferred Securities of a Trust for further information concerning such Trust.

## ACCOUNTING TREATMENT OF TRUSTS

For financial reporting purposes, the Trusts will be treated as subsidiaries of the Company and, accordingly, the accounts of the Trusts will be included in the consolidated financial statements of the Company. The Preferred Securities will be presented as a separate line item in the consolidated balance sheet of the Company, and appropriate disclosures concerning the Preferred Securities, the Guarantees and the Junior Subordinated Notes will be included in the notes to the consolidated financial statements. For financial reporting purposes, the Company will record distributions payable on the Preferred Securities as an expense.

## USE OF PROCEEDS

Each Trust will invest the proceeds received from the sale of its Preferred Securities in Junior Subordinated Notes. Except as may be otherwise described in an applicable Prospectus Supplement, the net proceeds received by the Company from such investment and any proceeds received from the sale of its Senior Notes or other sales of its Junior Subordinated Notes will be used in connection with its ongoing construction program, to pay scheduled maturities and/or refundings of its securities, to repay short-term indebtedness to the extent outstanding and for other general corporate purposes.

## DESCRIPTION OF THE SENIOR NOTES

Set forth below is a description of the general terms of the Senior Notes. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Senior Note Indenture, dated as of January 1, 1998, between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Senior Note Indenture Trustee"), as to be supplemented by a supplemental indenture to the Senior Note Indenture establishing the Senior Notes of each series (the Senior Note Indenture, as so supplemented, is referred to as the "Senior Note Indenture"), the forms of which are filed as exhibits to the Registration Statement of which this Prospectus forms a part. The terms of the Senior Notes will include those stated in the Senior Note Indenture and those made a part of the Senior Note Indenture by reference to the 1939 Act. Certain capitalized terms used in this Prospectus and not defined in this Prospectus are defined in the Senior Note Indenture.

### General

The Senior Notes will be issued as unsecured senior debt securities under the Senior Note Indenture and will rank equally with all other unsecured and unsubordinated debt of the Company. The Senior Notes will be effectively subordinated to all secured debt of the Company, including its first mortgage bonds, aggregating approximately $170,000,000 outstanding at December 31, 2002. The Senior Note Indenture does not limit the aggregate principal amount of Senior Notes that may be issued under the Senior Note Indenture and provides that Senior Notes may be issued from time to time in one or more series pursuant to an indenture supplemental to the Senior Note Indenture. The Senior Note Indenture gives the Company the ability to reopen a previous issue of Senior Notes and issue additional Senior Notes of such series, unless otherwise provided.

Reference is made to the Prospectus Supplement that will accompany this Prospectus for the following terms of the series of Senior Notes being offered by such Prospectus Supplement: (i) the title of such Senior Notes; (ii) any limit on the aggregate principal amount of such Senior Notes; (iii) the date or dates on which the principal of such Senior Notes is payable; (iv) the rate or rates at which such Senior Notes shall bear interest, if any, or any method by which such rate or rates will be determined, the date or dates from which such interest will accrue, the interest payment dates on which such interest shall be payable, and the regular record date for the interest payable on any interest payment date; (v) the place or places where the principal of (and premium, if any) and interest, if any, on such Senior Notes shall be payable; (vi) the period or periods within which, the price or prices at which and the terms and conditions on which such Senior Notes may be redeemed, in whole or in part, at the option of the Company or at the option of the holder prior to their maturity; (vii) the obligation, if any, of the Company to redeem or purchase such Senior Notes; (viii) the denominations in which such Senior Notes shall be issuable; (ix) if other than the principal amount of the Senior Notes, the portion of the principal amount of such Senior Notes which shall be payable upon declaration of acceleration of the maturity of such Senior Notes; (x) any deletions from, modifications of or additions to the Events of Default or covenants of the Company as provided in the Senior Note Indenture pertaining to such Senior Notes; (xi) whether such Senior Notes shall be issued in whole or in part in the form of a Global Security; and (xii) any other terms of such Senior Notes.

The Senior Note Indenture does not contain provisions that afford holders of Senior Notes protection in the event of a highly leveraged transaction involving the Company.

### Events of Default

The Senior Note Indenture provides that any one or more of the following described events with respect to the Senior Notes of any series, which has occurred and is continuing, constitutes an "Event of Default" with respect to the Senior Notes of such series:

(a) failure for 10 days to pay interest on the Senior Notes of such series, when due on an interest payment date other than at maturity or upon earlier redemption; or

(b) failure to pay principal or premium, if any, or interest on the Senior Notes of such series when due at maturity or upon earlier redemption; or

(c) failure for three Business Days to deposit any sinking fund payment when due by the terms of a Senior Note of such series; or

(d) failure to observe or perform any other covenant or warranty of the Company in the Senior Note Indenture (other than a covenant or warranty which has expressly been included in the Senior Note Indenture solely for the benefit of one or more series of Senior Notes other than such series) for 90 days after written notice to the Company from the Senior Note Indenture Trustee or the holders of at least 25% in principal amount of the outstanding Senior Notes of such series; or

(e) certain events of bankruptcy, insolvency or reorganization of the Company.

The holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of any series have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Senior Note Indenture Trustee with respect to the Senior Notes of such series. If a Senior Note Indenture Event of Default occurs and is continuing with respect to the Senior Notes of any series, then the Senior Note Indenture Trustee or the holders of not less than 25% in aggregate outstanding principal amount of the Senior Notes of such series may declare the principal amount of the Senior Notes due and payable immediately by notice in writing to the Company (and to the Senior Note Indenture Trustee if given by the holders), and upon any such declaration such principal amount shall become immediately due and payable. At any time after such a declaration of acceleration with respect to the Senior Notes of any series has been made and before a judgment or decree for payment of the money due has been obtained as provided in Article Five of the Senior Note Indenture, the holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of such series may rescind and annul such declaration and its consequences if the default has been cured or waived and the Company has paid or deposited with the Senior Note Indenture Trustee a sum sufficient to pay all matured installments of interest and principal due otherwise than by acceleration and all sums paid or advanced by the Senior Note Indenture Trustee, including reasonable compensation and expenses of the Senior Note Indenture Trustee.

The holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of any series may, on behalf of the holders of all the Senior Notes of such series, waive any past default with respect to such series, except (i) a default in the payment of principal or interest or (ii) a default in respect of a covenant or provision which under Article Nine of the Senior Note Indenture cannot be modified or amended without the consent of the holder of each outstanding Senior Note of such series affected.

**Registration and Transfer**

The Company shall not be required to (i) issue, register the transfer of or exchange Senior Notes of any series during a period of 15 days immediately preceding the date notice is given identifying the Senior Notes of such series called for redemption, or (ii) register the transfer of or exchange any Senior Notes so selected for redemption, in whole or in part, except the unredeemed portion of any Senior Note being redeemed in part.

**Payment and Paying Agent**

Unless otherwise indicated in an applicable Prospectus Supplement, payment of principal of any Senior Notes will be made only against surrender to the Paying Agent of such Senior Notes. Principal of and interest on Senior Notes will be payable subject to any applicable laws and regulations, at the office of such Paying Agent or Paying Agents as the Company may designate from time to time, except that, at the option of the Company, payment of any interest may be made by wire transfer or by check mailed to the address of the person entitled to an interest payment as such address shall appear in the Security Register with respect to the Senior Notes.

Payment of interest on Senior Notes on any interest payment date will be made to the person in whose name the Senior Notes (or predecessor security) are registered at the close of business on the record date for such interest payment.

Unless otherwise indicated in an applicable Prospectus Supplement, the Senior Note Indenture Trustee will act as Paying Agent with respect to the Senior Notes. The Company may at any time designate additional Paying Agents or rescind the designation of any Paying Agents or approve a change in the office through which any Paying Agent acts.

All moneys paid by the Company to a Paying Agent for the payment of the principal of or interest on the Senior Notes of any series which remain unclaimed at the end of two years after such principal or interest shall have become due and payable will be repaid to the Company, and the holder of such Senior Notes will from that time forward look only to the Company for payment of such principal and interest.

**Modification**

The Senior Note Indenture contains provisions permitting the Company and the Senior Note Indenture Trustee, with the consent of the holders of not less than a majority in principal amount of the outstanding Senior Notes of each series that is affected, to modify the Senior Note Indenture or the rights of the holders of the Senior Notes of such series; provided, that no such modification may, without the consent of the holder of each outstanding Senior Note that is affected, (i) change the stated maturity of the principal of, or any installment of principal of or interest on, any Senior Note, or reduce the principal amount of any Senior Note or the rate of interest on any Senior Note or any premium payable upon the redemption thereof, or change the method of calculating the rate of interest on any Senior Note, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity of any Senior Note (or, in the case of redemption, on or after the redemption date), or (ii) reduce the percentage of principal amount of the outstanding Senior Notes of any series, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the Senior Note Indenture or certain defaults under the Senior Note Indenture and their consequences) provided for in the Senior Note Indenture, or (iii) modify any of the provisions of the Senior Note Indenture relating to supplemental indentures, waiver of past defaults, or waiver of certain covenants, except to increase any such percentage or to provide that certain other provisions of the Senior Note Indenture cannot be modified or waived without the consent of the holder of each outstanding Senior Note that is affected.

In addition, the Company and the Senior Note Indenture Trustee may execute, without the consent of any holders of Senior Notes, any supplemental indenture for certain other usual purposes, including the creation of any new series of Senior Notes.

**Consolidation, Merger and Sale**

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any person, unless (1) such other corporation or person is a corporation organized and existing under the laws of the United States, any state in the United States or the District of Columbia and such other corporation or person expressly assumes, by supplemental indenture executed and delivered to the Senior Note Indenture Trustee, the payment of the principal of (and premium, if any) and interest on all the Senior Notes and the performance of every covenant of the Senior Note Indenture on the part of the Company to be performed or observed; (2) immediately after giving effect to such transactions, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and (3) the Company has delivered to the Senior Note Indenture Trustee an officers' certificate and an opinion of counsel, each stating that such transaction complies with the provisions of the Senior Note Indenture governing consolidation, merger, conveyance, transfer or lease and that all conditions precedent to the transaction have been complied with.

**Information Concerning the Senior Note Indenture Trustee**

The Senior Note Indenture Trustee, prior to an Event of Default with respect to Senior Notes of any series, undertakes to perform, with respect to Senior Notes of such series, only such duties as are specifically set forth in the Senior Note Indenture and, in case an Event of Default with respect to Senior Notes of any series has occurred and is continuing, shall exercise, with respect to Senior Notes of such series, the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provision, the Senior Note Indenture Trustee is under no obligation to exercise any of the powers vested in it by the Senior Note Indenture at the request of any holder of Senior Notes of any series, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred by the Senior Note Indenture Trustee. The Senior Note Indenture Trustee is not required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties if the Senior Note Indenture Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

JPMorgan Chase Bank, the Senior Note Indenture Trustee, also serves as Subordinated Note Indenture Trustee, as Property Trustee and as Guarantee Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with JPMorgan Chase Bank. JPMorgan Chase Bank also serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

**Governing Law**

The Senior Note Indenture and the Senior Notes will be governed by, and construed in accordance with, the internal laws of the State of New York.

**Miscellaneous**

The Company will have the right at all times to assign any of its rights or obligations under the Senior Note Indenture to a direct or indirect wholly-owned subsidiary of the Company; provided, that, in the event of any such assignment, the Company will remain primarily liable for all such obligations. Subject to the foregoing, the Senior Note Indenture will be binding upon and inure to the benefit of the parties of the Senior Note Indenture and their respective successors and assigns.

## DESCRIPTION OF THE JUNIOR SUBORDINATED NOTES

Set forth below is a description of the general terms of the Junior Subordinated Notes. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Subordinated Note Indenture, dated as of January 1, 1997, between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Subordinated Note Indenture Trustee"), as to be supplemented by a supplemental indenture to the Subordinated Note Indenture establishing the Junior Subordinated Notes of each series (the Subordinated Note Indenture, as so supplemented, is referred to as the "Subordinated Note Indenture"), the forms of which are filed as exhibits to the Registration Statement of which this Prospectus forms a part. The terms of the Junior Subordinated Notes will include those stated in the Subordinated Note Indenture and those made a part of the Subordinated Note Indenture by reference to the 1939 Act. Certain capitalized terms used in this Prospectus and not defined in this Prospectus are defined in the Subordinated Note Indenture.

### General

The Junior Subordinated Notes will be issued as unsecured junior subordinated debt securities under the Subordinated Note Indenture. The Subordinated Note Indenture does not limit the aggregate principal amount of Junior Subordinated Notes that may be issued under the Subordinated Note Indenture and provides that Junior Subordinated Notes may be issued from time to time in one or more series pursuant to an indenture supplemental to the Subordinated Note Indenture. The Subordinated Note Indenture gives the Company the ability to reopen a previous issue of Junior Subordinated Notes and issue additional Junior Subordinated Notes of such series, unless otherwise provided.

Reference is made to the Prospectus Supplement that will accompany this Prospectus for the following terms of the series of Junior Subordinated Notes being offered by such Prospectus Supplement: (i) the title of such Junior Subordinated Notes; (ii) any limit on the aggregate principal amount of such Junior Subordinated Notes; (iii) the date or dates on which the principal of such Junior Subordinated Notes is payable; (iv) the rate or rates at which such Junior Subordinated Notes shall bear interest, if any, or any method by which such rate or rates will be determined, the date or dates from which such interest will accrue, the interest payment dates on which such interest shall be payable, and the regular record date for the interest payable on any interest payment date; (v) the place or places where the principal of (and premium, if any) and interest, if any, on such Junior Subordinated Notes shall be payable; (vi) the period or periods within which, the price or prices at which and the terms and conditions on which such Junior Subordinated Notes may be redeemed, in whole or in part, at the option of the Company or at the option of the holder prior to their maturity; (vii) the obligation, if any, of the Company to redeem or purchase such Junior Subordinated Notes; (viii) the denominations in which such Junior Subordinated Notes shall be issuable; (ix) if other than the principal amount of the Junior Subordinated Notes, the portion of the principal amount of such Junior Subordinated Notes which shall be payable upon declaration of acceleration of the maturity of such Junior Subordinated Notes; (x) any deletions from, modifications of or additions to the Events of Default or covenants of the Company as provided in the Subordinated Note Indenture pertaining to such Junior Subordinated Notes; (xi) whether such Junior Subordinated Notes shall be issued in whole or in part in the form of a Global Security; (xii) the right, if any, of the Company to extend the interest payment periods of such Junior Subordinated Notes; and (xiii) any other terms of such Junior Subordinated Notes. The terms of each series of Junior Subordinated Notes issued to a Trust will correspond to those of the related Preferred Securities of such Trust as described in the Prospectus Supplement relating to such Preferred Securities.

The Subordinated Note Indenture does not contain provisions that afford holders of Junior Subordinated Notes protection in the event of a highly leveraged transaction involving the Company.

### Subordination

The Junior Subordinated Notes are subordinated and junior in right of payment to all Senior Indebtedness (as defined below) of the Company. No payment of principal of (including redemption payments, if any), or premium,

if any, or interest on (including Additional Interest (as defined below)) the Junior Subordinated Notes may be made if (a) any Senior Indebtedness is not paid when due and any applicable grace period with respect to such default has ended with such default not being cured or waived or otherwise ceasing to exist, or (b) the maturity of any Senior Indebtedness has been accelerated because of a default, or (c) notice has been given of the exercise of an option to require repayment, mandatory payment or prepayment or otherwise. Upon any payment or distribution of assets of the Company to creditors upon any liquidation, dissolution, winding-up, reorganization, assignment for the benefit of creditors, marshalling of assets or liabilities, or any bankruptcy, insolvency or similar proceedings of the Company, the holders of Senior Indebtedness shall be entitled to receive payment in full of all amounts due or to become due on or in respect of all Senior Indebtedness before the holders of the Junior Subordinated Notes are entitled to receive or retain any payment or distribution. Subject to the prior payment of all Senior Indebtedness, the rights of the holders of the Junior Subordinated Notes will be subrogated to the rights of the holders of Senior Indebtedness to receive payments and distributions applicable to such Senior Indebtedness until all amounts owing on the Junior Subordinated Notes are paid in full.

The term "Senior Indebtedness" means, with respect to the Company, (i) any payment due in respect of indebtedness of the Company, whether outstanding at the date of execution of the Subordinated Note Indenture or incurred, created or assumed after the execution of the Subordinated Note Indenture, (a) in respect of money borrowed (including any financial derivative, hedging or futures contract or similar instrument) and (b) evidenced by securities, debentures, bonds, notes or other similar instruments issued by the Company that, by their terms, are senior or senior subordinated debt securities including, without limitation, all obligations under its indentures with various trustees; (ii) all capital lease obligations; (iii) all obligations issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations of the Company under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business and long-term purchase obligations); (iv) all obligations for the reimbursement of any letter of credit, banker's acceptance, security purchase facility or similar credit transaction; (v) all obligations of the type referred to in clauses (i) through (iv) above of other persons the payment of which the Company is responsible or liable as obligor, guarantor or otherwise; and (vi) all obligations of the type referred to in clauses (i) through (v) above of other persons secured by any lien on any property or asset of the Company (whether or not such obligation is assumed by the Company), except for (1) any such indebtedness that is by its terms subordinated to or *pari passu* with the Junior Subordinated Notes and (2) any unsecured indebtedness between or among the Company or its affiliates. Such Senior Indebtedness shall continue to be Senior Indebtedness and be entitled to the benefits of the subordination provisions contained in the Subordinated Note Indenture irrespective of any amendment, modification or waiver of any term of such Senior Indebtedness.

The Subordinated Note Indenture does not limit the aggregate amount of Senior Indebtedness that may be issued by the Company. As of December 31, 2002, Senior Indebtedness of the Company aggregated approximately $550,000,000.

**Additional Interest**

"Additional Interest" is defined in the Subordinated Note Indenture as (i) such additional amounts as may be required so that the net amounts received and retained by a holder of Junior Subordinated Notes (if the holder is a Trust) after paying taxes, duties, assessments or governmental charges of whatever nature (other than withholding taxes) imposed by the United States or any other taxing authority will not be less than the amounts the holder would have received had no such taxes, duties, assessments or other governmental charges been imposed; and (ii) any interest due and not paid on an interest payment date, together with interest on such interest due from such interest payment date to the date of payment, compounded quarterly, on each interest payment date.

**Certain Covenants**

The Company covenants in the Subordinated Note Indenture, for the benefit of the holders of each series of Junior Subordinated Notes, that, (i) if at such time the Company shall have given notice of its election to extend an interest payment period for such series of Junior Subordinated Notes and such extension shall be continuing,

(ii) if at such time the Company shall be in default with respect to its payment or other obligations under the Guarantee with respect to the Trust Securities, if any, related to such series of Junior Subordinated Notes, or (iii) if at such time an Event of Default under the Subordinated Note Indenture with respect to such series of Junior Subordinated Notes shall have occurred and be continuing, (a) the Company shall not declare or pay any dividend or make any distributions with respect to, or redeem, purchase, acquire or make a liquidation payment with respect to, any of its capital stock, and (b) the Company shall not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities (including guarantees other than the Guarantees) issued by the Company which rank equally with or junior to the Junior Subordinated Notes. None of the foregoing, however, shall restrict (i) any of the actions described in the preceding sentence resulting from any reclassifications of the Company's capital stock or the exchange or conversion of one class or series of the Company's capital stock for another class or series of the Company's capital stock, or (ii) the purchase of fractional interests in shares of the Company's capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged.

The Subordinated Note Indenture further provides that, for so long as the Trust Securities of any Trust remain outstanding, the Company covenants (i) to directly or indirectly maintain 100% ownership of the Common Securities of such Trust; provided, however, that any permitted successor of the Company under the Subordinated Note Indenture may succeed to the Company's ownership of such Common Securities, and (ii) to use its reasonable efforts to cause such Trust (a) to remain a statutory trust, except in connection with the distribution of Junior Subordinated Notes to the holders of Trust Securities in liquidation of such Trust, the redemption of all of the Trust Securities of such Trust, or certain mergers, consolidations or amalgamations, each as permitted by the related Trust Agreement, and (b) to otherwise continue to be classified as a grantor trust for United States federal income tax purposes.

**Events of Default**

The Subordinated Note Indenture provides that any one or more of the following described events with respect to the Junior Subordinated Notes of any series, which has occurred and is continuing, constitutes an "Event of Default" with respect to the Junior Subordinated Notes of such series:

(a) failure for 10 days to pay interest on the Junior Subordinated Notes of such series, including any Additional Interest (as defined in clause (ii) of the definition of Additional Interest in the Subordinated Note Indenture) in respect of the Junior Subordinated Notes, when due on an interest payment date other than at maturity or upon earlier redemption; provided, however, that a valid extension of the interest payment period by the Company shall not constitute a default in the payment of interest for this purpose; or

(b) failure for 10 days to pay Additional Interest (as defined in clause (i) of the definition of Additional Interest in the Subordinated Note Indenture); or

(c) failure to pay principal or premium, if any, or interest, including Additional Interest (as defined in clause (ii) of the definition of Additional Interest in the Subordinated Note Indenture), on the Junior Subordinated Notes of such series when due at maturity or upon earlier redemption; or

(d) failure for three Business Days to deposit any sinking fund payment when due by the terms of a Junior Subordinated Note of such series; or

(e) failure to observe or perform any other covenant or warranty of the Company in the Subordinated Note Indenture (other than a covenant or warranty which has expressly been included in the Subordinated Note Indenture solely for the benefit of one or more series of Junior Subordinated Notes other than such series) for 90 days after written notice to the Company from the Subordinated Note Indenture Trustee or the holders of at least 25% in principal amount of the outstanding Junior Subordinated Notes of such series; or

(f) certain events of bankruptcy, insolvency or reorganization of the Company.

The holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of any series have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Subordinated Note Indenture Trustee with respect to the Junior Subordinated Notes of such series. If a Subordinated Note Indenture Event of Default occurs and is continuing with respect to the Junior Subordinated Notes of any series, then the Subordinated Note Indenture Trustee or the holders of not less than

25% in aggregate outstanding principal amount of the Junior Subordinated Notes of such series may declare the principal amount of the Junior Subordinated Notes due and payable immediately by notice in writing to the Company (and to the Subordinated Note Indenture Trustee if given by the holders), and upon any such declaration such principal amount shall become immediately due and payable. At any time after such a declaration of acceleration with respect to the Junior Subordinated Notes of any series had been made and before a judgment or decree for payment of the money due has been obtained as provided in Article Five of the Subordinated Note Indenture, the holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of such series may rescind and annul such declaration and its consequences if the default has been cured or waived and the Company has paid or deposited with the Subordinated Note Indenture Trustee a sum sufficient to pay all matured installments of interest (including any Additional Interest) and principal due otherwise than by acceleration and all sums paid or advanced by the Subordinated Note Indenture Trustee, including reasonable compensation and expenses of the Subordinated Note Indenture Trustee.

A holder of Preferred Securities may institute a legal proceeding directly against the Company, without first instituting a legal proceeding against the Property Trustee or any other person or entity, for enforcement of payment to such holder of principal of or interest on the Junior Subordinated Notes of the related series having a principal amount equal to the aggregate stated liquidation amount of the Preferred Securities of such holder on or after the due dates specified in the Junior Subordinated Notes of such series.

The holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of any series may, on behalf of the holders of all the Junior Subordinated Notes of such series, waive any past default with respect to such series, except (i) a default in the payment of principal or interest or (ii) a default in respect of a covenant or provision which under Article Nine of the Subordinated Note Indenture cannot be modified or amended without the consent of the holder of each outstanding Junior Subordinated Note of such series affected.

**Registration and Transfer**

The Company shall not be required to (i) issue, register the transfer of or exchange Junior Subordinated Notes of any series during a period of 15 days immediately preceding the date notice is given identifying the Junior Subordinated Notes of such series called for redemption, or (ii) register the transfer of or exchange any Junior Subordinated Notes so selected for redemption, in whole or in part, except the unredeemed portion of any Junior Subordinated Note being redeemed in part.

**Payment and Paying Agent**

Unless otherwise indicated in an applicable Prospectus Supplement, payment of principal of any Junior Subordinated Notes will be made only against surrender to the Paying Agent of such Junior Subordinated Notes. Principal of and interest on Junior Subordinated Notes will be payable, subject to any applicable laws and regulations, at the office of such Paying Agent or Paying Agents as the Company may designate from time to time, except that, at the option of the Company, payment of any interest may be made by wire transfer or by check mailed to the address of the person entitled to an interest payment as such address shall appear in the Security Register with respect to the Junior Subordinated Notes. Payment of interest on Junior Subordinated Notes on any interest payment date will be made to the person in whose name the Junior Subordinated Notes (or predecessor security) are registered at the close of business on the record date for such interest payment.

Unless otherwise indicated in an applicable Prospectus Supplement, the Subordinated Note Indenture Trustee will act as Paying Agent with respect to the Junior Subordinated Notes. The Company may at any time designate additional Paying Agents or rescind the designation of any Paying Agents or approve a change in the office through which any Paying Agent acts.

All moneys paid by the Company to a Paying Agent for the payment of the principal of or interest on the Junior Subordinated Notes of any series which remain unclaimed at the end of two years after such principal or interest shall have become due and payable will be repaid to the Company, and the holder of such Junior Subordinated Notes will from that time forward look only to the Company for payment of such principal and interest.

**Modification**

The Subordinated Note Indenture contains provisions permitting the Company and the Subordinated Note Indenture Trustee, with the consent of the holders of not less than a majority in principal amount of the outstanding Junior Subordinated Notes of each series that is affected, to modify the Subordinated Note Indenture or the rights of the holders of the Junior Subordinated Notes of such series; provided, that no such modification may, without the consent of the holder of each outstanding Junior Subordinated Note that is affected, (i) change the stated maturity of the principal of, or any installment of principal of or interest on, any Junior Subordinated Note, or reduce the principal amount of any Junior Subordinated Note or the rate of interest (including Additional Interest) on any Junior Subordinated Note or any premium payable upon the redemption thereof, or change the method of calculating the rate of interest on any Junior Subordinated Note, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity of any Junior Subordinated Note (or, in the case of redemption, on or after the redemption date), or (ii) reduce the percentage of principal amount of the outstanding Junior Subordinated Notes of any series, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the Subordinated Note Indenture or certain defaults under the Subordinated Note Indenture and their consequences) provided for in the Subordinated Note Indenture, or (iii) modify any of the provisions of the Subordinated Note Indenture relating to supplemental indentures, waiver of past defaults, or waiver of certain covenants, except to increase any such percentage or to provide that certain other provisions of the Subordinated Note Indenture cannot be modified or waived without the consent of the holder of each outstanding Junior Subordinated Note that is affected, or (iv) modify the provisions of the Subordinated Note Indenture with respect to the subordination of the Junior Subordinated Notes in a manner adverse to such holder.

In addition, the Company and the Subordinated Note Indenture Trustee may execute, without the consent of any holders of Junior Subordinated Notes, any supplemental indenture for certain other usual purposes, including the creation of any new series of Junior Subordinated Notes.

**Consolidation, Merger and Sale**

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any person, unless (1) such other corporation or person is a corporation organized and existing under the laws of the United States, any state of the United States or the District of Columbia and such other corporation or person expressly assumes, by supplemental indenture executed and delivered to the Subordinated Note Indenture Trustee, the payment of the principal of (and premium, if any) and interest (including Additional Interest) on all the Junior Subordinated Notes and the performance of every covenant of the Subordinated Note Indenture on the part of the Company to be performed or observed; (2) immediately after giving effect to such transactions, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and (3) the Company has delivered to the Subordinated Note Indenture Trustee an officers' certificate and an opinion of counsel, each stating that such transaction complies with the provisions of the Subordinated Note Indenture governing consolidation, merger, conveyance, transfer or lease and that all conditions precedent to the transaction have been complied with.

**Information Concerning the Subordinated Note Indenture Trustee**

The Subordinated Note Indenture Trustee, prior to an Event of Default with respect to Junior Subordinated Notes of any series, undertakes to perform, with respect to Junior Subordinated Notes of such series, only such duties as are specifically set forth in the Subordinated Note Indenture and, in case an Event of Default with respect to Junior Subordinated Notes of any series has occurred and is continuing, shall exercise, with respect to Junior Subordinated Notes of such series, the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provision, the Subordinated Note Indenture Trustee is under no obligation to exercise any of the powers vested in it by the Subordinated Note Indenture at the request of any

holder of Junior Subordinated Notes of any series, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred by the Subordinated Note Indenture Trustee. The Subordinated Note Indenture Trustee is not required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties if the Subordinated Note Indenture Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

JPMorgan Chase Bank, the Subordinated Note Indenture Trustee, also serves as Senior Note Indenture Trustee, as Property Trustee and as Guarantee Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with JPMorgan Chase Bank. JPMorgan Chase Bank also serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

### Governing Law

The Subordinated Note Indenture and the Junior Subordinated Notes will be governed by, and construed in accordance with, the internal laws of the State of New York.

### Miscellaneous

The Company will have the right at all times to assign any of its rights or obligations under the Subordinated Note Indenture to a direct or indirect wholly-owned subsidiary of the Company; provided, that, in the event of any such assignment, the Company will remain primarily liable for all such obligations. Subject to the foregoing, the Subordinated Note Indenture will be binding upon and inure to the benefit of the parties to the Subordinated Note Indenture and their respective successors and assigns.

## DESCRIPTION OF THE PREFERRED SECURITIES

Each Trust may issue only one series of Preferred Securities having terms described in the Prospectus Supplement relating to the Preferred Securities. The Trust Agreement of each Trust will authorize the Administrative Trustees, on behalf of the Trust, to issue the Preferred Securities of such Trust. The Preferred Securities of each Trust will have such terms, including distributions, redemption, voting, liquidation rights and such other preferred, deferral or other special rights or such restrictions as shall be set forth in the Trust Agreement of such Trust. Reference is made to the Prospectus Supplement relating to the Preferred Securities of a Trust for specific terms, including (i) the distinctive designation of such Preferred Securities; (ii) the number of Preferred Securities issued by such Trust; (iii) the annual distribution rate (or method of determining such rate) for Preferred Securities of such Trust and the date or dates on which such distributions shall be payable; (iv) whether distributions on such Preferred Securities shall be cumulative and, in the case of Preferred Securities having cumulative distribution rights, the date or dates, or method of determining the date or dates, from which distributions on such Preferred Securities shall be cumulative; (v) the amount or amounts that shall be paid out of the assets of such Trust to the holders of the Preferred Securities of such Trust upon voluntary or involuntary dissolution, winding-up or termination of such Trust; (vi) the obligation, if any, of such Trust to purchase or redeem such Preferred Securities and the price or prices at which, the period or periods within which, and the terms and conditions upon which such Preferred Securities shall be purchased or redeemed, in whole or in part, pursuant to such obligation; (vii) the voting rights, if any, of such Preferred Securities in addition to those required by law, including the number of votes per Preferred Security and any requirement for the approval by the holders of Preferred Securities as a condition to specified action or amendments to the Trust Agreement of such Trust; (viii) the rights, if any, to defer distributions on the Preferred Securities by extending the interest payment period on the related Junior Subordinated Notes; and (ix) any other relative rights, preferences, privileges, limitations or restrictions of such Preferred Securities not inconsistent with the Trust Agreement of such Trust or applicable law. All Preferred Securities offered by this Prospectus will be guaranteed by the Company to the extent set forth under "Description of the Guarantees." Any material United States federal income tax considerations applicable to an offering of Preferred Securities will be described in the Prospectus Supplement relating to the Preferred Securities.

## DESCRIPTION OF THE GUARANTEES

Set forth below is a summary of information concerning the Guarantees that will be executed and delivered by the Company for the benefit of the holders of Preferred Securities of the respective Trusts from time to time. Each Guarantee will be qualified as an indenture under the 1939 Act. JPMorgan Chase Bank will act as indenture trustee under each Guarantee (the "Guarantee Trustee") for purposes of the 1939 Act. The terms of the respective Guarantees will be those set forth in such Guarantee and those made part of such Guarantee by the 1939 Act. The following summary does not purport to be complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the Guarantees, the form of which is filed as an exhibit to the Registration Statement of which this Prospectus forms a part, and the 1939 Act. Each Guarantee will be held by the Guarantee Trustee for the benefit of holders of the Preferred Securities to which it relates.

### General

Pursuant to each Guarantee, the Company will irrevocably and unconditionally agree, to the extent set forth in such Guarantee, to pay in full, to the holders of the related Preferred Securities, the Guarantee Payments (as defined below), to the extent not paid by, or on behalf of, the related Trust, regardless of any defense, right of set-off or counterclaim that the Company may have or assert against any person. The following payments or distributions with respect to the Preferred Securities of any Trust to the extent not paid or made by, or on behalf of, such Trust will be subject to the Guarantee related to the Preferred Securities (without duplication): (i) any accrued and unpaid distributions required to be paid on the Preferred Securities of such Trust but if and only if and to the extent that such Trust has funds legally and immediately available for these distributions, (ii) the redemption price, including all accrued and unpaid distributions to the date of redemption (the "Redemption Price"), with respect to any Preferred Securities called for redemption by such Trust, but if and only to the extent such Trust has funds legally and immediately available to pay such Redemption Price, and (iii) upon a dissolution, winding-up or termination of such Trust (other than in connection with the distribution of Junior Subordinated Notes to the holders of Trust Securities of such Trust or the redemption of all of the Preferred Securities of such Trust), the lesser of (a) the aggregate of the liquidation amount and all accrued and unpaid distributions on the Preferred Securities of such Trust to the date of payment, to the extent such Trust has funds legally and immediately available for such purpose, and (b) the amount of assets of such Trust remaining available for distribution to holders of Preferred Securities of such Trust in liquidation of such Trust (the "Guarantee Payments"). The Company's obligation to make a Guarantee Payment may be satisfied by direct payment of the required amounts by the Company to the holders of the related Preferred Securities or by causing the related Trust to pay such amounts to such holders.

Each Guarantee will be a guarantee of the Guarantee Payments with respect to the related Preferred Securities from the time of issuance of such Preferred Securities, but will not apply to the payment of distributions and other payments on such Preferred Securities when the related Trust does not have sufficient funds legally and immediately available to make such distributions or other payments. **If the Company does not make interest payments on the Junior Subordinated Notes held by the Property Trustee under any Trust, such Trust will not make distributions on its Preferred Securities.**

### Subordination

The Company's obligations under each Guarantee to make the Guarantee Payments will constitute an unsecured obligation of the Company and will rank (i) subordinate and junior in right of payment to all other liabilities of the Company, including the Junior Subordinated Notes, except those obligations or liabilities made equal or subordinate by their terms, (ii) equal to the most senior preferred or preference stock now issued by the Company or issued at a later date by the Company and with any guarantee now entered into by the Company or entered into at a later date by the Company in respect of any preferred or preference securities of any affiliate of the Company, and (iii) senior to all common stock of the Company. The terms of the Preferred Securities will provide that each holder of Preferred Securities by acceptance of the Preferred Securities agrees to the subordination

provisions and other terms of the Guarantee related thereto. The Company has outstanding preferred stock that ranks equal to the Guarantees and common stock that ranks junior to the Guarantees.

Each Guarantee will constitute a guarantee of payment and not of collection (that is, the guaranteed party may institute a legal proceeding directly against the guarantor to enforce its rights under the guarantee without first instituting a legal proceeding against any other person or entity).

**Amendments and Assignment**

Except with respect to any changes that do not materially and adversely affect the rights of holders of the related Preferred Securities (in which case no consent will be required), each Guarantee may be amended only with the prior approval of the holders of not less than 66⅔% in liquidation amount of such outstanding Preferred Securities. The manner of obtaining any such approval of holders of the Preferred Securities will be as set forth in an accompanying Prospectus Supplement. All guarantees and agreements contained in each Guarantee shall bind the successors, assigns, receivers, trustees and representatives of the Company and shall inure to the benefit of the holders of the related Preferred Securities then outstanding.

**Termination**

Each Guarantee will terminate and be of no further force and effect as to the related Preferred Securities upon full payment of the Redemption Price of all such Preferred Securities, upon distribution of Junior Subordinated Notes to the holders of such Preferred Securities, or upon full payment of the amounts payable upon liquidation of the related Trust. Each Guarantee will continue to be effective or will be reinstated, as the case may be, if at any time any holder of the related Preferred Securities must restore payment of any sums paid with respect to such Preferred Securities or under such Guarantee.

**Events of Default**

An event of default under each Guarantee will occur upon the failure by the Company to perform any of its payment obligations under such Guarantee. The holders of a majority in liquidation amount of the Preferred Securities to which any Guarantee relates have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Guarantee Trustee in respect of such Guarantee or to direct the exercise of any trust or power conferred upon the Guarantee Trustee under such Guarantee. Any holder of the related Preferred Securities may institute a legal proceeding directly against the Company to enforce its rights under such Guarantee without first instituting a legal proceeding against the Guarantee Trustee or any other person or entity. The holders of a majority in liquidation amount of Preferred Securities of any series may, by vote, on behalf of the holders of all the Preferred Securities of such series, waive any past event of default and its consequences.

**Information Concerning the Guarantee Trustee**

The Guarantee Trustee, prior to the occurrence of any event of default with respect to any Guarantee and after the curing or waiving of all events of default with respect to such Guarantee, undertakes to perform only such duties as are specifically set forth in such Guarantee and, in case an event of default has occurred, shall exercise the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provisions, the Guarantee Trustee is under no obligation to exercise any of the powers vested in it by any Guarantee at the request of any holder of the related Preferred Securities, unless offered reasonable indemnity against the costs, expenses and liabilities which might be incurred by the Guarantee Trustee.

JPMorgan Chase Bank, the Guarantee Trustee, also serves as Property Trustee, as Senior Note Indenture Trustee and as Subordinated Note Indenture Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with JPMorgan Chase Bank. JPMorgan Chase Bank serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

### Governing Law

Each Guarantee will be governed by, and construed in accordance with, the internal laws of the State of New York.

### The Agreements as to Expenses and Liabilities

Pursuant to an Agreement as to Expenses and Liabilities to be entered into by the Company under each Trust Agreement, the Company will irrevocably and unconditionally guarantee to each person or entity to whom each Trust becomes indebted or liable the full payment of any indebtedness, expenses or liabilities of such Trust, other than obligations of such Trust to pay to the holders of the related Preferred Securities or other similar interests in such Trust the amounts due such holders pursuant to the terms of such Preferred Securities or such other similar interests, as the case may be.

## RELATIONSHIP AMONG THE PREFERRED SECURITIES, THE JUNIOR SUBORDINATED NOTES AND THE GUARANTEES

As long as payments of interest and other payments are made when due on each series of Junior Subordinated Notes issued to a Trust, such payments will be sufficient to cover distributions and payments due on the related Trust Securities of such Trust primarily because (i) the aggregate principal amount of each series of Junior Subordinated Notes will be equal to the sum of the aggregate stated liquidation amount of the related Trust Securities; (ii) the interest rate and interest and other payment dates on each series of Junior Subordinated Notes will match the distribution rate and distribution and other payment dates for the related Preferred Securities; (iii) the Company shall pay for all costs and expenses of each Trust pursuant to the Agreements as to Expenses and Liabilities; and (iv) each Trust Agreement provides that the Securities Trustees thereunder shall not cause or permit the Trust to, among other things, engage in any activity that is not consistent with the purposes of the Trust.

Payments of distributions (to the extent funds for such purpose are legally and immediately available) and other payments due on the Preferred Securities (to the extent funds for such purpose are legally and immediately available) will be guaranteed by the Company as and to the extent set forth under "Description of the Guarantees." If the Company does not make interest payments on any series of Junior Subordinated Notes, it is not expected that the related Trust will have sufficient funds to pay distributions on its Preferred Securities. Each Guarantee is a guarantee from the time of its issuance, but does not apply to any payment of distributions unless and until the related Trust has sufficient funds legally and immediately available for the payment of such distributions.

If the Company fails to make interest or other payments on any series of Junior Subordinated Notes when due (taking into account any extension period as described in the applicable Prospectus Supplement), the Trust Agreement provides a mechanism that allows the holders of the related Preferred Securities to appoint a substitute Property Trustee. Such holders may also direct the Property Trustee to enforce its rights under the Junior Subordinated Notes of such series, including proceeding directly against the Company to enforce such Junior Subordinated Notes. If the Property Trustee fails to enforce its rights under any series of Junior Subordinated Notes, to the fullest extent permitted by applicable law, any holder of related Preferred Securities may institute a legal proceeding directly against the Company to enforce the Property Trustee's rights under such series of Junior Subordinated Notes without first instituting any legal proceeding against the Property Trustee or any other person or entity. Notwithstanding the foregoing, a holder of Preferred Securities may institute a legal proceeding directly against the Company, without first instituting a legal proceeding against the Property Trustee or any other person or entity, for enforcement of payment to such holder of principal of or interest on Junior Subordinated Notes of the related series having a principal amount equal to the aggregate stated liquidation amount of the Preferred Securities of such holder on or after the due dates specified in the Junior Subordinated Notes of such series.

If the Company fails to make payments under any Guarantee, such Guarantee provides a mechanism that allows the holders of the Preferred Securities to which such Guarantee relates to direct the Guarantee Trustee to enforce its rights under such Guarantee. In addition, any holder of Preferred Securities may institute a legal proceeding directly against the Company to enforce the Guarantee Trustee's rights under the related Guarantee without first instituting a legal proceeding against the Guarantee Trustee or any other person or entity.

Each Guarantee, the Subordinated Note Indenture, the Junior Subordinated Notes of the related series, the related Trust Agreement and the related Agreement as to Expenses and Liabilities, as described above, constitute a full and unconditional guarantee by the Company of the payments due on the related series of Preferred Securities.

Upon any voluntary or involuntary dissolution, winding-up or termination of any Trust, unless Junior Subordinated Notes of the related series are distributed in connection with such action, the holders of the Preferred Securities of such Trust will be entitled to receive, out of assets legally available for distribution to holders, a liquidation distribution in cash as described in the applicable Prospectus Supplement. Upon any voluntary or involuntary liquidation or bankruptcy of the Company, the Property Trustee, as holder of the related series of Junior Subordinated Notes, would be a subordinated creditor of the Company, subordinated in right of payment to all Senior Indebtedness, but entitled to receive payment in full of principal and interest, before any stockholders of the Company receive payments or distributions. Because the Company is guarantor under each Guarantee and has agreed to pay for all costs, expenses and liabilities of each Trust (other than the Trust's obligations to holders of the Preferred Securities) pursuant to the related Agreement as to Expenses and Liabilities, the positions of a holder of Preferred Securities and a holder of Junior Subordinated Notes of the related series relative to other creditors and to stockholders of the Company in the event of liquidation or bankruptcy of the Company would be substantially the same.

A default or event of default under any Senior Indebtedness would not constitute a default or Event of Default under the Subordinated Note Indenture. However, in the event of payment defaults under, or acceleration of, Senior Indebtedness, the subordination provisions of the Junior Subordinated Notes provide that no payments may be made in respect of the Junior Subordinated Notes until such Senior Indebtedness has been paid in full or any payment default of Senior Indebtedness has been cured or waived. Failure to make required payments on the Junior Subordinated Notes of any series would constitute an Event of Default under the Subordinated Note Indenture with respect to the Junior Subordinated Notes of such series except that failure to make interest payments on the Junior Subordinated Notes of such series will not be an Event of Default during an extension period as described in the applicable Prospectus Supplement.

## PLAN OF DISTRIBUTION

The Company may sell the Senior Notes and the Junior Subordinated Notes and the Trusts may sell the Preferred Securities in one or more of the following ways from time to time: (i) to underwriters for resale to the public or to institutional investors; (ii) directly to institutional investors; or (iii) through agents to the public or to institutional investors. The Prospectus Supplement with respect to each series of Senior Notes, Junior Subordinated Notes or Preferred Securities will set forth the terms of the offering of such Senior Notes, Junior Subordinated Notes or Preferred Securities, including the name or names of any underwriters or agents, the purchase price of such Senior Notes, Junior Subordinated Notes or Preferred Securities and the proceeds to the Company or the applicable Trust from such sale, any underwriting discounts or agency fees and other items constituting underwriters' or agents' compensation, any initial public offering price, any discounts or concessions allowed or reallowed or paid to dealers and any securities exchange on which such Senior Notes, Junior Subordinated Notes or Preferred Securities may be listed.

If underwriters participate in the sale, such Senior Notes, Junior Subordinated Notes or Preferred Securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale.

Unless otherwise set forth in the Prospectus Supplement, the obligations of the underwriters to purchase any series of Senior Notes, Junior Subordinated Notes or Preferred Securities will be subject to certain conditions precedent and the underwriters will be obligated to purchase all of such series of Senior Notes, Junior Subordinated Notes or Preferred Securities, if any are purchased.

Underwriters and agents may be entitled under agreements entered into with the Company and/or the applicable Trust to indemnification against certain civil liabilities, including liabilities under the 1933 Act. Underwriters and agents may engage in transactions with, or perform services for, the Company in the ordinary course of business.

Each series of Senior Notes, Junior Subordinated Notes or Preferred Securities will be a new issue of securities and will have no established trading market. Any underwriters to whom Senior Notes, Junior Subordinated Notes or Preferred Securities are sold for public offering and sale may make a market in such Senior Notes, Junior Subordinated Notes or Preferred Securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice. The Senior Notes, Junior Subordinated Notes or Preferred Securities may or may not be listed on a national securities exchange.

## LEGAL MATTERS

Certain matters of Delaware law relating to the validity of the Preferred Securities will be passed upon on behalf of the Company and the Trusts by Richards, Layton & Finger, Wilmington, Delaware, special Delaware counsel to the Company and the Trusts. The validity of the Senior Notes, the Junior Subordinated Notes, the Guarantees and certain matters relating to such securities will be passed upon on behalf of the Company by Beggs & Lane, a Registered Limited Liability Partnership, Pensacola, Florida, and by Troutman Sanders LLP, Atlanta, Georgia. Certain legal matters will be passed upon for the Underwriters by Dewey Ballantine LLP, New York, New York.

## EXPERTS

The financial statements and the related financial statement schedule as of and for the year ended December 31, 2002 incorporated by reference in this Prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report, which is incorporated by reference in this Prospectus, and has been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

Certain of the Company's financial statements incorporated by reference in this Prospectus have been audited by Arthur Andersen LLP ("Andersen"), independent public accountants, as indicated in their reports with respect to the financial statements, and are incorporated by reference in this Prospectus, in reliance upon the authority of Andersen as experts in giving such reports. On March 28, 2002, Southern's Board of Directors, upon recommendation of its Audit Committee, decided not to engage Andersen as the Company's principal public accountants. The Company has not obtained a reissued report from Andersen and has been unable to obtain, after reasonable efforts, Andersen's written consent to incorporate by reference Andersen's reports on the financial statements. Under these circumstances, Rule 437a under the 1933 Act permits this Prospectus to be filed without a written consent from Andersen. The absence of such written consent from Andersen may limit a holder's ability to assert claims against Andersen under Section 11(a) of the 1933 Act for any untrue statement of a material fact contained in the financial statements audited by Andersen or any omissions to state a material fact required to be stated in the financial statements.

## PART II

## INFORMATION NOT REQUIRED IN PROSPECTUS

**Item 14.** ***Other Expenses of Issuance and Distribution.***

The estimated expenses of issuance and distribution, other than underwriting discounts and commissions, to be borne by the Company are as follows:

| | |
|---|---|
| Securities and Exchange Commission registration fee | $ 26,325 |
| Fees and expenses of trustees and/or Transfer Agent and Registrar | 60,000 |
| Listing fees of New York Stock Exchange | 36,900 |
| Printing expenses | 130,000 |
| Rating Agency fees | 447,000 |
| Services of Southern Company Services, Inc. | 120,000 |
| Fees and expenses of counsel | 240,000 |
| Blue sky fees and expenses | 30,000 |
| Fees of accountants | 215,000 |
| Miscellaneous expenses | 14,775 |
| Total | $1,320,000* |

* Each Prospectus Supplement will reflect estimated expenses of the Company based upon the amount of the related offering.

**Item 15.** ***Indemnification of Directors and Officers.***

Section 719 of Title 13-A of the Maine Revised Statutes, as amended in 1987, provides that a corporation shall have the power to indemnify, or if so provided in the bylaws shall in all cases indemnify, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that that person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, trustee, partner, fiduciary, employee or agent of another corporation, partnership, joint venture, trust, pension or other employee benefit plan or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by that person in connection with such action, suit or proceeding; provided that no indemnification shall be provided for any person with respect to any matter as to which that person shall have been finally adjudicated not to have acted honestly or in the reasonable belief that that person's action was in or not opposed to the best interests of the corporation or its shareholders or, in the case of a person serving as a fiduciary of an employee benefit plan or trust, in or not opposed to the best interests of that plan or trust, or its participants or beneficiaries; or, with respect to any criminal action or proceeding, had reasonable cause to believe that that person's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order or conviction adverse to that person, or by settlement or plea of nolo contendere or its equivalent, shall not of itself create a presumption that that person did not act honestly or in the reasonable belief that that person's action was in or not opposed to the best interests of the corporation or its shareholders or, in the case of a person serving as a fiduciary of an employee benefit plan or trust, in or not opposed to the best interests of that plan or trust or its participants or beneficiaries and, with respect to any criminal action or proceeding, had reasonable cause to believe that that person's conduct was unlawful.

Section 21 of the By-laws of the Company provides in pertinent part as follows:

To the fullest extent permitted by law, the Company shall indemnify each person made, or threatened to be made, a party to any threatened, pending, or completed claim, action, suit or proceeding, whether civil or criminal, administrative or investigative, and whether by or in the right of the Company or otherwise, by reason of the fact that such person, or such person's testator or intestate, is or was a director, officer or was an employee of the Company holding one or more management positions through and inclusive of managers (but not positions below the level of managers) (such positions being hereinafter referred to as "Management Positions") or is or was serving at the request of the Company as a director, officer, employee, agent or trustee of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, in any capacity at the request of the Company, against all loss and expense actually or reasonably incurred by him including, without limiting the generality of the foregoing, judgments, fines, penalties, liabilities, sanctions and amounts paid in settlement and attorneys fees and disbursements actually and necessarily incurred by him in defense of such action or proceeding, or any appeal therefrom. The indemnification provided by this Section shall inure to the benefit of the heirs, executors and administrators of such person.

In any case in which a director, officer of the Company or employee of the Company holding one or more Management Positions requests indemnification with respect to the defense of any such claim, action, suit or proceedings, the Company may advance expenses (including attorney's fees) incurred by such person prior to the final disposition of such claim, action, suit or proceeding, as authorized by the Board of Directors in the specific case, upon receipt of a written undertaking by or on behalf of such person to repay amounts advanced if it shall ultimately be determined that such person was not entitled to be indemnified by the Company under this Section or otherwise; provided, however, that the advancement of such expenses shall not be deemed to be indemnification unless and until it shall ultimately be determined that such person is entitled to be indemnified by the Company. Such a person claiming indemnification shall be entitled to indemnification upon a determination that no judgment or other final adjudication adverse to such person has established that such person's acts were committed in bad faith or were the result of active and deliberate dishonesty and were material to the cause of action so adjudicated, or such person personally obtained an economic benefit including a financial profit or other advantage to which such person was not legally entitled. Without limiting the generality of the foregoing provision, no former, present or future director or officer of the Company or employee of the Company holding one or more management positions, or his heirs, executors or administrators, shall be liable for any undertaking entered into by the Company or its subsidiaries or affiliates as required by the Securities and Exchange Commission pursuant to any rule or regulation of the Securities and Exchange Commission now or hereafter in effect or orders issued pursuant to the Public Utility Holding Company Act of 1935, the Federal Power Act, or any undertaking entered into by the Company due to environmental requirements including all legally enforceable environmental compliance obligations imposed by federal, state or local statute, regulation, permit, judicial or administrative decree, order and judgment or other similar means, or any undertaking entered into by the Company pursuant to any approved Company compliance plan or any federal or state or municipal ordinance which directly or indirectly regulates the Company, or its parent by reason of their being holding or investment companies, public utility companies, public utility holding companies or subsidiaries of public utility holding companies.

The foregoing rights shall not be exclusive of any other rights to which any such director, officer or employee may otherwise be entitled and shall be available whether or not the director, officer or employee continues to be a director, officer or employee at the time of incurring any such expenses and liabilities.

The Company has an insurance policy covering its liabilities and expenses which might arise in connection with its lawful indemnification of its directors and officers for certain of their liabilities and expenses and also covering its officers and directors against certain other liabilities and expenses.

**Item 16.** ***Exhibits.***

| Exhibit Number | |
|---|---|
| 1.1 | —Form of Underwriting Agreement relating to Senior Notes.* |
| 1.2 | —Form of Underwriting Agreement relating to Junior Subordinated Notes.* |
| 1.3 | —Form of Underwriting Agreement relating to Preferred Securities.* |
| 4.1 | —Senior Note Indenture between Gulf Power Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as Trustee (Designated in the Company's Current Report on Form 8-K dated June 17, 1998, File No. 0-2429, as Exhibits 4.1 and 4.2, in Form 8-K dated August 17, 1999, File No. 0-2429, as Exhibit 4.2, in Form 8-K dated July 31, 2001, File No. 0-2429, as Exhibit 4.2, in Form 8-K dated October 5, 2001, File No. 0-2429, as Exhibit 4.2, in Form 8-K dated January 18, 2002, File No. 0-2429, as Exhibit 4.2 and in Form 8-K dated March 21, 2003, File No. 0-2429, as Exhibit 4.2). |
| 4.2 | —Form of Supplemental Indenture to Senior Note Indenture to be used in connection with the issuance of Senior Notes.* |
| 4.3 | —Subordinated Note Indenture between Gulf Power Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as Trustee (Designated in the Company's Current Report on Form 8-K dated January 27, 1997, File No. 0-2429, as Exhibits 4.1 and 4.2, in Form 8-K dated July 28, 1997, File No. 0-2429, as Exhibit 4.2, in Form 8-K dated January 13, 1998, File No. 0-2429, as Exhibit 4.2, in Form 8-K dated November 8, 2001, File No. 0-2429, as Exhibit 4.2 and in Form 8-K dated December 5, 2002, File No. 0-2429, as Exhibit 4.2). |
| 4.4 | —Form of Supplemental Indenture to Subordinated Note Indenture to be used in connection with the issuance of Junior Subordinated Notes.* |
| 4.5-A | —Certificate of Trust of Gulf Power Capital Trust V. |
| 4.5-B | —Certificate of Trust of Gulf Power Capital Trust VI. |
| 4.6-A | —Trust Agreement of Gulf Power Capital Trust V. |
| 4.6-B | —Trust Agreement of Gulf Power Capital Trust VI. |
| 4.7-A | —Form of Amended and Restated Trust Agreement of Gulf Power Capital Trust V. |
| 4.7-B | —Form of Amended and Restated Trust Agreement of Gulf Power Capital Trust VI. |
| 4.8-A | —Form of Preferred Security of Gulf Power Capital Trust V (included in Exhibit 4.7-A above). |
| 4.8-B | —Form of Preferred Security of Gulf Power Capital Trust VI (included in Exhibit 4.7-B above). |
| 4.9 | —Form of Senior Note (included in Exhibit 4.2 above). |
| 4.10 | —Form of Junior Subordinated Note (included in Exhibit 4.4 above). |
| 4.11-A | —Form of Guarantee relating to Gulf Power Capital Trust V. |
| 4.11-B | —Form of Guarantee relating to Gulf Power Capital Trust VI. |
| 4.12-A | —Form of Agreement as to Expenses and Liabilities relating to Gulf Power Capital Trust V (included in Exhibit 4.7-A above). |
| 4.12-B | —Form of Agreement as to Expenses and Liabilities relating to Gulf Power Capital Trust VI (included in Exhibit 4.7-B above). |
| 5.1 | —Opinion of Troutman Sanders LLP. |
| 5.2-A | —Opinion of Richards, Layton & Finger, P.A. relating to Gulf Power Capital Trust V. |
| 5.2-B | —Opinion of Richards, Layton & Finger, P.A. relating to Gulf Power Capital Trust VI. |
| 12.1 | —Computation of ratio of earnings to fixed charges. |
| 12.2 | —Computation of ratio of earnings to fixed charges plus preferred dividend requirements (pre-income tax basis). |
| 23.1 | —Consent of Deloitte & Touche LLP. |
| 23.2 | —Consent of Troutman Sanders LLP (included in Exhibit 5.1 above). |
| 23.3 | —Consent of Richards, Layton & Finger, P.A. (included in Exhibits 5.2-A and 5.2-B above). |
| 24.1 | —Powers of Attorney and Resolution. |
| 25.1 | —Statement of Eligibility under Trust Indenture Act of 1939, as amended, of JPMorgan Chase Bank, as Senior Note Indenture Trustee. |

| Exhibit Number | |
|---|---|
| 25.2 | —Statement of Eligibility under Trust Indenture Act of 1939, as amended, of JPMorgan Chase Bank, as Subordinated Note Indenture Trustee. |
| 25.3 | —Statement of Eligibility under Trust Indenture Act of 1939, as amended, of JPMorgan Chase Bank, as Property Trustee, relating to Gulf Power Capital Trust V. |
| 25.4 | —Statement of Eligibility under Trust Indenture Act of 1939, as amended, of JPMorgan Chase Bank, as Guarantee Trustee, relating to Gulf Power Capital Trust V. |
| 25.5 | —Statement of Eligibility under Trust Indenture Act of 1939, as amended, of JPMorgan Chase Bank, as Property Trustee, relating to Gulf Power Capital Trust VI. |
| 25.6 | —Statement of Eligibility under Trust Indenture Act of 1939, as amended, of JPMorgan Chase Bank, as Guarantee Trustee, relating to Gulf Power Capital Trust VI. |

Exhibits listed above which have heretofore been filed with the Commission and which were designated as noted above are hereby incorporated herein by reference and made a part hereof with the same effect as if filed herewith.

---

* To be subsequently filed or incorporated by reference.

**Item 17.** ***Undertakings.***

(a) Undertaking related to Rule 415 offering:

The undersigned registrants hereby undertake:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

Provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the registration statement is on Form S-3, S-8 or F-3 and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the registrants pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) Undertaking related to filings incorporating subsequent Securities Exchange Act of 1934 documents by reference:

The undersigned registrants hereby undertake that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Company's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Undertaking related to acceleration of effectiveness:

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrants pursuant to the foregoing provisions or otherwise, the registrants have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrants of expenses incurred or paid by a director, officer or controlling person of the registrants in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrants will, unless in the opinion of their counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(d) The undersigned registrants hereby undertake that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrants pursuant to Rule 424(b)(1) or (4) or 497(h) under the Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

## SIGNATURES

**Pursuant to the requirements of the Securities Act of 1933, Gulf Power Company certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Atlanta, State of Georgia, on the 10th day of April, 2003.**

GULF POWER COMPANY

By: THOMAS A. FANNING,
President and Chief Executive Officer

By: WAYNE BOSTON,
Attorney-in-fact

**Pursuant to the requirements of the Securities Act of 1933, Gulf Power Capital Trust V certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Atlanta, State of Georgia, on the 10th day of April, 2003.**

GULF POWER CAPITAL TRUST V

By: GULF POWER COMPANY
Depositor

By: WAYNE BOSTON,
Assistant Secretary

**Pursuant to the requirements of the Securities Act of 1933, Gulf Power Capital Trust VI certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Atlanta, State of Georgia, on the 10th day of April, 2003.**

GULF POWER CAPITAL TRUST VI

By: GULF POWER COMPANY
Depositor

By: WAYNE BOSTON,
Assistant Secretary

**Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following directors and officers of Gulf Power Company in the capacities and on the date indicated.**

| Signature | Title | Date |
|---|---|---|
| THOMAS A. FANNING | President, Chief Executive Officer and Director (Principal Executive Officer) | |
| RONNIE R. LABRATO | Vice President, Comptroller and Chief Financial Officer (Principal Financial and Accounting Officer) | |
| C. LEDON ANCHORS<br>WILLIAM C. CRAMER, JR.<br>FRED C. DONOVAN<br>H. ALLEN FRANKLIN<br>WILLIAM A. PULLUM<br>JOSEPH K. TANNEHILL | Directors | |
| By WAYNE BOSTON<br>**(Wayne Boston, Attorney-in-fact)** | | April 10, 2003 |

EXHIBIT D.8.

**Description of Holder**

*$60,000,000 Series G 4.35% Senior Notes*

| **Name of Underwriters** | **Principal Amount of Notes** |
|---|---|
| Lehman Brothers, Inc.<br>745 7th Avenue<br>New York, New York 10019 | $27,000,000 |
| Scotia Capital (USA) Inc.<br>1 Liberty Plaza, 25th Floor<br>New York, New York 10006 | $27,000,000 |
| As representatives | |
| KBC Financial Products USA Inc. | $ 6,000,000 |
| | $60,000,000 |

Underwriters Fees: $390,000

GULF POWER COMPANY

EXHIBIT D.9.

Summary of Debt Expenses in Conjunction with the
Issuance and Sale of $60,000,000 Principal Amount
Series G 4.35% Senior Notes

| Item Number | Issuance Expenses For: | Amount $ |
|---|---|---|
| 1 | Shelf Registration-Securities & Exchange Commission | 27,659.85 |
| 2 | Charges of Trustee | 6,890.00 |
| 3 | Printing and Preparation of Registration Statement, Financial Statements, Prospectus, Competitive Bidding Papers, Supplemental Indenture, etc. | 14,478.69 |
| 4 | Fees and Expenses of Counsel | 23,286.98 |
| 5 | Fees of Accountants | 22,645.00 |
| 6 | Rating Fees | 19,573.71 |
| 7 | Expenses of Southern Company Services, Inc. | 7,398.34 |
| 8 | Miscellaneous Expenses | 786.21 |
| | Total Expenses of Issue | 122,718.78 |
| | Unamortized Discount Expense | 390,000.00 |
| | Total Cost of Issue | $512,718.78 |

EXHIBIT E.1.

$60,000,000 Series H 5.25% Senior Notes

due July 15, 2033

**GULF POWER COMPANY**

UNDERWRITING AGREEMENT

July 10, 2003

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

Wachovia Capital Markets, LLC
One First Union Center, TW-8
301 South College Street
Charlotte, North Carolina 28288

As Representatives of the Underwriters listed on Schedule I hereto.

Ladies and Gentlemen:

Gulf Power Company, a Maine corporation (the "Company"), confirms its agreement (the "Agreement") with you and the other Underwriter named in Schedule I hereto (collectively, the "Underwriters", which term shall also include any underwriter substituted as hereinafter provided in Section 10 hereof) for whom you are acting as representatives (in such capacity you shall hereinafter be referred to as the "Representatives"), with respect to the sale by the Company and the purchase by the Underwriters, acting severally and not jointly, of $60,000,000 aggregate principal amount of the Series H 5.25% Senior Notes due July 15, 2033 (the "Senior Notes") as set forth in Schedule I hereto.

The Company understands that the Underwriters are making a public offering of the Senior Notes pursuant to this Agreement. The Senior Notes will be issued pursuant to an indenture, dated as of January 1, 1998, as heretofore supplemented (the "Base Indenture"), between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), and as further supplemented by a eighth supplemental indenture, dated as of July 22, 2003, to the Base Indenture relating to the Senior Notes (the "Supplemental Indenture" and, together with the Base Indenture and any other amendments or supplements thereto, the "Indenture"), between the Company and the Trustee.

SECTION 1. REPRESENTATIONS AND WARRANTIES. The Company represents and warrants to the Underwriters as follows:

(a) A registration statement on Form S-3 (File Nos. 333-104449, 333-104449-01 and 333-104449-02) in respect of the Senior Notes and certain other securities has been prepared and filed in accordance with the provisions of the Securities Act of 1933, as amended (the "1933 Act"), with the Securities and Exchange Commission (the "Commission"); such registration statement and any post-effective amendment thereto, each in the form heretofore delivered or to be delivered to the Underwriters, has been declared effective by the Commission in such form (except that copies of the registration statement and any post-effective amendment delivered to the Underwriters need not include exhibits but shall include all documents incorporated by reference therein); and no stop order suspending the effectiveness of such registration statement has been issued and no proceeding for that purpose has been initiated or, to the best knowledge of the Company, threatened by the Commission (any preliminary prospectus, as supplemented by a preliminary prospectus supplement, included in such registration statement or filed with the Commission pursuant to Rule 424(a) of the rules and regulations of the Commission under the 1933 Act, being hereinafter called a "Preliminary Prospectus"); such registration statement, as it became effective, including the exhibits thereto and all documents incorporated by reference therein pursuant to Item 12 of Form S-3 at the time such registration statement became effective, being hereinafter called the "Registration Statement"; the prospectus relating to the Senior Notes, in the form in which it was included in the Registration Statement at the time it became effective, being hereinafter called the "Prospectus"; any reference herein to any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the 1933 Act, as of the date of such Preliminary Prospectus or Prospectus, as the case may be; any reference to any amendment or supplement to any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include any documents filed after the date of such Preliminary Prospectus or Prospectus, as the case may be, under the Securities Exchange Act of 1934, as amended (the "1934 Act"), and incorporated by reference in such Preliminary Prospectus or Prospectus, as the case may be; any reference to any amendment to the Registration Statement shall be deemed to refer to and include any annual report of the Company filed pursuant to Section 13(a) or 15(d) of the 1934 Act after the effective date of the Registration Statement that is incorporated by reference in the Registration Statement; and the Prospectus as amended or supplemented in final form by a prospectus supplement relating to the Senior Notes in the form in which it is filed with the Commission, pursuant to Rule 424(b) under the 1933 Act in accordance with Section 3(f) hereof, including any documents incorporated by reference therein as of the date of such filing, being hereinafter called the "Final Supplemented Prospectus".

(b) The documents incorporated by reference in the Registration Statement or Prospectus, when they were filed with the Commission, complied in all material respects with the applicable provisions of the 1934 Act and the rules and

regulations of the Commission thereunder, and as of such time of filing, when read together with the Prospectus, none of such documents contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and any further documents so filed and incorporated by reference in the Prospectus or any further amendment or supplement thereto, when such documents are filed with the Commission, will comply in all material respects with the applicable provisions of the 1934 Act and the rules and regulations of the Commission thereunder and, when read together with the Prospectus as it otherwise may be amended or supplemented, will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the Company makes no warranty or representation to the Underwriters with respect to: (A) any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by the Underwriters through the Representatives expressly for use in the Final Supplemented Prospectus; or (B) any information set forth in the Final Supplemented Prospectus under the captions "Description of the Series H Senior Notes — Book-Entry Only Issuance — The Depository Trust Company," "The Policy and the Insurer" and "Experts" in the prospectus supplement to the Prospectus dated July 10, 2003 or in Appendix A thereto.

(c) The Registration Statement, the Prospectus and the Final Supplemented Prospectus comply, and any further amendments or supplements to the Registration Statement or the Prospectus, when any such post-effective amendments are declared effective or supplements are filed with the Commission, as the case may be, will comply, in all material respects with the applicable provisions of the 1933 Act, the 1934 Act, the 1939 Act (hereinafter defined) and the General Rules and Regulations of the Commission thereunder and do not and will not, (i) as of the applicable effective date as to the Registration Statement and any amendment thereto and (ii) as of the applicable filing date of the Final Supplemented Prospectus and any Prospectus as further amended or supplemented, contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in the case of the Registration Statement and any amendment thereto, and, in the light of the circumstances under which they were made, not misleading in the case of the Final Supplemented Prospectus and any Prospectus as further amended or supplemented; except that the Company makes no warranties or representations with respect to: (A) that part of the Registration Statement which shall constitute the Statements of Eligibility (Form T-1) under the Trust Indenture Act of 1939, as amended (the "1939 Act"); (B) statements or omissions made in the Registration Statement or the Final Supplemented Prospectus in reliance upon and in conformity with information furnished in writing to the Company by the Underwriters through the Representatives expressly for use therein; or (C) any information set forth in the Final Supplemented Prospectus under the captions "Description of the Series H Senior Notes — Book-Entry Only Issuance — The

Depository Trust Company" and "The Policy and the Insurer" or in Appendix A thereto.

(d) With respect to the Registration Statement, the conditions for use of Form S-3, as set forth in the General Instructions thereof, have been satisfied.

(e) Since the respective dates as of which information is given in the Registration Statement and the Final Supplemented Prospectus, except as otherwise stated therein, there has been no material adverse change in the business, properties or financial condition of the Company.

(f) The Company is a corporation duly organized and existing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi, and has due corporate authority to carry on the public utility business in which it is engaged and to own and operate the properties used by it in such business, to enter into and perform its obligations under this Agreement and the Indenture and to issue and sell the Senior Notes to the Underwriters.

(g) This Agreement has been duly authorized, executed and delivered by the Company.

(h) The Indenture has been duly authorized by the Company and, on the Closing Date (as hereinafter defined), will have been duly executed and delivered by the Company, and, assuming due authorization, execution and delivery of the Indenture by the Trustee, the Indenture will, on the Closing Date, constitute a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent that enforcement thereof may be limited by (1) bankruptcy, insolvency, reorganization, receivership, liquidation, fraudulent conveyance, moratorium or other similar laws affecting creditors' rights generally or (2) general principles of equity (regardless of whether enforcement is considered in a proceeding at law or in equity) (the "Enforceability Exceptions"); the Indenture will conform in all material respects to all statements relating thereto contained in the Final Supplemented Prospectus; and, on the Closing Date, the Indenture will have been duly qualified under the 1939 Act.

(i) The issuance and delivery of the Senior Notes have been duly authorized by the Company and, on the Closing Date, the Senior Notes will have been duly executed by the Company and, when authenticated in the manner provided for in the Indenture and delivered against payment therefor as described in the Final Supplemented Prospectus, will constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms, except to the extent that enforcement thereof may be limited by the Enforceability Exceptions, will be in the form contemplated by, and entitled to the benefits of, the Indenture and will conform in all material respects to all statements relating thereto in the Final Supplemented Prospectus.

(j) The execution, delivery and performance by the Company of this Agreement, the Indenture and the Senior Notes and the consummation by the Company of the transactions contemplated herein and therein and compliance by the Company with its obligations hereunder and thereunder shall have been duly authorized by all necessary corporate action on the part of the Company and do not and will not result in any violation of the charter or bylaws of the Company, and do not and will not conflict with, or result in a breach of any of the terms or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company under (A) any contract, indenture, mortgage, loan agreement, note, lease or other agreement or instrument to which the Company is a party or by which it may be bound or to which any of its properties may be subject (except for conflicts, breaches or defaults which would not, individually or in the aggregate, be materially adverse to the Company or materially adverse to the transactions contemplated by this Agreement), or (B) any existing applicable law, rule, regulation, judgment, order or decree of any government, governmental instrumentality or court, domestic or foreign, or any regulatory body or administrative agency or other governmental body having jurisdiction over the Company, or any of its properties.

(k) The Company has duly authorized all necessary action to be taken by it for the procurement of an irrevocable financial guaranty insurance policy (the "Insurance Policy") issued by XL Capital Assurance Inc. (the "Insurer"), insuring the payment of principal and interest on the Senior Notes, when due.

(l) No authorization, approval, consent or order of any court or governmental authority or agency is necessary in connection with the issuance and sale by the Company of the Senior Notes or the transactions by the Company contemplated in this Agreement, except (A) such as may be required under the 1933 Act or the rules and regulations thereunder; (B) such as may be required under the Public Utility Holding Company Act of 1935, as amended; (C) the qualification of the Indenture under the 1939 Act; (D) the approval of the Florida Public Service Commission (the "Florida Commission"); and (E) such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or "blue sky" laws.

(m) The financial statements incorporated by reference in the Registration Statement and the Final Supplemented Prospectus, together with the related schedules and notes, present fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of and for the dates indicated; said financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP") applied on a consistent basis (except that the unaudited financial statements may be subject to normal year-end adjustments) throughout the periods involved and necessarily include amounts that are based on the best estimates and judgments of management. The selected financial data and the summary financial information included in the Registration Statement and the Final Supplemented Prospectus

present fairly the information shown therein and have been compiled on a basis consistent with that of the audited and unaudited financial statements incorporated by reference in the Registration Statement.

SECTION 2. SALE AND DELIVERY TO THE UNDERWRITERS; CLOSING.

(a) On the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company agrees to sell to each Underwriter, severally and not jointly, and each Underwriter, severally and not jointly, agrees to purchase from the Company, the principal amount of Senior Notes set forth in Schedule I to this Agreement opposite the name of such Underwriter (plus any additional amount of Senior Notes that such Underwriter may become obligated to purchase pursuant to the provisions of Section 10 hereof), at a price equal to 96.85% of the principal amount thereof.

(b) Payment for and delivery of certificates for the Senior Notes shall be made at the offices of Dewey Ballantine LLP, 1301 Avenue of the Americas, New York, New York 10019 at 10:00 A.M., New York City time, on July 22, 2003 (unless postponed in accordance with the provisions of Section 10) or such other time, place or date as shall be agreed upon by the Representatives and the Company (such time and date of payment and delivery being herein called the "Closing Date"). Payment shall be made to the Company by wire transfer in federal funds at the Closing Date against delivery of the Senior Notes to the Representatives. It is understood that each Underwriter has authorized the Representatives, for each Underwriter's account, to accept delivery of, receipt for, and make payment of the principal amount of the Senior Notes which each Underwriter has agreed to purchase. The Representatives, individually and not as representatives of the Underwriters, may (but shall not be obligated to) make payment of the principal amount of the Senior Notes to be purchased by any Underwriter whose payment has not been received by the Closing Date, but such payment shall not relieve such Underwriter from its obligations hereunder.

The delivery of the Senior Notes shall be made in fully registered form, registered in the name of CEDE & CO., to the offices of The Depository Trust Company in New York, New York or its designee, and the Underwriters shall accept such delivery.

The certificate(s) for the Senior Notes will be made available for examination by the Representatives not later than 12:00 Noon, New York City time, on the last business day prior to the Closing Date.

SECTION 3. COVENANTS OF THE COMPANY. The Company covenants with the Underwriters as follows:

(a) The Company, on or prior to the Closing Date, will deliver to the Underwriters conformed copies of the Registration Statement as originally filed

and of all amendments thereto, heretofore or hereafter made, including any post-effective amendment (in each case including all exhibits filed therewith, and including unsigned copies of each consent and certificate included therein or filed as an exhibit thereto, except exhibits incorporated by reference, unless specifically requested). As soon as the Company is advised thereof, it will advise the Representatives orally of the issuance of any stop order under the 1933 Act with respect to the Registration Statement, or the institution of any proceedings therefor, of which the Company shall have received notice, and will use its best efforts to prevent the issuance of any such stop order and to secure the prompt removal thereof, if issued. The Company will deliver to the Representatives sufficient conformed copies of the Registration Statement, the Prospectus and the Final Supplemented Prospectus and of all supplements and amendments thereto (in each case without exhibits) for distribution to the Underwriters and, from time to time, as many copies of the Prospectus and the Final Supplemented Prospectus as the Underwriters may reasonably request for the purposes contemplated by the 1933 Act or the 1934 Act.

(b) The Company will furnish the Underwriters with copies of each amendment and supplement to the Final Supplemented Prospectus relating to the offering of the Senior Notes in such quantities as the Underwriters may from time to time reasonably request. If, during the period (not exceeding nine months) when the delivery of a prospectus shall be required by law in connection with the sale of any Senior Notes by an Underwriter, any event relating to or affecting the Company, or of which the Company shall be advised in writing by the Underwriters, shall occur, which in the opinion of the Company or of Underwriters' counsel should be set forth in a supplement to or an amendment of the Final Supplemented Prospectus in order to make the Final Supplemented Prospectus not misleading in the light of the circumstances when it is delivered, or if for any other reason it shall be necessary during such period to amend or supplement the Final Supplemented Prospectus or to file under the 1934 Act any document incorporated by reference in the Preliminary Prospectus or Prospectus in order to comply with the 1933 Act or the 1934 Act, the Company forthwith will (i) notify the Underwriters to suspend solicitation of purchases of the Senior Notes and (ii) at its expense, make any such filing or prepare and furnish to the Underwriters a reasonable number of copies of a supplement or supplements or an amendment or amendments to the Final Supplemented Prospectus which will supplement or amend the Final Supplemented Prospectus so that, as supplemented or amended, it will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances when the Final Supplemented Prospectus is delivered, not misleading or which will effect any other necessary compliance. In case any Underwriter is required to deliver a prospectus in connection with the sale of any Senior Notes after the expiration of the period specified in the preceding sentence, the Company, upon the request of such Underwriter, will furnish to such Underwriter, at the expense of such Underwriter, a reasonable quantity of a supplemented or amended prospectus, or supplements or amendments to the Final Supplemented Prospectus, complying with Section 10(a) of the 1933 Act. During

the period specified in the second sentence of this subsection, the Company will continue to prepare and file with the Commission on a timely basis all documents or amendments required under the 1934 Act and the rules and regulations thereunder; provided, that the Company shall not file such documents or amendments without also furnishing copies thereof prior to such filing to the Representatives and Dewey Ballantine LLP.

(c) The Company will endeavor, in cooperation with the Underwriters, to qualify the Senior Notes for offering and sale under the applicable securities laws of such states and the other jurisdictions of the United States as the Representatives may designate; provided, however, that the Company shall not be obligated to qualify as a foreign corporation in any jurisdiction in which it is not so qualified or to file a consent to service of process or to file annual reports or to comply with any other requirements in connection with such qualification deemed by the Company to be unduly burdensome.

(d) The Company will make generally available to its security holders as soon as practicable but not later than 45 days after the close of the period covered thereby, an earnings statement of the Company (in form complying with the provisions of Rule 158 of the rules and regulations under the 1933 Act) covering a twelve-month period beginning not later than the first day of the Company's fiscal quarter next following the "effective date" (as defined in Rule 158) of the Registration Statement.

(e) The Company will use its best efforts to effect the listing of the Senior Notes on the New York Stock Exchange.

(f) As soon as practicable after the date of this Agreement, and in any event within the time prescribed by Rule 424 under the 1933 Act, to file the Final Supplemented Prospectus with the Commission and to advise the Representatives of such filing and to confirm such advice in writing.

(g) During a period of 15 days from the date of this Agreement, the Company will not, without the Representatives' prior written consent, directly or indirectly, sell, offer to sell, grant any option for the sale of, or otherwise dispose of, any Senior Notes or any security convertible into or exchangeable into or exercisable for the Senior Notes or any debt securities substantially similar to the Senior Notes (except for the Senior Notes issued pursuant to this Agreement and the Series G Senior Notes). The Representatives agree that commercial paper or other debt securities with scheduled maturities of less than one year are not subject to this Section 3(g).

SECTION 4. PAYMENT OF EXPENSES. The Company will pay all expenses incidental to the performance of its obligations under this Agreement, including but not limited to, the expenses of (i) the printing and filing of the Registration Statement as originally filed and of each amendment thereto, (ii) the preparation, issuance and delivery of the certificate(s) for the Senior Notes, (iii) the fees and disbursements of the

Company's counsel and accountants, (iv) the qualification of the Senior Notes under securities laws in accordance with the provisions of Section 3(c) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Underwriters in connection therewith and in connection with the preparation of any blue sky survey (such fees and disbursements of counsel shall not exceed $3,500), (v) the printing and delivery to the Underwriters of copies of the Registration Statement as originally filed and of each amendment thereto and of the Prospectus, the Final Supplemented Prospectus and any amendments or supplements thereto, (vi) the printing and delivery to the Underwriters of copies of any blue sky survey, (vii) the fee of the National Association of Securities Dealers, Inc. in connection with its review of the offering contemplated by this Agreement, if applicable, (viii) the fees and expenses of the Trustee, including the fees and disbursements of counsel for the Trustee in connection with the Indenture and the Senior Notes, (ix) any fees payable in connection with the rating of the Senior Notes, (x) the cost and charges of any transfer agent or registrar, (xi) the premium payable to the Insurer in connection with the issuance of the Insurance Policy, (xii) the fees and expenses incurred in connection with the listing of the Senior Notes on the New York Stock Exchange and (xiii) the cost of qualifying the Senior Notes with The Depository Trust Company.

Except as otherwise provided in Section 9 hereof, the Underwriters shall pay all other expenses incurred by them in connection with their offering of the Senior Notes, including fees and disbursements of their counsel, Dewey Ballantine LLP.

SECTION 5. CONDITIONS OF UNDERWRITERS' OBLIGATIONS. The obligations of the Underwriters to purchase and pay for the Senior Notes are subject to the following conditions:

(a) No stop order suspending the effectiveness of the Registration Statement shall be in effect on the Closing Date and no proceedings for that purpose shall be pending before, or to the knowledge of the Company threatened by, the Commission on such date. If filing of the Final Supplemented Prospectus, or any supplement thereto, is required pursuant to Rule 424, the Final Supplemented Prospectus, and any such supplement, shall have been filed in the manner and within the time period required by Rule 424.

(b) Any required orders of the Florida Commission and the Commission permitting the transactions contemplated hereby substantially in accordance with the terms and conditions hereof shall be in full force and effect and shall contain no provision unacceptable to the Underwriters or the Company (but all provisions of such order or orders heretofore entered, copies of which have heretofore been delivered to the Representatives, are deemed acceptable to the Underwriters and the Company and all provisions of such order or orders hereafter entered shall be deemed acceptable to the Underwriters and the Company unless within 24 hours after receiving a copy of any such order any party to this Agreement shall give notice to the other parties to the effect that such order contains an unacceptable provision).

(c) On the Closing Date, the Representatives shall have received:

(1) The opinion, dated the Closing Date, of Beggs & Lane, a Registered Limited Liability Partnership, general counsel for the Company, substantially in the form attached hereto as Schedule II-A.

(2) The opinion, dated the Closing Date, of Troutman Sanders LLP, counsel for the Company, substantially in the form attached hereto as Schedule II-B.

(3) The opinion, dated the Closing Date, of Cravath, Swaine & Moore LLP, counsel to the Trustee, substantially in the form attached hereto as Schedule III.

(4) The opinion, dated the Closing Date, of Dewey Ballantine LLP, counsel for the Underwriters, substantially in the form attached hereto as Schedule IV.

(5) The opinion, dated the Closing Date, of counsel for the Insurer, substantially in the form attached hereto as Schedule V.

(6) At the Closing Date, there shall not have been, since the date hereof or since the respective dates as of which information is given in the Registration Statement and the Final Supplemented Prospectus, any material adverse change in the business, properties or financial condition of the Company, whether or not arising in the ordinary course of business, and the Representatives shall have received a certificate of the President or any Vice President of the Company, and dated as of the Closing Date, to the effect that (i) there has been no such material adverse change, (ii) the representations and warranties in Section 1 hereof are true and correct with the same force and effect as though expressly made at and as of the Closing Date, (iii) the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied on or prior to the Closing Date, and (iv) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been initiated or, to the knowledge of the Company, threatened by the Commission.

(7) On the Closing Date, the Representatives shall have received from Deloitte & Touche LLP a letter dated the Closing Date to the effect that: (A) they are independent certified public accountants with respect to the Company within the meaning of the 1933 Act and the rules and regulations under the 1933 Act; (B) in their opinion, the financial statements audited by them and incorporated by reference in the Final Supplemented Prospectus comply as to form in all material respects with the applicable accounting requirements of the 1934 Act and the rules and regulations under the 1934 Act; and (C) on the basis of certain limited procedures performed through a specified date not more than five business days prior to the date of such letter, namely (i) reading the minute books of the Company; (ii) performing the procedures specified by the American Institute of Certified Public Accountants for a review of interim financial information as described in Statement on Auditing Standards No. 71, "Interim Financial Information" or Statement on Auditing Standards No. 100, "Interim Financial Information", as applicable, on the unaudited financial statements, if any, of the Company incorporated in the Prospectus and on the latest available unaudited financial statements of the Company, if

any, for any calendar quarter subsequent to the date of those incorporated by reference in the Prospectus; and (iii) making inquiries of certain officials of the Company who have responsibility for financial and accounting matters regarding such unaudited financial statements or any specified unaudited amounts derived therefrom (it being understood that the foregoing procedures do not constitute an audit performed in accordance with generally accepted auditing standards and they would not necessarily reveal matters of significance with respect to the comments made in such letter, and accordingly that Deloitte & Touche LLP make no representations as to the sufficiency of such procedures for the Underwriters' purposes), nothing came to their attention that caused them to believe that: (1) any material modifications should be made to the unaudited condensed financial statements, if any, incorporated by reference in the Prospectus, for them to be in conformity with GAAP; (2) such unaudited condensed financial statements do not comply as to form in all material respects with the applicable accounting requirements of the 1934 Act as it applies to Form 10-Q and the related published rules and regulations thereunder; (3) the unaudited amounts for Operating Revenues, Earnings Before Income Taxes and Net Income After Dividends on Preferred Stock and the unaudited Ratio of Earnings to Fixed Charges set forth in the Prospectus do not agree with the amounts set forth in or derived from the unaudited financial statements for the same period; (4) as of a specified date not more than five business days prior to the date of delivery of such letter, there has been any change in the capital stock or long-term debt of the Company or any decrease in net assets as compared with amounts shown in the latest audited balance sheet incorporated by reference in the Prospectus, except in each case for changes or decreases which (i) the Prospectus discloses have occurred or may occur, (ii) are occasioned by the declaration of dividends, (iii) are occasioned by draw-downs under existing pollution control financing arrangements, (iv) are occasioned by draw-downs and regularly scheduled payments of capitalized lease obligations, (v) are occasioned by the purchase or redemption of bonds or stock to satisfy mandatory or optional redemption provisions relating thereto, (vi) are occasioned by the reclassification of current maturities of long-term debt, or (vii) are disclosed in such letter; and (5) the unaudited amounts for Operating Revenues, Earnings Before Income Taxes and Net Income After Dividends on Preferred Stock and the unaudited Ratio of Earnings to Fixed Charges for any calendar quarter subsequent to those set forth in (3) above, which, if available, shall be set forth in such letter, do not agree with the amounts set forth in or derived from the unaudited financial statements for the same period or were not determined on a basis substantially consistent with that of the corresponding audited amounts or ratios included or incorporated by reference in the Prospectus.

(8) On the Closing Date, counsel for the Underwriters shall have been furnished with such documents and opinions as it may reasonably require for the purpose of enabling it to pass upon the issuance and sale of the Senior Notes as herein contemplated and related proceedings, or in order to evidence the accuracy of any of the representations or warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company in connection with the issuance and sale of the Senior Notes as herein contemplated shall be satisfactory in form and substance to the Representatives and Dewey Ballantine LLP, counsel for the Underwriters.

(9) On the Closing Date, the Senior Notes shall have been approved for listing on the New York Stock Exchange upon notice of issuance.

(10) That no amendment or supplement to the Registration Statement, or the Final Supplemented Prospectus filed subsequent to the date of this Agreement (including any filing made by the Company pursuant to Section 13 or 14 of the 1934 Act) shall be unsatisfactory in form to Dewey Ballantine LLP or shall contain information (other than with respect to an amendment or supplement relating solely to the activity of the Underwriters) which, in the reasonable judgment of the Representatives, shall materially impair the marketability of the Senior Notes.

(11) The Company shall have performed its obligations when and as provided under this Agreement.

(12) Evidence that the Insurance Policy has been issued by the Insurer and confirmation that the Senior Notes have been rated at least "Aaa" by Moody's Investors Service, Inc. and at least "AAA" by Standard & Poor's, a division of The McGraw-Hill Companies.

If any condition specified in this Section shall not have been fulfilled when and as required to be fulfilled, this Agreement may be terminated by the Representatives by notice to the Company at any time prior to the Closing Date, and such termination shall be without liability of any party to any other party except as provided in Sections 4, 7 and 9(b) hereof.

SECTION 6. CONDITIONS OF THE OBLIGATIONS OF THE COMPANY. The obligations of the Company shall be subject to the conditions set forth in the first sentence of Section 5(a) and in Section 5(b). In case such conditions shall not have been fulfilled, this Agreement may be terminated by the Company by mailing or delivering written notice thereof to the Representatives. Any such termination shall be without liability of any party to any other party except as otherwise provided in Sections 4, 7 and 9(b) hereof.

SECTION 7. INDEMNIFICATION.

(a) The Company agrees to indemnify and hold harmless each of the Underwriters and each person, if any, who controls any such Underwriter within the meaning of Section 15 of the 1933 Act or Section 20(a) of the 1934 Act, against any and all losses, claims, damages or liabilities, joint or several, to which they or any of them may become subject under the 1933 Act, 1934 Act or otherwise, and to reimburse any such Underwriter and such controlling person or persons, if any, for any legal or other expenses incurred by them in connection with defending any actions, insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement, the Prospectus or the Final Supplemented Prospectus or, if the Company shall furnish to the Underwriters any amendments or any

supplements thereto, or shall make any filings pursuant to Section 13 or 14 of the 1934 Act which are incorporated therein by reference, in any Preliminary Prospectus, the Registration Statement, the Prospectus or the Final Supplemented Prospectus as so amended or supplemented, or arise out of or are based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon any such untrue statement or alleged untrue statement or omission or alleged omission which was made in such Registration Statement, Preliminary Prospectus, Prospectus or Final Supplemented Prospectus in reliance upon and in conformity with information furnished in writing to the Company by, or through the Representatives on behalf of, any Underwriter for use therein and except that this indemnity with respect to the Preliminary Prospectus, the Prospectus or the Final Supplemented Prospectus, if the Company shall have furnished any amendment or supplement thereto, shall not inure to the benefit of any Underwriter (or of any person controlling such Underwriter) on account of any losses, claims, damages, liabilities or actions arising from the sale of the Senior Notes to any person if a copy of the Preliminary Prospectus, the Prospectus or the Final Supplemented Prospectus (exclusive of documents incorporated therein by reference pursuant to Item 12 of Form S-3), as the same may then be amended or supplemented, shall not have been sent or given by or on behalf of such Underwriter to such person with or prior to the written confirmation of the sale involved and the untrue statement or alleged untrue statement or omission or alleged omission was corrected in the Preliminary Prospectus, the Prospectus or the Final Supplemented Prospectus as supplemented or amended at the time of such confirmation. Each Underwriter agrees, within ten days after the receipt by it of notice of the commencement of any action in respect of which indemnity may be sought by it, or by any person controlling it, from the Company on account of its agreement contained in this Section 7, to notify the Company in writing of the commencement thereof but the omission of such Underwriter so to notify the Company of any such action shall not release the Company from any liability which it may have to such Underwriter or to such controlling person otherwise than on account of the indemnity agreement contained in this Section 7. In case any such action shall be brought against an Underwriter or any such person controlling such Underwriter and such Underwriter shall notify the Company of the commencement thereof as above provided, the Company shall be entitled to participate in (and, to the extent that it shall wish, including the selection of counsel, to direct) the defense thereof, at its own expense. In case the Company elects to direct such defense and select such counsel, any Underwriter or controlling person shall have the right to employ its own counsel, but, in any such case, the fees and expenses of such counsel shall be at the expense of such Underwriter or such controlling person unless the employment of such counsel has been authorized in writing by the Company in connection with defending such action. No indemnifying party shall, without the written consent of the indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in

respect of which indemnification may be sought hereunder (whether or not the indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability arising out of such action or claim and (ii) does not include any statement as to, or an admission of, fault, culpability or a failure to act, by or on behalf of any indemnified party. In no event shall any indemnifying party have any liability or responsibility in respect of the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim effected without its prior written consent.

(b) Each Underwriter agrees severally and not jointly, to indemnify and hold harmless the Company, its directors and such of its officers who have signed the Registration Statement and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20(a) of the 1934 Act to the same extent and upon the same terms as the indemnity agreement of the Company set forth in Section 7(a) hereof, but only with respect to alleged untrue statements or omissions made in the Registration Statement, the Preliminary Prospectus, the Prospectus or the Final Supplemented Prospectus, or such documents as amended or supplemented, in reliance upon and in conformity with information furnished in writing to the Company by, or through the Representatives on behalf of, such Underwriter for use therein.

SECTION 8. REPRESENTATIONS, WARRANTIES AND AGREEMENTS TO SURVIVE DELIVERY. All representations, warranties and agreements contained in this Agreement, or contained in certificates of officers of the Company submitted pursuant hereto, shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of any Underwriter or controlling person, or by, or on behalf of the Company and shall survive delivery of the Senior Notes to the Underwriters.

SECTION 9. TERMINATION OF AGREEMENT.

(a) The Representatives may terminate this Agreement, by notice to the Company, at any time at or prior to the Closing Date if (i) trading in securities on the New York Stock Exchange shall have been generally suspended or there shall have been a material disruption in settlement of securities generally, (ii) minimum or maximum ranges for prices shall have been generally established on the New York Stock Exchange by the Commission or by the New York Stock Exchange, (iii) a general banking moratorium shall have been declared by federal or New York State authorities, or (iv) there shall have occurred any outbreak or escalation of major hostilities in which the United States is involved, any declaration of war by the United States Congress or any other substantial national or international calamity, crisis or emergency (including, without limitation, acts of terrorism) affecting the United States, in any such case provided for in clauses (i) through (iv) with the result that, in the reasonable judgment of the Representatives, the marketability of the Senior Notes shall have been materially impaired.

(b) If this Agreement shall be terminated by the Representatives pursuant to subsection (a) above or because of any failure or refusal on the part of the Company to comply with the terms or to fulfill any of the conditions of this Agreement, or if for any reason the Company shall be unable to perform its obligations under this Agreement, then in any such case, the Company will reimburse the Underwriters for the reasonable fees and disbursements of Dewey Ballantine LLP and for the out of pocket expenses (in an amount not exceeding $10,000) reasonably incurred by the Underwriters in making preparations for the purchase, sale and delivery of the Senior Notes and, upon such reimbursement, the Company shall be absolved from any further liability hereunder, except as provided in Sections 4 and 7.

SECTION 10. DEFAULT BY AN UNDERWRITER. If an Underwriter shall fail on the Closing Date to purchase the Senior Notes that it is obligated to purchase under this Agreement (the "Defaulted Securities"), the Representatives shall have the right, within 24 hours thereafter, to make arrangements for the non-defaulting Underwriters, or any other underwriters, to purchase all, but not less than all, of the Defaulted Securities in such amounts as may be agreed upon and upon the terms herein set forth. If, however, the Representatives shall not have completed such arrangements within such 24-hour period, then:

(a) if the principal amount of Defaulted Securities does not exceed 10% of the Senior Notes, the non-defaulting Underwriters shall be obligated, severally and not jointly, to purchase the full amount thereof in the proportion that their respective underwriting obligations hereunder bear to the underwriting obligations of all non-defaulting Underwriters, or

(b) if the principal amount of Defaulted Securities exceeds 10% of the Senior Notes, this Agreement shall terminate without liability on the part of any non-defaulting Underwriter.

No action taken pursuant to this Section shall relieve any defaulting Underwriter from liability in respect of its default.

In the event of any such default which does not result in a termination of this Agreement, either the Representatives or the Company shall have the right to postpone the Closing Date for a period not exceeding seven days in order to effect any required changes in the Registration Statement or Final Supplemented Prospectus or in any other documents or arrangements.

SECTION 11. NOTICES. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted by any standard form of telecommunication. Notices to the Underwriters shall be directed to the Underwriters at Morgan Stanley & Co. Incorporated, 1585 Broadway, New York, New York 10036, attn: Bradford Hart or Wachovia Capital Markets, LLC, One First Union Center, TW-8, 301 South College Street, Charlotte, North Carolina 28288, attn: Jim Williams, and notices to the Company shall be mailed to

One Energy Place, Pensacola, Florida, 32520-0100, Attention: Corporate Secretary, with a copy to Southern Company Services, Inc., 270 Peachtree Street, N.W., Atlanta, Georgia 30303, Attention: David B. Brooks.

SECTION 12. PARTIES. This Agreement shall inure to the benefit of and be binding upon the Underwriters, the Company and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the Underwriters and the Company and their respective successors and the controlling persons and officers and directors referred to in Section 7 and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the Underwriters and the Company and their respective successors, and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation. No purchaser of Senior Notes from any of the Underwriters shall be deemed to be a successor by reason merely of such purchase.

SECTION 13. GOVERNING LAW AND TIME. This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed in said State. Except as otherwise set forth herein, specified times of day refer to New York City time.

SECTION 14. COUNTERPARTS. This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such respective counterparts shall together constitute one and the same instrument.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the Underwriters and the Company in accordance with its terms.

Very truly yours,

GULF POWER COMPANY

By: _____
Name: Ronnie R. Labrato
Title: Vice President, Comptroller and Chief Financial Officer

CONFIRMED AND ACCEPTED,
as of the date first above written
as Representatives of the Several Underwriters named in Schedule I hereto

MORGAN STANLEY & CO. INCORPORATED

By: _____
Name:
Title:

WACHOVIA CAPITAL MARKETS, LLC

By: _____
Name: William Ingram
Title: Managing Director

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the Underwriters and the Company in accordance with its terms.

Very truly yours,

GULF POWER COMPANY

By: _____
Name:
Title:

CONFIRMED AND ACCEPTED,
as of the date first above written
as Representatives of the Several Underwriters named in Schedule I hereto

MORGAN STANLEY & CO. INCORPORATED

By: _____
Name: Michael Fusco
Title: Executive Director

WACHOVIA CAPITAL MARKETS, LLC

By: _____
Name:
Title:

## SCHEDULE I

| NAME OF UNDERWRITER | Principal Amount of Series H Senior Notes |
|---|---|
| Morgan Stanley & Co. Incorporated | $27,000,000 |
| Wachovia Capital Markets, LLC | $27,000,000 |
| SunTrust Capital Markets, Inc. | $ 6,000,000 |
| TOTAL | $60,000,000 |

Schedule II-A

[Letterhead of BEGGS & LANE]

July __, 2003

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

Wachovia Capital Markets, LLC
One First Union Center, TW-8
301 South College Street
Charlotte, North Carolina 28288

As Representatives of the Underwriters named in Schedule I
to the Underwriting Agreement.

GULF POWER COMPANY
Series H 5.25% Senior Notes due July 15, 2033

Ladies and Gentlemen:

We have acted as general counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance and sale of $60,000,000 aggregate principal amount of its Series H 5.25% Senior Notes due July 15, 2033 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, by and between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Eighth Supplemental Indenture dated as of July 22, 2003(collectively, the "Indenture"); and (ii) the purchase by the Underwriters of the Notes pursuant to the terms of an Underwriting Agreement (the "Underwriting Agreement") dated July 10, 2003, among the Company and the Underwriters named in Schedule I thereof (the "Underwriters") for whom you are acting as Representatives. This opinion is being delivered to you pursuant to Section 5(c)(1) thereof.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (File Nos. 333-104449, 333-104449-01 and 333-104449-02) pertaining to the Notes (the "Registration Statement") filed under the

Securities Act of 1933, as amended (the "Act"), and the prospectus dated April 25, 2003 as supplemented by a final prospectus supplement relating to the Notes dated July 10, 2003 (the "Final Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2003 and the Current Reports on Form 8-K of the Company dated March 21, 2003, July __, 2003 and July __, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to collectively as the "Agreements".

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Georgia law and the federal law of the United States upon the opinion dated the date hereof rendered to you by Troutman Sanders LLP and relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP, that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi, and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as

to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by the Underwriters pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP and with your counsel. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Registration Statement, as of its effective date, and the Final Supplemented Prospectus, as of July 10, 2003, complied as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the

requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of its effective date (including the Exchange Act Documents on file with the Commission as of such date), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contained, as of its date, or contains, on the date hereof, any untrue statement therein of a material fact or omitted, as of its date, or omits, on the date hereof, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the captions "Description of the Series H Senior Notes — Book-Entry Only Issuance — The Depository Trust Company" and "The Policy and the Insurer" or in Appendix A thereto.

We are members of the Florida Bar and we do not express any opinion herein concerning any law other than the law of the States of Maine, Florida and Mississippi and, to the extent set forth herein, the laws of the States of Georgia and New York and the federal law of the United States.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent, except that Troutman Sanders LLP and Dewey Ballantine LLP may rely on this opinion in giving their opinions pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinions relates to matters of Maine, Florida and Mississippi law.

Yours very truly,

BEGGS & LANE

Schedule II-B

[Letterhead of TROUTMAN SANDERS LLP]

July __, 2003

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

Wachovia Capital Markets, LLC
One First Union Center, TW-8
301 South College Street
Charlotte, North Carolina 28288

As Representatives of the Underwriters named on Schedule I
to the Underwriting Agreement.

GULF POWER COMPANY
Series H 5.25% Senior Notes due July 15, 2033

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance of $60,000,000 aggregate principal amount of its Series H 5.25% Senior Notes due July 15, 2033 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, by and between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Eighth Supplemental Indenture dated as of July 22, 2003 (collectively, the "Indenture"); and (ii) the purchase by you of the Notes pursuant to the terms of an Underwriting Agreement (the "Underwriting Agreement") dated July 10, 2003, among the Company and the Underwriters named in Schedule I thereof (the "Underwriters") for whom you are acting as Representatives. This opinion is being delivered to you pursuant to Section 5(c)(2) thereof.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (File Nos. 333-104449, 333-104449-01 and 333-104449-02) pertaining to the Notes (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act"), and the prospectus dated April 25, 2003 as supplemented by a final prospectus supplement dated July 10, 2003 (the "Final Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002, the Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 and the Current Reports on Form 8-K of the Company dated March 21, 2003, July ___, 2003 and July __, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to collectively as the "Agreements".

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Maine, Florida and Mississippi law upon the opinion dated the date hereof rendered to you by Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane"), and relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP, that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi, and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the

terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by the Underwriters pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP and with your counsel. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Registration Statement, as of its effective date, and the Final Supplemented Prospectus, as of July 10, 2003, complied as to form in all material

respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the relevant requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of its effective date (including the Exchange Act Documents on file with the Commission as of such date), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contained, as of its date, or contains, on the date hereof, any untrue statement of a material fact or omitted, as of its date, or omits, as of the date hereof, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the captions "Description of the Series H Senior Notes — Book-Entry Only Issuance — The Depository Trust Company" and "The Policy and the Insurer" or in Appendix A thereto.

We are members of the State Bar of Georgia and we do not express any opinion herein concerning any law other than the law of the State of Georgia and the federal law of the United States and, to the extent set forth herein, the laws of the States of Maine, Florida, Mississippi and New York.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent, except that Beggs & Lane may rely on this opinion in giving its opinion pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinion relates to matters of Georgia law and the federal law of the United States and Dewey Ballantine LLP may rely on this opinion in giving its opinion pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinion relates to matters of Georgia law.

Yours very truly,

TROUTMAN SANDERS LLP

Schedule III

[Letterhead of Cravath, Swaine & Moore LLP]

July __, 2003

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

Wachovia Capital Markets, LLC
One First Union Center, TW-8
301 South College Street
Charlotte, North Carolina 28288

As Representatives of the Underwriters named on Schedule I to the Underwriting Agreement.

Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32520

XL Capital Assurance Inc.
1221 Avenue of the Americas, 31st Floor
New York, NY 10020-1001

Gulf Power Company
Series H 5.25% Senior Notes
due July 15, 2033

Ladies and Gentlemen:

We have acted as counsel to JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank) (the "Bank") in connection with (a) the Senior Note Indenture, dated as of January 1, 1998 as heretofore supplemented (the "Original Indenture"), between Gulf Power Company (the "Company") and the Bank, as Trustee, and (b) the Eighth Supplemental Indenture dated as of July 22, 2003 (together with the Original Indenture, herein called the "Indenture"), between the Company and the Bank, as Trustee.

In that connection, we have examined originals, or copies certified or otherwise identified to our satisfaction, of such documents, records and other instruments as we have deemed necessary or appropriate for the purpose of this opinion, including

copies of the Indenture and certain resolutions adopted by the Board of Directors of the Bank.

Based upon the foregoing, we are of the opinion that:

(i) the Bank has been duly incorporated and is validly existing as a banking corporation in good standing under the laws of the State of New York;

(ii) the Bank has the corporate trust power and authority to execute, deliver and perform its duties under the Indenture, has duly executed and delivered the Indenture, and, insofar as the laws governing the trust powers of the Bank are concerned and assuming due authorization, execution and delivery thereof by the Company, the Indenture constitutes a legal, valid and binding agreement of the Bank, enforceable against the Bank in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity (including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing), regardless of whether considered in a proceeding in equity or at law;

(iii) the execution, delivery and performance by the Bank of the Indenture do not conflict with or constitute a breach of the charter or bylaws of the Bank; and

(iv) no approval, authorization or other action by, or filing with, any governmental authority of the United States of America or the State of New York having jurisdiction over the trust powers of the Bank is required in connection with the execution and delivery by the Bank of the Indenture or the performance by the Bank of its duties thereunder, except such as have been obtained, taken or made.

We are admitted to practice only in the State of New York, and we express no opinion as to matters governed by any laws other than the laws of the State of New York and the Federal law of the United States of America. We are furnishing this opinion to you solely for your benefit. This opinion is not to be relied upon by any other person or used, circulated, quoted or otherwise referred to for any other purpose.

Very truly yours,

CRAVATH, SWAINE & MOORE LLP

Schedule IV

[Letterhead of DEWEY BALLANTINE LLP]

July __, 2003

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

Wachovia Capital Markets, LLC
One First Union Center, TW-8
301 South College Street
Charlotte, North Carolina 28288

As Representatives of the Underwriters named on Schedule I
to the Underwriting Agreement.

GULF POWER COMPANY
Series H 5.25% Senior Notes
due July 15, 2033

Ladies and Gentlemen:

We have represented the Underwriters (as hereinafter defined) in connection with (i) the issuance by Gulf Power Company (the "Company") of $60,000,000 of its Series H 5.25% Senior Notes due July 15, 2033 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, by and between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Eighth Supplemental Indenture dated as of July 22, 2003 (collectively, the "Indenture"); and (ii) the purchase by the Underwriters of the Notes pursuant to the terms of an Underwriting Agreement (the "Underwriting Agreement") dated July 10, 2003, among the Company and the underwriters named in Schedule I thereof (the "Underwriters") for whom you are acting as Representatives. This opinion is being delivered to you pursuant to Section 5(c)(4) thereof.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (File Nos. 333-104449, 333-104449-01 and 333-104449-02) pertaining to the Notes (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act"), and the prospectus dated April 25, 2003 as supplemented by a final prospectus supplement dated July 10, 2003 (the "Final Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002, the Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 and the Current Reports on Form 8-K of the Company dated March 21, 2003, July ___, 2003 and July __, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to as the "Agreements".

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as aforesaid and as to all matters covered hereby which are governed by or dependent upon the laws of the States of Maine, Florida and Mississippi upon the opinion of Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane"), dated the date hereof and addressed to you and as to all matters covered hereby which are governed by or dependent upon the law of the State of Georgia upon the opinion of Troutman Sanders LLP dated the date hereof and addressed to you, that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi, and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents, or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance

and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by the Underwriters pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with representatives of Deloitte & Touche LLP and with counsel to the Company. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement and the Final Supplemented Prospectus and our participation in the conferences referred to above, (i) we are of the opinion that the Registration Statement, as of its effective date, and the

Final Supplemented Prospectus, as of July 10, 2003, complied as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the relevant requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of its effective date (including the Exchange Act Documents on file with the Commission as of such date), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contained, as of its date, or contains, on the date hereof, any untrue statement of a material fact or omitted, as of its date, or omits, on the date hereof, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the captions "Description of the Series H Senior Notes —Book-Entry Only Issuance —The Depository Trust Company" and "The Policy and the Insurer" or in Appendix A thereto.

We are members of the State Bar of New York and we do not express any opinion herein concerning any law other than the law of the State of New York and the federal law of the United States, and to the extent set forth herein, the law of the States of Maine, Florida, Georgia and Mississippi.

This opinion is rendered solely to you in connection with the above matter. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent except that Beggs & Lane and Troutman Sanders LLP may rely on this opinion in giving their opinions pursuant to Section 5(c) of the Underwriting Agreement, insofar as such opinions relate to matters of New York law, and Troutman Sanders LLP may rely on this opinion in giving its opinion pursuant to Sections 102, 302 and 904 of the Indenture, insofar as such opinion relates to matters of New York law.

Very truly yours,

DEWEY BALLANTINE LLP

Schedule V

Letterhead of XL CAPITAL ASSURANCE INC.

July __, 2003

To Each of the Addressees Listed
on the Attached Schedule A

GULF POWER COMPANY
Series H 5.25% Senior Notes
due July 15, 2033

Ladies and Gentlemen:

I am [Associate] General Counsel of XL Capital Assurance Inc., a New York stock insurance corporation (the "Corporation"), and have acted as counsel to the Corporation in connection with the issuance of Financial Guaranty Insurance Policy No. [ ] (the "Policy") relating to the above-captioned notes (the "Notes").

In so acting, I have examined a copy of (a) the Policy, (b) the Insurance and Indemnity Agreement, dated as of [ ] (the "Insurance Agreement"), among [ ], (c) the Indemnification Agreement, dated as of [ ] (the "Indemnification Agreement"), among [ ], (d) information under the heading "The Policy and the Insurer" contained in the Prospectus of Gulf Power Company dated April 25, 2003, as supplemented by a Prospectus Supplement dated July 10, 2003 relating to the Notes (the "Final Supplemented Prospectus") and (e) such other relevant documents as I have deemed necessary.

Based upon the foregoing, I am of the following opinion:

1. The Corporation is a stock insurance corporation, duly incorporated and validly existing under the laws of the State of New York and is licensed and authorized to issue the Policy and to perform its obligations under the Policy under the laws of the State of New York.

2. The Policy, the Insurance Agreement and the Indemnification Agreement (collectively, the "Insurance Documents") have been duly executed, and

the Policy, and assuming due authorization, execution and delivery of the Insurance Agreement and the Indemnification Agreement by the parties thereto (other than the Corporation), the Insurance Agreement and the Indemnification Agreement are valid and binding obligations of the Corporation enforceable in accordance with their terms except that the enforcement of the Insurance Documents may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium, receivership and other similar laws affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and the enforceability of rights to indemnification under the Insurance Agreement and the Indemnification Agreement may be subject to limitations of public policy under applicable securities laws.

3. The execution, delivery and performance by the Corporation of its obligations under the Insurance Documents do not contravene any provision of the charter or by-laws of the Corporation. The execution, delivery and performance by the Corporation of its obligations under the Insurance Documents do not, to the extent that either of the following would affect the validity or enforceability of any of the Insurance Documents, (a) contravene any law or government regulation or order presently binding on the Corporation or (b) contravene any provision of or constitute a default under any indenture, contract or other instrument to which the Corporation is a party or by which the Corporation is bound.

4. The Policy is exempt from the registration requirements of the Securities Act of 1933, as amended (the "Act").

5. The information in the Final Supplemented Prospectus under the heading "The Policy and the Insurer" is limited and does not purport to provide the scope of disclosure required to be included in a prospectus with respect to a registrant under the Act in connection with a public offering and sale of securities of such registrant. Within such limited scope of disclosure, however, there has not come to my attention any information that would cause me to believe that the description of the Corporation referred to above, as of the date of the Final Supplemented Prospectus and as of the date hereof, contained or contains any untrue statement of a material fact or omitted, as of its date, or omits, on the date hereof, to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (except that no opinion is rendered with respect to any financial statements or other financial information contained or referred to therein).

I am qualified to practice law in the State of New York and do not purport to be an expert on, or to express any opinion concerning, any law other than the laws of the State of New York and the federal laws of the United States of America.

This opinion is being delivered to you in connection with the issuance of the Policy and the execution of the other Insurance Documents and may not be relied upon for any other purposes or by any other person without my express written consent.

Very truly yours,

[Fred Hnat]
[Susan Comparato]
[Mary Jane Constant]
[Associate] General Counsel

Schedule A

**GULF POWER COMPANY**

**TO**

**JPMORGAN CHASE BANK,**
**TRUSTEE**

# EIGHTH SUPPLEMENTAL INDENTURE

**DATED AS OF JULY 22, 2003**

$60,000,000

SERIES H 5.25% SENIOR NOTES

DUE JULY 15, 2033

# TABLE OF CONTENTS[1]

PAGE


ARTICLE 1 ..... 1

Series H Senior Notes ..... 1
SECTION 101. Establishment ..... 1
SECTION 102. Definitions ..... 2
SECTION 103. Payment of Principal and Interest ..... 2
SECTION 104. Denominations ..... 3
SECTION 105. Global Securities ..... 3
SECTION 106. Transfer ..... 4
SECTION 107. Redemption ..... 4

ARTICLE 2 ..... 4

Special Insurance Provisions ..... 4
SECTION 201. Supplemental Indentures ..... 4
SECTION 202. Events of Default and Remedies ..... 5
SECTION 203. Insurance Policy Payment Procedures ..... 5
SECTION 204. Application of Term "Outstanding" to Series H Notes ..... 6
SECTION 205. Insurer as Third Party Beneficiary ..... 6
SECTION 206. Concerning the Special Insurance Provisions ..... 6

ARTICLE 3 ..... 6

Miscellaneous Provisions ..... 6
SECTION 301. Recitals by Company ..... 6
SECTION 302. Ratification and Incorporation of Original Indenture ..... 7
SECTION 303. Executed in Counterparts ..... 7


[1]This Table of Contents does not constitute part of the Indenture or have any bearing upon the interpretation of any of its terms and provisions.

THIS EIGHTH SUPPLEMENTAL INDENTURE is made as of the 22nd day of July, 2003, by and between GULF POWER COMPANY, a Maine corporation, One Energy Place, Pensacola, Florida 32520-0100 (the "Company"), and JPMORGAN CHASE BANK, a New York banking corporation, 4 New York Plaza, New York, New York 10004 (the "Trustee").

W I T N E S S E T H:

WHEREAS, the Company has heretofore entered into a Senior Note Indenture, dated as of January 1, 1998 (the "Original Indenture"), with JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as heretofore supplemented;

WHEREAS, the Original Indenture is incorporated herein by this reference and the Original Indenture, as heretofore supplemented and as further supplemented by this Eighth Supplemental Indenture, is herein called the "Indenture";

WHEREAS, under the Original Indenture, a new series of Senior Notes may at any time be established pursuant to a supplemental indenture executed by the Company and the Trustee;

WHEREAS, the Company proposes to create under the Indenture a new series of Senior Notes;

WHEREAS, additional Senior Notes of other series hereafter established, except as may be limited in the Original Indenture as at the time supplemented and modified, may be issued from time to time pursuant to the Indenture as at the time supplemented and modified; and

WHEREAS, all conditions necessary to authorize the execution and delivery of this Eighth Supplemental Indenture and to make it a valid and binding obligation of the Company have been done or performed.

NOW, THEREFORE, in consideration of the agreements and obligations set forth herein and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

## ARTICLE 1

### Series H Senior Notes

SECTION 101. Establishment. There is hereby established a new series of Senior Notes to be issued under the Indenture, to be designated as the Company's Series H 5.25% Senior Notes due July 15, 2033 (the "Series H Notes").

There are to be authenticated and delivered $60,000,000 principal amount of Series H Notes, and such principal amount of the Series H Notes need not be issued at the same time and such series may be reopened at any time, without the consent of the Holders thereof, for issuance of additional Series H Notes. Any such additional Series H Notes will have the same interest rate,

maturity and other terms, including the benefit of the Policy, as those initially issued. No Series H Notes shall be authenticated and delivered except as provided by Sections 203, 303, 304, 907 or 1107 of the Original Indenture. The Series H Notes shall be issued in definitive fully registered form.

The Series H Notes shall be issued in the form of one or more Global Securities in substantially the form set out in Exhibit A hereto. The Depositary with respect to the Series H Notes shall be The Depository Trust Company.

The form of the Trustee's Certificate of Authentication for the Series H Notes shall be in substantially the form set forth in Exhibit B hereto.

Each Series H Note shall be dated the date of authentication thereof and shall bear interest from the date of original issuance thereof or from the most recent Interest Payment Date to which interest has been paid or duly provided for.

SECTION 102. Definitions. The following defined terms used herein shall, unless the context otherwise requires, have the meanings specified below. Capitalized terms used herein for which no definition is provided herein shall have the meanings set forth in the Original Indenture.

"Insurer" means XL Capital Assurance Inc., a New York stock insurance corporation.

"Interest Payment Dates" means January 15, April 15, July 15 and October 15 of each year, commencing October 15, 2003.

"Original Issue Date" means July 22, 2003.

"Policy" means the financial guaranty insurance policy issued by the Insurer with respect to payments due for principal of and interest on the Series H Notes as provided in such policy.

"Regular Record Date" means, with respect to each Interest Payment Date, the close of business on the 15th calendar day preceding such Interest Payment Date (whether or not a Business Day).

"Stated Maturity" means July 15, 2033.

SECTION 103. Payment of Principal and Interest. The principal of the Series H Notes shall be due at Stated Maturity (unless earlier redeemed). The unpaid principal amount of the Series H Notes shall bear interest at the rate of 5.25% per annum until paid or duly provided for. Interest shall be paid quarterly in arrears on each Interest Payment Date to the Person in whose name the Series H Notes are registered on the Regular Record Date for such Interest Payment Date, *provided* that interest payable at the Stated Maturity of principal or on a Redemption Date as provided herein will be paid to the Person to whom principal is payable. Any such interest that is not so punctually paid or duly provided for will forthwith cease to be payable to the Holders on such Regular Record Date and may either be paid to the Person or Persons in whose name the Series H Notes are registered at the close of business on a Special Record Date for the payment of such defaulted

interest to be fixed by the Trustee, notice whereof shall be given to Holders of the Series H Notes not less than ten (10) days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange, if any, on which the Series H Notes shall be listed, and upon such notice as may be required by any such exchange, all as more fully provided in the Original Indenture.

Payments of interest on the Series H Notes will include interest accrued to but excluding the respective Interest Payment Dates. Interest payments for the Series H Notes shall be computed and paid on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on the Series H Notes is not a Business Day, then a payment of the interest payable on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay), with the same force and effect as if made on the date the payment was originally payable.

Payment of the principal and interest due at the Stated Maturity or earlier redemption of the Series H Notes shall be made upon surrender of the Series H Notes at the Corporate Trust Office of the Trustee. The principal of and interest on the Series H Notes shall be paid in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. Payments of interest (including interest on any Interest Payment Date) will be made, subject to such surrender where applicable, at the option of the Company, (i) by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register or (ii) by wire transfer or other electronic transfer at such place and to such account at a banking institution in the United States as may be designated in writing to the Trustee at least sixteen (16) days prior to the date for payment by the Person entitled thereto.

SECTION 104. Denominations. The Series H Notes may be issued in the denominations of $25, or any integral multiple thereof.

SECTION 105. Global Securities. The Series H Notes will be issued in the form of one or more Global Securities registered in the name of the Depositary (which shall be The Depository Trust Company) or its nominee. Except under the limited circumstances described below, Series H Notes represented by one or more Global Securities will not be exchangeable for, and will not otherwise be issuable as, Series H Notes in definitive form. The Global Securities described above may not be transferred except by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary or to a successor Depositary or its nominee.

Owners of beneficial interests in such a Global Security will not be considered the Holders thereof for any purpose under the Indenture, and no Global Security representing a Series H Note shall be exchangeable, except for another Global Security of like denomination and tenor to be registered in the name of the Depositary or its nominee or to a successor Depositary or its nominee. The rights of Holders of such Global Security shall be exercised only through the Depositary.

A Global Security shall be exchangeable for Series H Notes registered in the names of persons other than the Depositary or its nominee only if (i) the Depositary notifies the Company that it is unwilling or unable to continue as a Depositary for such Global Security and no successor

Depositary shall have been appointed by the Company, or if at any time the Depositary ceases to be a clearing agency registered under the Securities Exchange Act of 1934, as amended, at a time when the Depositary is required to be so registered to act as such Depositary and no successor Depositary shall have been appointed by the Company, in each case within 90 days after the Company receives such notice or becomes aware of such cessation, (ii) the Company in its sole discretion determines that such Global Security shall be so exchangeable, or (iii) there shall have occurred an Event of Default with respect to the Series H Notes. Any Global Security that is exchangeable pursuant to the preceding sentence shall be exchangeable for Series H Notes registered in such names as the Depositary shall direct.

SECTION 106. Transfer. No service charge will be made for any transfer or exchange of Series H Notes, but payment will be required of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith.

The Company shall not be required (a) to issue, transfer or exchange any Series H Notes except to the Insurer during a period beginning at the opening of business fifteen (15) days before the day of the mailing of a notice pursuant to Section 1104 of the Original Indenture identifying the serial numbers of the Series H Notes to be called for redemption, and ending at the close of business on the day of the mailing, or (b) to transfer or exchange any Series H Notes theretofore selected for redemption in whole or in part, except the unredeemed portion of any Series H Note redeemed in part.

SECTION 107. Redemption. The Series H Notes shall be subject to redemption at the option of the Company, in whole or in part, without premium or penalty, at any time or from time to time on or after July 22, 2008, at a Redemption Price equal to 100% of the principal amount to be redeemed plus accrued but unpaid interest to the Redemption Date.

In the event of redemption of the Series H Notes in part only, a new Series H Note or Notes for the unredeemed portion will be issued in the name or names of the Holders thereof upon the surrender thereof.

The Series H Notes will not have a sinking fund.

Notice of redemption shall be given as provided in Section 1104 of the Original Indenture.

Any redemption of less than all of the Series H Notes shall, with respect to the principal thereof, be divisible by $25.

## ARTICLE 2

### Special Insurance Provisions

SECTION 201. Supplemental Indentures. The consent of the Insurer shall be required with respect to any indenture or indentures supplemental to the Original Indenture requiring the consent of the Holders of the Series H Notes pursuant to Section 902 of the Original Indenture.

SECTION 202. Events of Default and Remedies. Subject to Section 107 of the Original Indenture and to the Trust Indenture Act, including, without limitation, Sections 316(a)(1) and 317(a) thereof, if an Event of Default occurs and is continuing, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Series H Notes or the Trustee for the benefit of the Holders of the Series H Notes under this Indenture, including, without limitation, (i) the right to accelerate the principal of the Series H Notes as provided in Section 502 of the Original Indenture, and (ii) the right to annul any such declaration of acceleration, and the Insurer shall also be entitled to approve any waiver of an Event of Default with respect to the Series H Notes, the obligation of the Trustee to comply with any such direction to be subject to compliance with the conditions set forth in Sections 512 and 603(e) of the Original Indenture (as if references in those Sections to Holders were references to the Insurer) and the protections provided to the Trustee by Section 601(c)(3) of the Original Indenture shall be applicable with respect to any direction from the Insurer given pursuant hereto (as if references in said Section to Holders were references to the Insurer).

SECTION 203. Insurance Policy Payment Procedures. (a) The Insurer will make payments of principal or interest due on the Series H Notes in accordance with the Policy on or before the first Business Day next following the date on which the Insurer shall have received notice of Nonpayment (as defined in the Policy) from the Trustee.

(b) In the event of Nonpayment and notification thereof to the Insurer, the Trustee shall make available to the Insurer the books kept by the Trustee for the registration and for the registration of transfer of Series H Notes as provided in the Indenture.

(c) The Trustee shall, at the time it provides notice to the Insurer pursuant to (a) above, notify Holders of Series H Notes entitled to receive the payment of principal or interest thereon from the Insurer (i) as to the fact of such entitlement, (ii) that the Insurer will remit to them all or a part of the interest payments next coming due upon proof of Holder entitlement to interest payments and delivery to the Insurer, in form satisfactory to the Insurer, of an appropriate assignment of the Holder's right to payment, (iii) that should they be entitled to receive full payment of principal from the Insurer, they must surrender their Series H Notes (along with an appropriate instrument of assignment in form satisfactory to the Insurer to permit ownership of such Series H Notes to be registered in the name of the Insurer) for payment to the Insurer, and not the Trustee or any paying agent, and (iv) that should they be entitled to receive partial payment of principal from the Insurer, they must surrender their Series H Notes for payment thereon first to the Trustee, who shall note on such Series H Notes the portion of the principal paid by the Trustee, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurer, to the Insurer, which will then pay the unpaid portion of principal.

(d) In the event that the Trustee has notice that any payment of principal of or interest on a Series H Note which has become due for payment (under the terms of the Policy) and which is made to a Holder by or on behalf of the Company has been deemed a preferential transfer and theretofore recovered from its Holder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent

jurisdiction, the Trustee shall, at the time the Insurer is notified pursuant to (a) above, notify all Holders of the Series H Notes that in the event that any Holder's payment is so recovered, such Holder will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to the Insurer its records evidencing the payments of principal of and interest on the Series H Notes which have been made by the Trustee and subsequently recovered from Holders and the dates on which such payments were made.

(e) In addition to those rights granted the Insurer under the Indenture, the Insurer shall, to the extent it makes payment of principal of or interest on Series H Notes, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Insurer's rights as subrogee on the registration books of the Company maintained by the Trustee upon receipt from the Insurer of proof of the payment of interest thereon to the Holders of the Series H Notes, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Insurer's rights as subrogee on the registration books of the Company maintained by the Trustee upon surrender of the Series H Notes by the Holders thereof together with proof of the payment of principal thereof.

SECTION 204. Application of Term "Outstanding" to Series H Notes. In the event that the principal and/or interest due on the Series H Notes shall be paid by the Insurer pursuant to the Policy, the Series H Notes shall remain Outstanding for all purposes of the Indenture, not be considered defeased or otherwise satisfied and not be considered paid by the Company, and the assignment and pledge of the Indenture and all covenants, agreements and other obligations of the Company to the Holders of the Series H Notes shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such Holders to the extent of each such payment.

SECTION 205. Insurer as Third Party Beneficiary. To the extent that the Indenture confers upon or gives or grants to the Insurer any right, remedy or claim under or by reason of the Indenture, the Insurer is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.

SECTION 206. Concerning the Special Insurance Provisions. The provisions of this Article 2 shall apply notwithstanding anything in the Indenture to the contrary, but only so long as the Policy shall be in full force and effect and the Insurer is not in default thereunder.

## ARTICLE 3

### Miscellaneous Provisions

SECTION 301. Recitals by Company. The recitals in this Eighth Supplemental Indenture are made by the Company only and not by the Trustee, and all of the provisions contained in the Original Indenture in respect of the rights, privileges, immunities, powers and duties of the Trustee

shall be applicable in respect of Series H Notes and of this Eighth Supplemental Indenture as fully and with like effect as if set forth herein in full.

SECTION 302. Ratification and Incorporation of Original Indenture. As heretofore supplemented and as supplemented hereby, the Original Indenture is in all respects ratified and confirmed, and the Original Indenture as heretofore supplemented and as supplemented by this Eighth Supplemental Indenture shall be read, taken and construed as one and the same instrument.

SECTION 303. Executed in Counterparts. This Eighth Supplemental Indenture may be simultaneously executed in several counterparts, each of which shall be deemed to be an original, and such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, each party hereto has caused this instrument to be signed in its name and behalf by its duly authorized officers, all as of the day and year first above written.

ATTEST:

By:_____
Warren E. Tate
Vice President, Secretary
and Treasurer

GULF POWER COMPANY

By:_____
Ronnie R. Labrato
Vice President, Comptroller and Chief
Financial Officer

ATTEST:

By:_____
Virginia Dominguez
Trust Officer

JPMORGAN CHASE BANK, as Trustee

By:_____
Carol Ng
Vice President

IN WITNESS WHEREOF, each party hereto has caused this instrument to be signed in its name and behalf by its duly authorized officers, all as of the day and year first above written.

ATTEST:

GULF POWER COMPANY

By:_____
Warren E. Tate
Vice President, Secretary
and Treasurer

By:_____
Ronnie R. Labrato
Vice President, Comptroller and Chief
Financial Officer

ATTEST:

JPMORGAN CHASE BANK, as Trustee

By:_____
Virginia Dominguez
Trust Officer

By:_____
Carol Ng
Vice President

EXHIBIT A

FORM OF SERIES H NOTE

NO. ____ CUSIP NO. 402479794

GULF POWER COMPANY
SERIES H 5.25% SENIOR NOTE
DUE JULY 15, 2033

| | |
|---|---|
| Principal Amount: | $_____ |
| Regular Record Date: | 15th calendar day prior to the applicable Interest Payment Date (whether or not a Business Day) |
| Original Issue Date: | July 22, 2003 |
| Stated Maturity: | July 15, 2033 |
| Interest Payment Dates: | January 15, April 15, July 15 and October 15 |
| Interest Rate: | 5.25% per annum |
| Authorized Denominations: | $25 or any integral multiple thereof |
| Initial Redemption Date: | July 22, 2008 |

Gulf Power Company, a Maine corporation (the "Company", which term includes any successor corporation under the Indenture referred to on the reverse hereof), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of _____DOLLARS ($_____) on the Stated Maturity shown above (or upon earlier redemption), and to pay interest thereon from the Original Issue Date shown above, or from the most recent Interest Payment Date to which interest has been paid or duly provided for, quarterly in arrears on each Interest Payment Date as specified above, commencing October 15, 2003, and on the Stated Maturity (or upon earlier redemption) at the rate per annum shown above until the principal hereof is paid or made available for payment and on any overdue principal and on any overdue installment of interest. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date (other than an Interest Payment Date that is the Stated Maturity or on a Redemption Date) will, as provided in such Indenture, be paid to the Person in whose name this Note (the "Note") is registered at the close of business on the Regular Record Date as specified above next preceding such Interest Payment Date, provided that any interest payable at Stated Maturity or on any Redemption Date will be paid to the Person to whom principal is payable. Except as otherwise provided in the Indenture, any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Note is registered at the close of business on a Special Record Date for the payment of such defaulted interest to be fixed by the Trustee, notice

whereof shall be given to Holders of Notes of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange, if any, on which the Notes of this series shall be listed, and upon such notice as may be required by any such exchange, all as more fully provided in the Indenture.

Payments of interest on this Note will include interest accrued to but excluding the respective Interest Payment Dates. Interest payments for this Note shall be computed and paid on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on this Note is not a Business Day, then payment of the interest payable on such date will be made on the next succeeding day that is a Business Day (and without interest or other payment in respect of any such delay), with the same force and effect as if made on the date the payment was originally payable. A "Business Day" shall mean any day other than a Saturday or a Sunday or a day on which banking institutions in New York City are authorized or required by law or executive order to remain closed or a day on which the Corporate Trust Office of the Trustee is closed for business.

Payment of the principal of and interest due at the Stated Maturity or earlier redemption of the Series H Notes shall be made upon surrender of the Series H Notes at the Corporate Trust Office of the Trustee. The principal of and interest on the Series H Notes shall be paid in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. Payment of interest (including interest on an Interest Payment Date) will be made, subject to such surrender where applicable, at the option of the Company, (i) by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register or (ii) by wire transfer or other electronic transfer at such place and to such account at a banking institution in the United States as may be designated in writing to the Trustee at least 16 days prior to the date for payment by the Person entitled thereto.

XL Capital Assurance Inc. (the "Insurer"), New York, New York, has delivered its financial guaranty insurance policy (the "Policy") with respect to the scheduled payments due of principal of and interest on this Note to the principal Corporate Trust Office of the Trustee. **Said Policy is on file and available for inspection at the principal Corporate Trust Office of the Trustee and a copy thereof may be obtained from the Insurer or the Trustee.**

REFERENCE IS HEREBY MADE TO THE FURTHER PROVISIONS OF THIS NOTE SET FORTH ON THE REVERSE HEREOF, WHICH FURTHER PROVISIONS SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS IF SET FORTH AT THIS PLACE.

Unless the certificate of authentication hereon has been executed by the Trustee by manual signature, this Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

Dated:

GULF POWER COMPANY

By:_____
Title:

Attest:

_____
Title:

{Seal of GULF POWER COMPANY appears here}

CERTIFICATE OF AUTHENTICATION

This is one of the Senior Notes referred to in the within-mentioned Indenture.

JPMORGAN CHASE BANK,
as Trustee

By:_____
Authorized Officer

(Reverse Side of Note)

This Note is one of a duly authorized issue of Senior Notes of the Company (the "Notes"), issued and issuable in one or more series under a Senior Note Indenture, dated as of January 1, 1998, as supplemented (the "Indenture"), between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), Trustee (the "Trustee," which term includes any successor trustee under the Indenture), to which Indenture and all indentures incidental thereto reference is hereby made for a statement of the respective rights, limitation of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Notes issued thereunder and of the terms upon which said Notes are, and are to be, authenticated and delivered. This Note is one of the series designated on the face hereof as Series H 5.25% Senior Notes due July 15, 2033 (the "Series H Notes") which is unlimited in aggregate principal amount. Capitalized terms used herein for which no definition is provided herein shall have the meanings set forth in the Indenture.

The Company shall have the right, subject to the terms and conditions of the Indenture, to redeem this Note at any time on or after July 22, 2008 at the option of the Company, without premium or penalty, in whole or in part, at a Redemption Price equal to 100% of the principal amount to be redeemed plus accrued but unpaid interest to the Redemption Date.

In the event of redemption of this Note in part only, a new Note or Notes of this series for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the surrender hereof. The Notes will not have a sinking fund.

If an Event of Default with respect to the Notes of this series shall occur and be continuing, the principal of the Notes of this series may be declared due and payable in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Notes of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of not less than a majority in principal amount of the Notes at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Notes of each series at the time Outstanding, on behalf of the Holders of all Notes of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Note shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest on this Note at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Note is registrable in the Security Register, upon surrender of this Note for registration of transfer at the office or agency of the Company for such purpose, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar and duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Notes of this series, of authorized denominations and of like tenor and for the same aggregate principal amount, will be issued to the designated transferee or transferees. No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Note for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Note is registered as the owner hereof for all purposes, whether or not this Note be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

The Notes of this series are issuable only in registered form without coupons in denominations of $25 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Notes of this series are exchangeable for a like aggregate principal amount of Notes of this series of a different authorized denomination, as requested by the Holder surrendering the same upon surrender of the Note or Notes to be exchanged at the office or agency of the Company.

This Note shall be governed by, and construed in accordance with, the internal laws of the State of New York.

## ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this instrument, shall be construed as though they were written out in full according to applicable laws or regulations:

| | | | |
|---|---|---|---|
| TEN COM- | as tenants in common | UNIF GIFT MIN ACT- | _____ Custodian _____ (Cust) (Minor) |
| TEN ENT- | as tenants by the entireties | | under Uniform Gifts to Minors Act |
| JT TEN- | as joint tenants with right of survivorship and not as tenants in common | | _____ (State) |

Additional abbreviations may also be used
though not on the above list.

FOR VALUE RECEIVED, the undersigned hereby sell(s) and transfer(s) unto

_____

(please insert Social Security or other identifying number of assignee)

_____

PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING POSTAL ZIP CODE OF ASSIGNEE

_____

_____

the within Note and all rights thereunder, hereby irrevocably constituting and appointing

_____

_____

agent to transfer said Note on the books of the Company, with full power of substitution in the premises.

Dated: _____ _____

_____

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within instrument in every particular without alteration or enlargement, or any change whatever.

EXHIBIT B

CERTIFICATE OF AUTHENTICATION

This is one of the Senior Notes referred to in the within-mentioned Indenture.

JPMORGAN CHASE BANK,
as Trustee

By:_____
Authorized Officer

**PROSPECTUS SUPPLEMENT**

**(To Prospectus dated April 25, 2003)**

# $60,000,000

GULF POWER

A SOUTHERN COMPANY

## Series H 5.25% Senior Notes due July 15, 2033

The Series H Senior Notes bear interest at the rate of 5.25% per year. Interest on the Series H Senior Notes is payable quarterly on January 15, April 15, July 15 and October 15 of each year, beginning October 15, 2003. The Series H Senior Notes will mature on July 15, 2033. The Series H Senior Notes are redeemable by Gulf Power Company on or after July 22, 2008. The Series H Senior Notes do not have the benefit of any sinking fund.

The Series H Senior Notes are unsecured and rank equally with all of Gulf Power Company's other unsecured indebtedness and will be effectively subordinated to all secured debt of Gulf Power Company. The Series H Senior Notes will be issued only in registered form in denominations of $25 and any integral multiple thereof.

Payments of principal and interest on the Series H Senior Notes when due will be insured by a financial guaranty insurance policy to be issued by XL Capital Assurance Inc.

XL CAPITAL ASSURANCE

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus Supplement or the accompanying Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

| | Per Series H Senior Note | Total |
|---|---|---|
| Initial Public Offering Price(1) | 100.00% | $60,000,000 |
| Underwriting Discounts and Commissions | 3.15% | $ 1,890,000 |
| Net Proceeds, before expenses, to Gulf Power Company | 96.85% | $58,110,000 |

(1) The initial public offering price set forth above does not include accrued interest, if any. Interest on the Series H Senior Notes will accrue from the date the Series H Senior Notes are issued.

*See "Risk Factors" on page S-3 for a description of certain risks associated with investing in the Series H Senior Notes.*

Gulf Power Company plans to list the Series H Senior Notes on the New York Stock Exchange. Trading of the Series H Senior Notes is expected to begin on the New York Stock Exchange within 30 days after the Series H Senior Notes are first issued.

It is expected that the Series H Senior Notes will be ready for delivery in book-entry form only through The Depository Trust Company, on or about July 22, 2003.

*Joint Book—Running Managers*

**Morgan Stanley** **Wachovia Securities**

**SunTrust Robinson Humphrey**

The date of this Prospectus Supplement is July 10, 2003.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained or incorporated by reference in this Prospectus Supplement or the accompanying Prospectus. You must not rely on any unauthorized information or representations. This Prospectus Supplement and accompanying Prospectus is an offer to sell only the Series H Senior Notes and only under circumstances and in jurisdictions where it is lawful to do so. The information incorporated by reference or contained in this Prospectus Supplement and accompanying Prospectus is current only as of its date.

## Table of Contents

### Prospectus Supplement


| | Page |
|---|---|
| Risk Factors | S-3 |
| The Company | S-3 |
| Selected Financial Information | S-3 |
| Use of Proceeds | S-4 |
| Description of the Series H Senior Notes | S-4 |
| The Policy and the Insurer | S-7 |
| Ratings | S-11 |
| Underwriting | S-12 |
| Experts | S-13 |
| Appendix A — Form of Policy | A-1 |


### Prospectus


| | |
|---|---|
| About this Prospectus | 2 |
| Risk Factors | 2 |
| Available Information | 2 |
| Incorporation of Certain Documents by Reference | 3 |
| Gulf Power Company | 3 |
| Selected Information | 4 |
| The Trusts | 5 |
| Accounting Treatment of Trusts | 5 |
| Use of Proceeds | 5 |
| Description of the Senior Notes | 6 |
| Description of the Junior Subordinated Notes | 10 |
| Description of the Preferred Securities | 15 |
| Description of the Guarantees | 16 |
| Relationship Among the Preferred Securities, the Junior Subordinated Notes and the Guarantees | 18 |
| Plan of Distribution | 19 |
| Legal Matters | 20 |
| Experts | 20 |

## RISK FACTORS

Investing in the Series H Senior Notes involves risk. Please see the risk factors in Gulf Power Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, which is incorporated by reference in this Prospectus Supplement. Before making an investment decision, you should carefully consider these risks as well as other information contained or incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. The risks and uncertainties not presently known to Gulf Power Company or that Gulf Power Company currently deems immaterial may also impair its business operations, its financial results and the value of the Series H Senior Notes.

## THE COMPANY

Gulf Power Company (the "Company") is a corporation organized under the laws of the State of Maine on November 2, 1925, and admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976 and in Georgia on November 20, 1984. The mailing address of the Company's principal executive offices is One Energy Place, Pensacola, Florida 32520-0100, and the telephone number is (850) 444-6111. The Company is a wholly owned subsidiary of The Southern Company.

The Company is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy within an approximately 7,400 square mile service area within the northwestern portion of the State of Florida.

## SELECTED FINANCIAL INFORMATION

The following selected financial data for the years ended December 31, 1998 through December 31, 2002 and the three months ended March 31, 2003 have been derived from the Company's financial statements and related notes, incorporated by reference in this Prospectus Supplement. The information set forth below is qualified in its entirety by reference to and, therefore, should be read together with management's discussion and analysis of results of operations and financial information, the financial statements and related notes and other financial information incorporated by reference in this Prospectus Supplement.

| | Year Ended December 31, | | | | | Three Months Ended March 31, |
|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
| | (Thousands, except ratios) | | | | | (unaudited) |
| Operating Revenues | $650,518 | $674,099 | $714,319 | $725,203 | $820,467 | $197,838 |
| Earnings Before Income Taxes | 89,356 | 86,515 | 82,607 | 89,716 | 104,397 | 22,291 |
| Net Income After Dividends on Preferred Stock | 56,521 | 53,667 | 51,843 | 58,307 | 67,036 | 13,972 |
| Ratio of Earnings to Fixed Charges(1) | 3.83 | 3.62 | 3.38 | 3.64 | 3.52 | 3.21 |

| | Capitalization As of March 31, 2003 | | |
|---|---|---|---|
| | Actual | As Adjusted(2) | |
| | (Thousands, except percentages) | | (unaudited) |
| Common Stock Equity | $ 556,870 | $ 556,870 | 46.4% |
| Cumulative Preferred Stock | 4,236 | 4,236 | 0.4 |
| Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Company Junior Subordinated Notes | 115,000 | 115,000 | 9.6 |
| Senior Notes | 281,725 | 310,000 | 25.8 |
| Other Long-Term Debt | 214,390 | 214,390 | 17.8 |
| Total | $1,172,221 | $1,200,496 | 100.0% |

(1) This ratio is computed as follows: (i) "Earnings" have been calculated by adding to "Earnings Before Income Taxes" "Interest Expense, Net of Amounts Capitalized," "Distributions on Preferred Securities of Subsidiary" and the debt portion of allowance for funds used during construction; and (ii) "Fixed Charges" consist of "Interest Expense, Net of Amounts Capitalized," "Distributions on Preferred Securities of Subsidiary" and the debt portion of allowance for funds used during construction.

(2) Reflects (i) the redemption in April 2003 of $5,000, the redemption in July 2003 of $25,000 and the proposed redemption in August 2003 of $46,695,000 aggregate principal amount of Series A 6.70% Senior Insured Quarterly Notes due June 30, 2038; (ii) the redemption in May 2003 of $45,000,000 aggregate principal amount of Series E 6.00% Senior Notes due January 30, 2012; (iii) the proposed issuance in July 2003 of $60,000,000 aggregate principal amount of Series G Senior Notes (the "Series G Senior Notes"); and (iv) the issuance of the Series H Senior Notes offered hereby.

## USE OF PROCEEDS

A portion of the proceeds from the sale of the Series H Senior Notes will be used by the Company to redeem in August 2003 the $46,695,000 outstanding principal amount of its Series A 6.70% Senior Insured Quarterly Notes due June 30, 2038. This redemption is subject to the Company's closing of the sale of the Series H Senior Notes. The balance of the proceeds will be used by the Company to repay a portion of its outstanding short-term indebtedness, which aggregated approximately $55,000,000 as of July 10, 2003.

## DESCRIPTION OF THE SERIES H SENIOR NOTES

Set forth below is a description of the specific terms of the Series H 5.25% Senior Notes due July 15, 2033 (the "Series H Senior Notes"). This description supplements, and should be read together with, the description of the general terms and provisions of the senior notes set forth in the accompanying Prospectus under the caption "Description of the Senior Notes." The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the description in the accompanying Prospectus and the Senior Note Indenture dated as of January 1, 1998, as supplemented (the "Senior Note Indenture"), between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Senior Note Indenture Trustee").

### General

The Series H Senior Notes will be issued as a series of senior notes under the Senior Note Indenture. The Series H Senior Notes will initially be issued in the aggregate principal amount of $60,000,000. The Company may, without the consent of the holders of the Series H Senior Notes, issue additional notes having the same ranking and the same interest rate, maturity and other terms, including the benefit of the Policy (as defined below), as the Series H Senior Notes. Any additional notes having such similar terms, together with the Series H Senior Notes, will constitute a single series of senior notes under the Senior Note Indenture.

The entire principal amount of the Series H Senior Notes will mature and become due and payable, together with any accrued and unpaid interest thereon, on July 15, 2033. The Series H Senior Notes are not subject to any sinking fund provision. The Series H Senior Notes are available for purchase in denominations of $25 and any integral multiple thereof.

### Interest

Each Series H Senior Note shall bear interest at the rate of 5.25% per annum (the "Securities Rate") from the date of original issuance, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year (each, an "Interest Payment Date") to the person in whose name such Series H Senior Note is registered at the close of business on the fifteenth calendar day prior to such payment date (whether or not a Business Day).

The initial interest payment date is October 15, 2003. The amount of interest payable will be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on the Series H Senior Notes is not a Business Day, then payment of the interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay), with the same force and effect as if made on such date. "Business Day" means a day other than (i) a Saturday or Sunday, (ii) a day on which banks in New York, New York are authorized or obligated by law or executive order to remain closed or (iii) a day on which the Senior Note Indenture Trustee's corporate trust office is closed for business.

**Ranking**

The Series H Senior Notes will be direct, unsecured and unsubordinated obligations of the Company ranking equally with all other unsecured and unsubordinated obligations of the Company. The Series H Senior Notes will be effectively subordinated to all secured debt of the Company, including its first mortgage bonds, aggregating approximately $170,000,000 outstanding at March 31, 2003. The Senior Note Indenture contains no restrictions on the amount of additional indebtedness that may be incurred by the Company.

**Trading Characteristics**

The Series H Senior Notes are expected to trade at a price that takes into account the value, if any, of accrued but unpaid interest; thus, purchasers will not pay and sellers will not receive accrued and unpaid interest with respect to the Series H Senior Notes that is not included in the trading price thereof. Any portion of the trading price of a Series H Senior Note received that is attributable to accrued interest will be treated as ordinary interest income for federal income tax purposes and will not be treated as part of the amount realized for purposes of determining gain or loss on the disposition of the Series H Senior Note.

The trading price of the Series H Senior Notes is likely to be sensitive to the level of interest rates generally. If interest rates rise in general, the trading price of the Series H Senior Notes may decline to reflect the additional yield requirements of the purchasers. Conversely, a decline in interest rates may increase the trading price of the Series H Senior Notes, although any increase will be moderated by the Company's ability to call the Series H Senior Notes at any time on or after July 22, 2008.

**Special Insurance Provisions of the Senior Note Indenture**

Subject to the provisions of the Senior Note Indenture, so long as the Insurer (as defined below) is not in default under the Policy, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies with respect to the Series H Senior Notes upon the occurrence and continuation of an Event of Default (as defined in the Senior Note Indenture).

**Optional Redemption**

The Company shall have the right to redeem the Series H Senior Notes, in whole or in part, without premium, from time to time, on or after July 22, 2008, upon not less than 30 nor more than 60 days' notice, at a redemption price (the "Redemption Price") equal to 100% of the principal amount to be redeemed plus any accrued and unpaid interest to the date of redemption (the "Redemption Date").

If notice of redemption is given as aforesaid, the Series H Senior Notes so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price together with any accrued interest thereon, and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest) such Series H Senior Notes shall cease to bear interest. If any Series H Senior Note called for redemption shall not be paid upon surrender thereof for redemption, the principal shall, until paid, bear interest from the Redemption Date at the Securities Rate. See "Description of the Senior Notes—Events of Default" in the accompanying Prospectus.

Subject to the foregoing and to applicable law (including, without limitation, United States federal securities laws), the Company or its affiliates may, at any time and from time to time, purchase outstanding Series H Senior Notes by tender, in the open market or by private agreement.

**Book-Entry Only Issuance—The Depository Trust Company**

The Depository Trust Company ("DTC") will act as the initial securities depositary for the Series H Senior Notes. The Series H Senior Notes will be issued only as fully-registered securities registered in the name of Cede & Co., DTC's nominee, or such other name as may be requested by an authorized representative of DTC. One or more fully registered global Series H Senior Notes certificates will be issued, representing in the aggregate the total principal amount of Series H Senior Notes, and will be deposited with DTC or a custodian therefor.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended (the "1934 Act"). DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc. (the "NYSE"), the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants" and, together with Direct Participants, "Participants"). The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission (the "Commission"). More information about DTC can be found at www.dtcc.com.

Purchases of Series H Senior Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series H Senior Notes on DTC's records. The ownership interest of each actual purchaser of Series H Senior Notes ("Beneficial Owner") is in turn to be recorded on the Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Participants through which the Beneficial Owners purchased Series H Senior Notes. Transfers of ownership interests in the Series H Senior Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series H Senior Notes, except in the event that use of the book-entry system for the Series H Senior Notes is discontinued.

To facilitate subsequent transfers, all Series H Senior Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series H Senior Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any changes in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series H Senior Notes. DTC's records reflect only the identity of the Direct Participants to whose accounts such Series H Senior Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Redemption notices shall be sent to DTC. If less than all of the Series H Senior Notes are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series H Senior Notes to be redeemed.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Although voting with respect to the Series H Senior Notes is limited, in those cases where a vote is required, neither DTC nor Cede & Co. (or such other DTC nominee) will itself consent or vote with respect to Series H Senior Notes. Under its usual procedures, DTC would mail an Omnibus Proxy to the Company as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s (or such other DTC nominee's) consenting or voting rights to those Direct Participants to whose accounts the Series H Senior Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Series H Senior Notes will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Company or the Senior Note Indenture Trustee on the relevant payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payments on such payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the account of customers registered in "street name," and will be the responsibility of such Participant and not of DTC or the Company, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Company, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Participants.

Except as provided herein, a Beneficial Owner of a global Series H Senior Note will not be entitled to receive physical delivery of Series H Senior Notes. Accordingly, each Beneficial Owner must rely on the procedures of DTC to exercise any rights under the Series H Senior Notes. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of securities in definitive form. Such laws may impair the ability to transfer beneficial interests in a global Series H Senior Note.

DTC may discontinue providing its services as securities depositary with respect to the Series H Senior Notes at any time by giving reasonable notice to the Company. Under such circumstances, in the event that a successor securities depositary is not obtained, Series H Senior Notes certificates will be printed and delivered to the holders of record. Additionally, the Company may decide to discontinue use of the system of book-entry transfers through DTC (or a successor depositary) with respect to the Series H Senior Notes. In that event, certificates for the Series H Senior Notes will be printed and delivered to the holders of record.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Company believes to be reliable, but the Company takes no responsibility for the accuracy thereof. The Company has no responsibility for the performance by DTC or its Participants of their respective obligations as described herein or under the rules and procedures governing their respective operations.

## THE POLICY AND THE INSURER

### The Policy

Concurrently with the issuance of the Series H Senior Notes, XL Capital Assurance Inc. (the "Insurer") will issue a financial guaranty insurance policy relating to the Series H Senior Notes (the "Policy"). The form of the Policy is attached to this Prospectus Supplement as Appendix A. The following summary of the terms of the Policy does not purport to be complete and is qualified in its entirety by reference to the Policy. Any capitalized terms used in this section but not defined herein have the meanings ascribed to them in the Policy.

The Policy guarantees the scheduled payment of principal of and interest on the Series H Senior Notes when due. The Policy will extend for the term of the Series H Senior Notes and, once issued, cannot be canceled by the Insurer. The Policy will insure payment only on the stated maturity date, in the case of principal, and on stated dates for payment, in the case of interest. If any Series H Senior Notes become subject to redemption and insufficient funds are available for redemption of all such outstanding Series H Senior Notes, the Insurer will remain obligated to pay principal of and interest on such outstanding Series H Senior Notes on the originally scheduled principal and interest payment dates. In the event of any acceleration of the principal of the Series H Senior Notes, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Senior Note Indenture Trustee has notice that any payment of principal of or interest on a Series H Senior Note which has become Due for Payment on any regularly scheduled principal payment date or Interest Payment Date and which is made to a holder by or on behalf of the Company has been deemed a preferential transfer and theretofore recovered from its holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such holder will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available.

The Policy does not insure any risk other than Nonpayment. Specifically, the Policy does not cover:

a. payment on acceleration, as a result of a call for redemption or as a result of any other advancement of maturity;

b. nonpayment of principal or interest caused by the insolvency or negligence of the Senior Note Indenture Trustee; or

c. losses suffered as a result of a holder's inability to sell Series H Senior Notes.

Upon payment of the insurance benefits with respect to a Series H Senior Note, the Insurer will become the owner of such Series H Senior Note or right to payment of principal or interest on such Series H Senior Note and will be fully subrogated to the rights to payment of the surrendering holder.

**The Insurer**

*The information set forth below has been provided by the Insurer for use in this Prospectus Supplement. None of the Company, the Senior Note Indenture Trustee or any Underwriter makes any representation or warranty or assumes any responsibility with respect to the information concerning the Insurer, its parent or the Policy contained or incorporated into this Prospectus Supplement. Neither the Company nor any Underwriter has made any independent investigation of the Policy or the Insurer, and reference should be made to the information set forth below for a description of the Policy. The Policy does not constitute a part of the contract between the Company and the holders. Except for the payment of the premium for the Policy to the Insurer, the Company has no responsibility whatsoever with respect to the Policy, including the maintenance or enforcement of the Policy or collection of amounts payable under the Policy.*

*The Insurer accepts no responsibility for the accuracy or completeness of this Prospectus Supplement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer and its affiliates set forth under this heading. In addition, the Insurer makes no representation regarding the Series H Senior Notes or the advisability of investing in the Series H Senior Notes.*

*General.* The Insurer is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The Insurer is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, the State of New York, forty-seven other states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore. The Insurer has license applications pending, or intends to file an application, in each of those states in which it is not currently licensed.

The Insurer is an indirect wholly owned subsidiary of XL Capital Ltd, a Cayman Islands corporation ("XL Capital Ltd"). Through its subsidiaries, XL Capital Ltd is a leading provider of insurance and reinsurance coverages and financial products to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The common stock of XL Capital Ltd is publicly traded in the United States and listed on the New York Stock Exchange (NYSE:XL). **XL Capital Ltd is not obligated to pay the debts of or claims against the Insurer.**

The Insurer was formerly known as The London Assurance of America Inc. ("London"), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. ("XL Re") acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999), with and into London, with London as the surviving entity. London immediately changed its name to XL Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition.

*Reinsurance.* The Insurer has entered into a facultative quota share reinsurance agreement with XL Financial Assurance Ltd ("XLFA"), an insurance company organized under the laws of Bermuda and an affiliate of the Insurer. Pursuant to this reinsurance agreement, the Insurer expects to cede up to 90% of its business to XLFA. The Insurer may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the Insurer as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the Insurer's obligations under any financial guaranty insurance policy. With respect to any transaction insured by the Insurer, the percentage of risk ceded to XLFA may be less than 90% depending on certain factors including, without limitation, whether the Insurer has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by the Insurer, including the Policy.

*Ratings.* Based on the audited financials of XLFA as of December 31, 2002, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of $611,791,000, $245,750,000, $39,000,000 and $327,041,000, respectively, determined in accordance with generally accepted accounting principles in the United States. XLFA's insurance financial strength is rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's, a division of The McGraw-Hill Companies ("Standard & Poor's"), and Fitch Ratings ("Fitch"). In addition, XLFA has obtained a financial enhancement rating of "AAA" from Standard & Poor's.

The obligations of XLFA to the Insurer under the reinsurance agreement described above are unconditionally guaranteed by XL Insurance (Bermuda) Ltd ("XLI"), a Bermuda company and one of the world's leading excess commercial insurers. XLI is a wholly owned indirect subsidiary of XL Capital Ltd. In addition to having an "A+" rating from A.M. Best, XLI's financial strength rating is "Aa2" by Moody's and "AA" by Standard & Poor's and Fitch. The ratings of XLFA and XLI are not recommendations to buy, sell or hold securities, including the Series H Senior Notes, and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch.

Notwithstanding the capital support provided to the Insurer described in this section, the holders of the Series H Senior Notes will have direct recourse against the Insurer only, and neither XLFA nor XLI will be directly liable to the holders of the Series H Senior Notes.

*Financial Strength and Financial Enhancement Ratings of the Insurer.* The Insurer's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch. In addition, the Insurer has obtained a financial enhancement rating of "AAA" from Standard & Poor's. These ratings reflect Moody's, Standard & Poor's and Fitch's current assessment of the Insurer's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described under "—Reinsurance" above.

The above ratings are not recommendations to buy, sell or hold securities, including the Series H Senior Notes, and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Series H Senior Notes. The Insurer does not guaranty the market price of the Series H Senior Notes nor does it guaranty that the ratings on the Series H Senior Notes will not be revised or withdrawn.

*Capitalization of the Insurer.* Based on the audited statutory financial statements for the Insurer as of December 31, 2001, the Insurer had total admitted assets of $158,442,157, total liabilities of $48,899,961 and total capital and surplus of $109,542,696 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP"). Based on the audited statutory financial statements for the Insurer as of December 31, 2002, the Insurer has total admitted assets of $180,993,189, total liabilities of $58,685,217 and total capital and surplus of $122,307,972 determined in accordance with SAP.

For further information concerning the Insurer and XLFA, see the financial statements of the Insurer and XLFA, and the notes thereto, incorporated by reference in this Prospectus Supplement. The financial statements of the Insurer and XLFA are included as exhibits to the periodic reports filed with the Commission by XL Capital Ltd and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of the Insurer and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act on or prior to the date of this Prospectus Supplement, or after the date of this Prospectus Supplement but prior to termination of the offering of the Series H Senior Notes, shall be deemed incorporated by reference in this Prospectus Supplement. Except for the financial statements of the Insurer and XLFA, no other information contained in XL Capital Ltd's reports filed with the Commission is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by the Insurer are available upon request to the State of New York Insurance Department.

*Regulation of the Insurer.* The Insurer is regulated by the Superintendent of Insurance of the State of New York. In addition, the Insurer is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the Insurer is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. The Insurer is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE INSURER, INCLUDING THE POLICY, ARE NOT COVERED BY THE FLORIDA INSURANCE GUARANTY ASSOCIATION ACT SPECIFIED IN PART II OF CHAPTER 631 OF THE FLORIDA INSURANCE LAW OR THE PROPERTY/ CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of the Insurer are located at 1221 Avenue of the Americas, 31st Floor, New York, New York 10020-1001 and its telephone number at this address is (212) 478-3400.

## RATINGS

It is anticipated that Standard & Poor's and Moody's will assign the Series H Senior Notes the ratings of "AAA" and "Aaa", respectively, conditioned upon the issuance and delivery by the Insurer at the time of delivery of the Series H Senior Notes of the Policy, insuring the timely payment of the principal of and interest on the Series H Senior Notes. Such ratings reflect only the views of such ratings agencies, and an explanation of the significance of such ratings may be obtained only from such rating agencies at the following addresses: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007; and Standard & Poor's, 25 Broadway, New York, New York 10004. There is no assurance that such ratings will remain in effect for any period of time or that they will not be revised downward or withdrawn entirely by said rating agencies if, in their judgment, circumstances warrant. Neither the Company nor any Underwriter has undertaken any responsibility to oppose any proposed downward revision or withdrawal of a rating on the Series H Senior Notes. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series H Senior Notes.

At present, each of such rating agencies maintains four categories of investment grade ratings. They are for Standard & Poor's—AAA, AA, A and BBB and for Moody's—Aaa, Aa, A and Baa. Standard & Poor's defines "AAA" as the highest rating assigned to a debt obligation. Moody's defines "Aaa" as representing the best quality debt obligation carrying the smallest degree of investment risk.

## UNDERWRITING

Subject to the terms and conditions set forth in the Underwriting Agreement dated the date hereof, the Company has agreed to sell to each of the Underwriters named below (for whom Morgan Stanley & Co. Incorporated and Wachovia Capital Markets, LLC are acting as Representatives) and each of the Underwriters severally has agreed to purchase the principal amount of the Series H Senior Notes set forth opposite its name below:

| Name | Principal Amount of Series H Senior Notes |
|---|---|
| Morgan Stanley & Co. Incorporated | $27,000,000 |
| Wachovia Capital Markets, LLC | 27,000,000 |
| SunTrust Capital Markets, Inc. | 6,000,000 |
| Total | $60,000,000 |

The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the Series H Senior Notes are subject to, among other things, the approval of certain legal matters by their counsel and certain other conditions. The Underwriters are obligated to take and pay for all the Series H Senior Notes if any are taken.

Series H Senior Notes sold by the Underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this Prospectus Supplement. The Underwriters may offer the Series H Senior Notes to certain securities dealers at such price less a concession not in excess of $.50 per Series H Senior Note. The Underwriters may allow, and such dealers may reallow, a concession not in excess of $.45 per Series H Senior Note to certain brokers and dealers. If all the Series H Senior Notes are not sold at the initial offering price, the Underwriters may change the offering price and the other selling terms.

Prior to this offering, there has been no public market for the Series H Senior Notes. The Series H Senior Notes are expected to be approved for listing on the NYSE, subject to official notice of issuance. In order to meet the requirements for listing the Series H Senior Notes, the Underwriters will undertake to sell the Series H Senior Notes to a minimum of 400 beneficial holders. Trading of the Series H Senior Notes on the NYSE is expected to commence within a 30-day period after the initial delivery of the Series H Senior Notes. The Representatives have advised the Company that they intend to make a market in the Series H Senior Notes prior to the commencement of trading on the NYSE. The Representatives will have no obligation to make a market in the Series H Senior Notes, however, and may cease market making activities, if commenced, at any time.

The Company has agreed, during the period of 15 days from the date of the Underwriting Agreement, not to sell, offer to sell, grant any option for the sale of or otherwise dispose of any Series H Senior Notes, any security convertible into or exchangeable into or exercisable for Series H Senior Notes or any debt securities substantially similar to the Series H Senior Notes (except for the Series H Senior Notes issued pursuant to the Underwriting Agreement and the Series G Senior Notes), without the prior written consent of the Representatives.

The Company estimates that it will incur offering expenses of approximately $1,350,000, which includes the premium for the Policy.

In connection with this offering and in compliance with applicable law and industry practice, the Underwriters may overallot or effect transactions which stabilize, maintain or otherwise affect the market price of the Series H Senior Notes at levels above those which might otherwise prevail in the open market, including by entering stabilizing bids, purchasing Series H Senior Notes to cover syndicate short positions and imposing penalty bids. A stabilizing bid means the placing of any bid, or the effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of a security. Covering a syndicate short position means placing a bid or effecting a purchase of a security on behalf of the underwriting syndicate to reduce a short position created in connection with the offering. Imposing a penalty bid means purchasing a security in the open market to reduce

the underwriting syndicate's short position or to stabilize the price of the security and in connection therewith reclaiming the amount of the selling concession from the underwriters and selling group members who sold such securities as part of the offering.

In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases. The imposition of a penalty bid might also have an effect on the price of a security to the extent that it were to discourage resales of the security.

Neither the Company nor any of the Underwriters makes any representation or prediction as the direction or magnitude of any effect that the transactions described above may have on the price of the Series H Senior Notes. In addition, neither the Company nor any of the Underwriters makes any representation that such transactions will be engaged in or that such transactions, once commenced, will not be discontinued without notice.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

The Underwriters and their affiliates engage in transactions with and, from time to time, have performed services for, the Company and its affiliates in the ordinary course of business.

## EXPERTS

The consolidated balance sheets of the Insurer as of December 31, 2002 and December 31, 2001 and the related consolidated statements of operations and comprehensive income, changes in shareholder's equity and cash flows for each of the three years in the period ended December 31, 2002, incorporated by reference in this Prospectus Supplement, have been incorporated in this Prospectus Supplement in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of that firm as experts in accounting and auditing.

The balance sheets of XLFA as of December 31, 2002 and December 31, 2001 and the related statements of operations and comprehensive income, changes in shareholder's equity and cash flows for each of the three years in the period ended December 31, 2002, incorporated by reference in this Prospectus Supplement, have been incorporated in this Prospectus Supplement in reliance on the report of PricewaterhouseCoopers, independent accountants, given on the authority of that firm as experts in accounting and auditing.

# APPENDIX A

# FORM OF POLICY

XL CAPITAL ASSURANCE

1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 478-3400
Facsimile: (212) 478-3597

# FINANCIAL GUARANTY INSURANCE POLICY

**OBLIGOR:** **Policy No:**

**INSURED OBLIGATIONS:** **Effective Date:**

**XL Capital Assurance Inc. (XLCA),** a New York stock insurance company, in consideration of the payment of the premium, hereby unconditionally and irrevocably guarantees to the Trustee for the benefit of the Owners of the Insured Obligations, the full and complete payment by the Obligor of Scheduled Payments in respect of the Insured Obligations, subject only to the terms of this Policy (which includes the Endorsement attached hereto).

XLCA will pay the Insured Amount to the Trustee upon the presentation of a Payment Notice to XLCA (which Payment Notice shall include an irrevocable assignment to XLCA of all rights and claims in respect of the relevant Insured Obligation, as specified in the Payment Notice), on the later of (a) one (1) Business Day following receipt by XLCA of a Payment Notice or (b) the Business Day on which Scheduled Payments are due for payment. XLCA shall be subrogated to the Owners' rights to payment on the Insured Obligations to the extent of any payment by XLCA hereunder. The obligations of XLCA with respect to a Scheduled Payment will be discharged to the extent funds to pay such Scheduled Payment are deposited in the account specified in the Payment Notice, whether such funds are properly applied by the Trustee or claimed by an Owner.

In addition, in the event that any Scheduled Payment which has become due for payment and which is made to an Owner by or on behalf of the Trustee is recovered or is recoverable from the Owner pursuant to a final order of a court of competent jurisdiction in an Insolvency Proceeding that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, XLCA unconditionally and irrevocably guarantees payment of the amount of such recovery (in accordance with the Endorsement attached hereto).

This Policy sets forth in full the undertaking of XLCA and shall not be cancelled or revoked by XLCA for any reason, including failure to receive payment of any premium due hereunder or under the Insurance Agreement, and may not be further endorsed or modified without the written consent of XLCA. The premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Insured Obligation, other than at the sole option of XLCA, nor against any risk other than Nonpayment and Avoided Payment, including any shortfalls, if any, attributable to the liability of the Obligor for taxes or withholding taxes if any, including interest and penalties in respect of such liability.

SPECIMEN

THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

Any capitalized terms not defined herein shall have the meaning given such terms in the Endorsement attached hereto and forming a part hereof, or in the Insurance Agreement referenced therein. In witness whereof, XLCA has caused this Policy to be executed as of the Effective Date.

| | |
|---|---|
| Name: Mary Jane Constant | Name: Henri N. Gourd |
| Title: Associate General Counsel | Title: Managing Director |

**Financial Guaranty Insurance Policy Endorsement**
**Effective Date**

**Attached to and forming part of**
**Financial Guaranty Insurance Policy No.**

Obligor:

Insured Obligations:

Beneficiary:

*Capitalized terms used herein and not otherwise defined herein or in the Policy shall have the meanings assigned to them in the Insurance Agreement as defined below.*

As used herein the term "Business Day" means any day other than Saturday or Sunday on which commercial banking institutions in New York, New York are generally open for banking business.

As used herein the term "Insolvency Proceeding" means the commencement, after the date hereof, of any bankruptcy, insolvency, readjustment of debt, reorganization, marshalling of assets and liabilities or similar proceedings by or against any Person, the commencement, after the date hereof, of any proceedings by or against any Person for the winding up or liquidation of its affairs, or the consent, after the date hereof, to the appointment of a trustee, conservator, receiver or liquidator in any bankruptcy, insolvency, readjustment of debt, reorganization, marshalling of assets and liabilities or similar proceedings of or relating to any Person.

As used herein the term "Indenture" means the _____ Indenture dated as of _____ between the Obligor and _____, as Trustee (the "Trustee"), as amended and supplemented, including by the _____ Supplemental Indenture dated as of _____.

As used herein the term "Insurance Agreement" means the Insurance Agreement dated as of _____ by and among XLCA, _____ and the Trustee, as may be amended or modified from time to time.

As used herein the term "Insured Amount" means that portion of the Scheduled Payments that shall become due for payment but shall be unpaid by reason of Nonpayment.

As used herein the term "Nonpayment" means, with respect to any Payment Date, the failure of the Trustee to receive in full, in accordance with the terms of the Indenture, that Scheduled Payment that is due for payment with respect to such date.

SPECIMEN

As used herein the term "Owner" means the registered owner of any Insured Obligation as indicated in the registration books maintained by or on behalf of the Obligor for such purpose or, if the Insured Obligation is in bearer form, the holder of the Insured Obligation.

As used herein, the term "Payment Date" means, in the case of scheduled interest on the Insured Obligations, each _____, _____, _____ and _____ of each year during the Term of this Policy, beginning _____, and, in the case of scheduled principal of the Insured Obligations, _____.

As used herein, the term "Person" means an individual, a partnership, a limited liability company, a joint venture, a corporation, a trust, an unincorporated organization, and a government or any department or agency thereof.

As used herein the term "Scheduled Payment" means, with respect to any Payment Date during the Term of this Policy, scheduled payments of interest and principal, in accordance with the original terms of the Insured Obligations and the Indenture when issued and without regard to any subsequent amendment or modification of the Insured Obligations or the Indenture that has not been consented to in writing by XLCA. Notwithstanding the foregoing, "Scheduled Payments" shall in no event include payments which become due on an accelerated basis as a result of (a) any default by the Obligor, (b) the occurrence of an Event of Default under the Indenture, (c) mandatory or optional redemption, in whole or in part or (d) any other cause, unless XLCA elects, in its sole discretion, to pay such amounts in whole or in part (in which event Scheduled Payments shall include such accelerated payments as, when, and to the extent so elected by XLCA). In the event that it does not make such election, Scheduled Payments shall include payments due in accordance with the original scheduled terms without regard to any acceleration. In addition, "Scheduled Payment" shall not include, nor shall coverage be provided under the Policy in respect of, (i) any make whole, redemption or call premium payable in respect of the Insured Obligations, (ii) any amounts due in respect of the Insured Obligations attributable to any increase in interest rate, penalty or other sum payable by the Issuer by reason of any default or event of default in respect of the Insured Obligations, or by reason of any deterioration of the creditworthiness of the Issuer or (iii) any taxes, withholding or other charge imposed by any governmental authority due in connection with the payment of any Scheduled Payment to any holder of an Insured Obligation.

As used herein the term "Term of this Policy" means the period from and including the Effective Date to and including the first date on which (i) all Scheduled Payments have been paid that are required to be paid by the Obligor under the Indenture; (ii) the 91-day period during which any Scheduled Payment could have been avoided in whole or in part as a preference payment under applicable bankruptcy, insolvency, receivership or similar law has expired, and (iii) if any proceedings requisite to avoidance as a preference payment have been commenced prior to the occurrence of (i) and (ii) above, a final and nonappealable order in resolution of each such proceeding has been entered; *provided, however*, that if the Owners are required to return any Avoided

SPECIMEN

Payment (as defined below) as a result of such insolvency proceeding, then the Term of the Policy shall terminate on the date on which XLCA has made all payments required to be made under the terms of this Policy in respect of all such Avoided Payments.

To make a claim under the Policy, the Trustee shall deliver to XLCA Payment Notice in the form of Exhibit A hereto (a "Payment Notice"), appropriately completed and executed by the Trustee. A Payment Notice under this Policy may be presented to XLCA by (i) delivery of the original Payment Notice to XLCA at its address set forth below, or (ii) facsimile transmission of the original Payment Notice to XLCA at its facsimile number set forth below. If presentation is made by facsimile transmission, the Trustee shall (x) simultaneously confirm transmission by telephone to XLCA at its telephone number set forth below, and (y) as soon as reasonably practicable, deliver the original Payment Notice to XLCA at its address set forth below. Any Payment Notice received by XLCA after 10:00 a.m., New York City time, on a Business Day, or on any day that is not a Business Day, will be deemed to be received by XLCA at 9:00 a.m., New York City time, on the next succeeding Business Day. XLCA shall make payments due in respect of Insured Amounts no later than 2:00 p.m. New York City time to the Trustee upon the presentation of a Payment Notice to XLCA on the later of (a) one (1) Business Day following receipt by XLCA of a Payment Notice or (b) the Business Day on which Scheduled Payments are due for payment.

Subject to the foregoing, if the payment of any amount with respect to the Scheduled Payment is voided (a "Preference Event") as a result of an Insolvency Proceeding and as a result of such Preference Event, the Owner is required to return such voided payment, or any portion of such voided payment, made in respect of the Insured Obligation (an "Avoided Payment"), XLCA will pay an amount equal to such Avoided Payment, as and when such payment would otherwise be due pursuant to the Insured Obligation and the Indenture without regard to acceleration or prepayment, and upon payment of such Avoided Payment and receipt by XLCA from the Trustee on behalf of such Owner of (x) a certified copy of a final order of a court exercising jurisdiction in such Insolvency Proceeding to the effect that the Owner or the Trustee on behalf of the Owner is required to return any such payment or portion thereof because such payment was voided under applicable law, with respect to which order the appeal period has expired without an appeal having been filed (the "Final Order"), (y) an assignment, substantially in the form attached hereto as Exhibit B, properly completed and executed by such Owner irrevocably assigning to XLCA all rights and claims of such Owner relating to or arising under such Avoided Payment, and (z) a Payment Notice in the form of Exhibit A hereto appropriately completed and executed by the Trustee.

XLCA shall make payments due in respect of Avoided Payments no later than 2:00 p.m. New York City time on the Business Day following XLCA's receipt of the documents required under clauses (x) through (z) of the preceding paragraph. Any such documents received by XLCA after 10:00 a.m. New York City time on any Business Day or on any day that is not a Business Day shall be deemed to have been received by XLCA at 9:00 a.m., New York City time, on the next succeeding Business Day. All payments made by XLCA hereunder on account of any Avoided Payment shall be disbursed to the receiver, conservator, debtor-in-possession or trustee in bankruptcy named in the Final

SAMPLE

Order and not to any Owner directly (unless an Owner previously paid such amount to the receiver, conservator, debtor-in-possession or trustee in bankruptcy named in the Final Order, in which case such payment shall be disbursed to the Trustee for distribution to such Owner upon proof of such payment reasonably satisfactory to XLCA).

XLCA hereby waives and agrees not to assert any and all rights to require the Trustee to make demand on or to proceed against any person, party or security prior to the Trustee demanding payment under this Policy.

No defenses, set-offs and counterclaims of any kind available to XLCA so as to deny payment of any amount due in respect of this Policy will be valid and XLCA hereby waives and agrees not to assert any and all such defenses (including, without limitation, defense of fraud in the inducement or fact, or any other circumstances which would have the effect of discharging a surety in law or in equity), set-offs and counterclaims, including, without limitation, any such rights acquired by subrogation, assignment or otherwise. Upon any payment hereunder, in furtherance and not in limitation of XLCA's equitable right of subrogation and XLCA's rights under the Insurance Agreement, XLCA will be subrogated to the rights of the Owner in respect of which such payment was made to receive any and all amounts due in respect of the obligations in respect of which XLCA has made a payment hereunder. Any rights of subrogation acquired by XLCA as a result of any payment made under this Policy shall, in all respects, be subordinate and junior in right of payment to the prior indefeasible payment in full of any amounts due the Owner on account of payments due under the Insured Obligation.

This Policy is neither transferable nor assignable, in whole or in part, except to a successor trustee duly appointed and qualified under the Indenture. All Payment Notices and other notices, presentations, transmissions, deliveries and communications made by the Trustee to XLCA with respect to this Policy shall specifically refer to the number of this Policy and shall be made to XLCA at:

XL Capital Assurance Inc.
1221 Avenue of the Americas
New York, New York 10020
Attention: Surveillance
Telephone: (212) 478-3400
Facsimile: (212) 478- 3597

or such other address, telephone number or facsimile number as XLCA may designate to the Trustee in writing from time to time. Each such Payment Notice and other notice, presentation, transmission, delivery and communication shall be effective only upon actual receipt by XLCA.

The obligations of XLCA under this Policy are irrevocable, primary, absolute and unconditional, subject to satisfaction of the conditions for making a claim under the Policy, and neither the failure of any Person to perform any covenant or obligation in favor of XLCA (or otherwise), nor the failure or omission to make a

SPECIMEN

demand permitted hereunder, nor the failure of any assignment or grant of any security interest, nor the commencement of any Insolvency Proceeding shall in any way affect or limit XLCA's obligations under this Policy. If a successful action or proceeding to enforce this Policy is brought by the Trustee, the Trustee shall be entitled to recover from XLCA costs and expenses reasonably incurred, including, without limitation, reasonable fees and expenses of counsel.

This Policy and the obligations of XLCA hereunder shall terminate on the expiration of the Term of this Policy. This Policy shall be returned to XLCA by the Trustee upon the expiration of the Term of this Policy.

The Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law does not cover this Policy. The Florida Insurance Guaranty Association created under Part II of Chapter 631 of the Florida Insurance Code does not cover this Policy. In the event that XLCA were to become insolvent, the California Insurance Guaranty Association, established pursuant to Article 14.2 of Chapter 1 of Part 2 of Division 1 of the California Insurance Code excludes from coverage any claims arising under this Policy.

**THIS POLICY SHALL BE CONSTRUED, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED, IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES THAT WOULD REQUIRE THE APPLICATION OF THE LAWS OF ANY OTHER JURISDICTION.**

In the event any term or provision of the form of this Policy is inconsistent with the provision of this Endorsement, the provision of this Endorsement shall take precedence and be binding.

[Remainder of Page Intentionally Left Blank]

SPECIMEN

**IN WITNESS WHEREOF**, XL Capital Assurance Inc. has caused this Endorsement to the Policy to be executed on the Effective Date.

| | |
|---|---|
| Name: Mary Jane Constant | Name: Henri N. Gourd |
| Title: Associate General Counsel | Title: Managing Director |

SPECIMEN

**Exhibit A to Financial Guaranty Policy No.**

XL Capital Assurance Inc.
1221 Avenue of the Americas
New York, New York 10020
Attention: Surveillance

**PAYMENT NOTICE**
**UNDER FINANCIAL GUARANTY POLICY No.**

_____, as Trustee (the "Trustee"), hereby certifies to XL Capital Assurance Inc. ("XLCA") with reference to that certain Financial Guaranty Policy, No. _____, dated _____ (the "Policy"), issued by XLCA in favor of the Trustee under the _____ Indenture dated as of _____ between _____ and the Trustee, as amended and supplemented, including by the _____ Supplemental Indenture dated as of _____ (the "Indenture"), as follows:

1. The Trustee is the trustee under the Indenture and the beneficiary on behalf of each Owner of the Policy.

2. The Trustee is entitled to make a demand under the Policy pursuant to the Indenture.

3. This notice relates to the [insert date] Payment Date. The amount demanded is to be paid in immediately available funds to the [Specify Account] at [Identify Financial Institution Holding Account] account number[_____].

[For a Payment Notice in respect of Insured Amounts other than Avoided Payment, use paragraph 4.]

4. The Trustee demands payment of $_____ which is an amount equal to the amount by which the Scheduled Payment due on the above Payment Date exceeds the funds made available to the Trustee to pay such Scheduled Payment.

[For a Payment Notice in respect of an Avoided Payment use the following paragraphs [4] or [5].]

[4.] or [5.] The Trustee hereby represents and warrants, based upon information available to it, that (i) the amount entitled to be drawn under the Policy on the date hereof in respect of Avoided Payments is the amount paid or to be paid simultaneously with such draw on the Policy by the Owner on account of a Preference Event [$_____] (the "Avoided Payment Amount"), (ii) the Owner with respect to which the drawing is being made under the Policy has paid or simultaneously with such draw on the Policy will pay such Avoided Payment Amount, and (iii) the documents required by the Policy to be delivered in connection with such Avoided Payment and Avoided Payment Amount have previously been presented to XLCA or are attached hereto.

SPECIMEN

[6] The Trustee agrees that, following payment of funds by XLCA, it shall use reasonable efforts to procure (a) that such amounts are applied directly to the payment of any Insured Amount which is due for payment, (b) that such funds are not applied for any other purpose; and (c) the maintenance of accurate records of such payments in respect of the Insured Obligation and the corresponding claim on the Policy and the proceeds thereof.

[7] The Trustee, on behalf of itself and the Owners, hereby assigns to XLCA all rights and claims (including rights of actions and claims in respect of securities laws violations or otherwise) of the Trustee and the Owners with respect to the Insured Obligation to the extent of any payments under the Policy. The foregoing assignment is in addition to, and not in limitation of, rights of subrogation otherwise available to XLCA in respect of such payments. The Trustee shall take such action and deliver such instruments as may be reasonably required by XLCA to effectuate the purposes of this paragraph [7].

[8] The Trustee, on behalf of itself and the Owners, hereby appoints XLCA as agent and attorney-in-fact for the Trustee and the Owners in any legal proceeding in respect of the Insured Obligation. The Trustee, on behalf of itself and the Owners, thereby (and without limiting the generality of the preceding sentence) agrees that XLCA may, at any time during the continuation of any proceeding by or against any debtor with respect to which a Preference Claim (as defined below) or other claim with respect to the Insured Obligation is asserted under any Insolvency Proceeding, direct all matters relating to such Insolvency Proceeding, including, without limitation, (a) all matters relating to any claim in connection with a Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment made with respect to the obligations (a "Preference Claim"), (b) the direction of any appeal of any order relating to any Preference Claim and (c) the posting of any surety, supersedeas or performance bond pending any such appeal. In addition, the Trustee, on behalf of itself and the Owners, hereby agrees that XLCA shall be subrogated to, and the Trustee, on behalf of itself and the Owners, hereby delegates and assigns, to the fullest extent permitted by law, the rights of the Trustee and the Owners in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding.

SPECIMEN

Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Policy or Indenture.

IN WITNESS WHEREOF, this notice has been executed this ____ day of _____, ____.

_____, as Trustee

By: _____
Authorized Officer

*Any Person Who Knowingly And With Intent To Defraud Any Insurance Company Or Other Person Files An Application For Insurance Or Statement Of Claim Containing Any Materially False Information, Or Conceals For The Purpose Of Misleading Information Concerning Any Fact Material Thereof, Commits A Fraudulent Insurance Act, Which Is A Crime And Shall Also Be Subject To A Civil Penalty Not To Exceed Five Thousand Dollars And The Stated Value Of The Claim For Each Such Violation*

SPECIMEN

**Exhibit B to Financial Guaranty Insurance Policy, No.**

**Form of Assignment**

Reference is made to the Financial Guaranty Insurance Policy No. _____, dated _____ (together with the Endorsement attached thereto, the "Policy"), issued by XL Capital Assurance Inc. ("XLCA") relating to the _____ due _____ issued by _____. Unless otherwise defined herein, capitalized terms used in this Assignment shall have the meanings assigned thereto in the Policy as incorporated by reference therein. In connection with the Avoided Payment of [$ ] paid by the undersigned (the "Owner") on [ ] and the payment by XLCA in respect of such Avoided Payment pursuant to the Policy, the Owner hereby irrevocably and unconditionally, without recourse, representation or warranty (except as provided below), sells, assigns, transfers, conveys and delivers all of such Owner's rights, title and interest in and to any rights or claims, whether accrued, contingent or otherwise, which the Owner now has or may hereafter acquire, against any person relating to, arising out of or in connection with such Avoided Payment. The Owner represents and warrants that such claims and rights are free and clear of any lien or encumbrance created or incurred by such Owner.[1]

SPECIMEN

_____
Owner

[1] In the event that the terms of this form of assignment are reasonably determined to be insufficient solely as a result of a change of law or applicable rules after the date of the Policy to fully vest all of the Owner's right, title and interest in such rights and claims, the Owner and XLCA shall agree on such other form as is reasonably necessary to effect such assignment, which assignment shall be without recourse, representation or warranty except as provided above.

PROSPECTUS

**$360,000,000**

# Gulf Power Company

## Senior Notes

## Junior Subordinated Notes

---

# Gulf Power Capital Trust V
# Gulf Power Capital Trust VI

## Trust Preferred Securities

**Fully and unconditionally guaranteed, as set forth in this Prospectus, by**

# Gulf Power Company

**a subsidiary of The Southern Company**

---

We will provide the specific terms of these securities in supplements to this Prospectus. You should read this Prospectus and the applicable prospectus supplement carefully before you invest.

See "Risk Factors" on page 2 for information on certain risks related to the purchase of securities offered by this Prospectus.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**April 25, 2003**

## ABOUT THIS PROSPECTUS

This Prospectus is part of a registration statement filed with the Securities and Exchange Commission (the "Commission") using a "shelf" registration process under the Securities Act of 1933, as amended (the "1933 Act"). Under the shelf process, Gulf Power Company (the "Company") may sell, in one or more transactions,

- senior notes (the "Senior Notes")
- junior subordinated notes (the "Junior Subordinated Notes")

and Gulf Power Capital Trust V and Gulf Power Capital Trust VI (individually, a "Trust" and collectively, the "Trusts") may sell

- trust preferred securities or capital securities (the "Preferred Securities")

in one or more offerings up to a total dollar amount of $360,000,000. This Prospectus provides a general description of those securities. Each time the Company sells securities, the Company will provide a prospectus supplement that will contain specific information about the terms of that offering ("Prospectus Supplement"). The Prospectus Supplement may also add, update or change information contained in this Prospectus. You should read this Prospectus and the applicable Prospectus Supplement together with additional information under the heading "Available Information."

## RISK FACTORS

Investing in the Company's securities involves risk. Please see the risk factors described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, which is incorporated by reference in this Prospectus. Before making an investment decision, you should carefully consider these risks as well as other information contained or incorporated by reference in this Prospectus. The risks and uncertainties described are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair its business operations, its financial results and the value of its securities.

## AVAILABLE INFORMATION

The Company and the Trusts have filed with the Commission a combined registration statement on Form S-3 (the "Registration Statement," which term encompasses any amendments of the Registration Statement and exhibits to the Registration Statement) under the 1933 Act. As permitted by the rules and regulations of the Commission, this Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto, to which reference is made.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "1934 Act"), and in accordance with the 1934 Act files reports and other information with the Commission. Such reports and other information can be inspected and copied at the public reference facilities of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the Commission at 1-800-SEC-0330. The Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants including the Company that file electronically at http://www.sec.gov. In addition, reports and other material concerning the Company can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

No separate financial statements of any Trust are included in this Prospectus. The Company considers that such statements would not be material to holders of the Preferred Securities because each Trust has no

independent operations and exists for the sole purpose of investing the proceeds of the sale of its Trust Securities (as defined below) in Junior Subordinated Notes.

## INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents have been filed with the Commission pursuant to the 1934 Act and are incorporated by reference in this Prospectus and made a part of this Prospectus:

(a) the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002; and

(b) the Company's Current Report on Form 8-K dated March 21, 2003.

All documents filed by the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act subsequent to the date of this Prospectus and prior to the termination of this offering shall be deemed to be incorporated by reference in this Prospectus and made a part of this Prospectus from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference in this Prospectus shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained in this Prospectus or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this Prospectus modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

**The Company will provide without charge to each person to whom this Prospectus is delivered, on the written or oral request of any such person, a copy of any or all documents incorporated herein by reference in this Prospectus (other than the exhibits to such documents unless such exhibits are specifically incorporated by reference in this Prospectus). Such requests should be directed to Warren E. Tate, Vice President, Secretary and Treasurer, Gulf Power Company, One Energy Place, Pensacola, Florida 32520, telephone: (850) 444-6111.**

## GULF POWER COMPANY

The Company is a corporation organized under the laws of the State of Maine on November 2, 1925, and was admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976 and in Georgia on November 20, 1984. The principal executive offices of the Company are located at 500 Bayfront Parkway, Pensacola, Florida 32501, and the telephone number is (850) 444-6111.

The Company is a wholly owned subsidiary of The Southern Company ("Southern"), a holding company registered under the Public Utility Holding Company Act of 1935, as amended. The Company is engaged, within the northwestern portion of the State of Florida, in the generation and purchase of electricity and the distribution and sale of such electricity at retail in 71 communities as well as in rural areas, and at wholesale to a nonaffiliated utility and to a municipality.

## SELECTED INFORMATION

*The following material, which is presented in this Prospectus solely to furnish limited introductory information regarding the Company, has been selected from, or is based upon, the detailed information and financial statements appearing in the documents incorporated in this Prospectus by reference or elsewhere in this Prospectus, is qualified in its entirety by reference to those documents and, therefore, should be read together with those documents.*

### Gulf Power Company

| | |
|---|---|
| Business | Generation, transmission, distribution and sale of electric energy |
| Service Area | Approximately 7,400 square miles within the northwestern portion of the State of Florida |
| Customers at December 31, 2002 | 383,923 |
| Generating Capacity at December 31, 2002 (kilowatts) | 2,808,550 |
| Sources of Generation during 2002 (kilowatt-hours) | Coal (82%), Gas (18%) |

### Certain Ratios

The following table sets forth the Ratios of Earnings to Fixed Charges and Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis) for the periods indicated.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 |
| Ratio of Earnings to Fixed Charges(1) | 3.83 | 3.62 | 3.38 | 3.64 | 3.52 |
| Ratio of Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis)(2) | 3.72 | 3.58 | 3.34 | 3.60 | 3.50 |

(1) This ratio is computed as follows: (i) "Earnings" have been calculated by adding to "Earnings Before Income Taxes" "Interest Expense, Net of Amounts Capitalized," "Distributions on Preferred Securities of Subsidiary" and the debt portion of allowance for funds used during construction, and (ii) "Fixed Charges" consist of "Interest Expense, Net of Amounts Capitalized," "Distributions on Preferred Securities of Subsidiary" and the debt portion of allowance for funds used during construction.

(2) In computing this ratio, "Preferred Dividend Requirements" represent the before tax earnings necessary to pay such dividends, computed at the effective tax rates for the applicable periods.

## THE TRUSTS

Each Trust is a statutory trust created under Delaware law pursuant to the filing of a certificate of trust with the Delaware Secretary of State on April 7, 2003. Each Trust's business is defined in a trust agreement, executed by the Company, as Depositor, and the Delaware Trustee of each Trust. This trust agreement of each Trust will be amended and restated in its entirety substantially in the form filed as an exhibit to the Registration Statement of which this Prospectus forms a part (the "Trust Agreement"). Each Trust Agreement will be qualified as an indenture under the Trust Indenture Act of 1939, as amended (the "1939 Act"). The Company will own all of the common securities (the "Common Securities" and, together with the Preferred Securities, the "Trust Securities") of each Trust. The Trust Securities represent undivided beneficial interests in the assets of the respective Trusts. Each Trust exists for the exclusive purposes of (i) issuing its Trust Securities representing undivided beneficial interests in the assets of such Trust, (ii) investing the gross proceeds of its Trust Securities in a related series of Junior Subordinated Notes, and (iii) engaging in only those other activities necessary, appropriate, convenient or incidental to these purposes. The payment of periodic cash distributions on the Preferred Securities of each Trust and payments on liquidation and redemption with respect to the Preferred Securities of each Trust, in each case to the extent each Trust has funds legally and immediately available for these purposes, will be guaranteed by the Company (individually, a "Guarantee" and collectively, the "Guarantees") to the extent set forth under "Description of the Guarantees."

Each Trust's business and affairs will be conducted by its trustees, which shall be appointed by the Company as the holder of the Common Securities: two officers of the Company as Administrative Trustees; JPMorgan Chase Bank as Property Trustee; and Chase Manhattan Bank USA, National Association as Delaware Trustee (collectively, the "Securities Trustees"). The Property Trustee of each Trust will act as the indenture trustee with respect to such Trust for purposes of compliance with the provisions of the 1939 Act.

The principal place of business of each Trust shall be c/o the Company, 500 Bayfront Parkway, Pensacola, Florida 32501, telephone (850) 444-6111, Attn: Treasurer.

Reference is made to the Prospectus Supplement relating to the Preferred Securities of a Trust for further information concerning such Trust.

## ACCOUNTING TREATMENT OF TRUSTS

For financial reporting purposes, the Trusts will be treated as subsidiaries of the Company and, accordingly, the accounts of the Trusts will be included in the consolidated financial statements of the Company. The Preferred Securities will be presented as a separate line item in the consolidated balance sheet of the Company, and appropriate disclosures concerning the Preferred Securities, the Guarantees and the Junior Subordinated Notes will be included in the notes to the consolidated financial statements. For financial reporting purposes, the Company will record distributions payable on the Preferred Securities as an expense.

## USE OF PROCEEDS

Each Trust will invest the proceeds received from the sale of its Preferred Securities in Junior Subordinated Notes. Except as may be otherwise described in an applicable Prospectus Supplement, the net proceeds received by the Company from such investment and any proceeds received from the sale of its Senior Notes or other sales of its Junior Subordinated Notes will be used in connection with its ongoing construction program, to pay scheduled maturities and/or refundings of its securities, to repay short-term indebtedness to the extent outstanding and for other general corporate purposes.

## DESCRIPTION OF THE SENIOR NOTES

Set forth below is a description of the general terms of the Senior Notes. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Senior Note Indenture, dated as of January 1, 1998, between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Senior Note Indenture Trustee"), as to be supplemented by a supplemental indenture to the Senior Note Indenture establishing the Senior Notes of each series (the Senior Note Indenture, as so supplemented, is referred to as the "Senior Note Indenture"), the forms of which are filed as exhibits to the Registration Statement of which this Prospectus forms a part. The terms of the Senior Notes will include those stated in the Senior Note Indenture and those made a part of the Senior Note Indenture by reference to the 1939 Act. Certain capitalized terms used in this Prospectus and not defined in this Prospectus are defined in the Senior Note Indenture.

### General

The Senior Notes will be issued as unsecured senior debt securities under the Senior Note Indenture and will rank equally with all other unsecured and unsubordinated debt of the Company. The Senior Notes will be effectively subordinated to all secured debt of the Company, including its first mortgage bonds, aggregating approximately $170,000,000 outstanding at December 31, 2002. The Senior Note Indenture does not limit the aggregate principal amount of Senior Notes that may be issued under the Senior Note Indenture and provides that Senior Notes may be issued from time to time in one or more series pursuant to an indenture supplemental to the Senior Note Indenture. The Senior Note Indenture gives the Company the ability to reopen a previous issue of Senior Notes and issue additional Senior Notes of such series, unless otherwise provided.

Reference is made to the Prospectus Supplement that will accompany this Prospectus for the following terms of the series of Senior Notes being offered by such Prospectus Supplement: (i) the title of such Senior Notes; (ii) any limit on the aggregate principal amount of such Senior Notes; (iii) the date or dates on which the principal of such Senior Notes is payable; (iv) the rate or rates at which such Senior Notes shall bear interest, if any, or any method by which such rate or rates will be determined, the date or dates from which such interest will accrue, the interest payment dates on which such interest shall be payable, and the regular record date for the interest payable on any interest payment date; (v) the place or places where the principal of (and premium, if any) and interest, if any, on such Senior Notes shall be payable; (vi) the period or periods within which, the price or prices at which and the terms and conditions on which such Senior Notes may be redeemed, in whole or in part, at the option of the Company or at the option of the holder prior to their maturity; (vii) the obligation, if any, of the Company to redeem or purchase such Senior Notes; (viii) the denominations in which such Senior Notes shall be issuable; (ix) if other than the principal amount of the Senior Notes, the portion of the principal amount of such Senior Notes which shall be payable upon declaration of acceleration of the maturity of such Senior Notes; (x) any deletions from, modifications of or additions to the Events of Default or covenants of the Company as provided in the Senior Note Indenture pertaining to such Senior Notes; (xi) whether such Senior Notes shall be issued in whole or in part in the form of a Global Security; and (xii) any other terms of such Senior Notes.

The Senior Note Indenture does not contain provisions that afford holders of Senior Notes protection in the event of a highly leveraged transaction involving the Company.

### Events of Default

The Senior Note Indenture provides that any one or more of the following described events with respect to the Senior Notes of any series, which has occurred and is continuing, constitutes an "Event of Default" with respect to the Senior Notes of such series:

(a) failure for 10 days to pay interest on the Senior Notes of such series, when due on an interest payment date other than at maturity or upon earlier redemption; or

(b) failure to pay principal or premium, if any, or interest on the Senior Notes of such series when due at maturity or upon earlier redemption; or

(c) failure for three Business Days to deposit any sinking fund payment when due by the terms of a Senior Note of such series; or

(d) failure to observe or perform any other covenant or warranty of the Company in the Senior Note Indenture (other than a covenant or warranty which has expressly been included in the Senior Note Indenture solely for the benefit of one or more series of Senior Notes other than such series) for 90 days after written notice to the Company from the Senior Note Indenture Trustee or the holders of at least 25% in principal amount of the outstanding Senior Notes of such series; or

(e) certain events of bankruptcy, insolvency or reorganization of the Company.

The holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of any series have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Senior Note Indenture Trustee with respect to the Senior Notes of such series. If a Senior Note Indenture Event of Default occurs and is continuing with respect to the Senior Notes of any series, then the Senior Note Indenture Trustee or the holders of not less than 25% in aggregate outstanding principal amount of the Senior Notes of such series may declare the principal amount of the Senior Notes due and payable immediately by notice in writing to the Company (and to the Senior Note Indenture Trustee if given by the holders), and upon any such declaration such principal amount shall become immediately due and payable. At any time after such a declaration of acceleration with respect to the Senior Notes of any series has been made and before a judgment or decree for payment of the money due has been obtained as provided in Article Five of the Senior Note Indenture, the holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of such series may rescind and annul such declaration and its consequences if the default has been cured or waived and the Company has paid or deposited with the Senior Note Indenture Trustee a sum sufficient to pay all matured installments of interest and principal due otherwise than by acceleration and all sums paid or advanced by the Senior Note Indenture Trustee, including reasonable compensation and expenses of the Senior Note Indenture Trustee.

The holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of any series may, on behalf of the holders of all the Senior Notes of such series, waive any past default with respect to such series, except (i) a default in the payment of principal or interest or (ii) a default in respect of a covenant or provision which under Article Nine of the Senior Note Indenture cannot be modified or amended without the consent of the holder of each outstanding Senior Note of such series affected.

**Registration and Transfer**

The Company shall not be required to (i) issue, register the transfer of or exchange Senior Notes of any series during a period of 15 days immediately preceding the date notice is given identifying the Senior Notes of such series called for redemption, or (ii) register the transfer of or exchange any Senior Notes so selected for redemption, in whole or in part, except the unredeemed portion of any Senior Note being redeemed in part.

**Payment and Paying Agent**

Unless otherwise indicated in an applicable Prospectus Supplement, payment of principal of any Senior Notes will be made only against surrender to the Paying Agent of such Senior Notes. Principal of and interest on Senior Notes will be payable subject to any applicable laws and regulations, at the office of such Paying Agent or Paying Agents as the Company may designate from time to time, except that, at the option of the Company, payment of any interest may be made by wire transfer or by check mailed to the address of the person entitled to an interest payment as such address shall appear in the Security Register with respect to the Senior Notes.

Payment of interest on Senior Notes on any interest payment date will be made to the person in whose name the Senior Notes (or predecessor security) are registered at the close of business on the record date for such interest payment.

Unless otherwise indicated in an applicable Prospectus Supplement, the Senior Note Indenture Trustee will act as Paying Agent with respect to the Senior Notes. The Company may at any time designate additional Paying Agents or rescind the designation of any Paying Agents or approve a change in the office through which any Paying Agent acts.

All moneys paid by the Company to a Paying Agent for the payment of the principal of or interest on the Senior Notes of any series which remain unclaimed at the end of two years after such principal or interest shall have become due and payable will be repaid to the Company, and the holder of such Senior Notes will from that time forward look only to the Company for payment of such principal and interest.

**Modification**

The Senior Note Indenture contains provisions permitting the Company and the Senior Note Indenture Trustee, with the consent of the holders of not less than a majority in principal amount of the outstanding Senior Notes of each series that is affected, to modify the Senior Note Indenture or the rights of the holders of the Senior Notes of such series; provided, that no such modification may, without the consent of the holder of each outstanding Senior Note that is affected, (i) change the stated maturity of the principal of, or any installment of principal of or interest on, any Senior Note, or reduce the principal amount of any Senior Note or the rate of interest on any Senior Note or any premium payable upon the redemption thereof, or change the method of calculating the rate of interest on any Senior Note, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity of any Senior Note (or, in the case of redemption, on or after the redemption date), or (ii) reduce the percentage of principal amount of the outstanding Senior Notes of any series, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the Senior Note Indenture or certain defaults under the Senior Note Indenture and their consequences) provided for in the Senior Note Indenture, or (iii) modify any of the provisions of the Senior Note Indenture relating to supplemental indentures, waiver of past defaults, or waiver of certain covenants, except to increase any such percentage or to provide that certain other provisions of the Senior Note Indenture cannot be modified or waived without the consent of the holder of each outstanding Senior Note that is affected.

In addition, the Company and the Senior Note Indenture Trustee may execute, without the consent of any holders of Senior Notes, any supplemental indenture for certain other usual purposes, including the creation of any new series of Senior Notes.

**Consolidation, Merger and Sale**

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any person, unless (1) such other corporation or person is a corporation organized and existing under the laws of the United States, any state in the United States or the District of Columbia and such other corporation or person expressly assumes, by supplemental indenture executed and delivered to the Senior Note Indenture Trustee, the payment of the principal of (and premium, if any) and interest on all the Senior Notes and the performance of every covenant of the Senior Note Indenture on the part of the Company to be performed or observed; (2) immediately after giving effect to such transactions, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and (3) the Company has delivered to the Senior Note Indenture Trustee an officers' certificate and an opinion of counsel, each stating that such transaction complies with the provisions of the Senior Note Indenture governing consolidation, merger, conveyance, transfer or lease and that all conditions precedent to the transaction have been complied with.

### Information Concerning the Senior Note Indenture Trustee

The Senior Note Indenture Trustee, prior to an Event of Default with respect to Senior Notes of any series, undertakes to perform, with respect to Senior Notes of such series, only such duties as are specifically set forth in the Senior Note Indenture and, in case an Event of Default with respect to Senior Notes of any series has occurred and is continuing, shall exercise, with respect to Senior Notes of such series, the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provision, the Senior Note Indenture Trustee is under no obligation to exercise any of the powers vested in it by the Senior Note Indenture at the request of any holder of Senior Notes of any series, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred by the Senior Note Indenture Trustee. The Senior Note Indenture Trustee is not required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties if the Senior Note Indenture Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

JPMorgan Chase Bank, the Senior Note Indenture Trustee, also serves as Subordinated Note Indenture Trustee, as Property Trustee and as Guarantee Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with JPMorgan Chase Bank. JPMorgan Chase Bank also serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

### Governing Law

The Senior Note Indenture and the Senior Notes will be governed by, and construed in accordance with, the internal laws of the State of New York.

### Miscellaneous

The Company will have the right at all times to assign any of its rights or obligations under the Senior Note Indenture to a direct or indirect wholly-owned subsidiary of the Company; provided, that, in the event of any such assignment, the Company will remain primarily liable for all such obligations. Subject to the foregoing, the Senior Note Indenture will be binding upon and inure to the benefit of the parties of the Senior Note Indenture and their respective successors and assigns.

## DESCRIPTION OF THE JUNIOR SUBORDINATED NOTES

Set forth below is a description of the general terms of the Junior Subordinated Notes. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Subordinated Note Indenture, dated as of January 1, 1997, between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Subordinated Note Indenture Trustee"), as to be supplemented by a supplemental indenture to the Subordinated Note Indenture establishing the Junior Subordinated Notes of each series (the Subordinated Note Indenture, as so supplemented, is referred to as the "Subordinated Note Indenture"), the forms of which are filed as exhibits to the Registration Statement of which this Prospectus forms a part. The terms of the Junior Subordinated Notes will include those stated in the Subordinated Note Indenture and those made a part of the Subordinated Note Indenture by reference to the 1939 Act. Certain capitalized terms used in this Prospectus and not defined in this Prospectus are defined in the Subordinated Note Indenture.

### General

The Junior Subordinated Notes will be issued as unsecured junior subordinated debt securities under the Subordinated Note Indenture. The Subordinated Note Indenture does not limit the aggregate principal amount of Junior Subordinated Notes that may be issued under the Subordinated Note Indenture and provides that Junior Subordinated Notes may be issued from time to time in one or more series pursuant to an indenture supplemental to the Subordinated Note Indenture. The Subordinated Note Indenture gives the Company the ability to reopen a previous issue of Junior Subordinated Notes and issue additional Junior Subordinated Notes of such series, unless otherwise provided.

Reference is made to the Prospectus Supplement that will accompany this Prospectus for the following terms of the series of Junior Subordinated Notes being offered by such Prospectus Supplement: (i) the title of such Junior Subordinated Notes; (ii) any limit on the aggregate principal amount of such Junior Subordinated Notes; (iii) the date or dates on which the principal of such Junior Subordinated Notes is payable; (iv) the rate or rates at which such Junior Subordinated Notes shall bear interest, if any, or any method by which such rate or rates will be determined, the date or dates from which such interest will accrue, the interest payment dates on which such interest shall be payable, and the regular record date for the interest payable on any interest payment date; (v) the place or places where the principal of (and premium, if any) and interest, if any, on such Junior Subordinated Notes shall be payable; (vi) the period or periods within which, the price or prices at which and the terms and conditions on which such Junior Subordinated Notes may be redeemed, in whole or in part, at the option of the Company or at the option of the holder prior to their maturity; (vii) the obligation, if any, of the Company to redeem or purchase such Junior Subordinated Notes; (viii) the denominations in which such Junior Subordinated Notes shall be issuable; (ix) if other than the principal amount of the Junior Subordinated Notes, the portion of the principal amount of such Junior Subordinated Notes which shall be payable upon declaration of acceleration of the maturity of such Junior Subordinated Notes; (x) any deletions from, modifications of or additions to the Events of Default or covenants of the Company as provided in the Subordinated Note Indenture pertaining to such Junior Subordinated Notes; (xi) whether such Junior Subordinated Notes shall be issued in whole or in part in the form of a Global Security; (xii) the right, if any, of the Company to extend the interest payment periods of such Junior Subordinated Notes; and (xiii) any other terms of such Junior Subordinated Notes. The terms of each series of Junior Subordinated Notes issued to a Trust will correspond to those of the related Preferred Securities of such Trust as described in the Prospectus Supplement relating to such Preferred Securities.

The Subordinated Note Indenture does not contain provisions that afford holders of Junior Subordinated Notes protection in the event of a highly leveraged transaction involving the Company.

### Subordination

The Junior Subordinated Notes are subordinated and junior in right of payment to all Senior Indebtedness (as defined below) of the Company. No payment of principal of (including redemption payments, if any), or premium,

if any, or interest on (including Additional Interest (as defined below)) the Junior Subordinated Notes may be made if (a) any Senior Indebtedness is not paid when due and any applicable grace period with respect to such default has ended with such default not being cured or waived or otherwise ceasing to exist, or (b) the maturity of any Senior Indebtedness has been accelerated because of a default, or (c) notice has been given of the exercise of an option to require repayment, mandatory payment or prepayment or otherwise. Upon any payment or distribution of assets of the Company to creditors upon any liquidation, dissolution, winding-up, reorganization, assignment for the benefit of creditors, marshalling of assets or liabilities, or any bankruptcy, insolvency or similar proceedings of the Company, the holders of Senior Indebtedness shall be entitled to receive payment in full of all amounts due or to become due on or in respect of all Senior Indebtedness before the holders of the Junior Subordinated Notes are entitled to receive or retain any payment or distribution. Subject to the prior payment of all Senior Indebtedness, the rights of the holders of the Junior Subordinated Notes will be subrogated to the rights of the holders of Senior Indebtedness to receive payments and distributions applicable to such Senior Indebtedness until all amounts owing on the Junior Subordinated Notes are paid in full.

The term "Senior Indebtedness" means, with respect to the Company, (i) any payment due in respect of indebtedness of the Company, whether outstanding at the date of execution of the Subordinated Note Indenture or incurred, created or assumed after the execution of the Subordinated Note Indenture, (a) in respect of money borrowed (including any financial derivative, hedging or futures contract or similar instrument) and (b) evidenced by securities, debentures, bonds, notes or other similar instruments issued by the Company that, by their terms, are senior or senior subordinated debt securities including, without limitation, all obligations under its indentures with various trustees; (ii) all capital lease obligations; (iii) all obligations issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations of the Company under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business and long-term purchase obligations); (iv) all obligations for the reimbursement of any letter of credit, banker's acceptance, security purchase facility or similar credit transaction; (v) all obligations of the type referred to in clauses (i) through (iv) above of other persons the payment of which the Company is responsible or liable as obligor, guarantor or otherwise; and (vi) all obligations of the type referred to in clauses (i) through (v) above of other persons secured by any lien on any property or asset of the Company (whether or not such obligation is assumed by the Company), except for (1) any such indebtedness that is by its terms subordinated to or *pari passu* with the Junior Subordinated Notes and (2) any unsecured indebtedness between or among the Company or its affiliates. Such Senior Indebtedness shall continue to be Senior Indebtedness and be entitled to the benefits of the subordination provisions contained in the Subordinated Note Indenture irrespective of any amendment, modification or waiver of any term of such Senior Indebtedness.

The Subordinated Note Indenture does not limit the aggregate amount of Senior Indebtedness that may be issued by the Company. As of December 31, 2002, Senior Indebtedness of the Company aggregated approximately $550,000,000.

**Additional Interest**

"Additional Interest" is defined in the Subordinated Note Indenture as (i) such additional amounts as may be required so that the net amounts received and retained by a holder of Junior Subordinated Notes (if the holder is a Trust) after paying taxes, duties, assessments or governmental charges of whatever nature (other than withholding taxes) imposed by the United States or any other taxing authority will not be less than the amounts the holder would have received had no such taxes, duties, assessments or other governmental charges been imposed; and (ii) any interest due and not paid on an interest payment date, together with interest on such interest due from such interest payment date to the date of payment, compounded quarterly, on each interest payment date.

**Certain Covenants**

The Company covenants in the Subordinated Note Indenture, for the benefit of the holders of each series of Junior Subordinated Notes, that, (i) if at such time the Company shall have given notice of its election to extend an interest payment period for such series of Junior Subordinated Notes and such extension shall be continuing,

(ii) if at such time the Company shall be in default with respect to its payment or other obligations under the Guarantee with respect to the Trust Securities, if any, related to such series of Junior Subordinated Notes, or (iii) if at such time an Event of Default under the Subordinated Note Indenture with respect to such series of Junior Subordinated Notes shall have occurred and be continuing, (a) the Company shall not declare or pay any dividend or make any distributions with respect to, or redeem, purchase, acquire or make a liquidation payment with respect to, any of its capital stock, and (b) the Company shall not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities (including guarantees other than the Guarantees) issued by the Company which rank equally with or junior to the Junior Subordinated Notes. None of the foregoing, however, shall restrict (i) any of the actions described in the preceding sentence resulting from any reclassifications of the Company's capital stock or the exchange or conversion of one class or series of the Company's capital stock for another class or series of the Company's capital stock, or (ii) the purchase of fractional interests in shares of the Company's capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged.

The Subordinated Note Indenture further provides that, for so long as the Trust Securities of any Trust remain outstanding, the Company covenants (i) to directly or indirectly maintain 100% ownership of the Common Securities of such Trust; provided, however, that any permitted successor of the Company under the Subordinated Note Indenture may succeed to the Company's ownership of such Common Securities, and (ii) to use its reasonable efforts to cause such Trust (a) to remain a statutory trust, except in connection with the distribution of Junior Subordinated Notes to the holders of Trust Securities in liquidation of such Trust, the redemption of all of the Trust Securities of such Trust, or certain mergers, consolidations or amalgamations, each as permitted by the related Trust Agreement, and (b) to otherwise continue to be classified as a grantor trust for United States federal income tax purposes.

**Events of Default**

The Subordinated Note Indenture provides that any one or more of the following described events with respect to the Junior Subordinated Notes of any series, which has occurred and is continuing, constitutes an "Event of Default" with respect to the Junior Subordinated Notes of such series:

(a) failure for 10 days to pay interest on the Junior Subordinated Notes of such series, including any Additional Interest (as defined in clause (ii) of the definition of Additional Interest in the Subordinated Note Indenture) in respect of the Junior Subordinated Notes, when due on an interest payment date other than at maturity or upon earlier redemption; provided, however, that a valid extension of the interest payment period by the Company shall not constitute a default in the payment of interest for this purpose; or

(b) failure for 10 days to pay Additional Interest (as defined in clause (i) of the definition of Additional Interest in the Subordinated Note Indenture); or

(c) failure to pay principal or premium, if any, or interest, including Additional Interest (as defined in clause (ii) of the definition of Additional Interest in the Subordinated Note Indenture), on the Junior Subordinated Notes of such series when due at maturity or upon earlier redemption; or

(d) failure for three Business Days to deposit any sinking fund payment when due by the terms of a Junior Subordinated Note of such series; or

(e) failure to observe or perform any other covenant or warranty of the Company in the Subordinated Note Indenture (other than a covenant or warranty which has expressly been included in the Subordinated Note Indenture solely for the benefit of one or more series of Junior Subordinated Notes other than such series) for 90 days after written notice to the Company from the Subordinated Note Indenture Trustee or the holders of at least 25% in principal amount of the outstanding Junior Subordinated Notes of such series; or

(f) certain events of bankruptcy, insolvency or reorganization of the Company.

The holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of any series have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Subordinated Note Indenture Trustee with respect to the Junior Subordinated Notes of such series. If a Subordinated Note Indenture Event of Default occurs and is continuing with respect to the Junior Subordinated Notes of any series, then the Subordinated Note Indenture Trustee or the holders of not less than

25% in aggregate outstanding principal amount of the Junior Subordinated Notes of such series may declare the principal amount of the Junior Subordinated Notes due and payable immediately by notice in writing to the Company (and to the Subordinated Note Indenture Trustee if given by the holders), and upon any such declaration such principal amount shall become immediately due and payable. At any time after such a declaration of acceleration with respect to the Junior Subordinated Notes of any series had been made and before a judgment or decree for payment of the money due has been obtained as provided in Article Five of the Subordinated Note Indenture, the holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of such series may rescind and annul such declaration and its consequences if the default has been cured or waived and the Company has paid or deposited with the Subordinated Note Indenture Trustee a sum sufficient to pay all matured installments of interest (including any Additional Interest) and principal due otherwise than by acceleration and all sums paid or advanced by the Subordinated Note Indenture Trustee, including reasonable compensation and expenses of the Subordinated Note Indenture Trustee.

A holder of Preferred Securities may institute a legal proceeding directly against the Company, without first instituting a legal proceeding against the Property Trustee or any other person or entity, for enforcement of payment to such holder of principal of or interest on the Junior Subordinated Notes of the related series having a principal amount equal to the aggregate stated liquidation amount of the Preferred Securities of such holder on or after the due dates specified in the Junior Subordinated Notes of such series.

The holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of any series may, on behalf of the holders of all the Junior Subordinated Notes of such series, waive any past default with respect to such series, except (i) a default in the payment of principal or interest or (ii) a default in respect of a covenant or provision which under Article Nine of the Subordinated Note Indenture cannot be modified or amended without the consent of the holder of each outstanding Junior Subordinated Note of such series affected.

**Registration and Transfer**

The Company shall not be required to (i) issue, register the transfer of or exchange Junior Subordinated Notes of any series during a period of 15 days immediately preceding the date notice is given identifying the Junior Subordinated Notes of such series called for redemption, or (ii) register the transfer of or exchange any Junior Subordinated Notes so selected for redemption, in whole or in part, except the unredeemed portion of any Junior Subordinated Note being redeemed in part.

**Payment and Paying Agent**

Unless otherwise indicated in an applicable Prospectus Supplement, payment of principal of any Junior Subordinated Notes will be made only against surrender to the Paying Agent of such Junior Subordinated Notes. Principal of and interest on Junior Subordinated Notes will be payable, subject to any applicable laws and regulations, at the office of such Paying Agent or Paying Agents as the Company may designate from time to time, except that, at the option of the Company, payment of any interest may be made by wire transfer or by check mailed to the address of the person entitled to an interest payment as such address shall appear in the Security Register with respect to the Junior Subordinated Notes. Payment of interest on Junior Subordinated Notes on any interest payment date will be made to the person in whose name the Junior Subordinated Notes (or predecessor security) are registered at the close of business on the record date for such interest payment.

Unless otherwise indicated in an applicable Prospectus Supplement, the Subordinated Note Indenture Trustee will act as Paying Agent with respect to the Junior Subordinated Notes. The Company may at any time designate additional Paying Agents or rescind the designation of any Paying Agents or approve a change in the office through which any Paying Agent acts.

All moneys paid by the Company to a Paying Agent for the payment of the principal of or interest on the Junior Subordinated Notes of any series which remain unclaimed at the end of two years after such principal or interest shall have become due and payable will be repaid to the Company, and the holder of such Junior Subordinated Notes will from that time forward look only to the Company for payment of such principal and interest.

**Modification**

The Subordinated Note Indenture contains provisions permitting the Company and the Subordinated Note Indenture Trustee, with the consent of the holders of not less than a majority in principal amount of the outstanding Junior Subordinated Notes of each series that is affected, to modify the Subordinated Note Indenture or the rights of the holders of the Junior Subordinated Notes of such series; provided, that no such modification may, without the consent of the holder of each outstanding Junior Subordinated Note that is affected, (i) change the stated maturity of the principal of, or any installment of principal of or interest on, any Junior Subordinated Note, or reduce the principal amount of any Junior Subordinated Note or the rate of interest (including Additional Interest) on any Junior Subordinated Note or any premium payable upon the redemption thereof, or change the method of calculating the rate of interest on any Junior Subordinated Note, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity of any Junior Subordinated Note (or, in the case of redemption, on or after the redemption date), or (ii) reduce the percentage of principal amount of the outstanding Junior Subordinated Notes of any series, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the Subordinated Note Indenture or certain defaults under the Subordinated Note Indenture and their consequences) provided for in the Subordinated Note Indenture, or (iii) modify any of the provisions of the Subordinated Note Indenture relating to supplemental indentures, waiver of past defaults, or waiver of certain covenants, except to increase any such percentage or to provide that certain other provisions of the Subordinated Note Indenture cannot be modified or waived without the consent of the holder of each outstanding Junior Subordinated Note that is affected, or (iv) modify the provisions of the Subordinated Note Indenture with respect to the subordination of the Junior Subordinated Notes in a manner adverse to such holder.

In addition, the Company and the Subordinated Note Indenture Trustee may execute, without the consent of any holders of Junior Subordinated Notes, any supplemental indenture for certain other usual purposes, including the creation of any new series of Junior Subordinated Notes.

**Consolidation, Merger and Sale**

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any person, unless (1) such other corporation or person is a corporation organized and existing under the laws of the United States, any state of the United States or the District of Columbia and such other corporation or person expressly assumes, by supplemental indenture executed and delivered to the Subordinated Note Indenture Trustee, the payment of the principal of (and premium, if any) and interest (including Additional Interest) on all the Junior Subordinated Notes and the performance of every covenant of the Subordinated Note Indenture on the part of the Company to be performed or observed; (2) immediately after giving effect to such transactions, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and (3) the Company has delivered to the Subordinated Note Indenture Trustee an officers' certificate and an opinion of counsel, each stating that such transaction complies with the provisions of the Subordinated Note Indenture governing consolidation, merger, conveyance, transfer or lease and that all conditions precedent to the transaction have been complied with.

**Information Concerning the Subordinated Note Indenture Trustee**

The Subordinated Note Indenture Trustee, prior to an Event of Default with respect to Junior Subordinated Notes of any series, undertakes to perform, with respect to Junior Subordinated Notes of such series, only such duties as are specifically set forth in the Subordinated Note Indenture and, in case an Event of Default with respect to Junior Subordinated Notes of any series has occurred and is continuing, shall exercise, with respect to Junior Subordinated Notes of such series, the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provision, the Subordinated Note Indenture Trustee is under no obligation to exercise any of the powers vested in it by the Subordinated Note Indenture at the request of any

holder of Junior Subordinated Notes of any series, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred by the Subordinated Note Indenture Trustee. The Subordinated Note Indenture Trustee is not required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties if the Subordinated Note Indenture Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

JPMorgan Chase Bank, the Subordinated Note Indenture Trustee, also serves as Senior Note Indenture Trustee, as Property Trustee and as Guarantee Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with JPMorgan Chase Bank. JPMorgan Chase Bank also serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

### Governing Law

The Subordinated Note Indenture and the Junior Subordinated Notes will be governed by, and construed in accordance with, the internal laws of the State of New York.

### Miscellaneous

The Company will have the right at all times to assign any of its rights or obligations under the Subordinated Note Indenture to a direct or indirect wholly-owned subsidiary of the Company; provided, that, in the event of any such assignment, the Company will remain primarily liable for all such obligations. Subject to the foregoing, the Subordinated Note Indenture will be binding upon and inure to the benefit of the parties to the Subordinated Note Indenture and their respective successors and assigns.

## DESCRIPTION OF THE PREFERRED SECURITIES

Each Trust may issue only one series of Preferred Securities having terms described in the Prospectus Supplement relating to the Preferred Securities. The Trust Agreement of each Trust will authorize the Administrative Trustees, on behalf of the Trust, to issue the Preferred Securities of such Trust. The Preferred Securities of each Trust will have such terms, including distributions, redemption, voting, liquidation rights and such other preferred, deferral or other special rights or such restrictions as shall be set forth in the Trust Agreement of such Trust. Reference is made to the Prospectus Supplement relating to the Preferred Securities of a Trust for specific terms, including (i) the distinctive designation of such Preferred Securities; (ii) the number of Preferred Securities issued by such Trust; (iii) the annual distribution rate (or method of determining such rate) for Preferred Securities of such Trust and the date or dates on which such distributions shall be payable; (iv) whether distributions on such Preferred Securities shall be cumulative and, in the case of Preferred Securities having cumulative distribution rights, the date or dates, or method of determining the date or dates, from which distributions on such Preferred Securities shall be cumulative; (v) the amount or amounts that shall be paid out of the assets of such Trust to the holders of the Preferred Securities of such Trust upon voluntary or involuntary dissolution, winding-up or termination of such Trust; (vi) the obligation, if any, of such Trust to purchase or redeem such Preferred Securities and the price or prices at which, the period or periods within which, and the terms and conditions upon which such Preferred Securities shall be purchased or redeemed, in whole or in part, pursuant to such obligation; (vii) the voting rights, if any, of such Preferred Securities in addition to those required by law, including the number of votes per Preferred Security and any requirement for the approval by the holders of Preferred Securities as a condition to specified action or amendments to the Trust Agreement of such Trust; (viii) the rights, if any, to defer distributions on the Preferred Securities by extending the interest payment period on the related Junior Subordinated Notes; and (ix) any other relative rights, preferences, privileges, limitations or restrictions of such Preferred Securities not inconsistent with the Trust Agreement of such Trust or applicable law. All Preferred Securities offered by this Prospectus will be guaranteed by the Company to the extent set forth under "Description of the Guarantees." Any material United States federal income tax considerations applicable to an offering of Preferred Securities will be described in the Prospectus Supplement relating to the Preferred Securities.

## DESCRIPTION OF THE GUARANTEES

Set forth below is a summary of information concerning the Guarantees that will be executed and delivered by the Company for the benefit of the holders of Preferred Securities of the respective Trusts from time to time. Each Guarantee will be qualified as an indenture under the 1939 Act. JPMorgan Chase Bank will act as indenture trustee under each Guarantee (the "Guarantee Trustee") for purposes of the 1939 Act. The terms of the respective Guarantees will be those set forth in such Guarantee and those made part of such Guarantee by the 1939 Act. The following summary does not purport to be complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the Guarantees, the form of which is filed as an exhibit to the Registration Statement of which this Prospectus forms a part, and the 1939 Act. Each Guarantee will be held by the Guarantee Trustee for the benefit of holders of the Preferred Securities to which it relates.

### General

Pursuant to each Guarantee, the Company will irrevocably and unconditionally agree, to the extent set forth in such Guarantee, to pay in full, to the holders of the related Preferred Securities, the Guarantee Payments (as defined below), to the extent not paid by, or on behalf of, the related Trust, regardless of any defense, right of set-off or counterclaim that the Company may have or assert against any person. The following payments or distributions with respect to the Preferred Securities of any Trust to the extent not paid or made by, or on behalf of, such Trust will be subject to the Guarantee related to the Preferred Securities (without duplication): (i) any accrued and unpaid distributions required to be paid on the Preferred Securities of such Trust but if and only if and to the extent that such Trust has funds legally and immediately available for these distributions, (ii) the redemption price, including all accrued and unpaid distributions to the date of redemption (the "Redemption Price"), with respect to any Preferred Securities called for redemption by such Trust, but if and only to the extent such Trust has funds legally and immediately available to pay such Redemption Price, and (iii) upon a dissolution, winding-up or termination of such Trust (other than in connection with the distribution of Junior Subordinated Notes to the holders of Trust Securities of such Trust or the redemption of all of the Preferred Securities of such Trust), the lesser of (a) the aggregate of the liquidation amount and all accrued and unpaid distributions on the Preferred Securities of such Trust to the date of payment, to the extent such Trust has funds legally and immediately available for such purpose, and (b) the amount of assets of such Trust remaining available for distribution to holders of Preferred Securities of such Trust in liquidation of such Trust (the "Guarantee Payments"). The Company's obligation to make a Guarantee Payment may be satisfied by direct payment of the required amounts by the Company to the holders of the related Preferred Securities or by causing the related Trust to pay such amounts to such holders.

Each Guarantee will be a guarantee of the Guarantee Payments with respect to the related Preferred Securities from the time of issuance of such Preferred Securities, but will not apply to the payment of distributions and other payments on such Preferred Securities when the related Trust does not have sufficient funds legally and immediately available to make such distributions or other payments. **If the Company does not make interest payments on the Junior Subordinated Notes held by the Property Trustee under any Trust, such Trust will not make distributions on its Preferred Securities.**

### Subordination

The Company's obligations under each Guarantee to make the Guarantee Payments will constitute an unsecured obligation of the Company and will rank (i) subordinate and junior in right of payment to all other liabilities of the Company, including the Junior Subordinated Notes, except those obligations or liabilities made equal or subordinate by their terms, (ii) equal to the most senior preferred or preference stock now issued by the Company or issued at a later date by the Company and with any guarantee now entered into by the Company or entered into at a later date by the Company in respect of any preferred or preference securities of any affiliate of the Company, and (iii) senior to all common stock of the Company. The terms of the Preferred Securities will provide that each holder of Preferred Securities by acceptance of the Preferred Securities agrees to the subordination

provisions and other terms of the Guarantee related thereto. The Company has outstanding preferred stock that ranks equal to the Guarantees and common stock that ranks junior to the Guarantees.

Each Guarantee will constitute a guarantee of payment and not of collection (that is, the guaranteed party may institute a legal proceeding directly against the guarantor to enforce its rights under the guarantee without first instituting a legal proceeding against any other person or entity).

**Amendments and Assignment**

Except with respect to any changes that do not materially and adversely affect the rights of holders of the related Preferred Securities (in which case no consent will be required), each Guarantee may be amended only with the prior approval of the holders of not less than 66⅔% in liquidation amount of such outstanding Preferred Securities. The manner of obtaining any such approval of holders of the Preferred Securities will be as set forth in an accompanying Prospectus Supplement. All guarantees and agreements contained in each Guarantee shall bind the successors, assigns, receivers, trustees and representatives of the Company and shall inure to the benefit of the holders of the related Preferred Securities then outstanding.

**Termination**

Each Guarantee will terminate and be of no further force and effect as to the related Preferred Securities upon full payment of the Redemption Price of all such Preferred Securities, upon distribution of Junior Subordinated Notes to the holders of such Preferred Securities, or upon full payment of the amounts payable upon liquidation of the related Trust. Each Guarantee will continue to be effective or will be reinstated, as the case may be, if at any time any holder of the related Preferred Securities must restore payment of any sums paid with respect to such Preferred Securities or under such Guarantee.

**Events of Default**

An event of default under each Guarantee will occur upon the failure by the Company to perform any of its payment obligations under such Guarantee. The holders of a majority in liquidation amount of the Preferred Securities to which any Guarantee relates have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Guarantee Trustee in respect of such Guarantee or to direct the exercise of any trust or power conferred upon the Guarantee Trustee under such Guarantee. Any holder of the related Preferred Securities may institute a legal proceeding directly against the Company to enforce its rights under such Guarantee without first instituting a legal proceeding against the Guarantee Trustee or any other person or entity. The holders of a majority in liquidation amount of Preferred Securities of any series may, by vote, on behalf of the holders of all the Preferred Securities of such series, waive any past event of default and its consequences.

**Information Concerning the Guarantee Trustee**

The Guarantee Trustee, prior to the occurrence of any event of default with respect to any Guarantee and after the curing or waiving of all events of default with respect to such Guarantee, undertakes to perform only such duties as are specifically set forth in such Guarantee and, in case an event of default has occurred, shall exercise the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provisions, the Guarantee Trustee is under no obligation to exercise any of the powers vested in it by any Guarantee at the request of any holder of the related Preferred Securities, unless offered reasonable indemnity against the costs, expenses and liabilities which might be incurred by the Guarantee Trustee.

JPMorgan Chase Bank, the Guarantee Trustee, also serves as Property Trustee, as Senior Note Indenture Trustee and as Subordinated Note Indenture Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with JPMorgan Chase Bank. JPMorgan Chase Bank serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

### Governing Law

Each Guarantee will be governed by, and construed in accordance with, the internal laws of the State of New York.

### The Agreements as to Expenses and Liabilities

Pursuant to an Agreement as to Expenses and Liabilities to be entered into by the Company under each Trust Agreement, the Company will irrevocably and unconditionally guarantee to each person or entity to whom each Trust becomes indebted or liable the full payment of any indebtedness, expenses or liabilities of such Trust, other than obligations of such Trust to pay to the holders of the related Preferred Securities or other similar interests in such Trust the amounts due such holders pursuant to the terms of such Preferred Securities or such other similar interests, as the case may be.

## RELATIONSHIP AMONG THE PREFERRED SECURITIES, THE JUNIOR SUBORDINATED NOTES AND THE GUARANTEES

As long as payments of interest and other payments are made when due on each series of Junior Subordinated Notes issued to a Trust, such payments will be sufficient to cover distributions and payments due on the related Trust Securities of such Trust primarily because (i) the aggregate principal amount of each series of Junior Subordinated Notes will be equal to the sum of the aggregate stated liquidation amount of the related Trust Securities; (ii) the interest rate and interest and other payment dates on each series of Junior Subordinated Notes will match the distribution rate and distribution and other payment dates for the related Preferred Securities; (iii) the Company shall pay for all costs and expenses of each Trust pursuant to the Agreements as to Expenses and Liabilities; and (iv) each Trust Agreement provides that the Securities Trustees thereunder shall not cause or permit the Trust to, among other things, engage in any activity that is not consistent with the purposes of the Trust.

Payments of distributions (to the extent funds for such purpose are legally and immediately available) and other payments due on the Preferred Securities (to the extent funds for such purpose are legally and immediately available) will be guaranteed by the Company as and to the extent set forth under "Description of the Guarantees." If the Company does not make interest payments on any series of Junior Subordinated Notes, it is not expected that the related Trust will have sufficient funds to pay distributions on its Preferred Securities. Each Guarantee is a guarantee from the time of its issuance, but does not apply to any payment of distributions unless and until the related Trust has sufficient funds legally and immediately available for the payment of such distributions.

If the Company fails to make interest or other payments on any series of Junior Subordinated Notes when due (taking into account any extension period as described in the applicable Prospectus Supplement), the Trust Agreement provides a mechanism that allows the holders of the related Preferred Securities to appoint a substitute Property Trustee. Such holders may also direct the Property Trustee to enforce its rights under the Junior Subordinated Notes of such series, including proceeding directly against the Company to enforce such Junior Subordinated Notes. If the Property Trustee fails to enforce its rights under any series of Junior Subordinated Notes, to the fullest extent permitted by applicable law, any holder of related Preferred Securities may institute a legal proceeding directly against the Company to enforce the Property Trustee's rights under such series of Junior Subordinated Notes without first instituting any legal proceeding against the Property Trustee or any other person or entity. Notwithstanding the foregoing, a holder of Preferred Securities may institute a legal proceeding directly against the Company, without first instituting a legal proceeding against the Property Trustee or any other person or entity, for enforcement of payment to such holder of principal of or interest on Junior Subordinated Notes of the related series having a principal amount equal to the aggregate stated liquidation amount of the Preferred Securities of such holder on or after the due dates specified in the Junior Subordinated Notes of such series.

If the Company fails to make payments under any Guarantee, such Guarantee provides a mechanism that allows the holders of the Preferred Securities to which such Guarantee relates to direct the Guarantee Trustee to enforce its rights under such Guarantee. In addition, any holder of Preferred Securities may institute a legal proceeding directly against the Company to enforce the Guarantee Trustee's rights under the related Guarantee without first instituting a legal proceeding against the Guarantee Trustee or any other person or entity.

Each Guarantee, the Subordinated Note Indenture, the Junior Subordinated Notes of the related series, the related Trust Agreement and the related Agreement as to Expenses and Liabilities, as described above, constitute a full and unconditional guarantee by the Company of the payments due on the related series of Preferred Securities.

Upon any voluntary or involuntary dissolution, winding-up or termination of any Trust, unless Junior Subordinated Notes of the related series are distributed in connection with such action, the holders of the Preferred Securities of such Trust will be entitled to receive, out of assets legally available for distribution to holders, a liquidation distribution in cash as described in the applicable Prospectus Supplement. Upon any voluntary or involuntary liquidation or bankruptcy of the Company, the Property Trustee, as holder of the related series of Junior Subordinated Notes, would be a subordinated creditor of the Company, subordinated in right of payment to all Senior Indebtedness, but entitled to receive payment in full of principal and interest, before any stockholders of the Company receive payments or distributions. Because the Company is guarantor under each Guarantee and has agreed to pay for all costs, expenses and liabilities of each Trust (other than the Trust's obligations to holders of the Preferred Securities) pursuant to the related Agreement as to Expenses and Liabilities, the positions of a holder of Preferred Securities and a holder of Junior Subordinated Notes of the related series relative to other creditors and to stockholders of the Company in the event of liquidation or bankruptcy of the Company would be substantially the same.

A default or event of default under any Senior Indebtedness would not constitute a default or Event of Default under the Subordinated Note Indenture. However, in the event of payment defaults under, or acceleration of, Senior Indebtedness, the subordination provisions of the Junior Subordinated Notes provide that no payments may be made in respect of the Junior Subordinated Notes until such Senior Indebtedness has been paid in full or any payment default of Senior Indebtedness has been cured or waived. Failure to make required payments on the Junior Subordinated Notes of any series would constitute an Event of Default under the Subordinated Note Indenture with respect to the Junior Subordinated Notes of such series except that failure to make interest payments on the Junior Subordinated Notes of such series will not be an Event of Default during an extension period as described in the applicable Prospectus Supplement.

## PLAN OF DISTRIBUTION

The Company may sell the Senior Notes and the Junior Subordinated Notes and the Trusts may sell the Preferred Securities in one or more of the following ways from time to time: (i) to underwriters for resale to the public or to institutional investors; (ii) directly to institutional investors; or (iii) through agents to the public or to institutional investors. The Prospectus Supplement with respect to each series of Senior Notes, Junior Subordinated Notes or Preferred Securities will set forth the terms of the offering of such Senior Notes, Junior Subordinated Notes or Preferred Securities, including the name or names of any underwriters or agents, the purchase price of such Senior Notes, Junior Subordinated Notes or Preferred Securities and the proceeds to the Company or the applicable Trust from such sale, any underwriting discounts or agency fees and other items constituting underwriters' or agents' compensation, any initial public offering price, any discounts or concessions allowed or reallowed or paid to dealers and any securities exchange on which such Senior Notes, Junior Subordinated Notes or Preferred Securities may be listed.

If underwriters participate in the sale, such Senior Notes, Junior Subordinated Notes or Preferred Securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale.

Unless otherwise set forth in the Prospectus Supplement, the obligations of the underwriters to purchase any series of Senior Notes, Junior Subordinated Notes or Preferred Securities will be subject to certain conditions precedent and the underwriters will be obligated to purchase all of such series of Senior Notes, Junior Subordinated Notes or Preferred Securities, if any are purchased.

Underwriters and agents may be entitled under agreements entered into with the Company and/or the applicable Trust to indemnification against certain civil liabilities, including liabilities under the 1933 Act. Underwriters and agents may engage in transactions with, or perform services for, the Company in the ordinary course of business.

Each series of Senior Notes, Junior Subordinated Notes or Preferred Securities will be a new issue of securities and will have no established trading market. Any underwriters to whom Senior Notes, Junior Subordinated Notes or Preferred Securities are sold for public offering and sale may make a market in such Senior Notes, Junior Subordinated Notes or Preferred Securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice. The Senior Notes, Junior Subordinated Notes or Preferred Securities may or may not be listed on a national securities exchange.

## LEGAL MATTERS

Certain matters of Delaware law relating to the validity of the Preferred Securities will be passed upon on behalf of the Company and the Trusts by Richards, Layton & Finger, P.A., Wilmington, Delaware, special Delaware counsel to the Company and the Trusts. The validity of the Senior Notes, the Junior Subordinated Notes, the Guarantees and certain matters relating to such securities will be passed upon on behalf of the Company by Beggs & Lane, a Registered Limited Liability Partnership, Pensacola, Florida, and by Troutman Sanders LLP, Atlanta, Georgia. Certain legal matters will be passed upon for the Underwriters by Dewey Ballantine LLP, New York, New York.

## EXPERTS

The financial statements and the related financial statement schedule as of and for the year ended December 31, 2002 incorporated by reference in this Prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report, which is incorporated by reference in this Prospectus, and has been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

Certain of the Company's financial statements incorporated by reference in this Prospectus have been audited by Arthur Andersen LLP ("Andersen"), independent public accountants, as indicated in their reports with respect to the financial statements, and are incorporated by reference in this Prospectus, in reliance upon the authority of Andersen as experts in giving such reports. On March 28, 2002, Southern's Board of Directors, upon recommendation of its Audit Committee, decided not to engage Andersen as the Company's principal public accountants. The Company has not obtained a reissued report from Andersen and has been unable to obtain, after reasonable efforts, Andersen's written consent to incorporate by reference Andersen's reports on the financial statements. Under these circumstances, Rule 437a under the 1933 Act permits this Prospectus to be filed without a written consent from Andersen. The absence of such written consent from Andersen may limit a holder's ability to assert claims against Andersen under Section 11(a) of the 1933 Act for any untrue statement of a material fact contained in the financial statements audited by Andersen or any omissions to state a material fact required to be stated in the financial statements.

# $60,000,000




## Series H 5.25% Senior Notes
## due July 15, 2033

PROSPECTUS SUPPLEMENT

**Morgan Stanley**
**Wachovia Securities**
**SunTrust Robinson Humphrey**

July 10, 2003

BEGGS & LANE
A REGISTERED LIMITED LIABILITY PARTNERSHIP
ATTORNEYS AND COUNSELLORS AT LAW
POST OFFICE BOX 12950
PENSACOLA, FLORIDA 32591-2950

501 COMMENDENCIA STREET
PENSACOLA, FLORIDA 32501-5641
TELEPHONE (850) 432-2451
TELECOPIER (850) 469-3330

JAMES M WEBER
JOHN F WINDHAM
J NIXON DANIEL, III
RALPH A PETERSON
GARY B LEUCHTMAN
JOHN P DANIEL
JEFFREY A STONE
JAMES S CAMPBELL
RUSSELL F VAN SICKLE
RUSSELL A BADDERS
MARY JANE THIES
DAVID L McGEE
CHARLES T WIGGINS
THOMAS F GONZALEZ
DAVID E HIGHTOWER
WILLIAM H MITCHEM
PETER J MOUGEY
R ANDREW KENT
ELIZABETH C CALLAHAN
TERRIE L DIDIER

W SPENCER MITCHEM
*Of Counsel*

E DIXIE BEGGS
1908-2001

BERT H LANE
1917-1981

July 22, 2003

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

Wachovia Capital Markets, LLC
One First Union Center, TW-8
301 South College Street
Charlotte, North Carolina 28288

GULF POWER COMPANY
SERIES H 5.25% SENIOR NOTES
DUE JULY 15, 2033

Ladies and Gentlemen:

We have acted as general counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance and sale of $60,000,000 aggregate principal amount of its Series H 5.25% Senior Notes due July 15, 2033 (the "Notes") pursuant to the Senior Note Indenture dated as of January 1, 1998, by and between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Eighth Supplemental Indenture dated as of July 22, 2003 (collectively, the "Indenture") and (ii) the purchase by the Underwriters (as defined below) of the Notes pursuant to the terms of an Underwriting Agreement dated July 10, 2003 (the "Underwriting Agreement"), among the Company and the Underwriters named in Schedule 1 thereto (the "Underwriters") for whom you are acting as Representatives. This opinion is being delivered to you as Representatives pursuant to Section 5(c)(1) of the Underwriting Agreement.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (File Nos. 333-104449, 333-104449-01 and 333-104449-02) pertaining to the Notes (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act"),

and the prospectus of the Company dated April 25, 2003, as supplemented by a final prospectus supplement relating to the Notes dated July 10, 2003 (the "Final Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2003 and the Current Reports on Form 8-K of the Company dated March 21, 2003 and July 10, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to collectively as the "Agreements."

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Georgia law and the federal law of the United States upon the opinion dated the date hereof rendered to you by Troutman Sanders LLP and relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP, that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance

and sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by the Underwriters pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP and with your counsel. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents

and our participation in the conferences referred to above, (i) we are of the opinion that the Registration Statement, as of its effective date, and the Final Supplemented Prospectus, as of July 10, 2003, complied as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the relevant requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of its effective date (including the Exchange Act Documents on file with the Commission as of such date), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contained, as of its date, or contains, on the date hereof, any untrue statement of a material fact or omitted, as of its date, or omits, on the date hereof, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the captions "Description of the Series H Senior Notes – Book-Entry Only Issuance – The Depository Trust Company" and "The Policy and the Insurer" or in Appendix A thereto.

We are members of the Florida Bar and we do not express any opinion herein concerning any law other than the law of the States of Maine, Florida and Mississippi and, to the extent set forth herein, the laws of the States of Georgia and New York and the federal law of the United States.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent, except that Dewey Ballantine LLP may rely on this opinion in giving its opinion pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinion relates to matters of Maine, Florida and Mississippi law, and Troutman Sanders LLP may rely on this opinion in giving its opinions pursuant to Section 5(c) of the Underwriting

Agreement and in connection with the Company's listing application with respect to the Notes to the New York Stock Exchange, Inc., insofar as such opinions relate to matters of Maine, Florida and Mississippi law.

Yours very truly,

Beggs & Lane

BEGGS & LANE

TROUTMAN SANDERS LLP
ATTORNEYS AT LAW
A LIMITED LIABILITY PARTNERSHIP

BANK OF AMERICA PLAZA
600 PEACHTREE STREET, N E - SUITE 5200
ATLANTA, GEORGIA 30308-2216
www.troutmansanders.com
TELEPHONE 404-885-3000
FACSIMILE 404-885-3900

July 22, 2003

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

Wachovia Capital Markets, LLC
One First Union Center, TW-8
301 South College Street
Charlotte, North Carolina 28288

GULF POWER COMPANY
SERIES H 5.25% SENIOR NOTES
DUE JULY 15, 2033

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance and sale of $60,000,000 aggregate principal amount of its Series H 5.25% Senior Notes due July 15, 2033 (the "Notes") pursuant to the Senior Note Indenture dated as of January 1, 1998, by and between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Eighth Supplemental Indenture dated as of July 22, 2003 (collectively, the "Indenture") and (ii) the purchase by the Underwriters (as defined below) of the Notes pursuant to the terms of an Underwriting Agreement dated July 10, 2003 (the "Underwriting Agreement"), among the Company and the Underwriters named in Schedule I thereto (the "Underwriters") for whom you are acting as Representatives. This opinion is being delivered to you as Representatives pursuant to Section 5(c)(2) of the Underwriting Agreement.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (Nos. 333-104449, 333-104449-01 and 333-104449-02) pertaining to the Notes and certain other securities (the "Registration Statement") filed under the Securities Act of 1933, as

amended (the "Act"), and the prospectus of the Company dated April 25, 2003, as supplemented by the prospectus supplement dated July 10, 2003 (the "Final Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2003 and the Current Reports on Form 8-K of the Company dated March 21, 2003 and July 10, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to collectively as the "Agreements."

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP and as to matters of Maine, Florida and Mississippi law upon the opinion dated the date hereof rendered to you by Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane"), that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes

have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by the Underwriters pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP and with your counsel. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus

and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Registration Statement, as of its effective date and the Final Supplemented Prospectus, as of July 10, 2003, complied as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the relevant requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of its effective date (including the Exchange Act Documents on file with the Commission as of such date), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contained, as of its date, or contains, on the date hereof, any untrue statement of a material fact or omitted, as of its date, or omits, on the date hereof, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the captions "Description of the Series H Senior Notes – Book-Entry Only Issuance – The Depository Trust Company" and "The Policy and the Insurer" or in Appendix A thereto.

We are members of the State Bar of Georgia and we do not express any opinion herein concerning any law other than the law of the State of Georgia and the federal law of the United States and, to the extent set forth herein, the laws of the States of Florida, Maine, Mississippi and New York.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent, except that Beggs & Lane may rely on this opinion in giving its opinion pursuant to Section 5(c) of the Underwriting Agreement insofar as

such opinion relates to matters of Georgia law and the federal law of the United States and Dewey Ballantine LLP may rely on this opinion in giving its opinion pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinion relates to matters of Georgia law.

Very truly yours,

Troutman Sanders LLP

TROUTMAN SANDERS LLP

EXHIBIT E.8.

## Description of Holder

*$60,000,000 Series H 5.25% Senior Notes*

| Name of Underwriters | Principal Amount of Notes |
|---|---|
| Morgan Stanley & Co. Incorporated<br>1585 Broadway<br>New York, New York 10036 | $27,000,000 |
| Wachovia Capital Markets, LLC<br>One First Union Center, TW-8<br>301 South College Street<br>Charlotte, North Carolina 28288 | $27,000,000 |
| As representatives | |
| SunTrust Capital Markets, Inc. | $ 6,000,000 |
| | $60,000,000 |

Underwriters Fees: $1,890,000

GULF POWER COMPANY

EXHIBIT E.9.

Summary of Debt Expenses in Conjunction with the
Issuance and Sale of $60,000,000 Principal Amount
Series H 5.25% Senior Notes

| Item Number | Issuance Expenses For: | Amount $ |
|---|---|---|
| 1 | Shelf Registration-Securities & Exchange Commission | 27,659.85 |
| 2 | Charges of Trustee | 6,890.00 |
| 3 | Printing and Preparation of Registration Statement, Financial Statements, Prospectus, Competitive Bidding Papers, Supplemental Indenture, etc. | 14,478.68 |
| 4 | Fees and Expenses of Counsel | 23,286.99 |
| 5 | Fees of Accountants | 22,645.00 |
| 6 | Rating Fees | 16,823.94 |
| 7 | Expenses of Southern Company Services, Inc. | 6,441.89 |
| 8 | Insurance | 1,081,077.12 |
| 9 | New York Stock Exchange Listing | 32,460.00 |
| 10 | Miscellaneous Expenses | 768.59 |
| | Total Expenses of Issue | 1,232,532.06 |
| | Unamortized Discount Expense | 1,890,000.00 |
| | Total Cost of Issue | $3,122,532.06 |

$40,000,000 Series I 5.75% Senior Notes

due September 15, 2033

**GULF POWER COMPANY**

UNDERWRITING AGREEMENT

September 5, 2003

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036
As Representative of the Underwriters listed on Schedule I hereto.

Ladies and Gentlemen:

Gulf Power Company, a Maine corporation (the "Company"), confirms its agreement (the "Agreement") with you and the other Underwriter named in Schedule I hereto (collectively, the "Underwriters", which term shall also include any underwriter substituted as hereinafter provided in Section 10 hereof) for whom you are acting as representative (in such capacity you shall hereinafter be referred to as the "Representative"), with respect to the sale by the Company and the purchase by the Underwriters, acting severally and not jointly, of $40,000,000 aggregate principal amount of the Series I 5.75% Senior Notes due September 15, 2033 (the "Senior Notes") as set forth in Schedule I hereto.

The Company understands that the Underwriters are making a public offering of the Senior Notes pursuant to this Agreement. The Senior Notes will be issued pursuant to an indenture, dated as of January 1, 1998, as heretofore supplemented (the "Base Indenture"), between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), and as further supplemented by a ninth supplemental indenture, dated as of September 16, 2003, to the Base Indenture relating to the Senior Notes (the "Supplemental Indenture" and, together with the Base Indenture and any other amendments or supplements thereto, the "Indenture"), between the Company and the Trustee.

SECTION 1. REPRESENTATIONS AND WARRANTIES. The Company represents and warrants to the Underwriters as follows:

(a) A registration statement on Form S-3 (File Nos. 333-104449, 333-104449-01 and 333-104449-02) in respect of the Senior Notes and certain other securities has been prepared and filed in accordance with the provisions of the Securities Act of 1933, as amended (the "1933 Act"), with the Securities and Exchange

Commission (the "Commission"); such registration statement and any post-effective amendment thereto, each in the form heretofore delivered or to be delivered to the Underwriters, has been declared effective by the Commission in such form (except that copies of the registration statement and any post-effective amendment delivered to the Underwriters need not include exhibits but shall include all documents incorporated by reference therein); and no stop order suspending the effectiveness of such registration statement has been issued and no proceeding for that purpose has been initiated or, to the best knowledge of the Company, threatened by the Commission (any preliminary prospectus, as supplemented by a preliminary prospectus supplement, included in such registration statement or filed with the Commission pursuant to Rule 424(a) of the rules and regulations of the Commission under the 1933 Act, being hereinafter called a "Preliminary Prospectus"); such registration statement, as it became effective, including the exhibits thereto and all documents incorporated by reference therein pursuant to Item 12 of Form S-3 at the time such registration statement became effective, being hereinafter called the "Registration Statement"; the prospectus relating to the Senior Notes, in the form in which it was included in the Registration Statement at the time it became effective, being hereinafter called the "Prospectus"; any reference herein to any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the 1933 Act, as of the date of such Preliminary Prospectus or Prospectus, as the case may be; any reference to any amendment or supplement to any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include any documents filed after the date of such Preliminary Prospectus or Prospectus, as the case may be, under the Securities Exchange Act of 1934, as amended (the "1934 Act"), and incorporated by reference in such Preliminary Prospectus or Prospectus, as the case may be; any reference to any amendment to the Registration Statement shall be deemed to refer to and include any annual report of the Company filed pursuant to Section 13(a) or 15(d) of the 1934 Act after the effective date of the Registration Statement that is incorporated by reference in the Registration Statement; and the Prospectus as amended or supplemented in final form by a prospectus supplement relating to the Senior Notes in the form in which it is filed with the Commission, pursuant to Rule 424(b) under the 1933 Act in accordance with Section 3(f) hereof, including any documents incorporated by reference therein as of the date of such filing, being hereinafter called the "Final Supplemented Prospectus".

(b) The documents incorporated by reference in the Registration Statement or Prospectus, when they were filed with the Commission, complied in all material respects with the applicable provisions of the 1934 Act and the rules and regulations of the Commission thereunder, and as of such time of filing, when read together with the Prospectus, none of such documents contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and any further documents so filed and incorporated by reference in the Prospectus or any further amendment or supplement thereto, when such documents are filed with the

Commission, will comply in all material respects with the applicable provisions of the 1934 Act and the rules and regulations of the Commission thereunder and, when read together with the Prospectus as it otherwise may be amended or supplemented, will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the Company makes no warranty or representation to the Underwriters with respect to: (A) any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by the Underwriters through the Representative expressly for use in the Final Supplemented Prospectus; or (B) any information set forth in the prospectus supplement portion of the Final Supplemented Prospectus under the captions "Description of the Series I Senior Notes — Book-Entry Only Issuance — The Depository Trust Company," "The Policy and the Insurer" and "Experts" or in Appendix A thereto.

(c) The Registration Statement, the Prospectus and the Final Supplemented Prospectus comply, and any further amendments or supplements to the Registration Statement or the Prospectus, when any such post-effective amendments are declared effective or supplements are filed with the Commission, as the case may be, will comply, in all material respects with the applicable provisions of the 1933 Act, the 1934 Act, the 1939 Act (hereinafter defined) and the General Rules and Regulations of the Commission thereunder and do not and will not, (i) as of the applicable effective date as to the Registration Statement and any amendment thereto and (ii) as of the applicable filing date of the Final Supplemented Prospectus and any Prospectus as further amended or supplemented, contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in the case of the Registration Statement and any amendment thereto, and, in the light of the circumstances under which they were made, not misleading in the case of the Final Supplemented Prospectus and any Prospectus as further amended or supplemented; except that the Company makes no warranties or representations with respect to: (A) that part of the Registration Statement which shall constitute the Statements of Eligibility (Form T-1) under the Trust Indenture Act of 1939, as amended (the "1939 Act"); (B) statements or omissions made in the Registration Statement or the Final Supplemented Prospectus in reliance upon and in conformity with information furnished in writing to the Company by the Underwriters through the Representative expressly for use therein; or (C) any information set forth in the prospectus supplement portion of the Final Supplemented Prospectus under the captions "Description of the Series I Senior Notes — Book-Entry Only Issuance — The Depository Trust Company," "The Policy and the Insurer" and "Experts" or in Appendix A thereto.

(d) With respect to the Registration Statement, the conditions for use of Form S-3, as set forth in the General Instructions thereof, have been satisfied.

(e) Since the respective dates as of which information is given in the Registration Statement and the Final Supplemented Prospectus, except as otherwise stated therein, there has been no material adverse change in the business, properties or financial condition of the Company.

(f) The Company is a corporation duly organized and existing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi, and has due corporate authority to carry on the public utility business in which it is engaged and to own and operate the properties used by it in such business, to enter into and perform its obligations under this Agreement and the Indenture and to issue and sell the Senior Notes to the Underwriters.

(g) This Agreement has been duly authorized, executed and delivered by the Company.

(h) The Indenture has been duly authorized by the Company and, on the Closing Date (as hereinafter defined), will have been duly executed and delivered by the Company, and, assuming due authorization, execution and delivery of the Indenture by the Trustee, the Indenture will, on the Closing Date, constitute a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent that enforcement thereof may be limited by (1) bankruptcy, insolvency, reorganization, receivership, liquidation, fraudulent conveyance, moratorium or other similar laws affecting creditors' rights generally or (2) general principles of equity (regardless of whether enforcement is considered in a proceeding at law or in equity) (the "Enforceability Exceptions"); the Indenture will conform in all material respects to all statements relating thereto contained in the Final Supplemented Prospectus; and, on the Closing Date, the Indenture will have been duly qualified under the 1939 Act.

(i) The issuance and delivery of the Senior Notes have been duly authorized by the Company and, on the Closing Date, the Senior Notes will have been duly executed by the Company and, when authenticated in the manner provided for in the Indenture and delivered against payment therefor as described in the Final Supplemented Prospectus, will constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms, except to the extent that enforcement thereof may be limited by the Enforceability Exceptions, will be in the form contemplated by, and entitled to the benefits of, the Indenture and will conform in all material respects to all statements relating thereto in the Final Supplemented Prospectus.

(j) The execution, delivery and performance by the Company of this Agreement, the Indenture and the Senior Notes and the consummation by the Company of the transactions contemplated herein and therein and compliance by the Company with its obligations hereunder and thereunder shall have been duly authorized by all necessary corporate action on the part of the Company and do not and will not result in any violation of the charter or bylaws of the Company,

and do not and will not conflict with, or result in a breach of any of the terms or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company under (A) any contract, indenture, mortgage, loan agreement, note, lease or other agreement or instrument to which the Company is a party or by which it may be bound or to which any of its properties may be subject (except for conflicts, breaches or defaults which would not, individually or in the aggregate, be materially adverse to the Company or materially adverse to the transactions contemplated by this Agreement), or (B) any existing applicable law, rule, regulation, judgment, order or decree of any government, governmental instrumentality or court, domestic or foreign, or any regulatory body or administrative agency or other governmental body having jurisdiction over the Company, or any of its properties.

(k) The Company has duly authorized all necessary action to be taken by it for the procurement of an irrevocable financial guaranty insurance policy (the "Insurance Policy") issued by XL Capital Assurance Inc. (the "Insurer"), insuring the payment of principal and interest on the Senior Notes, when due.

(l) No authorization, approval, consent or order of any court or governmental authority or agency is necessary in connection with the issuance and sale by the Company of the Senior Notes or the transactions by the Company contemplated in this Agreement, except (A) such as may be required under the 1933 Act or the rules and regulations thereunder; (B) such as may be required under the Public Utility Holding Company Act of 1935, as amended; (C) the qualification of the Indenture under the 1939 Act; (D) the approval of the Florida Public Service Commission (the "Florida Commission"); and (E) such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or "blue sky" laws.

(m) The financial statements incorporated by reference in the Registration Statement and the Final Supplemented Prospectus, together with the related schedules and notes, present fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of and for the dates indicated; said financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP") applied on a consistent basis (except that the unaudited financial statements may be subject to normal year-end adjustments) throughout the periods involved and necessarily include amounts that are based on the best estimates and judgments of management. The selected financial data and the summary financial information included in the Registration Statement and the Final Supplemented Prospectus present fairly the information shown therein and have been compiled on a basis consistent with that of the audited and unaudited financial statements incorporated by reference in the Registration Statement.

SECTION 2. SALE AND DELIVERY TO THE UNDERWRITERS; CLOSING.

(a) On the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company agrees to sell to each Underwriter, severally and not jointly, and each Underwriter, severally and not jointly, agrees to purchase from the Company, the principal amount of Senior Notes set forth in Schedule I to this Agreement opposite the name of such Underwriter (plus any additional amount of Senior Notes that such Underwriter may become obligated to purchase pursuant to the provisions of Section 10 hereof), at a price equal to 96.85% of the principal amount thereof.

(b) Payment for and delivery of certificates for the Senior Notes shall be made at the offices of Troutman Sanders LLP, Bank of America Plaza, 600 Peachtree Street, N.E., Atlanta, Georgia at 10:00 A.M., Atlanta time, on September 16, 2003 (unless postponed in accordance with the provisions of Section 10) or such other time, place or date as shall be agreed upon by the Representative and the Company (such time and date of payment and delivery being herein called the "Closing Date"). Payment shall be made to the Company by wire transfer in federal funds at the Closing Date against delivery of the Senior Notes to the Representative. It is understood that each Underwriter has authorized the Representative, for each Underwriter's account, to accept delivery of, receipt for, and make payment of the principal amount of the Senior Notes which each Underwriter has agreed to purchase. The Representative, individually and not as representative of the Underwriters, may (but shall not be obligated to) make payment of the principal amount of the Senior Notes to be purchased by any Underwriter whose payment has not been received by the Closing Date, but such payment shall not relieve such Underwriter from its obligations hereunder.

The delivery of the Senior Notes shall be made in fully registered form, registered in the name of CEDE & CO., to the offices of The Depository Trust Company in New York, New York or its designee, and the Underwriters shall accept such delivery.

The certificate(s) for the Senior Notes will be made available for examination by the Representative not later than 12:00 Noon, New York City time, on the last business day prior to the Closing Date.

SECTION 3. COVENANTS OF THE COMPANY. The Company covenants with the Underwriters as follows:

(a) The Company, on or prior to the Closing Date, will deliver to the Underwriters conformed copies of the Registration Statement as originally filed and of all amendments thereto, heretofore or hereafter made, including any post-effective amendment (in each case including all exhibits filed therewith, and including unsigned copies of each consent and certificate included therein or filed as an exhibit thereto, except exhibits incorporated by reference, unless specifically

requested). As soon as the Company is advised thereof, it will advise the Representative orally of the issuance of any stop order under the 1933 Act with respect to the Registration Statement, or the institution of any proceedings therefor, of which the Company shall have received notice, and will use its best efforts to prevent the issuance of any such stop order and to secure the prompt removal thereof, if issued. The Company will deliver to the Representative sufficient conformed copies of the Registration Statement, the Prospectus and the Final Supplemented Prospectus and of all supplements and amendments thereto (in each case without exhibits) for distribution to the Underwriters and, from time to time, as many copies of the Prospectus and the Final Supplemented Prospectus as the Underwriters may reasonably request for the purposes contemplated by the 1933 Act or the 1934 Act.

(b) The Company will furnish the Underwriters with copies of each amendment and supplement to the Final Supplemented Prospectus relating to the offering of the Senior Notes in such quantities as the Underwriters may from time to time reasonably request. If, during the period (not exceeding nine months) when the delivery of a prospectus shall be required by law in connection with the sale of any Senior Notes by an Underwriter, any event relating to or affecting the Company, or of which the Company shall be advised in writing by the Underwriters, shall occur, which in the opinion of the Company or of Underwriters' counsel should be set forth in a supplement to or an amendment of the Final Supplemented Prospectus in order to make the Final Supplemented Prospectus not misleading in the light of the circumstances when it is delivered, or if for any other reason it shall be necessary during such period to amend or supplement the Final Supplemented Prospectus or to file under the 1934 Act any document incorporated by reference in the Preliminary Prospectus or Prospectus in order to comply with the 1933 Act or the 1934 Act, the Company forthwith will (i) notify the Underwriters to suspend solicitation of purchases of the Senior Notes and (ii) at its expense, make any such filing or prepare and furnish to the Underwriters a reasonable number of copies of a supplement or supplements or an amendment or amendments to the Final Supplemented Prospectus which will supplement or amend the Final Supplemented Prospectus so that, as supplemented or amended, it will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances when the Final Supplemented Prospectus is delivered, not misleading or which will effect any other necessary compliance. In case any Underwriter is required to deliver a prospectus in connection with the sale of any Senior Notes after the expiration of the period specified in the preceding sentence, the Company, upon the request of such Underwriter, will furnish to such Underwriter, at the expense of such Underwriter, a reasonable quantity of a supplemented or amended prospectus, or supplements or amendments to the Final Supplemented Prospectus, complying with Section 10(a) of the 1933 Act. During the period specified in the second sentence of this subsection, the Company will continue to prepare and file with the Commission on a timely basis all documents or amendments required under the 1934 Act and the rules and regulations thereunder; provided, that the Company shall not file such documents or

amendments without also furnishing copies thereof prior to such filing to the Representative and Dewey Ballantine LLP.

(c) The Company will endeavor, in cooperation with the Underwriters, to qualify the Senior Notes for offering and sale under the applicable securities laws of such states and the other jurisdictions of the United States as the Representative may designate; provided, however, that the Company shall not be obligated to qualify as a foreign corporation in any jurisdiction in which it is not so qualified or to file a consent to service of process or to file annual reports or to comply with any other requirements in connection with such qualification deemed by the Company to be unduly burdensome.

(d) The Company will make generally available to its security holders as soon as practicable but not later than 45 days after the close of the period covered thereby, an earnings statement of the Company (in form complying with the provisions of Rule 158 of the rules and regulations under the 1933 Act) covering a twelve-month period beginning not later than the first day of the Company's fiscal quarter next following the "effective date" (as defined in Rule 158) of the Registration Statement.

(e) The Company will use its best efforts to effect the listing of the Senior Notes on the New York Stock Exchange.

(f) As soon as practicable after the date of this Agreement, and in any event within the time prescribed by Rule 424 under the 1933 Act, to file the Final Supplemented Prospectus with the Commission and to advise the Representative of such filing and to confirm such advice in writing.

(g) During a period of 15 days from the date of this Agreement, the Company will not, without the Representative's prior written consent, directly or indirectly, sell, offer to sell, grant any option for the sale of, or otherwise dispose of, any Senior Notes or any security convertible into or exchangeable into or exercisable for the Senior Notes or any debt securities substantially similar to the Senior Notes (except for the Senior Notes issued pursuant to this Agreement). The Representative agrees that commercial paper or other debt securities with scheduled maturities of less than one year are not subject to this Section 3(g).

SECTION 4. PAYMENT OF EXPENSES. The Company will pay all expenses incidental to the performance of its obligations under this Agreement, including but not limited to, the expenses of (i) the printing and filing of the Registration Statement as originally filed and of each amendment thereto, (ii) the preparation, issuance and delivery of the certificate(s) for the Senior Notes, (iii) the fees and disbursements of the Company's counsel and accountants, (iv) the qualification of the Senior Notes under securities laws in accordance with the provisions of Section 3(c) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Underwriters in connection therewith and in connection with the preparation of any blue sky survey (such fees and disbursements of counsel shall not exceed $3,500), (v) the printing and delivery

to the Underwriters of copies of the Registration Statement as originally filed and of each amendment thereto and of the Prospectus, the Final Supplemented Prospectus and any amendments or supplements thereto, (vi) the printing and delivery to the Underwriters of copies of any blue sky survey, (vii) the fee of the National Association of Securities Dealers, Inc. in connection with its review of the offering contemplated by this Agreement, if applicable, (viii) the fees and expenses of the Trustee, including the fees and disbursements of counsel for the Trustee in connection with the Indenture and the Senior Notes, (ix) any fees payable in connection with the rating of the Senior Notes, (x) the cost and charges of any transfer agent or registrar, (xi) the premium payable to the Insurer in connection with the issuance of the Insurance Policy, (xii) the fees and expenses incurred in connection with the listing of the Senior Notes on the New York Stock Exchange and (xiii) the cost of qualifying the Senior Notes with The Depository Trust Company.

Except as otherwise provided in Section 9 hereof, the Underwriters shall pay all other expenses incurred by them in connection with their offering of the Senior Notes, including fees and disbursements of their counsel, Dewey Ballantine LLP.

SECTION 5. CONDITIONS OF UNDERWRITERS' OBLIGATIONS. The obligations of the Underwriters to purchase and pay for the Senior Notes are subject to the following conditions:

(a) No stop order suspending the effectiveness of the Registration Statement shall be in effect on the Closing Date and no proceedings for that purpose shall be pending before, or to the knowledge of the Company threatened by, the Commission on such date. If filing of the Final Supplemented Prospectus, or any supplement thereto, is required pursuant to Rule 424, the Final Supplemented Prospectus, and any such supplement, shall have been filed in the manner and within the time period required by Rule 424.

(b) Any required orders of the Florida Commission and the Commission permitting the transactions contemplated hereby substantially in accordance with the terms and conditions hereof shall be in full force and effect and shall contain no provision unacceptable to the Underwriters or the Company (but all provisions of such order or orders heretofore entered, copies of which have heretofore been delivered to the Representative, are deemed acceptable to the Underwriters and the Company and all provisions of such order or orders hereafter entered shall be deemed acceptable to the Underwriters and the Company unless within 24 hours after receiving a copy of any such order any party to this Agreement shall give notice to the other parties to the effect that such order contains an unacceptable provision).

(c) On the Closing Date, the Representative shall have received:

(1) The opinion, dated the Closing Date, of Beggs & Lane, a Registered Limited Liability Partnership, general counsel for the Company, substantially in the form attached hereto as Schedule II-A.

(2) The opinion, dated the Closing Date, of Troutman Sanders LLP, counsel for the Company, substantially in the form attached hereto as Schedule II-B.

(3) The opinion, dated the Closing Date, of Cravath, Swaine & Moore LLP, counsel to the Trustee, substantially in the form attached hereto as Schedule III.

(4) The opinion, dated the Closing Date, of Dewey Ballantine LLP, counsel for the Underwriters, substantially in the form attached hereto as Schedule IV.

(5) The opinion, dated the Closing Date, of counsel for the Insurer, substantially in the form attached hereto as Schedule V.

(6) At the Closing Date, there shall not have been, since the date hereof or since the respective dates as of which information is given in the Registration Statement and the Final Supplemented Prospectus, any material adverse change in the business, properties or financial condition of the Company, whether or not arising in the ordinary course of business, and the Representative shall have received a certificate of the President or any Vice President of the Company, and dated as of the Closing Date, to the effect that (i) there has been no such material adverse change, (ii) the representations and warranties in Section 1 hereof are true and correct with the same force and effect as though expressly made at and as of the Closing Date, (iii) the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied on or prior to the Closing Date, and (iv) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been initiated or, to the knowledge of the Company, threatened by the Commission.

(7) On the Closing Date, the Representative shall have received from Deloitte & Touche LLP a letter dated the Closing Date to the effect that: (A) they are independent certified public accountants with respect to the Company within the meaning of the 1933 Act and the rules and regulations under the 1933 Act; (B) in their opinion, the financial statements audited by them and incorporated by reference in the Final Supplemented Prospectus comply as to form in all material respects with the applicable accounting requirements of the 1934 Act and the rules and regulations under the 1934 Act; and (C) on the basis of certain limited procedures performed through a specified date not more than five business days prior to the date of such letter, namely (i) reading the minute books of the Company; (ii) performing the procedures specified by the American Institute of Certified Public Accountants for a review of interim financial information as described in Statement on Auditing Standards No. 71, "Interim Financial Information" or Statement on Auditing Standards No. 100, "Interim Financial Information", as applicable, on the unaudited financial statements, if any, of the Company incorporated in the Prospectus and on the latest available unaudited financial statements of the Company, if any, for any calendar quarter subsequent to the date of those incorporated by reference in the Prospectus; and (iii) making inquiries of certain officials of the Company who have responsibility for financial and accounting matters regarding such unaudited financial statements or any specified unaudited amounts derived therefrom (it being understood that the foregoing procedures do not constitute an audit performed in accordance with generally accepted auditing standards and they would not necessarily reveal matters of

significance with respect to the comments made in such letter, and accordingly that Deloitte & Touche LLP make no representations as to the sufficiency of such procedures for the Underwriters' purposes), nothing came to their attention that caused them to believe that: (1) any material modifications should be made to the unaudited condensed financial statements, if any, incorporated by reference in the Prospectus, for them to be in conformity with GAAP; (2) such unaudited condensed financial statements do not comply as to form in all material respects with the applicable accounting requirements of the 1934 Act as it applies to Form 10-Q and the related published rules and regulations thereunder; (3) the unaudited amounts for Operating Revenues, Earnings Before Income Taxes and Net Income After Dividends on Preferred Stock and the unaudited Ratio of Earnings to Fixed Charges set forth in the Prospectus do not agree with the amounts set forth in or derived from the unaudited financial statements for the same period; (4) as of a specified date not more than five business days prior to the date of delivery of such letter, there has been any change in the capital stock or long-term debt of the Company or any decrease in net assets as compared with amounts shown in the latest audited balance sheet incorporated by reference in the Prospectus, except in each case for changes or decreases which (i) the Prospectus discloses have occurred or may occur, (ii) are occasioned by the declaration of dividends, (iii) are occasioned by draw-downs under existing pollution control financing arrangements, (iv) are occasioned by draw-downs and regularly scheduled payments of capitalized lease obligations, (v) are occasioned by the purchase or redemption of bonds or stock to satisfy mandatory or optional redemption provisions relating thereto, (vi) are occasioned by the reclassification of current maturities of long-term debt, or (vii) are disclosed in such letter; and (5) the unaudited amounts for Operating Revenues, Earnings Before Income Taxes and Net Income After Dividends on Preferred Stock and the unaudited Ratio of Earnings to Fixed Charges for any calendar quarter subsequent to those set forth in (3) above, which, if available, shall be set forth in such letter, do not agree with the amounts set forth in or derived from the unaudited financial statements for the same period or were not determined on a basis substantially consistent with that of the corresponding audited amounts or ratios included or incorporated by reference in the Prospectus.

(8) On the Closing Date, counsel for the Underwriters shall have been furnished with such documents and opinions as it may reasonably require for the purpose of enabling it to pass upon the issuance and sale of the Senior Notes as herein contemplated and related proceedings, or in order to evidence the accuracy of any of the representations or warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company in connection with the issuance and sale of the Senior Notes as herein contemplated shall be satisfactory in form and substance to the Representative and Dewey Ballantine LLP, counsel for the Underwriters.

(9) On the Closing Date, the Senior Notes shall have been approved for listing on the New York Stock Exchange upon notice of issuance.

(10) That no amendment or supplement to the Registration Statement, or the Final Supplemented Prospectus filed subsequent to the date of this Agreement (including any filing made by the Company pursuant to Section 13 or 14 of the 1934 Act) shall be unsatisfactory in form to Dewey Ballantine LLP or shall contain information

(other than with respect to an amendment or supplement relating solely to the activity of the Underwriters) which, in the reasonable judgment of the Representative, shall materially impair the marketability of the Senior Notes.

(11) The Company shall have performed its obligations when and as provided under this Agreement.

(12) Evidence that the Insurance Policy has been issued by the Insurer and confirmation that the Senior Notes have been rated at least "Aaa" by Moody's Investors Service, Inc. and at least "AAA" by Standard & Poor's, a division of The McGraw-Hill Companies.

If any condition specified in this Section shall not have been fulfilled when and as required to be fulfilled, this Agreement may be terminated by the Representative by notice to the Company at any time prior to the Closing Date, and such termination shall be without liability of any party to any other party except as provided in Sections 4, 7 and 9(b) hereof.

SECTION 6. CONDITIONS OF THE OBLIGATIONS OF THE COMPANY. The obligations of the Company shall be subject to the conditions set forth in the first sentence of Section 5(a) and in Section 5(b). In case such conditions shall not have been fulfilled, this Agreement may be terminated by the Company by mailing or delivering written notice thereof to the Representative. Any such termination shall be without liability of any party to any other party except as otherwise provided in Sections 4, 7 and 9(b) hereof.

SECTION 7. INDEMNIFICATION.

(a) The Company agrees to indemnify and hold harmless each of the Underwriters and each person, if any, who controls any such Underwriter within the meaning of Section 15 of the 1933 Act or Section 20(a) of the 1934 Act, against any and all losses, claims, damages or liabilities, joint or several, to which they or any of them may become subject under the 1933 Act, 1934 Act or otherwise, and to reimburse any such Underwriter and such controlling person or persons, if any, for any legal or other expenses incurred by them in connection with defending any actions, insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement, the Prospectus or the Final Supplemented Prospectus or, if the Company shall furnish to the Underwriters any amendments or any supplements thereto, or shall make any filings pursuant to Section 13 or 14 of the 1934 Act which are incorporated therein by reference, in any Preliminary Prospectus, the Registration Statement, the Prospectus or the Final Supplemented Prospectus as so amended or supplemented, or arise out of or are based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or actions arise out of or are based

upon any such untrue statement or alleged untrue statement or omission or alleged omission which was made in such Registration Statement, Preliminary Prospectus, Prospectus or Final Supplemented Prospectus in reliance upon and in conformity with information furnished in writing to the Company by, or through the Representative on behalf of, any Underwriter for use therein and except that this indemnity with respect to the Preliminary Prospectus, the Prospectus or the Final Supplemented Prospectus, if the Company shall have furnished any amendment or supplement thereto, shall not inure to the benefit of any Underwriter (or of any person controlling such Underwriter) on account of any losses, claims, damages, liabilities or actions arising from the sale of the Senior Notes to any person if a copy of the Preliminary Prospectus, the Prospectus or the Final Supplemented Prospectus (exclusive of documents incorporated therein by reference pursuant to Item 12 of Form S-3), as the same may then be amended or supplemented, shall not have been sent or given by or on behalf of such Underwriter to such person with or prior to the written confirmation of the sale involved and the untrue statement or alleged untrue statement or omission or alleged omission was corrected in the Preliminary Prospectus, the Prospectus or the Final Supplemented Prospectus as supplemented or amended at the time of such confirmation. Each Underwriter agrees, within ten days after the receipt by it of notice of the commencement of any action in respect of which indemnity may be sought by it, or by any person controlling it, from the Company on account of its agreement contained in this Section 7, to notify the Company in writing of the commencement thereof but the omission of such Underwriter so to notify the Company of any such action shall not release the Company from any liability which it may have to such Underwriter or to such controlling person otherwise than on account of the indemnity agreement contained in this Section 7. In case any such action shall be brought against an Underwriter or any such person controlling such Underwriter and such Underwriter shall notify the Company of the commencement thereof as above provided, the Company shall be entitled to participate in (and, to the extent that it shall wish, including the selection of counsel, to direct) the defense thereof, at its own expense. In case the Company elects to direct such defense and select such counsel, any Underwriter or controlling person shall have the right to employ its own counsel, but, in any such case, the fees and expenses of such counsel shall be at the expense of such Underwriter or such controlling person unless the employment of such counsel has been authorized in writing by the Company in connection with defending such action. No indemnifying party shall, without the written consent of the indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification may be sought hereunder (whether or not the indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability arising out of such action or claim and (ii) does not include any statement as to, or an admission of, fault, culpability or a failure to act, by or on behalf of any indemnified party. In no event shall any indemnifying party have any liability or responsibility in respect of the settlement

or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim effected without its prior written consent.

(b) Each Underwriter agrees severally and not jointly, to indemnify and hold harmless the Company, its directors and such of its officers who have signed the Registration Statement and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20(a) of the 1934 Act to the same extent and upon the same terms as the indemnity agreement of the Company set forth in Section 7(a) hereof, but only with respect to alleged untrue statements or omissions made in the Registration Statement, the Preliminary Prospectus, the Prospectus or the Final Supplemented Prospectus, or such documents as amended or supplemented, in reliance upon and in conformity with information furnished in writing to the Company by, or through the Representative on behalf of, such Underwriter for use therein.

SECTION 8. REPRESENTATIONS, WARRANTIES AND AGREEMENTS TO SURVIVE DELIVERY. All representations, warranties and agreements contained in this Agreement, or contained in certificates of officers of the Company submitted pursuant hereto, shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of any Underwriter or controlling person, or by, or on behalf of the Company and shall survive delivery of the Senior Notes to the Underwriters.

SECTION 9. TERMINATION OF AGREEMENT.

(a) The Representative may terminate this Agreement, by notice to the Company, at any time at or prior to the Closing Date if (i) trading in securities on the New York Stock Exchange shall have been generally suspended or there shall have been a material disruption in settlement of securities generally, (ii) minimum or maximum ranges for prices shall have been generally established on the New York Stock Exchange by the Commission or by the New York Stock Exchange, (iii) a general banking moratorium shall have been declared by federal or New York State authorities, or (iv) there shall have occurred any outbreak or escalation of major hostilities in which the United States is involved, any declaration of war by the United States Congress or any other substantial national or international calamity, crisis or emergency (including, without limitation, acts of terrorism) affecting the United States, in any such case provided for in clauses (i) through (iv) with the result that, in the reasonable judgment of the Representative, the marketability of the Senior Notes shall have been materially impaired.

(b) If this Agreement shall be terminated by the Representative pursuant to subsection (a) above or because of any failure or refusal on the part of the Company to comply with the terms or to fulfill any of the conditions of this Agreement, or if for any reason the Company shall be unable to perform its obligations under this Agreement, then in any such case, the Company will reimburse the Underwriters for the reasonable fees and disbursements of Dewey Ballantine LLP and for the out of pocket expenses (in an amount not exceeding

$10,000) reasonably incurred by the Underwriters in making preparations for the purchase, sale and delivery of the Senior Notes and, upon such reimbursement, the Company shall be absolved from any further liability hereunder, except as provided in Sections 4 and 7.

SECTION 10. DEFAULT BY AN UNDERWRITER. If an Underwriter shall fail on the Closing Date to purchase the Senior Notes that it is obligated to purchase under this Agreement (the "Defaulted Securities"), the Representative shall have the right, within 24 hours thereafter, to make arrangements for the non-defaulting Underwriters, or any other underwriters, to purchase all, but not less than all, of the Defaulted Securities in such amounts as may be agreed upon and upon the terms herein set forth. If, however, the Representative shall not have completed such arrangements within such 24-hour period, then:

(a) if the principal amount of Defaulted Securities does not exceed 10% of the Senior Notes, the non-defaulting Underwriters shall be obligated, severally and not jointly, to purchase the full amount thereof in the proportion that their respective underwriting obligations hereunder bear to the underwriting obligations of all non-defaulting Underwriters, or

(b) if the principal amount of Defaulted Securities exceeds 10% of the Senior Notes, this Agreement shall terminate without liability on the part of any non-defaulting Underwriter.

No action taken pursuant to this Section shall relieve any defaulting Underwriter from liability in respect of its default.

In the event of any such default which does not result in a termination of this Agreement, either the Representative or the Company shall have the right to postpone the Closing Date for a period not exceeding seven days in order to effect any required changes in the Registration Statement or Final Supplemented Prospectus or in any other documents or arrangements.

SECTION 11. NOTICES. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted by any standard form of telecommunication. Notices to the Underwriters shall be directed to the Representative at Morgan Stanley & Co. Incorporated, 1585 Broadway, New York, New York 10036, attn: Bradford Hart, and notices to the Company shall be mailed to One Energy Place, Pensacola, Florida, 32520-0100, Attention: Corporate Secretary, with a copy to Southern Company Services, Inc., 270 Peachtree Street, N.W., Atlanta, Georgia 30303, Attention: David B. Brooks.

SECTION 12. PARTIES. This Agreement shall inure to the benefit of and be binding upon the Underwriters, the Company and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the Underwriters and the Company and

their respective successors and the controlling persons and officers and directors referred to in Section 7 and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the Underwriters and the Company and their respective successors, and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation. No purchaser of Senior Notes from any of the Underwriters shall be deemed to be a successor by reason merely of such purchase.

SECTION 13. GOVERNING LAW AND TIME. This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed in said State. Except as otherwise set forth herein, specified times of day refer to New York City time.

SECTION 14. COUNTERPARTS. This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such respective counterparts shall together constitute one and the same instrument.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the Underwriters and the Company in accordance with its terms.

Very truly yours,

GULF POWER COMPANY

By: _____
Name: Ronnie R. Labrato
Title: Vice President, Comptroller and Chief Financial Officer

CONFIRMED AND ACCEPTED,
as of the date first above written
as Representative of the Several Underwriters named in Schedule I hereto

MORGAN STANLEY & CO. INCORPORATED

By: _____
Name: Michael Fusco
Title: Executive Director

## SCHEDULE I

| NAME OF UNDERWRITER | Principal Amount of Series I Senior Notes |
|---|---|
| Morgan Stanley & Co. Incorporated | $30,000,000 |
| SunTrust Capital Markets, Inc. | $10,000,000 |
| TOTAL | $40,000,000 |

Schedule II-A

[Letterhead of BEGGS & LANE]

September __, 2003

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036
As Representative of the Underwriters named in Schedule I
to the Underwriting Agreement.

GULF POWER COMPANY
Series I 5.75% Senior Notes due September 15, 2033

Ladies and Gentlemen:

We have acted as general counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance and sale of $40,000,000 aggregate principal amount of its Series I 5.75% Senior Notes due September 15, 2033 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, by and between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Ninth Supplemental Indenture dated as of September 16, 2003 (collectively, the "Indenture"); and (ii) the purchase by the Underwriters of the Notes pursuant to the terms of an Underwriting Agreement (the "Underwriting Agreement") dated September 5, 2003, among the Company and the Underwriters named in Schedule I thereof (the "Underwriters") for whom you are acting as Representative. This opinion is being delivered to you pursuant to Section 5(c)(1) thereof.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (File Nos. 333-104449, 333-104449-01 and 333-104449-02) pertaining to the Notes (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act"), and the prospectus dated April 25, 2003 as supplemented by a final prospectus supplement relating to the Notes dated September 5, 2003 (the "Final Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002, the Quarterly Reports on Form 10-Q of the Company for the quarters ended March 31, 2003 and June 30, 2003 and the Current Reports on Form 8-K

of the Company dated March 21, 2003, July 10, 2003 and September __, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to collectively as the "Agreements".

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Georgia law and the federal law of the United States upon the opinion dated the date hereof rendered to you by Troutman Sanders LLP and relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP, that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi, and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable

against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by the Underwriters pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP and with your counsel. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Registration Statement, as of its effective date, and the Final Supplemented Prospectus, as of September 5, 2003, complied as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of its effective date (including the Exchange

Act Documents on file with the Commission as of such date), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contained, as of its date, or contains, on the date hereof, any untrue statement therein of a material fact or omitted, as of its date, or omits, on the date hereof, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the captions "Description of the Series I Senior Notes — Book-Entry Only Issuance — The Depository Trust Company" and "The Policy and the Insurer" or in Appendix A thereto.

We are members of the Florida Bar and we do not express any opinion herein concerning any law other than the law of the States of Maine, Florida and Mississippi and, to the extent set forth herein, the laws of the States of Georgia and New York and the federal law of the United States.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent, except that Troutman Sanders LLP and Dewey Ballantine LLP may rely on this opinion in giving their opinions pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinions relates to matters of Maine, Florida and Mississippi law.

Yours very truly,

BEGGS & LANE

Schedule II-B

[Letterhead of TROUTMAN SANDERS LLP]

September __, 2003

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036
As Representative of the Underwriters named on Schedule I
to the Underwriting Agreement.

GULF POWER COMPANY
Series I 5.75% Senior Notes due September 15, 2033

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance of $40,000,000 aggregate principal amount of its Series I 5.75% Senior Notes due September 15, 2033 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, by and between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Ninth Supplemental Indenture dated as of September 16, 2003 (collectively, the "Indenture"); and (ii) the purchase by you of the Notes pursuant to the terms of an Underwriting Agreement (the "Underwriting Agreement") dated September 5, 2003, among the Company and the Underwriters named in Schedule I thereof (the "Underwriters") for whom you are acting as Representative. This opinion is being delivered to you pursuant to Section 5(c)(2) thereof.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (File Nos. 333-104449, 333-104449-01 and 333-104449-02) pertaining to the Notes (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act"), and the prospectus dated April 25, 2003 as supplemented by a final prospectus supplement dated September 5, 2003 (the "Final

Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002, the Quarterly Reports on Form 10-Q for the quarters ended March 31, 2003 and June 30, 2003 and the Current Reports on Form 8-K of the Company dated March 21, 2003, July 10, 2003 and September ___, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to collectively as the "Agreements".

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Maine, Florida and Mississippi law upon the opinion dated the date hereof rendered to you by Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane"), and relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP, that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi, and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by the Underwriters pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP and with your counsel. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Registration Statement, as of its effective date, and the Final Supplemented Prospectus, as of September 5, 2003, complied as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the relevant requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the

financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of its effective date (including the Exchange Act Documents on file with the Commission as of such date), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contained, as of its date, or contains, on the date hereof, any untrue statement of a material fact or omitted, as of its date, or omits, as of the date hereof, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the captions "Description of the Series I Senior Notes — Book-Entry Only Issuance — The Depository Trust Company" and "The Policy and the Insurer" or in Appendix A thereto.

We are members of the State Bar of Georgia and we do not express any opinion herein concerning any law other than the law of the State of Georgia and the federal law of the United States and, to the extent set forth herein, the laws of the States of Maine, Florida, Mississippi and New York.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent, except that Beggs & Lane may rely on this opinion in giving its opinion pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinion relates to matters of Georgia law and the federal law of the United States and Dewey Ballantine LLP may rely on this opinion in giving its opinion pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinion relates to matters of Georgia law.

Yours very truly,

TROUTMAN SANDERS LLP

Schedule III

[Letterhead of Cravath, Swaine & Moore LLP]

September __, 2003

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036
As Representative of the Underwriters named on Schedule I
to the Underwriting Agreement.

Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32520

XL Capital Assurance Inc.
1221 Avenue of the Americas, 31st Floor
New York, NY 10020-1001

Gulf Power Company
Series I 5.75% Senior Notes
due September 15, 2033

Ladies and Gentlemen:

We have acted as counsel to JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank) (the "Bank") in connection with (a) the Senior Note Indenture, dated as of January 1, 1998 as heretofore supplemented (the "Original Indenture"), between Gulf Power Company (the "Company") and the Bank, as Trustee, and (b) the Ninth Supplemental Indenture dated as of September 16, 2003 (together with the Original Indenture, herein called the "Indenture"), between the Company and the Bank, as Trustee.

In that connection, we have examined originals, or copies certified or otherwise identified to our satisfaction, of such documents, records and other instruments as we have deemed necessary or appropriate for the purpose of this opinion, including copies of the Indenture and certain resolutions adopted by the Board of Directors of the Bank.

Based upon the foregoing, we are of the opinion that:

(i) the Bank has been duly incorporated and is validly existing as a banking corporation in good standing under the laws of the State of New York;

(ii) the Bank has the corporate trust power and authority to execute, deliver and perform its duties under the Indenture, has duly executed and delivered the Indenture, and, insofar as the laws governing the trust powers of the Bank are concerned and assuming due authorization, execution and delivery thereof by the Company, the Indenture constitutes a legal, valid and binding agreement of the Bank, enforceable against the Bank in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity (including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing), regardless of whether considered in a proceeding in equity or at law;

(iii) the execution, delivery and performance by the Bank of the Indenture do not conflict with or constitute a breach of the charter or bylaws of the Bank; and

(iv) no approval, authorization or other action by, or filing with, any governmental authority of the United States of America or the State of New York having jurisdiction over the trust powers of the Bank is required in connection with the execution and delivery by the Bank of the Indenture or the performance by the Bank of its duties thereunder, except such as have been obtained, taken or made.

We are admitted to practice only in the State of New York, and we express no opinion as to matters governed by any laws other than the laws of the State of New York and the Federal law of the United States of America. We are furnishing this opinion to you solely for your benefit. This opinion is not to be relied upon by any other person or used, circulated, quoted or otherwise referred to for any other purpose.

Very truly yours,

CRAVATH, SWAINE & MOORE LLP

Schedule IV

[Letterhead of DEWEY BALLANTINE LLP]

September __, 2003

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036
As Representative of the Underwriters named on Schedule I
to the Underwriting Agreement.

GULF POWER COMPANY
Series I 5.75% Senior Notes
due September 15, 2033

Ladies and Gentlemen:

We have represented the Underwriters (as hereinafter defined) in connection with (i) the issuance by Gulf Power Company (the "Company") of $40,000,000 of its Series I 5.75% Senior Notes due September 15, 2033 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, by and between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Ninth Supplemental Indenture dated as of September 16, 2003 (collectively, the "Indenture"); and (ii) the purchase by the Underwriters of the Notes pursuant to the terms of an Underwriting Agreement (the "Underwriting Agreement") dated September 5, 2003, among the Company and the underwriters named in Schedule I thereof (the "Underwriters") for whom you are acting as Representative. This opinion is being delivered to you pursuant to Section 5(c)(4) thereof.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (File Nos. 333-104449, 333-104449-01 and 333-104449-02) pertaining to the Notes (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act"), and the prospectus dated April 25, 2003 as supplemented by a final prospectus supplement dated September 5, 2003 (the "Final

Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002, the Quarterly Reports on Form 10-Q for the quarters ended March 31, 2003 and June 30, 2003 and the Current Reports on Form 8-K of the Company dated March 21, 2003, July 10, 2003 and September __, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to as the "Agreements".

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as aforesaid and as to all matters covered hereby which are governed by or dependent upon the laws of the States of Maine, Florida and Mississippi upon the opinion of Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane"), dated the date hereof and addressed to you and as to all matters covered hereby which are governed by or dependent upon the law of the State of Georgia upon the opinion of Troutman Sanders LLP dated the date hereof and addressed to you, that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi, and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents, or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as

to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by the Underwriters pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with representatives of Deloitte & Touche LLP and with counsel to the Company. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement and the Final Supplemented Prospectus and our participation in the conferences referred to above, (i) we are of the opinion that the Registration Statement, as of its effective date, and the Final Supplemented Prospectus, as of September 5, 2003, complied as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the relevant requirements of the Exchange Act and the applicable rules and

regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of its effective date (including the Exchange Act Documents on file with the Commission as of such date), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contained, as of its date, or contains, on the date hereof, any untrue statement of a material fact or omitted, as of its date, or omits, on the date hereof, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the captions "Description of the Series I Senior Notes —Book-Entry Only Issuance —The Depository Trust Company" and "The Policy and the Insurer" or in Appendix A thereto.

We are members of the State Bar of New York and we do not express any opinion herein concerning any law other than the law of the State of New York and the federal law of the United States, and to the extent set forth herein, the law of the States of Maine, Florida, Georgia and Mississippi.

This opinion is rendered solely to you in connection with the above matter. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent except that Beggs & Lane and Troutman Sanders LLP may rely on this opinion in giving their opinions pursuant to Section 5(c) of the Underwriting Agreement, insofar as such opinions relate to matters of New York law, and Troutman Sanders LLP may rely on this opinion in giving its opinion pursuant to Sections 102, 302 and 904 of the Indenture, insofar as such opinion relates to matters of New York law.

Very truly yours,

DEWEY BALLANTINE LLP

Schedule V

Letterhead of XL CAPITAL ASSURANCE INC.

September __, 2003

To Each of the Addressees Listed
on the Attached Schedule A

GULF POWER COMPANY
Series I 5.75% Senior Notes
due September 15, 2033

Ladies and Gentlemen:

I am [Associate] General Counsel of XL Capital Assurance Inc., a New York stock insurance corporation (the "Corporation"), and have acted as counsel to the Corporation in connection with the issuance of Financial Guaranty Insurance Policy No. [ ] (the "Policy") relating to the above-captioned notes (the "Notes").

In so acting, I have examined a copy of (a) the Policy, (b) the Insurance and Indemnity Agreement, dated as of [ ] (the "Insurance Agreement"), among [ ], (c) the Indemnification Agreement, dated as of [ ] (the "Indemnification Agreement"), among [ ], (d) information under the heading "The Policy and the Insurer" contained in the Prospectus of Gulf Power Company dated April 25, 2003, as supplemented by a Prospectus Supplement dated September ___, 2003 relating to the Notes (the "Final Supplemented Prospectus") and (e) such other relevant documents as I have deemed necessary.

Based upon the foregoing, I am of the following opinion:

1. The Corporation is a stock insurance corporation, duly incorporated and validly existing under the laws of the State of New York and is licensed and authorized to issue the Policy and to perform its obligations under the Policy under the laws of the State of New York.

2. The Policy, the Insurance Agreement and the Indemnification Agreement (collectively, the "Insurance Documents") have been duly executed, and

the Policy, and assuming due authorization, execution and delivery of the Insurance Agreement and the Indemnification Agreement by the parties thereto (other than the Corporation), the Insurance Agreement and the Indemnification Agreement are valid and binding obligations of the Corporation enforceable in accordance with their terms except that the enforcement of the Insurance Documents may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium, receivership and other similar laws affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and the enforceability of rights to indemnification under the Insurance Agreement and the Indemnification Agreement may be subject to limitations of public policy under applicable securities laws.

3. The execution, delivery and performance by the Corporation of its obligations under the Insurance Documents do not contravene any provision of the charter or by-laws of the Corporation. The execution, delivery and performance by the Corporation of its obligations under the Insurance Documents do not, to the extent that either of the following would affect the validity or enforceability of any of the Insurance Documents, (a) contravene any law or government regulation or order presently binding on the Corporation or (b) contravene any provision of or constitute a default under any indenture, contract or other instrument to which the Corporation is a party or by which the Corporation is bound.

4. The Policy is exempt from the registration requirements of the Securities Act of 1933, as amended (the "Act").

5. The information in the Final Supplemented Prospectus under the heading "The Policy and the Insurer" is limited and does not purport to provide the scope of disclosure required to be included in a prospectus with respect to a registrant under the Act in connection with a public offering and sale of securities of such registrant. Within such limited scope of disclosure, however, there has not come to my attention any information that would cause me to believe that the description of the Corporation referred to above, as of the date of the Final Supplemented Prospectus and as of the date hereof, contained or contains any untrue statement of a material fact or omitted, as of its date, or omits, on the date hereof, to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (except that no opinion is rendered with respect to any financial statements or other financial information contained or referred to therein).

I am qualified to practice law in the State of New York and do not purport to be an expert on, or to express any opinion concerning, any law other than the laws of the State of New York and the federal laws of the United States of America.

This opinion is being delivered to you in connection with the issuance of the Policy and the execution of the other Insurance Documents and may not be relied upon for any other purposes or by any other person without my express written consent.

Very truly yours,

[Fred Hnat]
[Susan Comparato]
[Mary Jane Constant]
[Associate] General Counsel

Schedule A

Gulf Power Company
Pensacola, Florida

Morgan Stanley & Co. Incorporated
as Representative of the Underwriters
New York, New York

JPMorgan Chase Bank
New York, New York

**GULF POWER COMPANY**

**TO**

**JPMORGAN CHASE BANK,**
**TRUSTEE**

# NINTH SUPPLEMENTAL INDENTURE

**DATED AS OF SEPTEMBER 16, 2003**

$40,000,000

SERIES I 5.75% SENIOR NOTES

DUE SEPTEMBER 15, 2033

# TABLE OF CONTENTS[1]

PAGE


ARTICLE 1 ..... 1

Series I Senior Notes ..... 1
SECTION 101. Establishment ..... 1
SECTION 102. Definitions ..... 2
SECTION 103. Payment of Principal and Interest ..... 2
SECTION 104. Denominations ..... 3
SECTION 105. Global Securities ..... 3
SECTION 106. Transfer ..... 4
SECTION 107. Redemption ..... 4

ARTICLE 2 ..... 4

Special Insurance Provisions ..... 4
SECTION 201. Supplemental Indentures ..... 4
SECTION 202. Events of Default and Remedies ..... 5
SECTION 203. Insurance Policy Payment Procedures ..... 5
SECTION 204. Application of Term "Outstanding" to Series I Notes ..... 6
SECTION 205. Insurer as Third Party Beneficiary ..... 6
SECTION 206. Concerning the Special Insurance Provisions ..... 6

ARTICLE 3 ..... 6

Miscellaneous Provisions ..... 6
SECTION 301. Recitals by Company ..... 6
SECTION 302. Ratification and Incorporation of Original Indenture ..... 7
SECTION 303. Executed in Counterparts ..... 7


[1]This Table of Contents does not constitute part of the Indenture or have any bearing upon the interpretation of any of its terms and provisions.

THIS NINTH SUPPLEMENTAL INDENTURE is made as of the 16th day of September, 2003, by and between GULF POWER COMPANY, a Maine corporation, One Energy Place, Pensacola, Florida 32520-0100 (the "Company"), and JPMORGAN CHASE BANK, a New York banking corporation, 4 New York Plaza, New York, New York 10004 (the "Trustee").

W I T N E S S E T H:

WHEREAS, the Company has heretofore entered into a Senior Note Indenture, dated as of January 1, 1998 (the "Original Indenture"), with JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as heretofore supplemented;

WHEREAS, the Original Indenture is incorporated herein by this reference and the Original Indenture, as heretofore supplemented and as further supplemented by this Ninth Supplemental Indenture, is herein called the "Indenture";

WHEREAS, under the Original Indenture, a new series of Senior Notes may at any time be established pursuant to a supplemental indenture executed by the Company and the Trustee;

WHEREAS, the Company proposes to create under the Indenture a new series of Senior Notes;

WHEREAS, additional Senior Notes of other series hereafter established, except as may be limited in the Original Indenture as at the time supplemented and modified, may be issued from time to time pursuant to the Indenture as at the time supplemented and modified; and

WHEREAS, all conditions necessary to authorize the execution and delivery of this Ninth Supplemental Indenture and to make it a valid and binding obligation of the Company have been done or performed.

NOW, THEREFORE, in consideration of the agreements and obligations set forth herein and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

## ARTICLE 1

### Series I Senior Notes

SECTION 101. Establishment. There is hereby established a new series of Senior Notes to be issued under the Indenture, to be designated as the Company's Series I 5.75% Senior Notes due September 15, 2033 (the "Series I Notes").

There are to be authenticated and delivered $40,000,000 principal amount of Series I Notes, and such principal amount of the Series I Notes need not be issued at the same time and such series may be reopened at any time, without the consent of the Holders thereof, for issuance of additional Series I Notes. Any such additional Series I Notes will have the same interest rate, maturity and

other terms, including the benefit of the Policy, as those initially issued. No Series I Notes shall be authenticated and delivered except as provided by Sections 203, 303, 304, 907 or 1107 of the Original Indenture. The Series I Notes shall be issued in definitive fully registered form.

The Series I Notes shall be issued in the form of one or more Global Securities in substantially the form set out in Exhibit A hereto. The Depositary with respect to the Series I Notes shall be The Depository Trust Company.

The form of the Trustee's Certificate of Authentication for the Series I Notes shall be in substantially the form set forth in Exhibit B hereto.

Each Series I Note shall be dated the date of authentication thereof and shall bear interest from the date of original issuance thereof or from the most recent Interest Payment Date to which interest has been paid or duly provided for.

SECTION 102. Definitions. The following defined terms used herein shall, unless the context otherwise requires, have the meanings specified below. Capitalized terms used herein for which no definition is provided herein shall have the meanings set forth in the Original Indenture.

"Insurer" means XL Capital Assurance Inc., a New York stock insurance corporation.

"Interest Payment Dates" means March 15, June 15, September 15 and December 15 of each year, commencing December15, 2003.

"Original Issue Date" means September 16, 2003.

"Policy" means the financial guaranty insurance policy issued by the Insurer with respect to payments due for principal of and interest on the Series I Notes as provided in such policy.

"Regular Record Date" means, with respect to each Interest Payment Date, the close of business on the 15th calendar day preceding such Interest Payment Date (whether or not a Business Day).

"Stated Maturity" means September 15, 2033.

SECTION 103. Payment of Principal and Interest. The principal of the Series I Notes shall be due at Stated Maturity (unless earlier redeemed). The unpaid principal amount of the Series I Notes shall bear interest at the rate of 5.75% per annum until paid or duly provided for. Interest shall be paid quarterly in arrears on each Interest Payment Date to the Person in whose name the Series I Notes are registered on the Regular Record Date for such Interest Payment Date, *provided* that interest payable at the Stated Maturity of principal or on a Redemption Date as provided herein will be paid to the Person to whom principal is payable. Any such interest that is not so punctually paid or duly provided for will forthwith cease to be payable to the Holders on such Regular Record Date and may either be paid to the Person or Persons in whose name the Series I Notes are registered at the close of business on a Special Record Date for the payment of such defaulted interest to be fixed by the Trustee, notice whereof shall be given to Holders of the Series I Notes not

less than ten (10) days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange, if any, on which the Series I Notes shall be listed, and upon such notice as may be required by any such exchange, all as more fully provided in the Original Indenture.

Payments of interest on the Series I Notes will include interest accrued to but excluding the respective Interest Payment Dates. Interest payments for the Series I Notes shall be computed and paid on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on the Series I Notes is not a Business Day, then a payment of the interest payable on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay), with the same force and effect as if made on the date the payment was originally payable.

Payment of the principal and interest due at the Stated Maturity or earlier redemption of the Series I Notes shall be made upon surrender of the Series I Notes at the Corporate Trust Office of the Trustee. The principal of and interest on the Series I Notes shall be paid in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. Payments of interest (including interest on any Interest Payment Date) will be made, subject to such surrender where applicable, at the option of the Company, (i) by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register or (ii) by wire transfer or other electronic transfer at such place and to such account at a banking institution in the United States as may be designated in writing to the Trustee at least sixteen (16) days prior to the date for payment by the Person entitled thereto.

SECTION 104. Denominations. The Series I Notes may be issued in the denominations of $25, or any integral multiple thereof.

SECTION 105. Global Securities. The Series I Notes will be issued in the form of one or more Global Securities registered in the name of the Depositary (which shall be The Depository Trust Company) or its nominee. Except under the limited circumstances described below, Series I Notes represented by one or more Global Securities will not be exchangeable for, and will not otherwise be issuable as, Series I Notes in definitive form. The Global Securities described above may not be transferred except by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary or to a successor Depositary or its nominee.

Owners of beneficial interests in such a Global Security will not be considered the Holders thereof for any purpose under the Indenture, and no Global Security representing a Series I Note shall be exchangeable, except for another Global Security of like denomination and tenor to be registered in the name of the Depositary or its nominee or to a successor Depositary or its nominee. The rights of Holders of such Global Security shall be exercised only through the Depositary.

A Global Security shall be exchangeable for Series I Notes registered in the names of persons other than the Depositary or its nominee only if (i) the Depositary notifies the Company that it is unwilling or unable to continue as a Depositary for such Global Security and no successor Depositary shall have been appointed by the Company, or if at any time the Depositary ceases to be

a clearing agency registered under the Securities Exchange Act of 1934, as amended, at a time when the Depositary is required to be so registered to act as such Depositary and no successor Depositary shall have been appointed by the Company, in each case within 90 days after the Company receives such notice or becomes aware of such cessation, (ii) the Company in its sole discretion determines that such Global Security shall be so exchangeable, or (iii) there shall have occurred an Event of Default with respect to the Series I Notes. Any Global Security that is exchangeable pursuant to the preceding sentence shall be exchangeable for Series I Notes registered in such names as the Depositary shall direct.

SECTION 106. Transfer. No service charge will be made for any transfer or exchange of Series I Notes, but payment will be required of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith.

The Company shall not be required (a) to issue, transfer or exchange any Series I Notes except to the Insurer during a period beginning at the opening of business fifteen (15) days before the day of the mailing of a notice pursuant to Section 1104 of the Original Indenture identifying the serial numbers of the Series I Notes to be called for redemption, and ending at the close of business on the day of the mailing, or (b) to transfer or exchange any Series I Notes theretofore selected for redemption in whole or in part, except the unredeemed portion of any Series I Note redeemed in part.

SECTION 107. Redemption. The Series I Notes shall be subject to redemption at the option of the Company, in whole or in part, without premium or penalty, at any time or from time to time on or after September 16, 2008, at a Redemption Price equal to 100% of the principal amount to be redeemed plus accrued but unpaid interest to the Redemption Date.

In the event of redemption of the Series I Notes in part only, a new Series I Note or Notes for the unredeemed portion will be issued in the name or names of the Holders thereof upon the surrender thereof.

The Series I Notes will not have a sinking fund.

Notice of redemption shall be given as provided in Section 1104 of the Original Indenture.

Any redemption of less than all of the Series I Notes shall, with respect to the principal thereof, be divisible by $25.

## ARTICLE 2

### Special Insurance Provisions

SECTION 201. Supplemental Indentures. The consent of the Insurer shall be required with respect to any indenture or indentures supplemental to the Original Indenture requiring the consent of the Holders of the Series I Notes pursuant to Section 902 of the Original Indenture.

SECTION 202. Events of Default and Remedies. Subject to Section 107 of the Original Indenture and to the Trust Indenture Act, including, without limitation, Sections 316(a)(1) and 317(a) thereof, if an Event of Default occurs and is continuing, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Series I Notes or the Trustee for the benefit of the Holders of the Series I Notes under this Indenture, including, without limitation, (i) the right to accelerate the principal of the Series I Notes as provided in Section 502 of the Original Indenture, and (ii) the right to annul any such declaration of acceleration, and the Insurer shall also be entitled to approve any waiver of an Event of Default with respect to the Series I Notes, the obligation of the Trustee to comply with any such direction to be subject to compliance with the conditions set forth in Sections 512 and 603(e) of the Original Indenture (as if references in those Sections to Holders were references to the Insurer) and the protections provided to the Trustee by Section 601(c)(3) of the Original Indenture shall be applicable with respect to any direction from the Insurer given pursuant hereto (as if references in said Section to Holders were references to the Insurer).

SECTION 203. Insurance Policy Payment Procedures. (a) The Insurer will make payments of principal or interest due on the Series I Notes in accordance with the Policy on or before the first Business Day next following the date on which the Insurer shall have received notice of Nonpayment (as defined in the Policy) from the Trustee.

(b) In the event of Nonpayment and notification thereof to the Insurer, the Trustee shall make available to the Insurer the books kept by the Trustee for the registration and for the registration of transfer of Series I Notes as provided in the Indenture.

(c) The Trustee shall, at the time it provides notice to the Insurer pursuant to (a) above, notify Holders of Series I Notes entitled to receive the payment of principal or interest thereon from the Insurer (i) as to the fact of such entitlement, (ii) that the Insurer will remit to them all or a part of the interest payments next coming due upon proof of Holder entitlement to interest payments and delivery to the Insurer, in form satisfactory to the Insurer, of an appropriate assignment of the Holder's right to payment, (iii) that should they be entitled to receive full payment of principal from the Insurer, they must surrender their Series I Notes (along with an appropriate instrument of assignment in form satisfactory to the Insurer to permit ownership of such Series I Notes to be registered in the name of the Insurer) for payment to the Insurer, and not the Trustee or any paying agent, and (iv) that should they be entitled to receive partial payment of principal from the Insurer, they must surrender their Series I Notes for payment thereon first to the Trustee, who shall note on such Series I Notes the portion of the principal paid by the Trustee, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurer, to the Insurer, which will then pay the unpaid portion of principal.

(d) In the event that the Trustee has notice that any payment of principal of or interest on a Series I Note which has become due for payment (under the terms of the Policy) and which is made to a Holder by or on behalf of the Company has been deemed a preferential transfer and theretofore recovered from its Holder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time the Insurer is notified pursuant to (a) above, notify all

Holders of the Series I Notes that in the event that any Holder's payment is so recovered, such Holder will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to the Insurer its records evidencing the payments of principal of and interest on the Series I Notes which have been made by the Trustee and subsequently recovered from Holders and the dates on which such payments were made.

(e) In addition to those rights granted the Insurer under the Indenture, the Insurer shall, to the extent it makes payment of principal of or interest on Series I Notes, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Insurer's rights as subrogee on the registration books of the Company maintained by the Trustee upon receipt from the Insurer of proof of the payment of interest thereon to the Holders of the Series I Notes, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Insurer's rights as subrogee on the registration books of the Company maintained by the Trustee upon surrender of the Series I Notes by the Holders thereof together with proof of the payment of principal thereof.

SECTION 204. Application of Term "Outstanding" to Series I Notes. In the event that the principal and/or interest due on the Series I Notes shall be paid by the Insurer pursuant to the Policy, the Series I Notes shall remain Outstanding for all purposes of the Indenture, not be considered defeased or otherwise satisfied and not be considered paid by the Company, and the assignment and pledge of the Indenture and all covenants, agreements and other obligations of the Company to the Holders of the Series I Notes shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such Holders to the extent of each such payment.

SECTION 205. Insurer as Third Party Beneficiary. To the extent that the Indenture confers upon or gives or grants to the Insurer any right, remedy or claim under or by reason of the Indenture, the Insurer is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.

SECTION 206. Concerning the Special Insurance Provisions. The provisions of this Article 2 shall apply notwithstanding anything in the Indenture to the contrary, but only so long as the Policy shall be in full force and effect and the Insurer is not in default thereunder.

## ARTICLE 3

### Miscellaneous Provisions

SECTION 301. Recitals by Company. The recitals in this Ninth Supplemental Indenture are made by the Company only and not by the Trustee, and all of the provisions contained in the Original Indenture in respect of the rights, privileges, immunities, powers and duties of the Trustee

shall be applicable in respect of Series I Notes and of this Ninth Supplemental Indenture as fully and with like effect as if set forth herein in full.

SECTION 302. Ratification and Incorporation of Original Indenture. As heretofore supplemented and as supplemented hereby, the Original Indenture is in all respects ratified and confirmed, and the Original Indenture as heretofore supplemented and as supplemented by this Ninth Supplemental Indenture shall be read, taken and construed as one and the same instrument.

SECTION 303. Executed in Counterparts. This Ninth Supplemental Indenture may be simultaneously executed in several counterparts, each of which shall be deemed to be an original, and such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, each party hereto has caused this instrument to be signed in its name and behalf by its duly authorized officers, all as of the day and year first above written.

ATTEST:

By: Susan D. Ritenour
Susan D. Ritenour
Secretary and Treasurer

GULF POWER COMPANY

By: Ronnie R. Labrato
Ronnie R. Labrato
Vice President, Comptroller and Chief Financial Officer

ATTEST:

By:_____
Nicholas Sberlati
Trust Officer

JPMORGAN CHASE BANK, as Trustee

By:_____
Carol Ng
Vice President

IN WITNESS WHEREOF, each party hereto has caused this instrument to be signed in its name and behalf by its duly authorized officers, all as of the day and year first above written.

ATTEST:

GULF POWER COMPANY

By:_____
Susan D. Ritenour
Secretary and Treasurer

By:_____
Ronnie R. Labrato
Vice President, Comptroller and Chief Financial Officer

ATTEST:

JPMORGAN CHASE BANK, as Trustee

By:_____
Nicholas Sberlati
Trust Officer

By:_____
Carol Ng
Vice President

# EXHIBIT A

## FORM OF SERIES I NOTE

NO. ____ CUSIP NO. 402479786

GULF POWER COMPANY
SERIES I 5.75% SENIOR NOTE
DUE SEPTEMBER 15, 2033

| | |
|---|---|
| Principal Amount: | $_____ |
| Regular Record Date: | 15th calendar day prior to the applicable Interest Payment Date (whether or not a Business Day) |
| Original Issue Date: | September 16, 2003 |
| Stated Maturity: | September 15, 2033 |
| Interest Payment Dates: | March 15, June 15, September 15 and December 15 |
| Interest Rate: | 5.75% per annum |
| Authorized Denominations: | $25 or any integral multiple thereof |
| Initial Redemption Date: | September 16, 2008 |

Gulf Power Company, a Maine corporation (the "Company", which term includes any successor corporation under the Indenture referred to on the reverse hereof), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of _____DOLLARS ($_____) on the Stated Maturity shown above (or upon earlier redemption), and to pay interest thereon from the Original Issue Date shown above, or from the most recent Interest Payment Date to which interest has been paid or duly provided for, quarterly in arrears on each Interest Payment Date as specified above, commencing December 15, 2003, and on the Stated Maturity (or upon earlier redemption) at the rate per annum shown above until the principal hereof is paid or made available for payment and on any overdue principal and on any overdue installment of interest. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date (other than an Interest Payment Date that is the Stated Maturity or on a Redemption Date) will, as provided in such Indenture, be paid to the Person in whose name this Note (the "Note") is registered at the close of business on the Regular Record Date as specified above next preceding such Interest Payment Date, provided that any interest payable at Stated Maturity or on any Redemption Date will be paid to the Person to whom principal is payable. Except as otherwise provided in the Indenture, any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Note is registered at the close of business on a Special Record Date for the payment of such defaulted interest to be fixed by the Trustee, notice

whereof shall be given to Holders of Notes of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange, if any, on which the Notes of this series shall be listed, and upon such notice as may be required by any such exchange, all as more fully provided in the Indenture.

Payments of interest on this Note will include interest accrued to but excluding the respective Interest Payment Dates. Interest payments for this Note shall be computed and paid on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on this Note is not a Business Day, then payment of the interest payable on such date will be made on the next succeeding day that is a Business Day (and without interest or other payment in respect of any such delay), with the same force and effect as if made on the date the payment was originally payable. A "Business Day" shall mean any day other than a Saturday or a Sunday or a day on which banking institutions in New York City are authorized or required by law or executive order to remain closed or a day on which the Corporate Trust Office of the Trustee is closed for business.

Payment of the principal of and interest due at the Stated Maturity or earlier redemption of the Series I Notes shall be made upon surrender of the Series I Notes at the Corporate Trust Office of the Trustee. The principal of and interest on the Series I Notes shall be paid in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. Payment of interest (including interest on an Interest Payment Date) will be made, subject to such surrender where applicable, at the option of the Company, (i) by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register or (ii) by wire transfer or other electronic transfer at such place and to such account at a banking institution in the United States as may be designated in writing to the Trustee at least 16 days prior to the date for payment by the Person entitled thereto.

XL Capital Assurance Inc. (the "Insurer"), New York, New York, has delivered its financial guaranty insurance policy (the "Policy") with respect to the scheduled payments due of principal of and interest on this Note to the principal Corporate Trust Office of the Trustee. **Said Policy is on file and available for inspection at the principal Corporate Trust Office of the Trustee and a copy thereof may be obtained from the Insurer or the Trustee.**

REFERENCE IS HEREBY MADE TO THE FURTHER PROVISIONS OF THIS NOTE SET FORTH ON THE REVERSE HEREOF, WHICH FURTHER PROVISIONS SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS IF SET FORTH AT THIS PLACE.

Unless the certificate of authentication hereon has been executed by the Trustee by manual signature, this Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

Dated:

GULF POWER COMPANY

By:_____
Title:

Attest:

_____
Title:

{Seal of GULF POWER COMPANY appears here}

CERTIFICATE OF AUTHENTICATION

This is one of the Senior Notes referred to in the within-mentioned Indenture.

JPMORGAN CHASE BANK,
as Trustee

By:_____
Authorized Officer

(Reverse Side of Note)

This Note is one of a duly authorized issue of Senior Notes of the Company (the "Notes"), issued and issuable in one or more series under a Senior Note Indenture, dated as of January 1, 1998, as supplemented (the "Indenture"), between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), Trustee (the "Trustee," which term includes any successor trustee under the Indenture), to which Indenture and all indentures incidental thereto reference is hereby made for a statement of the respective rights, limitation of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Notes issued thereunder and of the terms upon which said Notes are, and are to be, authenticated and delivered. This Note is one of the series designated on the face hereof as Series I 5.75% Senior Notes due September 15, 2033 (the "Series I Notes") which is unlimited in aggregate principal amount. Capitalized terms used herein for which no definition is provided herein shall have the meanings set forth in the Indenture.

The Company shall have the right, subject to the terms and conditions of the Indenture, to redeem this Note at any time on or after September 16, 2008 at the option of the Company, without premium or penalty, in whole or in part, at a Redemption Price equal to 100% of the principal amount to be redeemed plus accrued but unpaid interest to the Redemption Date.

In the event of redemption of this Note in part only, a new Note or Notes of this series for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the surrender hereof. The Notes will not have a sinking fund.

If an Event of Default with respect to the Notes of this series shall occur and be continuing, the principal of the Notes of this series may be declared due and payable in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Notes of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of not less than a majority in principal amount of the Notes at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Notes of each series at the time Outstanding, on behalf of the Holders of all Notes of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Note shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest on this Note at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Note is registrable in the Security Register, upon surrender of this Note for registration of transfer at the office or agency of the Company for such purpose, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar and duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Notes of this series, of authorized denominations and of like tenor and for the same aggregate principal amount, will be issued to the designated transferee or transferees. No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Note for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Note is registered as the owner hereof for all purposes, whether or not this Note be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

The Notes of this series are issuable only in registered form without coupons in denominations of $25 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Notes of this series are exchangeable for a like aggregate principal amount of Notes of this series of a different authorized denomination, as requested by the Holder surrendering the same upon surrender of the Note or Notes to be exchanged at the office or agency of the Company.

This Note shall be governed by, and construed in accordance with, the internal laws of the State of New York.

## ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this instrument, shall be construed as though they were written out in full according to applicable laws or regulations:

| | | |
|---|---|---|
| TEN COM- | as tenants in common | UNIF GIFT MIN ACT- _____ Custodian _____ (Cust) (Minor) |
| TEN ENT- | as tenants by the entireties | under Uniform Gifts to Minors Act |
| JT TEN- | as joint tenants with right of survivorship and not as tenants in common | _____ (State) |

Additional abbreviations may also be used though not on the above list.

FOR VALUE RECEIVED, the undersigned hereby sell(s) and transfer(s) unto

_____

(please insert Social Security or other identifying number of assignee)

_____

PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING POSTAL ZIP CODE OF ASSIGNEE

_____

_____

the within Note and all rights thereunder, hereby irrevocably constituting and appointing

_____

_____

agent to transfer said Note on the books of the Company, with full power of substitution in the premises.

Dated: _____ _____

_____

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within instrument in every particular without alteration or enlargement, or any change whatever.

EXHIBIT B

CERTIFICATE OF AUTHENTICATION

This is one of the Senior Notes referred to in the within-mentioned Indenture.

JPMORGAN CHASE BANK,
as Trustee

By:_____
Authorized Officer

*PROSPECTUS SUPPLEMENT*
*(To Prospectus dated April 25, 2003)*

# *$40,000,000*

GULF POWER
A SOUTHERN COMPANY

## *SERIES I 5.75% SENIOR NOTES DUE SEPTEMBER 15, 2033*

*Interest payable on March 15, June 15, September 15 and December 15*

***This is a public offering by Gulf Power Company of $40,000,000 of its Series I 5.75% Senior Notes due September 15, 2033. Gulf Power Company may redeem the Series I Senior Notes in whole or in part on or after September 16, 2008. The Series I Senior Notes are unsecured and rank equally with all of Gulf Power Company's other unsecured indebtedness and will be effectively subordinated to all secured debt of Gulf Power Company.***

***Gulf Power Company plans to list the Series I Senior Notes on the New York Stock Exchange. Trading of the Series I Senior Notes is expected to begin on the New York Stock Exchange within 30 days after the Series I Senior Notes are first issued.***

***See "Risk Factors" on page S-3 of this Prospectus Supplement for information on certain risks related to the purchase of these securities.***

***Payments of principal and interest on the Series I Senior Notes when due will be insured by a financial guaranty insurance policy to be issued by XL Capital Assurance Inc.***

XL CAPITAL ASSURANCE

*PRICE 100% AND ACCRUED INTEREST, IF ANY*

| | *Price to Public* | *Underwriting Discounts and Commissions* | *Proceeds to Gulf Power Company* |
|---|---|---|---|
| *Per Series I Senior Note* | *100.00%* | *3.15%* | *96.85%* |
| *Total* | *$40,000,000* | *$1,260,000* | *$38,740,000* |

*Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this Prospectus Supplement or the accompanying Prospectus. Any representation to the contrary is a criminal offense.*

*The underwriters expect to deliver the Series I Senior Notes to purchasers on September 16, 2003.*

***MORGAN STANLEY*** ***SUNTRUST ROBINSON HUMPHREY***

*September 5, 2003*

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained or incorporated by reference in this Prospectus Supplement or the accompanying Prospectus. You must not rely on any unauthorized information or representations. This Prospectus Supplement and accompanying Prospectus is an offer to sell only the Series I Senior Notes and only under circumstances and in jurisdictions where it is lawful to do so. The information incorporated by reference or contained in this Prospectus Supplement and accompanying Prospectus is current only as of its date.

## Table of Contents


| | Page |
|---|---|
| **Prospectus Supplement** | |
| Risk Factors | S-3 |
| The Company | S-3 |
| Selected Financial Information | S-4 |
| Use of Proceeds | S-4 |
| Description of the Series I Senior Notes | S-5 |
| The Policy and the Insurer | S-8 |
| Ratings | S-11 |
| Underwriting | S-12 |
| Experts | S-13 |
| Appendix A — Form of Policy | A-1 |

| | Page |
|---|---|
| **Prospectus** | |
| About this Prospectus | 2 |
| Risk Factors | 2 |
| Available Information | 2 |
| Incorporation of Certain Documents by Reference | 3 |
| Gulf Power Company | 3 |
| Selected Information | 4 |
| The Trusts | 5 |
| Accounting Treatment of Trusts | 5 |
| Use of Proceeds | 5 |
| Description of the Senior Notes | 6 |
| Description of the Junior Subordinated Notes | 10 |
| Description of the Preferred Securities | 15 |
| Description of the Guarantees | 16 |
| Relationship Among the Preferred Securities, the Junior Subordinated Notes and the Guarantees | 18 |
| Plan of Distribution | 19 |
| Legal Matters | 20 |
| Experts | 20 |

## RISK FACTORS

Investing in the Series I Senior Notes involves risk. Please see the risk factors in Gulf Power Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, which is incorporated by reference in this Prospectus Supplement. Before making an investment decision, you should carefully consider these risks as well as other information contained or incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. The risks and uncertainties not presently known to Gulf Power Company or that Gulf Power Company currently deems immaterial may also impair its business operations, its financial results and the value of the Series I Senior Notes.

## THE COMPANY

Gulf Power Company (the "Company") is a corporation organized under the laws of the State of Maine on November 2, 1925, and admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976 and in Georgia on November 20, 1984. The mailing address of the Company's principal executive offices is One Energy Place, Pensacola, Florida 32520-0100, and the telephone number is (850) 444-6111. The Company is a wholly owned subsidiary of The Southern Company.

The Company is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy within an approximately 7,400 square mile service area within the northwestern portion of the State of Florida.

## SELECTED FINANCIAL INFORMATION

The following selected financial data for the years ended December 31, 1998 through December 31, 2002 and the six months ended June 30, 2003 have been derived from the Company's financial statements and related notes, incorporated by reference in this Prospectus Supplement. The information set forth below is qualified in its entirety by reference to and, therefore, should be read together with management's discussion and analysis of results of operations and financial condition, the financial statements and related notes and other financial information incorporated by reference in this Prospectus Supplement.

| | Year Ended December 31, | | | | | Six Months Ended June 30, |
|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
| | (Thousands, except ratios) | | | | | (unaudited) |
| Operating Revenues | $650,518 | $674,099 | $714,319 | $725,203 | $820,467 | $413,047 |
| Earnings Before Income Taxes | 89,356 | 86,515 | 82,607 | 89,716 | 104,397 | 52,557 |
| Net Income After Dividends on Preferred Stock | 56,521 | 53,667 | 51,843 | 58,307 | 67,036 | 32,757 |
| Ratio of Earnings to Fixed Charges(1) | 3.83 | 3.62 | 3.38 | 3.64 | 3.52 | 3.59 |

| | Capitalization As of June 30, 2003 | | |
|---|---|---|---|
| | Actual | As Adjusted(2) | |
| | (Thousands, except percentages) | | (unaudited) |
| Common Stock Equity | $ 556,503 | $ 556,503 | 46.5% |
| Cumulative Preferred Stock | 4,236 | 4,236 | 0.4 |
| Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Company Junior Subordinated Notes | 115,000 | 70,000 | 5.8 |
| Senior Notes | 236,720 | 350,000 | 29.2 |
| Other Long-Term Debt | 216,625 | 216,625 | 18.1 |
| Total | $1,129,084 | $1,197,364 | 100.0% |

(1) This ratio is computed as follows: (i) "Earnings" have been calculated by adding to "Earnings Before Income Taxes" "Interest Expense, Net of Amounts Capitalized," "Distributions on Preferred Securities of Subsidiary" and the debt portion of allowance for funds used during construction; and (ii) "Fixed Charges" consist of "Interest Expense, Net of Amounts Capitalized," "Distributions on Preferred Securities of Subsidiary" and the debt portion of allowance for funds used during construction.

(2) Reflects (i) the redemption in July 2003 and August 2003 of $46,720,000 aggregate principal amount of Series A 6.70% Senior Insured Quarterly Notes due June 30, 2038; (ii) the issuance in July 2003 of $60,000,000 aggregate principal amount of Series G 4.35% Senior Notes due July 15, 2013; (iii) the issuance in July 2003 of $60,000,000 aggregate principal amount of Series H 5.25% Senior Notes due July 15, 2033; (iv) the proposed redemption in October 2003 of $45,000,000 aggregate liquidation amount of Gulf Power Capital Trust II 7.00% Cumulative Quarterly Income Preferred Securities; and (v) the issuance of the Series I Senior Notes offered hereby.

## USE OF PROCEEDS

The proceeds from the sale of the Series I Senior Notes, together with other monies of the Company, will be used by the Company to redeem in October 2003 the $45,000,000 outstanding principal amount of Gulf Power Capital Trust II 7.00% Cumulative Quarterly Income Preferred Securities. The redemption is subject to the Company's closing of the sale of the Series I Senior Notes.

## DESCRIPTION OF THE SERIES I SENIOR NOTES

Set forth below is a description of the specific terms of the Series I 5.75% Senior Notes due September 15, 2033 (the "Series I Senior Notes"). This description supplements, and should be read together with, the description of the general terms and provisions of the senior notes set forth in the accompanying Prospectus under the caption "Description of the Senior Notes." The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the description in the accompanying Prospectus and the Senior Note Indenture dated as of January 1, 1998, as supplemented (the "Senior Note Indenture"), between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Senior Note Indenture Trustee").

### General

The Series I Senior Notes will be issued as a series of senior notes under the Senior Note Indenture. The Series I Senior Notes will initially be issued in the aggregate principal amount of $40,000,000. The Company may, without the consent of the holders of the Series I Senior Notes, issue additional notes having the same ranking and the same interest rate, maturity and other terms, including the benefit of the Policy (as defined below), as the Series I Senior Notes. Any additional notes having such similar terms, together with the Series I Senior Notes, will constitute a single series of senior notes under the Senior Note Indenture.

The entire principal amount of the Series I Senior Notes will mature and become due and payable, together with any accrued and unpaid interest thereon, on September 15, 2033. The Series I Senior Notes are not subject to any sinking fund provision. The Series I Senior Notes are available for purchase in denominations of $25 and any integral multiple thereof.

### Interest

Each Series I Senior Note shall bear interest at the rate of 5.75% per annum (the "Securities Rate") from the date of original issuance, payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year (each, an "Interest Payment Date") to the person in whose name such Series I Senior Note is registered at the close of business on the fifteenth calendar day prior to such payment date (whether or not a Business Day). The initial interest payment date is December 15, 2003. The amount of interest payable will be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on the Series I Senior Notes is not a Business Day, then payment of the interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay), with the same force and effect as if made on such date. "Business Day" means a day other than (i) a Saturday or Sunday, (ii) a day on which banks in New York, New York are authorized or obligated by law or executive order to remain closed or (iii) a day on which the Senior Note Indenture Trustee's corporate trust office is closed for business.

### Ranking

The Series I Senior Notes will be direct, unsecured and unsubordinated obligations of the Company ranking equally with all other unsecured and unsubordinated obligations of the Company. The Series I Senior Notes will be effectively subordinated to all secured debt of the Company, including its first mortgage bonds, aggregating approximately $108,000,000 outstanding at June 30, 2003. The Senior Note Indenture contains no restrictions on the amount of additional indebtedness that may be incurred by the Company.

### Trading Characteristics

The Series I Senior Notes are expected to trade at a price that takes into account the value, if any, of accrued but unpaid interest; thus, purchasers will not pay and sellers will not receive accrued and unpaid interest with respect to the Series I Senior Notes that is not included in the trading price thereof. Any portion of the trading

price of a Series I Senior Note received that is attributable to accrued interest will be treated as ordinary interest income for federal income tax purposes and will not be treated as part of the amount realized for purposes of determining gain or loss on the disposition of the Series I Senior Note.

The trading price of the Series I Senior Notes is likely to be sensitive to the level of interest rates generally. If interest rates rise in general, the trading price of the Series I Senior Notes may decline to reflect the additional yield requirements of the purchasers. Conversely, a decline in interest rates may increase the trading price of the Series I Senior Notes, although any increase will be moderated by the Company's ability to call the Series I Senior Notes at any time on or after September 16, 2008.

**Special Insurance Provisions of the Senior Note Indenture**

Subject to the provisions of the Senior Note Indenture, so long as the Insurer (as defined below) is not in default under the Policy, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies with respect to the Series I Senior Notes upon the occurrence and continuation of an Event of Default (as defined in the Senior Note Indenture).

**Optional Redemption**

The Company shall have the right to redeem the Series I Senior Notes, in whole or in part, without premium, from time to time, on or after September 16, 2008, upon not less than 30 nor more than 60 days' notice, at a redemption price (the "Redemption Price") equal to 100% of the principal amount to be redeemed plus any accrued and unpaid interest to the date of redemption (the "Redemption Date").

If notice of redemption is given as aforesaid, the Series I Senior Notes so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price together with any accrued interest thereon, and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest) such Series I Senior Notes shall cease to bear interest. If any Series I Senior Note called for redemption shall not be paid upon surrender thereof for redemption, the principal shall, until paid, bear interest from the Redemption Date at the Securities Rate. See "Description of the Senior Notes—Events of Default" in the accompanying Prospectus.

Subject to the foregoing and to applicable law (including, without limitation, United States federal securities laws), the Company or its affiliates may, at any time and from time to time, purchase outstanding Series I Senior Notes by tender, in the open market or by private agreement.

**Book-Entry Only Issuance—The Depository Trust Company**

The Depository Trust Company ("DTC") will act as the initial securities depositary for the Series I Senior Notes. The Series I Senior Notes will be issued only as fully-registered securities registered in the name of Cede & Co., DTC's nominee, or such other name as may be requested by an authorized representative of DTC. One or more fully registered global Series I Senior Notes certificates will be issued, representing in the aggregate the total principal amount of Series I Senior Notes, and will be deposited with DTC or a custodian therefor.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended (the "1934 Act"). DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic

computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc. (the "NYSE"), the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants" and, together with Direct Participants, "Participants"). The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission (the "Commission"). More information about DTC can be found at www.dtcc.com.

Purchases of Series I Senior Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series I Senior Notes on DTC's records. The ownership interest of each actual purchaser of Series I Senior Notes ("Beneficial Owner") is in turn to be recorded on the Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Participants through which the Beneficial Owners purchased Series I Senior Notes. Transfers of ownership interests in the Series I Senior Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series I Senior Notes, except in the event that use of the book-entry system for the Series I Senior Notes is discontinued.

To facilitate subsequent transfers, all Series I Senior Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series I Senior Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any changes in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series I Senior Notes. DTC's records reflect only the identity of the Direct Participants to whose accounts such Series I Senior Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Redemption notices shall be sent to DTC. If less than all of the Series I Senior Notes are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series I Senior Notes to be redeemed.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Although voting with respect to the Series I Senior Notes is limited, in those cases where a vote is required, neither DTC nor Cede & Co. (or such other DTC nominee) will itself consent or vote with respect to Series I Senior Notes. Under its usual procedures, DTC would mail an Omnibus Proxy to the Company as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s (or such other DTC nominee's) consenting or voting rights to those Direct Participants to whose accounts the Series I Senior Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Series I Senior Notes will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Company or the Senior Note Indenture

Trustee on the relevant payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payments on such payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the account of customers registered in "street name," and will be the responsibility of such Participant and not of DTC or the Company, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Company, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Participants.

Except as provided herein, a Beneficial Owner of a global Series I Senior Note will not be entitled to receive physical delivery of Series I Senior Notes. Accordingly, each Beneficial Owner must rely on the procedures of DTC to exercise any rights under the Series I Senior Notes. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of securities in definitive form. Such laws may impair the ability to transfer beneficial interests in a global Series I Senior Note.

DTC may discontinue providing its services as securities depositary with respect to the Series I Senior Notes at any time by giving reasonable notice to the Company. Under such circumstances, in the event that a successor securities depositary is not obtained, Series I Senior Notes certificates will be printed and delivered to the holders of record. Additionally, the Company may decide to discontinue use of the system of book-entry transfers through DTC (or a successor depositary) with respect to the Series I Senior Notes. In that event, certificates for the Series I Senior Notes will be printed and delivered to the holders of record.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Company believes to be reliable, but the Company takes no responsibility for the accuracy thereof. The Company has no responsibility for the performance by DTC or its Participants of their respective obligations as described herein or under the rules and procedures governing their respective operations.

## THE POLICY AND THE INSURER

### The Policy

Concurrently with the issuance of the Series I Senior Notes, XL Capital Assurance Inc. (the "Insurer") will issue a financial guaranty insurance policy relating to the Series I Senior Notes (the "Policy"). The form of the Policy is attached to this Prospectus Supplement as Appendix A. The following summary of the terms of the Policy does not purport to be complete and is qualified in its entirety by reference to the Policy. Any capitalized terms used in this section but not defined herein have the meanings ascribed to them in the Policy.

The Policy guarantees the scheduled payment of principal of and interest on the Series I Senior Notes when due. The Policy will extend for the term of the Series I Senior Notes and, once issued, cannot be canceled by the Insurer. The Policy will insure payment only on the stated maturity date, in the case of principal, and on stated dates for payment, in the case of interest. If any Series I Senior Notes become subject to redemption and insufficient funds are available for redemption of all such outstanding Series I Senior Notes, the Insurer will remain obligated to pay principal of and interest on such outstanding Series I Senior Notes on the originally scheduled principal and interest payment dates. In the event of any acceleration of the principal of the Series I Senior Notes, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Senior Note Indenture Trustee has notice that any payment of principal of or interest on a Series I Senior Note which has become Due for Payment on any regularly scheduled principal payment date or Interest Payment Date and which is made to a holder by or on behalf of the Company has been deemed a preferential transfer and theretofore recovered from its holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such holder will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available

The Policy does not insure any risk other than Nonpayment. Specifically, the Policy does not cover:

a. payment on acceleration, as a result of a call for redemption or as a result of any other advancement of maturity;

b. nonpayment of principal or interest caused by the insolvency or negligence of the Senior Note Indenture Trustee; or

c. losses suffered as a result of a holder's inability to sell Series I Senior Notes.

Upon payment of the insurance benefits with respect to a Series I Senior Note, the Insurer will become the owner of such Series I Senior Note or right to payment of principal or interest on such Series I Senior Note and will be fully subrogated to the rights to payment of the surrendering holder.

**The Insurer**

*The information set forth below has been provided by the Insurer for use in this Prospectus Supplement. None of the Company, the Senior Note Indenture Trustee or any Underwriter makes any representation or warranty or assumes any responsibility with respect to the information concerning the Insurer, its parent or the Policy contained or incorporated into this Prospectus Supplement. Neither the Company nor any Underwriter has made any independent investigation of the Policy or the Insurer, and reference should be made to the information set forth below for a description of the Policy. The Policy does not constitute a part of the contract between the Company and the holders. Except for the payment of the premium for the Policy to the Insurer, the Company has no responsibility whatsoever with respect to the Policy, including the maintenance or enforcement of the Policy or collection of amounts payable under the Policy.*

*The Insurer accepts no responsibility for the accuracy or completeness of this Prospectus Supplement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer and its affiliates set forth under this heading. In addition, the Insurer makes no representation regarding the Series I Senior Notes or the advisability of investing in the Series I Senior Notes.*

*General.* The Insurer is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The Insurer is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, the State of New York, forty-seven other states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore. The Insurer has license applications pending, or intends to file an application, in each of those states in which it is not currently licensed.

The Insurer is an indirect wholly owned subsidiary of XL Capital Ltd, a Cayman Islands corporation ("XL Capital Ltd"). Through its subsidiaries, XL Capital Ltd is a leading provider of insurance and reinsurance coverages and financial products to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The common stock of XL Capital Ltd is publicly traded in the United States and listed on the New York Stock Exchange (NYSE:XL). **XL Capital Ltd is not obligated to pay the debts of or claims against the Insurer**.

The Insurer was formerly known as The London Assurance of America Inc. ("London"), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. ("XL Re") acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999), with and into London, with London as the surviving entity. London immediately changed its name to XL Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition.

*Reinsurance.* The Insurer has entered into a facultative quota share reinsurance agreement with XL Financial Assurance Ltd ("XLFA"), an insurance company organized under the laws of Bermuda and an affiliate of the Insurer. Pursuant to this reinsurance agreement, the Insurer expects to cede up to 90% of its business to

XLFA. The Insurer may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the Insurer as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the Insurer's obligations under any financial guaranty insurance policy. With respect to any transaction insured by the Insurer, the percentage of risk ceded to XLFA may be less than 90% depending on certain factors including, without limitation, whether the Insurer has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by the Insurer, including the Policy.

*Ratings.* Based on the audited financials of XLFA as of December 31, 2002, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of $611,791,000, $245,750,000, $39,000,000 and $327,041,000, respectively, determined in accordance with generally accepted accounting principles in the United States. XLFA's insurance financial strength is rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's, a division of The McGraw-Hill Companies ("Standard & Poor's"), and Fitch Ratings ("Fitch"). In addition, XLFA has obtained a financial enhancement rating of "AAA" from Standard & Poor's.

The obligations of XLFA to the Insurer under the reinsurance agreement described above are unconditionally guaranteed by XL Insurance (Bermuda) Ltd ("XLI"), a Bermuda company and one of the world's leading excess commercial insurers. XLI is a wholly owned indirect subsidiary of XL Capital Ltd. In addition to having an "A+" rating from A.M. Best, XLI's financial strength rating is "Aa2" by Moody's and "AA" by Standard & Poor's and Fitch. The ratings of XLFA and XLI are not recommendations to buy, sell or hold securities, including the Series I Senior Notes, and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch.

Notwithstanding the capital support provided to the Insurer described in this section, the holders of the Series I Senior Notes will have direct recourse against the Insurer only, and neither XLFA nor XLI will be directly liable to the holders of the Series I Senior Notes.

*Financial Strength and Financial Enhancement Ratings of the Insurer.* The Insurer's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch. In addition, the Insurer has obtained a financial enhancement rating of "AAA" from Standard & Poor's. These ratings reflect Moody's, Standard & Poor's and Fitch's current assessment of the Insurer's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described under "—Reinsurance" above.

The above ratings are not recommendations to buy, sell or hold securities, including the Series I Senior Notes, and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Series I Senior Notes. The Insurer does not guaranty the market price of the Series I Senior Notes nor does it guaranty that the ratings on the Series I Senior Notes will not be revised or withdrawn.

*Capitalization of the Insurer.* Based on the audited statutory financial statements for the Insurer as of December 31, 2001, the Insurer had total admitted assets of $158,442,157, total liabilities of $48,899,961 and total capital and surplus of $109,542,696 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP"). Based on the audited statutory financial statements for the Insurer as of December 31, 2002, the Insurer has total admitted assets of $180,993,189, total liabilities of $58,685,217 and total capital and surplus of $122,307,972 determined in accordance with SAP.

For further information concerning the Insurer and XLFA, see the financial statements of the Insurer and XLFA, and the notes thereto, incorporated by reference in this Prospectus Supplement. The financial statements of the Insurer and XLFA are included as exhibits to the periodic reports filed with the Commission by XL Capital Ltd and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of the Insurer and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd pursuant to Section 13(a),

13(c), 14 or 15(d) of the 1934 Act on or prior to the date of this Prospectus Supplement, or after the date of this Prospectus Supplement but prior to termination of the offering of the Series I Senior Notes, shall be deemed incorporated by reference in this Prospectus Supplement. Except for the financial statements of the Insurer and XLFA, no other information contained in XL Capital Ltd's reports filed with the Commission is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by the Insurer are available upon request to the State of New York Insurance Department.

*Regulation of the Insurer.* The Insurer is regulated by the Superintendent of Insurance of the State of New York. In addition, the Insurer is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the Insurer is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. The Insurer is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

**THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE INSURER, INCLUDING THE POLICY, ARE NOT COVERED BY THE FLORIDA INSURANCE GUARANTY ASSOCIATION ACT SPECIFIED IN PART II OF CHAPTER 631 OF THE FLORIDA INSURANCE LAW OR THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.**

The principal executive offices of the Insurer are located at 1221 Avenue of the Americas, 31st Floor, New York, New York 10020-1001 and its telephone number at this address is (212) 478-3400.

## RATINGS

It is anticipated that Standard & Poor's and Moody's will assign the Series I Senior Notes the ratings of "AAA" and "Aaa", respectively, conditioned upon the issuance and delivery by the Insurer at the time of delivery of the Series I Senior Notes of the Policy, insuring the timely payment of the principal of and interest on the Series I Senior Notes. Such ratings reflect only the views of such ratings agencies, and an explanation of the significance of such ratings may be obtained only from such rating agencies at the following addresses: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007; and Standard & Poor's, 25 Broadway, New York, New York 10004. There is no assurance that such ratings will remain in effect for any period of time or that they will not be revised downward or withdrawn entirely by said rating agencies if, in their judgment, circumstances warrant. Neither the Company nor any Underwriter has undertaken any responsibility to oppose any proposed downward revision or withdrawal of a rating on the Series I Senior Notes. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series I Senior Notes.

At present, each of such rating agencies maintains four categories of investment grade ratings. They are for Standard & Poor's—AAA, AA, A and BBB and for Moody's—Aaa, Aa, A and Baa. Standard & Poor's defines "AAA" as the highest rating assigned to a debt obligation. Moody's defines "Aaa" as representing the best quality debt obligation carrying the smallest degree of investment risk.

## UNDERWRITING

Subject to the terms and conditions set forth in the Underwriting Agreement dated the date hereof, the Company has agreed to sell to each of the Underwriters named below (for whom Morgan Stanley & Co. Incorporated is acting as Representative) and each of the Underwriters severally has agreed to purchase the principal amount of the Series I Senior Notes set forth opposite its name below:

| Name | Principal Amount of Series I Senior Notes |
|---|---|
| Morgan Stanley & Co. Incorporated | $30,000,000 |
| SunTrust Capital Markets, Inc. | $10,000,000 |
| Total | $40,000,000 |

The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the Series I Senior Notes are subject to, among other things, the approval of certain legal matters by their counsel and certain other conditions. The Underwriters are obligated to take and pay for all the Series I Senior Notes if any are taken.

Series I Senior Notes sold by the Underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this Prospectus Supplement. The Underwriters may offer the Series I Senior Notes to certain securities dealers at such price less a concession not in excess of $.50 per Series I Senior Note. The Underwriters may allow, and such dealers may reallow, a concession not in excess of $.45 per Series I Senior Note to certain brokers and dealers. If all the Series I Senior Notes are not sold at the initial offering price, the Underwriters may change the offering price and the other selling terms.

Prior to this offering, there has been no public market for the Series I Senior Notes. The Series I Senior Notes are expected to be approved for listing on the NYSE, subject to official notice of issuance. In order to meet the requirements for listing the Series I Senior Notes, the Underwriters will undertake to sell the Series I Senior Notes to a minimum of 400 beneficial holders. Trading of the Series I Senior Notes on the NYSE is expected to commence within a 30-day period after the initial delivery of the Series I Senior Notes. The Representative has advised the Company that the Underwriters intend to make a market in the Series I Senior Notes prior to the commencement of trading on the NYSE. The Underwriters will have no obligation to make a market in the Series I Senior Notes, however, and may cease market making activities, if commenced, at any time.

The Company has agreed, during the period of 15 days from the date of the Underwriting Agreement, not to sell, offer to sell, grant any option for the sale of or otherwise dispose of any Series I Senior Notes, any security convertible into, exchangeable into or exercisable for Series I Senior Notes or any debt securities substantially similar to the Series I Senior Notes (except for the Series I Senior Notes issued pursuant to the Underwriting Agreement), without the prior written consent of the Representative. This agreement does not apply to issuances of commercial paper or other debt securities with scheduled maturities of less than one year.

The Company estimates that it will incur offering expenses of approximately $1,025,000, which includes the premium for the Policy.

In connection with this offering and in compliance with applicable law and industry practice, the Underwriters may overallot or effect transactions which stabilize, maintain or otherwise affect the market price of the Series I Senior Notes at levels above those which might otherwise prevail in the open market, including by entering stabilizing bids, purchasing Series I Senior Notes to cover syndicate short positions and imposing penalty bids. A stabilizing bid means the placing of any bid, or the effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of a security. Covering a syndicate short position means placing a bid or effecting a purchase of a security on behalf of the underwriting syndicate to reduce a short position created in connection with the offering. Imposing a penalty bid means purchasing a security in the open market to reduce

the underwriting syndicate's short position or to stabilize the price of the security and in connection therewith reclaiming the amount of the selling concession from the underwriters and selling group members who sold such securities as part of the offering.

In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases. The imposition of a penalty bid might also have an effect on the price of a security to the extent that it were to discourage resales of the security.

Neither the Company nor any of the Underwriters makes any representation or prediction as the direction or magnitude of any effect that the transactions described above may have on the price of the Series I Senior Notes. In addition, neither the Company nor any of the Underwriters makes any representation that such transactions will be engaged in or that such transactions, once commenced, will not be discontinued without notice.

It is expected that the delivery of the Series I Senior Notes will be made on the date specified on the cover page of this Prospectus Supplement which will be the seventh Business Day following the date of this Prospectus Supplement. Under Rule 15c6-1 of the Commission under the 1934 Act, trades in the secondary market generally are required to settle in three Business Days, unless the parties to any such trade expressly agree otherwise. Accordingly, the purchasers who wish to trade the Series I Senior Notes on the date of this Prospectus Supplement or the next three succeeding Business Days will be required to specify an alternative settlement cycle at the time of any such trade to prevent failed settlement and should consult their own advisor.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

The Underwriters and their affiliates engage in transactions with and, from time to time, have performed services for, the Company and its affiliates in the ordinary course of business.

## EXPERTS

The consolidated balance sheets of the Insurer as of December 31, 2002 and December 31, 2001 and the related consolidated statements of operations and comprehensive income, changes in shareholder's equity and cash flows for each of the three years in the period ended December 31, 2002, incorporated by reference in this Prospectus Supplement, have been incorporated in this Prospectus Supplement in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of that firm as experts in accounting and auditing.

The balance sheets of XLFA as of December 31, 2002 and December 31, 2001 and the related statements of operations and comprehensive income, changes in shareholder's equity and cash flows for each of the three years in the period ended December 31, 2002, incorporated by reference in this Prospectus Supplement, have been incorporated in this Prospectus Supplement in reliance on the report of PricewaterhouseCoopers, independent accountants, given on the authority of that firm as experts in accounting and auditing.

# APPENDIX A

# FORM OF POLICY

# XL CAPITAL ASSURANCE

1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 478-3400
Facsimile: (212) 478-3597

## FINANCIAL GUARANTY INSURANCE POLICY

**OBLIGOR:** **Policy No:**

**INSURED OBLIGATIONS:** **Effective Date:**

**XL Capital Assurance Inc. (XLCA),** a New York stock insurance company, in consideration of the payment of the premium, hereby unconditionally and irrevocably guarantees to the Trustee for the benefit of the Owners of the Insured Obligations, the full and complete payment by the Obligor of Scheduled Payments in respect of the Insured Obligations, subject only to the terms of this Policy (which includes the Endorsement attached hereto).

XLCA will pay the Insured Amount to the Trustee upon the presentation of a Payment Notice to XLCA (which Payment Notice shall include an irrevocable assignment to XLCA of all rights and claims in respect of the relevant Insured Obligation, as specified in the Payment Notice), on the later of (a) one (1) Business Day following receipt by XLCA of a Payment Notice or (b) the Business Day on which Scheduled Payments are due for payment. XLCA shall be subrogated to the Owners' rights to payment on the Insured Obligations to the extent of any payment by XLCA hereunder. The obligations of XLCA with respect to a Scheduled Payment will be discharged to the extent funds to pay such Scheduled Payment are deposited in the account specified in the Payment Notice, whether such funds are properly applied by the Trustee or claimed by an Owner.

In addition, in the event that any Scheduled Payment which has become due for payment and which is made to an Owner by or on behalf of the Trustee is recovered or is recoverable from the Owner pursuant to a final order of a court of competent jurisdiction in an Insolvency Proceeding that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, XLCA unconditionally and irrevocably guarantees payment of the amount of such recovery (in accordance with the Endorsement attached hereto).

This Policy sets forth in full the undertaking of XLCA and shall not be cancelled or revoked by XLCA for any reason, including failure to receive payment of any premium due hereunder or under the Insurance Agreement, and may not be further endorsed or modified without the written consent of XLCA. The premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Insured Obligation, other than at the sole option of XLCA, nor against any risk other than Nonpayment and Avoided Payment, including any shortfalls, if any, attributable to the liability of the Obligor for taxes or withholding taxes if any, including interest and penalties in respect of such liability

THIS POLICY IS NOT COVERED BY THE FLORIDA INSURANCE GUARANTY ASSOCIATION ACT SPECIFIED IN PART II OF CHAPTER 631 OF THE FLORIDA INSURANCE LAW OR THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

Any capitalized terms not defined herein shall have the meaning given such terms in the Endorsement attached hereto and forming a part hereof, or in the Insurance Agreement referenced therein. In witness whereof, XLCA has caused this Policy to be executed as of the Effective Date.

Name: **SPECIMEN**
Title:

Name: **SPECIMEN**
Title:

SPECIMEN

**Financial Guaranty Insurance Policy Endorsement**
**Effective Date**

**Attached to and forming part of**
**Financial Guaranty Insurance Policy No.**

Obligor:

Insured Obligations:

Beneficiary:

*Capitalized terms used herein and not otherwise defined herein or in the Policy shall have the meanings assigned to them in the Insurance Agreement as defined below.*

As used herein the term "Business Day" means any day other than Saturday or Sunday on which commercial banking institutions in New York, New York are generally open for banking business.

As used herein the term "Insolvency Proceeding" means the commencement, after the date hereof, of any bankruptcy, insolvency, readjustment of debt, reorganization, marshalling of assets and liabilities or similar proceedings by or against any Person, the commencement, after the date hereof, of any proceedings by or against any Person for the winding up or liquidation of its affairs, or the consent, after the date hereof, to the appointment of a trustee, conservator, receiver or liquidator in any bankruptcy, insolvency, readjustment of debt, reorganization, marshalling of assets and liabilities or similar proceedings of or relating to any Person.

As used herein the term "Indenture" means the _____ Indenture dated as of _____ between the Obligor and _____, as Trustee (the "Trustee"), as amended and supplemented, including by the _____ Supplemental Indenture dated as of _____.

As used herein the term "Insurance Agreement" means the Insurance Agreement dated as of _____ by and among XLCA, _____ and the Trustee, as may be amended or modified from time to time.

As used herein the term "Insured Amount" means that portion of the Scheduled Payments that shall become due for payment but shall be unpaid by reason of Nonpayment.

As used herein the term "Nonpayment" means, with respect to any Payment Date, the failure of the Trustee to receive in full, in accordance with the terms of the Indenture, that Scheduled Payment that is due for payment with respect to such date.

SPECIMEN

As used herein the term "Owner" means the registered owner of any Insured Obligation as indicated in the registration books maintained by or on behalf of the Obligor for such purpose or, if the Insured Obligation is in bearer form, the holder of the Insured Obligation.

As used herein, the term "Payment Date" means, in the case of scheduled interest on the Insured Obligations, each _____, _____, _____ and _____ of each year during the Term of this Policy, beginning _____, and, in the case of scheduled principal of the Insured Obligations, _____.

As used herein, the term "Person" means an individual, a partnership, a limited liability company, a joint venture, a corporation, a trust, an unincorporated organization, and a government or any department or agency thereof.

As used herein the term "Scheduled Payment" means, with respect to any Payment Date during the Term of this Policy, the scheduled payments of interest and principal, in accordance with the original terms of the Insured Obligations and the Indenture when issued and without regard to any subsequent amendment or modification of the Insured Obligations or the Indenture that has not been consented to in writing by XLCA. Notwithstanding the foregoing, "Scheduled Payments" shall in no event include payments which become due on an accelerated basis as a result of (a) any default by the Obligor, (b) the occurrence of an Event of Default under the Indenture, (c) mandatory or optional redemption, in whole or in part or (d) any other cause, unless XLCA elects, in its sole discretion, to pay such amounts in whole or in part (in which event Scheduled Payments shall include such accelerated payments as, when, and to the extent so elected by XLCA). In the event that it does not make such election, Scheduled Payments shall include payments due in accordance with the original scheduled terms without regard to any acceleration. In addition, "Scheduled Payment" shall not include, nor shall coverage be provided under the Policy in respect of, (i) any make whole, redemption or call premium payable in respect of the Insured Obligations, (ii) any amounts due in respect of the Insured Obligations attributable to any increase in interest rate, penalty or other sum payable by the Issuer by reason of any default or event of default in respect of the Insured Obligations, or by reason of any deterioration of the creditworthiness of the Issuer or (iii) any taxes, withholding or other charge imposed by any governmental authority due in connection with the payment of any Scheduled Payment to any holder of an Insured Obligation.

As used herein the term "Term of this Policy" means the period from and including the Effective Date to and including the first date on which (i) all Scheduled Payments have been paid that are required to be paid by the Obligor under the Indenture; (ii) the 91-day period during which any Scheduled Payment could have been avoided in whole or in part as a preference payment under applicable bankruptcy, insolvency, receivership or similar law has expired, and (iii) if any proceedings requisite to avoidance as a preference payment have been commenced prior to the occurrence of (i) and (ii) above, a final and nonappealable order in resolution of each such proceeding has been entered; *provided, however*, that if the Owners are required to return any Avoided

SPECIMEN

Payment (as defined below) as a result of such insolvency proceeding, then the Term of the Policy shall terminate on the date on which XLCA has made all payments required to be made under the terms of this Policy in respect of all such Avoided Payments.

To make a claim under the Policy, the Trustee shall deliver to XLCA Payment Notice in the form of Exhibit A hereto (a "Payment Notice"), appropriately completed and executed by the Trustee. A Payment Notice under this Policy may be presented to XLCA by (i) delivery of the original Payment Notice to XLCA at its address set forth below, or (ii) facsimile transmission of the original Payment Notice to XLCA at its facsimile number set forth below. If presentation is made by facsimile transmission, the Trustee shall (x) simultaneously confirm transmission by telephone to XLCA at its telephone number set forth below, and (y) as soon as reasonably practicable, deliver the original Payment Notice to XLCA at its address set forth below. Any Payment Notice received by XLCA after 10:00 a.m , New York City time, on a Business Day, or on any day that is not a Business Day, will be deemed to be received by XLCA at 9:00 a.m., New York City time, on the next succeeding Business Day. XLCA shall make payments due in respect of Insured Amounts no later than 2:00 p.m New York City time to the Trustee upon the presentation of a Payment Notice to XLCA on the later of (a) one (1) Business Day following receipt by XLCA of a Payment Notice or (b) the Business Day on which Scheduled Payments are due for payment.

Subject to the foregoing, if the payment of any amount with respect to the Scheduled Payment is voided (a "Preference Event") as a result of an Insolvency Proceeding and as a result of such Preference Event, the Owner is required to return such voided payment, or any portion of such voided payment, made in respect of the Insured Obligation (an "Avoided Payment"), XLCA will pay an amount equal to such Avoided Payment, as and when such payment would otherwise be due pursuant to the Insured Obligation and the Indenture without regard to acceleration or prepayment, and upon payment of such Avoided Payment and receipt by XLCA from the Trustee on behalf of such Owner of (x) a certified copy of a final order of a court exercising jurisdiction in such Insolvency Proceeding to the effect that the Owner or the Trustee on behalf of the Owner is required to return any such payment or portion thereof because such payment was voided under applicable law, with respect to which order the appeal period has expired without an appeal having been filed (the "Final Order"), (y) an assignment, substantially in the form attached hereto as Exhibit B, properly completed and executed by such Owner irrevocably assigning to XLCA all rights and claims of such Owner relating to or arising under such Avoided Payment, and (z) a Payment Notice in the form of Exhibit A hereto appropriately completed and executed by the Trustee.

XLCA shall make payments due in respect of Avoided Payments no later than 2:00 p.m. New York City time on the Business Day following XLCA's receipt of the documents required under clauses (x) through (z) of the preceding paragraph. Any such documents received by XLCA after 10:00 a.m. New York City time on any Business Day or on any day that is not a Business Day shall be deemed to have been received by XLCA at 9:00 a.m., New York City time, on the next succeeding Business Day. All payments made by XLCA hereunder on account of any Avoided Payment shall be disbursed to the receiver, conservator, debtor-in-possession or trustee in bankruptcy named in the Final

SPECIMEN

Order and not to any Owner directly (unless an Owner previously paid such amount to the receiver, conservator, debtor-in-possession or trustee in bankruptcy named in the Final Order, in which case such payment shall be disbursed to the Trustee for distribution to such Owner upon proof of such payment reasonably satisfactory to XLCA).

XLCA hereby waives and agrees not to assert any and all rights to require the Trustee to make demand on or to proceed against any person, party or security prior to the Trustee demanding payment under this Policy.

No defenses, set-offs and counterclaims of any kind available to XLCA so as to deny payment of any amount due in respect of this Policy will be valid and XLCA hereby waives and agrees not to assert any and all such defenses (including, without limitation, defense of fraud in the inducement or fact, or any other circumstances which would have the effect of discharging a surety in law or in equity), set-offs and counterclaims, including, without limitation, any such rights acquired by subrogation, assignment or otherwise. Upon any payment hereunder, in furtherance and not in limitation of XLCA's equitable right of subrogation and XLCA's rights under the Insurance Agreement, XLCA will be subrogated to the rights of the Owner in respect of which such payment was made to receive any and all amounts due in respect of the obligations in respect of which XLCA has made a payment hereunder. Any rights of subrogation acquired by XLCA as a result of any payment made under this Policy shall, in all respects, be subordinate and junior in right of payment to the prior indefeasible payment in full of any amounts due the Owner on account of payments due under the Insured Obligation.

This Policy is neither transferable nor assignable, in whole or in part, except to a successor trustee duly appointed and qualified under the Indenture. All Payment Notices and other notices, presentations, transmissions, deliveries and communications made by the Trustee to XLCA with respect to this Policy shall specifically refer to the number of this Policy and shall be made to XLCA at:

XL Capital Assurance Inc.
1221 Avenue of the Americas
New York, New York 10020
Attention: Surveillance
Telephone: (212) 478-3400
Facsimile: (212) 478- 3597

or such other address, telephone number or facsimile number as XLCA may designate to the Trustee in writing from time to time. Each such Payment Notice and other notice, presentation, transmission, delivery and communication shall be effective only upon actual receipt by XLCA.

The obligations of XLCA under this Policy are irrevocable, primary, absolute and unconditional, subject to satisfaction of the conditions for making a claim under the Policy, and neither the failure of any Person to perform any covenant or obligation in favor of XLCA (or otherwise), nor the failure or omission to make a

SPECIMEN

demand permitted hereunder, nor the failure of any assignment or grant of any security interest, nor the commencement of any Insolvency Proceeding shall in any way affect or limit XLCA's obligations under this Policy. If a successful action or proceeding to enforce this Policy is brought by the Trustee, the Trustee shall be entitled to recover from XLCA costs and expenses reasonably incurred, including, without limitation, reasonable fees and expenses of counsel.

This Policy and the obligations of XLCA hereunder shall terminate on the expiration of the Term of this Policy. This Policy shall be returned to XLCA by the Trustee upon the expiration of the Term of this Policy.

The Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law does not cover this Policy. The Florida Insurance Guaranty Association created under Part II of Chapter 631 of the Florida Insurance Code does not cover this Policy. In the event that XLCA were to become insolvent, the California Insurance Guaranty Association, established pursuant to Article 14.2 of Chapter 1 of Part 2 of Division 1 of the California Insurance Code excludes from coverage any claims arising under this Policy.

**THIS POLICY SHALL BE CONSTRUED, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED, IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES THAT WOULD REQUIRE THE APPLICATION OF THE LAWS OF ANY OTHER JURISDICTION.**

In the event any term or provision of the form of this Policy is inconsistent with the provision of this Endorsement, the provision of this Endorsement shall take precedence and be binding.

[Remainder of Page Intentionally Left Blank]

SPECIMEN

**IN WITNESS WHEREOF**, XL Capital Assurance Inc. has caused this Endorsement to the Policy to be executed on the Effective Date.

Name: **SPECIMEN**
Title:

Name: **SPECIMEN**
Title:

SPECIMEN

**Exhibit A to Financial Guaranty Policy No.**

XL Capital Assurance Inc.
1221 Avenue of the Americas
New York, New York 10020
Attention: Surveillance

**PAYMENT NOTICE**
**UNDER FINANCIAL GUARANTY POLICY No.**

_____, as Trustee (the "Trustee"), hereby certifies to XL Capital Assurance Inc. ("XLCA") with reference to that certain Financial Guaranty Policy, No. _____, dated _____ (the "Policy"), issued by XLCA in favor of the Trustee under the _____ Indenture dated as of _____ between _____ and the Trustee, as amended and supplemented, including by the _____ Supplemental Indenture dated as of _____ (the "Indenture"), as follows:

1. The Trustee is the trustee under the Indenture and the beneficiary on behalf of each Owner of the Policy.

2. The Trustee is entitled to make a demand under the Policy pursuant to the Indenture.

3. This notice relates to the [insert date] Payment Date. The amount demanded is to be paid in immediately available funds to the [Specify Account] at [Identify Financial Institution Holding Account] account number[_____].

[For a Payment Notice in respect of Insured Amounts other than Avoided Payment, use paragraph 4.]

4. The Trustee demands payment of $_____ which is an amount equal to the amount by which the Scheduled Payment due on the above Payment Date exceeds the funds made available to the Trustee to pay such Scheduled Payment.

[For a Payment Notice in respect of an Avoided Payment use the following paragraphs [4] or [5].]

[4.] or [5.] The Trustee hereby represents and warrants, based upon information available to it, that (i) the amount entitled to be drawn under the Policy on the date hereof in respect of Avoided Payments is the amount paid or to be paid simultaneously with such draw on the Policy by the Owner on account of a Preference Event [$_____] (the "Avoided Payment Amount"), (ii) the Owner with respect to which the drawing is being made under the Policy has paid or simultaneously with such draw on the Policy will pay such Avoided Payment Amount, and (iii) the documents required by the Policy to be delivered in connection with such Avoided Payment and Avoided Payment Amount have previously been presented to XLCA or are attached hereto.

SPECIMEN

[6] The Trustee agrees that, following payment of funds by XLCA, it shall use reasonable efforts to procure (a) that such amounts are applied directly to the payment of any Insured Amount which is due for payment; (b) that such funds are not applied for any other purpose; and (c) the maintenance of accurate records of such payments in respect of the Insured Obligation and the corresponding claim on the Policy and the proceeds thereof.

[7] The Trustee, on behalf of itself and the Owners, hereby assigns to XLCA all rights and claims (including rights of actions and claims in respect of securities laws violations or otherwise) of the Trustee and the Owners with respect to the Insured Obligation to the extent of any payments under the Policy. The foregoing assignment is in addition to, and not in limitation of, rights of subrogation otherwise available to XLCA in respect of such payments. The Trustee shall take such action and deliver such instruments as may be reasonably required by XLCA to effectuate the purposes of this paragraph [7].

[8] The Trustee, on behalf of itself and the Owners, hereby appoints XLCA as agent and attorney-in-fact for the Trustee and the Owners in any legal proceeding in respect of the Insured Obligation. The Trustee, on behalf of itself and the Owners, thereby (and without limiting the generality of the preceding sentence) agrees that XLCA may, at any time during the continuation of any proceeding by or against any debtor with respect to which a Preference Claim (as defined below) or other claim with respect to the Insured Obligation is asserted under any Insolvency Proceeding, direct all matters relating to such Insolvency Proceeding, including, without limitation, (a) all matters relating to any claim in connection with a Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment made with respect to the obligations (a "Preference Claim"), (b) the direction of any appeal of any order relating to any Preference Claim and (c) the posting of any surety, supersedeas or performance bond pending any such appeal. In addition, the Trustee, on behalf of itself and the Owners, hereby agrees that XLCA shall be subrogated to, and the Trustee, on behalf of itself and the Owners, hereby delegates and assigns, to the fullest extent permitted by law, the rights of the Trustee and the Owners in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding.

SPECIMEN

Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Policy or Indenture.

IN WITNESS WHEREOF, this notice has been executed this ____ day of _____, ____.

_____, as Trustee

By: _____
Authorized Officer

*Any Person Who Knowingly And With Intent To Defraud Any Insurance Company Or Other Person Files An Application For Insurance Or Statement Of Claim Containing Any Materially False Information, Or Conceals For The Purpose Of Misleading Information Concerning Any Fact Material Thereof, Commits A Fraudulent Insurance Act, Which Is A Crime, And Shall Also Be Subject To A Civil Penalty Not To Exceed Five Thousand Dollars And The Stated Value Of The Claim For Each Such Violation*

SPECIMEN

**Exhibit B to Financial Guaranty Insurance Policy, No.**

**Form of Assignment**

Reference is made to the Financial Guaranty Insurance Policy No. _____, dated _____ (together with the Endorsement attached thereto, the "Policy"), issued by XL Capital Assurance Inc. ("XLCA") relating to the _____ due _____ issued by _____. Unless otherwise defined herein, capitalized terms used in this Assignment shall have the meanings assigned thereto in the Policy as incorporated by reference therein. In connection with the Avoided Payment of [$ ] paid by the undersigned (the "Owner") on [ ] and the payment by XLCA in respect of such Avoided Payment pursuant to the Policy, the Owner hereby irrevocably and unconditionally, without recourse, representation or warranty (except as provided below), sells, assigns, transfers, conveys and delivers all of such Owner's rights, title and interest in and to any rights or claims, whether accrued, contingent or otherwise, which the Owner now has or may hereafter acquire, against any person relating to, arising out of or in connection with such Avoided Payment. The Owner represents and warrant that such claims and rights are free and clear of any lien or encumbrance created or incurred by such Owner.[1]

_____
Owner

SPECIMEN

[1] In the event that the terms of this form of assignment are reasonably determined to be insufficient solely as a result of a change of law or applicable rules after the date of the Policy to fully vest all of the Owner's right, title and interest in such rights and claims, the Owner and XLCA shall agree on such other form as is reasonably necessary to effect such assignment, which assignment shall be without recourse, representation or warranty except as provided above.

PROSPECTUS

**$360,000,000**

# Gulf Power Company

**Senior Notes**

**Junior Subordinated Notes**

---

# Gulf Power Capital Trust V
# Gulf Power Capital Trust VI

**Trust Preferred Securities**

**Fully and unconditionally guaranteed, as set forth in this Prospectus, by**

# Gulf Power Company

**a subsidiary of The Southern Company**

---

We will provide the specific terms of these securities in supplements to this Prospectus. You should read this Prospectus and the applicable prospectus supplement carefully before you invest.

See "Risk Factors" on page 2 for information on certain risks related to the purchase of securities offered by this Prospectus.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**April 25, 2003**

## ABOUT THIS PROSPECTUS

This Prospectus is part of a registration statement filed with the Securities and Exchange Commission (the "Commission") using a "shelf" registration process under the Securities Act of 1933, as amended (the "1933 Act"). Under the shelf process, Gulf Power Company (the "Company") may sell, in one or more transactions,

- senior notes (the "Senior Notes")
- junior subordinated notes (the "Junior Subordinated Notes")

and Gulf Power Capital Trust V and Gulf Power Capital Trust VI (individually, a "Trust" and collectively, the "Trusts") may sell

- trust preferred securities or capital securities (the "Preferred Securities")

in one or more offerings up to a total dollar amount of $360,000,000. This Prospectus provides a general description of those securities. Each time the Company sells securities, the Company will provide a prospectus supplement that will contain specific information about the terms of that offering ("Prospectus Supplement"). The Prospectus Supplement may also add, update or change information contained in this Prospectus. You should read this Prospectus and the applicable Prospectus Supplement together with additional information under the heading "Available Information."

## RISK FACTORS

Investing in the Company's securities involves risk. Please see the risk factors described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, which is incorporated by reference in this Prospectus. Before making an investment decision, you should carefully consider these risks as well as other information contained or incorporated by reference in this Prospectus. The risks and uncertainties described are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair its business operations, its financial results and the value of its securities.

## AVAILABLE INFORMATION

The Company and the Trusts have filed with the Commission a combined registration statement on Form S-3 (the "Registration Statement," which term encompasses any amendments of the Registration Statement and exhibits to the Registration Statement) under the 1933 Act. As permitted by the rules and regulations of the Commission, this Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto, to which reference is made.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "1934 Act"), and in accordance with the 1934 Act files reports and other information with the Commission. Such reports and other information can be inspected and copied at the public reference facilities of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the Commission at 1-800-SEC-0330. The Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants including the Company that file electronically at http://www.sec.gov. In addition, reports and other material concerning the Company can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

No separate financial statements of any Trust are included in this Prospectus. The Company considers that such statements would not be material to holders of the Preferred Securities because each Trust has no

independent operations and exists for the sole purpose of investing the proceeds of the sale of its Trust Securities (as defined below) in Junior Subordinated Notes.

## INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents have been filed with the Commission pursuant to the 1934 Act and are incorporated by reference in this Prospectus and made a part of this Prospectus:

(a) the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002; and

(b) the Company's Current Report on Form 8-K dated March 21, 2003.

All documents filed by the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act subsequent to the date of this Prospectus and prior to the termination of this offering shall be deemed to be incorporated by reference in this Prospectus and made a part of this Prospectus from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference in this Prospectus shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained in this Prospectus or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this Prospectus modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

**The Company will provide without charge to each person to whom this Prospectus is delivered, on the written or oral request of any such person, a copy of any or all documents incorporated herein by reference in this Prospectus (other than the exhibits to such documents unless such exhibits are specifically incorporated by reference in this Prospectus). Such requests should be directed to Warren E. Tate, Vice President, Secretary and Treasurer, Gulf Power Company, One Energy Place, Pensacola, Florida 32520, telephone: (850) 444-6111.**

## GULF POWER COMPANY

The Company is a corporation organized under the laws of the State of Maine on November 2, 1925, and was admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976 and in Georgia on November 20, 1984. The principal executive offices of the Company are located at 500 Bayfront Parkway, Pensacola, Florida 32501, and the telephone number is (850) 444-6111.

The Company is a wholly owned subsidiary of The Southern Company ("Southern"), a holding company registered under the Public Utility Holding Company Act of 1935, as amended. The Company is engaged, within the northwestern portion of the State of Florida, in the generation and purchase of electricity and the distribution and sale of such electricity at retail in 71 communities as well as in rural areas, and at wholesale to a nonaffiliated utility and to a municipality.

## SELECTED INFORMATION

*The following material, which is presented in this Prospectus solely to furnish limited introductory information regarding the Company, has been selected from, or is based upon, the detailed information and financial statements appearing in the documents incorporated in this Prospectus by reference or elsewhere in this Prospectus, is qualified in its entirety by reference to those documents and, therefore, should be read together with those documents.*

### Gulf Power Company

| | |
|---|---|
| Business | Generation, transmission, distribution and sale of electric energy |
| Service Area | Approximately 7,400 square miles within the northwestern portion of the State of Florida |
| Customers at December 31, 2002 | 383,923 |
| Generating Capacity at December 31, 2002 (kilowatts) | 2,808,550 |
| Sources of Generation during 2002 (kilowatt-hours) | Coal (82%), Gas (18%) |

### Certain Ratios

The following table sets forth the Ratios of Earnings to Fixed Charges and Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis) for the periods indicated.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 |
| Ratio of Earnings to Fixed Charges(1) | 3.83 | 3.62 | 3.38 | 3.64 | 3.52 |
| Ratio of Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis)(2) | 3.72 | 3.58 | 3.34 | 3.60 | 3.50 |

(1) This ratio is computed as follows: (i) "Earnings" have been calculated by adding to "Earnings Before Income Taxes" "Interest Expense, Net of Amounts Capitalized," "Distributions on Preferred Securities of Subsidiary" and the debt portion of allowance for funds used during construction, and (ii) "Fixed Charges" consist of "Interest Expense, Net of Amounts Capitalized," "Distributions on Preferred Securities of Subsidiary" and the debt portion of allowance for funds used during construction.

(2) In computing this ratio, "Preferred Dividend Requirements" represent the before tax earnings necessary to pay such dividends, computed at the effective tax rates for the applicable periods.

## THE TRUSTS

Each Trust is a statutory trust created under Delaware law pursuant to the filing of a certificate of trust with the Delaware Secretary of State on April 7, 2003. Each Trust's business is defined in a trust agreement, executed by the Company, as Depositor, and the Delaware Trustee of each Trust. This trust agreement of each Trust will be amended and restated in its entirety substantially in the form filed as an exhibit to the Registration Statement of which this Prospectus forms a part (the "Trust Agreement"). Each Trust Agreement will be qualified as an indenture under the Trust Indenture Act of 1939, as amended (the "1939 Act"). The Company will own all of the common securities (the "Common Securities" and, together with the Preferred Securities, the "Trust Securities") of each Trust. The Trust Securities represent undivided beneficial interests in the assets of the respective Trusts. Each Trust exists for the exclusive purposes of (i) issuing its Trust Securities representing undivided beneficial interests in the assets of such Trust, (ii) investing the gross proceeds of its Trust Securities in a related series of Junior Subordinated Notes, and (iii) engaging in only those other activities necessary, appropriate, convenient or incidental to these purposes. The payment of periodic cash distributions on the Preferred Securities of each Trust and payments on liquidation and redemption with respect to the Preferred Securities of each Trust, in each case to the extent each Trust has funds legally and immediately available for these purposes, will be guaranteed by the Company (individually, a "Guarantee" and collectively, the "Guarantees") to the extent set forth under "Description of the Guarantees."

Each Trust's business and affairs will be conducted by its trustees, which shall be appointed by the Company as the holder of the Common Securities: two officers of the Company as Administrative Trustees; JPMorgan Chase Bank as Property Trustee; and Chase Manhattan Bank USA, National Association as Delaware Trustee (collectively, the "Securities Trustees"). The Property Trustee of each Trust will act as the indenture trustee with respect to such Trust for purposes of compliance with the provisions of the 1939 Act.

The principal place of business of each Trust shall be c/o the Company, 500 Bayfront Parkway, Pensacola, Florida 32501, telephone (850) 444-6111, Attn: Treasurer.

Reference is made to the Prospectus Supplement relating to the Preferred Securities of a Trust for further information concerning such Trust.

## ACCOUNTING TREATMENT OF TRUSTS

For financial reporting purposes, the Trusts will be treated as subsidiaries of the Company and, accordingly, the accounts of the Trusts will be included in the consolidated financial statements of the Company. The Preferred Securities will be presented as a separate line item in the consolidated balance sheet of the Company, and appropriate disclosures concerning the Preferred Securities, the Guarantees and the Junior Subordinated Notes will be included in the notes to the consolidated financial statements. For financial reporting purposes, the Company will record distributions payable on the Preferred Securities as an expense.

## USE OF PROCEEDS

Each Trust will invest the proceeds received from the sale of its Preferred Securities in Junior Subordinated Notes. Except as may be otherwise described in an applicable Prospectus Supplement, the net proceeds received by the Company from such investment and any proceeds received from the sale of its Senior Notes or other sales of its Junior Subordinated Notes will be used in connection with its ongoing construction program, to pay scheduled maturities and/or refundings of its securities, to repay short-term indebtedness to the extent outstanding and for other general corporate purposes.

## DESCRIPTION OF THE SENIOR NOTES

Set forth below is a description of the general terms of the Senior Notes. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Senior Note Indenture, dated as of January 1, 1998, between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Senior Note Indenture Trustee"), as to be supplemented by a supplemental indenture to the Senior Note Indenture establishing the Senior Notes of each series (the Senior Note Indenture, as so supplemented, is referred to as the "Senior Note Indenture"), the forms of which are filed as exhibits to the Registration Statement of which this Prospectus forms a part. The terms of the Senior Notes will include those stated in the Senior Note Indenture and those made a part of the Senior Note Indenture by reference to the 1939 Act. Certain capitalized terms used in this Prospectus and not defined in this Prospectus are defined in the Senior Note Indenture.

### General

The Senior Notes will be issued as unsecured senior debt securities under the Senior Note Indenture and will rank equally with all other unsecured and unsubordinated debt of the Company. The Senior Notes will be effectively subordinated to all secured debt of the Company, including its first mortgage bonds, aggregating approximately $170,000,000 outstanding at December 31, 2002. The Senior Note Indenture does not limit the aggregate principal amount of Senior Notes that may be issued under the Senior Note Indenture and provides that Senior Notes may be issued from time to time in one or more series pursuant to an indenture supplemental to the Senior Note Indenture. The Senior Note Indenture gives the Company the ability to reopen a previous issue of Senior Notes and issue additional Senior Notes of such series, unless otherwise provided.

Reference is made to the Prospectus Supplement that will accompany this Prospectus for the following terms of the series of Senior Notes being offered by such Prospectus Supplement: (i) the title of such Senior Notes; (ii) any limit on the aggregate principal amount of such Senior Notes; (iii) the date or dates on which the principal of such Senior Notes is payable; (iv) the rate or rates at which such Senior Notes shall bear interest, if any, or any method by which such rate or rates will be determined, the date or dates from which such interest will accrue, the interest payment dates on which such interest shall be payable, and the regular record date for the interest payable on any interest payment date; (v) the place or places where the principal of (and premium, if any) and interest, if any, on such Senior Notes shall be payable; (vi) the period or periods within which, the price or prices at which and the terms and conditions on which such Senior Notes may be redeemed, in whole or in part, at the option of the Company or at the option of the holder prior to their maturity; (vii) the obligation, if any, of the Company to redeem or purchase such Senior Notes; (viii) the denominations in which such Senior Notes shall be issuable; (ix) if other than the principal amount of the Senior Notes, the portion of the principal amount of such Senior Notes which shall be payable upon declaration of acceleration of the maturity of such Senior Notes; (x) any deletions from, modifications of or additions to the Events of Default or covenants of the Company as provided in the Senior Note Indenture pertaining to such Senior Notes; (xi) whether such Senior Notes shall be issued in whole or in part in the form of a Global Security; and (xii) any other terms of such Senior Notes.

The Senior Note Indenture does not contain provisions that afford holders of Senior Notes protection in the event of a highly leveraged transaction involving the Company.

### Events of Default

The Senior Note Indenture provides that any one or more of the following described events with respect to the Senior Notes of any series, which has occurred and is continuing, constitutes an "Event of Default" with respect to the Senior Notes of such series:

(a) failure for 10 days to pay interest on the Senior Notes of such series, when due on an interest payment date other than at maturity or upon earlier redemption; or

(b) failure to pay principal or premium, if any, or interest on the Senior Notes of such series when due at maturity or upon earlier redemption; or

(c) failure for three Business Days to deposit any sinking fund payment when due by the terms of a Senior Note of such series; or

(d) failure to observe or perform any other covenant or warranty of the Company in the Senior Note Indenture (other than a covenant or warranty which has expressly been included in the Senior Note Indenture solely for the benefit of one or more series of Senior Notes other than such series) for 90 days after written notice to the Company from the Senior Note Indenture Trustee or the holders of at least 25% in principal amount of the outstanding Senior Notes of such series; or

(e) certain events of bankruptcy, insolvency or reorganization of the Company.

The holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of any series have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Senior Note Indenture Trustee with respect to the Senior Notes of such series. If a Senior Note Indenture Event of Default occurs and is continuing with respect to the Senior Notes of any series, then the Senior Note Indenture Trustee or the holders of not less than 25% in aggregate outstanding principal amount of the Senior Notes of such series may declare the principal amount of the Senior Notes due and payable immediately by notice in writing to the Company (and to the Senior Note Indenture Trustee if given by the holders), and upon any such declaration such principal amount shall become immediately due and payable. At any time after such a declaration of acceleration with respect to the Senior Notes of any series has been made and before a judgment or decree for payment of the money due has been obtained as provided in Article Five of the Senior Note Indenture, the holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of such series may rescind and annul such declaration and its consequences if the default has been cured or waived and the Company has paid or deposited with the Senior Note Indenture Trustee a sum sufficient to pay all matured installments of interest and principal due otherwise than by acceleration and all sums paid or advanced by the Senior Note Indenture Trustee, including reasonable compensation and expenses of the Senior Note Indenture Trustee.

The holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of any series may, on behalf of the holders of all the Senior Notes of such series, waive any past default with respect to such series, except (i) a default in the payment of principal or interest or (ii) a default in respect of a covenant or provision which under Article Nine of the Senior Note Indenture cannot be modified or amended without the consent of the holder of each outstanding Senior Note of such series affected.

**Registration and Transfer**

The Company shall not be required to (i) issue, register the transfer of or exchange Senior Notes of any series during a period of 15 days immediately preceding the date notice is given identifying the Senior Notes of such series called for redemption, or (ii) register the transfer of or exchange any Senior Notes so selected for redemption, in whole or in part, except the unredeemed portion of any Senior Note being redeemed in part.

**Payment and Paying Agent**

Unless otherwise indicated in an applicable Prospectus Supplement, payment of principal of any Senior Notes will be made only against surrender to the Paying Agent of such Senior Notes. Principal of and interest on Senior Notes will be payable subject to any applicable laws and regulations, at the office of such Paying Agent or Paying Agents as the Company may designate from time to time, except that, at the option of the Company, payment of any interest may be made by wire transfer or by check mailed to the address of the person entitled to an interest payment as such address shall appear in the Security Register with respect to the Senior Notes.

Payment of interest on Senior Notes on any interest payment date will be made to the person in whose name the Senior Notes (or predecessor security) are registered at the close of business on the record date for such interest payment.

Unless otherwise indicated in an applicable Prospectus Supplement, the Senior Note Indenture Trustee will act as Paying Agent with respect to the Senior Notes. The Company may at any time designate additional Paying Agents or rescind the designation of any Paying Agents or approve a change in the office through which any Paying Agent acts.

All moneys paid by the Company to a Paying Agent for the payment of the principal of or interest on the Senior Notes of any series which remain unclaimed at the end of two years after such principal or interest shall have become due and payable will be repaid to the Company, and the holder of such Senior Notes will from that time forward look only to the Company for payment of such principal and interest.

**Modification**

The Senior Note Indenture contains provisions permitting the Company and the Senior Note Indenture Trustee, with the consent of the holders of not less than a majority in principal amount of the outstanding Senior Notes of each series that is affected, to modify the Senior Note Indenture or the rights of the holders of the Senior Notes of such series; provided, that no such modification may, without the consent of the holder of each outstanding Senior Note that is affected, (i) change the stated maturity of the principal of, or any installment of principal of or interest on, any Senior Note, or reduce the principal amount of any Senior Note or the rate of interest on any Senior Note or any premium payable upon the redemption thereof, or change the method of calculating the rate of interest on any Senior Note, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity of any Senior Note (or, in the case of redemption, on or after the redemption date), or (ii) reduce the percentage of principal amount of the outstanding Senior Notes of any series, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the Senior Note Indenture or certain defaults under the Senior Note Indenture and their consequences) provided for in the Senior Note Indenture, or (iii) modify any of the provisions of the Senior Note Indenture relating to supplemental indentures, waiver of past defaults, or waiver of certain covenants, except to increase any such percentage or to provide that certain other provisions of the Senior Note Indenture cannot be modified or waived without the consent of the holder of each outstanding Senior Note that is affected.

In addition, the Company and the Senior Note Indenture Trustee may execute, without the consent of any holders of Senior Notes, any supplemental indenture for certain other usual purposes, including the creation of any new series of Senior Notes.

**Consolidation, Merger and Sale**

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any person, unless (1) such other corporation or person is a corporation organized and existing under the laws of the United States, any state in the United States or the District of Columbia and such other corporation or person expressly assumes, by supplemental indenture executed and delivered to the Senior Note Indenture Trustee, the payment of the principal of (and premium, if any) and interest on all the Senior Notes and the performance of every covenant of the Senior Note Indenture on the part of the Company to be performed or observed; (2) immediately after giving effect to such transactions, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and (3) the Company has delivered to the Senior Note Indenture Trustee an officers' certificate and an opinion of counsel, each stating that such transaction complies with the provisions of the Senior Note Indenture governing consolidation, merger, conveyance, transfer or lease and that all conditions precedent to the transaction have been complied with.

**Information Concerning the Senior Note Indenture Trustee**

The Senior Note Indenture Trustee, prior to an Event of Default with respect to Senior Notes of any series, undertakes to perform, with respect to Senior Notes of such series, only such duties as are specifically set forth in the Senior Note Indenture and, in case an Event of Default with respect to Senior Notes of any series has occurred and is continuing, shall exercise, with respect to Senior Notes of such series, the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provision, the Senior Note Indenture Trustee is under no obligation to exercise any of the powers vested in it by the Senior Note Indenture at the request of any holder of Senior Notes of any series, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred by the Senior Note Indenture Trustee. The Senior Note Indenture Trustee is not required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties if the Senior Note Indenture Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

JPMorgan Chase Bank, the Senior Note Indenture Trustee, also serves as Subordinated Note Indenture Trustee, as Property Trustee and as Guarantee Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with JPMorgan Chase Bank. JPMorgan Chase Bank also serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

**Governing Law**

The Senior Note Indenture and the Senior Notes will be governed by, and construed in accordance with, the internal laws of the State of New York.

**Miscellaneous**

The Company will have the right at all times to assign any of its rights or obligations under the Senior Note Indenture to a direct or indirect wholly-owned subsidiary of the Company; provided, that, in the event of any such assignment, the Company will remain primarily liable for all such obligations. Subject to the foregoing, the Senior Note Indenture will be binding upon and inure to the benefit of the parties of the Senior Note Indenture and their respective successors and assigns.

## DESCRIPTION OF THE JUNIOR SUBORDINATED NOTES

Set forth below is a description of the general terms of the Junior Subordinated Notes. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Subordinated Note Indenture, dated as of January 1, 1997, between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Subordinated Note Indenture Trustee"), as to be supplemented by a supplemental indenture to the Subordinated Note Indenture establishing the Junior Subordinated Notes of each series (the Subordinated Note Indenture, as so supplemented, is referred to as the "Subordinated Note Indenture"), the forms of which are filed as exhibits to the Registration Statement of which this Prospectus forms a part. The terms of the Junior Subordinated Notes will include those stated in the Subordinated Note Indenture and those made a part of the Subordinated Note Indenture by reference to the 1939 Act. Certain capitalized terms used in this Prospectus and not defined in this Prospectus are defined in the Subordinated Note Indenture.

### General

The Junior Subordinated Notes will be issued as unsecured junior subordinated debt securities under the Subordinated Note Indenture. The Subordinated Note Indenture does not limit the aggregate principal amount of Junior Subordinated Notes that may be issued under the Subordinated Note Indenture and provides that Junior Subordinated Notes may be issued from time to time in one or more series pursuant to an indenture supplemental to the Subordinated Note Indenture. The Subordinated Note Indenture gives the Company the ability to reopen a previous issue of Junior Subordinated Notes and issue additional Junior Subordinated Notes of such series, unless otherwise provided.

Reference is made to the Prospectus Supplement that will accompany this Prospectus for the following terms of the series of Junior Subordinated Notes being offered by such Prospectus Supplement: (i) the title of such Junior Subordinated Notes; (ii) any limit on the aggregate principal amount of such Junior Subordinated Notes; (iii) the date or dates on which the principal of such Junior Subordinated Notes is payable; (iv) the rate or rates at which such Junior Subordinated Notes shall bear interest, if any, or any method by which such rate or rates will be determined, the date or dates from which such interest will accrue, the interest payment dates on which such interest shall be payable, and the regular record date for the interest payable on any interest payment date; (v) the place or places where the principal of (and premium, if any) and interest, if any, on such Junior Subordinated Notes shall be payable; (vi) the period or periods within which, the price or prices at which and the terms and conditions on which such Junior Subordinated Notes may be redeemed, in whole or in part, at the option of the Company or at the option of the holder prior to their maturity; (vii) the obligation, if any, of the Company to redeem or purchase such Junior Subordinated Notes; (viii) the denominations in which such Junior Subordinated Notes shall be issuable; (ix) if other than the principal amount of the Junior Subordinated Notes, the portion of the principal amount of such Junior Subordinated Notes which shall be payable upon declaration of acceleration of the maturity of such Junior Subordinated Notes; (x) any deletions from, modifications of or additions to the Events of Default or covenants of the Company as provided in the Subordinated Note Indenture pertaining to such Junior Subordinated Notes; (xi) whether such Junior Subordinated Notes shall be issued in whole or in part in the form of a Global Security; (xii) the right, if any, of the Company to extend the interest payment periods of such Junior Subordinated Notes; and (xiii) any other terms of such Junior Subordinated Notes. The terms of each series of Junior Subordinated Notes issued to a Trust will correspond to those of the related Preferred Securities of such Trust as described in the Prospectus Supplement relating to such Preferred Securities.

The Subordinated Note Indenture does not contain provisions that afford holders of Junior Subordinated Notes protection in the event of a highly leveraged transaction involving the Company.

### Subordination

The Junior Subordinated Notes are subordinated and junior in right of payment to all Senior Indebtedness (as defined below) of the Company. No payment of principal of (including redemption payments, if any), or premium,

if any, or interest on (including Additional Interest (as defined below)) the Junior Subordinated Notes may be made if (a) any Senior Indebtedness is not paid when due and any applicable grace period with respect to such default has ended with such default not being cured or waived or otherwise ceasing to exist, or (b) the maturity of any Senior Indebtedness has been accelerated because of a default, or (c) notice has been given of the exercise of an option to require repayment, mandatory payment or prepayment or otherwise. Upon any payment or distribution of assets of the Company to creditors upon any liquidation, dissolution, winding-up, reorganization, assignment for the benefit of creditors, marshalling of assets or liabilities, or any bankruptcy, insolvency or similar proceedings of the Company, the holders of Senior Indebtedness shall be entitled to receive payment in full of all amounts due or to become due on or in respect of all Senior Indebtedness before the holders of the Junior Subordinated Notes are entitled to receive or retain any payment or distribution. Subject to the prior payment of all Senior Indebtedness, the rights of the holders of the Junior Subordinated Notes will be subrogated to the rights of the holders of Senior Indebtedness to receive payments and distributions applicable to such Senior Indebtedness until all amounts owing on the Junior Subordinated Notes are paid in full.

The term "Senior Indebtedness" means, with respect to the Company, (i) any payment due in respect of indebtedness of the Company, whether outstanding at the date of execution of the Subordinated Note Indenture or incurred, created or assumed after the execution of the Subordinated Note Indenture, (a) in respect of money borrowed (including any financial derivative, hedging or futures contract or similar instrument) and (b) evidenced by securities, debentures, bonds, notes or other similar instruments issued by the Company that, by their terms, are senior or senior subordinated debt securities including, without limitation, all obligations under its indentures with various trustees; (ii) all capital lease obligations; (iii) all obligations issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations of the Company under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business and long-term purchase obligations); (iv) all obligations for the reimbursement of any letter of credit, banker's acceptance, security purchase facility or similar credit transaction; (v) all obligations of the type referred to in clauses (i) through (iv) above of other persons the payment of which the Company is responsible or liable as obligor, guarantor or otherwise; and (vi) all obligations of the type referred to in clauses (i) through (v) above of other persons secured by any lien on any property or asset of the Company (whether or not such obligation is assumed by the Company), except for (1) any such indebtedness that is by its terms subordinated to or *pari passu* with the Junior Subordinated Notes and (2) any unsecured indebtedness between or among the Company or its affiliates. Such Senior Indebtedness shall continue to be Senior Indebtedness and be entitled to the benefits of the subordination provisions contained in the Subordinated Note Indenture irrespective of any amendment, modification or waiver of any term of such Senior Indebtedness.

The Subordinated Note Indenture does not limit the aggregate amount of Senior Indebtedness that may be issued by the Company. As of December 31, 2002, Senior Indebtedness of the Company aggregated approximately $550,000,000.

**Additional Interest**

"Additional Interest" is defined in the Subordinated Note Indenture as (i) such additional amounts as may be required so that the net amounts received and retained by a holder of Junior Subordinated Notes (if the holder is a Trust) after paying taxes, duties, assessments or governmental charges of whatever nature (other than withholding taxes) imposed by the United States or any other taxing authority will not be less than the amounts the holder would have received had no such taxes, duties, assessments or other governmental charges been imposed; and (ii) any interest due and not paid on an interest payment date, together with interest on such interest due from such interest payment date to the date of payment, compounded quarterly, on each interest payment date.

**Certain Covenants**

The Company covenants in the Subordinated Note Indenture, for the benefit of the holders of each series of Junior Subordinated Notes, that, (i) if at such time the Company shall have given notice of its election to extend an interest payment period for such series of Junior Subordinated Notes and such extension shall be continuing,

(ii) if at such time the Company shall be in default with respect to its payment or other obligations under the Guarantee with respect to the Trust Securities, if any, related to such series of Junior Subordinated Notes, or (iii) if at such time an Event of Default under the Subordinated Note Indenture with respect to such series of Junior Subordinated Notes shall have occurred and be continuing, (a) the Company shall not declare or pay any dividend or make any distributions with respect to, or redeem, purchase, acquire or make a liquidation payment with respect to, any of its capital stock, and (b) the Company shall not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities (including guarantees other than the Guarantees) issued by the Company which rank equally with or junior to the Junior Subordinated Notes. None of the foregoing, however, shall restrict (i) any of the actions described in the preceding sentence resulting from any reclassifications of the Company's capital stock or the exchange or conversion of one class or series of the Company's capital stock for another class or series of the Company's capital stock, or (ii) the purchase of fractional interests in shares of the Company's capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged.

The Subordinated Note Indenture further provides that, for so long as the Trust Securities of any Trust remain outstanding, the Company covenants (i) to directly or indirectly maintain 100% ownership of the Common Securities of such Trust; provided, however, that any permitted successor of the Company under the Subordinated Note Indenture may succeed to the Company's ownership of such Common Securities, and (ii) to use its reasonable efforts to cause such Trust (a) to remain a statutory trust, except in connection with the distribution of Junior Subordinated Notes to the holders of Trust Securities in liquidation of such Trust, the redemption of all of the Trust Securities of such Trust, or certain mergers, consolidations or amalgamations, each as permitted by the related Trust Agreement, and (b) to otherwise continue to be classified as a grantor trust for United States federal income tax purposes.

**Events of Default**

The Subordinated Note Indenture provides that any one or more of the following described events with respect to the Junior Subordinated Notes of any series, which has occurred and is continuing, constitutes an "Event of Default" with respect to the Junior Subordinated Notes of such series:

(a) failure for 10 days to pay interest on the Junior Subordinated Notes of such series, including any Additional Interest (as defined in clause (ii) of the definition of Additional Interest in the Subordinated Note Indenture) in respect of the Junior Subordinated Notes, when due on an interest payment date other than at maturity or upon earlier redemption; provided, however, that a valid extension of the interest payment period by the Company shall not constitute a default in the payment of interest for this purpose; or

(b) failure for 10 days to pay Additional Interest (as defined in clause (i) of the definition of Additional Interest in the Subordinated Note Indenture); or

(c) failure to pay principal or premium, if any, or interest, including Additional Interest (as defined in clause (ii) of the definition of Additional Interest in the Subordinated Note Indenture), on the Junior Subordinated Notes of such series when due at maturity or upon earlier redemption; or

(d) failure for three Business Days to deposit any sinking fund payment when due by the terms of a Junior Subordinated Note of such series; or

(e) failure to observe or perform any other covenant or warranty of the Company in the Subordinated Note Indenture (other than a covenant or warranty which has expressly been included in the Subordinated Note Indenture solely for the benefit of one or more series of Junior Subordinated Notes other than such series) for 90 days after written notice to the Company from the Subordinated Note Indenture Trustee or the holders of at least 25% in principal amount of the outstanding Junior Subordinated Notes of such series; or

(f) certain events of bankruptcy, insolvency or reorganization of the Company.

The holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of any series have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Subordinated Note Indenture Trustee with respect to the Junior Subordinated Notes of such series. If a Subordinated Note Indenture Event of Default occurs and is continuing with respect to the Junior Subordinated Notes of any series, then the Subordinated Note Indenture Trustee or the holders of not less than

25% in aggregate outstanding principal amount of the Junior Subordinated Notes of such series may declare the principal amount of the Junior Subordinated Notes due and payable immediately by notice in writing to the Company (and to the Subordinated Note Indenture Trustee if given by the holders), and upon any such declaration such principal amount shall become immediately due and payable. At any time after such a declaration of acceleration with respect to the Junior Subordinated Notes of any series had been made and before a judgment or decree for payment of the money due has been obtained as provided in Article Five of the Subordinated Note Indenture, the holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of such series may rescind and annul such declaration and its consequences if the default has been cured or waived and the Company has paid or deposited with the Subordinated Note Indenture Trustee a sum sufficient to pay all matured installments of interest (including any Additional Interest) and principal due otherwise than by acceleration and all sums paid or advanced by the Subordinated Note Indenture Trustee, including reasonable compensation and expenses of the Subordinated Note Indenture Trustee.

A holder of Preferred Securities may institute a legal proceeding directly against the Company, without first instituting a legal proceeding against the Property Trustee or any other person or entity, for enforcement of payment to such holder of principal of or interest on the Junior Subordinated Notes of the related series having a principal amount equal to the aggregate stated liquidation amount of the Preferred Securities of such holder on or after the due dates specified in the Junior Subordinated Notes of such series.

The holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of any series may, on behalf of the holders of all the Junior Subordinated Notes of such series, waive any past default with respect to such series, except (i) a default in the payment of principal or interest or (ii) a default in respect of a covenant or provision which under Article Nine of the Subordinated Note Indenture cannot be modified or amended without the consent of the holder of each outstanding Junior Subordinated Note of such series affected.

**Registration and Transfer**

The Company shall not be required to (i) issue, register the transfer of or exchange Junior Subordinated Notes of any series during a period of 15 days immediately preceding the date notice is given identifying the Junior Subordinated Notes of such series called for redemption, or (ii) register the transfer of or exchange any Junior Subordinated Notes so selected for redemption, in whole or in part, except the unredeemed portion of any Junior Subordinated Note being redeemed in part.

**Payment and Paying Agent**

Unless otherwise indicated in an applicable Prospectus Supplement, payment of principal of any Junior Subordinated Notes will be made only against surrender to the Paying Agent of such Junior Subordinated Notes. Principal of and interest on Junior Subordinated Notes will be payable, subject to any applicable laws and regulations, at the office of such Paying Agent or Paying Agents as the Company may designate from time to time, except that, at the option of the Company, payment of any interest may be made by wire transfer or by check mailed to the address of the person entitled to an interest payment as such address shall appear in the Security Register with respect to the Junior Subordinated Notes. Payment of interest on Junior Subordinated Notes on any interest payment date will be made to the person in whose name the Junior Subordinated Notes (or predecessor security) are registered at the close of business on the record date for such interest payment.

Unless otherwise indicated in an applicable Prospectus Supplement, the Subordinated Note Indenture Trustee will act as Paying Agent with respect to the Junior Subordinated Notes. The Company may at any time designate additional Paying Agents or rescind the designation of any Paying Agents or approve a change in the office through which any Paying Agent acts.

All moneys paid by the Company to a Paying Agent for the payment of the principal of or interest on the Junior Subordinated Notes of any series which remain unclaimed at the end of two years after such principal or interest shall have become due and payable will be repaid to the Company, and the holder of such Junior Subordinated Notes will from that time forward look only to the Company for payment of such principal and interest.

**Modification**

The Subordinated Note Indenture contains provisions permitting the Company and the Subordinated Note Indenture Trustee, with the consent of the holders of not less than a majority in principal amount of the outstanding Junior Subordinated Notes of each series that is affected, to modify the Subordinated Note Indenture or the rights of the holders of the Junior Subordinated Notes of such series; provided, that no such modification may, without the consent of the holder of each outstanding Junior Subordinated Note that is affected, (i) change the stated maturity of the principal of, or any installment of principal of or interest on, any Junior Subordinated Note, or reduce the principal amount of any Junior Subordinated Note or the rate of interest (including Additional Interest) on any Junior Subordinated Note or any premium payable upon the redemption thereof, or change the method of calculating the rate of interest on any Junior Subordinated Note, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity of any Junior Subordinated Note (or, in the case of redemption, on or after the redemption date), or (ii) reduce the percentage of principal amount of the outstanding Junior Subordinated Notes of any series, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the Subordinated Note Indenture or certain defaults under the Subordinated Note Indenture and their consequences) provided for in the Subordinated Note Indenture, or (iii) modify any of the provisions of the Subordinated Note Indenture relating to supplemental indentures, waiver of past defaults, or waiver of certain covenants, except to increase any such percentage or to provide that certain other provisions of the Subordinated Note Indenture cannot be modified or waived without the consent of the holder of each outstanding Junior Subordinated Note that is affected, or (iv) modify the provisions of the Subordinated Note Indenture with respect to the subordination of the Junior Subordinated Notes in a manner adverse to such holder.

In addition, the Company and the Subordinated Note Indenture Trustee may execute, without the consent of any holders of Junior Subordinated Notes, any supplemental indenture for certain other usual purposes, including the creation of any new series of Junior Subordinated Notes.

**Consolidation, Merger and Sale**

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any person, unless (1) such other corporation or person is a corporation organized and existing under the laws of the United States, any state of the United States or the District of Columbia and such other corporation or person expressly assumes, by supplemental indenture executed and delivered to the Subordinated Note Indenture Trustee, the payment of the principal of (and premium, if any) and interest (including Additional Interest) on all the Junior Subordinated Notes and the performance of every covenant of the Subordinated Note Indenture on the part of the Company to be performed or observed; (2) immediately after giving effect to such transactions, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and (3) the Company has delivered to the Subordinated Note Indenture Trustee an officers' certificate and an opinion of counsel, each stating that such transaction complies with the provisions of the Subordinated Note Indenture governing consolidation, merger, conveyance, transfer or lease and that all conditions precedent to the transaction have been complied with.

**Information Concerning the Subordinated Note Indenture Trustee**

The Subordinated Note Indenture Trustee, prior to an Event of Default with respect to Junior Subordinated Notes of any series, undertakes to perform, with respect to Junior Subordinated Notes of such series, only such duties as are specifically set forth in the Subordinated Note Indenture and, in case an Event of Default with respect to Junior Subordinated Notes of any series has occurred and is continuing, shall exercise, with respect to Junior Subordinated Notes of such series, the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provision, the Subordinated Note Indenture Trustee is under no obligation to exercise any of the powers vested in it by the Subordinated Note Indenture at the request of any

holder of Junior Subordinated Notes of any series, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred by the Subordinated Note Indenture Trustee. The Subordinated Note Indenture Trustee is not required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties if the Subordinated Note Indenture Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

JPMorgan Chase Bank, the Subordinated Note Indenture Trustee, also serves as Senior Note Indenture Trustee, as Property Trustee and as Guarantee Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with JPMorgan Chase Bank. JPMorgan Chase Bank also serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

### Governing Law

The Subordinated Note Indenture and the Junior Subordinated Notes will be governed by, and construed in accordance with, the internal laws of the State of New York.

### Miscellaneous

The Company will have the right at all times to assign any of its rights or obligations under the Subordinated Note Indenture to a direct or indirect wholly-owned subsidiary of the Company; provided, that, in the event of any such assignment, the Company will remain primarily liable for all such obligations. Subject to the foregoing, the Subordinated Note Indenture will be binding upon and inure to the benefit of the parties to the Subordinated Note Indenture and their respective successors and assigns.

## DESCRIPTION OF THE PREFERRED SECURITIES

Each Trust may issue only one series of Preferred Securities having terms described in the Prospectus Supplement relating to the Preferred Securities. The Trust Agreement of each Trust will authorize the Administrative Trustees, on behalf of the Trust, to issue the Preferred Securities of such Trust. The Preferred Securities of each Trust will have such terms, including distributions, redemption, voting, liquidation rights and such other preferred, deferral or other special rights or such restrictions as shall be set forth in the Trust Agreement of such Trust. Reference is made to the Prospectus Supplement relating to the Preferred Securities of a Trust for specific terms, including (i) the distinctive designation of such Preferred Securities; (ii) the number of Preferred Securities issued by such Trust; (iii) the annual distribution rate (or method of determining such rate) for Preferred Securities of such Trust and the date or dates on which such distributions shall be payable; (iv) whether distributions on such Preferred Securities shall be cumulative and, in the case of Preferred Securities having cumulative distribution rights, the date or dates, or method of determining the date or dates, from which distributions on such Preferred Securities shall be cumulative; (v) the amount or amounts that shall be paid out of the assets of such Trust to the holders of the Preferred Securities of such Trust upon voluntary or involuntary dissolution, winding-up or termination of such Trust; (vi) the obligation, if any, of such Trust to purchase or redeem such Preferred Securities and the price or prices at which, the period or periods within which, and the terms and conditions upon which such Preferred Securities shall be purchased or redeemed, in whole or in part, pursuant to such obligation; (vii) the voting rights, if any, of such Preferred Securities in addition to those required by law, including the number of votes per Preferred Security and any requirement for the approval by the holders of Preferred Securities as a condition to specified action or amendments to the Trust Agreement of such Trust; (viii) the rights, if any, to defer distributions on the Preferred Securities by extending the interest payment period on the related Junior Subordinated Notes; and (ix) any other relative rights, preferences, privileges, limitations or restrictions of such Preferred Securities not inconsistent with the Trust Agreement of such Trust or applicable law. All Preferred Securities offered by this Prospectus will be guaranteed by the Company to the extent set forth under "Description of the Guarantees." Any material United States federal income tax considerations applicable to an offering of Preferred Securities will be described in the Prospectus Supplement relating to the Preferred Securities.

## DESCRIPTION OF THE GUARANTEES

Set forth below is a summary of information concerning the Guarantees that will be executed and delivered by the Company for the benefit of the holders of Preferred Securities of the respective Trusts from time to time. Each Guarantee will be qualified as an indenture under the 1939 Act. JPMorgan Chase Bank will act as indenture trustee under each Guarantee (the "Guarantee Trustee") for purposes of the 1939 Act. The terms of the respective Guarantees will be those set forth in such Guarantee and those made part of such Guarantee by the 1939 Act. The following summary does not purport to be complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the Guarantees, the form of which is filed as an exhibit to the Registration Statement of which this Prospectus forms a part, and the 1939 Act. Each Guarantee will be held by the Guarantee Trustee for the benefit of holders of the Preferred Securities to which it relates.

### General

Pursuant to each Guarantee, the Company will irrevocably and unconditionally agree, to the extent set forth in such Guarantee, to pay in full, to the holders of the related Preferred Securities, the Guarantee Payments (as defined below), to the extent not paid by, or on behalf of, the related Trust, regardless of any defense, right of set-off or counterclaim that the Company may have or assert against any person. The following payments or distributions with respect to the Preferred Securities of any Trust to the extent not paid or made by, or on behalf of, such Trust will be subject to the Guarantee related to the Preferred Securities (without duplication): (i) any accrued and unpaid distributions required to be paid on the Preferred Securities of such Trust but if and only if and to the extent that such Trust has funds legally and immediately available for these distributions, (ii) the redemption price, including all accrued and unpaid distributions to the date of redemption (the "Redemption Price"), with respect to any Preferred Securities called for redemption by such Trust, but if and only to the extent such Trust has funds legally and immediately available to pay such Redemption Price, and (iii) upon a dissolution, winding-up or termination of such Trust (other than in connection with the distribution of Junior Subordinated Notes to the holders of Trust Securities of such Trust or the redemption of all of the Preferred Securities of such Trust), the lesser of (a) the aggregate of the liquidation amount and all accrued and unpaid distributions on the Preferred Securities of such Trust to the date of payment, to the extent such Trust has funds legally and immediately available for such purpose, and (b) the amount of assets of such Trust remaining available for distribution to holders of Preferred Securities of such Trust in liquidation of such Trust (the "Guarantee Payments"). The Company's obligation to make a Guarantee Payment may be satisfied by direct payment of the required amounts by the Company to the holders of the related Preferred Securities or by causing the related Trust to pay such amounts to such holders.

Each Guarantee will be a guarantee of the Guarantee Payments with respect to the related Preferred Securities from the time of issuance of such Preferred Securities, but will not apply to the payment of distributions and other payments on such Preferred Securities when the related Trust does not have sufficient funds legally and immediately available to make such distributions or other payments. **If the Company does not make interest payments on the Junior Subordinated Notes held by the Property Trustee under any Trust, such Trust will not make distributions on its Preferred Securities.**

### Subordination

The Company's obligations under each Guarantee to make the Guarantee Payments will constitute an unsecured obligation of the Company and will rank (i) subordinate and junior in right of payment to all other liabilities of the Company, including the Junior Subordinated Notes, except those obligations or liabilities made equal or subordinate by their terms, (ii) equal to the most senior preferred or preference stock now issued by the Company or issued at a later date by the Company and with any guarantee now entered into by the Company or entered into at a later date by the Company in respect of any preferred or preference securities of any affiliate of the Company, and (iii) senior to all common stock of the Company. The terms of the Preferred Securities will provide that each holder of Preferred Securities by acceptance of the Preferred Securities agrees to the

subordination provisions and other terms of the Guarantee related thereto. The Company has outstanding preferred stock that ranks equal to the Guarantees and common stock that ranks junior to the Guarantees.

Each Guarantee will constitute a guarantee of payment and not of collection (that is, the guaranteed party may institute a legal proceeding directly against the guarantor to enforce its rights under the guarantee without first instituting a legal proceeding against any other person or entity).

**Amendments and Assignment**

Except with respect to any changes that do not materially and adversely affect the rights of holders of the related Preferred Securities (in which case no consent will be required), each Guarantee may be amended only with the prior approval of the holders of not less than 66⅔% in liquidation amount of such outstanding Preferred Securities. The manner of obtaining any such approval of holders of the Preferred Securities will be as set forth in an accompanying Prospectus Supplement. All guarantees and agreements contained in each Guarantee shall bind the successors, assigns, receivers, trustees and representatives of the Company and shall inure to the benefit of the holders of the related Preferred Securities then outstanding.

**Termination**

Each Guarantee will terminate and be of no further force and effect as to the related Preferred Securities upon full payment of the Redemption Price of all such Preferred Securities, upon distribution of Junior Subordinated Notes to the holders of such Preferred Securities, or upon full payment of the amounts payable upon liquidation of the related Trust. Each Guarantee will continue to be effective or will be reinstated, as the case may be, if at any time any holder of the related Preferred Securities must restore payment of any sums paid with respect to such Preferred Securities or under such Guarantee.

**Events of Default**

An event of default under each Guarantee will occur upon the failure by the Company to perform any of its payment obligations under such Guarantee. The holders of a majority in liquidation amount of the Preferred Securities to which any Guarantee relates have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Guarantee Trustee in respect of such Guarantee or to direct the exercise of any trust or power conferred upon the Guarantee Trustee under such Guarantee. Any holder of the related Preferred Securities may institute a legal proceeding directly against the Company to enforce its rights under such Guarantee without first instituting a legal proceeding against the Guarantee Trustee or any other person or entity. The holders of a majority in liquidation amount of Preferred Securities of any series may, by vote, on behalf of the holders of all the Preferred Securities of such series, waive any past event of default and its consequences.

**Information Concerning the Guarantee Trustee**

The Guarantee Trustee, prior to the occurrence of any event of default with respect to any Guarantee and after the curing or waiving of all events of default with respect to such Guarantee, undertakes to perform only such duties as are specifically set forth in such Guarantee and, in case an event of default has occurred, shall exercise the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provisions, the Guarantee Trustee is under no obligation to exercise any of the powers vested in it by any Guarantee at the request of any holder of the related Preferred Securities, unless offered reasonable indemnity against the costs, expenses and liabilities which might be incurred by the Guarantee Trustee.

JPMorgan Chase Bank, the Guarantee Trustee, also serves as Property Trustee, as Senior Note Indenture Trustee and as Subordinated Note Indenture Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with JPMorgan Chase Bank. JPMorgan Chase Bank serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

### Governing Law

Each Guarantee will be governed by, and construed in accordance with, the internal laws of the State of New York.

### The Agreements as to Expenses and Liabilities

Pursuant to an Agreement as to Expenses and Liabilities to be entered into by the Company under each Trust Agreement, the Company will irrevocably and unconditionally guarantee to each person or entity to whom each Trust becomes indebted or liable the full payment of any indebtedness, expenses or liabilities of such Trust, other than obligations of such Trust to pay to the holders of the related Preferred Securities or other similar interests in such Trust the amounts due such holders pursuant to the terms of such Preferred Securities or such other similar interests, as the case may be.

## RELATIONSHIP AMONG THE PREFERRED SECURITIES, THE JUNIOR SUBORDINATED NOTES AND THE GUARANTEES

As long as payments of interest and other payments are made when due on each series of Junior Subordinated Notes issued to a Trust, such payments will be sufficient to cover distributions and payments due on the related Trust Securities of such Trust primarily because (i) the aggregate principal amount of each series of Junior Subordinated Notes will be equal to the sum of the aggregate stated liquidation amount of the related Trust Securities; (ii) the interest rate and interest and other payment dates on each series of Junior Subordinated Notes will match the distribution rate and distribution and other payment dates for the related Preferred Securities; (iii) the Company shall pay for all costs and expenses of each Trust pursuant to the Agreements as to Expenses and Liabilities; and (iv) each Trust Agreement provides that the Securities Trustees thereunder shall not cause or permit the Trust to, among other things, engage in any activity that is not consistent with the purposes of the Trust.

Payments of distributions (to the extent funds for such purpose are legally and immediately available) and other payments due on the Preferred Securities (to the extent funds for such purpose are legally and immediately available) will be guaranteed by the Company as and to the extent set forth under "Description of the Guarantees." If the Company does not make interest payments on any series of Junior Subordinated Notes, it is not expected that the related Trust will have sufficient funds to pay distributions on its Preferred Securities. Each Guarantee is a guarantee from the time of its issuance, but does not apply to any payment of distributions unless and until the related Trust has sufficient funds legally and immediately available for the payment of such distributions.

If the Company fails to make interest or other payments on any series of Junior Subordinated Notes when due (taking into account any extension period as described in the applicable Prospectus Supplement), the Trust Agreement provides a mechanism that allows the holders of the related Preferred Securities to appoint a substitute Property Trustee. Such holders may also direct the Property Trustee to enforce its rights under the Junior Subordinated Notes of such series, including proceeding directly against the Company to enforce such Junior Subordinated Notes. If the Property Trustee fails to enforce its rights under any series of Junior Subordinated Notes, to the fullest extent permitted by applicable law, any holder of related Preferred Securities may institute a legal proceeding directly against the Company to enforce the Property Trustee's rights under such series of Junior Subordinated Notes without first instituting any legal proceeding against the Property Trustee or any other person or entity. Notwithstanding the foregoing, a holder of Preferred Securities may institute a legal proceeding directly against the Company, without first instituting a legal proceeding against the Property Trustee or any other person or entity, for enforcement of payment to such holder of principal of or interest on Junior Subordinated Notes of the related series having a principal amount equal to the aggregate stated liquidation amount of the Preferred Securities of such holder on or after the due dates specified in the Junior Subordinated Notes of such series.

If the Company fails to make payments under any Guarantee, such Guarantee provides a mechanism that allows the holders of the Preferred Securities to which such Guarantee relates to direct the Guarantee Trustee to enforce its rights under such Guarantee. In addition, any holder of Preferred Securities may institute a legal proceeding directly against the Company to enforce the Guarantee Trustee's rights under the related Guarantee without first instituting a legal proceeding against the Guarantee Trustee or any other person or entity.

Each Guarantee, the Subordinated Note Indenture, the Junior Subordinated Notes of the related series, the related Trust Agreement and the related Agreement as to Expenses and Liabilities, as described above, constitute a full and unconditional guarantee by the Company of the payments due on the related series of Preferred Securities.

Upon any voluntary or involuntary dissolution, winding-up or termination of any Trust, unless Junior Subordinated Notes of the related series are distributed in connection with such action, the holders of the Preferred Securities of such Trust will be entitled to receive, out of assets legally available for distribution to holders, a liquidation distribution in cash as described in the applicable Prospectus Supplement. Upon any voluntary or involuntary liquidation or bankruptcy of the Company, the Property Trustee, as holder of the related series of Junior Subordinated Notes, would be a subordinated creditor of the Company, subordinated in right of payment to all Senior Indebtedness, but entitled to receive payment in full of principal and interest, before any stockholders of the Company receive payments or distributions. Because the Company is guarantor under each Guarantee and has agreed to pay for all costs, expenses and liabilities of each Trust (other than the Trust's obligations to holders of the Preferred Securities) pursuant to the related Agreement as to Expenses and Liabilities, the positions of a holder of Preferred Securities and a holder of Junior Subordinated Notes of the related series relative to other creditors and to stockholders of the Company in the event of liquidation or bankruptcy of the Company would be substantially the same.

A default or event of default under any Senior Indebtedness would not constitute a default or Event of Default under the Subordinated Note Indenture. However, in the event of payment defaults under, or acceleration of, Senior Indebtedness, the subordination provisions of the Junior Subordinated Notes provide that no payments may be made in respect of the Junior Subordinated Notes until such Senior Indebtedness has been paid in full or any payment default of Senior Indebtedness has been cured or waived. Failure to make required payments on the Junior Subordinated Notes of any series would constitute an Event of Default under the Subordinated Note Indenture with respect to the Junior Subordinated Notes of such series except that failure to make interest payments on the Junior Subordinated Notes of such series will not be an Event of Default during an extension period as described in the applicable Prospectus Supplement.

## PLAN OF DISTRIBUTION

The Company may sell the Senior Notes and the Junior Subordinated Notes and the Trusts may sell the Preferred Securities in one or more of the following ways from time to time: (i) to underwriters for resale to the public or to institutional investors; (ii) directly to institutional investors; or (iii) through agents to the public or to institutional investors. The Prospectus Supplement with respect to each series of Senior Notes, Junior Subordinated Notes or Preferred Securities will set forth the terms of the offering of such Senior Notes, Junior Subordinated Notes or Preferred Securities, including the name or names of any underwriters or agents, the purchase price of such Senior Notes, Junior Subordinated Notes or Preferred Securities and the proceeds to the Company or the applicable Trust from such sale, any underwriting discounts or agency fees and other items constituting underwriters' or agents' compensation, any initial public offering price, any discounts or concessions allowed or reallowed or paid to dealers and any securities exchange on which such Senior Notes, Junior Subordinated Notes or Preferred Securities may be listed.

If underwriters participate in the sale, such Senior Notes, Junior Subordinated Notes or Preferred Securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale.

Unless otherwise set forth in the Prospectus Supplement, the obligations of the underwriters to purchase any series of Senior Notes, Junior Subordinated Notes or Preferred Securities will be subject to certain conditions precedent and the underwriters will be obligated to purchase all of such series of Senior Notes, Junior Subordinated Notes or Preferred Securities, if any are purchased.

Underwriters and agents may be entitled under agreements entered into with the Company and/or the applicable Trust to indemnification against certain civil liabilities, including liabilities under the 1933 Act. Underwriters and agents may engage in transactions with, or perform services for, the Company in the ordinary course of business.

Each series of Senior Notes, Junior Subordinated Notes or Preferred Securities will be a new issue of securities and will have no established trading market. Any underwriters to whom Senior Notes, Junior Subordinated Notes or Preferred Securities are sold for public offering and sale may make a market in such Senior Notes, Junior Subordinated Notes or Preferred Securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice. The Senior Notes, Junior Subordinated Notes or Preferred Securities may or may not be listed on a national securities exchange.

## LEGAL MATTERS

Certain matters of Delaware law relating to the validity of the Preferred Securities will be passed upon on behalf of the Company and the Trusts by Richards, Layton & Finger, P.A., Wilmington, Delaware, special Delaware counsel to the Company and the Trusts. The validity of the Senior Notes, the Junior Subordinated Notes, the Guarantees and certain matters relating to such securities will be passed upon on behalf of the Company by Beggs & Lane, a Registered Limited Liability Partnership, Pensacola, Florida, and by Troutman Sanders LLP, Atlanta, Georgia. Certain legal matters will be passed upon for the Underwriters by Dewey Ballantine LLP, New York, New York.

## EXPERTS

The financial statements and the related financial statement schedule as of and for the year ended December 31, 2002 incorporated by reference in this Prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report, which is incorporated by reference in this Prospectus, and has been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

Certain of the Company's financial statements incorporated by reference in this Prospectus have been audited by Arthur Andersen LLP ("Andersen"), independent public accountants, as indicated in their reports with respect to the financial statements, and are incorporated by reference in this Prospectus, in reliance upon the authority of Andersen as experts in giving such reports. On March 28, 2002, Southern's Board of Directors, upon recommendation of its Audit Committee, decided not to engage Andersen as the Company's principal public accountants. The Company has not obtained a reissued report from Andersen and has been unable to obtain, after reasonable efforts, Andersen's written consent to incorporate by reference Andersen's reports on the financial statements. Under these circumstances, Rule 437a under the 1933 Act permits this Prospectus to be filed without a written consent from Andersen. The absence of such written consent from Andersen may limit a holder's ability to assert claims against Andersen under Section 11(a) of the 1933 Act for any untrue statement of a material fact contained in the financial statements audited by Andersen or any omissions to state a material fact required to be stated in the financial statements.


GULF
POWER
A SOUTHERN COMPANY

EXHIBIT.F.4.


BEGGS & LANE
A REGISTERED LIMITED LIABILITY PARTNERSHIP
ATTORNEYS AND COUNSELLORS AT LAW
POST OFFICE BOX 12950
PENSACOLA, FLORIDA 32591-2950

501 COMMENDENCIA STREET
PENSACOLA, FLORIDA 32501-5641
TELEPHONE (850) 432-2451
TELECOPIER (850) 469-3330

JAMES M. WEBER
JOHN F. WINDHAM
J. NIXON DANIEL, III
RALPH A. PETERSON
GARY B. LEUCHTMAN
JOHN P. DANIEL
JEFFREY A. STONE
JAMES S. CAMPBELL
RUSSELL F. VAN SICKLE
RUSSELL A. BADDERS
MARY JANE THIES
DAVID L. MCGEE
CHARLES T. WIGGINS
THOMAS F. GONZALEZ
DAVID E. HIGHTOWER
WILLIAM H. MITCHEM
PETER J. MOUGEY
R. ANDREW KENT
ELIZABETH C. CALLAHAN
TERRIE L. DIDIER

W. SPENCER MITCHEM
*Of Counsel*

E. DIXIE BEGGS
1908-2001

BERT H. LANE
1917-1981


September 16, 2003

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036
As Representative of the Underwriters named on Schedule I
to the Underwriting Agreement

GULF POWER COMPANY
SERIES I 5.75% SENIOR NOTES
DUE SEPTEMBER 15, 2033

Ladies and Gentlemen:

We have acted as general counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance and sale of $40,000,000 aggregate principal amount of its Series I 5.75% Senior Notes due September 15, 2033 (the "Notes") pursuant to the Senior Note Indenture dated as of January 1, 1998, by and between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Ninth Supplemental Indenture dated as of September 16, 2003 (collectively, the "Indenture") and (ii) the purchase by the Underwriters (as defined below) of the Notes pursuant to the terms of an Underwriting Agreement dated September 5, 2003 (the "Underwriting Agreement"), among the Company and the Underwriters named in Schedule I thereto (the "Underwriters") for whom you are acting as Representative. This opinion is being delivered to you as Representative pursuant to Section 5(c)(1) of the Underwriting Agreement.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (File Nos. 333-104449, 333-104449-01 and 333-104449-02) pertaining to the Notes (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act"), and the prospectus of the Company dated April 25, 2003, as supplemented by a final prospectus supplement relating to the Notes dated September 5, 2003 (the "Final Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2002, the Quarterly Reports on Form 10-Q of the Company for the quarters ended March 31, 2003 and June 30, 2003 and the Current Reports on Form 8-K of the Company dated March 21, 2003, July 10, 2003 and September 5, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to collectively as the "Agreements."

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Georgia law and the federal law of the United States upon the opinion dated the date hereof rendered to you by Troutman Sanders LLP and relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP, that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by the Underwriters pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other

counsel for the Company, with representatives of Deloitte & Touche LLP and with your counsel. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Registration Statement, as of its effective date, and the Final Supplemented Prospectus, as of September 5, 2003, complied as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the relevant requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of its effective date (including the Exchange Act Documents on file with the Commission as of such date), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contained, as of its date, or contains, on the date hereof, any untrue statement of a material fact or omitted, as of its date, or omits, on the date hereof, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the captions "Description of the Series I Senior Notes – Book-Entry Only Issuance – The Depository Trust Company" and "The Policy and the Insurer" or in Appendix A thereto.

We are members of the Florida Bar and we do not express any opinion herein concerning any law other than the law of the States of Maine, Florida and Mississippi and, to the extent set forth herein, the laws of the States of Georgia and New York and the federal law of the United States.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent, except that Dewey Ballantine LLP may rely on this opinion in giving its opinion pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinion relates to matters of Maine, Florida and Mississippi law, and Troutman Sanders LLP may rely on this opinion in giving its opinions pursuant to Section 5(c) of the Underwriting Agreement and in connection with the Company's listing application with respect to the Notes to the New York Stock Exchange, Inc., insofar as such opinions relate to matters of Maine, Florida and Mississippi law.

Yours very truly,

Beggs & Lane

BEGGS & LANE

TROUTMAN SANDERS LLP
ATTORNEYS AT LAW
A LIMITED LIABILITY PARTNERSHIP

BANK OF AMERICA PLAZA
600 PEACHTREE STREET, N.E. - SUITE 5200
ATLANTA, GEORGIA 30308-2216
www.troutmansanders.com
TELEPHONE: 404-885-3000
FACSIMILE: 404-885-3900

September 16, 2003

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036
As Representative of the Underwriters named on Schedule I
to the Underwriting Agreement

GULF POWER COMPANY
SERIES I 5.75% SENIOR NOTES
DUE SEPTEMBER 15, 2033

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance and sale of $40,000,000 aggregate principal amount of its Series I 5.75% Senior Notes due September 15, 2033 (the "Notes") pursuant to the Senior Note Indenture dated as of January 1, 1998, by and between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Ninth Supplemental Indenture dated as of September 16, 2003 (collectively, the "Indenture") and (ii) the purchase by the Underwriters (as defined below) of the Notes pursuant to the terms of an Underwriting Agreement dated September 5, 2003 (the "Underwriting Agreement"), among the Company and the Underwriters named in Schedule I thereto (the "Underwriters") for whom you are acting as Representative. This opinion is being delivered to you as Representative pursuant to Section 5(c)(2) of the Underwriting Agreement.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (Nos. 333-104449, 333-104449-01 and 333-104449-02) pertaining to the Notes and certain other securities (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act"), and the prospectus of the Company dated April 25, 2003, as supplemented by the prospectus supplement dated September 5, 2003 (the "Final Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the

Company for the fiscal year ended December 31, 2002, the Quarterly Reports on Form 10-Q of the Company for the quarters ended March 31, 2003 and June 30, 2003 and the Current Reports on Form 8-K of the Company dated March 21, 2003, July 10, 2003 and September 5, 2003 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to collectively as the "Agreements."

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP and as to matters of Maine, Florida and Mississippi law upon the opinion dated the date hereof rendered to you by Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane"), that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other

order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by the Underwriters pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP and with your counsel. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act

Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Registration Statement, as of its effective date and the Final Supplemented Prospectus, as of September 5, 2003, complied as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the relevant requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of its effective date (including the Exchange Act Documents on file with the Commission as of such date), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contained, as of its date, or contains, on the date hereof, any untrue statement of a material fact or omitted, as of its date, or omits, on the date hereof, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the captions "Description of the Series I Senior Notes – Book-Entry Only Issuance – The Depository Trust Company" and "The Policy and the Insurer" or in Appendix A thereto.

We are members of the State Bar of Georgia and we do not express any opinion herein concerning any law other than the law of the State of Georgia and the federal law of the United States and, to the extent set forth herein, the laws of the States of Florida, Maine, Mississippi and New York.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent, except that Beggs & Lane may rely on this opinion in giving its opinion pursuant to Section 5(c) of the Underwriting Agreement insofar as

such opinion relates to matters of Georgia law and the federal law of the United States and Dewey Ballantine LLP may rely on this opinion in giving its opinion pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinion relates to matters of Georgia law.

Very truly yours,

Troutman Sanders LLP

TROUTMAN SANDERS LLP

EXHIBIT F.8.

**Description of Holder**

*$40,000,000 Series I 5.75% Senior Notes*

| **Name of Underwriters** | **Principal Amount of Notes** |
|---|---|
| Morgan Stanley & Co. Incorporated<br>1585 Broadway<br>New York, New York 10036<br><br>As representative | $30,000,000 |
| SunTrust Capital Markets, Inc. | $10,000,000 |
| | $40,000,000 |

Underwriters Fees: $1,260,000

GULF POWER COMPANY
Summary of Debt Expenses in Conjunction with the
Issuance and Sale of $40,000,000 Principal Amount
Series I 5.75% Senior Notes

EXHIBIT F.9.

| Item Number | Issuance Expenses For: | Amount $ |
|---|---|---|
| 1 | Shelf Registration-Securities & Exchange Commission | 18,439.90 |
| 2 | Charges of Trustee | 6,890.00 |
| 3 | Printing and Preparation of Registration Statement, Financial Statements, Prospectus, Competitive Bidding Papers, Supplemental Indenture, etc. | 14,943.13 |
| 4 | Fees and Expenses of Counsel | 16,637.04 |
| 5 | Fees of Accountants | 30,900.00 |
| 6 | Rating Fees | 13,740.54 |
| 7 | Expenses of Southern Company Services, Inc. | 3,877.86 |
| 8 | Insurance | 762,900.75 |
| 9 | New York Stock Exchange Listing | 23,600.00 |
| 10 | Miscellaneous Expenses | 639.74 |
| | Total Expenses of Issue | 892,568.96 |
| | Unamortized Discount Expense | 1,260,000.00 |
| | Total Cost of Issue | $2,152,568.96 |

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

# FORM 10-K

**(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**
**OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**
**( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**
**OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the Transition Period from to**

| Commission File Number | Registrant, State of Incorporation, Address and Telephone Number | I.R.S. Employer Identification No. |
|---|---|---|
| 1-3526 | **The Southern Company**<br>(A Delaware Corporation)<br>270 Peachtree Street, N.W.<br>Atlanta, Georgia 30303<br>(404) 506-5000 | 58-0690070 |
| 1-3164 | **Alabama Power Company**<br>(An Alabama Corporation)<br>600 North 18th Street<br>Birmingham, Alabama 35291<br>(205) 257-1000 | 63-0004250 |
| 1-6468 | **Georgia Power Company**<br>(A Georgia Corporation)<br>241 Ralph McGill Boulevard, N.E.<br>Atlanta, Georgia 30308<br>(404) 506-6526 | 58-0257110 |
| 0-2429 | **Gulf Power Company**<br>(A Maine Corporation)<br>One Energy Place<br>Pensacola, Florida 32520<br>(850) 444-6111 | 59-0276810 |
| 001-11229 | **Mississippi Power Company**<br>(A Mississippi Corporation)<br>2992 West Beach<br>Gulfport, Mississippi 39501<br>(228) 864-1211 | 64-0205820 |
| 1-5072 | **Savannah Electric and Power Company**<br>(A Georgia Corporation)<br>600 East Bay Street<br>Savannah, Georgia 31401<br>(912) 644-7171 | 58-0418070 |
| 333-98553 | **Southern Power Company**<br>(A Delaware Corporation)<br>270 Peachtree Street, N.W.<br>Atlanta, Georgia 30303<br>(404) 506-5000 | 58-2598670 |

**Securities registered pursuant to Section 12(b) of the Act:**[1]

Each of the following classes or series of securities registered pursuant to Section 12(b) of the Act is registered on the New York Stock Exchange.

| Title of each class | Registrant |
|---|---|
| **Common Stock, $5 par value** | **The Southern Company** |
| **Mandatorily redeemable preferred securities, $25 liquidation amount**<br>7.125% Trust Preferred Securities[2] | |
| **Class A preferred, cumulative, $25 stated capital**<br>5.20% Series 5.83% Series | **Alabama Power Company** |
| **Senior Notes**<br>6.75% Series J | |
| **Senior Notes**<br>6 5/8% Series D 5.90% Series O<br>6% Series R | **Georgia Power Company** |
| **Mandatorily redeemable preferred securities, $25 liquidation amount**<br>6.85% Trust Preferred Securities[3]<br>7 1/8% Trust Preferred Securities[4] | |
| **Senior Notes**<br>5.25% Series H<br>5.75% Series I | **Gulf Power Company** |
| **Mandatorily redeemable preferred securities, $25 liquidation amount**<br>7.375% Trust Preferred Securities[5] | |

1 As of December 31, 2003.
2 Issued by Southern Company Capital Trust VI and guaranteed by The Southern Company.
3 Issued by Georgia Power Capital Trust IV and guaranteed by Georgia Power Company.
4 Issued by Georgia Power Capital Trust V and guaranteed by Georgia Power Company.
5 Issued by Gulf Power Capital Trust III and guaranteed by Gulf Power Company.

**Senior Notes** — **Mississippi Power Company**
5 5/8% Series E

**Depositary preferred shares, each representing one-fourth of a share of preferred stock, cumulative, $100 par value**
6.32% Series 6.65% Series

**Mandatorily redeemable preferred securities, $25 liquidation amount**
7.20% Trust Originated Preferred Securities [6]

---

**Mandatorily redeemable preferred securities, $25 liquidation amount** — **Savannah Electric and Power Company**
6.85% Trust Preferred Securities[7]

**Securities registered pursuant to Section 12(g) of the Act:** [8]

| Title of each class | | | Registrant |
|---|---|---|---|
| **Preferred stock, cumulative, $100 par value** | | | **Alabama Power Company** |
| 4.20% Series | 4.60% Series | 4.72% Series | |
| 4.52% Series | 4.64% Series | 4.92% Series | |
| **Class A Preferred Stock, cumulative, $100,000 stated capital** | | | |
| Flexible Money Market (Series 2003A) | | | |
| **Preferred stock, cumulative, $100 stated value** | | | **Georgia Power Company** |
| $4.60 Series (1954) | | | |
| **Preferred stock, cumulative, $100 par value** | | | **Gulf Power Company** |
| 4.64% Series | 5.44% Series | | |
| 5.16% Series | | | |
| **Preferred stock, cumulative, $100 par value** | | | **Mississippi Power Company** |
| 4.40% Series | 4.60% Series | | |
| 4.72% Series | 7.00% Series | | |

---

[6] Issued by Mississippi Power Capital Trust II and guaranteed by Mississippi Power Company.
[7] Issued by Savannah Electric Capital Trust I and guaranteed by Savannah Electric and Power Company.
[8] As of December 31, 2003.

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes _X_ No___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ( )

Indicate by checkmark if the registrants are accelerated filers as defined in Rule 12b-2 of the Securities Exchange Act of 1934. Yes _X_ No___

Aggregate market value of voting and non-voting stock held by non-affiliates of The Southern Company at June 30, 2003: $22.7 billion and at January 30, 2004: $21.9 billion. Each of such other registrants is a wholly-owned subsidiary of The Southern Company. A description of registrants' common stock follows:

| Registrant | Description of Common Stock | Shares Outstanding at January 31, 2004 |
|---|---|---|
| The Southern Company | Par Value $5 Per Share | 735,504,409 |
| Alabama Power Company | Par Value $40 Per Share | 7,250,000 |
| Georgia Power Company | Without Par Value | 7,761,500 |
| Gulf Power Company | Without Par Value | 992,717 |
| Mississippi Power Company | Without Par Value | 1,121,000 |
| Savannah Electric and Power Company | Par Value $5 Per Share | 10,844,635 |
| Southern Power Company | Par Value $0.01 Per Share | 1,000 |

Documents incorporated by reference: specified portions of The Southern Company's Proxy Statement relating to the 2004 Annual Meeting of Stockholders are incorporated by reference into PART III. In addition, specified portions of the Information Statements of Alabama Power Company, Georgia Power Company, Gulf Power Company and Mississippi Power Company relating to each of their respective 2004 Annual Meetings of Shareholders are incorporated by reference into PART III.

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

[This page intentionally left blank]

# Table of Contents


| | | Page |
|---|---|---|
| | **PART I** | |
| Item 1 | Business | |
| | The SOUTHERN System | I-2 |
| | Retail Operating Companies | I-2 |
| | Southern Power | I-2 |
| | Other Business | I-3 |
| | Mirant Corporation | I-3 |
| | Risk Factors | I-3 |
| | Construction Programs | I-10 |
| | Financing Programs | I-12 |
| | Fuel Supply | I-13 |
| | Territory Served by the Utilities | I-14 |
| | Competition | I-17 |
| | Regulation | I-18 |
| | Rate Matters | I-20 |
| | Employee Relations | I-22 |
| Item 2 | Properties | I-23 |
| Item 3 | Legal Proceedings | I-27 |
| Item 4 | Submission of Matters to a Vote of Security Holders | I-33 |
| | Executive Officers of Southern Company | I-34 |
| | Executive Officers of Alabama Power | I-36 |
| | Executive Officers of Georgia Power | I-37 |
| | Executive Officers of Gulf Power | I-39 |
| | Executive Officers of Mississippi Power | I-40 |
| | **PART II** | |
| Item 5 | Market for Registrants' Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | II-1 |
| Item 6 | Selected Financial Data | II-2 |
| Item 7 | Management's Discussion and Analysis of Results of Operations and Financial Condition | II-2 |
| Item 7A | Quantitative and Qualitative Disclosures about Market Risk | II-3 |
| Item 8 | Financial Statements and Supplementary Data | II-4 |
| Item 9 | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | II-5 |
| Item 9A | Controls and Procedures | II-6 |
| | **PART III** | |
| Item 10 | Directors and Executive Officers of the Registrants | III-1 |
| Item 11 | Executive Compensation | III-6 |
| Item 12 | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | III-13 |
| Item 13 | Certain Relationships and Related Transactions | III-15 |
| Item 14 | Principal Accountant Fees and Services | III-16 |
| | **PART IV** | |
| Item 15 | Exhibits, Financial Statement Schedules, and Reports on Form 8-K | IV-1 |
| | Signatures | IV-2 |

# DEFINITIONS

When used in Items 1 through 5 and Items 9A through 15, the following terms will have the meanings indicated.

| Term | Meaning |
|---|---|
| AEC | Alabama Electric Cooperative, Inc. |
| AFUDC | Allowance for Funds Used During Construction |
| Alabama Power | Alabama Power Company |
| AMEA | Alabama Municipal Electric Authority |
| Clean Air Act | Clean Air Act Amendments of 1990 |
| Dalton | City of Dalton, Georgia |
| DOE | United States Department of Energy |
| EITF | Emerging Issues Task Force of the Financial Accounting Standards Board |
| EMF | Electromagnetic field |
| Energy Act | Energy Policy Act of 1992 |
| Energy Solutions | Southern Company Energy Solutions, Inc. |
| EPA | United States Environmental Protection Agency |
| FERC | Federal Energy Regulatory Commission |
| FMPA | Florida Municipal Power Agency |
| FPC | Florida Power Corporation |
| FP&L | Florida Power & Light Company |
| Georgia Power | Georgia Power Company |
| Gulf Power | Gulf Power Company |
| Holding Company Act | Public Utility Holding Company Act of 1935, as amended |
| IBEW | International Brotherhood of Electrical Workers |
| IPP | Independent power producer |
| IRP | Integrated Resource Plan |
| IRC | Internal Revenue Code |
| IRS | Internal Revenue Service |
| ISA | Independent System Administrator |
| JEA | Jacksonville Electric Authority |
| KUA | Kissimmee Utility Authority |
| MEAG | Municipal Electric Authority of Georgia |
| MESH | Mobile Energy Services Holdings |
| Mirant | Mirant Corporation |
| Mississippi Power | Mississippi Power Company |
| Moody's | Moody's Investors Service, Inc. |
| NRC | Nuclear Regulatory Commission |
| OPC | Oglethorpe Power Corporation |
| OUA | Orlando Utilities Commission |
| PPA | Power Purchase Agreement |
| PSC | Public Service Commission |
| registrants | The Southern Company, Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, Savannah Electric and Power Company and Southern Power Company |
| retail operating companies | Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company and Savannah Electric and Power Company |

**DEFINITIONS**
(continued)

| | |
|---|---|
| RFP | Request for Proposal |
| RTO | Regional Transmission Organization |
| RUS | Rural Utility Service (formerly Rural Electrification Administration) |
| S&P | Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies |
| Savannah Electric | Savannah Electric and Power Company |
| SCS | Southern Company Services, Inc. (the system service company) |
| SEC | Securities and Exchange Commission |
| SEGCO | Southern Electric Generating Company |
| SEPA | Southeastern Power Administration |
| SERC | Southeastern Electric Reliability Council |
| SeTrans | A proposed regional transmission organization consisting of eleven utilities, including Southern Company, the work on which was suspended in December 2003 |
| SMEPA | South Mississippi Electric Power Association |
| Southern Company | The Southern Company |
| Southern Company GAS | Southern Company Gas LLC |
| Southern Company system | Southern Company, the retail operating companies, Southern Power, SEGCO, Southern Nuclear, SCS, Southern LINC, Southern Management Development, Southern Company GAS and other subsidiaries |
| Southern Holdings | Southern Company Holdings, Inc. |
| Southern LINC | Southern Communications Services, Inc. |
| Southern Nuclear | Southern Nuclear Operating Company, Inc. |
| Southern Power | Southern Power Company |
| Southern Telecom | Southern Telecom, Inc. |
| Super Southeast | Southern Company's traditional service territory, Alabama, Florida, Georgia and Mississippi, plus the surrounding States of Kentucky, Louisiana, North Carolina, South Carolina, Tennessee and Virginia |
| TVA | Tennessee Valley Authority |

# CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K contains forward-looking statements in addition to historical information. Forward-looking information includes, among other things, statements concerning the strategic goals for Southern Company's wholesale business, estimated construction and other expenditures and Southern Company's projections for energy sales and its goals for future generating capacity, dividend payout ratio, earnings per share and earnings growth. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential" or "continue" or the negative of these terms or other comparable terminology. The registrants caution that there are various important factors that could cause actual results to differ materially from those indicated in the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory change, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry and also changes in environmental, tax and other laws and regulations to which Southern Company and its subsidiaries are subject, as well as changes in application of existing laws and regulations;
- current and future litigation, regulatory investigations, proceedings or inquiries, including the pending EPA civil actions against certain Southern Company subsidiaries and current IRS audits;
- the effects, extent and timing of the entry of additional competition in the markets in which Southern Company's subsidiaries operate;
- the impact of fluctuations in commodity prices, interest rates and customer demand;
- available sources and costs of fuels;
- ability to control costs;
- investment performance of Southern Company's employee benefit plans;
- advances in technology;
- state and federal rate regulations and pending and future rate cases and negotiations;
- effects of and changes in political, legal and economic conditions and developments in the United States, including the current soft economy;
- the performance of projects undertaken by the non-traditional business and the success of efforts to invest in and develop new opportunities;
- internal restructuring or other restructuring options that may be pursued;
- potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed or beneficial to Southern Company or its subsidiaries;
- the ability of counterparties of Southern Company and its subsidiaries to make payments as and when due;
- the ability to obtain new short- and long-term contracts with neighboring utilities;
- the direct or indirect effect on Southern Company's business resulting from the terrorist incidents on September 11, 2001, or any similar incidents or responses to such incidents;
- financial market conditions and the results of financing efforts, including Southern Company's and its subsidiaries' credit ratings;
- the ability of Southern Company and its subsidiaries to obtain additional generating capacity at competitive prices;
- weather and other natural phenomena;
- the direct and indirect effects on Southern Company's business resulting from the August 2003 power outage in the Northeast, or any similar incidents;
- the effect of accounting pronouncements issued periodically by standard-setting bodies; and
- other factors discussed elsewhere herein and in other reports filed by the registrants from time to time with the SEC.

# PART I

## Item 1. BUSINESS

Southern Company was incorporated under the laws of Delaware on November 9, 1945. Southern Company is domesticated under the laws of Georgia and is qualified to do business as a foreign corporation under the laws of Alabama. Southern Company owns all the outstanding common stock of Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric, each of which is an operating public utility company. The retail operating companies supply electric service in the states of Alabama, Georgia, Florida, Mississippi and Georgia, respectively. More particular information relating to each of the retail operating companies is as follows:

*Alabama Power* is a corporation organized under the laws of the State of Alabama on November 10, 1927, by the consolidation of a predecessor Alabama Power Company, Gulf Electric Company and Houston Power Company. The predecessor Alabama Power Company had had a continuous existence since its incorporation in 1906.

*Georgia Power* was incorporated under the laws of the State of Georgia on June 26, 1930, and admitted to do business in Alabama on September 15, 1948.

*Gulf Power* is a corporation which was organized under the laws of the State of Maine on November 2, 1925, and admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976, and in Georgia on November 20, 1984.

*Mississippi Power* was incorporated under the laws of the State of Mississippi on July 12, 1972, was admitted to do business in Alabama on November 28, 1972, and effective December 21, 1972, by the merger into it of the predecessor Mississippi Power Company, succeeded to the business and properties of the latter company. The predecessor Mississippi Power Company was incorporated under the laws of the State of Maine on November 24, 1924, and was admitted to do business in Mississippi on December 23, 1924, and in Alabama on December 7, 1962.

*Savannah Electric* is a corporation existing under the laws of the State of Georgia; its charter was granted by the Secretary of State on August 5, 1921.

In addition, Southern Company owns all of the common stock of Southern Power, which is also an operating public utility company. Southern Power constructs, owns and manages Southern Company's competitive generation assets and sells electricity at market-based rates in the wholesale market. Southern Power is a corporation organized under the laws of Delaware on January 8, 2001, and admitted to do business in Alabama, Florida and Georgia on January 10, 2001 and in Mississippi on January 30, 2001.

Southern Company also owns all the outstanding common stock of Southern LINC, Southern Company GAS, Southern Nuclear, SCS, Southern Telecom, Southern Holdings and other direct and indirect subsidiaries. Southern LINC provides digital wireless communications services to Southern Company's retail operating companies and also markets these services to the public within the Southeast. Southern Company GAS, which began operation in August 2002, is a competitive retail natural gas marketer serving communities in Georgia. Southern Nuclear provides services to Alabama Power's and Georgia Power's nuclear plants. SCS is the system service company providing, at cost, specialized services to Southern Company and its subsidiary companies. Southern Telecom provides wholesale fiber optic solutions to telecommunication providers in the Southeastern United States. Southern Holdings is an intermediate holding subsidiary for Southern Company's investments in leveraged leases and synthetic fuel products and an energy services business.

Alabama Power and Georgia Power each own 50% of the outstanding common stock of SEGCO. SEGCO owns electric generating units with an aggregate capacity of 1,019,680 kilowatts at Plant Gaston on the Coosa River near Wilsonville, Alabama, and Alabama Power and Georgia Power are each entitled to one-half of SEGCO's capacity and energy. Alabama Power acts as SEGCO's agent in the operation of SEGCO's units and furnishes coal to SEGCO as fuel for its units. SEGCO also owns three 230,000 volt transmission lines extending from Plant Gaston to the Georgia state line at which point connection is made with the Georgia Power transmission line system.

Reference is made to Note 10 to the financial statements of Southern Company in Item 8 herein for additional information regarding Southern Company's segment and related information.

The registrants' Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports are made available, free of charge, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Southern Company's internet address is http://www.southerncompany.com.

## The SOUTHERN System

### Retail Operating Companies

The transmission facilities of each of the retail operating companies are connected to the respective company's own generating plants and other sources of power and are interconnected with the transmission facilities of the other retail operating companies and SEGCO by means of heavy-duty high voltage lines. (For information on Georgia Power's integrated transmission system, see Item 1 - BUSINESS - "Territory Served by the Utilities" herein.)

Operating contracts covering arrangements in effect with principal neighboring utility systems provide for capacity exchanges, capacity purchases and sales, transfers of economy energy and other similar transactions. Additionally, the retail operating companies have entered into voluntary reliability agreements with the subsidiaries of Entergy Corporation, Florida Electric Power Coordinating Group and TVA and with Carolina Power & Light Company, Duke Energy Corporation, South Carolina Electric & Gas Company and Virginia Electric and Power Company, each of which provides for the establishment and periodic review of principles and procedures for planning and operation of generation and transmission facilities, maintenance schedules, load retention programs, emergency operations and other matters affecting the reliability of bulk power supply. The retail operating companies have joined with other utilities in the Southeast (including those referred to above) to form the SERC to augment further the reliability and adequacy of bulk power supply. Through the SERC, the retail operating companies are represented on the National Electric Reliability Council.

An intra-system interchange agreement provides for coordinating operations of the power producing facilities of the retail operating companies and Southern Power and the capacities available to such companies from non-affiliated sources and for the pooling of surplus energy available for interchange. Coordinated operation of the entire interconnected system is conducted through a central power supply coordination office maintained by SCS. The available sources of energy are allocated to the retail operating companies and Southern Power to provide the most economical sources of power consistent with good operation. The resulting benefits and savings are apportioned among each of the companies.

SCS has contracted with Southern Company, each retail operating company, Southern Power, Southern Nuclear, SEGCO and other subsidiaries to furnish, at direct or allocated cost and upon request, the following services: general and design engineering, purchasing, accounting and statistical analysis, finance and treasury, tax, information resources, marketing, auditing, insurance and pension administration, human resources, systems and procedures; and other services with respect to business and operations and power pool transactions. Southern Power, Southern Company GAS, Southern LINC and Southern Telecom have also secured from the retail operating companies certain services which are furnished at cost.

Southern Nuclear has contracts with Alabama Power to operate Plant Farley and with Georgia Power to operate Plants Hatch and Vogtle. See Item 1 - BUSINESS - "Regulation - Atomic Energy Act of 1954" herein.

### Southern Power

Southern Power is an electric wholesale generation subsidiary with market-based rates. Southern Power constructs, owns and manages generating facilities and sells the output under long-term, fixed-price capacity contracts both to unaffiliated wholesale purchasers as well as to the retail operating companies (under PPAs approved by the respective PSCs). Southern Power's business activities are not subject to traditional state regulation of utilities but are subject to regulation by the FERC. Southern Power has attempted to insulate itself from significant fuel supply, fuel transportation and electric transmission risk by making such risks the

responsibility of the counterparties to the PPAs. However, Southern Power's overall profit will depend on the parameters of the wholesale market and its efficient operation of its wholesale generating assets. By the end of 2005, Southern Power plans to have approximately 6,000 megawatts of available generating capacity in commercial operation. At December 31, 2003, Southern Power had approximately 4,800 megawatts of generating capacity in commercial operation.

## Other Business

In June 2002, Southern Company formed a wholly-owned subsidiary, Southern Company GAS. Southern Company GAS operates as a retail gas marketer in the State of Georgia. Southern Company GAS completed its acquisition out of bankruptcy from The New Power Company (New Power) and began operations in July 2002. Southern Company GAS also purchased proprietary risk management software and hardware systems, natural gas inventory and accounts receivable from New Power. The total purchase price was approximately $60 million. Southern Company GAS has a 13.5% market share as of December 31, 2003.

Southern Holdings is an intermediate holding subsidiary for Southern Company's investments in leveraged leases and synthetic fuel products, in addition to Southern Company Energy Solutions LLC (SCES LLC), which provides energy services.

In 1996, Southern LINC began serving Southern Company's retail operating companies and marketing its services to non-affiliates within the Southeast. Its system covers approximately 127,000 square miles and combines the functions of two-way radio dispatch, cellular phone, short text and numeric messaging and wireless internet access and data transfer.

These continuing efforts to invest in and develop new business opportunities offer potential returns exceeding those of rate-regulated operations. However, these activities also involve a higher degree of risk.

In 1999, MESH, a subsidiary of Southern Company, filed a petition for Chapter 11 bankruptcy relief in the U.S. Bankruptcy Court. In 2001, MESH filed an amended plan of reorganization, which the U. S. Bankruptcy Court confirmed in September 2003. The plan became effective in late 2003, and Southern Company's equity interest in MESH, which had been written off entirely prior to 2001, was extinguished. Reference is made to Item 3 - "Legal Proceedings" and Note 3 to the financial statements of Southern Company in Item 8 herein under the heading "Mirant Related Matters - *Mobile Energy Services' Petition for Bankruptcy*" for additional information relating to this matter.

## Mirant Corporation

In April 2001, the spin off of Mirant was completed. As a result of the spin off, Southern Company's financial statements and related information reflect Mirant as discontinued operations. Reference is made to Note 3 to the financial statements of Southern Company in Item 8 herein under the heading "Mirant Related Matters" for additional information regarding Mirant.

## Risk Factors

**In addition to the other information in this Form 10-K and other documents filed by Southern Company and/or its subsidiaries with the SEC from time to time, the following factors should be carefully considered in evaluating Southern Company and its subsidiaries. Such factors could affect actual results and cause results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, Southern Company and/or its subsidiaries. Some or all of these factors may apply to Southern Company and/or its subsidiaries.**

### Risks Related to the Energy Industry

**Southern Company is subject to substantial governmental regulation. Compliance with current and future regulatory requirements and procurement of necessary approvals, permits and certificates may result in substantial costs to Southern Company.**

Southern Company is subject to substantial regulation from federal, state and local regulatory agencies. Southern Company and its subsidiaries are required to comply with numerous laws and regulations and to obtain numerous permits, approvals and certificates from the governmental agencies that regulate various aspects of their businesses, including customer rates, service regulations, retail service territories, sales

of securities, asset acquisitions and sales, accounting policies and practices, and the operation of fossil-fuel, hydroelectric and nuclear generating facilities. For example, the rates charged to wholesale customers by the retail operating companies and by Southern Power must be approved by the FERC. In addition, the respective state PSCs must approve the retail operating companies' rates for retail customers. Southern Company believes the necessary permits, approvals and certificates have been obtained for its existing operations and that its business is conducted in accordance with applicable laws; however, Southern Company is unable to predict the impact on its operating results from future regulatory activities of these agencies.

Southern Company is also subject to regulation by the SEC under the Holding Company Act. The rules and regulations promulgated under the Holding Company Act impose a number of restrictions on the operations of registered utility holding companies and their subsidiaries. These restrictions include a requirement that, subject to a number of exceptions, the SEC approve in advance securities issuances, acquisitions and dispositions of utility assets or of securities of utility companies, and acquisitions of other businesses. The Holding Company Act also generally limits the operations of a registered holding company to a single integrated public utility system, plus additional energy-related businesses. The Holding Company Act requires that transactions between affiliated companies in a registered holding company system be performed at cost, with limited exceptions.

The impact of any future revision or changes in interpretations of existing regulations or the adoption of new laws and regulations applicable to Southern Company or any of its subsidiaries cannot now be predicted. Changes in regulation or the imposition of additional regulations could influence Southern Company's operating environment and may result in substantial costs to Southern Company.

**General Risks Related to Operation of Southern Company's Utility Subsidiaries**

**The regional power market in which Southern Company and its subsidiaries compete has changing transmission regulatory structures, which could affect the ownership of these assets and related revenues and expenses.**

The retail operating companies currently own and operate transmission facilities as part of a vertically integrated utility. Transmission revenues are not separated from generation and distribution revenues in their approved retail rates. Federal governmental authorities are advocating the formation of RTOs and are proposing the adoption of new regulations that would impact electric markets, including the transmission regulatory structure. Under this new transmission regulatory structure, the retail operating companies would transfer functional control (but not ownership) of their transmission facilities to an independent third party. Because it remains unclear how RTOs will develop or what new market rules will be established, Southern Company is unable to assess fully the impact that these developments may have on its business. Southern Company's revenues, expenses, assets and liabilities could be adversely affected by changes in the transmission regulatory structure in its regional power market.

**Recent events in the energy markets that are beyond Southern Company's control have increased the level of public and regulatory scrutiny in the energy industry and in the capital markets. The reaction to these events may result in new laws or regulations related to Southern Company's business operations or the accounting treatment of its existing operations which could have a negative impact on Southern Company's net income or access to capital.**

As a result of the energy crisis in California during the summer of 2001, the filing of bankruptcy by Enron Corporation, investigations by governmental authorities into energy trading activities and the August 2003 power outage in the Northeast, companies generally in the regulated and unregulated utility businesses have been under an increased amount of public and regulatory scrutiny with respect to, among other things, accounting practices, financial disclosures and relationships with independent auditors. The capital markets and ratings agencies also have increased their level of scrutiny. This increased scrutiny could lead to substantial changes in laws and regulations affecting Southern Company, including new accounting standards that could change the way Southern Company is required to record revenues, expenses, assets and liabilities. These types of disruptions in the industry and any resulting regulations may have a negative impact on Southern Company's net income or access to capital.

**Deregulation or restructuring in the electric industry may result in increased competition and unrecovered costs which could negatively impact Southern Company's earnings.**

Increased competition which may result from restructuring efforts could have a significant adverse financial impact on Southern Company and its retail operating companies. Increased competition could result in increased pressure to lower the cost of electricity. Any adoption in the territories served by the retail operating companies of retail competition and the unbundling of regulated energy service could have a significant adverse financial impact on Southern Company and the retail operating companies due to an impairment of assets, a loss of retail customers, lower profit margins, an inability to recover reasonable costs or increased costs of capital. Southern Company cannot predict if or when it will be subject to changes in legislation or regulation, nor can Southern Company predict the impact of these changes.

Additionally, the electric utility industry has experienced a substantial increase in competition at the wholesale level, caused by changes in federal law and regulatory policy. As a result of the Public Utility Regulatory Policies Act of 1978 and the Energy Act, competition in the wholesale electricity market has greatly increased due to a greater participation by traditional electricity suppliers, non-utility generators, independent power producers, wholesale power marketers and brokers, and due to the trading of energy futures contracts on various commodities exchanges. In 1996, the FERC issued new rules on transmission service to facilitate competition in the wholesale market on a nationwide basis. The rules give greater flexibility and more choices to wholesale power customers. Also, in July 2002, the FERC issued a notice of proposed rulemaking (which has not yet been adopted) related to open access transmission service and standard electricity market design. In addition, in April 2003, the FERC issued a White Paper in response to public comments received on such proposed rulemaking on standard electricity market design. Reactions to the White Paper by Southeastern state regulators reflect significant continuing differences in opinion between the FERC and various state regulatory commissions over questions of jurisdiction and protection of retail customers. As a result of the changing regulatory environment and the relatively low barriers to entry (which include, in addition to open access transmission service, relatively low construction costs for new generating facilities), Southern Company expects competition to steadily increase. This increased competition could affect Southern Company's load forecasts, plans for power supply and wholesale energy sales and related revenues. The effect on Southern Company's net income and financial condition could vary depending on the extent to which: (i) additional generation is built to compete in the wholesale market; (ii) new opportunities are created for Southern Company to expand its wholesale load; or (iii) current wholesale customers elect to purchase from other suppliers after existing contracts expire.

Southern Power currently has general authorization from the FERC to sell power to nonaffiliates at market-based prices. In addition, each of the retail operating companies has obtained FERC approval to sell power to nonaffiliates at market-based prices under specific contracts. Southern Power and the retail operating companies also have FERC authority to make short-term opportunity sales at market rates. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate. In November 2001, the FERC modified the test it uses to consider utilities' applications to charge market-based rates and adopted a new test called the Supply Margin Assessment (SMA). The FERC applied the SMA to several utilities, including Southern Company, and found Southern Company and others to be "pivotal suppliers" in their service areas and ordered the implementation of several mitigation measures. Southern Company and others sought rehearing of the FERC order, and the FERC delayed the implementation of certain mitigation measures. Southern Company and others submitted comments to the FERC in 2002 regarding these issues. In December 2003, the FERC issued a staff paper discussing alternatives and held a technical conference in January 2004. Southern Company anticipates that the FERC will address the requests for rehearing in the near future. Regardless of the outcome of the SMA proposal, the FERC retains the ability to modify or withdraw the authorization for any seller to sell at market-based rates, if it determines that the underlying conditions for having such authority are no longer applicable. In that event, Southern Power would be required to obtain FERC approval of rates based on cost of service, which may be lower than those in negotiated market-based rates. The final outcome of this matter will depend on the form in which the SMA test and mitigation measures' rules may be ultimately adopted and cannot be determined at this time.

PPAs by Georgia Power and Savannah Electric for Southern Power's Plant McIntosh capacity were certified by the Georgia PSC in December 2002 after a competitive bidding process. In April 2003, Southern Power applied for FERC approval of these PPAs. Interveners opposed the FERC's acceptance of the PPAs, alleging that the PPAs do not meet the applicable standards for market-based rates between affiliates. In July 2003, the FERC accepted the PPAs to become effective as scheduled on June 1, 2005, subject to refund, and ordered that hearings be held. For additional information, see Note 3 to the financial statements of Southern Company, Georgia Power, Savannah Electric and Southern Power under "FERC Matters" in Item 8 herein.

**Risks Related to Environmental Regulation**

**Southern Company's costs of compliance with environmental laws are significant. The costs of compliance with future environmental laws and the incurrence of environmental liabilities could harm Southern Company's cash flow and profitability.**

Southern Company and its subsidiaries are subject to extensive federal, state and local environmental requirements which, among other things, regulate air emissions, water discharges and the management of hazardous and solid waste in order to adequately protect the environment. Compliance with these legal requirements requires Southern Company to commit significant expenditures for installation of pollution control equipment, environmental monitoring, emissions fees and permits at all of its facilities. These expenditures are significant and Southern Company expects that they will increase in the future. For example, construction expenditures for achieving compliance with Title IV of the Clean Air Act totaled approximately $400 million. Construction expenditures for compliance with the nitrogen oxide emission reduction requirements totaled approximately $980 million through 2003.

Litigation over environmental issues and claims of various types, including property damage, personal injury, and citizen enforcement of environmental requirements, has increased generally throughout the United States. In particular, personal injury claims for damages caused by alleged exposure to hazardous materials and electromagnetic fields have become more frequent. Although the ultimate outcome of such litigation cannot be predicted, management does not anticipate that the liabilities, if any, arising from such current proceedings would have a material adverse effect on the financial statements of Southern Company and its subsidiaries.

If Southern Company fails to comply with environmental laws and regulations, even if caused by factors beyond its control, that failure may result in the assessment of civil or criminal penalties and fines against Southern Company. The EPA has filed civil actions against Alabama Power, Georgia Power and Savannah Electric alleging violations of the new source review provisions of the Clean Air Act. The EPA has also issued notices of violation to Gulf Power and Mississippi Power. An adverse outcome in any one of these cases could require substantial capital expenditures that cannot be determined at this time and could require payment of substantial penalties.

Existing environmental laws and regulations may be revised or new laws and regulations seeking to protect the environment may be adopted or become applicable to Southern Company. Revised or additional laws and regulations could result in significant additional expense and operating restrictions on Southern Company's facilities or increased compliance costs which may not be fully recoverable from Southern Company's customers and would therefore reduce Southern Company's net income. The cost impact of such legislation would depend upon the specific requirements enacted and cannot be determined at this time.

**Risks Related to Southern Company and its Business**

**Southern Company may be unable to meet its ongoing and future financial obligations and to pay dividends on its common stock if its subsidiaries are unable to pay upstream dividends or repay funds to Southern Company.**

Southern Company is a holding company and, as such, Southern Company has no operations of its own. Southern Company's ability to meet its financial obligations and to pay dividends on its common stock at the current rate is primarily dependent on the earnings and cash flows of its subsidiaries and their ability to pay upstream dividends or to repay funds to Southern Company. Prior to funding Southern Company, Southern Company's subsidiaries have financial obligations that must be satisfied, including among

others, debt service and preferred stock dividends. In addition, the Holding Company Act rules limit the dividends that Southern Company's subsidiaries may pay from unearned surplus.

**Southern Company's financial performance may be adversely affected if its subsidiaries are unable to successfully operate their facilities.**

Southern Company's financial performance depends on the successful operation of its subsidiaries' electric generating, transmission and distribution facilities. Operating these facilities involves many risks, including:

- operator error and breakdown or failure of equipment or processes;
- operating limitations that may be imposed by environmental or other regulatory requirements;
- labor disputes;
- terrorist attacks;
- fuel supply interruptions; and
- catastrophic events such as fires, earthquakes, explosions, floods or other similar occurrences.

A decrease or elimination of revenues from power produced by the electric generating facilities or an increase in the cost of operating the facilities would reduce Southern Company's net income and could decrease or eliminate funds available to Southern Company.

**Southern Company's revenues depend in part on sales under PPAs. The failure of a counterparty to one of these PPAs to perform its obligations, or the failure to renew the PPAs, could have a negative impact on Southern Company's earnings.**

Most of Southern Power's generating capacity under construction, or planned, has been sold to purchasers under PPAs having initial terms of five to 15 years. Southern Power's revenues are dependent on the continued performance by the purchasers of their obligations under the PPAs. Even though Southern Power has a rigorous credit evaluation, the failure of one of the purchasers to perform its obligations could have a negative impact on Southern Power's earnings. Although Southern Power's credit evaluations take into account the possibility of default by a purchaser, Southern Power's actual exposure to a default by a purchaser may be greater than Southern Power's credit evaluation predicts. Further, while the PPAs are currently a substantial portion of Southern Power's business, Southern Power cannot predict whether they will be renewed at the end of their respective terms or on what terms any renewals may be made. If a PPA is not renewed, Southern Power cannot predict whether it will be replaced.

**Southern Company and its subsidiaries may incur additional costs or delays in power plant construction and may not be able to recover their investment. Southern Company's facilities require ongoing capital expenditures.**

Southern Power is in the process of constructing new generating facilities and intends to continue its strategy of developing and constructing other new facilities and expanding existing facilities. The completion of these facilities without delays or cost overruns is subject to substantial risks, including:

- shortages and inconsistent quality of equipment, materials and labor;
- work stoppages;
- permits, approvals and other regulatory matters;
- adverse weather conditions;
- unforeseen engineering problems;
- environmental and geological conditions;
- delays or increased costs to interconnect its facilities to transmission grids;
- unanticipated cost increases; and
- attention to other projects.

If Southern Power is unable to complete the development or construction of a facility, or if Southern Power decides to delay or cancel construction of a facility, Southern Power may not be able to recover its investment in that facility. In addition, construction delays and contractor performance shortfalls can result in the loss of revenues and may, in turn, adversely affect Southern Power's results of operations and financial position. Furthermore, if construction projects are not completed according to specification, Southern Power may incur liabilities and suffer reduced plant efficiency, higher operating costs and reduced earnings.

Once facilities come into commercial operation, ongoing capital expenditures are required to maintain reliable levels of operation.

**Changes in technology may make Southern Company's electric generating facilities less competitive.**

A key element of Southern Company's business model is that generating power at central power plants achieves economies of scale and produces power at relatively low cost. There are other technologies that produce power, most notably fuel cells, microturbines, windmills and solar cells. It is possible that advances in technology will reduce the cost of alternative methods of producing power to a level that is competitive with that of most central power station electric production. If this were to happen and if these technologies achieved economies of scale, Southern Company's market share could be eroded, and the value of its electric generating facilities could be reduced. Changes in technology could also alter the channels through which retail electric customers buy power, which could reduce Southern Company's revenues or increase expenses.

**Operation of nuclear facilities involves inherent risks, including environmental, health, regulatory, terrorism and financial risks that could result in fines or the closure of Southern Company's nuclear units, and which may present potential exposures in excess of Southern Company's insurance coverage.**

Southern Company owns six nuclear units through Alabama Power (two units) and through Georgia Power, which holds undivided interests in, and contracts for operation of, four units. These six nuclear units are operated by Southern Nuclear and represent approximately 3,680 megawatts, or 9.5% of Southern Company's generation capacity as of December 31, 2003. Southern Company's nuclear facilities are subject to environmental, health and financial risks such as on-site storage of spent nuclear fuel, the ability to dispose of such spent nuclear fuel, the ability to maintain adequate reserves for decommissioning, potential liabilities arising out of the operation of these facilities and the threat of a possible terrorist attack. Southern Company maintains decommissioning trusts and external insurance coverage to minimize the financial exposure to these risks; however, it is possible that damages could exceed the amount of Southern Company's insurance coverage.

The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. In the event of non-compliance, the NRC has the authority to impose fines or shut down a unit, or both, depending upon its assessment of the severity of the situation, until compliance is achieved. Recent NRC orders related to increased security measures and any future safety requirements promulgated by the NRC could require Southern Company to make substantial operating and capital expenditures at its nuclear plants. In addition, although Southern Company has no reason to anticipate a serious nuclear incident at its plants, if an incident did occur, it could result in substantial costs to Southern Company. A major incident at a nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation or licensing of any domestic nuclear unit.

Southern Company's nuclear units require licenses that need to be renewed or extended in order to continue operating beyond their initial forty-year terms. As a result of potential terrorist threats and increased public scrutiny of utilities, the licensing process could result in increased licensing or compliance costs that are difficult or impossible to predict.

**Southern Company's generation and energy marketing operations are subject to risks, many of which are beyond its control, that may reduce Southern Company's revenues and increase its costs.**

Southern Company's generation and energy marketing operations are subject to changes in power prices or fuel costs, which could increase the cost of producing power or decrease the amount Southern Company receives from the sale of power. The market prices for these commodities may fluctuate over relatively short periods of time. Southern Company attempts to mitigate risks associated with fluctuating fuel costs by passing these costs on to customers in its PPAs. Among the factors that could influence power prices and fuel costs are:

- prevailing market prices for coal, natural gas, fuel oil and other fuels used in Southern Company's generation facilities, including associated transportation costs, and supplies of such commodities;

- demand for energy and the extent of additional supplies of energy available from current or new competitors;
- liquidity in the general wholesale electricity market;
- weather conditions impacting demand for electricity;
- seasonality;
- transmission or transportation constraints or inefficiencies;
- availability of competitively priced alternative energy sources;
- economy in the service territory;
- natural disasters, wars, embargos, acts of terrorism and other catastrophic events; and
- federal, state and foreign energy and environmental regulation and legislation.

Certain of these factors could increase Southern Company's expenses. For the retail operating companies, such increases may not be fully recoverable through rates. Other of these factors could reduce Southern Company's revenues.

**The use of derivative contracts by Southern Company and its subsidiaries in the normal course of business could result in financial losses that negatively impact the results of operations of Southern Company and its subsidiaries.**

Southern Company and its subsidiaries use derivative instruments, such as swaps, options, futures and forwards, to manage their commodity and financial market risks and, to a lesser extent, engage in limited trading activities. Southern Company and its subsidiaries could recognize financial losses as a result of volatility in the market values of these contracts, or if a counterparty fails to perform.

**Southern Company may not be able to obtain adequate fuel supplies, which could limit its ability to operate its facilities.**

Southern Company purchases fuel from a number of suppliers. Disruption in the delivery of fuel, including disruptions as a result of, among other things, weather, labor relations or environmental regulations affecting Southern Company's fuel suppliers, could limit Southern Company's ability to operate its facilities, and thus, reduce its net income.

**Demand for power could exceed Southern Company's supply capacity, resulting in increased costs to Southern Company for purchasing capacity in the open market or building additional generation capabilities.**

Southern Company is currently obligated to supply power to regulated retail and wholesale customers. At peak times, the demand for power required to meet this obligation could exceed Southern Company's available generation capacity. Market or competitive forces may require that Southern Company purchase capacity on the open market or build additional generation capabilities. Because regulators may not permit the retail operating companies to pass all of these purchase or construction costs on to their customers, the retail operating companies may not be able to recover any of these costs or may have exposure to regulatory lag associated with the time between the incurrence of costs of purchased or constructed capacity and the retail operating companies' recovery in customers' rates. Under Southern Power's long-term fixed price PPAs, Southern Power would not have the ability to recover any of these costs.

**Southern Company's operating results are affected by weather conditions and may fluctuate on a seasonal and quarterly basis.**

Electric power generation is generally a seasonal business. In many parts of the country, demand for power peaks during the hot summer months, with market prices also peaking at that time. In other areas, power demand peaks during the winter. As a result, Southern Company's overall operating results in the future may fluctuate substantially on a seasonal basis. In addition, Southern Company has historically sold less power, and consequently earned less income, when weather conditions are milder. Unusually mild weather in the future could reduce Southern Company's revenues, net income, available cash and borrowing ability.

Risks Related to Market and Economic Volatility

**Southern Company's business is dependent on its ability to successfully access capital markets. Southern Company's inability to access capital may limit its ability to execute its business plan or pursue improvements and make acquisitions that Southern Company may otherwise rely on for future growth.**

Southern Company relies on access to both short-term money markets and longer-term capital markets as a significant source of liquidity for capital requirements not satisfied by the cash flow from its operations. If Southern Company is not able to access capital at competitive rates, its ability to implement its business plan or pursue improvements and make acquisitions that Southern Company may otherwise rely on for future growth will be limited. Southern Company believes that it will maintain sufficient access to these financial markets based upon current credit ratings. However, certain market disruptions or a downgrade of Southern Company's credit rating may increase its cost of borrowing or adversely affect its ability to raise capital through the issuance of securities or other borrowing arrangements. Such disruptions could include:

- an economic downturn;
- the bankruptcy of an unrelated energy company;
- capital market conditions generally;
- market prices for electricity and gas;
- terrorist attacks or threatened attacks on Southern Company's facilities or unrelated energy companies;
- war or threat of war; or
- the overall health of the utility industry.

**Southern Company is subject to risks associated with a changing economic environment, including Southern Company's ability to obtain insurance, the financial stability of its customers and Southern Company's ability to raise capital.**

Due to the September 11, 2001 terrorist attacks and the resulting ongoing war against terrorism by the United States, the nation's economy and financial markets were disrupted in general. The insurance industry has also been disrupted by these events. The availability of insurance covering risks Southern Company and its competitors typically insure against may decrease, and the insurance that Southern Company is able to obtain may have higher deductibles, higher premiums and more restrictive policy terms. Any economic downturn or disruption of financial markets could constrain the capital available to Southern Company's industry and could reduce Southern Company's access to funding for its operations, as well as the financial stability of its customers and counterparties. These factors could adversely affect Southern Company's subsidiaries' ability to achieve energy sales growth, thereby decreasing Southern Company's level of future earnings.

**Construction Programs**

The subsidiary companies of Southern Company are engaged in continuous construction programs to accommodate existing and estimated future loads on their respective systems. Construction expenditures during 2004 through 2006 by the retail operating companies, Southern Power, SEGCO, SCS, Southern LINC and other subsidiaries are estimated as follows:

| | 2004 | 2005 | 2006 |
|---|---|---|---|
| | (in millions) | | |
| Alabama Power | $ 791 | $ 863 | $ 884 |
| Georgia Power | 747 | 812 | 1,043 |
| Gulf Power | 166 | 149 | 108 |
| Mississippi Power | 80 | 70 | 98 |
| Savannah Electric | 52 | 43 | 41 |
| Southern Power | 259 | 254 | 356 |
| SEGCO | 13 | 9 | 7 |
| SCS | 27 | 24 | 20 |
| Southern LINC | 22 | 22 | 20 |
| Other | 7 | 3 | 2 |
| Southern Company system | $2,164 | $2,249 | $2,579 |

Also included in the foregoing construction expenditure estimates are the estimates for environmental expenditures. Reference is made to each registrant's "Management Discussion and Analysis – Capital Requirements and Contractual Obligations" in Item 7 herein for information on estimated environmental expenditures.

Estimated construction costs in 2004 are expected to be apportioned approximately as follows: (in millions)

| | Southern Company system* | Alabama Power | Georgia Power | Gulf Power | Mississippi Power | Savannah Electric | Southern Power |
|---|---|---|---|---|---|---|---|
| New generation | $ 259 | $ - | $ - | $- | $ - | $ - | $259 |
| Other generating facilities including associated plant substations | 646 | 324 | 169 | 101 | 29 | 11 | - |
| New business | 365 | 130 | 187 | 24 | 13 | 11 | - |
| Transmission | 342 | 128 | 167 | 18 | 13 | 15 | - |
| Joint line and substation | 56 | - | 48 | 4 | 4 | - | - |
| Distribution | 221 | 110 | 70 | 12 | 16 | 13 | - |
| Nuclear fuel | 92 | 40 | 52 | - | - | - | - |
| General plant | 183 | 59 | 54 | 7 | 5 | 2 | - |
| | $2,164 | $791 | $747 | $166 | $80 | $52 | $259 |

*SCS, Southern LINC and other businesses plan capital additions to general plant in 2004 of $27 million, $22 million and $7 million, respectively, while SEGCO plans capital additions of $12 million to generating facilities and $1 million to transmission facilities. (See Item 1 - BUSINESS - "Other Business" herein.)

The construction programs are subject to periodic review and revision, and actual construction costs may vary from the above estimates because of changes in such factors as: business conditions; acquisition of additional generating assets; environmental regulations; nuclear plant regulations; FERC rules and transmission regulations; load projections; the cost and efficiency of construction labor, equipment and materials; and cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

Southern Company has approximately 1,200 megawatts of new generating capacity scheduled to be placed in service by 2005. The additional new capacity will be dedicated to the wholesale market and owned by Southern Power. Reference is made to Note 3 to the financial statements of Southern Company, Georgia Power, Savannah Electric and Southern Power in Item 8 herein under the heading "FERC Matters" for additional information regarding contracts for this capacity. In addition, capital improvements, including those needed to meet the environmental standards previously discussed for the retail operating companies' generation, transmission, and distribution facilities are ongoing.

Under Georgia law, Georgia Power and Savannah Electric each are required to file an Integrated Resource Plan for approval by the Georgia PSC. Under the plan rules, the Georgia PSC must pre-certify the construction of new power plants and new PPAs. (See Item 1 - BUSINESS - "Rate Matters - Integrated Resource Planning" herein and Note 3 to the financial statements of Southern Company in Item 8 herein under the heading "FERC Matters" for information regarding PPAs by Georgia Power and Savannah Electric for Southern Power's Plant McIntosh capacity.)

See Item 1 - BUSINESS - "Regulation - Environmental Statutes and Regulations" herein for information with respect to certain existing and proposed environmental requirements and Item 2 - PROPERTIES - "Jointly-Owned Facilities" herein for additional information concerning Alabama Power's, Georgia Power's and Southern Power's joint ownership of certain generating units and related facilities with certain non-affiliated utilities.

## Financing Programs

The amount and timing of additional equity capital to be raised in 2004, as well as in subsequent years, will be contingent on Southern Company's investment opportunities. Equity capital can be provided from any combination of public offerings, private placements and Southern Company's stock plans.

The retail operating companies plan to obtain the funds required for construction and other purposes from sources similar to those used in the past, which were primarily from internal sources and by the issuances of new debt and preferred equity securities, term loans and short-term borrowings. However, the type and timing of any financings -- if needed -- will depend on market conditions and regulatory approval. In recent years, financings primarily have been unsecured debt and trust preferred securities.

Southern Power will use both external funds and equity capital from Southern Company to finance its construction program. External funds are expected to be obtained from the issuance of unsecured senior debt and commercial paper or through existing credit arrangements from banks.

Southern Company and each retail operating company obtain financing separately without credit support from any affiliate. Currently, Southern Company provides limited credit support to Southern Power. Reference is made to Note 6 to the financial statements of Southern Company and Southern Power in Item 8 herein under the headings, "Bank Credit Arrangements" and "Parent Company Transactions," respectively, for additional information. The Southern Company system does not maintain a centralized cash or money pool. Therefore, funds of each company are not commingled with funds of any other company. In accordance with the Holding Company Act, most loans between affiliated companies must be approved by the SEC.

Short-term debt is utilized as appropriate at Southern Company, the retail operating companies and Southern Power.

The maximum amounts of short-term and/or term-loan indebtedness authorized by the appropriate regulatory authorities and, in the case of Southern Power, long-term debt which also falls under Southern Power's regulatory authority, are shown in the following table:

| | Amount Authorized | Outstanding at December 31, 2003 |
|---|---|---|
| | (in millions) | |
| Alabama Power | $1,000(1) | $ 0 |
| Georgia Power | 3,200(2) | 137 |
| Gulf Power | 600(1) | 38 |
| Mississippi Power | 500(1) | 0 |
| Savannah Electric | 120(2) | 20 |
| Southern Power | 2,500(3) | 1,264 |
| Southern Company | 2,000(1) | 259 |

Notes:

(1) Alabama Power's authority is based on authorization received from the Alabama PSC, which expires December 31, 2005. No SEC authorization is required for Alabama Power. Gulf Power, Mississippi Power and Southern Company have received SEC authorization to issue from time to time short-term and/or term-loan notes to banks and commercial paper to dealers in the amounts shown through January 1, 2007, March 31, 2006 and December 31, 2004, respectively.

(2) Georgia Power and Savannah Electric have received SEC authorization to issue from time to time short-term and term-loan notes to banks and commercial paper to dealers in the amounts shown through March 31, 2006. Authorization for term-loan indebtedness is also required by the Georgia PSC. Savannah Electric has $75 million remaining authority for long-term debt and term loans expiring December 31, 2005. At February 25, 2004, Georgia Power has $681 million remaining refunding authority from the Georgia PSC expiring December 31, 2005. Georgia Power also has Georgia PSC authority for borrowings under the term loan provisions of its credit facilities of $725 million.

(3) Southern Power has been authorized by the SEC to enter into various financing arrangements, including short-term loans, through June 30, 2005, which in the aggregate may not exceed $2.5 billion.

Reference is made to Note 6 to the financial statements for each of the registrants under the heading "Bank Credit Arrangements" in Item 8 herein for information regarding the registrants' bank credit arrangements.

## Fuel Supply

The retail operating companies' and SEGCO's supply of electricity is derived predominantly from coal. Southern Power's supply of electricity is primarily fueled by natural gas. The sources of generation for the years 2001 through 2003 are shown below:

| | Coal % | Nuclear % | Hydro % | Gas % | Oil % |
|---|---|---|---|---|---|
| **Alabama Power** | | | | | |
| 2001 | 64 | 18 | 6 | 12 | * |
| 2002 | 62 | 19 | 6 | 13 | * |
| 2003 | 64 | 19 | 8 | 9 | * |
| **Georgia Power** | | | | | |
| 2001 | 75 | 23 | 1 | 1 | * |
| 2002 | 78 | 21 | 1 | * | * |
| 2003 | 75 | 22 | 3 | * | * |
| **Gulf Power** | | | | | |
| 2001 | 99 | ** | ** | 1 | * |
| 2002 | 82 | ** | ** | 18 | * |
| 2003 | 87 | ** | ** | 13 | * |
| **Mississippi Power** | | | | | |
| 2001 | 59 | ** | ** | 41 | * |
| 2002 | 57 | ** | ** | 43 | * |
| 2003 | 74 | ** | ** | 26 | * |
| **Savannah Electric** | | | | | |
| 2001 | 93 | ** | ** | 6 | 1 |
| 2002 | 91 | ** | ** | 8 | 1 |
| 2003 | 94 | ** | ** | 4 | 2 |
| **SEGCO** | | | | | |
| 2001 | 100 | ** | ** | * | * |
| 2002 | 100 | ** | ** | * | * |
| 2003 | 100 | ** | ** | * | * |
| **Southern Power** | | | | | |
| 2001 | ** | ** | ** | 100 | * |
| 2002 | ** | ** | ** | 100 | * |
| 2003 | ** | ** | ** | 99 | 1 |
| **Southern Company system*** ** | | | | | |
| 2001 | 72 | 16 | 3 | 9 | * |
| 2002 | 69 | 16 | 3 | 12 | * |
| 2003 | 71 | 16 | 4 | 9 | * |

* Less than 0.5%.

** Not applicable.

*** Amounts shown for the Southern Company system are weighted averages of the retail operating companies, Southern Power and SEGCO.

The average costs of fuel in cents per net kilowatt-hour generated for 2001 through 2003 are shown below:

| | 2001 | 2002 | 2003 |
|---|---|---|---|
| **Alabama Power** | 1.56 | 1.47 | 1.67 |
| **Georgia Power** | 1.38 | 1.42 | 1.46 |
| **Gulf Power** | 1.76 | 2.08 | 2.11 |
| **Mississippi Power** | 1.89 | 2.03 | 1.95 |
| **Savannah Electric** | 2.16 | 2.44 | 2.38 |
| **SEGCO** | 1.44 | 1.50 | 1.52 |
| **Southern Power** | 4.07 | 2.81 | 2.01 |
| **Southern Company system*** | 1.56 | 1.61 | 1.72 |

* Amounts shown for the Southern Company system are weighted averages of the retail operating companies, Southern Power and SEGCO.

The retail operating companies have long-term agreements in place from which they expect to receive approximately 80% of their coal burn requirements in 2004. These agreements cover remaining terms up to 8 years. In 2003, the weighted average sulfur content of all coal burned by the retail operating companies was 0.75% sulfur. This sulfur level, along with banked sulfur dioxide allowances, allowed the retail operating companies to remain within limits as set forth by Phase II of the Clean Air Act. As more strict environmental regulations are proposed that impact the utilization of coal, the fuel mix will be monitored to insure that sufficient quantities of the proper type of coal or natural gas are in place to remain in compliance with applicable laws and regulations. See Item 1 - BUSINESS - "Regulation - Environmental Statutes and Regulations" herein.

The retail operating companies, Southern Power and Southern Company GAS also have long-term agreements in place for their natural gas burn requirements. For 2004, the retail operating companies, Southern Power and Southern Company GAS have contracted for 130 billion cubic feet of natural gas supply. These agreements cover remaining terms up to 4 years. In addition to gas supply, the retail operating companies, Southern Power and Southern Company GAS have contracts in place for both firm gas transportation and storage. Management believes that these contracts provide sufficient natural gas supplies, transportation and storage to ensure normal operations of the Southern Company system's natural gas generating units.

Changes in fuel prices to the retail operating companies and Southern Company GAS are generally reflected in fuel adjustment clauses contained in rate schedules. See Item 1 - BUSINESS - "Rate Matters - Rate Structure" herein.

Alabama Power and Georgia Power have numerous contracts covering a portion of their nuclear fuel needs for uranium, conversion services, enrichment services and fuel fabrication. These contracts have varying expiration dates and most are short to medium term (less than 10 years). Management believes that sufficient capacity for nuclear fuel supplies and processing exists to preclude the impairment of normal operations of the Southern Company system's nuclear generating units.

Alabama Power and Georgia Power have contracts with the DOE that provide for the permanent disposal of spent nuclear fuel. The DOE failed to begin disposing of spent fuel in January 1998, as required by the contracts, and the companies are pursuing legal remedies against the government for breach of contract. Sufficient pool storage capacity is available at Plant Farley to maintain full-core discharge capability until the refueling outages scheduled for 2006 and 2008 for units 1 and 2, respectively. Sufficient pool storage capacity for spent fuel is available at Plant Vogtle to maintain full-core discharge capability for both units into 2015. At Plant Hatch, an on-site dry storage facility became operational in 2000 and can be expanded to accommodate spent fuel through the life of the plant. Construction of an on-site dry storage facility at Plant Farley is in progress and scheduled for operation in 2005. Construction of an on-site dry storage facility at Plant Vogtle will begin in sufficient time to maintain pool full-core discharge capability.

The Energy Act required the establishment of a Uranium Enrichment Decontamination and Decommissioning Fund, which is funded in part by a special assessment on utilities with nuclear plants, including Alabama Power and Georgia Power. This assessment is being paid over a 15-year period which began in 1993. This fund will be used by the DOE for the decontamination and decommissioning of its nuclear fuel enrichment facilities. The law provides that utilities will recover these payments in the same manner as any other fuel expense. For additional information, reference is made to Note 1 to the financial statements of Southern Company, Alabama Power and Georgia Power in Item 8 herein under the heading "Revenues and Fuel Costs."

## Territory Served by the Utilities

The territory in which the retail operating companies provide electric service comprises most of the states of Alabama and Georgia together with the northwestern portion of Florida and southeastern Mississippi. In this territory there are non-affiliated electric distribution systems which obtain some or all of their power requirements either directly or indirectly from the retail operating companies. The territory has an area of approximately 120,000 square miles and an estimated population of approximately 11 million.

Alabama Power is engaged, within the State of Alabama, in the generation and purchase of electricity and the distribution and sale of such electricity at retail in

over 1,000 communities (including Anniston, Birmingham, Gadsden, Mobile, Montgomery and Tuscaloosa) and at wholesale to 15 municipally-owned electric distribution systems, 11 of which are served indirectly through sales to AMEA, and two rural distributing cooperative associations. Alabama Power also supplies steam service in downtown Birmingham. Alabama Power also sells, and cooperates with dealers in promoting the sale of, electric appliances.

Georgia Power is engaged in the generation and purchase of electricity and the distribution and sale of such electricity within the State of Georgia at retail in over 600 communities, as well as in rural areas, and at wholesale currently to OPC, MEAG, Dalton and the City of Hampton.

Gulf Power is engaged, within the northwestern portion of Florida, in the generation and purchase of electricity and the distribution and sale of such electricity at retail in 71 communities (including Pensacola, Panama City and Fort Walton Beach), as well as in rural areas, and at wholesale to a non-affiliated utility and a municipality.

Mississippi Power is engaged in the generation and purchase of electricity and the distribution and sale of such energy within the 23 counties of southeastern Mississippi, at retail in 123 communities (including Biloxi, Gulfport, Hattiesburg, Laurel, Meridian and Pascagoula), as well as in rural areas, and at wholesale to one municipality, six rural electric distribution cooperative associations and one generating and transmitting cooperative.

Savannah Electric is engaged, within a five-county area in eastern Georgia, in the generation and purchase of electricity and the distribution and sale of such electricity at retail.

Through the Southern Company system power pool, the retail operating companies are also engaged in the transmission and sale of wholesale energy.

For information relating to kilowatt-hour sales by classification for the retail operating companies, reference is made to "Management's Discussion and Analysis - Results of Operations" in Item 7 herein. Also, for information relating to the sources of revenues for the Southern Company system, each of the retail operating companies and Southern Power, reference is made to Item 6 herein.

A portion of the area served by the retail operating companies adjoins the area served by TVA and its municipal and cooperative distributors. An Act of Congress limits the distribution of TVA power, unless otherwise authorized by Congress, to specified areas or customers which generally were those served on July 1, 1957.

The RUS has authority to make loans to cooperative associations or corporations to enable them to provide electric service to customers in rural sections of the country. There are 71 electric cooperative organizations operating in the territory in which the retail operating companies provide electric service at retail or wholesale.

One of these, AEC, is a generating and transmitting cooperative selling power to several distributing cooperatives, municipal systems and other customers in south Alabama and northwest Florida. AEC owns generating units with approximately 1,776 megawatts of nameplate capacity, including an undivided 8.25% ownership interest in Alabama Power's Plant Miller Units 1 and 2. AEC's facilities were financed with RUS loans secured by long-term contracts requiring distributing cooperatives to take their requirements from AEC to the extent such energy is available. Two of the 14 distributing cooperatives operating in Alabama Power's service territory obtain a portion of their power requirements directly from Alabama Power.

Four electric cooperative associations, financed by the RUS, operate within Gulf Power's service area. These cooperatives purchase their full requirements from AEC and SEPA (a federal power marketing agency). A non-affiliated utility also operates within Gulf Power's service area and purchases its full requirements from Gulf Power.

Alabama Power and Gulf Power have entered into separate agreements with AEC involving interconnection between their respective systems. The delivery of capacity and energy from AEC to certain distributing cooperatives in the service areas of Alabama Power and Gulf Power is governed by the Southern Company/AEC Network Transmission Service Agreement. The rates for this service to AEC are based on the negotiated agreement on file with the FERC. See Item 2 - PROPERTIES - "Jointly-Owned Facilities" herein for

details of Alabama Power's joint-ownership with AEC of a portion of Plant Miller.

Mississippi Power has an interchange agreement with SMEPA, a generating and transmitting cooperative, pursuant to which various services are provided, including the furnishing of protective capacity by Mississippi Power to SMEPA. SMEPA has a generating capacity of 1,947 megawatts and a transmission system estimated to be 1,570 miles in length.

There are 43 electric cooperative organizations operating in, or in areas adjoining, territory in the State of Georgia in which Georgia Power provides electric service at retail or wholesale. Three of these organizations obtain their power from TVA and one from other sources. OPC has a wholesale power contract with the remaining 39 of these cooperative organizations. OPC utilizes self-owned generation, some of which is acquired and jointly-owned with Georgia Power, megawatt capacity purchases from Georgia Power under power supply agreements, and other arrangements to meet its power supply obligations. Pursuant to the latest agreement entered into in April 1999, OPC will purchase 250 megawatts of steam capacity through March 2006.

Starting in January 2005, 30 electric cooperative organizations served by OPC will start purchasing a total of 700 megawatts of steam capacity from Georgia Power under individual contracts for a 10 year term and starting in April 2006, AMEA will start purchasing the 250 megawatts, currently being purchased by OPC, for a 10 year term.

There are 65 municipally-owned electric distribution systems operating in the territory in which the retail operating companies provide electric service at retail or wholesale.

AMEA was organized under an act of the Alabama legislature and is comprised of 11 municipalities. In October 1991, Alabama Power entered into a power sales contract with AMEA entitling AMEA to scheduled amounts of additional capacity (up to a maximum 80 megawatts) for a period of 15 years. Under the terms of the contract, Alabama Power received payments from AMEA representing the net present value of the revenues associated with the respective capacity entitlements. (See Note 6 to Alabama Power's financial statements under the heading "First Mortgage Bonds" in Item 8 herein for further information on this contract.)

Forty-eight municipally-owned electric distribution systems and one county-owned system receive their requirements through MEAG, which was established by a Georgia state statute in 1975. MEAG serves these requirements from self-owned generation facilities, some of which are acquired and jointly-owned with Georgia Power, power purchased from Georgia Power and purchases from other resources. In 1997, a pseudo scheduling and services agreement was implemented between Georgia Power and MEAG. Since 1977, Dalton has filled its requirements from self-owned generation facilities, some of which are acquired and jointly-owned with Georgia Power, and through purchases from Georgia Power pursuant to their partial requirements tariff. Beginning January 1, 2003, Dalton has entered into a new power supply agreement pursuant to which it will purchase 134 megawatts from Georgia Power for a fifteen-year term. One municipally-owned electric distribution system's full requirements are served under a market-based contract by Georgia Power. (See Item 2 - PROPERTIES - "Jointly-Owned Facilities" herein.)

Georgia Power has entered into substantially similar agreements with Georgia Transmission Corporation (formerly OPC's transmission division), MEAG and Dalton providing for the establishment of an integrated transmission system to carry the power and energy of each. The agreements require an investment by each party in the integrated transmission system in proportion to its respective share of the aggregate system load. (See Item 2 - PROPERTIES - "Jointly-Owned Facilities" herein.)

SCS, acting on behalf of the retail operating companies, also has a contract with SEPA providing for the use of those companies' facilities at government expense to deliver to certain cooperatives and municipalities, entitled by federal statute to preference in the purchase of power from SEPA, quantities of power equivalent to the amounts of power allocated to them by SEPA from certain United States government hydroelectric projects.

The retail service rights of all electric suppliers in the State of Georgia are regulated by the 1973 State Territorial Electric Service Act. Pursuant to the provisions of this Act, all areas within existing municipal limits were assigned to the primary electric supplier therein on March 29, 1973 (451 municipalities, including Atlanta, Columbus, Macon, Augusta, Athens, Rome and Valdosta, to Georgia Power; 115 to electric cooperatives;

and 50 to publicly-owned systems). Areas outside of such municipal limits were either to be assigned or to be declared open for customer choice of supplier by action of the Georgia PSC pursuant to standards set forth in the Act. Consistent with such standards, the Georgia PSC has assigned substantially all of the land area in the state to a supplier. Notwithstanding such assignments, the Act provides that any new customer locating outside of 1973 municipal limits and having a connected load of at least 900 kilowatts may receive electric service from the supplier of its choice. (See also Item 1 - BUSINESS - "Competition" herein.)

Under and subject to the provisions of its franchises and concessions and the 1973 State Territorial Electric Service Act, Savannah Electric has the full but nonexclusive right to serve the City of Savannah, the Towns of Bloomingdale, Pooler, Garden City, Guyton, Newington, Oliver, Port Wentworth, Rincon, Tybee Island, Springfield, Thunderbolt and Vernonburg, and in conjunction with a secondary supplier, the Town of Richmond Hill. In addition, Savannah Electric has been assigned certain unincorporated areas in Chatham, Effingham, Bryan, Bulloch and Screven Counties by the Georgia PSC. (See also Item 1 - BUSINESS - "Competition" herein.)

Pursuant to the 1956 Utility Act, the Mississippi PSC issued "Grandfather Certificates" of public convenience and necessity to Mississippi Power and to six distribution rural cooperatives operating in southeastern Mississippi, then served in whole or in part by Mississippi Power, authorizing them to distribute electricity in certain specified geographically described areas of the state. The six cooperatives serve approximately 300,000 retail customers in a certificated area of approximately 10,300 square miles. In areas included in a "Grandfather Certificate," the utility holding such certificate may, without further certification, extend its lines up to five miles; other extensions within that area by such utility, or by other utilities, may not be made except upon a showing of, and a grant of a certificate of, public convenience and necessity. Areas included in such a certificate which are subsequently annexed to municipalities may continue to be served by the holder of the certificate, irrespective of whether it has a franchise in the annexing municipality. On the other hand, the holder of the municipal franchise may not extend service into such newly annexed area without authorization by the Mississippi PSC.

In January 2003, Southern Power entered into contracts with North Carolina Municipal Power Authority 1 (North Carolina) and Dalton. Under the North Carolina contract, Southern Power will be responsible for supplying North Carolina's capacity and energy needs in excess of North Carolina's existing resources and disposing of North Carolina's surplus energy. The contract term is January 1, 2003 through December 31, 2004. Under the Dalton contract, Southern Power is responsible for supplying Dalton's requirements for capacity and energy in excess of Dalton's existing resources. The contract term is for 15 years, beginning January 1, 2003, with a customer option to convert to a fixed capacity purchase at the end of 2013.

In July 2003, Southern Power entered into a requirements service agreement with Piedmont Municipal Power Agency (PMPA). PMPA is a full requirements provider to 10 South Carolina cities. Under this agreement, Southern Power will be responsible for supplying PMPA's capacity and energy needs in excess of PMPA's existing resources and will purchase PMPA's surplus energy. The initial contract term is for 5 years beginning in 2006 with mutual renewal options through 2015.

## Competition

The electric utility industry in the United States is continuing to evolve as a result of regulatory and competitive factors. Among the early primary agents of change was the Energy Act. The Energy Act allowed IPPs to access a utility's transmission network in order to sell electricity to other utilities. Reference is made to Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric, "Management's Discussion and Analysis – Future Earnings Potential" in Item 7 herein for further information.

Alabama Power currently has cogeneration contracts in effect with 11 industrial customers. Under the terms of these contracts, Alabama Power purchases excess generation of such companies. During 2003, Alabama Power purchased approximately 151.7 million kilowatt-hours from such companies at a cost of $3.8 million.

Georgia Power currently has contracts in effect with nine small power producers whereby Georgia Power purchases their excess generation. During 2003, Georgia

Power purchased 12.3 million kilowatt-hours from such companies at a cost of $0.5 million. Georgia Power has PPAs for electricity with two cogeneration facilities. Payments are subject to reductions for failure to meet minimum capacity output. During 2003, Georgia Power purchased 545 million kilowatt-hours at a cost of $77 million from these facilities. Reference is made to Note 7 to the financial statements for Georgia Power in Item 8 herein for information regarding purchased power commitments.

Gulf Power currently has agreements in effect with various industrial, commercial and qualifying facilities pursuant to which Gulf Power purchases "as available" energy from customer-owned generation. During 2003, Gulf Power purchased 54 million kilowatt-hours from such companies for $1.3 million.

During 2003, Savannah Electric purchased energy from six customer owned generating facilities. Five of the six provide only excess energy to Savannah Electric and are paid Savannah Electric's avoided energy cost. These five customers make no capacity commitment and are not dispatched by Savannah Electric. Savannah Electric does have a contract for five megawatts of dispatchable capacity and energy with one customer. During 2003, Savannah Electric purchased a total of 14 million kilowatt-hours from the six suppliers at a cost of approximately $556 thousand.

The competition for retail energy sales among competing suppliers of energy is influenced by various factors, including price, availability, technological advancements and reliability. These factors are, in turn, affected by, among other influences, regulatory, political and environmental considerations, taxation and supply.

The retail operating companies have experienced, and expect to continue to experience, competition in their respective retail service territories in varying degrees as the result of self-generation (as described above) and fuel switching by customers and other factors. (See also Item 1 - BUSINESS - "Territory Served by the Utilities" herein for information concerning suppliers of electricity operating within or near the areas served at retail by the retail operating companies.)

## Regulation

### State Commissions

The retail operating companies are subject to the jurisdiction of their respective state regulatory commissions, which have broad powers of supervision and regulation over public utilities operating in the respective states, including their rates, service regulations, sales of securities (except for the Mississippi PSC) and, in the cases of the Georgia PSC and Mississippi PSC, in part, retail service territories. (See Item 1 - BUSINESS - "Rate Matters" and "Territory Served by the Utilities" herein.)

### Holding Company Act

Southern Company is registered as a holding company under the Holding Company Act, and it and its subsidiary companies are subject to the regulatory provisions of said Act, including provisions relating to the issuance of securities, sales and acquisitions of securities and utility assets, services performed by SCS and Southern Nuclear and the activities of certain of Southern Company's other subsidiaries.

While various proposals have been introduced in Congress regarding the Holding Company Act, the prospects for legislative reform or repeal are uncertain at this time.

### Federal Power Act

The Federal Power Act subjects the retail operating companies, Southern Power and SEGCO to regulation by the FERC as companies engaged in the transmission or sale at wholesale of electric energy in interstate commerce, including regulation of accounting policies and practices.

Alabama Power and Georgia Power are also subject to the provisions of the Federal Power Act or the earlier Federal Water Power Act applicable to licensees with respect to their hydroelectric developments. Among the hydroelectric projects subject to licensing by the FERC are 14 existing Alabama Power generating stations having an aggregate installed capacity of 1,608,550 kilowatts and 18 existing Georgia Power generating stations having an aggregate installed capacity of 1,074,696 kilowatts.

Georgia Power filed a relicensing application with the FERC for the Middle Chattahoochee project in December 2002 and is currently waiting for the FERC to issue the public notice declaring that the application is ready for environmental analysis. This project consists of the Goat Rock, Oliver and North Highlands facilities. Georgia Power also started the relicensing process for the Morgan Falls Project in 2003 and filed the Notice of Intent and Preliminary Document required by FERC's Integrated Licensing Process on January 15, 2004. Alabama Power initiated the relicensing process in 2002 for its seven projects on the Coosa River (Weiss, Henry, Logan Martin, Lay, Mitchell, Jordan and Bouldin) and the Smith and Bankhead Projects on the Warrior River. The FERC licenses for all of these nine projects expire in 2007.

Georgia Power and OPC also have a license, expiring in 2027, for the Rocky Mountain Plant, a pure pumped storage facility of 847,800 kilowatt capacity which began commercial operation in 1995. (See Item 2 - PROPERTIES - "Jointly-Owned Facilities" herein.)

Licenses for all projects, excluding those discussed above, expire in the period 2007-2033 in the case of Alabama Power's projects and in the period 2005-2039 in the case of Georgia Power's projects.

Upon or after the expiration of each license, the United States Government, by act of Congress, may take over the project or the FERC may relicense the project either to the original licensee or to a new licensee. In the event of takeover or relicensing to another, the original licensee is to be compensated in accordance with the provisions of the Federal Power Act, such compensation to reflect the net investment of the licensee in the project, not in excess of the fair value of the property taken, plus reasonable damages to other property of the licensee resulting from the severance therefrom of the property taken.

**Atomic Energy Act of 1954**

Alabama Power, Georgia Power and Southern Nuclear are subject to the provisions of the Atomic Energy Act of 1954, as amended, which vests jurisdiction in the NRC over the construction and operation of nuclear reactors, particularly with regard to certain public health and safety and antitrust matters. The National Environmental Policy Act has been construed to expand the jurisdiction of the NRC to consider the environmental impact of a facility licensed under the Atomic Energy Act of 1954, as amended.

NRC operating licenses currently expire in June 2017 and March 2021 for Plant Farley units 1 and 2, respectively, and in January 2027 and February 2029 for Plant Vogtle units 1 and 2, respectively. In January 2002, the NRC granted Georgia Power a 20-year extension of the licenses for both units at Plant Hatch which permits the operation of units 1 and 2 until 2034 and 2038, respectively. Alabama Power filed an application with the NRC in September 2003 to extend the operating license for Plant Farley for an additional 20 years.

Reference is made to Notes 1 and 9 to Southern Company's financial statements and Notes 1 and 8 to each of Alabama Power's financial statements and Georgia Power's financial statements in Item 8 herein for information on nuclear decommissioning costs and nuclear insurance. Additionally, Note 3 to Georgia Power's financial statements contains information regarding nuclear performance standards imposed by the Georgia PSC that may impact retail rates.

**FERC Matters**

Reference is made to Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and Southern Power, "Management's Discussion and Analysis – Future Earnings Potential - *FERC Matters*" in Item 7 herein for information on matters regarding the FERC.

**Environmental Statutes and Regulations**

Southern Company's operations are subject to extensive regulation by state and federal environmental agencies under a variety of statutes and regulations governing environmental media, including air, water, and land resources. Compliance with these environmental requirements involves significant costs, a major portion of which is expected to be recovered through existing ratemaking provisions. There is no assurance, however, that all such costs will, in fact, be recovered.

Compliance with the federal Clean Air Act and resulting regulations has been, and will continue to be, a significant focus for Southern Company. For additional information about the Clean Air Act and

other environmental issues, including the litigation brought under the New Source Review provisions of the Clean Air Act, reference is made to each registrant's "Management's Discussion and Analysis – Environmental Matters" in Item 7 herein. Also see Item 3 - "Legal Proceedings" herein for information about lawsuits brought on behalf of the EPA or by citizen's groups with respect to environmental compliance matters.

Additionally, each retail operating company and SEGCO has incurred costs for environmental remediation of various sites. Reference is made to each registrant's "Management's Discussion and Analysis – Financial Condition and Liquidity" in Item 7 herein for information regarding the registrants' environmental remediation efforts. Also, see Note 3 to the financial statements of Southern Company, Georgia Power, Gulf Power and Mississippi Power in Item 8 herein under "Georgia Power Potentially Responsible Party Status," "Potentially Responsible Party Status," "Environmental Cost Recovery" and "Potentially Responsible Party Status," respectively, for information regarding the identification of sites that may require environmental remediation.

The retail operating companies, Southern Power and SEGCO are unable to predict at this time what additional steps they may be required to take as a result of the implementation of existing or future quality control requirements for air, water and hazardous or toxic materials, but such steps could adversely affect system operations and result in substantial additional costs.

The outcome of the matters mentioned above under "Regulation" cannot now be determined, except that these developments may result in delays in obtaining appropriate licenses for generating facilities, increased construction and operating costs or reduced generation, the nature and extent of which, while not determinable at this time, could be substantial.

## Rate Matters

### Rate Structure

The rates and service regulations of the retail operating companies are uniform for each class of service throughout their respective service areas. Rates for residential electric service are generally of the block type based upon kilowatt-hours used and include minimum charges.

Residential and other rates contain separate customer charges. Rates for commercial service are presently of the block type and, for large customers, the billing demand is generally used to determine capacity and minimum bill charges. These large customers' rates are generally based upon usage by the customer and include rates with special features to encourage off-peak usage. Additionally, the retail operating companies are allowed by their respective PSCs to negotiate the terms and compensation of service to large customers. Such terms and compensation of service, however, are subject to final PSC approval. Alabama Power, Georgia Power, Mississippi Power and Savannah Electric are allowed by state law to recover fuel and net purchased energy costs through fuel cost recovery provisions which are adjusted to reflect increases or decreases in such costs as needed. Gulf Power also recovers from retail customers costs of fuel, net purchased power, energy conservation and environmental compliance through provisions approved by the Florida PSC which are adjusted annually to reflect increases or decreases in such costs. Revenues are adjusted for differences between recoverable costs and amounts actually recovered in current rates.

Reference is made to "Management's Discussion and Analysis – Future Earnings Potential" in Item 7 and to Note 3 to the financial statements in Item 8 herein for Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric for a discussion of rate matters.

### Integrated Resource Planning

Georgia Power and Savannah Electric must file plans with the Georgia PSC that specify how each intends to meet the future electrical needs of its customers through a combination of demand-side and supply-side resources. The Georgia PSC must certify these new resources. Once certified, all prudently incurred construction costs and purchase power costs will be recoverable through rates.

On January 30, 2004, Georgia Power and Savannah Electric filed the 2004 IRP with the Georgia PSC. In the 2004 IRP, Georgia Power requested the de-certification of the Atkinson combustion turbine Units 5A and 5B totaling approximately 80 megawatts of capacity. Plans for meeting Georgia Power's future supply-side capacity

needs identified in the 2004 IRP (2009 and beyond) will be provided to the Georgia PSC in 2005. Georgia Power will also continue the residential load management program, Power Credit, which was certified by the Georgia PSC for up to 40 megawatts of equivalent supply-side capacity. Georgia Power will continue to utilize approximately 8 megawatts of capacity from existing Qualifying Facilities under firm contracts and continue to add additional resources as outlined in the Georgia PSC's Avoided Cost Order, Docket No. 4822-U.

In December 2002, the Georgia PSC approved Georgia Power's and Savannah Electric's 2005 certification and plant retirement request. The request was filed June 7, 2002 for approximately 1,800 megawatts of purchased power and 414 megawatts of generation to be retired in December 2002. The certification request included a seven-year PPA with Duke Energy for one gas-fired, combined cycle unit at Plant Murray near Dalton, Georgia and a 15 year PPA with Southern Power for two gas-fired, combined cycle units to be constructed at Plant McIntosh. The Duke Energy (Murray) PPA is for 620 megawatts to be purchased for Georgia Power beginning in 2005. The Southern Power (McIntosh) units will produce a combined 1,240 megawatts of which Georgia Power will purchase 1,040 megawatts and Savannah Electric will purchase 200 megawatts. This new generation will be available by June 2005.

In July 2001, the Georgia PSC approved Georgia Power's 2003/04 certification request for approximately 1,800 megawatts of purchased power and 12 megawatts of upgraded hydro generation. This certification request included a seven-year PPA with Southern Power for two gas-fired combined cycle units to be constructed at Plant Franklin. Plant Franklin Units 1 and 2 began commercial operation in June 2002 and June 2003, respectively. Also, an upgrade of 12 megawatts was approved for the existing Goat Rock hydro Units 1 and 2. In addition, this certification request included a seven-year PPA with Southern Power for 615 megawatts of gas-fired combined cycle generation at Plant Harris in Alabama. Based on an agreement with the Georgia PSC, the seven-year term was modified to be 15 years.

Reference is made to Note 3 to the financial statements of Southern Company, Georgia Power, Savannah Electric and Southern Power in Item 8 herein under "FERC Matters" for information regarding PPAs by Georgia Power and Savannah Electric for Southern Power's Plant McIntosh capacity.

**Environmental Cost Recovery Plans**

In 1993, the Florida Legislature adopted legislation for an Environmental Cost Recovery Clause (ECRC), which allows Gulf Power to petition the Florida PSC for recovery of prudent environmental compliance costs that are not being recovered through base rates or any other recovery mechanism. Such environmental costs include operation and maintenance expense, emission allowance expense, depreciation and a return on invested capital.

This legislation was amended in 2002 to allow recovery of costs incurred as a result of an agreement between Gulf Power and the Florida Department of Environmental Protection for the purpose of ensuring compliance with ozone ambient air quality standards adopted by the EPA. For additional information, reference is made to Note 3 to the financial statements of Gulf Power in Item 8 herein under "Environmental Cost Recovery."

In 1992, the Mississippi PSC approved Mississippi Power's Environmental Compliance Overview Plan (ECO Plan). The ECO Plan establishes procedures to facilitate the Mississippi PSC's overview of Mississippi Power's environmental strategy and provides for recovery of costs (including costs of capital associated with environmental projects approved by the Mississippi PSC). Under the ECO Plan, any increase in the annual revenue requirement is limited to 2 percent of retail revenues. However, the ECO Plan also provides for carryover of any amount over the 2 percent limit into the next year's revenue requirement. Mississippi Power conducts studies, when possible, to determine the extent of any required environmental remediation. Should such remediation be determined to be probable, reasonable estimates of costs to clean up such sites are developed and recognized in the financial statements. Mississippi Power recovers such costs under the ECO Plan as they are incurred, as provided for in Mississippi Power's 1995 ECO Plan order. Mississippi Power filed its 2004 ECO Plan in January 2004, which, if approved as filed, will result in a slight decrease in customer prices.

## Employee Relations

The Southern Company system had a total of 25,762 employees on its payroll at December 31, 2003.

| | Employees at December 31, 2003 |
|---|---|
| Alabama Power | 6,730 |
| Georgia Power | 8,714 |
| Gulf Power | 1,337 |
| Mississippi Power | 1,290 |
| Savannah Electric | 549 |
| SCS | 3,294 |
| Southern Nuclear | 3,264 |
| Southern Power | * |
| Other | 584 |
| Total | 25,762 |

* Southern Power has no employees. Southern Power has agreements with SCS and the retail operating companies whereby employee services are rendered at cost.

The retail operating companies have separate agreements with local unions of the IBEW generally covering wages, working conditions and procedures for handling grievances and arbitration. These agreements apply with certain exceptions to operating, maintenance and construction employees.

Alabama Power has agreements with the IBEW on a three-year contract extending to August 14, 2004. Upon notice given at least 60 days prior to that date, negotiations may be initiated with respect to agreement terms to be effective after such date.

Georgia Power has an agreement with the IBEW covering wages and working conditions, which is in effect through June 30, 2005.

Gulf Power has an agreement with the IBEW on a three-year contract extending to August 15, 2005.

Mississippi Power has an agreement with the IBEW on a four-year contract extending to August 16, 2006.

Savannah Electric has three-year labor agreements with the IBEW and the Office and Professional Employees International Union that expire April 15, 2006 and December 1, 2006, respectively.

Southern Nuclear has agreements with the IBEW on a five-year contract extending to August 15, 2006 for Plant Farley, and a three-year contract extending to June 30, 2005 for Plants Hatch and Vogtle. Southern Nuclear also has an agreement with the Security, Police and Fire Professionals of America on a three-year contract extending to September 30, 2004 for Plant Hatch. Upon notice given at least 60 days prior to these dates, negotiations may be initiated with respect to agreement terms to be effective after such dates.

The agreements also subject the terms of the pension plans for the companies discussed above to collective bargaining with the unions at either a five-year or a ten-year cycle, depending upon union and company actions.

# Item 2. PROPERTIES

## Electric Properties – The Electric Utilities

The retail operating companies, Southern Power and SEGCO, at December 31, 2003, owned and/or operated 34 hydroelectric generating stations, 32 fossil fuel generating stations, three nuclear generating stations and 10 combined cycle/cogeneration stations. The amounts of capacity for each company are shown in the table below.

| Generating Station | Location | Nameplate Capacity (1) (Kilowatts) |
|---|---|---|
| **Fossil Steam** | | |
| Gadsden | Gadsden, AL | 120,000 |
| Gorgas | Jasper, AL | 1,221,250 |
| Barry | Mobile, AL | 1,525,000 |
| Greene County | Demopolis, AL | 300,000 (2) |
| Gaston Unit 5 | Wilsonville, AL | 880,000 |
| Miller | Birmingham, AL | 2,532,288 (3) |
| **Alabama Power Total** | | 6,578,538 |
| Bowen | Cartersville, GA | 3,160,000 |
| Branch | Milledgeville, GA | 1,539,700 |
| Hammond | Rome, GA | 800,000 |
| McDonough | Atlanta, GA | 490,000 |
| McManus | Brunswick, GA | 115,000 |
| Mitchell | Albany, GA | 125,000 |
| Scherer | Macon, GA | 750,924 (4) |
| Wansley | Carrollton, GA | 925,550 (5) |
| Yates | Newnan, GA | 1,250,000 |
| **Georgia Power Total** | | 9,156,174 |
| Crist | Pensacola, FL | 1,022,500 |
| Lansing Smith | Panama City, FL | 305,000 |
| Scholz | Chattahoochee, FL | 80,000 |
| Daniel | Pascagoula, MS | 500,000 (6) |
| Scherer Unit 3 | Macon, GA | 204,500 (4) |
| **Gulf Power Total** | | 2,112,000 |
| Eaton | Hattiesburg, MS | 67,500 |
| Sweatt | Meridian, MS | 80,000 |
| Watson | Gulfport, MS | 1,012,000 |
| Daniel | Pascagoula, MS | 500,000 (6) |
| Greene County | Demopolis, AL | 200,000 (2) |
| **Mississippi Power Total** | | 1,859,500 |
| McIntosh | Effingham County, GA | 163,117 |
| Kraft | Port Wentworth, GA | 281,136 |
| Riverside | Savannah, GA | 102,278 |
| **Savannah Electric Total** | | 546,531 |
| Gaston Units 1-4 | Wilsonville, AL | |
| **SEGCO Total** | | 1,000,000 (7) |
| **Total Fossil Steam** | | 21,252,743 |
| **Nuclear Steam** | | |
| Farley | Dothan, AL | |
| **Alabama Power Total** | | 1,720,000 |
| Hatch | Baxley, GA | 899,612 (8) |
| Vogtle | Augusta, GA | 1,060,240 (9) |
| **Georgia Power Total** | | 1,959,852 |
| **Total Nuclear Steam** | | 3,679,852 |
| **Combustion Turbines** | | |
| Greene County | Demopolis, AL | |
| **Alabama Power Total** | | 720,000 |
| Bowen | Cartersville, GA | 39,400 |
| Intercession City | Intercession City, FL | 47,667 (10) |
| McDonough | Atlanta, GA | 78,800 |
| McIntosh Units 1,2,3,4,7,8 | Effingham County, GA | 480,000 |
| McManus | Brunswick, GA | 481,700 |
| Mitchell | Albany, GA | 118,200 |
| Robins | Warner Robins, GA | 160,000 |
| Wansley | Carrollton, GA | 26,322 |
| Wilson | Augusta, GA | 354,100 |
| **Georgia Power Total** | | 1,786,189 |
| Lansing Smith Unit A | Panama City, FL | 39,400 |
| Pea Ridge Units 1-3 | Pea Ridge, FL | 15,000 |
| **Gulf Power Total** | | 54,400 |
| Chevron Cogenerating Station | Pascagoula, MS | 147,292 (11) |
| Sweatt | Meridian, MS | 39,400 |
| Watson | Gulfport, MS | 39,360 |
| **Mississippi Power Total** | | 226,052 |
| Boulevard | Savannah, GA | 59,100 |
| Kraft | Port Wentworth, GA | 22,000 |
| McIntosh Units 5&6 | Effingham County, GA | 160,000 |
| **Savannah Electric Total** | | 241,100 |

| Generating Station | Location | Nameplate Capacity (Kilowatts) |
|---|---|---|
| Dahlberg | Jackson County, GA | |
| **Southern Power Total** | | 756,000 |
| Gaston (SEGCO) | Wilsonville, AL | 19,680 (7) |
| **Total Combustion Turbines** | | 3,803,421 |
| **Cogeneration** | | |
| Washington County | Washington County, AL | 123,428 |
| GE Plastics Project | Burkeville, AL | 104,800 |
| Theodore | Theodore, AL | 236,418 |
| **Alabama Power Total** | | 464,646 |
| **Combined Cycle** | | |
| Barry | Mobile, AL | |
| **Alabama Power Total** | | 1,070,424 |
| Smith | Lynn Haven, FL | |
| **Gulf Power Total** | | 619,650 |
| Daniel (Leased) | Pascagoula, MS | |
| **Mississippi Power Total** | | 1,070,424 |
| Stanton Unit A | Orlando, FL | 428,649(13) |
| Harris | Autaugaville, AL | 1,318,920 |
| Franklin | Smiths, AL | 1,198,360 |
| Wansley | Carrollton, GA | 1,073,000 |
| **Southern Power Total** | | 4,018,929 |
| **Total Combined Cycle** | | 6,779,427 |
| **Hydroelectric Facilities** | | |
| Weiss | Leesburg, AL | 87,750 |
| Henry | Ohatchee, AL | 72,900 |
| Logan Martin | Vincent, AL | 128,250 |
| Lay | Clanton, AL | 177,000 |
| Mitchell | Verbena, AL | 170,000 |
| Jordan | Wetumpka, AL | 100,000 |
| Bouldin | Wetumpka, AL | 225,000 |
| Harris | Wedowee, AL | 135,000 |
| Martin | Dadeville, AL | 175,000 |
| Yates | Tallassee, AL | 32,000 |
| Thurlow | Tallassee, AL | 60,000 |
| Lewis Smith | Jasper, AL | 157,500 |
| Bankhead | Holt, AL | 54,000 |
| Holt | Holt, AL | 46,000 |
| **Alabama Power Total** | | 1,620,400 |

| Generating Station | Location | Nameplate Capacity (Kilowatts) |
|---|---|---|
| Barnett Shoals (Leased) | Athens, GA | 2,800 |
| Bartletts Ferry | Columbus, GA | 173,000 |
| Goat Rock | Columbus, GA | 26,000 |
| Lloyd Shoals | Jackson, GA | 14,400 |
| Morgan Falls | Atlanta, GA | 16,800 |
| North Highlands | Columbus, GA | 29,600 |
| Oliver Dam | Columbus, GA | 60,000 |
| Rocky Mountain | Rome, GA | 215,256 (12) |
| Sinclair Dam | Milledgeville, GA | 45,000 |
| Tallulah Falls | Clayton, GA | 72,000 |
| Terrora | Clayton, GA | 16,000 |
| Tugalo | Clayton, GA | 45,000 |
| Wallace Dam | Eatonton, GA | 321,300 |
| Yonah | Toccoa, GA | 22,500 |
| 6 Other Plants | | 18,080 |
| **Georgia Power Total** | | 1,077,736 |
| **Total Hydroelectric Facilities** | | 2,698,136 |
| **Total Generating Capacity** | | 38,678,225 |

**Notes:**

(1) For additional information regarding facilities jointly-owned with non-affiliated parties, see Item 2 - PROPERTIES - "Jointly-Owned Facilities" herein.

(2) Owned by Alabama Power and Mississippi Power as tenants in common in the proportions of 60% and 40%, respectively.

(3) Excludes the capacity owned by AEC.

(4) Capacity shown for Georgia Power is 8.4% of Units 1 and 2 and 75% of Unit 3. Capacity shown for Gulf Power is 25% of Unit 3.

(5) Capacity shown is Georgia Power's portion (53.5%) of total plant capacity.

(6) Represents 50% of the plant which is owned as tenants in common by Gulf Power and Mississippi Power.

(7) SEGCO is jointly-owned by Alabama Power and Georgia Power. (See Item 1 - BUSINESS herein.)

(8) Capacity shown is Georgia Power's portion (50.1%) of total plant capacity.

(9) Capacity shown is Georgia Power's portion (45.7%) of total plant capacity.

(10) Capacity shown represents 33-1/3% of total plant capacity. Georgia Power owns a 1/3 interest in the unit with 100% use of the unit from June through September. FPC operates the unit.

(11) Generation is dedicated to a single industrial customer.

(12) Capacity shown is Georgia Power's portion (25.4%) of total plant capacity. OPC operates the plant.

(13) Capacity shown is Southern Power's portion (65%) of total plant capacity.

Except as discussed below under "Titles to Property," the principal plants and other important units of the retail operating companies, Southern

Power and SEGCO are owned in fee by the respective companies. It is the opinion of management of each such company that its operating properties are adequately maintained and are substantially in good operating condition.

Mississippi Power owns a 79-mile length of 500-kilovolt transmission line which is leased to Entergy Gulf States. The line, completed in 1984, extends from Plant Daniel to the Louisiana state line. Entergy Gulf States is paying a use fee over a 40-year period covering all expenses and the amortization of the original $57 million cost of the line. At December 31, 2003, the unamortized portion of this cost was approximately $30.6 million.

The all-time maximum demand on the retail operating companies, Southern Power and SEGCO was 32,949,200 kilowatts and occurred in August 2003. This amount excludes demand served by capacity retained by MEAG and Dalton and excludes demand associated with power purchased from OPC and SEPA by its preference customers. The reserve margin for the retail operating companies, Southern Power and SEGCO at that time was 21.4%. For additional information on peak demands, reference is made to Item 6 - SELECTED FINANCIAL DATA herein.

## Jointly-Owned Facilities

Alabama Power and Georgia Power have sold and Georgia Power has purchased undivided interests in certain generating plants and other related facilities to or from non-affiliated parties. Southern Power also owns an undivided interest in a facility with non-affiliated parties. The percentages of ownership resulting from these transactions are as follows:

| | | Percentage Ownership | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total Capacity | Alabama Power | AEC | Georgia Power | OPC | MEAG | DALTON | FPC | Southern Power | OUA | FMPA | KUA |
| | (Megawatts) | | | | | | | | | | | |
| Plant Miller Units 1 and 2 | 1,320 | 91.8% | 8.2% | -% | -% | -% | -% | -% | -% | -% | -% | -% |
| Plant Hatch | 1,796 | - | - | 50.1 | 30.0 | 17.7 | 2.2 | - | - | - | - | - |
| Plant Vogtle | 2,320 | - | - | 45.7 | 30.0 | 22.7 | 1.6 | - | - | - | - | - |
| Plant Scherer Units 1 and 2 | 1,636 | - | - | 8.4 | 60.0 | 30.2 | 1.4 | - | - | - | - | - |
| Plant Wansley | 1,779 | - | - | 53.5 | 30.0 | 15.1 | 1.4 | - | - | - | - | - |
| Rocky Mountain | 848 | - | - | 25.4 | 74.6 | - | - | - | - | - | - | - |
| Intercession City, FL | 143 | - | - | 33.3 | - | - | - | 66.7 | - | - | - | - |
| Plant Stanton Unit A | 660 | - | - | - | - | - | - | - | 65% | 28% | 3.5% | 3.5% |

Alabama Power and Georgia Power have contracted to operate and maintain the respective units in which each has an interest (other than Rocky Mountain and Intercession City) as agent for the joint owners. SCS provides operation and maintenance services for Plant Stanton Unit A.

In addition, Georgia Power has commitments regarding a portion of a 5 percent interest in Plant Vogtle owned by MEAG that are in effect until the later of retirement of the plant or the latest stated maturity date of MEAG's bonds issued to finance such ownership interest. The payments for capacity are required whether any capacity is available. The energy cost is a function of each unit's variable operating costs. Except for the portion of the capacity payments related to the 1987 and 1990 write-offs of Plant Vogtle costs, the cost of such capacity and energy is included in purchased power from non-affiliates in Georgia Power's Statements of Income in Item 8 herein.

## Titles to Property

The retail operating companies', Southern Power's and SEGCO's interests in the principal plants (other than certain pollution control facilities, one small hydroelectric generating station leased by Georgia Power, combined cycle units at Plant Daniel leased by Mississippi Power and the land on which five combustion turbine generators of Mississippi Power are located, which is held by easement) and other important units of the respective companies are owned in fee by such companies, subject only to the liens of applicable mortgage indentures of Alabama Power, Gulf Power, Mississippi Power and Savannah Electric and to excepted encumbrances as defined therein. The retail operating companies own the fee interests in certain of their principal plants as tenants in common. (See Item 2 - PROPERTIES - "Jointly-Owned Facilities" herein.) Properties such as electric transmission and distribution lines and steam heating mains are constructed principally on rights-of-way which are maintained under franchise or are held by easement only. A substantial portion of lands submerged by reservoirs is held under flood right easements.

## Item 3. LEGAL PROCEEDINGS

(1) **United States of America v. Alabama Power**
(United States District Court for the Northern District of Alabama)

**United States of America v. Georgia Power and Savannah Electric**
(United States District Court for the Northern District of Georgia)

In November 1999, the EPA brought a civil action in the U.S. District Court for the Northern District of Georgia against Alabama Power, Georgia Power, and SCS. The complaint alleged violations of the New Source Review (NSR) provisions of the Clean Air Act with respect to five coal-fired generating facilities in Alabama and Georgia and violations of related state laws. The civil action requested penalties and injunctive relief, including an order requiring the installation of the best available control technology at the affected units. The EPA concurrently issued to the retail operating companies notices of violation relating to 10 generating facilities, which include the five facilities mentioned previously. In early 2000, the EPA filed a motion to amend its complaint to add the violations alleged in its notices of violation and to add Gulf Power, Mississippi Power, and Savannah Electric as defendants.

In August 2000, the U.S. District Court in Georgia granted Alabama Power's motion to dismiss for lack of jurisdiction in Georgia and granted SCS' motion to dismiss on the grounds that it neither owned nor operated the generating units involved in the proceedings. In March 2001, the court granted the EPA's motion to add Savannah Electric as a defendant, but it denied the motion to add Gulf Power and Mississippi Power based on lack of jurisdiction in Georgia over those companies. As directed by the court, the EPA refiled its amended complaint limiting claims to those brought against Georgia Power and Savannah Electric. In addition, the EPA refiled its claims against Alabama Power in the U.S. District Court for the Northern District of Alabama. These complaints allege violations with respect to eight coal-fired generating facilities in Alabama and Georgia, and they request the same kinds of relief as was requested in the original complaint, i.e. penalties and injunctive relief, including installation of the best available control technology. The EPA has not refiled against Gulf Power, Mississippi Power, or SCS.

The actions against Alabama Power, Georgia Power, and Savannah Electric were stayed in the spring of 2001 during the appeal of a very similar NSR enforcement action against the Tennessee Valley Authority (TVA) before the U.S. Court of Appeals for the Eleventh Circuit. The TVA appeal involves many of the same legal issues raised by the actions against Alabama Power, Georgia Power, and Savannah Electric. Because the final resolution of the TVA appeal could have a significant impact on Alabama Power and Georgia Power, both companies have been involved in that appeal. On June 24, 2003, the court of appeals issued its ruling in the TVA case. It found unconstitutional the statutory scheme set forth in the Clean Air Act that allowed the EPA to impose penalties for failing to comply with an administrative compliance order, like the one issued to TVA, without the EPA having to prove the underlying violation. Thus, the court of appeals held that the compliance order was of no legal consequence, and TVA was free to ignore it. The court did not, however, rule directly on the substantive legal issues about the proper interpretation and application of certain NSR provisions that had been raised in the TVA appeal. On September 16, 2003, the court of appeals denied the EPA's request for a rehearing of the decision. On February 13, 2004, the EPA petitioned the U.S. Supreme Court to review the decision of the court of appeals. The EPA also filed a motion to lift the stay in the action against Alabama Power. At this time, no party to the Georgia Power and Savannah Electric action, which was administratively closed two years ago, has asked the court to reopen that case.

Since the inception of the NSR proceedings against Georgia Power, Alabama Power, and Savannah Electric, the EPA has also been proceeding with similar NSR enforcement actions against other utilities, involving many of the same legal issues. In each case, the EPA

alleged that the utilities failed to comply with the NSR permitting requirements when performing maintenance and construction activities at coal-burning plants, which activities the utilities considered to be routine or otherwise not subject to NSR. In 2003, district courts addressing these cases have issued opinions that reached conflicting conclusions.

In October 2003, the EPA issued final revisions to its NSR regulations under the Clean Air Act clarifying the scope of the existing Routine Maintenance, Repair, and Replacement exclusion. On December 24, 2003, the U.S. Court of Appeals for the District of Columbia Circuit stayed the effectiveness of these revisions pending resolution of related litigation. In January 2004, the Bush Administration announced that it would continue to enforce the existing rules.

Southern Company believes that the retail operating companies complied with applicable laws and the EPA's regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes civil penalties of up to $27,500 per day, per violation at each generating unit. Prior to January 30, 1997, the penalty was $25,000 per day. An adverse outcome in any one of these cases could require substantial capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. This could affect future results of operations, cash flows, and possibly financial condition if such costs are not recovered through regulated rates.

(2) **Cooper et al. v. Georgia Power, Southern Company, SCS and Energy Solutions**
(Superior Court of Fulton County, Georgia)

In July 2000, a lawsuit alleging race discrimination was filed by three Georgia Power employees against Georgia Power, Southern Company, and SCS in the Superior Court of Fulton County, Georgia. Shortly thereafter, the lawsuit was removed to the United States District Court for the Northern District of Georgia. The lawsuit also raised claims on behalf of a purported class. The plaintiffs seek compensatory and punitive damages in an unspecified amount, as well as injunctive relief. In August 2000, the lawsuit was amended to add four more plaintiffs. Also, an additional indirect subsidiary of Southern Company, Energy Solutions, was named a defendant.

In October 2001, the district court denied the plaintiffs' motion for class certification. The plaintiffs filed a motion to reconsider the order denying class certification, and the court denied the plaintiffs' motion to reconsider. In December 2001, the plaintiffs filed a petition in the U.S. Court of Appeals for the Eleventh Circuit seeking permission to file an appeal of the October 2001 decision, and this petition was denied. After discovery was completed on the claims raised by the seven named plaintiffs, the defendants filed motions for summary judgment on all of the named plaintiffs' claims. On March 31, 2003, the U.S. District Court for the Northern District of Georgia granted summary judgment in favor of the defendants on all claims raised by all seven plaintiffs. On April 23, 2003, plaintiffs filed an appeal to the U.S. Court of Appeals for the Eleventh Circuit challenging these adverse summary judgment rulings, as well as the District Court's October 2001 ruling denying class certification. Oral argument occurred on January 27, 2004, and the parties await the court's decision. The final outcome of this matter cannot now be determined.

(3) **Georgia Power Potentially Responsible Party**

Georgia Power has been designated as a potentially responsible party at sites governed by the Georgia Hazardous Site Response Act and/or by the federal Comprehensive Environmental Response, Compensation, and Liability Act. Georgia Power has recognized

$34 million in cumulative expenses through December 31, 2003, for the assessment and anticipated cleanup of sites on the Georgia Hazardous Sites Inventory. In addition, in 1995 the EPA designated Georgia Power and four other unrelated entities as potentially responsible parties at a site in Brunswick, Georgia that is listed on the federal National Priorities List. Georgia Power has contributed to the removal and remedial investigation and feasibility study costs for the site. Additional claims for recovery of natural resource damages at the site are anticipated. As of December 31, 2003, Georgia Power had recorded approximately $6 million in cumulative expenses associated with Georgia Power's agreed upon share of the removal and remedial investigation and feasibility study costs for the Brunswick site.

The final outcome of each of these matters cannot now be determined. However, based on the currently known conditions at these sites and the nature and extent of Georgia Power's activities relating to these sites, management does not believe that Georgia Power's additional liability, if any, at these sites would be material to the financial statements.

Reference is made to Note 3 to Southern Company's and Georgia Power's financial statements in Item 8 herein under the headings "Georgia Power Potentially Responsible Party Status" and "Potentially Responsible Party Status," respectively.

(4) **In re: Mobile Energy Services Company, LLC; In re: Mobile Energy Services Holdings, Inc.**
(U.S. Bankruptcy Court for the Southern District of Alabama)

MESH is the owner and operator of a facility that generates electricity, produces steam, and processes black liquor as part of a pulp and paper complex in Mobile, Alabama. In January 1999, MESH filed a petition for Chapter 11 bankruptcy with the U.S. Bankruptcy Court. In 2001, MESH filed an amended plan of reorganization, which the U.S. Bankruptcy Court confirmed in September 2003. The plan became effective in late 2003 and Southern Company's equity interest in MESH – which had been written off entirely prior to 2001 – was extinguished. Southern Company will continue to have contingent liabilities to the pulp and paper complex owners associated with a guarantee of certain potential environmental obligations and with a potential obligation to fund a maintenance reserve account that expires in 2019 and 2021, respectively. The combined maximum contingent liabilities were $19 million at December 31, 2003. MESH and Mirant have each separately agreed to indemnify Southern Company for any amounts required to be paid under such obligations. The final outcome of these matters cannot now be determined.

(5) **California Electricity Markets Investigation**

Southern Company received a subpoena in November 2002 to provide information to a federal grand jury in the Northern District of California. The subpoena covered a number of broad areas, including specific information regarding electricity production and sales activities in California. Mirant participated in energy marketing and trading in California during the period relevant to the subpoena. Southern Company has produced documents in response to the subpoena and has fully cooperated in the investigation.

(6) **In re: Mirant Corporation, et. al**
(U.S. Bankruptcy Court for the Northern District of Texas)

On July 14, 2003, Mirant filed for voluntary reorganization under Chapter 11 with the U.S. Bankruptcy Court. Southern Company has certain contingent liabilities associated with guarantees of contractual commitments made by Mirant's subsidiaries discussed in Note 7 to Southern Company's financial statements in

## Item 3. LEGAL PROCEEDINGS (Continued)

Item 8 herein under "Guarantees" and with various lawsuits related to Mirant discussed elsewhere in this Item 3. Also, Southern Company has joint and several liability with Mirant regarding the joint consolidated federal income tax return as discussed in Note 5 to the financial statements of Southern Company in Item 8 herein. Under the terms of the separation agreement, Mirant agreed to indemnify Southern Company for costs associated with these guarantees, lawsuits, and additional Internal Revenue Service (IRS) assessments. The impact of Mirant's bankruptcy filing on Mirant's indemnity obligations, if any, cannot now be determined. If Southern Company is ultimately required to make any payments related to these potentially material obligations, Mirant's indemnification obligation to Southern Company would represent an unsecured pre-bankruptcy claim, subject to compromise pursuant to Mirant's final reorganization plan.

The Bankruptcy Code automatically stays all litigation as to Mirant. A motion filed with the bankruptcy court requesting an extension of this automatic stay to all other non-debtor defendants, including Southern Company and the named current and/or former Southern Company officers was granted in November 2003. Although the Mirant securities litigation is stayed until further order from the bankruptcy court, Mirant is authorized to agree with parties in pending actions to allow discovery or other matters to proceed without violating the stay. Mirant and plaintiffs' counsel in the Mirant securities litigation have agreed that document discovery may proceed. Mirant and plaintiffs' counsel in the ERISA litigation have agreed to allow defendants to file responsive pleadings and to permit the court to decide any motions to dismiss without violating the stay. On October 23, 2003, the bankruptcy court entered an order authorizing Southern Company's insurance companies to pay related defense costs.

On February 20, 2004, the Official Committee of Unsecured Creditors of Mirant informed Southern Company of its intent to examine Southern Company in accordance with federal bankruptcy rules to determine whether there is a legitimate basis to bring claims against Southern Company in connection with Mirant's initial public offering, Southern Company's spinoff of Mirant and the related separation agreements.

The final outcome of these matters cannot now be determined.

(7) **In re: Mirant Corporation Securities Litigation**
(United States District Court for the Northern District of Georgia)

In November 2002, Southern Company, certain former and current senior officers of Southern Company, and 12 underwriters of Mirant's initial public offering were added as defendants in a putative class action lawsuit that several Mirant shareholders originally filed against Mirant and certain Mirant officers in May 2002. The original lawsuit was based on allegations related to alleged improper energy trading and marketing activities involving the California energy market. Several other similar lawsuits filed subsequently were consolidated into this litigation in the U.S. District Court for the Northern District of Georgia. The amended complaint is based on allegations related to alleged improper energy trading and marketing activities involving the California energy market, alleged false statements and omissions in Mirant's prospectus for its initial public offering and in subsequent public statements by Mirant, and accounting-related issues previously disclosed by Mirant. The lawsuit purports to include persons who acquired Mirant securities between September 26, 2000, and September 5, 2002.

On July 14, 2003, the court dismissed all claims based on Mirant's alleged improper energy trading and marketing activities involving the California energy market. The remaining claims are based on alleged false statements and omissions in Mirant's prospectus for its initial public offering and accounting-related issues previously disclosed

## Item 3. LEGAL PROCEEDINGS (Continued)

by Mirant. Such claims do not allege any improper trading and marketing activity, accounting errors, or material misstatements or omissions on the part of Southern Company, but rather seek to impose liability on Southern Company based on allegations that Southern Company was a "control person" as to Mirant prior to the spin off date. Southern Company filed an answer to the consolidated amended class action complaint on September 3, 2003. Plaintiffs have also filed a motion for class certification.

Under certain circumstances, Southern Company will be obligated under its Bylaws to indemnify the four current and/or former Southern Company officers who served as directors of Mirant at the time of its initial public offering through the date of the spin off and are also named as defendants in this lawsuit. Except for limited document discovery, litigation has been stayed until further order from the bankruptcy court. The final outcome of these matters cannot now be determined.

(8) **In re: Mirant Corporation ERISA Litigation**
(United States District Court for the Northern District of Georgia)

In April 2003, a retired employee of Mirant filed a complaint in the U.S. District Court for the Northern District of Georgia alleging violations of ERISA and naming as defendants Mirant, Southern Company, several current and former directors and officers of Mirant and/or Southern Company, and "Unknown Fiduciary Defendants 1-100." In June 2003, a substantially similar complaint was filed. Neither complaint contained any specific allegations of wrongdoing with respect to Southern Company. On September 2, 2003, the court consolidated all pending and future ERISA actions arising out of the same facts, and the plaintiffs filed a consolidated amended ERISA complaint on September 23, 2003. The plaintiffs sought to represent a class of persons who were participants in or beneficiaries of certain Mirant employee benefit plans between September 27, 2000, and July 22, 2003. The consolidated amended complaint named as defendants Mirant, certain Mirant benefit committees, Southern Company, and several of Mirant's current and former officers, directors, and employees. The consolidated amended complaint alleged that the defendants breached their fiduciary duties and violated ERISA by failing to investigate whether Mirant stock was a prudent investment for the plans, by continuing and promoting Mirant stock as an investment alternative for participants in the plans, and by failing to disclose information about Mirant's financial condition and about its improper activities in the California energy markets.

On February 19, 2004, plaintiffs dismissed Southern Company from this action without prejudice. The plaintiffs are not barred from naming Southern Company in some future lawsuit, but management believes the possibility of having to pay damages in any such lawsuit is remote.

(9) **Sierra Club, et al v. Georgia Power**
(United States District Court for the Northern District of Georgia)

On December 30, 2002, the Sierra Club, Physicians for Social Responsibility, Georgia ForestWatch, and one individual filed a civil suit in the U.S. District Court in Georgia against Georgia Power for alleged violations of the Clean Air Act at four of the generating units at Plant Wansley. The complaint alleges Clean Air Act violations at both the existing coal-fired units and the new combined cycle units. Specifically, the plaintiffs allege (1) opacity violations at the coal-fired units, (2) violations of a permit provision that requires the combined cycle units to operate above certain levels, (3) violation of nitrogen oxide emission offset requirements, and (4) violation of hazardous air pollutant requirements. The civil action requests injunctive and declaratory relief, civil penalties, a supplemental environmental project, and attorneys' fees. The Clean Air Act authorizes civil penalties of up to $27,500 per day, per violation at each generating unit.

On June 19, 2003, the court granted Georgia Power's motion to dismiss the allegations regarding hazardous air pollutants and denied Georgia Power's motion to dismiss the allegations regarding emission offsets. On August 29, 2003, Georgia Power filed a motion for partial summary judgment regarding emission offsets. On January 20, 2004, Georgia Power filed a motion for summary judgment on the remaining three counts, and the plaintiffs have filed motions for partial summary judgment. The case is currently scheduled for trial during the summer of 2004. While Georgia Power believes that it has complied with applicable laws and regulations, an adverse outcome could require payment of substantial penalties. The final outcome of this matter cannot now be determined.

**(10) Right of Way Litigation**

Southern Company and certain of its subsidiaries, including Georgia Power, Gulf Power, Mississippi Power, and Southern Telecom (collectively, defendants), have been named as defendants in numerous lawsuits brought by landowners since 2001 regarding the installation and use of fiber optic cable over defendants' rights of way located on the landowners' property. 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 by defendants exceed the easements or other property rights held by defendants. The plaintiffs assert claims for, among other things, trespass and unjust enrichment. The plaintiffs seek compensatory and punitive damages and injunctive relief. With respect to one such lawsuit brought by landowners regarding the installation and use of fiber optic cable over Gulf Power rights of way located on the landowners' property, on November 7, 2003, the Second Circuit Court in Gadsden County, Florida, ruled in favor of the plaintiffs on their motion for partial summary judgment concerning liability. The question of damages, if any, will be decided at a future trial. In the event of an adverse verdict on damages, Gulf Power could appeal the verdicts on both liability and damages. Management of Southern Company and its subsidiaries believe that the defendant companies in the pending right of way litigation have complied with applicable laws and that the plaintiffs' claims are without merit. An adverse outcome in these matters could result in substantial judgments; however, the final outcome of these matters cannot now be determined.

In addition, in late 2001, certain subsidiaries of Southern Company, including Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric, and Southern Telecom (collectively, defendants), were named as defendants in a lawsuit brought by a telecommunications company that uses certain of the defendants' 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 the telecommunications company in pending and future right of way litigation. The defendants believe that the plaintiff's claims are without merit. 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.

**(11) Jerry A. Carter v. Gulf Power**

On January 28, 2003, a jury in Escambia County, Florida, returned a verdict of $3 million against Gulf Power arising out of an alleged electrical injury sustained by the plaintiff in January 1999 while inside his apartment. This matter is on appeal to Florida's First District Court of Appeal. If this verdict is upheld, there is insurance coverage available to offset a substantial portion of this amount. The ultimate outcome of this matter cannot now be determined, but is not expected to have a

## Item 3. LEGAL PROCEEDINGS (Continued)

material impact on Gulf Power's financial statements.

Southern Company and its subsidiaries are subject to certain claims and legal actions arising in the ordinary course of business. In addition, the business activities of Southern Company and its subsidiaries 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 and citizen enforcement of environmental requirements, has increased generally throughout the United States. In particular, personal injury claims for damages caused by alleged exposure to hazardous materials have become more frequent. The ultimate outcome of such litigation against Southern Company and its subsidiaries cannot be predicted at this time; however, management does not anticipate that the liabilities, if any, arising from such current proceedings would have a material adverse effect on the financial statements of Southern Company and its subsidiaries.

See Item 1 - BUSINESS - "Construction Programs," "Fuel Supply," "Regulation - Federal Power Act" and "Rate Matters" as well as Note 3 to each registrant's financial statements in Item 8 herein for a description of certain other administrative and legal proceedings discussed therein.

## Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

## EXECUTIVE OFFICERS OF SOUTHERN COMPANY

*(Identification of executive officers of Southern Company is inserted in Part I in accordance with Regulation S-K, Item 401(b), Instruction 3.)* The ages of the officers set forth below are as of December 31, 2003.

**H. Allen Franklin** (1)
Chairman, President, Chief Executive Officer and Director
Age 59
Elected Director in 1988 and Chief Executive Officer effective March 1, 2001. Previously served as President and Chief Operating Officer of Southern Company from June 1999 to March 2001; and as President and Chief Executive Officer of Georgia Power from January 1994 to June 1999.

**Dwight H. Evans**
Executive Vice President
Age 55
Elected in 2001. Previously served as President and Chief Executive Officer of Mississippi Power from March 1995 to May 2001.

**Thomas A. Fanning**
Executive Vice President, Chief Financial Officer and Treasurer
Age 46
Elected in 2003. Previously served as President, Chief Executive Officer and Director of Gulf Power from 2002 to April 2003; Executive Vice President, Treasurer and Chief Financial Officer of Georgia Power from 1999 to 2002.

**Leonard J. Haynes**
Executive Vice President and Chief Marketing Officer
Age 53
Elected in 2001. Previously served as Senior Vice President of Georgia Power from October 1998 to May 2001; and Vice President of Georgia Power from October 1992 to October 1998.

**G. Edison Holland, Jr.**
Executive Vice President
Age 51
Elected in 2001. Previously served as President and Chief Executive Officer of Savannah Electric from 1997 until 2001.

**Charles D. McCrary**
Executive Vice President
Age 52
Elected in 1998. He also serves as President and Chief Executive Officer of Alabama Power since October 2001 and Executive Vice President of Southern Company since February 2002. Previously served as President and Chief Operating Officer of Alabama Power from April 2001 to October 2001; Vice President of Southern Company from February 1998 to April 2001.

**David M. Ratcliffe** (2)
Executive Vice President
Age 55
Elected in 1999. He also has served as Chief Executive Officer of Georgia Power since June 1999 and as President of Georgia Power from June 1999 to December 2003. Previously served as Executive Vice President, Treasurer and Chief Financial Officer of Georgia Power from March 1998 to June 1999.

**W. Paul Bowers**
President of Southern Company Generation & Energy Marketing, Executive Vice President of SCS and President and Chief Executive Officer of Southern Power since May 2001
Age 47
Elected in 2001. Previously served as Senior Vice President and Chief Marketing Officer of Southern Company from March 2000 to May 2001; President and Chief Executive Officer of Western Power Distribution and Southwestern Electricity plc, a subsidiary of Mirant located in Bristol, England, from December 1998 to 2000.

**W. G. Hairston, III**
President and Chief Executive Officer of Southern Nuclear since 1993.
Age 59

*(1) Mr. Franklin will retire in July 2004.*

*(2) Mr. Ratcliffe will continue to serve as Chief Executive Officer of Georgia Power until April 2004, at which time he will become President of Southern Company. He will become Chairman and Chief Executive Officer of Southern Company effective in July 2004.*

The officers of Southern Company were elected for a term running from the first meeting of the directors

following the last annual meeting (May 22, 2003) for one year until the first board meeting after the next annual meeting or until their successors are elected and have qualified.

## EXECUTIVE OFFICERS OF ALABAMA POWER

*(Identification of executive officers of Alabama Power is inserted in Part I in accordance with Regulation S-K, Item 401(b), Instruction 3.)* The ages of the officers set forth below are as of December 31, 2003.

**Charles D. McCrary**
President, Chief Executive Officer and Director
Age 52
Elected in 2001. Served as President and Chief Operating Officer of Alabama Power from April 2001 to October 2001 and Vice President of Southern Company from February 1998 to April 2001.

**William B. Hutchins, III**
Executive Vice President, Chief Financial Officer and Treasurer
Age 60
Elected in 1991. Served as Treasurer since 1998 in addition to Executive Vice President and Chief Financial Officer since 1994.

**C. Alan Martin**
Executive Vice President
Age 55
Elected in 1999. Served as Executive Vice President of External Affairs from January 2000 to April 2001. Previously served as Executive Vice President and Chief Marketing Officer for Southern Company from 1998 to 1999.

**Steven R. Spencer**
Executive Vice President
Age 48
Elected in 2001. Served as Senior Vice President of External Affairs from July 2000 to April 2001. Previously served as Vice President of Southern Company's external affairs organization from 1998 to 2001.

**Jerry L. Stewart**
Senior Vice President
Age 54
Elected in 1999. Served as Senior Vice President of Fossil and Hydro Generation since 1999. Previously served as Vice President of SCS from 1992 to 1999.

The officers of Alabama Power were elected for a term running from the last annual meeting of the directors (April 25, 2003) for one year until the next annual meeting or until their successors are elected and have qualified.

## EXECUTIVE OFFICERS OF GEORGIA POWER

*(Identification of executive officers of Georgia Power is inserted in Part I in accordance with Regulation S-K, Item 401(b), Instruction 3.)* The ages of the officers set forth below are as of December 31, 2003.

**David M. Ratcliffe** (1)
Chief Executive Officer and Director
Age 55
Elected as an Executive Officer in 1998 and as Director in 1999. Served as Chief Executive Officer since June 1999 and as President from June 1999 through December 2003. Previously served as Executive Vice President, Treasurer and Chief Financial Officer of Georgia Power from March 1998 to June 1999.

**Michael D. Garrett** (2)
President and Director
Age 54
Elected in 2003. President and Director of Georgia Power effective January 1, 2004. Previously served as President, Chief Executive Officer and Director of Mississippi Power from 2001 to 2003; Executive Vice President - Customer Service of Alabama Power from January 2000 to May 2001; and Executive Vice President of External Affairs of Alabama Power from March 1998 to January 2000.

**William C. Archer, III**
Executive Vice President
Age 55
Elected in 1995. Served as Executive Vice President of External Affairs since 1995.

**C. B. Harreld**
Executive Vice President, Chief Financial Officer and Treasurer
Age 59
Elected in 2003. Served as Executive Vice President, Chief Financial Officer and Treasurer since 2003. Previously served as Senior Vice President of Finance, SCS from 2002 to 2003; Chief Financial Officer and Comptroller of Southern Company Generation and Energy Marketing from 2001 to 2002; Chief Financial Officer of Mirant – Europe from 2000 to 2001; and Vice President and Controller, Southern Energy, Inc. from 1999 to 2000.

**Judy M. Anderson**
Senior Vice President
Age 55
Elected in 2001. Served as Senior Vice President of Charitable Giving since 2001. Previously served as Vice President and Corporate Secretary of Georgia Power from 1989 to 2001.

**Ronnie L. Bates**
Senior Vice President
Age 49
Elected in 2001. Served as Senior Vice President, Planning, Sales and Service since 2001. Previously served as Vice President, Transmission from 2000 to 2001; and as General Manager, Transmission and Construction from 1995 to 2000.

**Mickey A. Brown**
Senior Vice President
Age 56
Elected in 2001. Served as Senior Vice President of Distribution since 2001. Previously served as Vice President, Distribution from 2000 to 2001; and as Vice President, Northern Region from 1993 to 2000.

**Richard L. Holmes**
Senior Vice President
Age 52
Elected in 2003. Served as Senior Vice President of Corporate Services since 2003. Previously served as Vice President of Corporate Services from 2002 to 2003; Vice President of Region Operations from 2000 to 2002; Assistant to the President and Chief Executive Officer from 1999 to 2000; and Metro West Region Manager from 1992 to 1999.

**Leslie R. Sibert**
Vice President
Age 41
Elected in 2001. Served as Vice President, Transmission since 2001. Previously served as Decatur Region Manager from 1999 to 2001; and as Assistant to Senior Vice President, Southern Wholesale Energy from 1996 to 1999.

**Christopher C. Womack**
Senior Vice President
Age 45
Elected in 2001. Served as Senior Vice President of Fossil and Hydro since 2001. Previously served as Vice President and Chief Executive People Officer of Southern Company from 1998 to 2001.

*(1) Mr. Ratcliffe will continue to serve as Chief Executive Officer of Georgia Power until April 2004, at which time he will become President of Southern Company. He will become Chairman and Chief Executive Officer of Southern Company in July 2004.*

(2) *Mr. Garrett was elected President and Director of Georgia Power effective January 1, 2004. In addition, he will become Chief Executive Officer of Georgia Power effective April 2004.*

The officers of Georgia Power were elected for a term running from the last annual meeting of the directors (May 21, 2003) for one year until the next annual meeting or until their successors are elected and have qualified, except for Mr. Harreld whose election was effective June 30, 2003 and Mr. Garrett whose election was effective January 1, 2004.

## EXECUTIVE OFFICERS OF GULF POWER

*(Identification of executive officers of Gulf Power is inserted in Part I in accordance with Regulation S-K, Item 401(b), Instruction 3.)* The ages of the officers set forth below are as of December 31, 2003.

**Susan N. Story**
President, Chief Executive Officer and Director
Age 43
Elected in 2003. Previously served as Executive Vice President of Engineering and Construction Services at Southern Company Generation and Energy Marketing from 2001 to 2003; Vice President of Procurement and Materials at SCS from 2000 to 2001; and Vice President of Corporate Services and Corporate Real Estate at Alabama Power from 1997 to 2000.

**Francis M. Fisher, Jr.**
Vice President
Age 55
Elected in 1989. Served as Vice President of Customer Operations since 1996.

**P. Bernard Jacob**
Vice President
Age 49
Elected in 2003. Served as Vice President of External Affairs and Corporate Services since 2003. Previously served as Director of IR Security and Program Management at SCS from 2002 to 2003 and Manager of Telecommunications Strategy at SCS from 1998 to 2002.

**Ronnie R. Labrato**
Vice President, Chief Financial Officer and Comptroller
Age 50
Elected in 2000. Previously served as Comptroller and Chief Financial Officer from 2000 to 2001 and Controller from 1992 to 2000.

**Gene L. Ussery, Jr.**
Vice President
Age 54
Elected in 2002. Served as Vice President of Power Generation since May 2002. Also serves at Mississippi Power as Vice President of Power Generation and Delivery from September 2000 to present. Previously served as Northern Cluster Manager at Georgia Power for Plants Hammond, Bowen and McDonough-Atkinson from July 2000 to September 2000; and Manager of Plant Bowen at Georgia Power from 1997 to 2000.

The officers of Gulf Power were elected for a term running from the last annual meeting of the directors (July 24, 2003) for one year until the next annual meeting or until their successors are elected and have qualified.

## EXECUTIVE OFFICERS OF MISSISSIPPI POWER

*(Identification of executive officers of Mississippi Power is inserted in Part I in accordance with Regulation S-K, Item 401(b), Instruction 3.)* The ages of the officers set forth below are as of December 31, 2003.

**Michael D. Garrett** (1)
President, Chief Executive Officer and Director
Age 54
Elected in 2001. Previously served as Executive Vice President - Customer Service of Alabama Power from January 2000 to May 2001; Executive Vice President of External Affairs of Alabama Power from March 1998 to January 2000.

**Anthony J. Topazi** (2)
President, Chief Executive Officer and Director
Age 53
Elected in 2003. Served as Senior Vice President of Southern Power from November 2002 to December 2003 and Vice President of SCS from December 1999 to December 2003. Previously served as Vice President of Southern Power from March 2001 until November 2002 and Vice President of Alabama Power from March 1991 to December 1999.

**Bobby J. Kerley**
Vice President
Age 50
Elected in 2003. Served as Vice President of Customer Services and Retail Marketing since December 2003. Previously served at Alabama Power as Division Vice President - Southeast Division Office from April 2001 to December 2003; Division Manager - Operations, Birmingham Division Office from January 2001 to April 2001; Transmission Lines Manager, Corporate Headquarters from March 1997 to January 2001.

**Don E. Mason**
Vice President
Age 62
Elected in 1983. Served as Vice President of External Affairs and Corporate Services since 1983.

**Michael W. Southern**
Vice President, Treasurer and
Chief Financial Officer
Age 51
Elected in 1995. Previously served as Vice President, Secretary, Treasurer and Chief Financial Officer from 1995 to 2001.

**Gene L. Ussery, Jr.**
Vice President
Age 54
Elected in 2000. Served as Vice President of Power Generation and Delivery since September 2000 and Vice President of Power Generation at Gulf Power since May 2002. Previously served as Northern Cluster Manager at Georgia Power for Plants Hammond, Bowen and McDonough-Atkinson from July 2000 to September 2000; and Manager of Plant Bowen at Georgia Power from 1997 to 2000.

(1) *Mr. Garrett was elected President and Director of Georgia Power effective January 1, 2004. In addition, he will become Chief Executive Officer of Georgia Power effective April 2004.*

(2) *Mr. Topazi was elected President, Chief Executive Officer and Director of Mississippi Power effective January 1, 2004.*

The officers of Mississippi Power were elected for a term running from the last annual meeting of the directors (April 23, 2003) for one year until the next annual meeting or until their successors are elected and have qualified, except for Mr. Kerley and Mr. Topazi whose elections were effective November 14, 2003 and January 1, 2004, respectively.

# PART II

## Item 5. MARKET FOR REGISTRANTS' COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) The common stock of Southern Company is listed and traded on the New York Stock Exchange. The stock is also traded on regional exchanges across the United States. High and low stock prices, per the New York Stock Exchange Composite Tape, during each quarter for the past two years were as follows:

| | High | Low |
|---|---|---|
| **2003** | | |
| First Quarter | $30.81 | $27.71 |
| Second Quarter | 31.81 | 27.94 |
| Third Quarter | 30.53 | 27.76 |
| Fourth Quarter | 30.40 | 28.65 |
| **2002** | | |
| First Quarter | $26.78 | $24.49 |
| Second Quarter | 28.39 | 25.65 |
| Third Quarter | 29.02 | 23.89 |
| Fourth Quarter | 30.85 | 25.17 |

There is no market for the other registrants' common stock, all of which is owned by Southern Company. On February 25, 2004, the closing price of Southern Company's common stock was $29.79.

(b) Number of Southern Company's common stockholders of record at December 31, 2003:
134,068

Each of the other registrants have one common stockholder, Southern Company.

(c) Dividends on each registrant's common stock are payable at the discretion of their respective board of directors. The dividends on common stock declared by Southern Company and the retail operating companies to their stockholder(s) for the past two years were as follows:

| Registrant | Quarter | 2003 | 2002 |
|---|---|---|---|
| | | (in thousands) | |
| **Southern Company** | First | $ 245,745 | $ 234,272 |
| | Second | 247,324 | 236,154 |
| | Third | 255,042 | 242,850 |
| | Fourth | 256,334 | 244,309 |
| **Alabama Power** | First | 107,550 | 107,750 |
| | Second | 107,550 | 107,750 |
| | Third | 107,550 | 107,750 |
| | Fourth | 107,550 | 107,750 |
| **Georgia Power** | First | 141,450 | 135,725 |
| | Second | 141,450 | 135,725 |
| | Third | 141,450 | 135,725 |
| | Fourth | 141,450 | 135,725 |
| **Gulf Power** | First | 17,550 | 16,375 |
| | Second | 17,550 | 16,375 |
| | Third | 17,550 | 16,375 |
| | Fourth | 17,550 | 16,375 |
| **Mississippi Power** | First | 16,500 | 15,875 |
| | Second | 16,500 | 15,875 |
| | Third | 16,500 | 15,875 |
| | Fourth | 16,500 | 15,875 |
| **Savannah Electric** | First | 5,750 | 5,675 |
| | Second | 5,750 | 5,675 |
| | Third | 5,750 | 5,675 |
| | Fourth | 5,750 | 5,675 |

Southern Power did not pay a dividend in 2002, but paid a $77 million dividend to Southern Company in the third quarter of 2003.

The dividend paid per share by Southern Company was 33.5¢ first two quarters of 2002 and 34.25¢ for the two remaining quarters in 2002. The dividend paid on Southern Company's common stock for the first and second quarters of 2003 was 34.25¢ per share and for the third and fourth quarters of 2003 was 35¢ per share.

The amount of dividends on their common stock that may be paid by the subsidiary registrants (except Alabama Power, Georgia Power and Southern Power) is restricted in accordance with their respective first mortgage bond indenture. See Note 8 of Southern Company and Note 6 of Gulf Power, Mississippi Power and Savannah Electric to the financial statements in Item 8 herein for additional information regarding these restrictions. The amounts of earnings retained in the business and the amounts restricted against the payment of cash dividends on common stock at December 31, 2003 were as follows:

| | Retained Earnings | Restricted Amount |
|---|---|---|
| | (in millions) | |
| Alabama Power | $ 1,292 | $ - |
| Georgia Power | 2,010 | - |
| Gulf Power | 161 | 127 |
| Mississippi Power | 203 | 118 |
| Savannah Electric | 110 | 68 |
| Southern Power | 218 | - |
| Consolidated | 5,343 | $313 |

## Item 6. SELECTED FINANCIAL DATA

Southern Company. Reference is made to information under the heading "Selected Consolidated Financial and Operating Data," contained herein at pages II-62 and II-63.

Alabama Power. Reference is made to information under the heading "Selected Financial and Operating Data," contained herein at pages II-106 and II-107.

Georgia Power. Reference is made to information under the heading "Selected Financial and Operating Data," contained herein at pages II-155 and II-156.

Gulf Power. Reference is made to information under the heading "Selected Financial and Operating Data," contained herein at pages II-196 and II-197.

Mississippi Power. Reference is made to information under the heading "Selected Financial and Operating Data," contained herein at pages II-241 and II-242.

Savannah Electric. Reference is made to information under the heading "Selected Financial and Operating Data," contained herein at pages II-282 and II-283.

Southern Power. Reference is made to information under the heading "Selected Financial and Operating Data," contained herein at page II-313.

## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Southern Company. Reference is made to information under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition," contained herein at pages II-10 through II-28.

Alabama Power. Reference is made to information under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition," contained herein at pages II-67 through II-82.

Georgia Power. Reference is made to information under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition," contained herein at pages II-111 through II-127.

Gulf Power. Reference is made to information under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition," contained herein at pages II-160 through II-174.

Mississippi Power. Reference is made to information under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition," contained herein at pages II-201 through II-217.

Savannah Electric. Reference is made to information under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition," contained herein at pages II-246 through II-260.

Southern Power. Reference is made to information under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition," contained herein at pages II-287 through II-298.

## Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to information in each of the registrants' "Management's Discussion and Analysis – Financial Condition And Liquidity - Market Price Risk" in Item 7 herein and to Notes 1 and 6 to each of the registrants' financial statements in Item 8 herein under the heading "Financial Instruments."

## Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

*INDEX TO 2003 FINANCIAL STATEMENTS*


| | Page |
|---|---|
| **The Southern Company and Subsidiary Companies:** | |
| Independent Auditors' Report | II-9 |
| Report of Independent Public Accountants | II-9 |
| Consolidated Statements of Income for the Years Ended December 31, 2003, 2002 and 2001 | II-29 |
| Consolidated Statements of Cash Flows for the Years Ended December 31, 2003, 2002 and 2001 | II-30 |
| Consolidated Balance Sheets at December 31, 2003 and 2002 | II-31 |
| Consolidated Statements of Capitalization at December 31, 2003 and 2002 | II-33 |
| Consolidated Statements of Common Stockholders' Equity for the Years Ended December 31, 2003, 2002 and 2001 | II-35 |
| Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2003, 2002 and 2001 | II-35 |
| Notes to Financial Statements | II-36 |
| **Alabama Power:** | |
| Independent Auditors' Report | II-66 |
| Report of Independent Public Accountants | II-66 |
| Statements of Income for the Years Ended December 31, 2003, 2002 and 2001 | II-83 |
| Statements of Cash Flows for the Years Ended December 31, 2003, 2002 and 2001 | II-84 |
| Balance Sheets at December 31, 2003 and 2002 | II-85 |
| Statements of Capitalization at December 31, 2003 and 2002 | II-87 |
| Statements of Common Stockholder's Equity for the Years Ended December 31, 2003, 2002 and 2001 | II-89 |
| Statements of Comprehensive Income for the Years Ended December 31, 2003, 2002 and 2001 | II-89 |
| Notes to Financial Statements | II-90 |
| **Georgia Power:** | |
| Independent Auditors' Report | II-110 |
| Report of Independent Public Accountants | II-110 |
| Statements of Income for the Years Ended December 31, 2003, 2002 and 2001 | II-128 |
| Statements of Cash Flows for the Years Ended December 31, 2003, 2002 and 2001 | II-129 |
| Balance Sheets at December 31, 2003 and 2002 | II-130 |
| Statements of Capitalization at December 31, 2003 and 2002 | II-132 |
| Statements of Common Stockholder's Equity for the Years Ended December 31, 2003, 2002 and 2001 | II-133 |
| Statements of Comprehensive Income for the Years Ended December 31, 2003, 2002 and 2001 | II-133 |
| Notes to Financial Statements | II-134 |
| **Gulf Power:** | |
| Independent Auditors' Report | II-159 |
| Report of Independent Public Accountants | II-159 |
| Statements of Income for the Years Ended December 31, 2003, 2002 and 2001 | II-175 |
| Statements of Cash Flows for the Years Ended December 31, 2003, 2002 and 2001 | II-176 |
| Balance Sheets at December 31, 2003 and 2002 | II-177 |
| Statements of Capitalization at December 31, 2003 and 2002 | II-179 |
| Statements of Common Stockholder's Equity for the Years Ended December 31, 2003, 2002 and 2001 | II-180 |

| | Page |
|---|---|
| Statements of Comprehensive Income for the Years Ended December 31, 2003, 2002 and 2002 | II-180 |
| Notes to Financial Statements | II-181 |
| **Mississippi Power:** | |
| Independent Auditors' Report | II-200 |
| Report of Independent Public Accountants | II-200 |
| Statements of Income for the Years Ended December 31, 2003, 2002 and 2001 | II-218 |
| Statements of Cash Flows for the Years Ended December 31, 2003, 2002 and 2001 | II-219 |
| Balance Sheets at December 31, 2003 and 2002 | II-220 |
| Statements of Capitalization at December 31, 2003 and 2002 | II-222 |
| Statements of Common Stockholder's Equity for the Years Ended December 31, 2003, 2002 and 2001 | II-223 |
| Statements of Comprehensive Income for the Years Ended December 31, 2003, 2002 and 2001 | II-223 |
| Notes to Financial Statements | II-224 |
| **Savannah Electric:** | |
| Independent Auditors' Report | II-245 |
| Report of Independent Public Accountants | II-245 |
| Statements of Income for the Years Ended December 31, 2003, 2002 and 2001 | II-261 |
| Statements of Cash Flows for the Years Ended December 31, 2003, 2002 and 2001 | II-262 |
| Balance Sheets at December 31, 2003 and 2002 | II-263 |
| Statements of Capitalization at December 31, 2003 and 2002 | II-265 |
| Statements of Common Stockholder's Equity for the Years Ended December 31, 2003, 2002 and 2001 | II-266 |
| Statements of Comprehensive Income for the Years Ended December 31, 2003, 2002 and 2001 | II-266 |
| Notes to Financial Statements | II-267 |
| **Southern Power:** | |
| Independent Auditors' Report | II-286 |
| Statements of Income for the Years Ended December 31, 2003 and 2002 and for the period from January 8, 2001 (inception) through December 31, 2001 | II-299 |
| Statements of Cash Flows for the Years Ended December 31, 2003 and 2002 and for the period from January 8, 2001 (inception) through December 31, 2001 | II-300 |
| Balance Sheets at December 31, 2003 and 2002 | II-301 |
| Statements of Common Stockholder's Equity for the Years Ended December 31, 2003 and 2002 and for the period from January 8, 2001 (inception) through December 31, 2001 | II-303 |
| Statements of Comprehensive Income for the Years Ended December 31, 2003 and 2002 and for the period from January 8, 2001 (inception) through December 31, 2001 | II-303 |
| Notes to Financial Statements | II-304 |


## Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Previously reported by each registrant, except for Southern Power, in separate Current Reports on Form 8-K dated March 28, 2002.

## Item 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

As of the end of the period covered by this annual report, Southern Company, the retail operating companies and Southern Power conducted separate evaluations under the supervision and with the participation of each company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures (as defined in Sections 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based upon those evaluations, the Chief Executive Officer and the Chief Financial Officer, in each case, concluded that the disclosure controls and procedures are effective in alerting them in a timely manner to material information relating to each company (including its consolidated subsidiaries) required to be included in periodic filings with the SEC.

(b) Changes in internal controls.

There have been no changes in Southern Company's, the retail operating companies' or Southern Power's internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934) during the fourth quarter 2003 that have materially affected or are reasonably likely to materially affect, Southern Company's, the retail operating companies' or Southern Power's internal controls over financial reporting.

THE SOUTHERN COMPANY
AND SUBSIDIARY COMPANIES

FINANCIAL SECTION

## MANAGEMENT'S REPORT

**Southern Company and Subsidiary Companies 2003 Annual Report**

The management of Southern Company has prepared -- and is responsible for -- the consolidated financial statements and related information included in this report. These statements were prepared in accordance with accounting principles generally accepted in the United States and necessarily include amounts that are based on the best estimates and judgments of management. Financial information throughout this annual report is consistent with the financial statements.

The company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that the accounting records reflect only authorized transactions of the company. Limitations exist in any system of internal controls, however, based on a recognition that the cost of the system should not exceed its benefits. The company believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

The company's internal accounting controls are evaluated on an ongoing basis by the company's internal audit staff. The company's independent public accountants also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

The audit committee of the board of directors, composed of four independent directors, provides a broad overview of management's financial reporting and control functions. Periodically, this committee meets with management, the internal auditors, and the independent public accountants to ensure that these groups are fulfilling their obligations and to discuss auditing, internal controls, and financial reporting matters. The internal auditors and independent public accountants have access to the members of the audit committee at any time.

Management believes that its policies and procedures provide reasonable assurance that the company's operations are conducted according to a high standard of business ethics.

In management's opinion, the consolidated financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of Southern Company and its subsidiary companies in conformity with accounting principles generally accepted in the United States.

H. Allen Franklin
Chairman, President, and Chief Executive Officer

Thomas A. Fanning
Executive Vice President, Chief Financial Officer, and Treasurer
March 1, 2004

## INDEPENDENT AUDITORS' REPORT

**To the Board of Directors and Stockholders of Southern Company**

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of Southern Company and Subsidiary Companies as of December 31, 2003 and 2002, and the related consolidated statements of income, comprehensive income, common stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of Southern Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of Southern Company and Subsidiary Companies for the year ended December 31, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph that described a change in the method of accounting for derivative instruments and hedging activities in their report dated February 13, 2002.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements (pages II-29 to II-61) present fairly, in all material respects, the financial position of Southern Company and Subsidiary Companies at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in 2003 Southern Company changed its method of accounting for asset retirement obligations.

Deloitte & Touche LLP

Atlanta, Georgia
March 1, 2004

**THE FOLLOWING REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS IS A COPY OF THE REPORT PREVIOUSLY ISSUED IN CONNECTION WITH THE COMPANY'S 2001 ANNUAL REPORT AND HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP. SEE EXHIBIT 23(a)2 FOR ADDITIONAL INFORMATION.**

**To Southern Company:**

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of Southern Company (a Delaware corporation) and subsidiary companies as of December 31, 2001 and 2000, and the related consolidated statements of income, common stockholder's equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements (pages II-19 through II-42) referred to above present fairly, in all material respects, the financial position of Southern Company and subsidiary companies as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 1 to the financial statements, effective January 1, 2001, Southern Company changed its method of accounting for derivative instruments and hedging activities.

Arthur Andersen LLP

Atlanta, Georgia
February 13, 2002

## OVERVIEW OF CONSOLIDATED EARNINGS AND BUSINESS ACTIVITIES

### *Earnings*

Southern Company's financial performance in 2003 was very strong and one of the best in the electric utility industry. This performance reflected our goal to deliver solid results to stockholders and to provide low-cost energy to more than 4 million customers. Net income of $1.5 billion increased 11.8 percent over income reported in 2002. Net income from continuing operations was $1.3 billion in 2002 and $1.1 billion in 2001. This was a 17.6 percent and 12.7 percent increase in 2002 and 2001, respectively. Basic earnings per share from continuing operations in 2003 were $2.03 per share, $1.86 in 2002, and $1.62 in 2001. Dilution -- which factors in additional shares related to stock options -- decreased earnings per share in 2003, 2002, and 2001 by 1 cent each year.

On April 2, 2001, Southern Company completed the spin off of its remaining 80.1 percent ownership of Mirant Corporation (Mirant) in a tax-free transaction. As a result of the spin off, Southern Company's 2001 financial statements and related information reflect Mirant as discontinued operations.

### *Dividends*

Southern Company has paid dividends on its common stock since 1948. Dividends paid per share on common stock were $1.385 in 2003, $1.355 in 2002, and $1.34 in 2001. In January 2004, Southern Company declared a quarterly dividend of 35 cents per share. This is the 225th consecutive quarter that Southern Company has paid a dividend equal to or higher than the previous quarter. The company's goal for the dividend payout ratio is 70 percent.

### *Southern Company Business Activities*

Discussion of the results of operations is focused on Southern Company's primary business of electricity sales in the Southeast by the retail operating companies -- Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Savannah Electric -- and Southern Power. Southern Power is an electric wholesale generation subsidiary with market-based rate authority. Southern Company's other business activities include investments in synthetic fuels and leveraged lease projects, telecommunications, energy-related services, natural gas marketing, and the parent holding company.

Several factors affect the opportunities, challenges, and risk of Southern Company's primary business of selling electricity. These factors include the retail operating companies' ability to maintain a stable regulatory environment, to achieve energy sales growth while containing costs, and to recover costs related to growing demand and increasingly stricter environmental standards. Another major factor is the profitability of the competitive market-based wholesale generating business and federal regulatory policy, which may impact Southern Company's level of participation in this market. Future earnings for the electricity business in the near term will depend, in part, upon growth in 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 in the service area.

## RESULTS OF OPERATIONS

### Electricity Businesses

Southern Company's electric utilities generate and sell electricity to retail and wholesale customers in the Southeast. A condensed income statement for the six companies that make up the electricity business is as follows:

| | Amount | Increase (Decrease) From Prior Year | | |
|---|---|---|---|---|
| | **2003** | **2003** | 2002 | 2001 |
| | | (in millions) | | |
| Operating revenues | **$10,747** | **$541** | $ 300 | $46 |
| Fuel | **2,998** | **212** | 209 | 13 |
| Purchased power | **473** | **24** | (269) | 41 |
| Other operation and maintenance | **2,858** | **107** | 262 | 19 |
| Depreciation and amortization | **972** | **(16)** | (155) | 9 |
| Taxes other than income taxes | **584** | **29** | 22 | 1 |
| Total operating expenses | **7,885** | **356** | 69 | 83 |
| Operating income | **2,862** | **185** | 231 | (37) |
| Other income, net | **2** | **20** | (32) | 51 |
| Interest expenses and other, net | **595** | **9** | (24) | (25) |
| Income taxes | **845** | **68** | 76 | (1) |
| Net income | **$ 1,424** | **$128** | $ 147 | $40 |

*Revenues*

Details of electric operating revenues are as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | (in millions) | |
| Retail -- prior year | **$ 8,728** | $ 8,440 | $8,600 |
| Change in -- | | | |
| Base rates | **75** | 33 | 23 |
| Sales growth | **104** | 98 | 61 |
| Weather | **(135)** | 158 | (177) |
| Fuel cost recovery and other | **103** | (1) | (67) |
| Retail -- current year | **8,875** | 8,728 | 8,440 |
| Sales for resale -- | | | |
| Within service area | **403** | 393 | 338 |
| Outside service area | **955** | 775 | 836 |
| Total sales for resale | **1,358** | 1,168 | 1,174 |
| Other electric operating revenues | **514** | 310 | 292 |
| Electric operating revenues | **$10,747** | $10,206 | $9,906 |
| Percent change | **5.3%** | 3.0% | 0.5% |

Retail revenues increased $147 million in 2003 and $288 million in 2002 and declined $160 million in 2001. The significant factors driving these changes are shown in the table above.

Electric rates -- for the retail operating companies -- include provisions to adjust billings for fluctuations in fuel costs, the energy component of purchased energy costs, and certain other costs. Under these fuel cost recovery provisions, fuel revenues generally equal fuel expenses -- including the fuel component of purchased energy -- and do not affect net income.

Sales for resale revenues within the service area for 2003 increased $10 million, which reflected increased customer growth offset by milder weather, compared with sales in 2002. Revenues from sales for resale within the service area in 2002 increased $55 million as a result of above normal weather. The same sales for resale category in 2001 was $338 million, down 10.2 percent from the prior year. This sharp decline resulted primarily from the mild weather experienced in the Southeast during 2001.

Revenues from energy sales for resale outside the service area increased $180 million as a result of new contracts, higher gas prices, and milder weather. The new contracts reflected some 2,400 megawatts of new generating capacity being placed into service in 2003. As a result of mild weather, more coal-fired generation was available for sale to utilities outside the service area. In general, sales for resale outside the service area can be significantly influenced by weather, which affects both customer demand and generating availability for these type sales. Neighboring utilities that depend heavily on gas-fired generation purchase larger amounts of power as natural gas prices increase. These factors contribute to the large fluctuations in sales from year to year.

In 2002, revenues from energy sales for resale outside the service area were down 7.3 percent after having increased 39 percent in 2001. The decline in 2002 resulted from the expiration of certain short-term energy sales contracts in effect in 2001. Revenues from outside the service area have increased $355 million since 2000 as a result of growth driven by new longer-term contracts. As Southern Company increases its competitive wholesale generation business, sales for resale outside the service area should reflect steady increases over the near term. Recent wholesale contracts with market-based capacity and energy rates have shorter contract periods than the traditional cost-based contracts entered into in the 1980s. The older contracts are principally unit power sales to Florida utilities. Under the unit power sales contracts, capacity revenues reflect the recovery of fixed costs and a return on investment, and energy is generally sold at variable cost. The capacity and energy components of the unit power contracts and other long-term contracts were as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | (in millions) | |
| Unit power -- | | | |
| Capacity | **$182** | $175 | $170 |
| Energy | **211** | 198 | 201 |
| Other long term -- | | | |
| Capacity | **111** | 100 | 112 |
| Energy | **451** | 306 | 353 |
| Total | **$955** | $779 | $836 |

Capacity revenues for unit power contracts in 2003, 2002, and 2001 each varied slightly compared with the prior year as a result of adjustments and true-ups related to contractual pricing. No significant declines in the amount of capacity are scheduled until the termination of the contracts in 2010.

In May 2003, Mississippi Power and Southern Power entered into agreements with Dynegy, Inc. (Dynegy) that resolved and terminated in 2003 all outstanding matters related to capacity sales contracts with

subsidiaries of Dynegy. The termination payments from Dynegy resulted in an increase in other electric revenues of $135 million for the year 2003.

***Energy Sales***

Changes in revenues are influenced heavily by the volume of energy sold each year. Kilowatt-hour sales for 2003 and the percent change by year were as follows:

| (billions of kilowatt-hours) | Amount 2003 | Percent Change 2003 | 2002 | 2001 |
|---|---|---|---|---|
| Residential | **47.8** | **(1.9)%** | 9.5% | (3.6)% |
| Commercial | **48.4** | **0.3** | 2.8 | 1.5 |
| Industrial | **54.4** | **1.0** | 1.8 | (6.8) |
| Other | **1.0** | **(0.2)** | 2.3 | 0.7 |
| Total retail | **151.6** | **(0.2)** | 4.5 | (3.2) |
| Sales for resale -- | | | | |
| Within service area | **9.4** | **(11.2)** | 12.9 | (2.0) |
| Outside service area | **31.1** | **41.7** | 2.7 | 24.4 |
| Total | **192.1** | **4.2** | 4.7 | (0.5) |

Residential energy sales in 2003 reflected a decrease in customer demand as a result of very mild weather partially offset by an increase of 1.6 percent in new customers. Commercial sales continued to show steady growth while industrial sales increased somewhat over the depressed results of recent years. In 2002, the rate of growth in total retail energy sales was very strong. Residential energy sales reflected an increase as a result of hotter-than-normal summer weather and a 1.6 percent increase in customers served. In 2001, retail energy sales registered a 3.2 percent decline. This was the first decrease since 1982 and was driven by extremely mild weather and the sluggish economy, which severely impacted industrial sales. Energy sales to retail customers are projected to increase at an average annual rate of 1.6 percent during the period 2004 through 2014.

Sales to customers outside the service area under contracts and opportunity sales increased by 8.0 billion, 1.0 billion, and 3.9 billion kilowatt-hours in 2003, 2002, and 2001, respectively. In 2003, these sales reflected the expansion of the competitive wholesale contract business discussed earlier, as well as increased availability of coal-fired generation resulting from weather-related lower retail demand coupled with higher natural gas prices, which increase the wholesale market price related to opportunity sales. Unit power energy sales increased 4.0 percent in 2003, decreased 3.3 percent in 2002, and increased 2.7 percent in 2001. Fluctuations in oil and natural gas prices, which are the primary fuel sources for unit power sales customers, influence changes in sales. However, these fluctuations in energy sales under long-term contracts have minimal effect on earnings because the energy is generally sold at variable cost.

***Expenses***

Electric operating expenses in 2003 were $7.9 billion, an increase of $356 million over 2002 expenses. Electricity production costs exceeded last year's cost by $210 million as a result of increased electricity sales and a 6.8 percent increase in the average unit cost of fuel. Non-production electricity operation and maintenance costs also increased by $159 million in 2003. This increase in expenses was primarily driven by additional administrative and general expenses of $45 million, customer service expenses of $15 million, and a $60 million regulatory expense related to Plant Daniel. For more information regarding this regulatory expense, see Note 3 to the financial statements under "Mississippi Power Regulatory Filing." Taxes other than income taxes increased $29 million in 2003 as a result of new facilities with a higher tax basis for property taxes. Depreciation and amortization declined by $16 million in 2003, primarily as a result of Georgia Power's 2001 rate order to recognize certain purchased power costs evenly over a three-year period. This amortization reduced depreciation expense by $49 million in 2003. This expense was partially offset by a higher depreciable plant basis. For more information regarding the 2001 rate action, see Note 3 to the financial statements under "Georgia Power Retail Rate Orders."

In 2002, electric operating expenses were $7.5 billion, an increase of $69 million over 2001 expenses. Electricity production costs exceeded 2001 cost by $88 million as a result of increased electricity sales. Non-production electricity operation and maintenance costs also increased in 2002 by $109 million. Taxes other than income taxes increased $22 million in 2002. Depreciation and amortization declined by $155 million in 2002 primarily as a result of Georgia Power's 2001 rate order to reverse and amortize over three years $333 million that had been previously expensed related to accelerated depreciation under a previous rate order. This amortization reduced depreciation expense in 2002 by $111 million.

Electric operating expenses in 2001 increased only $83 million compared with the prior year. The moderate increase reflected flat energy sales and tighter cost-containment measures, which included lower staffing levels and reductions in certain non-critical expenses. The costs to produce electricity in 2001 increased $96 million. However, non-production operation and maintenance expenses declined by $23 million.

Fuel costs constitute the single largest expense for the six electric utilities. The mix of fuel sources for generation of electricity is determined primarily by demand, the unit cost of fuel consumed, and the availability of generating units. The amount and sources of generation, the average cost of fuel per net kilowatt-hour generated, and the average cost of purchased power were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Total generation (billions of kilowatt-hours) | **189** | 183 | 174 |
| Sources of generation (percent) -- | | | |
| Coal | **71** | 69 | 72 |
| Nuclear | **16** | 16 | 16 |
| Gas | **9** | 12 | 9 |
| Hydro | **4** | 3 | 3 |
| Average cost of fuel per net kilowatt-hour generated (cents) | **1.72** | 1.61 | 1.56 |
| Average cost of purchased power per net kilowatt-hour (cents) | **3.82** | 4.17 | 6.10 |

Fuel and purchased power costs to produce electricity were $3.5 billion in 2003, an increase of $295 million or 7.4 percent above the prior year costs. This increase was attributed to higher unit fuel cost and increased customer demand. The additional demand was met by generating 6 billion and purchasing 1.6 billion more kilowatt-hours than in 2002.

In 2002, fuel and purchased power costs to produce electricity were $3.23 billion, a decrease of $79 million or 2.4 percent below the prior year costs. An additional 8.9 billion kilowatt-hours were generated in 2002, at a slightly higher average cost; however, this lowered requirements to purchase more expensive electricity from other utilities. Fuel and purchased power costs in 2001 were $3.3 billion, an increase of $54 million. Continued efforts to control energy costs, combined with additional efficient gas-fired generating units, helped to hold the increase in fuel expense to $13 million in 2001.

Total interest charges and other financing costs in 2003 increased by $19 million as a result of Southern Power issuing $575 million of senior notes in both 2003 and 2002 to finance new generating facilities. This increase offset the reduction in interest costs related to the retail operating companies refinancing higher-cost debt in 2003. Total interest charges and other financing costs declined by $24 million in 2002 and $25 million in 2001 as a result of much lower interest rates on short-term debt and continued refinancing of higher-cost long-term securities.

**Other Business Activities**

Southern Company's other business activities include the parent company -- which does not allocate operating expenses to business units -- investments in synthetic fuels and leveraged lease projects, telecommunications, energy services, and natural gas marketing. These businesses are classified in general categories and may comprise one or more of the following subsidiaries. Southern Company Holdings invests in synthetic fuels and leveraged lease projects that receive tax benefits, which contribute significantly to the economic results of these investments; Southern LINC provides digital wireless communications services to the retail operating companies and also markets these services to the public within the Southeast; Southern Telecom provides fiber optics services in the Southeast; and Southern Company Energy Solutions provides energy services, including energy efficiency improvements, for large commercial and industrial customers, municipalities, and government entities. Southern Company GAS is a retail gas marketer serving Georgia.

A condensed income statement for Southern Company's other business activities is shown below:

| | Amount | Increase (Decrease) From Prior Year | | |
|---|---|---|---|---|
| | **2003** | **2003** | 2002 | 2001 |
| | | (in millions) | | |
| Operating revenues | **$ 504** | **$161** | $ 94 | $ 43 |
| Operation and maintenance | **414** | **101** | 41 | 29 |
| Depreciation and amortization | **55** | **(4)** | 30 | (7) |
| Taxes other than income taxes | **2** | **--** | -- | (2) |
| Total operating expenses | **471** | **97** | 71 | 20 |
| Operating income | **33** | **64** | 23 | 23 |
| Equity in losses of unconsolidated subsidiaries | **(185)** | **(30)** | (102) | (31) |
| Leveraged lease income | **66** | **8** | (1) | (2) |
| Other income, net | **7** | **8** | (11) | 5 |
| Interest expenses | **104** | **6** | (37) | (62) |
| Income taxes | **(233)** | **16** | (105) | (29) |
| Net income | **$ 50** | **$ 28** | $ 51 | $ 86 |

Southern Company's non-regulated business investments continued to provide financial returns consistent with the company's earnings goals. Non-regulated revenues increased $161 million in 2003.

Southern Company GAS began operations in August 2002 and recorded revenues of $168 million in 2003 and $68 million in 2002. Southern LINC's revenues increased $8 million, $32 million, and $12 million in 2003, 2002, and 2001, respectively, as a result of increased wireless subscribers. Revenues from a subsidiary formed in April 2001 that provides services related to synthetic fuel products were $93 million in 2003, increasing by $37 million and $26 million in 2003 and 2002, respectively, as a result of increased production at the facilities. The majority of these revenues relate to transportation services that are billed at cost and, therefore, have no effect on net income.

The increases in 2003 and 2002 operating and maintenance expenses were primarily driven by Southern Company GAS' increases in operating expenses of $120 million and $60 million, respectively. These increases reflect only a partial year of operation in 2002 for Southern Company GAS. Natural gas purchases represent their primary operating expense. Also, the average cost of natural gas per decatherm increased 24 percent in 2003. These increases were partially offset by intersegment eliminations related to synthetic fuels being sold to the retail operating companies. See Note 1 to the financial statements under "Related Party Transactions" for additional information. In 2002, expenses increased $19 million for Southern LINC as a result of their additional subscribers, and expenses for synthetic fuel product services increased by $30 million as a result of increased production. In 2001, operation and maintenance expenses increased $37 million as a result of a subsidiary formed in April 2001 to produce synthetic fuel. This increase was partially offset by a reduction in expenses related to a private security subsidiary that was sold in late 2000.

The changes in depreciation expense in 2002 reflects a $16 million charge at Southern Company Energy Solutions related to the impairment of assets under contracts to certain customers, as well as the impact of property additions at Southern LINC. The 2001 decreases relate to investment write offs in 2000.

The increases in equity in losses of unconsolidated subsidiaries in 2002 and 2001 reflect the results of additional investments in synthetic fuel partnerships that produce operating losses. These partnerships also claim federal income tax credits that offset these operating losses and make the projects profitable. These credits totaled $120 million in 2003, $108 million in 2002, and $71 million in 2001.

The increase in other income in 2003 reflected a $15 million gain for a Southern Telecom contract settlement during the year. This gain was offset by an increase of $7 million in charitable contributions above the amount in 2002 made by the parent holding company.

Interest expenses for 2003 increased $18 million for the redemption of $430 million of preferred securities. This increase was partially offset by less short-term debt outstanding at the parent company. Interest expense charges in 2002 and 2001 reflect lower interest rates and less amounts of debt outstanding for the parent company.

**Effects of Inflation**

The retail operating companies and Southern Power are subject to rate regulation and long-term contracts, respectively, that are based on the recovery of historical costs. In addition, the income tax laws are also based on historical costs. Therefore, inflation creates an economic loss because the company is recovering its costs of investments in dollars that have less purchasing power. While the inflation rate has been relatively low in recent years, it continues to have an adverse effect on Southern Company because of the large investment in utility plant with long economic lives. Conventional accounting for historical cost does not recognize this economic loss nor the partially offsetting gain that arises through financing facilities with fixed-money obligations such as long-term debt and preferred securities. Any recognition of inflation by regulatory authorities is reflected in the rate of return allowed in the retail operating companies' approved electric rates.

**Future Earnings Potential**

***General***

The results of continuing operations for the past three years are not necessarily indicative of future earnings potential. The level of Southern Company's future earnings depends on numerous factors. These factors affect the opportunities, challenges, and risk of Southern Company's primary business of selling electricity. These factors include the retail operating companies' ability to maintain a stable regulatory environment, to achieve energy sales growth while containing costs, and to recover costs related to growing demand and increasingly stricter environmental standards. Another major factor is the profitability of the competitive market-based wholesale generating business and federal regulatory policy, which may impact Southern Company's level of participation in this market. Future earnings for the electricity business in the near term will depend, in part, upon growth in 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 in the service area.

***Industry Restructuring***

The retail operating companies operate as vertically integrated companies providing electricity to customers within the service area of the southeastern United States. Prices for electricity provided to retail customers are set by state public service commissions under cost-based regulatory principles. Retail rates and earnings are reviewed and adjusted periodically within certain limitations based on earned return on equity. See Note 3 to the financial statements for additional information about these and other regulatory matters.

The electric utility industry in the United States is continuing to evolve as a result of regulatory and competitive factors. Among the early primary agents of change was the Energy Policy Act of 1992 (Energy Act). The Energy Act allowed independent power producers to access a utility's transmission network and sell electricity to other utilities.

Although the Energy Act does not provide for retail customer access, it was a major catalyst for restructuring and consolidations that took place within the utility industry. Numerous federal and state initiatives that promote wholesale and retail competition are in varying stages. Among other things, these initiatives allow retail customers in some states to choose their electricity provider. Some states have approved initiatives that result in a separation of the ownership and/or operation of generating facilities from the ownership and/or operation of transmission and distribution facilities. While various restructuring and competition initiatives have been discussed in Alabama, Florida, Georgia, and Mississippi, none have been enacted. Enactment could require numerous issues to be resolved, including significant ones relating to recovery of any stranded investments, full cost recovery of energy produced, and other issues related to the energy crisis that occurred in California, as well as the August 2003 power outage in the Northeast. As a result of these issues, many states, including those in Southern Company's retail service area, have either discontinued or delayed consideration of initiatives involving retail deregulation.

Since 2001, merchant energy companies and traditional electric utilities with significant energy marketing and trading activities have come under severe financial pressures. Many of these companies have completely exited or drastically reduced all energy marketing and trading activities and sold foreign and domestic electric infrastructure assets. Southern Company has not experienced any material adverse financial impact regarding its limited energy trading operations and recent generating capacity additions. In general, Southern Company only constructs new generating capacity after entering into long-term capacity contracts for the new facilities or to meet requirements of Southern Company's regulated retail markets, both of which are optimized by limited energy trading activities.

Southern Company continues to maintain and expand its wholesale energy business in the Southeast. In 2001, Southern Company formed Southern Power to construct, own, and manage wholesale generating assets in the Southeast. Southern Power is the primary growth engine for Southern Company's competitive wholesale energy business. By the end of 2005, Southern Power plans to have approximately 6,000 megawatts of available generating capacity in commercial operation. At December 31, 2003, approximately 4,800 megawatts were in commercial operation.

Continuing to be a low-cost producer could provide opportunities to increase the size and profitability of the electricity sales business in markets that evolve with changing regulation and competition. Conversely, future regulatory changes could adversely affect the company's growth, and if Southern Company's electric utilities do not remain low-cost producers and provide quality service, then energy sales growth could be limited, and this could significantly erode earnings.

To adapt to a less regulated, more competitive environment, Southern Company continues to evaluate and consider a wide array of potential business strategies. These strategies may include business combinations, acquisitions involving other utility or non-utility businesses or properties, internal restructuring, disposition of certain assets, or some combination thereof. Furthermore, Southern Company may engage in new business ventures that arise from competitive and regulatory changes in the utility industry. Pursuit of any of the above strategies, or any combination thereof, may significantly affect the business operations and financial condition of Southern Company.

***Environmental Matters***

*New Source Review Actions*

In November 1999, the Environmental Protection Agency (EPA) brought a civil action against certain Southern Company subsidiaries, including Alabama Power and Georgia Power, and alleged that these subsidiaries had violated the New Source Review (NSR) provisions of the Clean Air Act at five coal-fired

generating facilities. Through subsequent amendments and other legal procedures, the EPA added Savannah Electric as a defendant to the original action. The EPA filed a separate action against Alabama Power after it was dismissed from the original action. As of the date of this report, the EPA alleges that NSR violations occurred at eight coal-fired generating facilities operated by Alabama Power, Georgia Power, and Savannah Electric. The civil actions request penalties and injunctive relief, including an order requiring the installation of the best available control technology at the affected units. The actions against Alabama Power, Georgia Power, and Savannah Electric have been stayed since the spring of 2001 during the appeal of a very similar NSR action against the Tennessee Valley Authority before the U.S. Court of Appeals for the Eleventh Circuit. The Eleventh Circuit appeal was decided on September 16, 2003, and on February 13, 2004, the EPA petitioned the U.S. Supreme Court to review the Eleventh Circuit's decision. The EPA also filed a motion to lift the stay in the action against Alabama Power. At this time, no party to the Georgia Power and Savannah Electric action, which was administratively closed two years ago, has asked the court to reopen that case. See Note 3 to the financial statements under "New Source Review Actions" for additional information.

In December 2002 and October 2003, the EPA issued final revisions to its NSR regulations under the Clean Air Act. The December 2002 revisions included changes to the regulatory exclusions and the methods of calculating emissions increases. The October 2003 regulations clarified the scope of the existing Routine Maintenance, Repair, and Replacement exclusion. A coalition of states and environmental organizations filed petitions for review of these revisions with the U.S. Court of Appeals for the District of Columbia Circuit. On December 24, 2003, the court of appeals granted a stay of the October 2003 revisions pending its review of the rules and ordered that its review be conducted on an expedited basis. In January 2004, the Bush Administration announced that it would continue to enforce the existing rules until the courts resolve legal challenges to the EPA's revised NSR regulations. In any event, the final regulations must be adopted by the states in the company's service area in order to apply to facilities in the Southern Company system. The effect of these final regulations and the related legal challenges cannot be determined at this time.

Southern Company believes that its retail operating companies complied with applicable laws and the EPA's regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes civil penalties of up to $27,500 per day, per violation at each generating unit. Prior to January 30, 1997, the penalty was $25,000 per day. An adverse outcome in any one of these cases could require substantial capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. This could affect future results of operations, cash flows, and possibly financial condition if such costs are not recovered through regulated rates.

*Plant Wansley Environmental Litigation*

On December 30, 2002, the Sierra Club, Physicians for Social Responsibility, Georgia ForestWatch, and one individual filed a civil suit in the U.S. District Court in Georgia against Georgia Power for alleged violations of the Clean Air Act at four of the units at Plant Wansley. The civil action requests injunctive and declaratory relief, civil penalties, a supplemental environmental project, and attorneys' fees. The Clean Air Act authorizes civil penalties of up to $27,500 per day, per violation at each generating unit. The case is currently scheduled for trial during the summer of 2004. See Note 3 to the financial statements under "Plant Wansley Environmental Litigation" for additional information.

While the company believes that it has complied with applicable laws and regulations, an adverse outcome could require payment of substantial penalties. The final outcome of this matter cannot now be determined.

*Environmental Statutes and Regulations*

Southern Company's operations are subject to extensive regulation by state and federal environmental agencies under a variety of statutes and regulations governing environmental media, including air, water, and land resources. Compliance with these environmental requirements will involve significant costs -- both capital and operating -- a major portion of which is expected to be recovered through existing ratemaking provisions. Environmental costs that are known and estimable at this time are included in capital expenditures discussed under "Capital Requirements and Contractual Obligations." There is no assurance, however, that all such costs will, in fact, be recovered.

Compliance with the federal Clean Air Act and resulting regulations has been and will continue to be a significant focus for the company. The Title IV acid rain provisions of the Clean Air Act, for example, required significant reductions in sulfur dioxide and nitrogen oxide emissions. Title IV compliance was effective in 2000 and associated construction expenditures totaled approximately $400 million. Some of these expenditures also assisted the company in complying with nitrogen oxide emission reduction requirements under Title I of the Clean Air Act, which were designed to address one-hour ozone

nonattainment problems in Atlanta, Georgia and Birmingham, Alabama. The states of Alabama and Georgia adopted regulations that required additional nitrogen oxide emission reductions from May through September of each year at plants in and/or near those nonattainment areas. Seven generating plants in the Atlanta area and two plants in the Birmingham area are currently subject to those requirements, the most recent of which went into effect in 2003. Construction expenditures for compliance with the nitrogen oxide emission reduction requirements are estimated to be approximately $950 million, of which $17 million remains to be spent.

On September 26, 2003, the EPA published a final rule, effective January 1, 2004, reclassifying the Atlanta area from a "serious" to a "severe" nonattainment area for the one-hour ozone air quality standard under Title I of the Clean Air Act. The attainment deadline is to be as expeditious as practicable but not later than November 15, 2005. If the Atlanta area fails to attain the one-hour ozone standard by the deadline, all major sources of nitrogen oxides and volatile organic compounds located in the nonattainment area, including Georgia Power's plants McDonough and Yates, could be subject to payment of annual emissions fees for nitrogen oxides emitted above 80 percent of the baseline period. The baseline period is expected to be the calendar year 2005. Based on average emissions at these units over the past three years, such fees could reach $23 million annually. The final outcome of this matter will depend on the baseline period selected and the development, approval, and implementation of applicable regulations, including new regulations for the eight-hour ozone air quality standard.

In 2002, Gulf Power entered into an agreement with the state of Florida to install additional controls on certain units and to retire three older units at a plant near Pensacola to help ensure attainment of the ozone standard in the area. The conditions of the agreement will be fully implemented by 2005 at a cost of approximately $133 million, of which $100 million remains to be spent. Gulf Power's costs have been approved under its environmental cost recovery clause.

To help ozone nonattainment areas attain the one-hour ozone standard, the EPA issued regional nitrogen oxide reduction rules in 1998. Those rules required 21 states, including Alabama and Georgia, to reduce and cap nitrogen oxide emissions from power plants and other large industrial sources. Affected sources, including five of the company's coal-fired plants in Alabama, must comply with the reduction requirements by May 31, 2004. Additional construction expenditures for compliance with these rules are currently estimated at approximately $380 million, of which $330 million remains to be spent. As a result of litigation challenging the rule, the courts required the EPA to complete a separate rulemaking before the requirements can be applied in Georgia. The final EPA rules have not been issued in Georgia.

In July 1997, the EPA revised the national ambient air quality standards for ozone and particulate matter. These revisions made the standards significantly more stringent. In the subsequent litigation of these standards, the U.S. Supreme Court found the EPA's implementation program for the new eight-hour ozone standard unlawful and remanded it to the EPA for further rulemaking. During 2003, the EPA proposed implementation rules designed to address the court's concerns. The EPA plans to designate areas as attainment or nonattainment with the new eight-hour ozone standard in April 2004 and with the new fine particulate matter standard by the end of 2004. These designations will be based on air quality data for 2001 through 2003. Several areas within Southern Company's service area are likely to be designated nonattainment under these standards. State implementation plans (SIPs), including new emission control regulations necessary to bring those areas into attainment, could be required as early as 2007. These SIPs could require reductions in sulfur dioxide emissions and could require further reductions in nitrogen oxide emissions from power plants. If so, reductions could be required sometime after 2007. The impact of any new standards will depend on the development and implementation of applicable regulations and cannot be determined at this time.

In January 2004, the EPA issued a proposed Interstate Air Quality Rule to address interstate transport of ozone and fine particles. This proposed rule would require additional year-round sulfur dioxide and nitrogen oxide emission reductions from power plants in the eastern United States in two phases – in 2010 and 2015. The EPA currently plans to finalize this rule by 2005. If finalized, the rule could modify or supplant other SIP requirements for attainment of the fine particulate matter standard and the eight-hour ozone standard. The impact of this rule on the company will depend upon the specific requirements of the final rule and cannot be determined at this time.

Further reductions in sulfur dioxide and nitrogen oxides could also be required under the EPA's Regional Haze rules. The Regional Haze rules require states to establish Best Available Retrofit Technology (BART) standards for certain sources that contribute to regional haze. The company has a number of plants that could be subject to these rules. The EPA's Regional Haze program calls for states to submit SIPs in 2007. The

SIPs must contain emission reduction strategies for implementing BART and achieving progress toward the Clean Air Act's visibility improvement goal. In 2002, however, the U.S. Court of Appeals for the District of Columbia Circuit vacated and remanded the BART provisions of the federal Regional Haze rules to the EPA for further rulemaking. The EPA has entered into an agreement that requires proposed revised rules in April 2004 and final rules in 2005. Because new BART rules have not been developed and state visibility assessments for progress are only beginning, it is not possible to determine the effect of these rules on the company at this time.

The EPA's Compliance Assurance Monitoring (CAM) regulations under Title V of the Clean Air Act require that monitoring be performed to ensure compliance with emissions limitations on an ongoing basis. In 2004 and 2005, a number of the company's plants will likely become subject to CAM requirements for at least one pollutant, in most cases particulate matter. The company is in the process of developing CAM plans. Because the plans are still under development, the company cannot determine the costs associated with implementation of the CAM regulations. Actual ongoing monitoring costs are expensed as incurred and are not material for any year presented.

In January 2004, the EPA issued proposed rules regulating mercury emissions from electric utility boilers. The proposal solicits comments on two possible approaches for the new regulations – a Maximum Achievable Control Technology approach and a cap-and-trade approach. Either approach would require significant reductions in mercury emissions from company facilities. The regulations are scheduled to be finalized by the end of 2004, and compliance could be required as early as 2007. Because the regulations have not been finalized, the impact on the company cannot be determined at this time.

Several major bills to amend the Clean Air Act to impose more stringent emissions limitations on power plants have been proposed by Congress. Three of these, the Bush Administration's Clear Skies Act, the Clean Power Act of 2003, and the Clean Air Planning Act of 2003, propose to further limit power plant emissions of sulfur dioxide, nitrogen oxides, and mercury. The latter two bills also propose to limit emissions of carbon dioxide. The cost impacts of such legislation would depend upon the specific requirements enacted and cannot be determined at this time.

Domestic efforts to limit greenhouse gas emissions have been spurred by international discussions surrounding the Framework Convention on Climate Change and specifically the Kyoto Protocol, which proposes international constraints on the emissions of greenhouse gases. The Bush Administration does not support U.S. ratification of the Kyoto Protocol or other mandatory carbon dioxide reduction legislation and has instead announced a new voluntary climate initiative, known as Climate VISION, which seeks an 18 percent reduction by 2012 in the rate of greenhouse gas emissions relative to the dollar value of the U.S. economy. Southern Company is involved in a voluntary electric utility industry sector climate change initiative in partnership with the government. The electric utility sector has pledged to reduce its greenhouse gas intensity 3 percent to 5 percent over the next decade and is in the process of developing a memorandum of understanding with the Department of Energy (DOE) to cover this voluntary program.

Southern Company must comply with other 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 could incur substantial costs to clean up properties. The subsidiaries conduct studies to determine the extent of any required cleanup and have recognized in their respective financial statements the costs to clean up known sites. Amounts for cleanup and ongoing monitoring costs were not material for any year presented. The subsidiaries may be liable for some or all required cleanup costs for additional sites that may require environmental remediation. See Note 3 to the financial statements under "Georgia Power Potentially Responsible Status" for additional information.

Under the Clean Water Act, the EPA has been developing new rules aimed at reducing impingement and entrainment of fish and fish larvae at power plants' cooling water intake structures. On February 16, 2004, the EPA finalized these rules. These rules will require biological studies and, perhaps, retrofits to some intake structures at existing power plants. The impact of these new rules will depend on the results of studies and analyses performed as part of the rules' implementation.

The company is also planning to install cooling towers at some of its facilities to cool water prior to discharge under the Clean Water Act. Cooling towers for two Georgia Power plants near Atlanta are scheduled for completion in 2004 and 2008 at a total estimated cost of $160 million, of which $90 million remains to be spent. Also, Georgia Power is conducting a study of the aquatic environment at another facility to determine if additional controls are necessary.

In addition, under the Clean Water Act, the EPA and state environmental regulatory agencies are developing total maximum daily loads (TMDLs) for certain impaired waters. Establishment of maximum loads by the EPA or state agencies may result in lowering permit limits for various pollutants and a requirement to take additional measures to control non-point source pollution (e.g., storm water runoff) at facilities that discharge into waters for which TMDLs are established. Because the effect on Southern Company will depend on the actual TMDLs and permit limitations established by the implementing agency, it is not possible to determine the effect on the company at this time.

Several major pieces of environmental legislation are periodically considered for reauthorization or amendment by Congress. These include: the Clean Air Act; the Clean Water Act; the Comprehensive Environmental Response, Compensation, and Liability Act; the Resource Conservation and Recovery Act; the Toxic Substances Control Act; the Emergency Planning & Community Right-to-Know Act; and the Endangered Species Act.

Compliance with possible additional federal or state legislation or regulations related to global climate change, electromagnetic fields, or other environmental and health concerns could also significantly affect Southern Company. The impact of any new legislation, changes to existing legislation, or environmental regulations could affect many areas of Southern Company's operations. The full impact of any such changes cannot, however, be determined at this time.

***FERC Matters***

*Transmission*

In December 1999, the Federal Energy Regulatory Commission (FERC) issued its final rule (Order 2000) on Regional Transmission Organizations (RTOs). Order 2000 encouraged utilities owning transmission systems to form RTOs on a voluntary basis. Southern Company worked with a number of utilities in the Southeast to develop a for-profit RTO known as SeTrans. In 2002, the sponsors of SeTrans established a Stakeholder Advisory Committee to provide input into the development of the RTO from other sectors of the electric industry, as well as consumers. During the development of SeTrans, state regulatory authorities expressed concern over certain aspects of the FERC's policies regarding RTOs. In December 2003, the SeTrans sponsors announced that they would suspend work on SeTrans because the regulated utility participants, including Southern Company, had determined that it was highly unlikely to obtain support of both federal and state regulatory authorities. Any impact of the FERC's rule on Southern Company and its subsidiaries will depend on the regulatory reaction to the suspension of SeTrans and future developments, which cannot now be determined.

In July 2002, the FERC issued a notice of proposed rulemaking regarding open access transmission service and standard electricity market design. The proposal, if adopted, would among other things: (1) require transmission assets of jurisdictional utilities to be operated by an independent entity; (2) establish a standard market design; (3) establish a single type of transmission service that applies to all customers; (4) assert jurisdiction over the transmission component of bundled retail service; (5) establish a generation reserve margin; (6) establish bid caps for day ahead and spot energy markets; and (7) revise the FERC policy on the pricing of transmission expansions. Comments on the proposal were submitted by many interested parties, including Southern Company, and the FERC has indicated that it has revised certain aspects of the proposal in response to public comments. Proposed energy legislation would prohibit the FERC from issuing the final rule before October 31, 2006, and from making any final rule effective before December 31, 2006. That legislation has been approved by the House of Representatives but remains pending before the Senate. Passage of the legislation now appears in doubt. It is uncertain whether in the absence of legislation the FERC will move forward with any part or all of the proposed rule. Any impact of this proposal on Southern Company and its subsidiaries will depend on the form in which the final rule may be ultimately adopted. However, Southern Company's financial statements could be adversely affected by changes in the transmission regulatory structure in its regional power market.

*Market-Based Rate Authority*

Southern Power currently has general authorization from the FERC to sell power to nonaffiliates at market-based prices. In addition, each of the retail operating companies has obtained FERC approval to sell power to nonaffiliates at market-based prices under specific contracts. Southern Power and the retail operating companies also have FERC authority to make short-term opportunity sales at market rates. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate. In November 2001, the FERC modified the test it uses to consider utilities' applications to charge market-based rates and adopted a new test called the Supply Margin Assessment

(SMA). The FERC applied the SMA to several utilities, including Southern Company, and found Southern Company and others to be "pivotal suppliers" in their service areas and ordered the implementation of several mitigation measures. Southern Company and others sought rehearing of the FERC order, and the FERC delayed the implementation of certain mitigation measures. Southern Company and others submitted comments to the FERC in 2002 regarding these issues. In December 2003, the FERC issued a staff paper discussing alternatives and held a technical conference in January 2004. Southern Company anticipates that the FERC will address the requests for rehearing in the near future. Regardless of the outcome of the SMA proposal, the FERC retains the ability to modify or withdraw the authorization for any seller to sell at market-based rates, if it determines that the underlying conditions for having such authority are no longer applicable. In that event, Southern Power would be required to obtain FERC approval of rates based on cost of service, which may be lower than those in negotiated market-based rates. The final outcome of this matter will depend on the form in which the SMA test and mitigation measures' rules may be ultimately adopted and cannot be determined at this time.

Purchased Power Agreements (PPAs) by Georgia Power and Savannah Electric for Southern Power's Plant McIntosh capacity were certified by the Georgia Public Service Commission in December 2002 after a competitive bidding process. In April 2003, Southern Power applied for FERC approval of these PPAs. Interveners opposed the FERC's acceptance of the PPAs, alleging that the PPAs do not meet the applicable standards for market-based rates between affiliates. In July 2003, the FERC accepted the PPAs to become effective as scheduled on June 1, 2005, subject to refund, and ordered that hearings be held. For additional information, see Note 3 to the financial statements under "FERC Matters."

***Income Tax Matters***

*Synthetic Fuel Tax Credits*

As discussed in Note 3 to the financial statements under "Synthetic Fuel Tax Credits," Southern Company has investments in two entities that produce synthetic fuel and receive tax credits under Section 29 of the tax code. Both entities have received private letter rulings from the Internal Revenue Service (IRS) concluding that significant chemical change occurred based on the procedures and results submitted. From the inception of Southern Company's investment in these entities through December 31, 2003, Southern Company has recognized through income approximately $274 million (net of approximately $37 million reserved) in tax credits related to its share of the synthetic fuel production at these entities. However, if the IRS were to challenge these credits, there could be a significant tax liability due for tax credits previously taken, which could have a significant impact on earnings and cash flows.

*Leveraged Lease Transactions*

As discussed in Note 1 to the financial statements under "Leveraged Leases," Southern Company participates in four international leveraged lease transactions. Southern Company receives federal income tax deductions for rent, depreciation and amortization, as well as interest on related debt. The IRS has proposed to disallow the tax losses for one of the lease transactions, as discussed in Note 3 to the financial statements under "Leveraged Lease Transactions," resulting in additional taxes and interest of approximately $30 million. Southern Company accounted for this payment as a deposit and filed a refund claim that the IRS has proposed to disallow. If Southern Company is unsuccessful in defending its position, additional taxes and interest would be assessed that could have a material impact on earnings and cash flows. Although the IRS has not proposed any disallowances related to the three other lease transactions, subsequent audits may do so. The final outcome of these matters cannot now be determined.

***Other Matters***

In accordance with Financial Accounting Standards Board (FASB) Statement No. 87, Employers' Accounting for Pensions, Southern Company recorded non-cash pension income, before tax, of approximately $99 million, $117 million, and $124 million in 2003, 2002, and 2001, respectively. Future pension income is dependent on several factors including trust earnings and changes to the plan. The decline in pension income is expected to continue and become an expense as early as 2006. Postretirement benefit costs for Southern Company were $101 million, $99 million, and $96 million in 2003, 2002, and 2001, respectively, and are expected to continue to trend upward. A portion of pension income and postretirement benefit costs is capitalized based on construction-related labor charges. For the retail operating companies, pension income or expense and postretirement benefit costs are a component of the regulated rates and generally do not have a long-term effect on net income. For more information regarding pension and postretirement benefits, see Note 2 to the financial statements.

On December 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Act). The Medicare Act introduces a prescription drug benefit for Medicare-eligible retirees starting in 2006, as well as a federal subsidy to plan sponsors like Southern Company that provide prescription drug benefits. In accordance with FASB Staff Position No. 106-1, Southern Company has elected to defer recognizing the effects of the Medicare Act for its postretirement plans under FASB Statement No. 106, Employers' Accounting for Postretirement Benefits Other than Pension until authoritative guidance on accounting for the federal subsidy is issued or until a significant event occurs that would require remeasurement of the plans' assets and obligations. Southern Company anticipates that the benefits it pays after 2006 will be lower as a result of the Medicare Act; however, the retiree medical obligations and costs reported in Note 2 to the financial statements do not reflect these changes. The final accounting guidance could require changes to previously reported information.

Georgia Power is required to file a general retail rate case in July 2004. The outcome will have a significant impact on future earnings. See Note 3 to the financial statements under "Georgia Power Retail Rate Orders" for additional information.

On May 21, 2003, Mississippi Power and Southern Power entered into agreements with Dynegy that resolved and terminated in 2003 all outstanding matters related to capacity sales contracts with subsidiaries of Dynegy. The termination payments from Dynegy resulted in a one-time gain to Southern Company of approximately $88 million after tax -- $38 million for Mississippi Power and $50 million for Southern Power. As a result of the Dynegy capacity contract terminations, Southern Power is completing limited construction activities on Plant Franklin Unit 3 to preserve the long-term viability of the project but has deferred final completion until the 2008-2011 period. The length of the deferral period will depend on forecasted capacity needs and other wholesale market opportunities. Southern Power is continuing to explore alternatives for its existing capacity. On December 5, 2003, Mississippi Power filed a request with the Mississippi Public Service Commission (MPSC) to include 266 megawatts of Plant Daniel units 3 and 4 generating capacity in jurisdictional cost of service. See Note 3 to the financial statements under "Uncontracted Generating Capacity" and "Mississippi Power Regulatory Filing" for additional information.

On July 14, 2003, Mirant filed for voluntary reorganization under Chapter 11 with the U.S. Bankruptcy Court. Southern Company has certain contingent liabilities associated with guarantees of contractual commitments made by Mirant's subsidiaries discussed in Note 7 to the financial statements under "Guarantees" and with various lawsuits related to Mirant discussed in Note 3 to the financial statements under "Mirant Related Matters." Also, Southern Company has joint and several liability with Mirant regarding the joint consolidated federal income tax return as discussed in Note 5 to the financial statements. If Southern Company is ultimately required to make any payments related to these potential obligations, Mirant's indemnification obligation to Southern Company would represent an unsecured pre-bankruptcy claim, subject to compromise pursuant to Mirant's final reorganization plan.

Nuclear security legislation was recently introduced and considered in Congress both as a free-standing bill in the Senate and as a part of comprehensive energy legislation in a House-Senate Conference Report. Neither of the proposals has been enacted. The Nuclear Regulatory Commission (NRC) also ordered additional security measures for licensees in 2003. Southern Company is in the process of implementation and must be in full compliance with these orders by October 29, 2004. The requirements of the latest orders will have an impact on Southern Company's nuclear power plants and result in increased operation and maintenance expenses as well as additional capital expenditures. The precise impact of the new requirements will depend upon the details of the implementation of the new requirements, which have not been finalized.

Southern Company is involved in various matters being litigated, regulatory matters, and significant tax related issues that could affect future earnings. See Note 3 to the financial statements for information regarding material issues.

## ACCOUNTING POLICIES

### Application of Critical Accounting Policies and Estimates

Southern Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States. Significant accounting policies are described in Note 1 to the financial statements. In the application of these policies, certain estimates are made that may have a material impact on Southern Company's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. Senior management has discussed the development and selection of the critical accounting

policies and estimates described below with the Audit Committee of Southern Company's Board of Directors.

*Electric Utility Regulation*

Southern Company's retail operating companies, which comprise approximately 85 percent of Southern Company's total earnings, are subject to retail regulation by their respective state public service commissions and wholesale regulation by the FERC. These regulatory agencies set the rates the retail operating companies are permitted to charge customers based on allowable costs. As a result, the retail operating companies apply FASB Statement No. 71, Accounting for the Effects of Certain Types of Regulation. Through the ratemaking process, the regulators may require the inclusion of costs or revenues in periods different than when they would be recognized by a non-regulated company. This treatment may result in the deferral of expenses and the recording of related regulatory assets based on anticipated future recovery through rates or the deferral of gains or creation of liabilities and the recording of related regulatory liabilities. The application of Statement No. 71 has a further effect on the company's financial statements as a result of the estimates of allowable costs used in the ratemaking process. These estimates may differ from those actually incurred by the retail operating companies; therefore, the accounting estimates inherent in specific costs such as depreciation, nuclear decommissioning, and pension and post-retirement benefits have less of a direct impact on the company's results of operations than they would on a non-regulated company.

As reflected in Note 1 to the financial statements, significant regulatory assets and liabilities have been recorded. Management reviews the ultimate recoverability of these regulatory assets and liabilities based on applicable regulatory guidelines. However, adverse legislation and judicial or regulatory actions could materially impact the amounts of such regulatory assets and liabilities and could adversely impact the company's financial statements.

*Contingent Obligations*

Southern Company and its subsidiaries are subject to a number of federal and state laws and regulations, as well as other factors and conditions that potentially subject them to environmental, litigation, income tax, and other risks. See "Future Earnings Potential" and Note 3 to the financial statements for more information regarding certain of these contingencies. Southern Company and its subsidiaries periodically evaluate their exposure to such risks and record reserves for those matters where a loss is considered probable and reasonably estimable in accordance with generally accepted accounting principles. The adequacy of reserves can be significantly affected by external events or conditions that can be unpredictable; thus, the ultimate outcome of such matters could materially affect Southern Company's financial statements or those of its subsidiaries. These events or conditions include the following:

- Changes in existing state or federal regulation by governmental authorities having jurisdiction over air quality, water quality, control of toxic substances, hazardous and solid wastes, and other environmental matters.
- Changes in existing income tax regulations or changes in IRS interpretations of existing regulations.
- Identification of additional sites that require environmental remediation or the filing of other complaints in which Southern Company or its subsidiaries may be asserted to be a potentially responsible party.
- Identification and evaluation of other potential lawsuits or complaints in which Southern Company or its subsidiaries may be named as a defendant.
- Resolution or progression of existing matters through the legislative process, the court systems, the IRS, or the EPA.

*Plant Daniel Capacity*

As discussed in Note 3 to the financial statements, Mississippi Power requested and received an interim accounting order from the MPSC on December 16, 2003. The order directed Mississippi Power to expense and record in 2003 a regulatory liability of $60 million pending the conclusion of the MPSC's evaluation of Mississippi Power's request to include an additional 266 megawatts of Plant Daniel units 3 and 4 generating capacity in jurisdictional cost of service. The MPSC is not expected to complete its evaluation and issue a final order until the second quarter of 2004. Management believes that the interim accounting order represents a probable liability and that recognition of the expense in 2003 is appropriate. However, if the MPSC ultimately refuses Mississippi Power's request, the regulatory liability will be required to be reversed.

**New Accounting Standards**

Prior to January 2003, Southern Company accrued for the ultimate cost of retiring most long-lived assets over the life of the related asset through depreciation expense. FASB Statement No. 143, Accounting for Asset Retirement Obligations established new accounting and reporting standards for legal obligations associated with the ultimate cost of retiring long-lived assets. The present

value of the ultimate costs for an asset's future retirement is recorded in the period in which the liability is incurred. The costs are capitalized as part of the related long-lived asset and depreciated over the asset's useful life. Additionally, non-regulated companies are no longer permitted to continue accruing future retirement costs for long-lived assets that they do not have a legal obligation to retire. For more information regarding the impact of adopting this standard effective January 1, 2003, see Note 1 to the financial statements under "Asset Retirement Obligations and Other Costs of Removal."

FASB Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which further amends and clarifies the accounting and reporting for derivative instruments, became effective generally for financial instruments entered into or modified after June 30, 2003. Current interpretations of Statement No. 149 indicate that certain electricity forward transactions subject to unplanned netting -- including those typically referred to as "book outs" -- may only qualify as cash flow hedges if an entity can demonstrate that physical delivery or receipt of power occurred. Southern Company's forward electricity contracts continue to be exempt from fair value accounting requirements or to qualify as cash flow hedges, with the related gains and losses deferred in other comprehensive income. The implementation of Statement No. 149 did not have a material effect on Southern Company's financial statements.

In July 2003, the Emerging Issues Task Force (EITF) of FASB issued EITF No. 03-11, which became effective on October 1, 2003. The standard addresses the reporting of realized gains and losses on derivative instruments and is being interpreted to require book outs to be recorded on a net basis in operating revenues. Adoption of this standard did not have a material impact on Southern Company's financial statements.

FASB Interpretation No. 46, Consolidation of Variable Interest Entities, which was originally issued in January 2003, requires the primary beneficiary of a variable interest entity to consolidate the related assets and liabilities. Southern Company's previous interest in a variable interest entity related to Mississippi Power's lease arrangement for certain facilities at Plant Daniel was restructured prior to the original effective date of July 1, 2003, and is no longer subject to Interpretation No. 46. See Note 7 to the financial statements under "Operating Leases" for additional information. In December 2003, the FASB revised Interpretation No. 46 and deferred the effective date until March 31, 2004, for interests held in variable interest entities other than special purpose entities.

Current analysis indicates that the trusts established by Southern Company and the retail operating companies to issue preferred securities are variable interest entities under Interpretation No. 46, and that Southern Company and the retail operating companies are not the primary beneficiaries of these trusts. If this conclusion is finalized, effective March 31, 2004, the trust assets and liabilities -- including the preferred securities issued by the trusts -- will be deconsolidated. The investments in the trusts and the loans from the trusts to Southern Company and the retail operating companies will be reflected as equity method investments and as long-term notes payable to affiliates, respectively, on the Consolidated Balance Sheets. Based on December 31, 2003 values, this treatment would result in an increase of approximately $59 million to both total assets and total liabilities. See Note 6 to the financial statements under "Mandatorily Redeemable Preferred Securities" for additional information.

Southern Company has also identified certain other significant variable interest investments. These include two entities that produce synthetic fuel and are further described in Note 3 to the financial statements under "Synthetic Fuel Tax Credits." Southern Company is not the primary beneficiary of these entities. Southern Company also holds an 85 percent limited partnership investment in an energy/telecom venture capital fund that is currently accounted for under the equity method. At December 31, 2003, this investment totaled $17 million; the company has committed to a maximum investment of $75 million. Southern Company is continuing to review its transactions in light of the revised Interpretation No. 46; however, adoption is not currently expected to have a material impact on Southern Company's financial statements.

In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, which requires classification of certain financial instruments within its scope, including shares that are mandatorily redeemable, as liabilities. Statement No. 150 was effective for financial instruments entered into or modified after May 31, 2003, and otherwise on July 1, 2003. In accordance with Statement No. 150, mandatorily redeemable preferred securities are reflected in the Consolidated Balance Sheets as liabilities. The adoption of Statement No. 150 had no impact on the Consolidated Statements of Income and Cash Flows.

## FINANCIAL CONDITION AND LIQUIDITY

### Overview

Southern Company's financial condition continues to be strong. At December 31, 2003, each of the retail operating companies was within its allowed range of return on equity. They operated at high levels of reliability while achieving industry-leading customer satisfaction levels and continuing to have retail prices below the national average. Also, earnings from the competitive generation business and other business activities made a significant contribution to the company's earnings goal of 5 percent average long-term growth.

At the close of 2003, the market value of Southern Company's common stock was $30.25 per share, compared with book value of $13.13 per share. The market-to-book value ratio was 230 percent at the end of 2003, compared with 233 percent at year-end 2002.

Gross property additions to utility plant were $2.0 billion in 2003. The majority of funds needed for gross property additions since 2000 has been provided from operating activities. The Consolidated Statements of Cash Flows provide additional details.

### Sources of Capital

Southern Company intends to meet its future capital needs through internal cash flow and externally through the issuance of debt, preferred securities, and equity. The amount and timing of additional equity capital to be raised in 2004 -- as well as in subsequent years -- will be contingent on Southern Company's investment opportunities. The company does not currently anticipate any equity offerings in 2004. Equity capital can be provided from any combination of the company's stock plans, private placements, or public offerings.

The retail operating companies plan to obtain the funds required for construction and other purposes from sources similar to those used in the past, which were primarily from operating cash flows. However, the type and timing of any financings -- if needed -- will depend on market conditions and regulatory approval. In recent years, financings primarily have utilized unsecured debt and preferred securities.

Southern Power will use both external funds and equity capital from Southern Company to finance its construction program. External funds are expected to be obtained from the issuance of unsecured senior debt and commercial paper or through existing credit arrangements from banks.

Southern Company and each operating company obtain financing separately without credit support from any affiliate. Currently, Southern Company provides limited credit support to Southern Power. See Note 6 to the financial statements under "Bank Credit Arrangements" for additional information. The Southern Company system does not maintain a centralized cash or money pool. Therefore, funds of each company are not commingled with funds of any other company. In accordance with the Public Utility Holding Company Act, most loans between affiliated companies must be approved in advance by the Securities and Exchange Commission (SEC).

Southern Company's current liabilities exceed current assets because of the continued use of short-term debt as a funding source to meet cash needs as well as scheduled maturities of long-term debt.

To meet short-term cash needs and contingencies, Southern Company has various internal and external sources of liquidity. At the beginning of 2004, Southern Company and its subsidiaries had approximately $311 million of cash and cash equivalents and $3.5 billion of unused credit arrangements with banks, as shown in the following table. In addition, Southern Company has substantial cash flow from operating activities and access to the capital markets, including commercial paper programs, to meet liquidity needs. Cash flows from operating activities were $3.1 billion in 2003, $2.8 billion in 2002, and $2.4 billion in 2001.

At the beginning of 2004, bank credit arrangements are as follows:

| | | Expires | |
|---|---|---|---|
| Total | Unused | 2004 | 2005 & Beyond |
| | | (in millions) | |
| $3,496 | $3,476 | $2,806 | $670 |

Approximately $2.25 billion of the credit facilities expiring in 2004 allow for the execution of term loans for an additional two-year period and $265 million allow for the execution for one-year term loans. See Note 6 to the financial statements under "Bank Credit Arrangements" for additional information.

**Financing Activities**

During 2003, Southern Company and its subsidiaries issued $3.5 billion of long-term debt and $125 million of preferred securities. In addition, Southern Company issued 18 million new shares of common stock through the company's stock plans and realized proceeds of $470 million. The issuances were used to refund $3.0 billion of long-term debt and $480 million of mandatorily redeemable preferred securities and to provide $575 million of permanent financing for Southern Power's new generating facilities. The remainder was used to reduce short-term debt, provide capital contributions to subsidiaries, and fund Southern Company's ongoing construction program.

Subsequent to December 31, 2003, the retail operating companies have issued $850 million of securities to redeem $400 million of long-term debt and mandatorily redeemable preferred securities and for other corporate purposes.

**Off-Balance Sheet Financing Arrangements**

In May 2001, Mississippi Power began the initial 10-year term of a lease agreement signed in 1999 for a combined cycle generating facility built at Plant Daniel. The facility cost approximately $370 million. In 2003, the generating facility was acquired by Juniper Capital L.P. (Juniper), a limited partnership whose investors are unaffiliated with Mississippi Power. Simultaneously, Juniper entered into a restructured lease agreement with Mississippi Power. Juniper has also entered into leases with other parties unrelated to Mississippi Power. The assets leased by Mississippi Power comprise less than 50 percent of Juniper's assets. Mississippi Power is not required to consolidate the leased assets and related liabilities, and the lease with Juniper is considered an operating lease under FASB Statement No. 13. The lease also provides for a residual value guarantee -- approximately 73 percent of the acquisition cost -- by Mississippi Power that is due upon termination of the lease in the event that the company does not renew the lease or purchase the assets and that the fair market value is less than the unamortized cost of the assets. See Note 7 to the financial statements under "Operating Leases" for additional information regarding this lease.

**Credit Rating Risk**

Southern Company and its subsidiaries do not have any credit agreements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are contracts that could require collateral -- but not accelerated payment -- in the event of a credit rating change to below investment grade. These contracts are primarily for physical electricity purchases and sales, fixed-price physical gas purchases, and agreements covering interest rate swaps. At December 31, 2003, the maximum potential collateral requirements under the electricity purchase and sale contracts were approximately $415 million. Generally, collateral may be provided for by a Southern Company guaranty, a letter of credit, or cash. At December 31, 2003, there were no material collateral requirements for the gas purchase contracts or other financial instrument agreements.

**Market Price Risk**

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

To mitigate exposure to interest rates, the company has entered into interest rate swaps that have been designated as hedges. The weighted average interest rate on $1.0 billion variable long-term debt that has not been hedged at December 31, 2003 was 1.5 percent. If Southern Company sustained a 100 basis point change in interest rates for all unhedged variable rate long-term debt, the change would affect annualized interest expense by approximately $10 million at December 31, 2003. The company is not aware of any facts or circumstances that would significantly affect such exposures in the near term. For further information, see notes 1 and 6 to the financial statements under "Financial Instruments."

Due to cost-based rate regulations, the retail operating companies have limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. In addition, Southern Power's exposure to market volatility in commodity fuel prices and prices of electricity is limited because its long-term sales contracts shift substantially all fuel cost responsibility to the purchaser. To mitigate residual risks relative to movements in electricity prices, the retail operating companies and Southern Power enter

into fixed price contracts for the purchase and sale of electricity through the wholesale electricity market and, to a lesser extent, into similar contracts for gas purchases. The retail operating companies have implemented fuel-hedging programs at the instruction of their respective public service commissions. Southern Company GAS also has gas-hedging programs to substantially mitigate its exposure to price volatility for its gas purchases.

The fair value of changes in energy-related derivative contracts and year-end valuations were as follows at December 31:

| | Changes in Fair Value | |
|---|---|---|
| | **2003** | 2002 |
| | (in millions) | |
| Contracts beginning of year | **$ 47.3** | $ 1.3 |
| Contracts realized or settled | **(73.2)** | (32.2) |
| New contracts at inception | **–** | – |
| Changes in valuation techniques | **–** | – |
| Current period changes | **41.7** | 78.2 |
| Contracts end of year | **$ 15.8** | $ 47.3 |

Source of 2003 Year-End Valuation Prices

| | Total Fair Value | Maturity 2004 | Maturity 2005-2006 |
|---|---|---|---|
| | | (in millions) | |
| Actively quoted | **$15.8** | **$16.9** | **$(1.1)** |
| External sources | **–** | **–** | **–** |
| Models and other methods | **–** | **–** | **–** |
| Contracts end of year | **$15.8** | **$16.9** | **$(1.1)** |

Unrealized gains and losses from mark to market adjustments on derivative contracts related to the retail operating companies' fuel hedging programs are recorded as regulatory assets and liabilities. Realized gains and losses from these programs are included in fuel expense and are recovered through the retail operating companies' fuel cost recovery clauses. In addition, unrealized gains and losses on energy-related derivatives used by Southern Power and Southern Company GAS to hedge anticipated purchases and sales are deferred in other comprehensive income. Gains and losses on derivative contracts that are not designated as hedges are recognized in the income statement as incurred. At December 31, 2003, the fair value of derivative energy contracts was reflected in the financial statements as follows:

| | Amounts |
|---|---|
| | (in millions) |
| Regulatory liabilities, net | **$14.9** |
| Other comprehensive income | **1.5** |
| Net income | **(0.6)** |
| Total fair value | **$15.8** |

Unrealized pre-tax gains (losses) of $(2) million, $(5) million, and $9 million were recognized in income in 2003, 2002, and 2001, respectively. Southern Company is exposed to market price risk in the event of nonperformance by counterparties to the derivative energy contracts. Southern Company's policy is to enter into agreements with counterparties that have investment grade credit ratings by Moody's and Standard & Poor's or with counterparties who have posted collateral to cover potential credit exposure. Therefore, Southern Company does not anticipate market risk exposure from nonperformance by the counterparties. For additional information, see notes 1 and 6 to the financial statements under "Financial Instruments."

**Capital Requirements and Contractual Obligations**

The construction program of Southern Company is currently estimated to be $2.2 billion for 2004, $2.2 billion for 2005, and $2.6 billion for 2006. Environmental expenditures included in these amounts are $349 million, $403 million, and $646 million for 2004, 2005, and 2006, respectively. Actual construction costs may vary from this estimate because of changes in such factors as: business conditions; environmental regulations; nuclear plant regulations; FERC rules and transmission regulations; load projections; the cost and efficiency of construction labor, equipment, and materials; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

Southern Company has approximately 1,200 megawatts of new generating capacity scheduled to be placed in service by 2005. The additional new capacity will be dedicated to the wholesale market and

owned by Southern Power. In addition, capital improvements, including those needed to meet the environmental standards previously discussed for the retail operating companies' generation, transmission, and distribution facilities are ongoing.

As a result of requirements by the NRC, Alabama Power and Georgia Power have established external trust funds for nuclear decommissioning costs. For additional information, see Note 1 to the financial statements under "Nuclear Decommissioning." Also, as discussed in Note 1 to the financial statements under "Revenues and Fuel Costs," in 1993 the DOE implemented a special assessment over a 15-year period on utilities with nuclear plants to be used for the decontamination and decommissioning of its nuclear fuel enrichment facilities.

In addition, as discussed in Note 2 to the financial statements, Southern Company provides postretirement benefits to substantially all employees and funds trusts to the extent required by the retail operating companies' respective regulatory commissions.

Other funding requirements related to obligations associated with scheduled maturities of long-term debt and preferred securities, as well as the related interest and distributions, preferred stock dividends, leases, and other purchase commitments are as follows. See notes 1, 6, and 7 to the financial statements for additional information.

| | 2004 | 2005-2006 | 2007-2008 | After 2008 | Total |
|---|---|---|---|---|---|
| | | | (in millions) | | |
| Long-term debt and preferred securities[a] -- | | | | | |
| Principal | $ 741 | $ 1,842 | $1,448 | $ 8,795 | $12,826 |
| Interest and distributions | 614 | 1,116 | 968 | 8,468 | 11,166 |
| Preferred stock dividends[b] | 22 | 44 | 44 | – | 110 |
| Operating leases | 128 | 208 | 143 | 262 | 741 |
| Purchase commitments[c] -- | | | | | |
| Capital[d] | 2,121 | 4,799 | – | – | 6,920 |
| Coal and nuclear fuel | 2,409 | 3,198 | 1,675 | 182 | 7,464 |
| Natural gas[e] | 814 | 1,029 | 619 | 2,763 | 5,225 |
| Purchased power | 139 | 355 | 367 | 918 | 1,779 |
| Long-term service agreements | 54 | 98 | 169 | 988 | 1,309 |
| Trusts -- | | | | | |
| Nuclear decommissioning | 29 | 58 | 58 | 317 | 462 |
| Postretirement benefits[f] | 15 | 75 | – | – | 90 |
| DOE | 8 | 16 | – | – | 24 |
| Total | $7,094 | $12,838 | $5,491 | $22,693 | $48,116 |

(a) All amounts are reflected based on final maturity dates. Southern Company and the subsidiaries will continue to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit. Variable rate interest obligations are estimated based on rates as of January 1, 2004, as reflected in the Consolidated Statements of Capitalization.

(b) Preferred stock does not mature; therefore, amounts are provided for the next five years only.

(c) Southern Company generally does not enter into non-cancelable commitments for other operation and maintenance expenditures. Total other operation and maintenance expenses for the last three years were $3.2 billion, $3.1 billion, and $2.8 billion, respectively.

(d) Southern Company forecasts capital expenditures over a three-year period. Amounts represent current estimates of total expenditures excluding those amounts related to contractual purchase commitments for uranium and nuclear fuel conversion, enrichment, and fabrication services. At December 31, 2003, significant purchase commitments were outstanding in connection with the construction program.

(e) Natural gas purchase commitments are based on various indices at the time of delivery. Amounts reflected have been estimated based on the New York Mercantile future prices at December 31, 2003.

(f) Southern Company forecasts postretirement trust contributions over a three-year period. No contributions related to Southern Company's pension trust are currently expected during this period. See Note 2 to the financial statements for additional information related to the pension plans.

## Cautionary Statement Regarding Forward-Looking Information

Southern Company's 2003 Annual Report includes forward-looking statements in addition to historical information. Forward-looking information includes, among other things, statements concerning the strategic goals for Southern Company's wholesale business, estimated construction and other expenditures, and Southern Company's projections for energy sales and its goals for future generating capacity, dividend payout ratio, earnings per share, and earnings growth. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," or "continue" or the negative of these terms or other comparable terminology. Southern Company cautions that there are various important factors that could cause actual results to differ materially from those indicated in the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory change, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry and also changes in environmental, tax, and other laws and regulations to which Southern Company and its subsidiaries are subject, as well as changes in application of existing laws and regulations;
- current and future litigation, regulatory investigations, proceedings, or inquiries, including the pending EPA civil actions against certain Southern Company subsidiaries and current IRS audits;
- the effects, extent, and timing of the entry of additional competition in the markets in which Southern Company's subsidiaries operate;
- the impact of fluctuations in commodity prices, interest rates, and customer demand;
- available sources and costs of fuels;
- ability to control costs;
- investment performance of Southern Company's employee benefit plans;
- advances in technology;
- state and federal rate regulations and pending and future rate cases and negotiations;
- effects of and changes in political, legal, and economic conditions and developments in the United States, including the current soft economy;
- the performance of projects undertaken by the non-traditional business and the success of efforts to invest in and develop new opportunities;
- internal restructuring or other restructuring options that may be pursued;
- potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed or beneficial to Southern Company or its subsidiaries;
- the ability of counterparties of Southern Company and its subsidiaries to make payments as and when due;
- the ability to obtain new short- and long-term contracts with neighboring utilities;
- the direct or indirect effects on Southern Company's business resulting from the terrorist incidents on September 11, 2001, or any similar incidents or responses to such incidents;
- financial market conditions and the results of financing efforts, including Southern Company's and its subsidiaries' credit ratings;
- the ability of Southern Company and its subsidiaries to obtain additional generating capacity at competitive prices;
- weather and other natural phenomena;
- the direct or indirect effects on Southern Company's business resulting from the August 2003 power outage in the Northeast, or any similar incidents;
- the effect of accounting pronouncements issued periodically by standard-setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed from time to time with the SEC.

## CONSOLIDATED STATEMENTS OF INCOME

**For the Years Ended December 31, 2003, 2002, and 2001**
**Southern Company and Subsidiary Companies 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | (in millions) | |
| **Operating Revenues:** | | | |
| Retail sales | **$ 8,875** | $ 8,728 | $ 8,440 |
| Sales for resale | **1,358** | 1,168 | 1,174 |
| Other electric revenues | **514** | 310 | 292 |
| Other revenues | **504** | 343 | 249 |
| Total operating revenues | **11,251** | 10,549 | 10,155 |
| **Operating Expenses:** | | | |
| Fuel | **3,031** | 2,767 | 2,577 |
| Purchased power | **473** | 449 | 718 |
| Other operations | **2,302** | 2,118 | 1,899 |
| Maintenance | **937** | 965 | 862 |
| Depreciation and amortization | **1,027** | 1,047 | 1,173 |
| Taxes other than income taxes | **586** | 557 | 535 |
| Total operating expenses | **8,356** | 7,903 | 7,764 |
| **Operating Income** | **2,895** | 2,646 | 2,391 |
| **Other Income and (Expense):** | | | |
| Allowance for equity funds used during construction | **25** | 22 | 22 |
| Interest income | **36** | 22 | 27 |
| Equity in losses of unconsolidated subsidiaries | **(184)** | (154) | (52) |
| Leveraged lease income | **66** | 58 | 59 |
| Interest expense, net of amounts capitalized | **(527)** | (492) | (557) |
| Distributions on mandatorily redeemable preferred securities | **(151)** | (175) | (169) |
| Preferred dividends of subsidiaries | **(21)** | (17) | (18) |
| Other income (expense), net | **(53)** | (64) | (26) |
| Total other income and (expense) | **(809)** | (800) | (714) |
| **Earnings From Continuing Operations Before Income Taxes** | **2,086** | 1,846 | 1,677 |
| Income taxes | **612** | 528 | 558 |
| **Earnings From Continuing Operations Before Cumulative Effect of Accounting Change** | **1,474** | 1,318 | 1,119 |
| Cumulative effect of accounting change – less income taxes of less than $1 | **–** | – | 1 |
| **Earnings From Continuing Operations** | **1,474** | 1,318 | 1,120 |
| Earnings from discontinued operations, net of income taxes of $93 | **–** | – | 142 |
| **Consolidated Net Income** | **$ 1,474** | $ 1,318 | $ 1,262 |
| **Common Stock Data:** | | | |
| Earnings per share from continuing operations – | | | |
| Basic | **$2.03** | $1.86 | $1.62 |
| Diluted | **2.02** | 1.85 | 1.61 |
| Earnings per share including discontinued operations – | | | |
| Basic | **$2.03** | $1.86 | $1.83 |
| Diluted | **2.02** | 1.85 | 1.82 |
| Average number of shares of common stock outstanding – (in millions) | | | |
| Basic | **727** | 708 | 689 |
| Diluted | **732** | 714 | 694 |
| Cash dividends paid per share of common stock | **$1.385** | $1.355 | $1.34 |

The accompanying notes are an integral part of these financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

**For the Years Ended December 31, 2003, 2002, and 2001**
**Southern Company and Subsidiary Companies 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | (in millions) | |
| **Operating Activities:** | | | |
| Consolidated net income | **$ 1,474** | $ 1,318 | $ 1,262 |
| Adjustments to reconcile consolidated net income to net cash provided from operating activities -- | | | |
| Less earnings from discontinued operations | **–** | – | 142 |
| Depreciation and amortization | **1,163** | 1,136 | 1,358 |
| Deferred income taxes and investment tax credits | **451** | 166 | (22) |
| Plant Daniel capacity | **60** | – | – |
| Deferred capacity revenues | **(15)** | (8) | – |
| Equity in losses of unconsolidated subsidiaries | **94** | 91 | 52 |
| Leveraged lease income | **(66)** | (58) | (59) |
| Pension, postretirement, and other employee benefits | **(19)** | (65) | (101) |
| Tax benefit of stock options | **30** | 23 | – |
| Settlement of interest rate hedges | **(116)** | (16) | – |
| Other, net | **11** | 38 | (98) |
| Changes in certain current assets and liabilities -- | | | |
| Receivables, net | **7** | (121) | 327 |
| Fossil fuel stock | **(17)** | 105 | (199) |
| Materials and supplies | **(12)** | 8 | (43) |
| Other current assets | **27** | (58) | (12) |
| Accounts payable | **(68)** | 108 | (51) |
| Accrued taxes | **19** | (49) | 91 |
| Other current liabilities | **43** | 235 | 21 |
| Net cash provided from operating activities of continuing operations | **3,066** | 2,853 | 2,384 |
| **Investing Activities:** | | | |
| Gross property additions | **(2,002)** | (2,717) | (2,617) |
| Investment in unconsolidated subsidiaries | **(72)** | (90) | (50) |
| Cost of removal net of salvage | **(80)** | (109) | (99) |
| Other | **(40)** | (52) | 30 |
| Net cash used for investing activities of continuing operations | **(2,194)** | (2,968) | (2,736) |
| **Financing Activities:** | | | |
| Increase (decrease) in notes payable, net | **(366)** | (968) | 223 |
| Proceeds -- | | | |
| Long-term debt | **3,494** | 2,914 | 1,999 |
| Mandatorily redeemable preferred securities | **–** | 1,315 | 30 |
| Preferred stock | **125** | – | – |
| Common stock | **470** | 428 | 395 |
| Redemptions -- | | | |
| Long-term debt | **(3,009)** | (1,370) | (1,185) |
| Mandatorily redeemable preferred securities | **(480)** | (1,171) | – |
| Preferred stock | **–** | (70) | – |
| Payment of common stock dividends | **(1,004)** | (958) | (922) |
| Other | **(64)** | (86) | (33) |
| Net cash provided from (used for) financing activities of continuing operations | **(834)** | 34 | 507 |
| **Net Change in Cash and Cash Equivalents** | **38** | (81) | 155 |
| **Cash and Cash Equivalents at Beginning of Year** | **273** | 354 | 199 |
| **Cash and Cash Equivalents at End of Year** | **$ 311** | $ 273 | $ 354 |

The accompanying notes are an integral part of these financial statements.

## CONSOLIDATED BALANCE SHEETS
**At December 31, 2003 and 2002**
**Southern Company and Subsidiary Companies 2003 Annual Report**

| Assets | 2003 | 2002 |
|---|---|---|
| | (in millions) | |
| **Current Assets:** | | |
| Cash and cash equivalents | $ 311 | $ 273 |
| Receivables -- | | |
| Customer accounts receivable | 696 | 712 |
| Unbilled revenues | 275 | 277 |
| Under recovered regulatory clause revenues | 188 | 174 |
| Other accounts and notes receivable | 339 | 370 |
| Accumulated provision for uncollectible accounts | (30) | (26) |
| Fossil fuel stock, at average cost | 316 | 299 |
| Vacation pay | 97 | 98 |
| Materials and supplies, at average cost | 571 | 560 |
| Prepaid expenses | 124 | 126 |
| Other | 30 | 66 |
| Total current assets | 2,917 | 2,929 |
| **Property, Plant, and Equipment:** | | |
| In service | 40,340 | 37,486 |
| Less accumulated depreciation | 14,304 | 13,505 |
| | 26,036 | 23,981 |
| Nuclear fuel, at amortized cost | 223 | 223 |
| Construction work in progress | 1,275 | 2,362 |
| Total property, plant, and equipment | 27,534 | 26,566 |
| **Other Property and Investments:** | | |
| Nuclear decommissioning trusts, at fair value | 808 | 639 |
| Leveraged leases | 838 | 791 |
| Other | 238 | 243 |
| Total other property and investments | 1,884 | 1,673 |
| **Deferred Charges and Other Assets:** | | |
| Deferred charges related to income taxes | 874 | 898 |
| Prepaid pension costs | 911 | 786 |
| Unamortized debt issuance expense | 152 | 145 |
| Unamortized loss on reacquired debt | 326 | 313 |
| Other | 447 | 411 |
| Total deferred charges and other assets | 2,710 | 2,553 |
| **Total Assets** | $35,045 | $33,721 |

The accompanying notes are an integral part of these financial statements.

## CONSOLIDATED BALANCE SHEETS (continued)
**At December 31, 2003 and 2002**
**Southern Company and Subsidiary Companies 2003 Annual Report**

| Liabilities and Stockholders' Equity | 2003 | 2002 |
|---|---|---|
| | | (in millions) |
| **Current Liabilities:** | | |
| Securities due within one year | **$ 741** | $ 1,679 |
| Notes payable | **568** | 972 |
| Accounts payable | **700** | 797 |
| Customer deposits | **189** | 169 |
| Accrued taxes -- | | |
| Income taxes | **154** | 81 |
| Other | **249** | 219 |
| Accrued interest | **187** | 158 |
| Accrued vacation pay | **129** | 130 |
| Accrued compensation | **437** | 440 |
| Other | **263** | 342 |
| Total current liabilities | **3,617** | 4,987 |
| **Long-term debt** (See accompanying statements) | **10,164** | 8,714 |
| **Mandatorily redeemable preferred securities** (See accompanying statements) | **1,900** | 2,380 |
| **Deferred Credits and Other Liabilities:** | | |
| Accumulated deferred income taxes | **4,586** | 4,203 |
| Deferred credits related to income taxes | **409** | 450 |
| Accumulated deferred investment tax credits | **579** | 607 |
| Employee benefit obligations | **765** | 661 |
| Asset retirement obligations | **845** | – |
| Other cost of removal obligations | **1,269** | 1,944 |
| Miscellaneous regulatory liabilities | **576** | 464 |
| Other | **264** | 303 |
| Total deferred credits and other liabilities | **9,293** | 8,632 |
| **Total liabilities** | **24,974** | 24,713 |
| **Cumulative preferred stock of subsidiaries** (See accompanying statements) | **423** | 298 |
| **Common stockholders' equity** (See accompanying statements) | **9,648** | 8,710 |
| **Total Liabilities and Stockholders' Equity** | **$35,045** | $33,721 |
| **Commitments and Contingent Matters** (See notes) | | |

The accompanying notes are an integral part of these financial statements.

## CONSOLIDATED STATEMENTS OF CAPITALIZATION

**At December 31, 2003 and 2002**

**Southern Company and Subsidiary Companies 2003 Annual Report**

| | | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|---|
| | | (in millions) | | (percent of total) | |
| **Long-Term Debt of Subsidiaries:** | | | | | |
| First mortgage bonds -- | | | | | |
| Maturity | Interest Rates | | | | |
| 2006 | 6.50% to 6.90% | **$ 45** | $ 45 | | |
| 2023 through 2026 | 6.88% to 7.45% | **60** | 93 | | |
| Total first mortgage bonds | | **105** | 138 | | |
| Long-term senior notes and debt -- | | | | | |
| Maturity | Interest Rates | | | | |
| 2003 | 4.69% to 7.85% | **–** | 847 | | |
| 2004 | 4.88% to 7.25% | **580** | 579 | | |
| 2005 | 5.49% to 7.25% | **379** | 383 | | |
| 2006 | 1.60% to 6.20% | **679** | 154 | | |
| 2007 | 4.88% to 7.13% | **905** | 905 | | |
| 2008 | 3.13% to 6.55% | **458** | 208 | | |
| 2009 through 2048 | 4.35% to 8.12% | **4,284** | 3,227 | | |
| Adjustable rates: | | | | | |
| 2003 | 1.52% to 1.53% | **–** | 517 | | |
| 2004 | 1.27% to 2.44% | **89** | 512 | | |
| 2005 | 1.25% to 2.44% | **492** | 211 | | |
| 2006 | 1.37% | **195** | – | | |
| 2007 | 2.57% to 4.13% | **72** | 50 | | |
| Total long-term senior notes and debt | | **8,133** | 7,593 | | |
| Other long-term debt -- | | | | | |
| Pollution control revenue bonds -- | | | | | |
| Maturity | Interest Rates | | | | |
| Collateralized: | | | | | |
| 2006 | 5.25% | **12** | 12 | | |
| 2007 | 5.80% | **–** | 1 | | |
| 2023 through 2026 | 5.50% to 5.80% | **24** | 86 | | |
| Variable rates (at 1/1/04) | | | | | |
| 2015 through 2017 | 1.27% to 1.33% | **90** | 90 | | |
| Non-collateralized: | | | | | |
| 2012 through 2034 | 1.20% to 5.45% | **850** | 789 | | |
| Variable rates (at 1/1/04) | | | | | |
| 2011 through 2038 | 1.05% to 1.45% | **1,565** | 1,564 | | |
| Total other long-term debt | | **2,541** | 2,542 | | |
| Capitalized lease obligations | | **107** | 106 | | |
| Unamortized debt (discount), net | | **(21)** | (26) | | |
| Total long-term debt (annual interest requirement -- $485 million) | | **10,865** | 10,353 | | |
| Less amount due within one year | | **701** | 1,639 | | |
| Long-term debt excluding amount due within one year | | **10,164** | 8,714 | **45.9%** | 43.4% |

## CONSOLIDATED STATEMENTS OF CAPITALIZATION (continued)

**At December 31, 2003 and 2002**

**Southern Company and Subsidiary Companies 2003 Annual Report**

| | | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|---|
| | | (in millions) | | (percent of total) | |
| **Mandatorily Redeemable Preferred Securities:** | | | | | |
| Maturity | Interest Rates | | | | |
| $25 liquidation value -- | | | | | |
| 2028 through 2042 | 6.85% to 7.63% | **944** | 1,380 | | |
| $1,000 liquidation value -- | | | | | |
| 2027 through 2042 | 4.75% to 8.19% | **996** | 1,040 | | |
| Total mandatorily redeemable preferred securities | | | | | |
| (annual distribution requirement -- $182 million) | | **1,940** | 2,420 | | |
| Less amount due within one year | | **40** | 40 | | |
| Total mandatorily redeemable preferred securities | | | | | |
| excluding amounts due within one year | | **1,900** | 2,380 | **8.6** | 11.8 |
| **Cumulative Preferred Stock of Subsidiaries:** | | | | | |
| $100 par or stated value -- | | | | | |
| 4.20% to 7.00% | | **98** | 98 | | |
| $25 par or stated value -- | | | | | |
| 5.20% to 5.83% | | **200** | 200 | | |
| $100,000 stated value -- | | | | | |
| 4.95% | | **125** | – | | |
| Total cumulative preferred stock of subsidiaries | | | | | |
| (annual dividend requirement -- $22 million) | | **423** | 298 | **1.9** | 1.5 |
| **Common Stockholders' Equity:** | | | | | |
| Common stock, par value $5 per share -- | | | | | |
| Authorized -- 1 billion shares | | | | | |
| Issued -- 2003: 735 million shares | | | | | |
| -- 2002: 717 million shares | | | | | |
| Treasury -- 2003: 0.2 million shares | | | | | |
| -- 2002: 0.1 million shares | | | | | |
| Par value | | **3,675** | 3,583 | | |
| Paid-in capital | | **747** | 338 | | |
| Treasury, at cost | | **(4)** | (3) | | |
| Retained earnings | | **5,343** | 4,874 | | |
| Accumulated other comprehensive income (loss) | | **(113)** | (82) | | |
| Total common stockholders' equity | | **9,648** | 8,710 | **43.6** | 43.3 |
| **Total Capitalization** | | **$22,135** | $20,102 | **100.0%** | 100.0% |

The accompanying notes are an integral part of these financial statements.

## CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY

**For the Years Ended December 31, 2003, 2002, and 2001**
**Southern Company and Subsidiary Companies 2003 Annual Report**

| | Common Stock | | | | Accumulated Other Comprehensive Income (Loss) From | | |
|---|---|---|---|---|---|---|---|
| | Par Value | Paid-In Capital | Treasury | Retained Earnings | Continuing Operations | Discontinued Operations | Total |
| | | | | (in millions) | | | |
| **Balance at December 31, 2000** | $3,503 | $ 3,153 | $(545) | $ 4,672 | $ – | $ (93) | $10,690 |
| Net income | – | – | – | 1,262 | – | – | 1,262 |
| Other comprehensive income (loss) | – | – | – | – | 7 | (315) | (308) |
| Stock issued | – | – | 488 | (93) | – | – | 395 |
| Mirant spin off distribution | – | (3,168) | – | (391) | – | 408 | (3,151) |
| Cash dividends | – | – | – | (922) | – | – | (922) |
| Other | – | 29 | – | (11) | – | – | 18 |
| **Balance at December 31, 2001** | 3,503 | 14 | (57) | 4,517 | 7 | – | 7,984 |
| Net income | – | – | – | 1,318 | – | – | 1,318 |
| Other comprehensive income (loss) | – | – | – | – | (89) | – | (89) |
| Stock issued | 80 | 322 | 55 | (6) | – | – | 451 |
| Cash dividends | – | – | – | (958) | – | – | (958) |
| Other | – | 2 | (1) | 3 | – | – | 4 |
| **Balance at December 31, 2002** | **3,583** | **338** | **(3)** | **4,874** | **(82)** | **–** | **8,710** |
| Net income | – | – | – | **1,474** | – | – | **1,474** |
| Other comprehensive income (loss) | – | – | – | – | **(31)** | – | **(31)** |
| Stock issued | **92** | **408** | – | – | – | – | **500** |
| Cash dividends | – | – | – | **(1,004)** | – | – | **(1,004)** |
| Other | – | **1** | **(1)** | **(1)** | – | – | **(1)** |
| **Balance at December 31, 2003** | **$3,675** | **$ 747** | **$ (4)** | **$ 5,343** | **$(113)** | **$ –** | **$ 9,648** |

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

**For the Years Ended December 31, 2003, 2002, and 2001**
**Southern Company and Subsidiary Companies 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | (in millions) | |
| **Consolidated Net Income** | **$1,474** | $1,318 | $1,262 |
| Other comprehensive income (loss) -- continuing operations: | | | |
| Change in additional minimum pension liability, net of tax of $(11) and $(18), respectively | **(17)** | (31) | – |
| Changes in fair value of qualifying hedges, net of tax of $(2), $(45), and $4, respectively | **(17)** | (60) | 7 |
| Less: Reclassification adjustment for amounts included in net income, net of tax of $1 and $1, respectively | **3** | 2 | – |
| Total other comprehensive income (loss) -- continuing operations | **(31)** | (89) | 7 |
| Other comprehensive income (loss) -- discontinued operations: | | | |
| Cumulative effect of accounting change for qualifying hedges, net of tax of $(121) | – | – | (249) |
| Changes in fair value of qualifying hedges, net of tax of $(51) | – | – | (104) |
| Less: Reclassification adjustment for amounts included in net income, net of tax of $29 | – | – | 60 |
| Foreign currency translation adjustments, net of tax of $(22) | – | – | (22) |
| Total other comprehensive income (loss) -- discontinued operations | – | – | (315) |
| **Consolidated Comprehensive Income** | **$1,443** | $1,229 | $ 954 |

The accompanying notes are an integral part of these financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### General

Southern Company is the parent company of five retail operating companies, Southern Power Company (Southern Power), Southern Company Services (SCS), Southern Communications Services (Southern LINC), Southern Company Gas (Southern Company GAS), Southern Company Holdings (Southern Holdings), Southern Nuclear Operating Company (Southern Nuclear), Southern Telecom, and other direct and indirect subsidiaries. The retail operating companies -- Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Savannah Electric -- provide electric service in four Southeastern states. Southern Power constructs, owns, and manages Southern Company's competitive generation assets and sells electricity at market-based rates in the wholesale market. Contracts among the retail operating companies and Southern Power -- related to jointly owned generating facilities, interconnecting transmission lines, or the exchange of electric power -- are regulated by the Federal Energy Regulatory Commission (FERC) and/or the Securities and Exchange Commission (SEC). SCS -- the system service company -- provides, at cost, specialized services to Southern Company and subsidiary companies. Southern LINC provides digital wireless communications services to the retail operating companies and also markets these services to the public within the Southeast. Southern Telecom provides fiber cable services within the Southeast. Southern Company GAS is a competitive retail natural gas marketer serving customers in Georgia. Southern Holdings is an intermediate holding subsidiary for Southern Company's investments in synthetic fuels and leveraged leases and an energy services business. Southern Nuclear operates and provides services to Southern Company's nuclear power plants.

On April 2, 2001, the spin off of Mirant Corporation (Mirant) was completed. As a result of the spin off, Southern Company's financial statements and related information reflect Mirant as discontinued operations. For additional information regarding Mirant, see Note 3 under "Mirant Related Matters."

The financial statements reflect Southern Company's investments in the subsidiaries on a consolidated basis. The equity method is used for subsidiaries in which the company has significant influence but does not control. All material intercompany items have been eliminated in consolidation. Certain prior years' data presented in the consolidated financial statements have been reclassified to conform with the current year presentation.

Southern Company is registered as a holding company under the Public Utility Holding Company Act of 1935 (PUHCA). Both the company and its subsidiaries are subject to the regulatory provisions of the PUHCA. In addition, the retail operating companies and Southern Power are subject to regulation by the FERC, and the retail operating companies are also subject to regulation by their respective state public service commissions. The companies follow accounting principles generally accepted in the United States and comply with the accounting policies and practices prescribed by their respective commissions. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates, and the actual results may differ from those estimates.

### Related Party Transactions

Alabama Power and Georgia Power purchase synthetic fuel from Alabama Fuel Products, LLC (AFP), an entity in which Southern Holdings holds a 30 percent ownership interest. Total fuel purchases for 2003 and 2002 were $301 million and $211 million, respectively. The financial statements reflect the elimination of 30 percent of these amounts. Another subsidiary of Southern Holdings provides services to AFP. In connection with these services, revenues of approximately $74 million and $44 million in 2003 and 2002, respectively, have been billed to an entity that is a subsidiary of AFP's majority owner.

### Revenues and Fuel Costs

Capacity revenues are generally recognized on a levelized basis over the appropriate contract periods. Energy and other revenues are recognized as services are provided. Unbilled revenues are accrued at the end of each fiscal period. Fuel costs are expensed as the fuel is used. Electric rates for the retail operating companies include provisions to adjust billings for fluctuations in fuel costs, fuel hedging, the energy component of purchased power costs, and certain other costs. Revenues are adjusted for differences between recoverable fuel costs and amounts actually recovered in current regulated rates.

Southern Company has a diversified base of customers. No single customer or industry comprises 10 percent or more of revenues. For all periods presented, uncollectible accounts continued to average less than 1 percent of revenues.

Fuel expense includes the amortization of the cost of nuclear fuel and a charge, based on nuclear generation, for the permanent disposal of spent nuclear fuel. Total

charges for nuclear fuel included in fuel expense amounted to $138 million in 2003, $134 million in 2002, and $133 million in 2001. Alabama Power and Georgia Power have contracts with the U.S. Department of Energy (DOE) that provide for the permanent disposal of spent nuclear fuel. The DOE failed to begin disposing of spent nuclear fuel in January 1998 as required by the contracts, and the companies are pursuing legal remedies against the government for breach of contract. Sufficient pool storage capacity for spent fuel is available at Plant Farley to maintain full-core discharge capability until the refueling outages scheduled for 2006 and 2008 for units 1 and 2, respectively. Sufficient pool storage capacity for spent fuel is available at Plant Vogtle to maintain full-core discharge capability for both units into 2015. At Plant Hatch, an on-site dry storage facility became operational in 2000 and can be expanded to accommodate spent fuel through the life of the plant. Construction of an on-site dry storage facility at Plant Farley is in progress and scheduled for operation in 2005. Construction of an on-site dry storage facility at Plant Vogtle will begin in sufficient time to maintain pool full-core discharge capability.

Also, the Energy Policy Act of 1992 required the establishment of a Uranium Enrichment Decontamination and Decommissioning Fund, which is funded in part by a special assessment on utilities with nuclear plants. This assessment is being paid over a 15-year period, which began in 1993. This fund will be used by the DOE for the decontamination and decommissioning of its nuclear fuel enrichment facilities. The law provides that utilities will recover these payments in the same manner as any other fuel expense. Alabama Power and Georgia Power -- based on its ownership interest -- estimate their respective remaining liability at December 31, 2003, under this law to be approximately $13 million and $10 million.

### Income Taxes

Southern Company uses the liability method of accounting for deferred income taxes and provides deferred income taxes for all significant income tax temporary differences. Investment tax credits utilized are deferred and amortized to income over the average lives of the related property.

### Regulatory Assets and Liabilities

The retail operating companies are subject to the provisions of Financial Accounting Standards Board (FASB) Statement No. 71, Accounting for the Effects of Certain Types of Regulation. Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process. Regulatory assets and (liabilities) reflected in the Consolidated Balance Sheets at December 31 relate to:

| | 2003 | 2002 | Note |
|---|---|---|---|
| | (in millions) | | |
| Deferred income tax charges | $ 874 | $ 898 | (a) |
| Loss on reacquired debt | 326 | 313 | (b) |
| DOE assessments | 26 | 33 | (c) |
| Vacation pay | 97 | 98 | (d) |
| Building lease | 54 | 54 | (f) |
| Generating plant outage costs | 35 | 38 | (f) |
| Other assets | 75 | 73 | (f) |
| Asset retirement obligations | (138) | – | (a) |
| Other cost of removal obligations | (1,269) | (1,944) | (a) |
| Deferred income tax credits | (409) | (450) | (a) |
| Accelerated cost recovery | (115) | (229) | (e) |
| Plant Daniel capacity | (60) | – | (g) |
| Storm damage reserves | (53) | (38) | (f) |
| Fuel-hedging liabilities | (13) | (38) | (c) |
| Environmental remediation reserves | (41) | (42) | (f) |
| Deferred purchased power | (92) | (63) | (f) |
| Other liabilities | (13) | (12) | (f) |
| Total | $ (716) | $(1,309) | |

Note: The recovery and amortization periods for these regulatory assets and (liabilities) are as follows:

(a) Asset retirement and removal liabilities are recorded, deferred income tax assets are recovered, and deferred tax liabilities are amortized over the related property lives, which may range up to 50 years. Asset retirement and removal liabilities will be settled and trued up following completion of the related activities

(b) Recovered over either the remaining life of the original issue or, if refinanced, over the life of the new issue, which may range up to 50 years.

(c) Assessments for the decontamination and decommissioning of the DOE's nuclear fuel enrichment facilities are recorded annually from 1993 through 2008. Fuel-hedging assets and liabilities are recorded over the life of the underlying hedged purchase contracts, which generally do not exceed two years. Upon final settlement, actual costs incurred are recovered through the fuel cost recovery clauses.

(d) Recorded as earned by employees and recovered as paid, generally within one year.

(e) Amortized over three-year period ending in 2004

(f) Recorded and recovered or amortized as approved by the appropriate state public service commissions.

(g) See Note 3 under "Mississippi Power Regulatory Filing."

In the event that a portion of an operating company's operations is no longer subject to the provisions of FASB Statement No. 71, the company would be required to write off related regulatory assets and liabilities that are not specifically recoverable through regulated rates. In addition, the operating company would be required to determine if any impairment to

other assets exists, including plant, and write down the assets, if impaired, to their fair value. All regulatory assets and liabilities are to be reflected in rates.

**Depreciation and Amortization**

Depreciation of the original cost of plant in service is provided primarily by using composite straight-line rates, which approximated 3.1 percent in 2003, 3.2 percent in 2002, and 3.4 percent in 2001. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its original cost -- together with the cost of removal, less salvage -- is charged to accumulated depreciation. Minor items of property included in the original cost of the plant are retired when the related property unit is retired.

Under previous rate orders, Georgia Power recorded accelerated depreciation and amortization amounting to $91 million in 2001. Effective January 2002, Georgia Power discontinued recording accelerated depreciation and amortization in accordance with a new retail rate order. Also, Georgia Power was ordered to amortize $333 million -- the cumulative balance previously expensed -- equally over three years as a credit to depreciation and amortization expense beginning January 2002. Also, effective January 2002, Georgia Power was ordered by the Georgia Public Service Commission (GPSC) to recognize new certified purchased power costs in rates evenly over the three years covered by the current retail rate order. As a result of this regulatory adjustment, Georgia Power recorded in depreciation and amortization expense $14 million and $63 million in 2003 and 2002, respectively. Georgia Power will record a credit to amortization expense of $77 million in 2004. See Note 3 under "Georgia Power Retail Rate Orders" for additional information.

**Asset Retirement Obligations And Other Costs of Removal**

In accordance with regulatory requirements, prior to January 2003, Southern Company followed the industry practice of accruing for the ultimate cost of retiring most long-lived assets over the life of the related asset as part of the annual depreciation expense provision. In accordance with SEC requirements, such amounts are reflected on the Consolidated Balance Sheet as regulatory liabilities. Effective January 1, 2003, Southern Company adopted FASB Statement No. 143, Accounting for Asset Retirement Obligations. Statement No. 143 establishes new accounting and reporting standards for legal obligations associated with the ultimate costs of retiring long-lived assets. The present value of the ultimate costs for an asset's future retirement must be recorded in the period in which the liability is incurred. The costs must be capitalized as part of the related long-lived asset and depreciated over the asset's useful life. Additionally, Statement No. 143 does not permit the continued accrual of future retirement costs for long-lived assets that the company does not have a legal obligation to retire. However, the retail operating companies have received guidance regarding accounting for the financial statement impacts of Statement No. 143 from their respective state public service commissions and will continue to recognize the accumulated removal costs for other obligations as a regulatory liability. Therefore, the retail operating companies had no cumulative effect to net income resulting from the adoption of Statement No. 143.

The liability recognized to retire long-lived assets primarily relates to Southern Company's nuclear facilities, which include Alabama Power's Plant Farley and Georgia Power's ownership interests in plants Hatch and Vogtle. The fair value of assets legally restricted for settling retirement obligations related to nuclear facilities as of December 31, 2003 was $808 million. In addition, the retail operating companies have retirement obligations related to various landfill sites, ash ponds, and underground storage tanks. The retail operating companies have also identified retirement obligations related to certain transmission and distribution facilities. However, liabilities for the removal of these transmission and distribution assets have not been recorded because no reasonable estimate can be made regarding the timing of the obligations. The retail operating companies will continue to recognize in the income statement allowed removal costs in accordance with each company's respective regulatory treatment. Any difference between costs recognized under Statement No. 143 and those reflected in rates are recognized as either a regulatory asset or liability and are reflected in the Consolidated Balance Sheets. See "Nuclear Decommissioning" for further information on amounts included in rates.

Details of the asset retirement obligations included in the Consolidated Balance Sheets are as follows:

| | 2003 |
|---|---|
| | (in millions) |
| Balance beginning of year | $ – |
| Liabilities incurred | 780 |
| Liabilities settled | – |
| Accretion | 55 |
| Cash flow revisions | 10 |
| Balance end of year | $845 |

If Statement No. 143 had been adopted on January 1, 2002, the pro-forma asset retirement obligations would have been $729 million.

### Nuclear Decommissioning

The Nuclear Regulatory Commission (NRC) requires all licensees operating commercial nuclear power reactors to establish a plan for providing, with reasonable assurance, funds for decommissioning. Alabama Power and Georgia Power have external trust funds to comply with the NRC's regulations. The funds set aside for decommissioning are managed and invested in accordance with applicable requirements of various regulatory bodies, including the NRC, the FERC, and state public utility commissions, as well as the Internal Revenue Service (IRS). Funds are invested in a tax efficient manner in a diversified mix of equity and fixed income securities. Equity securities typically range from 50 to 75 percent of the funds and fixed income securities from 25 to 50 percent. Amounts previously recorded in internal reserves are being transferred into the external trust funds over periods approved by the respective state public service commissions. The NRC's minimum external funding requirements are based on a generic estimate of the cost to decommission the radioactive portions of a nuclear unit based on the size and type of reactor. Alabama Power and Georgia Power have filed plans with the NRC to ensure that -- over time -- the deposits and earnings of the external trust funds will provide the minimum funding amounts prescribed by the NRC.

Site study cost is the estimate to decommission a specific facility as of the site study year. The estimated costs of decommissioning based on the most current study as of December 31, 2003, for Alabama Power's Plant Farley and Georgia Power's ownership interests in plants Hatch and Vogtle were as follows:

| | Plant Farley | Plant Hatch | Plant Vogtle |
|---|---|---|---|
| Site study year | 2003 | 2003 | 2003 |
| Decommissioning periods: | | | |
| Beginning year | 2017 | 2034 | 2027 |
| Completion year | 2046 | 2065 | 2048 |
| | | (in millions) | |
| Site study costs: | | | |
| Radiated structures | $892 | $497 | $452 |
| Non-radiated structures | 63 | 49 | 58 |
| Total | $955 | $546 | $510 |
| Significant assumptions: | | | |
| Inflation rate | 4.5% | 3.1% | 3.1% |
| Trust earning rate | 7.0 | 6.6 | 6.6 |

The decommissioning cost estimates are based on prompt dismantlement and removal of the plant from service. The actual decommissioning costs may vary from the above estimates because of changes in the assumed date of decommissioning, changes in NRC requirements, or changes in the assumptions used in making these estimates.

Annual provisions for nuclear decommissioning are based on an annuity method as approved by the respective state public service commissions. The amount expensed in 2003 and fund balances were as follows:

| | Plant Farley | Plant Hatch | Plant Vogtle |
|---|---|---|---|
| | | (in millions) | |
| **Amount expensed in 2003** | **$18** | **$7** | **$2** |
| Accumulated provisions: | | | |
| External trust funds, at fair value | $385 | $269 | $154 |
| Internal reserves | 31 | 7 | 4 |
| Total | $416 | $276 | $158 |

Alabama Power's decommissioning costs for ratemaking are based on the site study. Effective January 1, 2002, the GPSC decreased Georgia Power's annual decommissioning costs for ratemaking to $9 million. This amount is based on the NRC generic estimate to decommission the radioactive portion of the facilities as of 2000. The estimates are $383 million and $282 million for plants Hatch and Vogtle, respectively. Assumptions used to determine these costs for ratemaking were an inflation rate of 4.5 percent and 4.7 percent for Alabama Power and Georgia Power, respectively, and a trust earning rate of 7.0 percent and 6.5 percent for Alabama Power and Georgia Power, respectively. Alabama Power and Georgia Power expect their respective state public service commissions to periodically review and adjust, if necessary, the amounts collected in rates for the anticipated cost of decommissioning.

In January 2002, Georgia Power received NRC approval for a 20-year extension of the license at Plant Hatch, which permits the operation of units 1 and 2 until 2034 and 2038, respectively. The site study decommissioning costs reflect the license extension; however, the updated costs will not be reflected in rates until the GPSC issues a new rate order, which is not expected until December 2004. Alabama Power filed an application with the NRC in September 2003 to extend the operating license for Plant Farley for an additional 20 years.

### Allowance for Funds Used During Construction (AFUDC) and Interest Capitalized

In accordance with regulatory treatment, the retail operating companies record AFUDC. AFUDC represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new regulated facilities. While cash is not realized currently from such allowance, it increases the revenue requirement over the service life of the plant through a higher rate base and higher depreciation expense. Interest related to the construction of new facilities not included in the retail operating companies' regulated rates is capitalized in accordance with standard interest capitalization requirements.

Cash payments for interest totaled $603 million, $544 million, and $624 million in 2003, 2002, and 2001, respectively, net of amounts capitalized of $49 million, $59 million, and $57 million, respectively.

### Property, Plant, and Equipment

Property, plant, and equipment is stated at original cost less regulatory disallowances and impairments. Original cost includes: materials; labor; minor items of property; appropriate administrative and general costs; payroll-related costs such as taxes, pensions, and other benefits; and the interest capitalized and/or cost of funds used during construction.

The cost of replacements of property -- exclusive of minor items of property -- is capitalized. The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense as incurred or performed with the exception of nuclear refueling costs, which are recorded in accordance with specific public service commission orders. Alabama Power accrues estimated refueling costs in advance of the unit's next refueling outage. Georgia Power defers and amortizes refueling costs over the unit's operating cycle before the next refueling. The refueling cycles for Alabama Power and Georgia Power range from 18 to 24 months for each unit. In accordance with retail accounting orders, both Georgia Power and Savannah Electric will defer the costs of certain significant inspection costs for the combustion turbines at Plant McIntosh and amortize such costs over 10 years, which approximates the expected maintenance cycle.

### Impairment of Long-Lived Assets and Intangibles

Southern Company evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on either a specific regulatory disallowance or an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by either the amount of regulatory disallowance or by estimating the fair value of the assets and recording a loss if the carrying value is greater than the fair value. For assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment provision is required. Until the assets are disposed of, their estimated fair value is re-evaluated when circumstances or events change.

### Leveraged Leases

Southern Company has several leveraged lease agreements -- ranging up to 45 years -- that relate to international and domestic energy generation, distribution, and transportation assets. Southern Company receives federal income tax deductions for rent or depreciation and amortization, as well as interest on long-term debt related to these investments.

Southern Company's net investment in leveraged leases consists of the following at December 31:

| | **2003** | 2002 |
|---|---|---|
| | (in millions) | |
| Net rentals receivable | **$1,512** | $1,531 |
| Unearned income | **(674)** | (740) |
| Investment in leveraged leases | **838** | 791 |
| Deferred taxes arising from leveraged leases | **(351)** | (260) |
| Net investment in leveraged leases | **$ 487** | $ 531 |

A summary of the components of income from leveraged leases is as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | | (in millions) | |
| Pretax leveraged lease income | **$66** | $58 | $59 |
| Income tax expense | **23** | 21 | 21 |
| Net leveraged lease income | **$43** | $37 | $38 |

### Cash and Cash Equivalents

For purposes of the consolidated financial statements, temporary cash investments are considered cash equivalents. Temporary cash investments are securities with original maturities of 90 days or less.

### Materials and Supplies

Generally, materials and supplies include the average costs of transmission, distribution, and generating plant materials. Materials are charged to inventory when purchased and then expensed or capitalized to plant, as appropriate, when installed.

### Stock Options

Southern Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25. Accordingly, no compensation expense has been recognized because the exercise price of all options granted equaled the fair-market value on the date of grant.

### Financial Instruments

Southern Company uses derivative financial instruments to limit exposure to fluctuations in interest rates, the prices of certain fuel purchases, and electricity purchases and sales. All derivative financial instruments are recognized as either assets or liabilities and are measured at fair value. Substantially all of Southern Company's bulk energy purchases and sales contracts that meet the definition of a derivative are exempt from fair value accounting requirements and are accounted for under the accrual method. Other derivative contracts qualify as cash flow hedges of anticipated transactions. This results in the deferral of related gains and losses in other comprehensive income or regulatory assets or liabilities as appropriate until the hedged transactions occur. Any ineffectiveness is recognized currently in net income. Other derivative contracts are marked to market through current period income and are recorded on a net basis in the Consolidated Statements of Income.

Southern Company is exposed to losses related to financial instruments in the event of counterparties' nonperformance. The company has established controls to determine and monitor the creditworthiness of counterparties in order to mitigate the company's exposure to counterparty credit risk.

The other Southern Company financial instruments for which the carrying amount does not equal fair value at December 31 were as follows:

| | Carrying Amount | Fair Value |
|---|---|---|
| | (in millions) | |
| Long-term debt: | | |
| **At December 31, 2003** | **$10,759** | **$10,971** |
| At December 31, 2002 | 10,226 | 10,510 |
| Preferred securities: | | |
| **At December 31, 2003** | **1,940** | **2,059** |
| At December 31, 2002 | 2,428 | 2,498 |

The fair values were based on either closing market price or closing price of comparable instruments.

### Comprehensive Income

The objective of comprehensive income is to report a measure of all changes in common stock equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners. Comprehensive income consists of net income and changes in the fair value of qualifying cash flow hedges and changes in additional minimum pension liability, less income taxes and reclassifications for amounts included in net income. Comprehensive income from discontinued operations also includes foreign currency translation adjustments, net of income taxes.

## 2. RETIREMENT BENEFITS

Southern Company has a defined benefit, trusteed, pension plan covering substantially all employees. The plan is funded in accordance with Employee Retirement Income Security Act (ERISA) requirements. No contributions to the plan are expected for the year ending December 31, 2004. Southern Company also provides certain non-qualified benefit plans for a selected group of management and highly compensated employees. Benefits under these non-qualified plans are funded on a cash basis. In addition, Southern Company provides certain medical care and life insurance benefits for retired employees. The retail operating companies fund related trusts to the extent required by their respective regulatory commissions. For the year ended December 31, 2004, postretirement benefit contributions are expected to total approximately $15 million.

The measurement date for plan assets and obligations is September 30 for each year. In 2002, Southern Company adopted several plan changes that had the effect of increasing benefits to both current and future retirees.

**Pension Plans**

The accumulated benefit obligation for the pension plans was $4.2 billion in 2003 and $3.6 billion in 2002. Changes during the year in the projected benefit obligations, accumulated benefit obligations, and fair value of plan assets were as follows:

| | Projected Benefit Obligations | |
|---|---|---|
| | **2003** | 2002 |
| | (in millions) | |
| Balance at beginning of year | **$4,094** | $3,760 |
| Service cost | **115** | 109 |
| Interest cost | **261** | 277 |
| Benefits paid | **(197)** | (184) |
| Plan amendments | **11** | 88 |
| Actuarial (gain) loss | **289** | 44 |
| Balance at end of year | **$4,573** | $4,094 |

| | Plan Assets | |
|---|---|---|
| | **2003** | 2002 |
| | (in millions) | |
| Balance at beginning of year | **$4,600** | $5,109 |
| Actual return on plan assets | **735** | (343) |
| Benefits paid | **(176)** | (166) |
| Balance at end of year | **$5,159** | $4,600 |

Pension plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the IRS revenue code. The company's investment policy covers a diversified mix of assets, including equity and fixed income securities, real estate, and private equity, as described in the table below. Derivative instruments are used primarily as hedging tools but may also be used to gain efficient exposure to the various asset classes. The company primarily minimizes the risk of large losses through diversification but also monitors and manages other aspects of risk.

| | | Plan Assets | |
|---|---|---|---|
| | Target | **2003** | 2002 |
| Domestic equity | 37% | **37%** | 35% |
| International equity | 20 | **20** | 18 |
| Global fixed income | 26 | **24** | 25 |
| Real estate | 10 | **11** | 12 |
| Private equity | 7 | **8** | 10 |
| Total | 100% | **100%** | 100% |

The accrued pension costs recognized in the Consolidated Balance Sheets were as follows:

| | **2003** | 2002 |
|---|---|---|
| | (in millions) | |
| Funded status | **$586** | $ 506 |
| Unrecognized transition amount | **(26)** | (39) |
| Unrecognized prior service cost | **314** | 334 |
| Unrecognized net (gain) loss | **(70)** | (115) |
| Prepaid pension asset, net | **804** | 686 |
| Portion included in benefit obligations | **107** | 100 |
| Total prepaid assets recognized in the Consolidated Balance Sheets | **$911** | $ 786 |

In 2003 and 2002, amounts recognized in the Consolidated Balance Sheets for accumulated other comprehensive income and intangible assets to record the minimum pension liability related to the non-qualified plans were $77 million and $49 million and $42 million and $35 million, respectively.

Components of the pension plans' net periodic cost were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | | (in millions) | |
| Service cost | **$ 115** | $ 109 | $ 104 |
| Interest cost | **261** | 277 | 260 |
| Expected return on plan assets | **(450)** | (449) | (423) |
| Recognized net gain | **(42)** | (65) | (73) |
| Net amortization | **17** | 11 | 8 |
| Net pension cost (income) | **$ (99)** | $(117) | $(124) |

**Postretirement Benefits**

Changes during the year in the accumulated benefit obligations and in the fair value of plan assets were as follows:

| | Accumulated Benefit Obligations | |
|---|---|---|
| | **2003** | 2002 |
| | (in millions) | |
| Balance at beginning of year | **$1,461** | $1,239 |
| Service cost | **25** | 21 |
| Interest cost | **93** | 91 |
| Benefits paid | **(66)** | (62) |
| Actuarial (gain) loss | **142** | 172 |
| Balance at end of year | **$1,655** | $1,461 |

| | Plan Assets | |
|---|---|---|
| | **2003** | 2002 |
| | (in millions) | |
| Balance at beginning of year | **$417** | $425 |
| Actual return on plan assets | **70** | (34) |
| Employer contributions | **101** | 88 |
| Benefits paid | **(66)** | (62) |
| Balance at end of year | **$522** | $417 |

Postretirement benefits plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the IRS revenue code. The company's investment policy covers a diversified mix of assets, including equity and fixed income securities, real estate, and private equity, as described in the table below. Derivative instruments are used primarily as hedging tools but may also be used to gain efficient exposure to the various asset classes. The company primarily minimizes the risk of large losses through diversification but also monitors and manages other aspects of risk.

| | | Plan Assets | |
|---|---|---|---|
| | Target | **2003** | 2002 |
| Domestic equity | 43% | **44%** | 38% |
| International equity | 17 | **18** | 16 |
| Global fixed income | 33 | **31** | 37 |
| Real estate | 4 | **4** | 5 |
| Private equity | 3 | **3** | 4 |
| Total | 100% | **100%** | 100% |

The accrued postretirement costs recognized in the Consolidated Balance Sheets were as follows:

| | **2003** | 2002 |
|---|---|---|
| | (in millions) | |
| Funded status | **$(1,133)** | $(1,043) |
| Unrecognized transition obligation | **144** | 159 |
| Unrecognized prior service cost | **211** | 225 |
| Unrecognized net loss (gain) | **357** | 239 |
| Fourth quarter contributions | **19** | 51 |
| Accrued liability recognized in the Consolidated Balance Sheets | **$ (402)** | $ (369) |

Components of the postretirement plans' net periodic cost were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | | (in millions) | |
| Service cost | **$ 25** | $ 21 | $ 22 |
| Interest cost | **93** | 91 | 88 |
| Expected return on plan assets | **(47)** | (42) | (40) |
| Net amortization | **30** | 29 | 26 |
| Net postretirement cost | **$101** | $ 99 | $ 96 |

The weighted average rates assumed in the actuarial calculations used to determine both the benefit obligations and the net periodic costs for the pension and postretirement benefit plans were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Discount | **6.00%** | 6.50% | 7.50% |
| Annual salary increase | **3.75** | 4.00 | 5.00 |
| Long-term return on plan assets | **8.50** | 8.50 | 8.50 |

The company determined the long-term rate of return based on historical asset class returns and current market conditions, taking into account the diversification benefits of investing in multiple asset classes.

An additional assumption used in measuring the accumulated postretirement benefit obligation was a weighted average medical care cost trend rate of 8.25 percent for 2003, decreasing gradually to 5.25 percent through the year 2010 and remaining at that level thereafter. An annual increase or decrease in the assumed medical care cost trend rate of 1 percent would affect the accumulated benefit obligation and the service and interest cost components at December 31, 2003, as follows:

| | 1 Percent Increase | 1 Percent Decrease |
|---|---|---|
| | (in millions) | |
| Benefit obligation | **$140** | **$124** |
| Service and interest costs | **10** | **8** |

**Employee Savings Plan**

Southern Company also sponsors a 401(k) defined contribution plan covering substantially all employees. The company provides a 75 percent matching contribution up to 6 percent of an employee's base salary. Total matching contributions made to the plan for the years 2003, 2002, and 2001 were $55 million, $53 million, and $51 million, respectively.

## 3. CONTINGENCIES AND REGULATORY MATTERS

**General Litigation Matters**

Southern Company is subject to certain claims and legal actions arising in the ordinary course of business. In addition, Southern Company'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, and citizen enforcement of environmental requirements, has

increased generally throughout the United States. In particular, personal injury claims for damages caused by alleged exposure to hazardous materials have become more frequent. The ultimate outcome of such litigation against Southern Company and its subsidiaries cannot be predicted at this time; however, management does not anticipate that the liabilities, if any, arising from such current proceedings would have a material adverse effect on Southern Company's financial statements.

**Mirant Related Matters**

***Mirant Spin Off***

In April 2000, Southern Company announced an initial public offering of up to 19.9 percent of Mirant and its intention to spin off the remaining ownership of Mirant to Southern Company stockholders. On October 2, 2000, Mirant completed its initial public offering of 66.7 million shares. On April 2, 2001, the tax-free distribution of Mirant shares was completed at a ratio of approximately 0.4 for every share of Southern Company common stock held at record date.

***Potential Mirant Restatement***

In November 2002, Mirant first announced that it had identified accounting errors in previously issued financial statements. Mirant has restated and reduced its net income for 2001 by $159 million. Mirant has stated that the specific quarters in 2001 to which the overstatement apply have not been determined. If any adjustments are necessary prior to April 2, 2001, before Southern Company's spin off of Mirant, then Southern Company's earnings from discontinued operations for such periods would be affected. The impact of any such adjustments cannot be determined until Mirant's 2001 revised quarterly financial statements are filed and would not affect Southern Company's 2002 or any future financial statements.

***Mirant Bankruptcy***

On July 14, 2003, Mirant filed for voluntary reorganization under Chapter 11 with the U.S. Bankruptcy Court. Southern Company has certain contingent liabilities associated with guarantees of contractual commitments made by Mirant's subsidiaries discussed in Note 7 under "Guarantees" and with various lawsuits related to Mirant discussed later in this note. Also, Southern Company has joint and several liability with Mirant regarding the joint consolidated federal income tax return as discussed in Note 5. Under the terms of the separation agreement, Mirant agreed to indemnify Southern Company for costs associated with these guarantees, lawsuits, and additional IRS assessments. The impact of Mirant's bankruptcy filing on Mirant's indemnity obligations, if any, cannot now be determined. If Southern Company is ultimately required to make any payments related to these potentially material obligations, Mirant's indemnification obligation to Southern Company would represent an unsecured pre-bankruptcy claim, subject to compromise pursuant to Mirant's final reorganization plan.

The Bankruptcy Code automatically stays all litigation as to Mirant. A motion filed with the bankruptcy court requesting an extension of this automatic stay to all other non-debtor defendants, including Southern Company and the named current and/or former Southern Company officers, was granted in November 2003. Although the Mirant securities litigation is stayed until further order from the bankruptcy court, Mirant is authorized to agree with parties in pending actions to allow discovery or other matters to proceed without violating the stay. Mirant and plaintiffs' counsel in the Mirant securities litigation have agreed that document discovery may proceed. On October 23, 2003, the bankruptcy court entered an order authorizing Southern Company's insurance companies to pay related defense costs.

On February 20, 2004, the Official Committee of Unsecured Creditors of Mirant informed Southern Company of its intent to examine Southern Company in accordance with federal bankruptcy rules to determine whether there is a legitimate basis to bring claims against Southern Company in connection with Mirant's initial public offering, Southern Company's spinoff of Mirant, and the related separation agreements.

The final outcome of these matters cannot now be determined.

***California Electricity Markets Investigation***

Southern Company received a subpoena in November 2002 to provide information to a federal grand jury in the Northern District of California. The subpoena covered a number of broad areas, including specific information regarding electricity production and sales activities in California. Mirant participated in energy marketing and trading in California during the period relevant to the subpoena. Southern Company has produced documents in response to the subpoena and has fully cooperated in the investigation.

***Mirant Securities Litigation***

In November 2002, Southern Company, certain former and current senior officers of Southern Company, and

12 underwriters of Mirant's initial public offering were added as defendants in a putative class action lawsuit that several Mirant shareholders originally filed against Mirant and certain Mirant officers in May 2002. The original lawsuit was based on allegations related to alleged improper energy trading and marketing activities involving the California energy market. Several other similar lawsuits filed subsequently were consolidated into this litigation in the U.S. District Court for the Northern District of Georgia. The amended complaint is based on allegations related to alleged improper energy trading and marketing activities involving the California energy market, alleged false statements and omissions in Mirant's prospectus for its initial public offering and in subsequent public statements by Mirant, and accounting-related issues previously disclosed by Mirant. The lawsuit purports to include persons who acquired Mirant securities between September 26, 2000, and September 5, 2002.

On July 14, 2003, the court dismissed all claims based on Mirant's alleged improper energy trading and marketing activities involving the California energy market. The remaining claims are based on alleged false statements and omissions in Mirant's prospectus for its initial public offering and accounting-related issues previously disclosed by Mirant. Such claims do not allege any improper trading and marketing activity, accounting errors, or material misstatements or omissions on the part of Southern Company, but rather seek to impose liability on Southern Company based on allegations that Southern Company was a "control person" as to Mirant prior to the spin off date. Southern Company filed an answer to the consolidated amended class action complaint on September 3, 2003. Plaintiffs have also filed a motion for class certification.

Under certain circumstances, Southern Company will be obligated under its Bylaws to indemnify the four current and/or former Southern Company officers who served as directors of Mirant at the time of its initial public offering through the date of the spin off and are also named as defendants in this lawsuit. Except for limited document discovery, litigation has been stayed until further order from the bankruptcy court. The final outcome of these matters cannot now be determined.

***Mirant ERISA Litigation***

In April 2003, a retired employee of Mirant filed a complaint in the U.S. District Court for the Northern District of Georgia alleging violations of ERISA and naming as defendants Mirant, Southern Company, several current and former directors and officers of Mirant and/or Southern Company, and "Unknown Fiduciary Defendants 1-100." In June 2003, a substantially similar complaint was filed. Neither complaint contained any specific allegations of wrongdoing with respect to Southern Company. On September 2, 2003, the court consolidated all pending and future ERISA actions arising out of the same facts, and the plaintiffs filed a consolidated amended ERISA complaint on September 23, 2003. The plaintiffs sought to represent a class of persons who were participants in or beneficiaries of certain Mirant employee benefit plans between September 27, 2000, and July 22, 2003. The consolidated amended complaint named as defendants Mirant, certain Mirant benefit committees, Southern Company, and several of Mirant's current and former officers, directors, and employees. The consolidated amended complaint alleged that the defendants breached their fiduciary duties and violated ERISA by failing to investigate whether Mirant stock was a prudent investment for the plans, by continuing and promoting Mirant stock as an investment alternative for participants in the plans, and by failing to disclose information about Mirant's financial condition and about its improper activities in the California energy markets.

On February 19, 2004, plaintiffs dismissed Southern Company from this action without prejudice. The plaintiffs are not barred from naming Southern Company in some future lawsuit, but management believes the possibility of having to pay damages in any such lawsuit is remote.

***Mobile Energy Services' Petition for Bankruptcy***

Mobile Energy Services Holdings (MESH) is the owner and operator of a facility that generates electricity, produces steam, and processes black liquor as part of a pulp and paper complex in Mobile, Alabama. In January 1999, MESH filed a petition for Chapter 11 bankruptcy with the U.S. Bankruptcy Court. In 2001, MESH filed an amended plan of reorganization, which the U.S. Bankruptcy Court confirmed in September 2003. The plan became effective in late 2003 and Southern Company's equity interest in MESH – which had been written off entirely prior to 2001 – was extinguished. Southern Company will continue to have contingent liabilities to the pulp and paper complex owners associated with a guarantee of certain potential environmental obligations and with a potential obligation to fund a maintenance reserve account that expires in 2019 and 2021, respectively. The combined maximum contingent liabilities were $19 million at December 31, 2003. MESH and Mirant have each separately agreed to indemnify Southern Company for any amounts required

to be paid under such obligations. The final outcome of these matters cannot now be determined.

**Georgia Power Potentially Responsible Party Status**

Georgia Power has been designated as a potentially responsible party at sites governed by the Georgia Hazardous Site Response Act and/or by the federal Comprehensive Environmental Response, Compensation, and Liability Act. Georgia Power has recognized $34 million in cumulative expenses through December 31, 2003, for the assessment and anticipated cleanup of sites on the Georgia Hazardous Sites Inventory. In addition, in 1995 the Environmental Protection Agency (EPA) designated Georgia Power and four other unrelated entities as potentially responsible parties at a site in Brunswick, Georgia, that is listed on the federal National Priorities List. Georgia Power has contributed to the removal and remedial investigation and feasibility study costs for the site. Additional claims for recovery of natural resource damages at the site are anticipated. As of December 31, 2003, Georgia Power had recorded approximately $6 million in cumulative expenses associated with Georgia Power's agreed-upon share of the removal and remedial investigation and feasibility study costs for the Brunswick site.

The final outcome of each of these matters cannot now be determined. However, based on the currently known conditions at these sites and the nature and extent of Georgia Power's activities relating to these sites, management does not believe that the company's additional liability, if any, at these sites would be material to the financial statements.

**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 Alabama Power, Georgia Power, and SCS. The complaint alleged violations of the New Source Review (NSR) provisions of the Clean Air Act with respect to five coal-fired generating facilities in Alabama and Georgia and violations of related state laws. The civil action requested penalties and injunctive relief, including an order requiring the installation of the best available control technology at the affected units. The EPA concurrently issued to the retail operating companies notices of violation relating to 10 generating facilities, which include the five facilities mentioned previously. In early 2000, the EPA filed a motion to amend its complaint to add the violations alleged in its notices of violation and to add Gulf Power, Mississippi Power, and Savannah Electric as defendants.

In August 2000, the U.S. District Court in Georgia granted Alabama Power's motion to dismiss for lack of jurisdiction in Georgia and granted SCS' motion to dismiss on the grounds that it neither owned nor operated the generating units involved in the proceedings. In March 2001, the court granted the EPA's motion to add Savannah Electric as a defendant, but it denied the motion to add Gulf Power and Mississippi Power based on lack of jurisdiction in Georgia over those companies. As directed by the court, the EPA refiled its amended complaint limiting claims to those brought against Georgia Power and Savannah Electric. In addition, the EPA refiled its claims against Alabama Power in the U.S. District Court for the Northern District of Alabama. These complaints allege violations with respect to eight coal-fired generating facilities in Alabama and Georgia, and they request the same kinds of relief as was requested in the original complaint, i.e. penalties and injunctive relief, including installation of the best available control technology. The EPA has not refiled against Gulf Power, Mississippi Power, or SCS.

The actions against Alabama Power, Georgia Power, and Savannah Electric were stayed in the spring of 2001 during the appeal of a very similar NSR enforcement action against the Tennessee Valley Authority (TVA) before the U.S. Court of Appeals for the Eleventh Circuit. The TVA appeal involves many of the same legal issues raised by the actions against Alabama Power, Georgia Power, and Savannah Electric. Because the final resolution of the TVA appeal could have a significant impact on Alabama Power and Georgia Power, both companies have been involved in that appeal. On June 24, 2003, the court of appeals issued its ruling in the TVA case. It found unconstitutional the statutory scheme set forth in the Clean Air Act that allowed the EPA to impose penalties for failing to comply with an administrative compliance order, like the one issued to TVA, without the EPA having to prove the underlying violation. Thus, the court of appeals held that the compliance order was of no legal consequence, and TVA was free to ignore it. The court did not, however, rule directly on the substantive legal issues about the proper interpretation and application of certain NSR provisions that had been raised in the TVA appeal. On September 16, 2003, the court of appeals denied the EPA's request for a rehearing of the decision. On February 13, 2004, the EPA petitioned the U.S. Supreme Court to review the decision of the court of appeals. The EPA also filed a motion to lift the stay in the action against Alabama Power. At this time, no party to the Georgia Power and Savannah Electric action, which was administratively closed two years ago, has asked the court to reopen that case.

Since the inception of the NSR proceedings against Georgia Power, Alabama Power, and Savannah Electric, the EPA has also been proceeding with similar NSR enforcement actions against other utilities, involving many of the same legal issues. In each case, the EPA alleged that the utilities failed to comply with the NSR permitting requirements when performing maintenance and construction activities at coal-burning plants, which activities the utilities considered to be routine or otherwise not subject to NSR. In 2003, district courts addressing these cases issued opinions that reached conflicting conclusions.

In October 2003, the EPA issued final revisions to its NSR regulations under the Clean Air Act clarifying the scope of the existing Routine Maintenance, Repair, and Replacement exclusion. On December 24, 2003, the U.S. Court of Appeals for the District of Columbia Circuit stayed the effectiveness of these revisions pending resolution of related litigation. In January 2004, the Bush Administration announced that it would continue to enforce the existing rules.

Southern Company believes that its retail operating companies complied with applicable laws and the EPA's regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes civil penalties of up to $27,500 per day, per violation at each generating unit. Prior to January 30, 1997, the penalty was $25,000 per day. An adverse outcome in any one of these cases could require substantial capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. This could affect future results of operations, cash flows, and possibly financial condition if such costs are not recovered through regulated rates.

**Plant Wansley Environmental Litigation**

On December 30, 2002, the Sierra Club, Physicians for Social Responsibility, Georgia ForestWatch, and one individual filed a civil suit in the U.S. District Court in Georgia against Georgia Power for alleged violations of the Clean Air Act at four of the generating units at Plant Wansley. The complaint alleges Clean Air Act violations at both the existing coal-fired units and the new combined cycle units. Specifically, the plaintiffs allege (1) opacity violations at the coal-fired units, (2) violations of a permit provision that requires the combined cycle units to operate above certain levels, (3) violation of nitrogen oxide emission offset requirements, and (4) violation of hazardous air pollutant requirements. The civil action requests injunctive and declaratory relief, civil penalties, a supplemental environmental project, and attorneys' fees. The Clean Air Act authorizes civil penalties of up to $27,500 per day, per violation at each generating unit.

On June 19, 2003, the court granted Georgia Power's motion to dismiss the allegations regarding hazardous air pollutants and denied Georgia Power's motion to dismiss the allegations regarding emission offsets. On August 29, 2003, Georgia Power filed a motion for partial summary judgment regarding emission offsets. On January 20, 2004, Georgia Power filed a motion for summary judgment on the remaining three counts, and the plaintiffs have filed motions for partial summary judgment. The case is currently scheduled for trial during the summer of 2004. While Georgia Power believes that it has complied with applicable laws and regulations, an adverse outcome could require payment of substantial penalties. The final outcome of this matter cannot now be determined.

**Race Discrimination Litigation**

In July 2000, a lawsuit alleging race discrimination was filed by three Georgia Power employees against Georgia Power, Southern Company, and SCS in the Superior Court of Fulton County, Georgia. Shortly thereafter, the lawsuit was removed to the U.S. District Court for the Northern District of Georgia. The lawsuit also raised claims on behalf of a purported class. The plaintiffs seek compensatory and punitive damages in an unspecified amount, as well as injunctive relief. In August 2000, the lawsuit was amended to add four more plaintiffs. Also, an additional indirect subsidiary of Southern Company, Southern Company Energy Solutions, was named a defendant.

In October 2001, the district court denied the plaintiffs' motion for class certification. The plaintiffs filed a motion to reconsider the order denying class certification, and the court denied the plaintiffs' motion to reconsider. In December 2001, the plaintiffs filed a petition in the U.S. Court of Appeals for the Eleventh Circuit seeking permission to file an appeal of the October 2001 decision, and this petition was denied. After discovery was completed on the claims raised by the seven named plaintiffs, the defendants filed motions for summary judgment on all of the named plaintiffs' claims. On March 31, 2003, the U.S. District Court for the Northern District of Georgia granted summary judgment in favor of the defendants on all claims raised by all seven plaintiffs. On April 23, 2003, plaintiffs filed an appeal to the U.S. Court of Appeals for the Eleventh Circuit challenging these adverse summary judgment rulings, as well as the District Court's October 2001

ruling denying class certification. Oral argument occurred on January 27, 2004, and the parties await the court's decision. The final outcome of this matter cannot now be determined.

**Right of Way Litigation**

Southern Company and certain of its subsidiaries, including Georgia Power, Gulf Power, Mississippi Power, and Southern Telecom (collectively, defendants), have been named as defendants in numerous lawsuits brought by landowners since 2001 regarding the installation and use of fiber optic cable over defendants' rights of way located on the landowners' property. 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 by defendants exceed the easements or other property rights held by defendants. The plaintiffs assert claims for, among other things, trespass and unjust enrichment. The plaintiffs seek compensatory and punitive damages and injunctive relief. With respect to one such lawsuit brought by landowners regarding the installation and use of fiber optic cable over Gulf Power rights of way located on the landowners' property, on November 7, 2003, the Second Circuit Court in Gadsden County, Florida, ruled in favor of the plaintiffs on their motion for partial summary judgment concerning liability. The question of damages, if any, will be decided at a future trial. In the event of an adverse verdict on damages, Gulf Power could appeal the verdicts on both liability and damages. Management of Southern Company and its subsidiaries believe that the defendant companies in the pending right of way litigation have complied with applicable laws and that the plaintiffs' claims are without merit. An adverse outcome in these matters could result in substantial judgments; however, the final outcome of these matters cannot now be determined.

In addition, in late 2001, certain subsidiaries of Southern Company, including Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric, and Southern Telecom (collectively, defendants), were named as defendants in a lawsuit brought by a telecommunications company that uses certain of the defendants' 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 the telecommunications company in pending and future right of way litigation. The defendants believe that the plaintiff's claims are without merit. 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.

**Income Tax Issues**

***Synthetic Fuel Tax Credits***

Southern Company has investments in two entities that produce synthetic fuel and receive tax credits under Section 29 of the IRS revenue code. In April 2001, Southern Company acquired a 30 percent membership interest in AFP. In 1998, Southern Company acquired a 24.975 percent limited partnership interest in Carbontronics Synfuels Investors, L.P. (Carbontronics). At December 31, 2003, Southern Company's total investment in these entities was approximately $30 million.

On June 30, 2003, the IRS issued an announcement that suspended the issuance of new private letter rulings and indicated that it might also revoke existing private letter rulings for synthetic fuels Section 29 tax credits pending a review of the scientific validity of test procedures and results that have been presented as evidence that a significant chemical change occurred in such synthetic fuel. On October 29, 2003, the IRS announced that it has completed its review and determined that the test procedures and results used by taxpayers are scientifically valid if the procedures are applied in a consistent and unbiased manner. The IRS stated that the processes they approved do not produce the level of chemical change required by Section 29, but they will, nevertheless, resume issuing private letter rulings. The IRS will require taxpayers applying for future rulings to implement and maintain certain sampling and quality control procedures, as well as additional documentation and record retention procedures. The IRS also plans to extend these procedures to taxpayers already holding rulings on the issue of significant chemical change.

On October 30, 2003, the Senate Governmental Affairs Permanent Subcommittee on Investigations announced that it has begun a separate investigation of the synthetic fuel industry and its producers for potential abuses of these tax credits.

In January 2004, the IRS completed an audit of AFP for tax years 1999 and 2000. The IRS raised no issues related to the Section 29 tax credits for these years and issued a "no-change" audit report to AFP's tax matters partner. The IRS is currently auditing Carbontronics for tax years 2000 and 2001. From the inception of Southern Company's investment in these entities through December 31, 2003, Southern Company has recognized through income approximately $274 million

(net of approximately $37 million reserved) in tax credits related to its share of the synthetic fuel production at these entities.

Both entities have private letter rulings from the IRS that concluded significant chemical change occurred based on the procedures and results submitted. In addition, both entities regularly use independent laboratories and experts to test for chemical change. These tests replicated significant chemical changes consistent with the procedures submitted with the private letter rulings. Southern Company has relied on these private letter rulings and believes that the test results presented in connection with such private letter rulings are valid and that the entities have operated in compliance with their respective private letter rulings and Section 29 of the revenue code. The ultimate outcome of these matters cannot now be determined.

***Leveraged Lease Transactions***

Southern Company undergoes audits by the IRS for each of its tax years. The IRS has completed its audits of Southern Company's consolidated federal income tax returns for all years through 1999. As part of the audit for the 1996-1999 tax years, the IRS reviewed Southern Company's four international leveraged lease transactions. Based on its review, the IRS proposed to disallow the tax losses associated with one of these transactions, resulting in an additional tax payment of approximately $30 million, including interest. To finalize the audit and eliminate any additional interest charges, Southern Company made this payment to the IRS in May 2003 and filed a refund claim for this amount. On January 5, 2004, the IRS proposed to disallow the refund claim. Southern Company has accounted for the payment as a deposit. Southern Company continues to believe that the transaction remains a valid lease for U.S. tax purposes and, accordingly, intends to file a petition for refund in federal court. If Southern Company is not successful in its defense of the tax treatment for this transaction, it could also affect the timing of the related revenue recognition for book purposes. A cumulative effect adjustment could be required to reduce net income based on the revised cash flows as a result of the changes in the allowed tax deductions.

The IRS did not disallow any tax losses or make any other adjustments for the 1996-1999 period with respect to any of Southern Company's other lease transactions. However, there can be no assurance that subsequent IRS audits would not raise similar disallowance issues. See Note 1 under "Leveraged Leases" for additional information on deferred taxes arising from these transactions. The ultimate outcome of these matters cannot now be determined.

**Alabama Power Retail Rate Adjustment Procedures**

In November 1982, the Alabama Public Service Commission (APSC) adopted rates that provide for periodic adjustments based upon Alabama Power's earned return on end-of-period retail common equity. The rates also provide for adjustments to recognize the placing of new generating facilities in retail service and for the recovery of retail costs associated with certificated purchased power agreements. Both increases and decreases have been placed into effect since the adoption of these rates. Rate adjustment procedures were revised by the APSC on March 5, 2002. The new procedures provide for periodic rate adjustments annually rather than quarterly and limit any annual adjustment to 3 percent. The return on common equity range of 13 percent to 14.5 percent remained unchanged. The ratemaking procedures will remain in effect until the APSC votes to modify or discontinue them.

In accordance with the Rate Stabilization Equalization plan, a 2 percent increase in retail rates was effective in both April 2002 and October 2001, amounting to an annual increase of $55 million and $58 million, respectively. Also, to recover certificated purchased power costs, an increase of 2.6 percent in retail rates, or $79 million annually, was effective July 2003. An additional increase of $25 million annually is scheduled to be effective in June 2004 for new certificated purchased power costs.

**Georgia Power Retail Rate Orders**

In December 2001, the GPSC approved a three-year retail rate order for Georgia Power ending December 31, 2004. Retail rates were decreased by $118 million effective January 1, 2002. Under the terms of the order, earnings are evaluated against a retail return on common equity range of 10 percent to 12.95 percent. Two-thirds of any earnings above the 12.95 percent return will be applied to rate refunds, with the remaining one-third retained by Georgia Power. Georgia Power's earnings in both 2002 and 2003 were within the common equity range.

Under a previous three-year order ending December 2001, Georgia Power's earnings were evaluated against a retail return on common equity range of 10 percent to 12.5 percent. The order further provided for $85 million in each year, plus up to $50 million of any earnings above the 12.5 percent return during the second and third years, to be applied to accelerated amortization or depreciation of assets. Two-thirds of additional earnings above the

12.5 percent return were applied to rate refunds, with the remaining one-third retained by Georgia Power. Pursuant to the order, Georgia Power recorded $333 million of accelerated amortization and interest thereon, which was credited to a regulatory liability account as mandated by the GPSC.

Under the 2001 rate order, Georgia Power discontinued recording accelerated depreciation and amortization and began amortizing the accumulated balance equally over three years as a credit to expense beginning in 2002. Also, the rate order required Georgia Power to recognize capacity and operating and maintenance costs related to certified purchase power contracts evenly into rates over a three-year period ending December 31, 2004.

Georgia Power is required to file a general rate case on July 1, 2004, in response to which the GPSC would be expected to determine whether the rate order should be continued, modified, or discontinued.

**Uncontracted Generating Capacity**

On May 21, 2003, Mississippi Power and Southern Power entered into agreements with Dynegy, Inc. (Dynegy) to resolve all outstanding matters related to capacity sales contracts with subsidiaries of Dynegy. Under the terms of the agreements, Dynegy made a cash payment of $75 million to Mississippi Power and $80 million to Southern Power. The contracts between Southern Power and Dynegy were terminated in May 2003, and the Mississippi Power contract was terminated effective October 31, 2003.

The termination payments from Dynegy resulted in a one-time gain to Southern Company of approximately $88 million after tax ($38 million for Mississippi Power and $50 million for Southern Power).

As a result of these contract terminations, Southern Power is completing limited construction activities on Plant Franklin Unit 3 to preserve the long-term viability of the project but has deferred final completion until the 2008-2011 period. The length of the deferral period will depend on forecasted capacity needs and other wholesale market opportunities. As of December 31, 2003, Southern Power's investment in Unit 3 of Plant Franklin was $156 million. Southern Power is continuing to explore alternatives for its existing capacity. The final outcome of these matters cannot now be determined.

**Mississippi Power Regulatory Filing**

On December 5, 2003, Mississippi Power filed a request with the Mississippi Public Service Commission (MPSC) to modify certain portions of its Performance Evaluation Plan (PEP) and to include 266 megawatts of Plant Daniel units 3 and 4 generating capacity not currently included in jurisdictional cost of service.

As part of Mississippi Power's proposal to include the additional Plant Daniel capacity in retail rates, the MPSC issued an interim accounting order in December 2003 directing Mississippi Power to expense and record in 2003 a regulatory liability in the amount of approximately $60 million while the MPSC fully considers the entire request. However, if the MPSC ultimately denies Mississippi Power's request, the regulatory liability will be required to be reversed.

In the second quarter of 2004, Mississippi Power expects the MPSC to render a final order on the inclusion of the additional Plant Daniel capacity in rates, the amortization period for the regulatory liability, and the requested changes to PEP.

**FERC Matters**

Southern Power currently has general authorization from the FERC to sell power to nonaffiliates at market-based prices. In addition, each of the retail operating companies has obtained FERC approval to sell power to nonaffiliates at market-based prices under specific contracts. Southern Power and the retail operating companies also have FERC authority to make short-term opportunity sales at market rates. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate. In November 2001, the FERC modified the test it uses to consider utilities' applications to charge market-based rates and adopted a new test called the Supply Margin Assessment (SMA). The FERC applied the SMA to several utilities, including Southern Company, and found Southern Company and others to be "pivotal suppliers" in their service areas and ordered the implementation of several mitigation measures. Southern Company and others sought rehearing of the FERC order, and the FERC delayed the implementation of certain mitigation measures. Southern Company and others submitted comments to the FERC in 2002 regarding these issues. In December 2003, the FERC issued a staff paper discussing alternatives and held a technical conference in January 2004. Southern Company anticipates that the FERC will address the requests for rehearing in the near future. The final outcome of this matter will depend on the form in which the SMA test and mitigation measures rules may be ultimately adopted and cannot be determined at this time.

Purchased Power Agreements (PPAs) by Georgia Power and Savannah Electric for Southern Power's Plant McIntosh capacity were certified by the GPSC in December 2002 after a competitive bidding process. In April 2003, Southern Power applied for FERC approval of these PPAs. Interveners opposed the FERC's acceptance of the PPAs, alleging that the PPAs do not meet the applicable standards for market-based rates between affiliates. In July 2003, the FERC accepted the PPAs to become effective as scheduled on June 1, 2005, subject to refund, and ordered that hearings be held to determine: (a) whether, in the design and implementation of the GPSC competitive bidding process, Georgia Power and Savannah Electric unduly preferred Southern Power; (b) whether the analysis of the competitive bids unduly favored Southern Power, particularly with respect to evaluation of non-price factors; (c) whether Georgia Power and Savannah Electric selected their affiliate, Southern Power, based upon a reasonable combination of price and non-price factors; (d) whether Southern Power received an undue preference or competitive advantage in the competitive bidding process as a result of access to its affiliate's transmission system; (e) whether and to what extent the PPAs impact wholesale competition; and (f) whether the PPAs are just and reasonable and not unduly discriminatory. Hearings are scheduled to begin in March 2004. Management believes that the PPAs should be approved by the FERC; however, the ultimate outcome of this matter cannot now be determined.

## 4. JOINT OWNERSHIP AGREEMENTS

Alabama Power owns an undivided interest in units 1 and 2 of Plant Miller and related facilities jointly with Alabama Electric Cooperative, Inc.

Georgia Power owns undivided interests in plants Vogtle, Hatch, Scherer, and Wansley in varying amounts jointly with Oglethorpe Power Corporation (OPC), the Municipal Electric Authority of Georgia, the city of Dalton, Georgia, Florida Power & Light Company, and Jacksonville Electric Authority. In addition, Georgia Power has joint ownership agreements with OPC for the Rocky Mountain facilities and with Florida Power Corporation for a combustion turbine unit at Intercession City, Florida.

Southern Power owns an undivided interest in Stanton Unit A and related facilities jointly with the Orlando Utilities Commission, Kissimmee Utility Authority, and Florida Municipal Power Agency.

At December 31, 2003, Alabama Power's, Georgia Power's, and Southern Power's ownership and investment (exclusive of nuclear fuel) in jointly owned facilities with the above entities were as follows:

| | Jointly Owned Facilities | | |
|---|---|---|---|
| | Percent Ownership | Amount of Investment | Accumulated Depreciation |
| | | (in millions) | |
| Plant Vogtle (nuclear) | **45.7%** | **$3,307** | **$1,706** |
| Plant Hatch (nuclear) | **50.1** | **908** | **469** |
| Plant Miller (coal) Units 1 and 2 | **91.8** | **767** | **355** |
| Plant Scherer (coal) Units 1 and 2 | **8.4** | **115** | **52** |
| Plant Wansley (coal) | **53.5** | **390** | **160** |
| Rocky Mountain (pumped storage) | **25.4** | **169** | **85** |
| Intercession City (combustion turbine) | **33.3** | **12** | **1** |
| Plant Stanton (combined cycle) Unit A | **65.0** | **155** | **1** |

Alabama Power, Georgia Power, and Southern Power have contracted to operate and maintain the jointly owned facilities -- except for the Rocky Mountain project and Intercession City -- as agents for their respective co-owners. The companies' proportionate share of their plant operating expenses is included in the corresponding operating expenses in the Consolidated Statements of Income.

## 5. INCOME TAXES

Southern Company files a consolidated federal income tax return. In 2002, Southern Company began filing a combined state of Georgia income tax return. Under a joint consolidated income tax agreement, each subsidiary's current and deferred tax expense is computed on a stand-alone basis. In accordance with IRS regulations, each company is jointly and severally liable for the tax liability.

Mirant was included in the consolidated federal tax return through April 2, 2001. Under the terms of the separation agreement, Mirant will indemnify Southern Company for subsequent assessment of any additional taxes related to its transactions prior to the spin off. The IRS is currently auditing the consolidated tax returns for 2001 and 2000. For additional tax-related information, see Note 3 under "Mirant Bankruptcy" and "Income Tax Issues."

At December 31, 2003, the tax-related regulatory assets and liabilities were $874 million and $409 million, respectively. These assets are attributable to tax benefits flowed through to customers in prior years and to taxes applicable to capitalized interest. These liabilities are attributable to deferred taxes previously recognized at rates higher than the current enacted tax law and to unamortized investment tax credits.

Details of income tax provisions are as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | | (in millions) | |
| Total provision for income taxes: | | | |
| Federal -- | | | |
| Current | **$130** | $284 | $477 |
| Deferred | **404** | 167 | (10) |
| | **534** | 451 | 467 |
| State -- | | | |
| Current | **42** | 64 | 103 |
| Deferred | **36** | 13 | (12) |
| | **78** | 77 | 91 |
| Total | **$612** | $528 | $558 |

Net cash payments for income taxes related to continuing operations in 2003, 2002, and 2001 were $188 million, $374 million, and $558 million, respectively.

The tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases, which give rise to deferred tax assets and liabilities, are as follows:

| | **2003** | 2002 |
|---|---|---|
| | | (in millions) |
| Deferred tax liabilities: | | |
| Accelerated depreciation | **$3,737** | $3,364 |
| Property basis differences | **970** | 1,011 |
| Other | **985** | 840 |
| Total | **5,692** | 5,215 |
| Deferred tax assets: | | |
| Federal effect of state deferred taxes | **119** | 111 |
| Other property basis differences | **171** | 185 |
| Deferred costs | **128** | 188 |
| Pension and other benefits | **160** | 146 |
| Other | **483** | 428 |
| Total | **1,061** | 1,058 |
| Total deferred tax liabilities, net | **4,631** | 4,157 |
| Portion included in prepaid expenses (accrued income taxes), net | **(55)** | 33 |
| Deferred state tax assets | **10** | 13 |
| Accumulated deferred income taxes in the Consolidated Balance Sheets | **$4,586** | $4,203 |

At December 31, 2003, Southern Company also had available state of Georgia net operating loss carryforward deductions totaling $1.0 billion, which could result in net state income tax benefits of $60 million, if utilized. Less than $27 million of such deductions will expire by 2008; the remainder will expire between 2009 and 2021. During 2003, Southern Company realized $19 million in such state income tax benefits. Beginning in 2002, the state of Georgia allows the filing of a combined return, which should substantially reduce any additional net operating loss carryforwards.

In accordance with regulatory requirements, deferred investment tax credits are amortized over the lives of the related property with such amortization normally applied as a credit to reduce depreciation in the Consolidated Statements of Income. Credits amortized in this manner amounted to $29 million in 2003, $27 million in 2002, and $30 million in 2001. At December 31, 2003, all investment tax credits available to reduce federal income taxes payable had been utilized.

The provision for income taxes differs from the amount of income taxes determined by applying the applicable U.S. federal statutory rate to earnings before income taxes and preferred dividends of subsidiaries, as a result of the following:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Federal statutory rate | **35.0%** | 35.0% | 35.0% |
| State income tax, net of federal deduction | **2.4** | 2.7 | 3.7 |
| Synthetic fuel tax credits | **(5.7)** | (5.8) | (4.2) |
| Employee stock plans dividend deduction | **(1.5)** | (2.9) | – |
| Non-deductible book depreciation | **1.1** | 1.3 | 1.7 |
| Difference in prior years' deferred and current tax rate | **(0.7)** | (1.0) | (1.1) |
| Other | **(1.5)** | (0.9) | (2.2) |
| Effective income tax rate | **29.1%** | 28.4% | 32.9% |

## 6. FINANCING

### Mandatorily Redeemable Preferred Securities

Southern Company and the retail operating companies have each formed certain wholly owned trust subsidiaries for the purpose of issuing preferred securities. The proceeds of the related equity investments and preferred security sales were loaned back to Southern Company and the retail operating companies through the issuance of junior subordinated notes totaling $2.0 billion, which constitute substantially all assets of these trusts.

Southern Company and the retail operating companies each considers that the mechanisms and obligations relating to the preferred securities issued for its benefit, taken together, constitute a full and unconditional guarantee by it of the respective trusts' payment obligations with respect to these securities. At December 31, 2003, preferred securities of $1.9 billion were outstanding and recognized as liabilities in the Consolidated Balance Sheets. Southern Company guarantees the notes related to $555 million of these securities issued on its behalf.

### Long-Term Debt Due Within One Year

A summary of scheduled maturities and redemptions of long-term debt due within one year at December 31 is as follows:

| | 2003 | 2002 |
|---|---|---|
| | (in millions) | |
| First mortgage bond maturities and redemptions | $ – | $ 33 |
| Pollution control bonds | – | 1 |
| Capitalized leases | 11 | 11 |
| Senior notes | 655 | 1,552 |
| Other long-term debt | 35 | 42 |
| Total | $701 | $1,639 |

Debt redemptions and/or serial maturities through 2008 applicable to total long-term debt are as follows: $701 million in 2004; $891 million in 2005; $951 million in 2006; $975 million in 2007; and $473 million in 2008.

### Assets Subject to Lien

Each of Southern Company's subsidiaries is organized as a legal entity, separate and apart from Southern Company and its other subsidiaries. The subsidiary companies' mortgages, which secure the first mortgage bonds issued by the retail operating companies, constitute a direct first lien on substantially all of the retail operating companies' respective fixed property and franchises. Georgia Power discharged its mortgage in 2002 and the lien was removed. There are no agreements or other arrangements among the subsidiary companies under which the assets of one company have been pledged or otherwise made available to satisfy obligations of Southern Company or any of its other subsidiaries.

### Bank Credit Arrangements

At the beginning of 2004, unused credit arrangements with banks totaled $3.5 billion, of which $2.8 billion expires during 2004 and $670 million expires during 2005 and beyond. The following table outlines the credit arrangements by company:

| | Amount of Credit | | Expires | |
|---|---|---|---|---|
| Company | Total | Unused | 2004 | 2005 & beyond |
| | (in millions) | | | |
| Alabama Power | $ 865 | $ 865 | $ 865 | $ – |
| Georgia Power | 725 | 725 | 725 | – |
| Gulf Power | 56 | 56 | 56 | – |
| Mississippi Power | 100 | 100 | 100 | – |
| Savannah Electric | 80 | 60 | 40 | 20 |
| Southern Company | 1,000 | 1,000 | 1,000 | – |
| Southern Power | 650 | 650 | – | 650 |
| Other | 20 | 20 | 20 | – |
| Total | $3,496 | $3,476 | $2,806 | $670 |

Approximately $2.25 billion of the credit facilities expiring in 2004 allow the execution of term loans for an additional two-year period, and $265 million allow execution of one-year term loans. Most of these agreements include stated borrowing rates but also allow for competitive bid loans.

All of the credit arrangements require payment of commitment fees based on the unused portion of the commitments or the maintenance of compensating balances with the banks. Commitment fees are less than ⅛ of 1 percent for Southern Company and the retail operating companies and less than ⅜ of 1 percent for Southern Power. Compensating balances are not legally restricted from withdrawal. Included in the total $3.5 billion of unused credit arrangements is $2.8 billion of syndicated credit arrangements that require the payment of agent fees.

Most of Southern Company's, Southern Power's, and the retail operating companies' credit arrangements with banks have covenants that limit debt levels to 65 percent of total capitalization, as defined in the agreements. Exceeding these debt levels would result in a default under the credit arrangements. At December 31, 2003, Southern Company, Southern Power, and the retail operating companies were in compliance with their respective debt limit covenants. In addition, the credit arrangements typically contain cross default provisions that would be triggered if the borrower defaulted on other indebtedness above a specified threshold. Under the credit arrangements for Southern Company and the retail operating companies, the cross default provisions are restricted only to the indebtedness, including any guarantee obligations, of the company that has the credit arrangement with the bank. For Southern Power's bank credit arrangements, there is a cross

default to Southern Company's indebtedness, which if triggered would require prepayment of debt related to projects financed under the credit arrangement that are not complete. Southern Company has committed to fund at least 35 percent on Southern Power's construction project financing and to pay for construction overruns to the extent that Southern Power's cash flow is insufficient. Southern Company and its subsidiaries are currently in compliance with all such covenants. Borrowings under certain retail operating companies' unused credit arrangements totaling $50 million would be prohibited if the borrower experiences a material adverse change, as defined in such agreements. Initial borrowings for new projects under Southern Power's credit facility would be prohibited if Southern Power or Southern Company experiences a material adverse change, as defined in that credit facility.

A portion of the $3.5 billion unused credit with banks is allocated to provide liquidity support to the companies' variable rate pollution control bonds. The amount of variable rate pollution control bonds requiring liquidity support as of December 31, 2003, was $659 million.

Southern Company, the retail operating companies, and Southern Power borrow through commercial paper programs that have the liquidity support of committed bank credit arrangements. In addition, Southern Company and the retail operating companies from time to time borrow through extendible commercial note programs. As of December 31, 2003, no extendible commercial notes were outstanding. The amount of commercial paper outstanding at December 31, 2003, and December 31, 2002, was $568 million and $858 million, respectively. During 2003, the peak amount outstanding for commercial paper was $1.66 billion, and the average amount outstanding was $900 million. The average annual interest rate on commercial paper was 1.3 percent in 2003. Commercial paper is included in notes payable on the Consolidated Balance Sheets.

**Financial Instruments**

The retail operating companies, Southern Power, and Southern Company GAS enter into energy-related derivatives to hedge exposures to electricity, gas, and other fuel price changes. However, due to cost-based rate regulations, the retail operating companies have limited exposure to market volatility in commodity fuel prices and prices of electricity. In addition, Southern Power's exposure to market volatility in commodity fuel prices and prices of electricity is limited because its long-term sales contracts shift substantially all fuel cost responsibility to the purchaser. Each of the retail operating companies has implemented fuel-hedging programs at the instruction of their respective public service commissions. Together with Southern Power, the retail operating companies may enter into hedges of forward electricity sales. Southern Company GAS has gas-hedging programs to substantially mitigate its exposure to price volatility for its gas purchases.

At December 31, 2003, the fair value of derivative energy contracts was reflected in the financial statements as follows:

| | Amounts |
|---|---|
| | (in millions) |
| Regulatory liabilities, net | **$14.9** |
| Other comprehensive income | **1.5** |
| Net income | **(0.6)** |
| Total fair value | **$15.8** |

The fair value gains or losses for cash flow hedges that are recoverable through the regulatory fuel clauses are recorded as regulatory assets and liabilities and are recognized in earnings at the same time the hedged items affect earnings. For Southern Power and Southern Company GAS, the fair value gains or losses for cash flow hedges are recorded in other comprehensive income and are reclassified into earnings at the same time the hedged items affect earnings. For the year 2003, approximately $22 million of pre-tax gains were reclassified from other comprehensive income to fuel expense. For the year 2004, approximately $5 million of pre-tax gains are expected to be reclassified from other comprehensive income to fuel expense.

Southern Company and certain subsidiaries also enter into derivatives to hedge exposure to interest rate changes. Derivatives related to fixed rate securities are accounted for as fair value hedges. Derivatives related to variable rate securities or forecasted transactions are accounted for as cash flow hedges. The derivatives are generally structured to match the critical terms of the hedged debt instruments; therefore, no material ineffectiveness has been recorded in earnings.

At December 31, 2003, Southern Company had $3.0 billion notional amount of interest rate swaps outstanding with net fair value gains of $33 million as follows:

Fair Value Hedges

| Company | Maturity | Variable Rate Paid | Notional Amount | Fair Value Gain |
|---|---|---|---|---|
| | | | (in millions) | |
| Southern Company | 2007 | 6-month LIBOR – 0.10% | $400 | $30.9 |
| | 2009 | 6-month LIBOR + 2.92% | $40 | $0.8 |

Cash Flow Hedges

| Company | Maturity | Weighted Average Fixed Rate Paid | Notional Amount | Fair Value Gain/ (Loss) |
|---|---|---|---|---|
| | | | (in millions) | |
| Southern Company | 2004 | 3.20% | $200 | $(2.0) |
| Alabama Power | 2004 | 1.63* | 486 | (0.2) |
| | 2006 | 1.89 | 195 | 1.5 |
| | 2007 | 1.99* | 486 | 4.4 |
| Georgia Power | 2004 | 1.39* | 873 | (0.8) |
| | 2005 | 1.56 | 50 | – |
| | 2005 | 1.96 | 250 | (1.1) |
| Savannah Electric | 2004 | 2.06 | 20 | (0.1) |

*Hedged using the Bond Market Association Municipal Swap Index.

For fair value hedges where the hedged item is an asset, liability, or firm commitment, the changes in the fair value of the hedging derivatives are recorded in earnings and are offset by the changes in the fair value of the hedged item.

The fair value gain or loss for cash flow hedges is recorded in other comprehensive income and is reclassified into earnings at the same time the hedged items affect earnings. In 2003 and 2002, the company recognized losses of $116 million and $14 million, respectively, upon termination of certain interest derivatives at the same time it issued debt. These losses have been deferred in other comprehensive income and will be amortized to interest expense over the life of the related debt. For 2003, approximately $26 million of pre-tax losses were reclassified from other comprehensive income to interest expense. For 2004, pre-tax losses of approximately $22 million are expected to be reclassified from other comprehensive income to interest expense.

## 7. COMMITMENTS

### Construction Program

Southern Company is engaged in continuous construction programs, currently estimated to total $2.2 billion in 2004, $2.2 billion in 2005, and $2.6 billion in 2006. These amounts include $41 million, $31 million, and $27 million in 2004, 2005, and 2006, respectively, for construction expenditures related to contractual purhase commitments for uranium and nuclear fuel conversion, enrichment, and fabrication services included in this note under "Fuel and Purchased Power Commitments." The construction programs are subject to periodic review and revision, and actual construction costs may vary from the above estimates because of numerous factors. These factors include: changes in business conditions; acquisition of additional generating assets; revised load growth estimates; changes in environmental regulations; changes in existing nuclear plants to meet new regulatory requirements; changes in FERC rules and transmission regulations; increasing costs of labor, equipment, and materials; and cost of capital. At December 31, 2003, significant purchase commitments were outstanding in connection with the construction program. Southern Company has approximately 1,200 megawatts of additional generating capacity scheduled to be placed in service by 2005. In addition, capital improvements to generation, transmission, and distribution facilities -- including those to meet environmental standards -- will continue.

### Long-Term Service Agreements

The retail operating companies and Southern Power have entered into several Long-Term Service Agreements (LTSAs) with General Electric (GE) for the purpose of securing maintenance support for the combined cycle and combustion turbine generating facilities owned by the subsidiaries. In summary, the LTSAs stipulate that GE will perform all planned inspections on the covered equipment, which includes the cost of all labor and materials. GE is also obligated to cover the costs of unplanned maintenance on the covered equipment subject to a limit specified in each contract.

In general, except for Southern Power's Plant Dahlberg, these LTSAs are in effect through two major inspection cycles per unit. The Dahlberg agreement is in effect through the first major inspection of each unit. Scheduled payments to GE are made at various intervals based on actual operating hours of the

respective units. Total payments to GE under these agreements for facilities owned are currently estimated at $1.3 billion over the remaining life of the agreements, which may range up to 30 years. However, the LTSAs contain various cancellation provisions at the option of the purchasers.

Payments made to GE prior to the performance of any planned inspections are recorded as a prepayment in the Consolidated Balance Sheets. Inspection costs are capitalized or charged to expense based on the nature of the work performed.

**Fuel and Purchased Power Commitments**

To supply a portion of the fuel requirements of the generating plants, Southern Company has entered into various long-term commitments for the procurement of fossil and nuclear fuel. In most cases, these contracts contain provisions for price escalations, minimum purchase levels, and other financial commitments. Natural gas purchase commitments contain given volumes with prices based on various indices at the time of delivery. Amounts included in the chart below represent estimates based on New York Mercantile future prices at December 31, 2003. Also, Southern Company has entered into various long-term commitments for the purchase of electricity. Total estimated minimum long-term obligations at December 31, 2003 were as follows:

| Year | Natural Gas | Coal and Nuclear Fuel | Purchased Power |
|---|---|---|---|
| | | (in millions) | |
| 2004 | $ 814 | $2,409 | $ 139 |
| 2005 | 538 | 1,723 | 174 |
| 2006 | 491 | 1,475 | 181 |
| 2007 | 350 | 1,131 | 183 |
| 2008 | 269 | 544 | 184 |
| 2009 and thereafter | 2,763 | 182 | 918 |
| Total commitments | $5,225 | $7,464 | $1,779 |

Additional commitments for fuel will be required to supply Southern Company's future needs.

**Operating Leases**

In May 2001, Mississippi Power began the initial 10-year term of a lease agreement signed in 1999 for a combined cycle generating facility built at Plant Daniel. The facility cost approximately $370 million. In 2003, the generating facility was acquired by Juniper Capital L.P. (Juniper), whose partners are unaffiliated with Mississippi Power. Simultaneously, Juniper entered into a restructured lease agreement with Mississippi Power. Juniper has also entered into leases with other parties unrelated to Mississippi Power. The assets leased by Mississippi Power comprise less than 50 percent of Juniper's assets. In accordance with FASB Interpretation No. 46, Mississippi Power is not required to consolidate the leased assets and related liabilities, and the lease with Juniper is considered an operating lease under FASB Statement No. 13. The initial lease term ends in 2011, and the lease includes a purchase and renewal option based on the cost of the facility at the inception of the lease, which was $369 million. Mississippi Power is required to amortize approximately four percent of the initial acquisition cost over the initial lease term. Eighteen months prior to the end of the initial lease, Mississippi Power may elect to renew for 10 years. If the lease is renewed, the agreement calls for Mississippi Power to amortize an additional 17 percent of the initial completion cost over the renewal period. Upon termination of the lease, at Mississippi Power's option, it may either exercise its purchase option or the facility can be sold to a third party.

The lease provides for a residual value guarantee -- approximately 73 percent of the acquisition cost -- by Mississippi Power that is due upon termination of the lease in the event that Mississippi Power does not renew the lease or purchase the assets and that the fair market value is less than the unamortized cost of the asset. Mississippi Power has recognized in the balance sheet a liability of approximately $15 million for the fair market value of this residual value guarantee. In 2003, approximately $11 million in lease termination costs were included in operation expenses and $26 million in lease expense. The amount of future minimum operating lease payments will be approximately $29 million annually during the initial term.

Southern Company has other operating lease agreements with various terms and expiration dates. Total operating lease expenses were $156 million, $171 million, and $64 million for 2003, 2002, and 2001, respectively. At December 31, 2003, estimated minimum rental commitments for noncancelable operating leases were as follows:

| Year | Rail Cars | Other | Total |
|---|---|---|---|
| | | (in millions) | |
| 2004 | $ 36 | $ 92 | $128 |
| 2005 | 33 | 80 | 113 |
| 2006 | 28 | 67 | 95 |
| 2007 | 19 | 57 | 76 |
| 2008 | 19 | 48 | 67 |
| 2009 and thereafter | 106 | 156 | 262 |
| Total minimum payments | $241 | $500 | $741 |

For the retail operating companies, the rail car lease expenses are recoverable through fuel cost recovery provisions. In addition to the above rental commitments, Alabama Power and Georgia Power have obligations upon expiration of certain rail car leases with respect to the residual value of the leased property. These leases expire in 2004, 2006, and 2010, and the maximum obligations are $39 million, $66 million, and $40 million, respectively. At the termination of the leases, the lessee may either exercise its purchase option, or the property can be sold to a third party. Alabama Power and Georgia Power expect that the fair market value of the leased property would substantially reduce or eliminate the payments under the residual value obligations.

**Guarantees**

Southern Company has made separate guarantees to certain counterparties regarding performance of contractual commitments by Mirant's trading and marketing subsidiaries. At December 31, 2003, the total notional amount of guarantees outstanding was less than $30 million, all of which will expire by 2009. Under the terms of the separation agreement, Mirant may not enter into any new commitments under these guarantees after the spin off date and must use reasonable efforts to release Southern Company from all such support arrangements and indemnify Southern Company for any obligations incurred. Subsequent to the spin off, Mirant began paying Southern Company a fee of 1 percent annually on the average aggregate maximum principal amount of all guarantees outstanding until they are replaced or expire. However, in December 2003, Mirant notified Southern Company that the Bankruptcy Code provides relief from paying this fee.

Southern Company has executed a keep-well agreement with a subsidiary of Southern Holdings to make capital contributions in the event of any shortfall in payments due under a participation agreement with an entity in which the subsidiary holds a 30 percent investment. The maximum aggregate amount of Southern Company's liability under this keep-well agreement is $50 million.

As discussed earlier in this note under "Operating Leases," Alabama Power, Georgia Power, and Mississippi Power have entered into certain residual value guarantees. Also, Southern Company has certain contingent liabilities as discussed in Note 3 under "Mobile Energy Services' Petition for Bankruptcy."

## 8. COMMON STOCK

**Stock Issued**

Southern Company raised $470 million or 18 million shares in 2003 and $378 million or 16 million shares in 2002 from the issuance of new common shares under the company's various stock plans. Southern Company issued 2 million and 17 million treasury shares of common stock in 2002 and 2001, respectively, through various company stock plans. Proceeds from the issuance of treasury stock were $56 million in 2002 and $395 million in 2001.

**Shares Reserved**

At December 31, 2003, a total of 60 million shares was reserved for issuance pursuant to the Southern Investment Plan, the Employee Savings Plan, the Outside Directors Stock Plan, and the Omnibus Incentive Compensation Plan (stock option plan).

**Stock Option Plan**

Southern Company provides non-qualified stock options to a large segment of its employees ranging from line management to executives. As of December 31, 2003, 6,202 current and former employees participated in the stock option plan. The maximum number of shares of common stock that may be issued under this plan may not exceed 55 million. The prices of options granted to date have been at the fair market value of the shares on the dates of grant. Options granted to date become exercisable pro rata over a maximum period of three years from the date of grant. Options outstanding will expire no later than 10 years after the date of grant, unless terminated earlier by the Southern Company Board of Directors in accordance with the plan. Stock option data for the plan has been adjusted to reflect the

Mirant spin off. Activity from 2001 to 2003 for the plan is summarized below:

| | Shares Subject To Option | Average Option Price Per Share |
|---|---|---|
| Balance at December 31, 2000 | 22,566,627 | $14.92 |
| Options granted | 13,623,210 | 20.31 |
| Options canceled | (3,397,152) | 15.39 |
| Options exercised | (3,161,800) | 13.83 |
| Balance at December 31, 2001 | 29,630,885 | 17.46 |
| Options granted | 8,040,495 | 25.28 |
| Options canceled | (104,212) | 19.64 |
| Options exercised | (4,892,354) | 15.16 |
| Balance at December 31, 2002 | **32,674,814** | **19.72** |
| Options granted | **7,165,452** | **27.98** |
| Options canceled | **(183,038)** | **24.35** |
| Options exercised | **(5,725,336)** | **16.56** |
| Balance at December 31, 2003 | **33,931,892** | **$21.97** |
| Shares reserved for future grants: | | |
| At December 31, 2001 | 54,795,653 | |
| At December 31, 2002 | 46,788,994 | |
| At December 31, 2003 | **39,752,039** | |
| Options exercisable: | | |
| At December 31, 2001 | 11,965,858 | |
| At December 31, 2002 | 15,463,414 | |
| At December 31, 2003 | **18,872,769** | |

The following table summarizes information about options outstanding at December 31, 2003:

| | Dollar Price Range of Options | | |
|---|---|---|---|
| | 13-19 | 19-25 | 25-30 |
| Outstanding: | | | |
| Shares (in thousands) | **7,428** | **11,719** | **14,785** |
| Average remaining life (in years) | **4.7** | **6.2** | **8.3** |
| Average exercise price | **$15.32** | **$20.39** | **$26.57** |
| Exercisable: | | | |
| Shares (in thousands) | **7,428** | **8,303** | **3,142** |
| Average exercise price | **$15.32** | **$20.40** | **$25.49** |

The estimated fair values of stock options granted in 2003, 2002, and 2001 were derived using the Black-Scholes stock option pricing model. The following table shows the assumptions and the weighted average fair values of stock options:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Interest rate | **2.7%** | 2.8% | 4.8% |
| Average expected life of stock options (in years) | **4.3** | 4.3 | 4.3 |
| Expected volatility of common stock | **23.6%** | 26.3% | 25.4% |
| Expected annual dividends on common stock | **$1.37** | $1.34 | $1.34 |
| Weighted average fair value of stock options granted | **$3.59** | $3.37 | $2.82 |

The pro forma impact of fair-value accounting for options granted on earnings from continuing operations is as follows:

| | As Reported | Pro Forma |
|---|---|---|
| **2003** | | |
| Net income (in millions) | **$1,474** | **$1,456** |
| Earnings per share (dollars): | | |
| Basic | **$2.03** | **$2.00** |
| Diluted | **$2.02** | **$1.99** |
| 2002 | | |
| Net income (in millions) | $1,318 | $1,299 |
| Earnings per share (dollars): | | |
| Basic | $1.86 | $1.83 |
| Diluted | $1.85 | $1.82 |
| 2001 | | |
| Net income (in millions) | $1,119 | $1,102 |
| Earnings per share (dollars): | | |
| Basic | $1.62 | $1.60 |
| Diluted | $1.61 | $1.59 |

**Diluted Earnings Per Share**

For Southern Company, the only difference in computing basic and diluted earnings per share is attributable to outstanding options under 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:

| | Average Common Stock Shares | | |
|---|---|---|---|
| | **2003** | 2002 | 2001 |
| | | (in thousands) | |
| As reported shares | **726,702** | 708,161 | 689,352 |
| Effect of options | **5,202** | 5,409 | 4,191 |
| Diluted shares | **731,904** | 713,570 | 693,543 |

### Common Stock Dividend Restrictions

The income of Southern Company is derived primarily from equity in earnings of its subsidiaries. At December 31, 2003, consolidated retained earnings included $3.9 billion of undistributed retained earnings of the subsidiaries. Of this amount, $313 million was restricted against the payment by the subsidiary companies of cash dividends on common stock under terms of bond indentures.

In accordance with the PUHCA, the subsidiaries are also restricted from paying common dividends from paid-in capital without SEC approval.

## 9. NUCLEAR INSURANCE

Under the Price-Anderson Amendments Act of 1988, Alabama Power and Georgia Power maintain agreements of indemnity with the NRC that, together with private insurance, cover third-party liability arising from any nuclear incident occurring at the companies' nuclear power plants. The act provides funds up to $10.9 billion for public liability claims that could arise from a single nuclear incident. Each nuclear plant is insured against this liability to a maximum of $300 million by American Nuclear Insurers (ANI), with the remaining coverage provided by a mandatory program of deferred premiums that could be assessed, after a nuclear incident, against all owners of nuclear reactors. A company could be assessed up to $101 million per incident for each licensed reactor it operates but not more than an aggregate of $10 million per incident to be paid in a calendar year for each reactor. Such maximum assessment, excluding any applicable state premium taxes, for Alabama Power and Georgia Power -- based on its ownership and buyback interests -- is $201 million and $203 million, respectively, per incident, but not more than an aggregate of $20 million per company to be paid for each incident in any one year. The Price-Anderson Amendments Act expired in August 2002; however, the indemnity provisions of the act remain in place for commercial nuclear reactors.

Alabama Power and Georgia Power are members of Nuclear Electric Insurance Limited (NEIL), a mutual insurer established to provide property damage insurance in an amount up to $500 million for members' nuclear generating facilities.

Additionally, both companies have policies that currently provide decontamination, excess property insurance, and premature decommissioning coverage up to $2.25 billion for losses in excess of the $500 million primary coverage. This excess insurance is also provided by NEIL.

NEIL also covers the additional costs that would be incurred in obtaining replacement power during a prolonged accidental outage at a member's nuclear plant. Members can purchase this coverage, subject to a deductible waiting period of up to 26 weeks, with a maximum per occurrence per unit limit of $490 million. After this deductible period, weekly indemnity payments would be received until either the unit is operational or until the limit is exhausted in approximately three years. Alabama Power and Georgia Power each purchase the maximum limit allowed by NEIL subject to ownership limitations. Each facility has elected a 12 week waiting period.

Under each of the NEIL policies, members are subject to assessments if losses each year exceed the accumulated funds available to the insurer under that policy. The current maximum annual assessments for Alabama Power and Georgia Power under the NEIL policies would be $36 million and $40 million, respectively.

Following the terrorist attacks of September 2001, both ANI and NEIL confirmed that terrorist acts against commercial nuclear power plants would be covered under their insurance. Both companies, however, revised their policy terms on a prospective basis to include an industry aggregate for all "non-certified" terrorist acts, i.e., acts that are not certified acts of terrorism pursuant to the Terrorism Risk Insurance Act of 2002 (TRIA). The NEIL aggregate -- applies to non-certified claims stemming from terrorism within a 12-month duration -- is $3.24 billion plus any amounts available through reinsurance or indemnity from an outside source. The non-certified ANI cap is a $300 million shared industry aggregate. Any act of terrorism that is certified pursuant to the TRIA will not be subject to the foregoing NEIL and ANI limitations but will be subject to the TRIA annual aggregate limitation of $100 billion of insured losses arising from certified acts of terrorism. The TRIA will expire on December 31, 2005.

For all on-site property damage insurance policies for commercial nuclear power plants, the NRC requires that the proceeds of such policies shall be dedicated first for the sole purpose of placing the reactor in a safe and stable condition after an accident. Any remaining proceeds are to be applied next toward the costs of decontamination and debris removal operations ordered by the NRC, and any further remaining proceeds are to be paid either to the company or to its bond trustees as may be appropriate under the policies and applicable trust indentures.

All retrospective assessments -- whether generated for liability, property, or replacement power -- may be subject to applicable state premium taxes.

## 10. SEGMENT AND RELATED INFORMATION

Southern Company's reportable business segment is the sale of electricity in the Southeast by the five retail operating companies and Southern Power. Net income and total assets for discontinued operations are included in the reconciling eliminations column. 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 synthetic fuels and leveraged lease projects, telecommunications, energy-related services, and natural gas marketing. Intersegment revenues are not material. Financial data for business segments and products and services are as follows:

### Business Segments

| | Electric Utilities | | | | | | |
|---|---|---|---|---|---|---|---|
| | Retail Operating Companies | Southern Power | Eliminations | Total | All Other | Eliminations | Consolidated |
| | | | | (in millions) | | | |
| **2003** | | | | | | | |
| Operating revenues | **$10,502** | **$ 682** | **$(437)** | **$10,747** | **$ 526** | **$ (22)** | **$11,251** |
| Depreciation and amortization | **933** | **39** | **–** | **972** | **55** | **–** | **1,027** |
| Interest income | **33** | **–** | **–** | **33** | **6** | **(3)** | **36** |
| Interest expense | **542** | **32** | **–** | **574** | **107** | **(3)** | **678** |
| Income taxes | **760** | **85** | **–** | **845** | **(233)** | **–** | **612** |
| Segment net income (loss) | **1,269** | **155** | **–** | **1,424** | **50** | **–** | **1,474** |
| Total assets | **31,412** | **2,409** | **(122)** | **33,699** | **1,671** | **(325)** | **35,045** |
| Gross property additions | **1,625** | **344** | **–** | **1,969** | **33** | **–** | **2,002** |

| | Electric Utilities | | | | | | |
|---|---|---|---|---|---|---|---|
| | Retail Operating Companies | Southern Power | Eliminations | Total | All Other | Eliminations | Consolidated |
| | | | | (in millions) | | | |
| 2002 | | | | | | | |
| Operating revenues | $10,109 | $ 299 | $(202) | $10,206 | $ 365 | $ (22) | $10,549 |
| Depreciation and amortization | 970 | 18 | – | 988 | 59 | – | 1,047 |
| Interest income | 19 | – | – | 19 | 10 | (7) | 22 |
| Interest expense | 559 | 9 | – | 568 | 105 | (6) | 667 |
| Income taxes | 749 | 28 | – | 777 | (249) | – | 528 |
| Segment net income (loss) | 1,242 | 54 | – | 1,296 | 23 | (1) | 1,318 |
| Total assets | 30,367 | 2,086 | (78) | 32,375 | 1,881 | (535) | 33,721 |
| Gross property additions | 1,773 | 1,215 | (390) | 2,598 | 119 | – | 2,717 |

| | Electric Utilities | | | | | | |
|---|---|---|---|---|---|---|---|
| | Retail Operating Companies | Southern Power | Eliminations | Total | All Other | Eliminations | Consolidated |
| | | | (in millions) | | | | |
| 2001 | | | | | | | |
| Operating revenues | $ 9,883 | $ 29 | $ (6) | $ 9,906 | $ 267 | $ (18) | $10,155 |
| Depreciation and amortization | 1,141 | 3 | – | 1,144 | 29 | – | 1,173 |
| Interest income | 21 | – | – | 21 | 8 | (2) | 27 |
| Interest expense | 590 | 1 | – | 591 | 137 | (2) | 726 |
| Income taxes | 700 | 2 | – | 702 | (144) | – | 558 |
| Segment net income (loss) | 1,141 | 8 | – | 1,149 | (30) | 143 | 1,262 |
| Gross property additions | 2,444 | 751 | (630) | 2,565 | 52 | – | 2,617 |

**Products and Services**

| | Electric Utilities Revenues | | | |
|---|---|---|---|---|
| Year | Retail | Wholesale | Other | Total |
| | | (in millions) | | |
| **2003** | **$8,875** | **$1,358** | **$514** | **$10,747** |
| 2002 | 8,728 | 1,168 | 310 | 10,206 |
| 2001 | 8,440 | 1,174 | 292 | 9,906 |

## 11. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial data for 2003 and 2002 are as follows:

| | | | | Per Common Share (Note) | | | |
|---|---|---|---|---|---|---|---|
| | Operating | Operating | Consolidated | Basic | | Price Range | |
| Quarter Ended | Revenues | Income | Net Income | Earnings | Dividends | High | Low |
| | | (in millions) | | | | | |
| **March 2003** | **$2,548** | **$ 605** | **$298** | **$0.41** | **$0.3425** | **$30.81** | **$27.71** |
| **June 2003** | **2,845** | **806** | **432** | **0.60** | **0.3425** | **31.81** | **27.94** |
| **September 2003** | **3,318** | **1,118** | **619** | **0.85** | **0.3500** | **30.53** | **27.76** |
| **December 2003** | **2,540** | **366** | **125** | **0.17** | **0.3500** | **30.40** | **28.65** |
| March 2002 | $2,214 | $ 526 | $224 | $0.32 | $0.3350 | $26.78 | $24.49 |
| June 2002 | 2,630 | 676 | 332 | 0.47 | 0.3350 | 28.39 | 25.65 |
| September 2002 | 3,248 | 1,089 | 595 | 0.84 | 0.3425 | 29.02 | 23.89 |
| December 2002 | 2,457 | 355 | 167 | 0.23 | 0.3425 | 30.85 | 25.17 |

Southern Company's business is influenced by seasonal weather conditions

[This page intentionally left blank]

## SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA 1999-2003

**Southern Company and Subsidiary Companies 2003 Annual Report**

| | **2003** | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| **Operating Revenues** (in millions) | **$11,251** | $10,549 | $10,155 | $10,066 | $9,317 |
| **Total Assets** (in millions) | **$35,045** | $33,721 | $31,856 | $33,282 | $31,102 |
| **Gross Property Additions** (in millions) | **$2,002** | $2,717 | $2,617 | $2,225 | $1,881 |
| **Return on Average Common Equity** (percent) | **16.05** | 15.79 | 13.51 | 13.20 | 13.43 |
| **Cash Dividends Paid Per Share of Common Stock** | **$1.385** | $1.355 | $1.34 | $1.34 | $1.34 |
| **Consolidated Net Income** (in millions). | | | | | |
| Continuing operations | **$1,474** | $1,318 | $1,120 | $ 994 | $ 915 |
| Discontinued operations | **–** | – | 142 | 319 | 361 |
| Total | **$1,474** | $1,318 | $1,262 | $1,313 | $1,276 |
| **Earnings Per Share From Continuing Operations --** | | | | | |
| Basic | **$2.03** | $1.86 | $1.62 | $1.52 | $1.33 |
| Diluted | **2.02** | 1.85 | 1.61 | 1.52 | 1.33 |
| **Earnings Per Share Including Discontinued Operations --** | | | | | |
| Basic | **$2.03** | $1.86 | $1.83 | $2.01 | $1.86 |
| Diluted | **2.02** | 1.85 | 1.82 | 2.01 | 1.86 |
| **Capitalization** (in millions): | | | | | |
| Common stock equity | **$ 9,648** | $ 8,710 | $ 7,984 | $10,690 | $ 9,204 |
| Preferred stock | **423** | 298 | 368 | 368 | 369 |
| Long-term debt | **12,064** | 11,094 | 10,573 | 10,089 | 9,497 |
| Total excluding amounts due within one year | **$22,135** | $20,102 | $18,925 | $21,147 | $19,070 |
| **Capitalization Ratios** (percent): | | | | | |
| Common stock equity | **43.6** | 43.3 | 42.2 | 50.6 | 48.3 |
| Preferred stock | **1.9** | 1.5 | 1.9 | 1.7 | 1.9 |
| Long-term debt | **54.5** | 55.2 | 55.9 | 47.7 | 49.8 |
| Total excluding amounts due within one year | **100.0** | 100.0 | 100.0 | 100.0 | 100.0 |
| **Other Common Stock Data** (Note): | | | | | |
| Book value per share (year-end) | **$13.13** | $12.16 | $11.43 | $15.69 | $13.82 |
| Market price per share (dollars): | | | | | |
| High | **$31.810** | $30.850 | $26.000 | $35.000 | $29.625 |
| Low | **27.710** | 23.890 | 16.152 | 20.375 | 22.063 |
| Close | **30.250** | 28.390 | 25.350 | 33.250 | 23.500 |
| Market-to-book ratio (year-end) (percent) | **230.4** | 233.5 | 221.8 | 211.9 | 170.0 |
| Price-earnings ratio (year-end) (times) | **14.9** | 15.3 | 15.6 | 16.5 | 12.6 |
| Dividends paid (in millions) | **$1,004** | $958 | $922 | $873 | $921 |
| Dividend yield (year-end) (percent) | **4.6** | 4.8 | 5.3 | 4.0 | 5.7 |
| Dividend payout ratio (percent) | **68.1** | 72.8 | 82.4 | 66.5 | 72.2 |
| Shares outstanding (in thousands). | | | | | |
| Average | **726,702** | 708,161 | 689,352 | 653,087 | 685,163 |
| Year-end | **734,829** | 716,402 | 698,344 | 681,158 | 665,796 |
| Stockholders of record (year-end) | **134,068** | 141,784 | 150,242 | 160,116 | 174,179 |
| **Customers** (year-end) (in thousands). | | | | | |
| Residential | **3,552** | 3,496 | 3,441 | 3,398 | 3,339 |
| Commercial | **564** | 553 | 539 | 527 | 513 |
| Industrial | **14** | 14 | 14 | 14 | 15 |
| Other | **6** | 5 | 4 | 5 | 4 |
| Total | **4,136** | 4,068 | 3,998 | 3,944 | 3,871 |
| **Employees** (year-end) | **25,762** | 26,178 | 26,122 | 26,021 | 26,269 |

Note: Common stock data in 2001 declined as a result of the Mirant spin off.

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| **Operating Revenues** (in millions): | | | | | |
| Residential | **$ 3,565** | $ 3,556 | $ 3,247 | $ 3,361 | $3,107 |
| Commercial | **3,075** | 3,007 | 2,966 | 2,918 | 2,745 |
| Industrial | **2,146** | 2,078 | 2,144 | 2,289 | 2,238 |
| Other | **89** | 87 | 83 | 32 | – |
| Total retail | **8,875** | 8,728 | 8,440 | 8,600 | 8,090 |
| Sales for resale within service area | **403** | 393 | 338 | 377 | 350 |
| Sales for resale outside service area | **955** | 775 | 836 | 600 | 473 |
| Total revenues from sales of electricity | **10,233** | 9,896 | 9,614 | 9,577 | 8,913 |
| Other revenues | **1,018** | 653 | 541 | 489 | 404 |
| Total | **$11,251** | $10,549 | $10,155 | $10,066 | $9,317 |
| **Kilowatt-Hour Sales** (in millions): | | | | | |
| Residential | **47,833** | 48,784 | 44,538 | 46,213 | 43,402 |
| Commercial | **48,372** | 48,250 | 46,939 | 46,249 | 43,387 |
| Industrial | **54,415** | 53,851 | 52,891 | 56,746 | 56,210 |
| Other | **998** | 1,000 | 977 | 970 | 945 |
| Total retail | **151,618** | 151,885 | 145,345 | 150,178 | 143,944 |
| Sales for resale within service area | **10,610** | 10,597 | 9,388 | 9,579 | 9,440 |
| Sales for resale outside service area | **29,910** | 21,954 | 21,380 | 17,190 | 12,929 |
| Total | **192,138** | 184,436 | 176,113 | 176,947 | 166,313 |
| **Average Revenue Per Kilowatt-Hour** (cents). | | | | | |
| Residential | **7.45** | 7.29 | 7.29 | 7.27 | 7.16 |
| Commercial | **6.36** | 6.23 | 6.32 | 6.31 | 6.33 |
| Industrial | **3.94** | 3.86 | 4.05 | 4.03 | 3.98 |
| Total retail | **5.85** | 5.75 | 5.81 | 5.73 | 5.62 |
| Sales for resale | **3.35** | 3.59 | 3.82 | 3.65 | 3.68 |
| Total sales | **5.33** | 5.37 | 5.46 | 5.41 | 5.36 |
| **Average Annual Kilowatt-Hour Use Per Residential Customer** | **13,562** | 14,036 | 13,014 | 13,702 | 13,107 |
| **Average Annual Revenue Per Residential Customer** | **$1,010.82** | $1,023.18 | $948.83 | $996.44 | $938.39 |
| **Plant Nameplate Capacity Owned** (year-end) (megawatts) | **38,679** | 36,353 | 34,579 | 32,807 | 31,425 |
| **Maximum Peak-Hour Demand** (megawatts): | | | | | |
| Winter | **31,318** | 25,939 | 26,272 | 26,370 | 25,203 |
| Summer | **32,949** | 32,355 | 29,700 | 31,359 | 30,578 |
| **System Reserve Margin** (at peak) (percent) | **21.4** | 13.3 | 19.3 | 8.1 | 8.5 |
| **Annual Load Factor** (percent) | **62.0** | 51.1 | 62.0 | 60.2 | 59.2 |
| **Plant Availability** (percent): | | | | | |
| Fossil-steam | **87.7** | 84.8 | 88.1 | 86.8 | 83.3 |
| Nuclear | **94.4** | 90.3 | 90.8 | 90.5 | 89.9 |
| **Source of Energy Supply** (percent) | | | | | |
| Coal | **66.4** | 65.7 | 67.5 | 72.3 | 73.1 |
| Nuclear | **14.8** | 14.7 | 15.2 | 15.1 | 15.7 |
| Hydro | **3.8** | 2.6 | 2.6 | 1.5 | 2.3 |
| Gas | **8.8** | 11.4 | 8.4 | 4.0 | 2.8 |
| Purchased power | **6.2** | 5.6 | 6.3 | 7.1 | 6.1 |
| Total | **100.0** | 100.0 | 100.0 | 100.0 | 100.0 |

[This page intentionally left blank]

ALABAMA POWER COMPANY

FINANCIAL SECTION

## MANAGEMENT'S REPORT

**Alabama Power Company 2003 Annual Report**

The management of Alabama Power Company has prepared -- and is responsible for -- the financial statements and related information included in this report. These statements were prepared in accordance with accounting principles generally accepted in the United States and necessarily include amounts that are based on the best estimates and judgments of management. Financial information throughout this annual report is consistent with the financial statements.

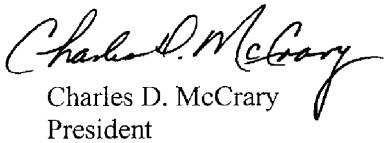
The Company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that the accounting records reflect only authorized transactions of the Company. Limitations exist in any system of internal controls, however, based on a recognition that the cost of the system should not exceed its benefits. The Company believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

The Company's internal accounting controls are evaluated on an ongoing basis by the Company's internal audit staff. The Company's independent public accountants also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

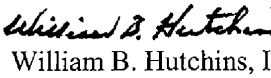
Southern Company's audit committee of its board of directors, composed of four independent directors, provides a broad overview of management's financial reporting and control functions. Additionally, the controls and compliance committee of Alabama Power's board of directors, composed of three outside directors, meets periodically with management, the internal auditors, and the independent public accountants to discuss auditing, internal controls, and compliance matters. The internal auditors and independent public accountants have access to the members of these committees at any time.

Management believes that its policies and procedures provide reasonable assurance that the Company's operations are conducted according to a high standard of business ethics.

In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of Alabama Power Company in conformity with accounting principles generally accepted in the United States.



Charles D. McCrary
President
and Chief Executive Officer



William B. Hutchins, III
Executive Vice President,
Chief Financial Officer, and Treasurer

March 1, 2004

## INDEPENDENT AUDITORS' REPORT

**Alabama Power Company:**

We have audited the accompanying balance sheets and statements of capitalization of Alabama Power Company (a wholly owned subsidiary of Southern Company) as of December 31, 2003 and 2002, and the related statements of income, comprehensive income, common stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of Alabama Power Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Alabama Power Company for the year ended December 31, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements and included an explanatory paragraph that described a change in the method of accounting for derivative instruments and hedging activities in their report dated February 13, 2002.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements (pages II-83 to II-105) present fairly, in all material respects, the financial position of Alabama Power Company at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in 2003 Alabama Power Company changed its method of accounting for asset retirement obligations.

Deloitte & Touche LLP

Birmingham, Alabama
March 1, 2004

**THE FOLLOWING REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS IS A COPY OF THE REPORT PREVIOUSLY ISSUED IN CONNECTION WITH THE COMPANY'S 2001 ANNUAL REPORT AND HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP. SEE EXHIBIT 23(b)2 FOR ADDITIONAL INFORMATION.**

**To Alabama Power Company:**

We have audited the accompanying balance sheets and statements of capitalization of Alabama Power Company (an Alabama corporation and a wholly owned subsidiary of Southern Company) as of December 31, 2001 and 2000, and the related statements of income, common stockholder's equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements (pages II-58 through II-76) referred to above present fairly, in all material respects, the financial position of Alabama Power Company as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 1 to the financial statements, effective January 1, 2001, Alabama Power Company changed its method of accounting for derivative instruments and hedging activities.

Arthur Andersen LLP

Birmingham, Alabama
February 13, 2002

## OVERVIEW OF EARNINGS AND BUSINESS ACTIVITIES

### *Earnings*

Alabama Power Company's 2003 net income after dividends on preferred stock was $473 million, representing a $12 million (2.5 percent) increase from the prior year. This improvement is due primarily to higher sales for resale, increases in other revenues, and lower interest expense, partially offset by higher non-fuel operating expenses.

In 2002, earnings were $461 million, representing a 19.3 percent increase from the prior year. This improvement was primarily attributable to increased territorial energy sales and higher retail rates when compared to the prior year. More favorable weather conditions in 2002 as compared to the unusually mild weather experienced in 2001 contributed to the increases in territorial sales. The increases in revenues were partially offset by increased non-fuel operating expenses. Earnings in 2001 were $387 million, representing a 7.9 percent decrease from the prior year. This decline was primarily attributable to a decrease in territorial energy sales as a result of an economic downturn and milder temperatures.

The return on average common equity for 2003 was 13.75 percent compared to 13.80 percent in 2002 and 11.89 percent in 2001.

### *Business Activities*

The Company operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located within the State of Alabama and to wholesale customers in the Southeast.

Several factors affect the opportunities, challenges, and risk of the Company's primary business of selling electricity. These factors include the ability to maintain a stable regulatory environment, to achieve energy sales growth while containing costs, and to recover costs related to growing demand and increasingly stricter environmental standards. Future earnings in the near term will depend, in part, upon growth in 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 elasticity of demand, and the rate of economic growth in the service area.

## RESULTS OF OPERATIONS

A condensed income statement is as follows:

| | Amount | Increase (Decrease) From Prior Year | | |
|---|---|---|---|---|
| | **2003** | **2003** | 2002 | 2001 |
| | | (in millions) | | |
| Operating revenues | **$3,960** | **$250** | $124 | $(81) |
| Fuel | **1,068** | **98** | (31) | 38 |
| Purchased power | **315** | **66** | (44) | (56) |
| Other operation and maintenance | **921** | **67** | 71 | (56) |
| Depreciation and amortization | **413** | **15** | 15 | 19 |
| Taxes other than income taxes | **228** | **11** | 2 | 5 |
| Total operating expenses | **2,945** | **257** | 13 | (50) |
| Operating income | **1,015** | **(7)** | 111 | (31) |
| Other income (expense), net | **(252)** | **17** | 7 | (15) |
| Less -- Income taxes | **290** | **(2)** | 44 | (13) |
| Net Income | **$ 473** | **$ 12** | $ 74 | $(33) |

### *Revenues*

Operating revenues for 2003 were nearly $4.0 billion, reflecting a $250 million increase from 2002. The following table summarizes the principal factors that have affected operating revenues for the past three years:

| | Amount | | |
|---|---|---|---|
| | **2003** | 2002 | 2001 |
| | | (in millions) | |
| Retail -- prior year | **$2,951** | $2,748 | $2,953 |
| Change in - | | | |
| Base rates | **51** | 76 | 23 |
| Sales growth | **68** | 70 | (36) |
| Weather | **(61)** | 60 | (62) |
| Fuel cost recovery and other | **42** | (3) | (130) |
| Retail -- current year | **3,051** | 2,951 | 2,748 |
| Sales for resale -- | | | |
| Non-affiliates | **488** | 474 | 486 |
| Affiliates | **277** | 188 | 245 |
| Total sales for resale | **765** | 662 | 731 |
| Other operating revenues | **144** | 97 | 107 |
| Total operating revenues | **$3,960** | $3,710 | $3,586 |
| Percent change | **6.7%** | 3.5% | (2.2)% |

Retail revenues in 2003 were $3.1 billion. Revenues increased $100 million (3.4 percent) from the prior year, increased $203 million (7.4 percent) in 2002, and decreased $205 million (6.9 percent) in 2001. All sectors of retail revenues increased for the Company in 2003 primarily due to increased fuel revenue and a 2.6 percent increase in retail base rates which went into effect in July 2003. See Note 3 to the financial statements under "Retail Rate Adjustment Procedures" for additional information.

The primary contributors to the increase in revenues in 2002, shown in the table above, were the positive effect of favorable weather conditions on energy sales and increases in retail base rates (0.6 percent increase in July 2001 and 2 percent increases in both October 2001 and April 2002). The Company mitigated the effect of these increases to customers with a decrease to the energy cost recovery factor in April 2002.

The revenue decrease in 2001 was primarily due to the negative impact of milder temperatures on energy sales and an economic downturn in the Company's service territory.

Fuel rates billed to customers are designed to fully recover fluctuating fuel costs over a period of time. At December 31, 2003, the Company had no unrecovered fuel costs. Fuel revenues have no effect on net income because they represent the recording of revenues to offset fuel expenses.

Sales for resale to non-affiliates are predominantly unit power sales under long-term contracts to Florida utilities. Revenues from power sales 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. These capacity and energy components of the unit power contracts were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | | (in thousands) | |
| Unit power - | | | |
| Capacity | **$130,022** | $119,193 | $124,720 |
| Energy | **145,342** | 134,051 | 134,006 |
| Total | **$275,364** | $253,244 | $258,726 |

There are no significant scheduled declines in unit power sales capacity until the termination of the unit power sales contracts in 2010.

Short-term opportunity energy sales are also included in sales for resale to non-affiliates. These opportunity sales are made at market rates that generally include the recovery of fixed costs and a return, in addition to the variable energy cost. Revenues associated with other power sales to non-affiliates were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | | (in thousands) | |
| Other power sales - | | | |
| Capacity and other | **$33,858** | $14,613 | $ 13,324 |
| Variable cost of energy | **44,627** | 61,925 | 91,608 |
| Total | **$78,485** | $76,538 | $104,932 |

Revenues from sales to affiliated companies within the Southern electric system, as well as purchases of energy, will vary from year to year depending on demand and the availability and cost of generating resources at each company. Sales for resale revenues increased $26.6 million in 2003 due to increased capacity payments received in accordance with the affiliated company interchange agreements as a result of increased capacity. Excluding the capacity revenues, these transactions do not have a significant impact on earnings since the energy is generally sold at marginal cost and energy purchases are generally offset by energy revenues through the Company's energy cost recovery clause.

Other operating revenues in 2003 increased $47 million (48.6 percent) from 2002 due to an increase of $19.4 million in revenues from gas-fueled co-generation steam facilities -- primarily as a result of higher gas prices -- and a $14.8 million increase in revenues from Alabama Public Service Commission (Alabama PSC) approved fees charged to customers for connection, reconnection, and collection when compared to the same period in 2002. Since co-generation steam revenues are generally offset by fuel expenses, these revenues did not have a significant impact on earnings.

The $11 million (9.9 percent) decrease in other operating revenues in 2002 resulted primarily from a $7.0 million decrease in revenues from gas-fueled co-generation steam facilities due to lower gas prices and lower demand. The $21 million (23.9 percent) increase in 2001 was primarily attributed to a $6.4 million increase in steam sales in conjunction with the operation of the Company's co-generation facilities, a $5.3 million increase in fuel sales, and a $5.1 million increase in rent from electric property.

*Energy Sales*

Changes in revenues are influenced heavily by the volume of energy sold each year. Kilowatt-hour (KWH) sales for 2003 and the percent change by year were as follows:

| | KWH | Percent Change | | |
|---|---|---|---|---|
| | **2003** | **2003** | 2002 | 2001 |
| | (millions) | | | |
| Residential | **16,960** | **(2.5)%** | 9.6% | (5.3)% |
| Commercial | **13,452** | **0.7** | 4.4 | (1.5) |
| Industrial | **21,593** | **2.3** | 3.1 | (7.4) |
| Other | **203** | **(1.1)** | 3.7 | (3.9) |
| Total retail | **52,208** | **0.3** | 5.5 | (5.2) |
| Sales for resale - | | | | |
| Non-affiliates | **17,086** | **9.9** | 1.8 | 2.9 |
| Affiliates | **9,422** | **6.5** | - | 64.7 |
| Total | **78,716** | **2.9** | 4.1 | 1.6 |

Residential energy sales for 2003 experienced a 2.5 percent decrease over the prior year and total retail energy sales grew by 0.3 percent primarily as a result of milder-than-normal summer temperatures compared to the previous year. Although retail sales to industrial customers increased 2.3 percent in 2003 and 3.1 percent in 2002, overall sales to industrial customers remained depressed due to the continuing effect of sluggish economic conditions.

Residential energy sales for 2002 experienced a 9.6 percent increase over the prior year and total retail energy sales grew by 5.5 percent primarily as a result of warmer summer temperatures and colder winter weather conditions compared to the previous year.

The decrease in 2001 retail energy sales was primarily due to milder temperatures and an economic downturn in the Company's service area. This was offset by an increase in sales for resale to affiliates. Increased operation of the Company's combined cycle facilities due to lower natural gas prices and an increase in the Company's combined cycle capacity contributed to the increase in sales for resale.

Assuming normal weather, sales to retail customers are projected to grow approximately 1.7 percent annually on average during 2004 through 2008.

*Expenses*

The total operating expenses in 2003 were approximately $3.0 billion, an increase of $257 million (9.6 percent) over the previous year. This increase is mainly due to a $98 million increase in fuel expense primarily related to an increase in the average cost of natural gas and coal. In addition, purchased power expenses increased a total of $66 million, maintenance expense increased $30 million primarily related to transmission and distribution overhead lines, and depreciation and amortization expense increased $15 million.

In 2002, total operating expenses of $2.7 billion increased by $13 million (0.5 percent) over the previous year. This slight increase was mainly due to a $35 million increase in administrative and general expenses primarily related to employee salaries, insurance expense, and accrued expenses for liability insurance, litigation and workers compensation, a $19 million increase in production expenses related to boiler plant maintenance, and a $15 million increase in depreciation and amortization expenses due to an increase in depreciable property. These increases were offset by a $43 million decrease in purchased power expenses and a $14 million decrease in fuel expenses related to lower coal prices.

In 2001, total operating expenses of $2.7 billion were down $50 million (1.8 percent) compared with 2000. This decline was mainly due to an $18 million net decrease in fuel and purchased power costs related to lower fuel prices, increased hydro generation and added capacity. The Company also had a $56 million decrease in non-production operation and maintenance expense related to settlements received in connection with the Company's insurance program, lower costs related to services provided by Southern Company Services (SCS) and Southern Nuclear Operating Company, and a reduction to the natural disaster reserve accrual. These decreases in expense were partially offset by a $19 million increase in depreciation and amortization due to an increase in depreciable property.

Fuel costs constitute the single largest expense for the Company. The mix of fuel sources for generation of electricity is determined primarily by demand, the unit cost of fuel consumed, and the availability of fossil and nuclear generating units and hydro generation. The amount and sources of generation and the average cost of fuel per net KWH generated and the average cost of purchased power were as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Total generation (billions of KWHs) | **72** | 71 | 68 |
| Sources of generation (percent) -- | | | |
| Coal | **64** | 62 | 64 |
| Nuclear | **19** | 19 | 18 |
| Hydro | **8** | 6 | 6 |
| Gas | **9** | 13 | 12 |
| Average cost of fuel per net kilowatt-hour generated (cents) | **1.67** | 1.47 | 1.56 |
| Average cost of purchased power per net kilowatt-hour (cents) | **3.56** | 2.91 | 3.28 |

In 2003, total fuel and purchased power expenses of $1.4 billion increased $164 million (13.4 percent) over 2002 due to a 58.3 percent increase in average gas prices and a 2.2 percent increase in average coal prices. Fuel and purchased power expenses in 2002 of $1.2 billion decreased $75 million (5.8 percent) due primarily to lower average fuel cost, while total energy sales increased 3.0 billion kilowatt hours (4.1 percent) compared with the amounts recorded in 2001. Fuel and purchased power expenses in 2001 decreased $18 million (1.4 percent) compared to 2000 because of reduced generation due to milder temperatures in 2001. Fuel expenses, including purchased power, are offset by fuel revenues through the Company's energy cost recovery clause and have no effect on net income.

Purchased power consists of purchases from affiliates in the Southern electric system and non-affiliated companies. Purchased power transactions among the Company and its affiliates will vary from period to period depending on demand, the availability, and the variable production cost of generating resources at each company. In 2003, purchased power from non-affiliates increased $20 million (22 percent) due to a 19.3 percent increase in price and a 9.5 percent increase in energy purchased when compared to 2002. During 2002, purchased power transactions from non-affiliates decreased $54 million (37 percent) due to the addition in May 2001 of a combined cycle unit which generated 6.1 billion kilowatt hours in 2002, an 18.4 percent increase over the previous year. Purchased power transactions from non-affiliates also declined in 2001 because of the addition of the combined cycle unit and an increase in hydro generation resulting in a $20 million (12 percent) decline from the year 2000.

Depreciation and amortization expense increased 3.6 percent in 2003, 3.9 percent in 2002, and 5.2 percent in 2001. These increases reflect additions to property, plant, and equipment.

Allowance for Equity Funds Used During Construction (AFUDC) increased $1.4 million (12.8 percent) in 2003 due to an increase in the applicable AFUDC rate. AFUDC increased $4 million (57.5 percent) in 2002 due to an increase in the amount of construction work in progress over the prior year. AFUDC decreased $16 million (68.9 percent) in 2001 due to completing construction of Plant Barry Unit 7 and placing it in service in May 2001.

Interest expense, net of amounts capitalized, of $214 million in 2003 decreased $11.4 million (5.1 percent) from 2002, which had decreased $21 million (8.4 percent) from 2001. Both years reflect a decrease in interest rates on long-term debt due to refinancing activities. Interest expense increased $11 million (4.7 percent) in 2001 compared to 2000.

## Effects of Inflation

The Company is subject to rate regulation that is based on the recovery of historical costs. In addition, the income tax laws are also based on historical costs. Therefore, inflation creates an economic loss because the Company is recovering its costs of investments in dollars that have less purchasing power. While the inflation rate has been relatively low in recent years, it continues to have an adverse effect on the Company because of the large investment in utility plant with long economic lives. Conventional accounting for historical cost does not recognize this economic loss nor the partially offsetting gain that arises through financing facilities with fixed-money obligations, such as long-term debt and preferred securities. Any recognition of inflation by regulatory authorities is reflected in the rate of return allowed.

## Future Earnings Potential

### *General*

The results of operations for the past three years are not necessarily indicative of future earnings potential. The level of the Company's future earnings depends on numerous factors. Major factors include the ability of the Company to maintain a stable regulatory environment, to achieve energy sales growth while containing costs, and to recover costs related to growing demand and increasingly

stricter environmental standards. Growth in energy sales 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 elasticity of demand, and the rate of economic growth in the Company's service area.

***Industry Restructuring***

The Company operates as a vertically integrated utility providing electricity to customers within its traditional service area located in the State of Alabama and to wholesale customers in the Southeast.

The electric utility industry in the United States is continuing to evolve as a result of regulatory and competitive factors. Among the early primary agents of change was the Energy Policy Act of 1992 (Energy Act). The Energy Act allowed independent power producers to access a utility's transmission network and sell electricity to other utilities.

Although the Energy Act does not provide for retail customer access, it was a major catalyst for restructuring and consolidations that took place within the utility industry. Numerous federal and state initiatives that promote wholesale and retail competition are in varying stages. Among other things, these initiatives allow retail customers in some states to choose their electricity provider. Some states have approved initiatives that result in a separation of the ownership and/or operation of generating facilities from the ownership and/or operation of transmission and distribution facilities. While various restructuring and competition initiatives have been discussed in Alabama, none have been enacted. In October 2000, the Alabama PSC completed a two-year study of electric industry restructuring, concluding that (i) restructuring of the electric utility industry in Alabama was not in the public interest and (ii) the Alabama PSC itself could not mandate retail competition or electric industry restructuring without enabling state legislation. Electric utility restructuring could require numerous issues to be resolved, including significant ones relating to recovery of any stranded investments, full cost recovery of energy produced, and other issues related to the energy crisis that occurred in California as well as the August 2003 power outage in the Northeast.

Since 2001, merchant energy companies and traditional electric utilities with significant energy marketing and trading activities have come under severe financial pressures. Many of these companies have completely exited or drastically reduced all energy marketing and trading activities and sold foreign and domestic electric infrastructure assets. The Company has not experienced any material adverse financial impact regarding its limited energy trading operations through SCS.

Continuing to be a low-cost producer could provide opportunities to increase the size and profitability in markets that evolve with changing regulation and competition. Conversely, future regulatory changes could adversely affect the Company's growth, and if the Company does not remain a low-cost producer and provide quality service, then energy sales growth could be limited, and this could significantly erode earnings.

***Environmental Matters***

*New Source Review Actions*

In November 1999, the Environmental Protection Agency (EPA) brought a civil action against the Company alleging that the Company had violated the New Source Review (NSR) provisions of the Clean Air Act with respect to coal-fired generating facilities at the Company's Plants Miller, Barry, and Gorgas. The civil action requests penalties and injunctive relief, including an order requiring the installation of the best available control technology at the affected units. The action against the Company has been stayed since the spring of 2001 during the appeal of a very similar NSR action against the Tennessee Valley Authority before the U.S. Court of Appeals for the Eleventh Circuit. The Eleventh Circuit appeal was decided on September 16, 2003, and, on February 13, 2004, the EPA petitioned the U.S. Supreme Court to review the Eleventh Circuit's decision. The EPA also filed a motion to lift the stay in the action against the Company. See Note 3 to the financial statements under "New Source Review Actions" for additional information.

In December 2002 and October 2003, the EPA issued final revisions to its NSR regulations under the Clean Air Act. The December 2002 revisions included changes to the regulatory exclusions and the methods of calculating emissions increases. The October 2003 regulations clarified the scope of the existing Routine Maintenance, Repair, and Replacement exclusion. A coalition of states and environmental organizations filed petitions for review of these revisions with the U.S. Court of Appeals for the District of Columbia Circuit. On December 24, 2003, the Court of Appeals granted a stay of the October 2003 revisions pending its review of the rules and ordered that

its review be conducted on an expedited basis. In January 2004, the Bush Administration announced that it would continue to enforce the existing rules until the courts resolve legal challenges to the EPA's revised NSR regulations. In any event, the final regulations must be adopted by the State of Alabama in order to apply to the Company's facilities. The effect of these final regulations and the related legal challenges cannot be determined at this time.

The Company believes that it complied with applicable laws and the EPA's regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes civil penalties of up to $27,500 per day, per violation at each generating unit. Prior to January 30, 1997, the penalty was $25,000 per day. An adverse outcome in this matter could require substantial capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. This could affect future results of operations, cash flows, and possibly financial condition if such costs are not recovered through regulated rates.

*Environmental Statutes and Regulations*

The Company's operations are subject to extensive regulation by state and federal environmental agencies under a variety of statutes and regulations governing environmental media, including air, water, and land resources. Compliance with these environmental requirements will involve significant costs -- both capital and operating -- a major portion of which is expected to be recovered through existing ratemaking provisions. Environmental costs that are known and estimable at this time are included in capital expenditures discussed under "Capital Requirements and Contractual Obligations." There is no assurance, however, that all such costs will, in fact, be recovered.

Compliance with the federal Clean Air Act and resulting regulations has been and will continue to be a significant focus for the Company. The Title IV acid rain provisions of the Clean Air Act, for example, required significant reductions in sulfur dioxide and nitrogen oxide emissions. Title IV compliance, effective in 2000, and associated construction expenditures totaled approximately $88 million. Some of these expenditures also assisted the Company in complying with nitrogen oxide emission reduction requirements under Title I of the Clean Air Act, which were designed to address one-hour ozone nonattainment problems in Birmingham, Alabama. In December 2000, the Alabama Department of Environmental Management (ADEM) adopted revisions to the State Implementation Plan (SIP) for meeting the one-hour ozone standard. These revisions required additional nitrogen oxide emission reductions from May through September of each year at plants in and/or near those nonattainment areas. Two plants in the Birmingham area are currently subject to those requirements, the most recent of which went into effect in 2003. Construction expenditures for compliance with the nitrogen oxide emission reduction requirements are estimated to be approximately $249 million.

To help ozone nonattainment areas attain the one-hour ozone standard, the EPA issued regional nitrogen oxide reduction rules in 1998. Those rules required 21 states, including Alabama, to reduce and cap nitrogen oxide emissions from power plants and other large industrial sources. Affected sources, including five of the Company's coal-fired plants, must comply with the reduction requirements by May 31, 2004. Additional construction expenditures for compliance with these rules are currently estimated at approximately $361 million, of which $317 million remains to be spent.

In July 1997, the EPA revised the national ambient air quality standards for ozone and particulate matter. These revisions made the standards significantly more stringent. In the subsequent litigation of these standards, the U.S. Supreme Court found the EPA's implementation program for the new eight-hour ozone standard unlawful and remanded it to the EPA for further rulemaking. During 2003, the EPA proposed implementation rules designed to address the court's concerns. The EPA plans to designate areas as attainment or nonattainment with the new eight-hour ozone standard in April 2004 and with the new fine particulate matter standard by the end of 2004. These designations will be based on air quality data for 2001 through 2003. Several areas within the Company's service area are likely to be designated nonattainment under these standards. SIPs, including new emission control regulations necessary to bring those areas into attainment, could be required as early as 2007. These SIPs could require reductions in sulfur dioxide emissions and could require further reductions in nitrogen oxide emissions from power plants. If so, reductions could be required sometime after 2007. The impact of any new standards will depend on the development and implementation of applicable regulations and cannot be determined at this time.

In January 2004, the EPA issued a proposed Interstate Air Quality Rule to address interstate transport of ozone and fine particles. This proposed rule would require additional year-round sulfur dioxide and nitrogen oxide emission reductions from power plants in the eastern United States in two phases – in 2010 and 2015. The EPA currently plans to finalize this rule by 2005. If finalized, the rule could modify or supplant other SIP requirements for attainment of the fine particulate matter standard and the eight-hour ozone standard. The impact of this rule on the Company will depend upon the specific requirements of the final rule and cannot be determined at this time.

Further reductions in sulfur dioxide and nitrogen oxides could also be required under the EPA's Regional Haze rules. The Regional Haze rules require states to establish Best Available Retrofit Technology (BART) standards for certain sources that contribute to regional haze. The Company has a number of plants that could be subject to these rules. The EPA's Regional Haze program calls for states to submit SIPs in 2007. The SIPs must contain emission reduction strategies for implementing BART and achieving progress toward the Clean Air Act's visibility improvement goal. In 2002, however, the U.S. Court of Appeals for the District of Columbia Circuit vacated and remanded the BART provisions of the federal Regional Haze rules to the EPA for further rulemaking. The EPA has entered into an agreement that requires proposed revised rules in April 2004 and final rules in 2005. Because new BART rules have not been developed and state visibility assessments for progress are only beginning, it is not possible to determine the effect of these rules on the Company at this time.

The EPA's Compliance Assurance Monitoring (CAM) regulations under Title V of the Clean Air Act require that monitoring be performed to ensure compliance with emissions limitations on an ongoing basis. In 2004 and 2005, a number of the Company's plants will likely become subject to CAM requirements for at least one pollutant, in most cases particulate matter. The Company is in the process of developing CAM plans. Because the plans are still under development, the Company cannot determine the costs associated with implementation of the CAM regulations. Actual ongoing monitoring costs are expensed as incurred and are not material for any year presented.

In January 2004, the EPA issued proposed rules regulating mercury emissions from electric utility boilers. The proposal solicits comments on two possible approaches for the new regulations – a Maximum Achievable Control Technology approach and a cap-and-trade approach. Either approach would require significant reductions in mercury emissions from Company facilities. The regulations are scheduled to be finalized by the end of 2004, and compliance could be required as early as 2007. Because the regulations have not been finalized, the impact on the Company cannot be determined at this time.

Several major bills to amend the Clean Air Act to impose more stringent emissions limitations on power plants have been proposed by Congress. Three of these, the Bush Administration's Clear Skies Act, the Clean Power Act of 2003, and the Clean Air Planning Act of 2003, propose to further limit power plant emissions of sulfur dioxide, nitrogen oxides, and mercury. The latter two bills also propose to limit emissions of carbon dioxide. The cost impacts of such legislation would depend upon the specific requirements enacted and cannot be determined at this time.

Domestic efforts to limit greenhouse gas emissions, have been spurred by international discussions surrounding the Framework Convention on Climate Change and, specifically, the Kyoto Protocol, which proposes international constraints on the emissions of greenhouse gases. The Bush Administration does not support U.S. ratification of the Kyoto Protocol or other mandatory carbon dioxide reduction legislation and has instead announced a new voluntary climate initiative, known as Climate VISION, which seeks an 18 percent reduction by 2012 in the rate of greenhouse gas emissions relative to the dollar value of the U.S. economy. The Company is involved in a voluntary electric utility industry sector climate change initiative in partnership with the government. The electric utility sector has pledged to reduce its greenhouse gas intensity 3 percent to 5 percent over the next decade and is in the process of developing a memorandum of understanding with the Department of Energy (DOE) to cover this voluntary program.

The Company must comply with other environmental laws and regulations that cover the handling and disposal of waste and releases of hazardous substances. Under these various laws and regulations, the Company could incur substantial costs to clean up properties. The Company conducts studies to determine the extent of any required cleanup and will recognize in its financial statements costs to clean up known sites. Amounts for cleanup and ongoing monitoring costs were not material

for any new year presented. The Company may be liable for some or all required cleanup costs for additional sites that may require environmental remediation. The Company has not incurred any significant cleanup costs to date.

Under the Clean Water Act, the EPA has been developing new rules aimed at reducing impingement and entrainment of fish and fish larvae at power plants' cooling water intake structures. On February 16, 2004, the EPA finalized these rules. These rules will require biological studies and, perhaps, retrofits to some intake structures at existing power plants. The impact of these new rules will depend on the results of studies and analyses performed as part of the rules' implementation.

In addition, under the Clean Water Act, the EPA and the ADEM are developing total maximum daily loads (TMDLs) for certain impaired waters. Establishment of maximum loads by the EPA or the ADEM may result in lowering permit limits for various pollutants and a requirement to take additional measures to control non-point source pollution (e.g., storm water runoff) at facilities that discharge into waters for which TMDLs are established. Because the effect on the Company will depend on the actual TMDLs and permit limitations established by the implementing agency, it is not possible to determine the effect on the Company at this time.

Several major pieces of environmental legislation are periodically considered for reauthorization or amendment by Congress. These include: the Clean Air Act; the Clean Water Act; the Comprehensive Environmental Response, Compensation, and Liability Act; the Resource Conservation and Recovery Act; the Toxic Substances Control Act; the Emergency Planning & Community Right-to-Know Act; and the Endangered Species Act.

Compliance with possible additional federal or state legislation or regulations related to global climate change, electromagnetic fields, or other environmental and health concerns could also significantly affect the Company. The impact of any new legislation, changes to existing legislation, or environmental regulations could affect many areas of the Company's operations. The full impact of any such changes cannot, however, be determined at this time.

***FERC Matters***

*Transmission*

In December 1999, the Federal Energy Regulatory Commission (FERC) issued its final rule (Order 2000) on Regional Transmission Organizations (RTOs). Order 2000 encouraged utilities owning transmission systems to form RTOs on a voluntary basis. Through Southern Company, the Company worked with a number of utilities in the Southeast to develop a for-profit RTO known as SeTrans. In 2002, the sponsors of SeTrans established a Stakeholder Advisory Committee to provide input into the development of the RTO from other sectors of the electric industry, as well as consumers. During the development of SeTrans, state regulatory authorities expressed concern over certain aspects of the FERC's policies regarding RTOs. In December 2003, the SeTrans sponsors announced that they would suspend work on SeTrans because the regulated utility participants, including Southern Company's retail operating companies, had determined that it was highly unlikely to obtain support of both federal and state regulatory authorities. Any impact of the FERC's rule on the Company will depend on the regulatory reaction to the suspension of SeTrans and future developments, which cannot now be determined.

In July 2002, the FERC issued a notice of proposed rulemaking regarding open access transmission service and standard electricity market design. The proposal, if adopted, would among other things: (1) require transmission assets of jurisdictional utilities to be operated by an independent entity; (2) establish a standard market design; (3) establish a single type of transmission service that applies to all customers; (4) assert jurisdiction over the transmission component of bundled retail service; (5) establish a generation reserve margin; (6) establish bid caps for day ahead and spot energy markets; and (7) revise the FERC policy on the pricing of transmission expansions. Comments on the proposal were submitted by many interested parties, including Southern Company and the Company, and the FERC has indicated that it has revised certain aspects of the proposal in response to public comments. Proposed energy legislation would prohibit the FERC from issuing the final rule before October 31, 2006, and from making any final rule effective before December 31, 2006. That legislation has been approved by the House of Representatives but remains pending before the Senate. Passage of the legislation now appears in doubt. It is uncertain whether in the absence of legislation the FERC will move forward

with any part or all of the proposed rule. Any impact of this proposal on the Company will depend on the form in which the final rule may be ultimately adopted. However, the Company's financial statements could be adversely affected by changes in the transmission regulatory structure in its regional power market.

*Hydro Relicensing*

In 2002, the Company initiated the relicensing process for the Company's seven hydroelectric projects on the Coosa River (Weiss, Henry, Logan Martin, Lay, Mitchell, Jordan, and Bouldin) and the Smith and Bankhead Projects on the Warrior River. The FERC licenses for all of these nine projects expire in 2007. Upon or after the expiration of each license, the United States Government, by act of Congress, may take over the project or the FERC may relicense the project either to the original licensee or to a new licensee. The FERC may grant relicenses subject to certain requirements that could result in additional costs to the Company.

*Market-Based Rate Authority*

The Company has obtained FERC approval to sell power to nonaffiliates at market-based prices under specific contracts. Through SCS, as agent, the Company also has FERC authority to make short-term opportunity sales at market rates. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate. In November 2001, the FERC modified the test it uses to consider utilities' applications to charge market-based rates and adopted a new test called the Supply Margin Assessment (SMA). The FERC applied the SMA to several utilities, including Southern Company's retail operating companies, and found them to be "pivotal suppliers" in their service areas and ordered the implementation of several mitigation measures. SCS, on behalf of the retail operating companies, sought rehearing of the FERC order, and the FERC delayed the implementation of certain mitigation measures. SCS, on behalf of the retail operating companies, submitted comments to the FERC in 2002 regarding these issues. In December 2003, the FERC issued a staff paper discussing alternatives and held a technical conference in January 2004. The Company anticipates that the FERC will address the requests for rehearing in the near future. Regardless of the outcome of the SMA proposal, the FERC retains the ability to modify or withdraw the authorization for any seller to sell at market-based rates, if it determines that the underlying conditions for having such authority are no longer applicable. The final outcome of this matter will depend on the form in which the SMA test and mitigation measures rules may be ultimately adopted and cannot be determined at this time.

***Other Matters***

In accordance with Financial Accounting Standards Board (FASB) Statement No. 87, Employers' Accounting for Pensions, the Company recorded non-cash pension income, before tax, of approximately $52 million, $56 million, and $57 million in 2003, 2002, and 2001, respectively. Future pension income is dependent on several factors including trust earnings and changes to the plan. The decline in pension income is expected to continue and become an expense as early as 2011. Postretirement benefit costs for the Company were $23 million, $23 million, and $21 million in 2003, 2002, and 2001, respectively, and are expected to continue to trend upward. A portion of pension income and postretirement benefit costs is capitalized based on construction-related labor charges. Pension income or expense and postretirement benefit costs are a component of the regulated rates and generally do not have a long-term effect on net income. For more information regarding pension and postretirement benefits, see Note 2 to the financial statements.

Prices for electricity provided by the Company to retail customers are set by the Alabama PSC under cost-based regulatory principles. Rates for the Company can be adjusted periodically within certain limitations based on earned retail rate of return compared with an allowed return range. Increases in retail rates of 2 percent were effective in both April 2002 and October 2001 in accordance with the Rate Stabilization Equalization plan.

The rates also provide for adjustments to recognize the placing of new generating facilities into retail service and the recovery of retail costs associated with certificated purchased power agreements (PPAs) under Rate CNP (Certificated New Plant). Effective July 2001, the Company's retail rates were adjusted by 0.6 percent under Rate CNP to recover costs for Plant Barry Unit 7, which was placed into commercial operation on May 1, 2001. Effective July 2003, the Company's retail rates were adjusted by approximately 2.6% under Rate CNP as a result of two new certificated PPAs that began in June 2003. See Note 3 to the financial statements under "Retail Rate Adjustment Procedures" for additional information.

On December 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act). The Medicare Act introduces a prescription drug benefit for Medicare-eligible retirees starting in 2006, as well as a federal subsidy to plan sponsors like the Company that provide prescription drug benefits. In accordance with FASB Staff Position No. 106-1, the Company has elected to defer recognizing the effects of the Medicare Act for its postretirement plans under FASB Statement No. 106, Employers' Accounting for Postretirement Benefits Other than Pension until authoritative guidance on accounting for the federal subsidy is issued or until a significant event occurs that would require remeasurement of the plans' assets and obligations. The Company anticipates that the benefits it pays after 2006 will be lower as a result of the Medicare Act; however, the retiree medical obligations and costs reported in Note 2 to the financial statements do not reflect these changes. The final accounting guidance could require changes to previously reported information.

Nuclear security legislation was recently introduced and considered in Congress both as a free-standing bill in the Senate and as a part of comprehensive energy legislation in a House-Senate Conference Report. Neither of the proposals has been enacted. The Nuclear Regulatory Commission (NRC) also ordered additional security measures for licensees in 2003. The Company is in the process of implementation and must be in full compliance with these orders by October 29, 2004. The requirements of the latest orders will have an impact on the Company's Plant Farley and will result in increased operation and maintenance expenses as well as additional capital expenditures. The precise impact of the new requirements will depend upon the details of the implementation of the new requirements, which have not been finalized.

The Company filed an application with the NRC in September 2003 to extend the operating license for Plant Farley for an additional 20 years. If approved by the NRC, the Company's depreciation and amortization expense could be reduced pending approval by the Alabama PSC.

The Company is involved in various matters being litigated and regulatory matters that could affect future earnings. See Note 3 to the financial statements for information regarding material issues.

## ACCOUNTING POLICIES

### Application of Critical Accounting Policies and Estimates

The Company 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. In the application of these policies, certain estimates are made that may have a material impact on the Company's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. Senior management has discussed the development and selection of the critical accounting policies and estimates described below with the Controls and Compliance Committee of the Company's Board of Directors and the Audit Committee of Southern Company's Board of Directors.

#### *Electric Utility Regulation*

The Company is subject to retail regulation by the Alabama PSC and wholesale regulation by the FERC. These regulatory agencies set the rates the Company is permitted to charge customers based on allowable costs. As a result, the Company applies FASB Statement No. 71, Accounting for the Effects of Certain Types of Regulation. Through the ratemaking process, the regulators may require the inclusion of costs or revenues in periods different than when they would be recognized by a non-regulated company. This treatment may result in the deferral of expenses and the recording of related regulatory assets based on anticipated future recovery through rates or the deferral of gains or creation of liabilities and the recording of related regulatory liabilities. The application of Statement No. 71 has a further effect on the Company's financial statements as a result of the estimates of allowable costs used in the ratemaking process. These estimates may differ from those actually incurred by the Company; therefore, the accounting estimates inherent in specific costs such as depreciation, nuclear decommissioning, and pension and post-retirement benefits have less of a direct impact on the Company's results of operations than they would on a non-regulated company.

As reflected in Note 1 to the financial statements under "Regulatory Assets and Liabilities," significant regulatory assets and liabilities have been recorded. Management reviews the ultimate recoverability of

these regulatory assets and liabilities based on applicable regulatory guidelines. However, adverse legislation and judicial or regulatory actions could materially impact the amounts of such regulatory assets and liabilities and could adversely impact the Company's financial statements.

*Contingent Obligations*

The Company is subject to a number of federal and state laws and regulations, as well as other factors and conditions that potentially subject it to environmental, litigation, income tax, and other risks. See "Future Earnings Potential" and Note 3 to the financial statements for more information regarding certain of these contingencies. The Company periodically evaluates its exposure to such risks and records reserves for those matters where a loss is considered probable and reasonably estimable in accordance with generally accepted accounting principles. The adequacy of reserves can be significantly affected by external events or conditions that can be unpredictable; thus, the ultimate outcome of such matters could materially affect the Company's financial statements. These events or conditions include the following:

- Changes in existing state or federal regulation by governmental authorities having jurisdiction over air quality, water quality, control of toxic substances, hazardous and solid wastes, and other environmental matters.
- Changes in existing income tax regulations or changes in Internal Revenue Service interpretations of existing regulations.
- Identification of sites that require environmental remediation or the filing of other complaints in which the Company may be asserted to be a potentially responsible party.
- Identification and evaluation of other potential lawsuits or complaints in which the Company may be named as a defendant.
- Resolution or progression of existing matters through the legislative process, the court systems, or the EPA.

**New Accounting Standards**

Prior to January 2003, the Company accrued for the ultimate cost of retiring most long-lived assets over the life of the related asset through depreciation expense. FASB Statement No. 143, Accounting for Asset Retirement Obligations established new accounting and reporting standards for legal obligations associated with the ultimate cost of retiring long-lived assets. The present value of the ultimate costs of an asset's future retirement is recorded in the period in which the liability is incurred. The costs are capitalized as part of the related long-lived asset and depreciated over the asset's useful life. Additionally, non-regulated companies are no longer permitted to continue accruing future retirement costs for long-lived assets that they do not have a legal obligation to retire. For more information regarding the impact of adopting this standard effective January 1, 2003, see Note 1 to the financial statements under "Asset Retirement Obligations and Other Costs of Removal."

FASB Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which further amends and clarifies the accounting and reporting for derivative instruments, became effective generally for financial instruments entered into or modified after June 30, 2003. Current interpretations of Statement No. 149 indicate that certain electricity forward transactions subject to unplanned netting -- including those typically referred to as "book outs" -- may only qualify as cash flow hedges if an entity can demonstrate that physical delivery or receipt of power occurred. The Company's forward electricity contracts continue to be exempt from fair value accounting requirements or to qualify as cash flow hedges, with the related gains and losses deferred in other comprehensive income. The implementation of Statement No. 149 did not have a material effect on the Company's financial statements.

In July 2003, the Emerging Issues Task Force (EITF) of FASB issued EITF No. 03-11, which became effective on October 1, 2003. The standard addresses the reporting of realized gains and losses on derivative instruments and is being interpreted to require book outs to be recorded on a net basis in operating revenues. Adoption of this standard did not have a material impact on the Company's financial statements.

FASB Interpretation No. 46, Consolidation of Variable Interest Entities, which was originally issued in January 2003, requires the primary beneficiary of a variable interest entity to consolidate the related assets and liabilities. In December 2003, the FASB revised Interpretation No. 46 and deferred the effective date until March 31, 2004 for interests held in variable interest entities other than special purpose entities.

Current analysis indicates that the trusts established by the Company to issue preferred securities are variable interest entities under Interpretation No. 46, and that the

Company is not the primary beneficiary of these trusts. If this conclusion is finalized, effective March 31, 2004, the trust assets and liabilities -- including the preferred securities issued by the trusts -- will be deconsolidated. The investments in the trusts and the loans from the trusts to the Company will be reflected as equity method investments and as long-term notes payable to affiliates, respectively, on the Balance Sheets. Based on December 31, 2003 values, this treatment would result in an increase of approximately $9 million to both total assets and total liabilities. See Note 6 to the financial statements under "Mandatorily Redeemable Preferred Securities" for additional information.

In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, which requires classification of certain financial instruments within its scope, including shares that are mandatorily redeemable, as liabilities. Statement No. 150 was effective for financial instruments entered into or modified after May 31, 2003, and otherwise on July 1, 2003. In accordance with Statement No. 150, mandatorily redeemable preferred securities are reflected in the Balance Sheets as liabilities. The adoption of Statement No. 150 had no impact on the Statements of Income and Cash Flows.

## FINANCIAL CONDITION AND LIQUIDITY

### Overview

Over the last several years, the Company's financial condition has remained stable with emphasis on cost control measures combined with significantly lower cost of capital, achieved through the refinancing and/or redemption of higher-cost long-term debt and preferred stock. The Company operated at high levels of reliability while achieving industry-leading customer satisfaction levels and continuing to have retail prices below the national average.

The Company had gross property additions of $649 million in 2003. The majority of funds needed for gross property additions for the last several years have been provided from operating activities. The Statements of Cash Flows provide additional details.

The Company's ratio of common equity to total capitalization -- including short-term debt -- was 43.3 percent in 2003, 42.6 percent in 2002, and 42.8 percent in 2001. See Note 6 to the financial statements for additional information.

### Sources of Capital

The Company plans to obtain the funds required for construction and other purposes from sources similar to those used in the past, which were primarily from operating cash flows. However, the type and timing of any financings -- if needed -- will depend on market conditions and regulatory approval. In recent years, financings primarily have utilized unsecured debt and preferred securities.

The Company obtains financing separately without credit support from any affiliate. The Southern Company system does not maintain a centralized cash or money pool. Therefore, funds of the Company are not commingled with funds of any other company. In accordance with the Public Utility Holding Company Act, most loans between affiliated companies must be approved in advance by the Securities and Exchange Commission (SEC).

The Company's current liabilities exceed current assets because of securities due within one year. The Company intends to refinance debt that comes due during 2004.

To meet short-term cash needs and contingencies, the Company has various internal and external sources of liquidity. At the beginning of 2004, the Company had approximately $43 million of cash and cash equivalents and $865 million of unused credit arrangements with banks, as shown in the following table. In addition, the Company has substantial cash flow from operating activities and access to the capital markets, including commercial paper programs, to meet liquidity needs. Cash flows from operating activities were $1,118 million in 2003, $973 million in 2002, and $843 million in 2001.

At the beginning of 2004, bank credit arrangements are as follows:

| | | Expires | |
|---|---|---|---|
| Total | Unused | 2004 | 2005 & Beyond |
| | | (in millions) | |
| $865 | $865 | $865 | - |

Approximately $450 million of the credit facilities expiring in 2004 allow for the execution of term loans for an additional two-year period and $245 million allow for the execution for a one-year period. See Note 6 to the

financial statements under "Bank Credit Arrangements" for additional information.

The Company may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper and extendible commercial notes at the request and for the benefit of the Company and the other Southern Company retail operating companies. Proceeds from such issuances for the benefit of the Company are loaned directly to the Company and are not commingled with proceeds from such issuances for the benefit of any other operating company. The obligations of each company under these arrangements are several; there is no cross affiliate credit support. At December 31, 2003, the Company had no commercial paper outstanding.

**Financing Activities**

In 2003, the Company's financing costs decreased due to lower interest rates despite the issuance of an increased amount of senior securities during the year. New issues during 2001 through 2003 totaled $3.3 billion and retirement or repayment of higher-cost securities totaled $2.8 billion.

Composite financing rates for long-term debt, preferred stock, and preferred securities for the years 2001 through 2003, as of year-end, were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Long-term debt interest rate | **4.42%** | 5.05% | 5.72% |
| Preferred securities distribution rate | **5.25** | 5.25 | 6.96 |
| Preferred stock dividend rate | **5.10** | 5.17 | 4.79 |

Subsequent to December 31, 2003, the Company has entered into interest rate hedging transactions related to the anticipated refinancing of $470 million of securities due within one year. Also, an additional $300 million of securities have been issued for other general corporate purposes including repayment of outstanding short-term indebtedness and the funding of the Company's continuous construction program.

**Credit Rating Risk**

The Company does not have any credit agreements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are contracts that could require collateral -- but not accelerated payment -- in the event of a credit rating change to below investment grade. These contracts are primarily for physical electricity purchases and sales, fixed-price physical gas purchases, and agreements covering interest rate swaps. At December 31, 2003, the maximum potential collateral requirements under the electricity purchase and sale contracts were approximately $26.7 million. Generally, collateral may be provided for by a Company guaranty, a letter of credit, or cash. At December 31, 2003, there were no material collateral requirements for the gas purchase contracts or other financial instrument agreements.

**Market Price Risk**

Due to cost-based rate regulations, the Company has limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. To manage the volatility attributable to these exposures, the Company nets the exposures to take advantage of natural offsets and enters into various derivative transactions for the remaining exposures pursuant to the Company's policies in areas such as counterparty exposure and hedging practices. Company policy is that derivatives are to be used primarily for hedging purposes. Derivative positions are monitored using techniques that include market valuation and sensitivity analysis.

To mitigate exposure to interest rates, the Company has entered into interest rate swaps that have been designated as hedges. The weighted average interest rate on outstanding variable long-term debt, that has not been hedged at December 31, 2003 was 1.38 percent. If the Company sustained a 100 basis point change in interest rates for all unhedged variable rate long-term debt, the change would affect annualized interest expense by approximately $0.5 million at December 31, 2003. The Company is not aware of any facts or circumstances that would significantly affect such exposures in the near term. For further information, see Notes 1 and 6 to the financial statements under "Financial Instruments."

To mitigate residual risks relative to movements in electricity prices, the Company enters into fixed price contracts for the purchase and sale of electricity through the wholesale electricity market, and, to a lesser extent, into similar contracts for gas purchases.

In addition, in October 2001, the Alabama PSC approved a revision to the Company's Rate ECR (Energy Cost Recovery) allowing the recovery of specific costs associated with the sales of natural gas that become necessary due to operating considerations at its electric

generating facilities. This revision also includes the cost of financial instruments used for hedging market price risk up to 75 percent of the budgeted annual amount of natural gas purchases. The Company may not engage in natural gas hedging activities that extend beyond a rolling 42-month window. Also, the premiums paid for natural gas financial options may not exceed 5 percent of the Company's natural gas budget for that year.

At December 31, 2003, exposure from these activities was not material to the Company's financial position, results of operations, or cash flows. The changes in fair value of derivative energy contracts and year-end valuations were as follows:

| | Changes in Fair Value | |
|---|---|---|
| | **2003** | 2002 |
| | (in thousands) | |
| Contracts beginning of year | **$ 21,402** | $ 214 |
| Contracts realized or settled | **(38,809)** | (21,088) |
| New contracts at inception | **-** | - |
| Changes in valuation techniques | **-** | - |
| Current period changes | **23,820** | 42,276 |
| Contracts end of year | **$ 6,413** | $ 21,402 |

| | Source of 2003 Year-End Valuation Prices | | |
|---|---|---|---|
| | Total | Maturity | |
| | Fair Value | 2004 | 2005-2006 |
| | (in thousands) | | |
| Actively quoted | **$6,413** | **$7,803** | **$(1,390)** |
| External sources | **-** | **-** | **-** |
| Models and other methods | **-** | **-** | **-** |
| Contracts end of Year | **$6,413** | **$7,803** | **$(1,390)** |

Unrealized gains and losses from mark to market adjustments on derivative contracts related to the Company's fuel hedging programs are recorded as regulatory assets and liabilities. Realized gains and losses from these programs are included in fuel expense and are recovered through the Company's fuel cost recovery clause. Gains and losses on derivative contracts that are not designated as hedges are recognized in the income statement as incurred. At December 31, 2003, the fair value of derivative energy contracts was reflected in the financial statements as follows:

| | Amounts |
|---|---|
| | (in thousands) |
| Regulatory liabilities, net | **$6,402** |
| Net income | **11** |
| Total fair value | **$6,413** |

Unrealized pre-tax gains (losses) on energy contracts of $(0.1) million, $(2.0) million, and $2.0 million were recognized in income in 2003, 2002, and 2001, respectively. The Company is exposed to market price risk in the event of nonperformance by counterparties to the derivative energy contracts. The Company's policy is to enter into agreements with counterparties that have investment grade credit ratings by Moody's and Standard & Poor's or with counterparties who have posted collateral to cover potential credit exposure. Therefore, the Company does not anticipate market risk exposure from nonperformance by the counterparties. For additional information, see Notes 1 and 6 to the financial statements under "Financial Instruments."

**Capital Requirements and Contractual Obligations**

The construction program of the Company is currently estimated to be $791 million for 2004, $863 million for 2005, and $884 million for 2006. Over the next three years, the Company estimates spending $713 million on environmental related additions (including $358 million on Selective Catalytic Reduction facilities), $267 million on Plant Farley (including $155 million for nuclear fuel, $29 million on cooling towers and $26 million on replacing reactor vessel heads), $701 million on distribution facilities, and $402 million on transmission additions. See Note 7 to the financial statements under "Construction Program" for additional details.

Actual construction costs may vary from this estimate because of changes in such factors as: business conditions; environmental regulations; nuclear plant regulations; FERC rules and transmission regulations; load projections; the cost and efficiency of construction labor, equipment, and materials; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

In addition to the funds required for the Company's construction program, approximately $1.5 billion will be required by the end of 2006 for maturities of long-term debt. The Company plans to continue, when economically feasible, to retire higher cost debt, preferred securities, and preferred stock and replace these obligations with lower-cost capital if market conditions permit.

As a result of requirements by the NRC, the Company has established external trust funds for the purpose of funding nuclear decommissioning costs. Annual provisions for nuclear decommissioning are based on an

annuity method as approved by the Alabama PSC. The amount expensed in 2003 was $18 million. For additional information, see Note 1 to the financial statements under "Nuclear Decommissioning." Additionally, as discussed in Note 1 to the financial statements under "Revenues and Fuel Costs," in 1993, the DOE implemented a special assessment over a 15-year period on utilities with nuclear plants to be used for the decontamination and decommissioning of its nuclear fuel enrichment facilities.

In 1994, the Company also established an external trust fund for postretirement benefits as ordered by the Alabama PSC. The cumulative effect of funding these items over a long period will diminish internally funded capital and may require capital from other sources. For additional information, see Note 2 to the financial statements under "Postretirement Benefits."

The capital requirements, lease obligations, purchase commitments, and trust requirements – discussed above and in the financial statements – are summarized as follows: (See Notes 1, 6, and 7 to the financial statements for additional information.)

| | 2004 | 2005-2006 | 2007-2008 | After 2008 | Total |
|---|---|---|---|---|---|
| | | | (in millions) | | |
| Long-term debt and preferred securities[(a)] -- | | | | | |
| Principal | $ 526.0 | $ 940.5 | $ 610.0 | $2,135.1 | $ 4,211.6 |
| Interest and distributions | 188.8 | 302.5 | 241.9 | 2,048.0 | 2,781.2 |
| Preferred stock dividends[(b)] | 19.0 | 38.0 | 38.0 | - | 95.0 |
| Operating leases | 29.7 | 42.7 | 13.5 | 35.2 | 121.1 |
| Purchase commitments[(c)] -- | | | | | |
| Capital[(d)] | 778.0 | 1,729.1 | - | - | 2,507.1 |
| Coal and nuclear fuel | 750.4 | 951.0 | 582.7 | - | 2,284.1 |
| Natural gas[(e)] | 318.3 | 338.5 | 133.1 | 107.7 | 897.6 |
| Purchased power | 85.0 | 175.0 | 178.0 | 129.0 | 567.0 |
| Long-term service agreements | 18.3 | 17.8 | 57.6 | 119.2 | 212.9 |
| Trusts -- | | | | | |
| Nuclear decommissioning | 20.3 | 40.6 | 40.6 | 222.5 | 324.0 |
| Postretirement benefits[(f)] | 4.2 | 48.5 | - | - | 52.7 |
| DOE assessments | 4.4 | 8.7 | - | - | 13.1 |
| Total | $2,742.4 | $4,632.9 | $1,895.4 | $4,796.7 | $14,067.4 |

(a) All amounts are reflected based on final maturity dates. The Company will continue to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit. Variable rate interest obligations are estimated based on rates as of January 1, 2004, as reflected in the Statements of Capitalization.

(b) Preferred stock does not mature; therefore, amounts are provided for the next five years only.

(c) The Company generally does not enter into non-cancelable commitments for other operation and maintenance expenditures. Total other operation and maintenance expenses for the last three years were $921 million, $854 million, and $784 million, respectively.

(d) The Company forecasts capital expenditures over a three-year period. Amounts represent current estimates of total expenditures excluding those amounts related to contractual purchase commitments for uranium and nuclear fuel conversion, enrichment, and fabrication services. At December 31, 2003, significant purchase commitments were outstanding in connection with the construction program.

(e) Natural gas purchase commitments are based on various indices at the time of delivery. Amounts reflected have been estimated based on the New York Mercantile future prices at December 31, 2003.

(f) The Company forecasts post-retirement trust contributions over a three-year period. No contributions related to the Company's pension trust are currently expected during this period. See Note 2 to the financial statements for additional information related to the pension plan.

## Cautionary Statement Regarding Forward-Looking Information

The Company's 2003 Annual Report includes forward-looking statements in addition to historical information. Forward-looking information includes, among other things, statements concerning the Company's estimated construction and other expenditures, and the Company's projections for energy sales and its goals for future generating capacity and earnings growth. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," or "continue" or the negative of these terms or other comparable terminology. The Company cautions that there are various important factors that could cause actual results to differ materially from those indicated in the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory change, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry and also changes in environmental, tax, and other laws and regulations to which the Company is subject, as well as changes in application of existing laws and regulations;
- current and future litigation, regulatory investigations, proceedings or inquiries, including the pending EPA civil action against the Company;
- the effects, extent, and timing of the entry of additional competition in the markets in which the Company operates;
- the impact of fluctuations in commodity prices, interest rates, and customer demand;
- available sources and costs of fuels;
- ability to control costs;
- investment performance of the Company's employee benefit plans;
- advances in technology;
- state and federal rate regulations and pending and future rate cases and negotiations;
- effects of and changes in political, legal, and economic conditions and developments in the United States, including the current soft economy;
- internal restructuring or other restructuring options that may be pursued;
- potential business strategies, including acquisitions or dispositions of assets, which cannot be assured to be completed or beneficial to the Company;
- the ability of counterparties of the Company to make payments as and when due;
- the ability to obtain new short- and long-term contracts with neighboring utilities;
- the direct or indirect effects on the Company's business resulting from the terrorist incidents on September 11, 2001, or any similar incidents or responses to such incidents;
- financial market conditions and the results of financing efforts, including the Company's credit ratings;
- the ability of the Company to obtain additional generating capacity at competitive prices;
- weather and other natural phenomena;
- the direct or indirect effects on the Company's business resulting from the August 2003 power outage in the Northeast, or any similar incidents;
- the effect of accounting pronouncements issued periodically by standard-setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed from time to time by the Company with the SEC.

[This page intentionally left blank]

## STATEMENTS OF INCOME

**For the Years Ended December 31, 2003, 2002, and 2001**
**Alabama Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | *(in thousands)* | |
| **Operating Revenues:** | | | |
| Retail sales | **$3,051,463** | $2,951,217 | $2,747,673 |
| Sales for resale -- | | | |
| Non-affiliates | **487,456** | 474,291 | 485,974 |
| Affiliates | **277,287** | 188,163 | 245,189 |
| Other revenues | **143,955** | 96,862 | 107,554 |
| Total operating revenues | **3,960,161** | 3,710,533 | 3,586,390 |
| **Operating Expenses:** | | | |
| Fuel | **1,067,821** | 969,521 | 1,000,828 |
| Purchased power -- | | | |
| Non-affiliates | **110,885** | 90,998 | 144,991 |
| Affiliates | **204,353** | 158,121 | 147,967 |
| Other operations | **611,418** | 574,979 | 508,264 |
| Maintenance | **309,451** | 279,406 | 275,510 |
| Depreciation and amortization | **412,919** | 398,428 | 383,473 |
| Taxes other than income taxes | **228,414** | 216,919 | 214,665 |
| Total operating expenses | **2,945,261** | 2,688,372 | 2,675,698 |
| **Operating Income** | **1,014,900** | 1,022,161 | 910,692 |
| **Other Income and (Expense):** | | | |
| Allowance for equity funds used during construction | **12,594** | 11,168 | 7,092 |
| Interest income | **15,220** | 13,991 | 15,101 |
| Interest expense, net of amounts capitalized | **(214,302)** | (225,706) | (246,436) |
| Distributions on mandatorily redeemable preferred securities | **(15,255)** | (24,599) | (24,775) |
| Other income (expense), net | **(31,702)** | (28,785) | (11,177) |
| Total other income and (expense) | **(233,445)** | (253,931) | (260,195) |
| **Earnings Before Income Taxes** | **781,455** | 768,230 | 650,497 |
| Income taxes | **290,378** | 292,436 | 248,597 |
| **Earnings Before Cumulative Effect of Accounting Change** | **491,077** | 475,794 | 401,900 |
| Cumulative effect of accounting change-- less income taxes of $215 thousand | **-** | - | 353 |
| **Net Income** | **491,077** | 475,794 | 402,253 |
| **Dividends on Preferred Stock** | **18,267** | 14,439 | 15,524 |
| **Net Income After Dividends on Preferred Stock** | **$ 472,810** | $ 461,355 | $ 386,729 |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CASH FLOWS

**For the Years Ended December 31, 2003, 2002, and 2001**
**Alabama Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | *(in thousands)* | |
| **Operating Activities:** | | | |
| Net income | **$491,077** | $ 475,794 | $ 402,253 |
| Adjustments to reconcile net income to net cash provided from operating activities -- | | | |
| Depreciation and amortization | **467,085** | 442,660 | 437,490 |
| Deferred income taxes and investment tax credits, net | **153,154** | 48,828 | (21,569) |
| Deferred capacity revenues | **(9,589)** | (8,099) | - |
| Pension, postretirement, and other employee benefits | **(32,029)** | (34,977) | (58,118) |
| Tax benefit of stock options | **8,680** | 6,670 | - |
| Settlement of interest rate hedges | **(7,957)** | - | - |
| Other, net | **11,393** | 4,663 | (64,533) |
| Changes in certain current assets and liabilities -- | | | |
| Receivables, net | **7,134** | (50,423) | 88,325 |
| Fossil fuel stock | **(13,251)** | 25,535 | (38,663) |
| Materials and supplies | **(4,651)** | 3,728 | (13,025) |
| Other current assets | **(953)** | 1,479 | (15,474) |
| Accounts payable | **50,928** | 1,068 | (83,077) |
| Accrued taxes | **(33,507)** | (40,922) | 46,187 |
| Energy cost recovery, retail | **1,195** | 84,429 | 154,320 |
| Other current liabilities | **29,385** | 12,730 | 3,790 |
| Net cash provided from operating activities | **1,118,094** | 973,163 | 837,906 |
| **Investing Activities:** | | | |
| Gross property additions | **(648,560)** | (634,094) | (635,540) |
| Cost of removal net of salvage | **(35,440)** | (32,111) | (37,304) |
| Sales of property | **-** | - | 102,068 |
| Other | **(13,763)** | (6,151) | 2,533 |
| Net cash used for investing activities | **(697,763)** | (672,356) | (568,243) |
| **Financing Activities:** | | | |
| Increase (decrease) in notes payable, net | **(36,991)** | 26,994 | (271,347) |
| Proceeds -- | | | |
| Pollution control bonds | **-** | - | 35,000 |
| Senior notes | **1,415,000** | 975,000 | 442,000 |
| Mandatorily redeemable preferred securities | **-** | 300,000 | - |
| Preferred stock | **125,000** | - | - |
| Common stock | **50,000** | - | 15,642 |
| Capital contributions from parent company | **17,826** | 43,118 | 107,313 |
| Redemptions -- | | | |
| First mortgage bonds | **-** | (350,000) | (138,991) |
| Pollution control bonds | **-** | - | (15,000) |
| Senior notes | **(1,507,000)** | (415,602) | (3,179) |
| Other long-term debt | **(943)** | (883) | (842) |
| Mandatorily redeemable preferred securities | **-** | (347,000) | - |
| Preferred stock | **-** | (70,000) | - |
| Payment of preferred stock dividends | **(18,181)** | (14,176) | (14,942) |
| Payment of common stock dividends | **(430,200)** | (431,000) | (393,900) |
| Other | **(14,775)** | (30,329) | (9,908) |
| Net cash used for financing activities | **(400,264)** | (313,878) | (248,154) |
| **Net Change in Cash and Cash Equivalents** | **20,067** | (13,071) | 21,509 |
| **Cash and Cash Equivalents at Beginning of Period** | **22,685** | 35,756 | 14,247 |
| **Cash and Cash Equivalents at End of Period** | **$ 42,752** | $ 22,685 | $ 35,756 |
| **Supplemental Cash Flow Information:** | | | |
| Cash paid during the period for -- | | | |
| Interest (net of $6,367, $6,738, and $11,690 capitalized, respectively) | **$185,272** | $230,102 | $246,316 |
| Income taxes (net of refunds) | **161,004** | 269,043 | 223,961 |

The accompanying notes are an integral part of these financial statements.

**BALANCE SHEETS**
**At December 31, 2003 and 2002**
**Alabama Power Company 2003 Annual Report**

| Assets | 2003 | 2002 |
|---|---|---|
| | | *(in thousands)* |
| **Current Assets:** | | |
| Cash and cash equivalents | **$ 42,752** | $ 22,685 |
| Receivables -- | | |
| Customer accounts receivable | **240,562** | 240,052 |
| Unbilled revenues | **95,953** | 89,336 |
| Other accounts and notes receivable | **53,547** | 47,535 |
| Affiliated companies | **48,876** | 74,099 |
| Accumulated provision for uncollectible accounts | **(4,756)** | (4,827) |
| Fossil fuel stock, at average cost | **86,993** | 73,742 |
| Vacation pay | **35,530** | 33,901 |
| Materials and supplies, at average cost | **211,690** | 207,872 |
| Prepaid expenses | **44,608** | 40,411 |
| Other | **19,454** | 27,210 |
| Total current assets | **875,209** | 852,016 |
| **Property, Plant, and Equipment:** | | |
| In service | **14,224,117** | 13,506,170 |
| Less accumulated provision for depreciation | **4,905,920** | 4,658,803 |
| | **9,318,197** | 8,847,367 |
| Nuclear fuel, at amortized cost | **93,611** | 103,088 |
| Construction work in progress | **321,316** | 458,375 |
| Total property, plant, and equipment | **9,733,124** | 9,408,830 |
| **Other Property and Investments:** | | |
| Equity investments in unconsolidated subsidiaries | **47,811** | 45,553 |
| Nuclear decommissioning trusts, at fair value | **384,574** | 292,297 |
| Other | **16,992** | 16,477 |
| Total other property and investments | **449,377** | 354,327 |
| **Deferred Charges and Other Assets:** | | |
| Deferred charges related to income taxes | **321,077** | 327,276 |
| Prepaid pension costs | **446,256** | 389,793 |
| Unamortized loss on reacquired debt | **110,946** | 103,819 |
| Department of Energy assessments | **13,092** | 17,144 |
| Other | **121,543** | 138,461 |
| Total deferred charges and other assets | **1,012,914** | 976,493 |
| **Total Assets** | **$12,070,624** | $11,591,666 |

The accompanying notes are an integral part of these financial statements.

**BALANCE SHEETS**
**At December 31, 2003 and 2002**
**Alabama Power Company 2003 Annual Report**

| Liabilities and Stockholder's Equity | 2003 | 2002 |
|---|---|---|
| | | *(in thousands)* |
| **Current Liabilities:** | | |
| Securities due within one year | **$ 526,019** | $ 1,117,945 |
| Notes payable | **-** | 36,991 |
| Accounts payable -- | | |
| Affiliated | **135,017** | 109,790 |
| Other | **162,314** | 141,251 |
| Customer deposits | **47,507** | 44,410 |
| Accrued taxes -- | | |
| Income taxes | **83,544** | 80,438 |
| Other | **22,273** | 20,561 |
| Accrued interest | **46,489** | 36,344 |
| Accrued vacation pay | **35,530** | 33,901 |
| Accrued compensation | **75,620** | 74,099 |
| Other | **34,513** | 49,715 |
| Total current liabilities | **1,168,826** | 1,745,445 |
| **Long-term debt** (See accompanying statements) | **3,377,148** | 2,872,609 |
| **Mandatorily redeemable preferred securities** (See accompanying statements) | **300,000** | 300,000 |
| **Deferred Credits and Other Liabilities:** | | |
| Accumulated deferred income taxes | **1,571,076** | 1,436,559 |
| Deferred credits related to income taxes | **162,168** | 177,205 |
| Accumulated deferred investment tax credits | **216,309** | 227,270 |
| Employee benefit obligations | **180,960** | 156,526 |
| Deferred capacity revenues | **36,567** | 46,155 |
| Asset retirement obligations | **358,759** | - |
| Asset retirement obligation regulatory liability | **127,346** | - |
| Other cost of removal obligations | **574,445** | 884,613 |
| Miscellaneous regulatory liabilities | **86,323** | 79,545 |
| Other | **37,525** | 40,487 |
| Total deferred credits and other liabilities | **3,351,478** | 3,048,360 |
| **Total liabilities** | **8,197,452** | 7,966,414 |
| **Cumulative preferred stock** (See accompanying statements) | **372,512** | 247,512 |
| **Common stockholder's equity** (See accompanying statements) | **3,500,660** | 3,377,740 |
| **Total Liabilities and Stockholder's Equity** | **$12,070,624** | $11,591,666 |
| **Commitments and Contingent Matters** (See notes) | | |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CAPITALIZATION
**At December 31, 2003 and 2002**
**Alabama Power Company 2003 Annual Report**

| | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| | | *(in thousands)* | *(percent of total)* | |
| **Long-Term Debt:** | | | | |
| Long-term notes payable -- | | | | |
| Variable rate (1.525% at 1/1/03) due 2003 | $ - | $ 517,000 | | |
| 5.35% to 7.85% due 2003 | - | 406,200 | | |
| 4.875% to 7.125% due 2004 | **525,000** | 525,000 | | |
| 5.49% due November 1, 2005 | **225,000** | 225,000 | | |
| 2.65% to 2.80% due 2006 | **520,000** | - | | |
| Floating rate (1.37% at 1/1/04) due 2006 | **195,000** | - | | |
| 7.125% due October 1, 2007 | **200,000** | 200,000 | | |
| 3.125% to 5.375% due 2008 | **410,000** | 160,000 | | |
| 4.70% to 6.75% due 2010-2039 | **1,275,000** | 1,408,800 | | |
| Total long-term notes payable | **3,350,000** | 3,442,000 | | |
| Other long-term debt -- | | | | |
| Pollution control revenue bonds -- | | | | |
| Collateralized: | | | | |
| 5.50% due 2024 | **24,400** | 24,400 | | |
| Variable rates (1.27% to 1.33% at 1/1/04) due 2015-2017 | **89,800** | 89,800 | | |
| Non-collateralized: | | | | |
| Variable rates (1.23% to 1.45% at 1/1/04) due 2021-2031 | **445,940** | 445,940 | | |
| Total other long-term debt | **560,140** | 560,140 | | |
| Capitalized lease obligations | **1,497** | 2,439 | | |
| Unamortized debt premium (discount), net | **(8,470)** | (14,025) | | |
| Total long-term debt (annual interest requirement -- $173.0 million) | **3,903,167** | 3,990,554 | | |
| Less amount due within one year | **526,019** | 1,117,945 | | |
| Long-term debt excluding amount due within one year | **$3,377,148** | $2,872,609 | **44.7%** | 42.3% |

**STATEMENTS OF CAPITALIZATION** (continued)
**At December 31, 2003 and 2002**
**Alabama Power Company 2003 Annual Report**

| | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| | | *(in thousands)* | *(percent of total)* | |
| **Mandatorily Redeemable Preferred Securities:** | | | | |
| $1,000 liquidation value due 2042 -- | | | | |
| 4.75% through 2007* | **$ 100,000** | $ 100,000 | | |
| 5.50% through 2009* | **200,000** | 200,000 | | |
| Total (annual distribution requirement -- $15.8 million) | **300,000** | 300,000 | **4.0** | 4.4 |
| **Cumulative Preferred Stock:** | | | | |
| $100 par or stated value -- | | | | |
| 4.20% to 4.92% | **47,512** | 47,512 | | |
| $25 par or stated value -- | | | | |
| 5.20% to 5.83% | **200,000** | 200,000 | | |
| $100,000 stated value -- | | | | |
| 4.95% | **125,000** | - | | |
| Total (annual dividend requirement -- $19.0 million) | **372,512** | 247,512 | **4.9** | 3.6 |
| **Common Stockholder's Equity:** | | | | |
| Common stock, par value $40 per share -- | | | | |
| Authorized - 15,000,000 shares in 2003 and 6,000,000 shares in 2002 | | | | |
| Outstanding - 7,250,000 shares in 2003 and 6,000,000 shares in 2002 | | | | |
| Par value | **290,000** | 240,000 | | |
| Paid-in capital | **1,926,970** | 1,900,464 | | |
| Premium on Preferred Stock | **99** | 99 | | |
| Retained earnings | **1,291,558** | 1,250,594 | | |
| Accumulated other comprehensive income (loss) | **(7,967)** | (13,417) | | |
| Total common stockholder's equity | **3,500,660** | 3,377,740 | **46.4** | 49.7 |
| **Total Capitalization** | **$7,550,320** | $6,797,861 | **100.0%** | 100.0% |

*The fixed rates thereafter are determined through remarketings for specific periods of varying length or at floating rates determined by reference to 3-month LIBOR plus 2.91% and 3.10%, respectively.

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

**For the Years Ended December 31, 2003, 2002, and 2001**
**Alabama Power Company 2003 Annual Report**

| | Common Stock | Paid-In Capital | Premium on Preferred Stock | Retained Earnings | Other Comprehensive Income (loss) | Total |
|---|---|---|---|---|---|---|
| | | | *(in thousands)* | | | |
| **Balance at December 31, 2000** | $224,358 | $1,743,363 | $99 | $1,227,952 | $ - | $3,195,772 |
| Net income after dividends on preferred stock | - | - | - | 386,729 | - | 386,729 |
| Issuance of common stock | 15,642 | - | - | - | - | 15,642 |
| Capital contributions from parent company | - | 107,313 | - | - | - | 107,313 |
| Cash dividends on common stock | - | - | - | (393,900) | - | (393,900) |
| Other | - | - | - | (679) | - | (679) |
| **Balance at December 31, 2001** | 240,000 | 1,850,676 | 99 | 1,220,102 | - | 3,310,877 |
| Net income after dividends on preferred stock | - | - | - | 461,355 | - | 461,355 |
| Capital contributions from parent company | - | 49,788 | - | - | - | 49,788 |
| Other comprehensive income (loss) | - | - | - | - | (13,417) | (13,417) |
| Cash dividends on common stock | - | - | - | (431,000) | - | (431,000) |
| Other | - | - | - | 137 | - | 137 |
| **Balance at December 31, 2002** | **240,000** | **1,900,464** | **99** | **1,250,594** | **(13,417)** | **3,377,740** |
| Net income after dividends on preferred stock | - | - | - | **472,810** | - | **472,810** |
| Issuance of common stock | **50,000** | - | - | - | - | **50,000** |
| Capital contributions from parent company | - | **26,506** | - | - | - | **26,506** |
| Other comprehensive income (loss) | - | - | - | - | **5,450** | **5,450** |
| Cash dividends on common stock | - | - | - | **(430,200)** | - | **(430,200)** |
| Other | - | - | - | **(1,646)** | - | **(1,646)** |
| **Balance at December 31, 2003** | **$290,000** | **$1,926,970** | **$99** | **$1,291,558** | **$ (7,967)** | **$3,500,660** |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF COMPREHENSIVE INCOME

**For the Years Ended December 31, 2003, 2002, and 2001**
**Alabama Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | *(in thousands)* | |
| **Net income after dividends on preferred stock** | **$472,810** | $461,355 | $386,729 |
| Other comprehensive income (loss): | | | |
| Change in additional minimum pension liability, net of tax of $(2,301) and $(2,536), respectively | **(3,785)** | (4,172) | - |
| Changes in fair value of qualifying hedges, net of tax of $1,330 and $(6,430), respectively | **2,188** | (10,576) | - |
| Less: Reclassification adjustment for amounts included in net income, net of tax of $4,285 and $810, respectively | **7,047** | 1,331 | - |
| Total other comprehensive income (loss) | **5,450** | (13,417) | - |
| **Comprehensive Income** | **$478,260** | $447,938 | $386,729 |

The accompanying notes are an integral part of these financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### General

Alabama Power Company (the Company) is a wholly owned subsidiary of Southern Company, which is the parent company of five retail operating companies, Southern Power Company (Southern Power), Southern Company Services (SCS), Southern Communications Services (Southern LINC), Southern Company Gas (Southern Company GAS), Southern Company Holdings (Southern Holdings), Southern Nuclear Operating Company (Southern Nuclear), Southern Telecom, and other direct and indirect subsidiaries. The retail operating companies -- the Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, and Savannah Electric and Power Company -- provide electric service in four Southeastern states. The Company operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located within the State of Alabama and to wholesale customers in the Southeast. Southern Power constructs, owns, and manages Southern Company's competitive generation assets and sells electricity at market-based rates in the wholesale market. Contracts among the retail operating companies and Southern Power -- related to jointly-owned generating facilities, interconnecting transmission lines, or the exchange of electric power -- are regulated by the Federal Energy Regulatory Commission (FERC) and/or the Securities and Exchange Commission (SEC). SCS -- the system service company -- provides, at cost, specialized services to Southern Company and its subsidiary companies. Southern LINC provides digital wireless communications services to the retail operating companies and also markets these services to the public within the Southeast. Southern Telecom provides fiber cable services within the Southeast. Southern Company GAS is a competitive retail natural gas marketer serving customers in Georgia. Southern Holdings is an intermediate holding subsidiary for Southern Company's investments in synthetic fuels and leveraged leases and an energy services business. Southern Nuclear operates and provides services to Southern Company's nuclear power plants, including the Company's Plant Farley.

Southern Company is registered as a holding company under the Public Utility Holding Company Act of 1935 (PUHCA). Both Southern Company and its subsidiaries are subject to the regulatory provisions of the PUHCA. The Company is also subject to regulation by the FERC and the Alabama Public Service Commission (Alabama PSC). The Company follows accounting principles generally accepted in the United States and complies with the accounting policies and practices prescribed by its regulatory commissions. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates, and the actual results may differ from those estimates.

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

### Affiliate Transactions

The Company has an agreement with SCS under which the following services are rendered to the Company at direct or allocated cost: general and design engineering, purchasing, accounting and statistical analysis, finance and treasury, tax, information resources, marketing, auditing, insurance and pension administration, human resources, systems and procedures, and other services with respect to business and operations and power pool transactions. Costs for these services amounted to $218 million, $218 million, and $183 million during 2003, 2002, and 2001, respectively. Cost allocation methodologies used by SCS are approved by the SEC and management believes they are reasonable.

The Company has an agreement with Southern Nuclear to operate Plant Farley and provide the following nuclear-related services at cost: general executive and advisory services, general operations, management and technical services, administrative services including procurement, accounting, statistical analysis, employee relations, and other services with respect to business and operations. Costs for these services amounted to $153 million, $154 million, and $160 million during 2003, 2002, and 2001, respectively.

The Company has an agreement with Mississippi Power under which Mississippi Power owns a portion of Plant Greene County. The Company operates Plant Greene County, and Mississippi Power reimburses the Company for its proportionate share of expenses which were $6.7 million in 2003, $6.4 million in 2002, and $5.5 million in 2001. See Note 4 for additional information.

Southern Company holds a 30 percent ownership interest in Alabama Fuel Products, LLC (AFP), which produces synthetic fuel. The Company has an agreement with an indirect subsidiary of Southern Company that provides services for AFP. Under this agreement, the Company provides certain accounting functions, including

processing and paying fuel transportation invoices, and the Company is reimbursed for its expenses. Amounts billed under this agreement totaled approximately $27.5 million and $34.5 million in 2003 and 2002, respectively. In addition, the Company purchases synthetic fuel from AFP for use at several of the Company's plants. Fuel purchases for 2003 and 2002 totaled $209.2 million and $211.0 million, respectively.

In 2001, the Company had under construction a 1,230 megawatt combined cycle facility in Autaugaville, Alabama (Plant Harris). In June 2001, the Company sold this project to Southern Power. Upon the plant becoming operational in June 2003, the Company entered into an agreement with Southern Power to operate and maintain Plant Harris at cost and provide fuel at cost. In 2003, the Company billed Southern Power $0.8 million for operation and maintenance. Purchased power costs from Plant Harris in 2003 totaled $75.6 million. Additionally, the Company recorded $8.3 million of prepaid capacity expenses included in Other Deferred Charges and Other Assets on the Balance Sheets at December 31, 2003. See Note 3 under "Retail Rate Adjustment Procedures" and Note 7 under "Purchased Power Commitments" for additional information.

Also, see Note 4 for information regarding the Company's ownership in and purchased power agreement with Southern Electric Generating Company (SEGCO).

The retail operating companies, including the Company, Southern Power, and Southern Company GAS, jointly enter into various types of wholesale energy, natural gas, and certain other contracts, either directly or through SCS as agent. Each participating company may be jointly and severally liable for the obligations incurred under these agreements.

**Revenues and Fuel Costs**

Capacity revenues are generally recognized on a levelized basis over the appropriate contract periods. Energy and other revenues are recognized as services are provided. Unbilled revenues are accrued at the end of each fiscal period. Fuel costs are expensed as the fuel is used. Electric rates for the Company include provisions to adjust billings for fluctuations in fuel costs, fuel hedging, the energy component of purchased power costs, and certain other costs. Revenues are adjusted for differences between recoverable fuel costs and amounts actually recovered in current regulated rates.

The Company has a diversified base of customers. No single customer or industry comprises 10 percent or more of revenues. For all periods presented, uncollectible accounts continued to average less than 1 percent of revenues.

Fuel expense includes the amortization of the cost of nuclear fuel and a charge based on nuclear generation for the permanent disposal of spent nuclear fuel. Total charges for nuclear fuel included in fuel expense amounted to $64 million in 2003, $63 million in 2002, and $58 million in 2001. The Company has a contract with the U.S. Department of Energy (DOE) that provides for the permanent disposal of spent nuclear fuel. The DOE failed to begin disposing of spent fuel in January 1998 as required by the contract, and the Company is pursuing legal remedies against the government for breach of contract. Sufficient pool storage capacity for spent fuel is available at Plant Farley to maintain full-core discharge capability until the refueling outage scheduled in 2006 for Plant Farley Unit 1 and the refueling outage scheduled in 2008 for Plant Farley Unit 2. Procurement of on-site dry spent fuel storage capacity at Plant Farley is in progress and scheduled for operation in 2005. See Note 7 under "Construction Program" for additional information.

Also, the Energy Policy Act of 1992 required the establishment of a Uranium Enrichment Decontamination and Decommissioning Fund, which is funded in part by a special assessment on utilities with nuclear plants. This assessment is being paid over a 15-year period, which began in 1993. This fund will be used by the DOE for the decontamination and decommissioning of its nuclear fuel enrichment facilities. The law provides that utilities will recover these payments in the same manner as any other fuel expense. The Company estimates its remaining liability under this law to be approximately $13 million at December 31, 2003.

**Income Taxes**

The Company uses the liability method of accounting for deferred income taxes and provides deferred income taxes for all significant income tax temporary differences. Investment tax credits utilized are deferred and amortized to income over the average lives of the related property.

**Regulatory Assets and Liabilities**

The Company is subject to the provisions of Financial Accounting Standards Board (FASB) Statement No. 71, Accounting for the Effects of Certain Types of Regulation. Regulatory assets represent probable future

revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process.

Regulatory assets and (liabilities) reflected in the Balance Sheets at December 31 relate to:

| | 2003 | 2002 | Note |
|---|---|---|---|
| | (in millions) | | |
| Deferred income tax charges | $ 321 | $ 327 | (a) |
| Loss on reacquired debt | 111 | 104 | (b) |
| DOE assessments | 13 | 17 | (c) |
| Vacation pay | 36 | 34 | (d) |
| Rate CNP under recovery | 17 | - | (e) |
| Other assets | 13 | 17 | (e) |
| Asset retirement obligations | (127) | - | (a) |
| Other cost of removal obligations | (574) | (885) | (a) |
| Deferred income tax credits | (162) | (177) | (a) |
| Natural disaster reserve | (13) | (12) | (e) |
| Nuclear outage | (14) | (10) | (e) |
| Deferred purchased power | (15) | - | (e) |
| Other liabilities | (5) | (2) | (e) |
| Fuel-hedging liabilities | (6) | (21) | (f) |
| Mine reclamation & remediation | (33) | (35) | (g) |
| Total | $(438) | $(643) | |

Note: The recovery and amortization periods for these regulatory assets and (liabilities) are as follows:

(a) Asset retirement and removal liabilities are recorded, deferred income tax assets are recovered, and deferred tax liabilities are amortized over the related property lives, which may range up to 50 years. Asset retirement and removal liabilities will be settled and trued up following completion of the related activities.

(b) Recovered over the remaining life of the original issue which may range up to 40 years.

(c) Assessments for the decontamination and decommissioning of the DOE nuclear fuel enrichment facilities are recorded annually from 1993 through 2008.

(d) Recorded as earned by employees and recovered as paid, generally within one year.

(e) Recorded and recovered or amortized as approved by the Alabama PSC.

(f) Fuel-hedging assets and liabilities are recorded over the life of the underlying hedged purchase contracts, which generally do not exceed two years. Upon final settlement, actual costs incurred are recovered through the fuel cost recovery clauses.

(g) Recovered from customers to settle future costs.

In the event that a portion of the Company's operations is no longer subject to the provisions of FASB Statement No. 71, the Company would be required to write off related regulatory assets and liabilities that are not specifically recoverable through regulated rates. In addition, the Company would be required to determine if any impairment to other assets exists, including plant, and write down the assets, if impaired, to their fair values. All regulatory assets and liabilities are reflected in rates.

**Depreciation and Amortization**

Depreciation of the original cost of depreciable utility plant in service is provided primarily by using composite straight-line rates, which approximated 3.1 percent in 2003 and 3.2 percent in each of 2002 and 2001. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its original cost -- together with the cost of removal, less salvage -- is charged to accumulated depreciation. Minor items of property included in the original cost of the plant are retired when the related property unit is retired.

**Asset Retirement Obligations and Other Costs of Removal**

In accordance with regulatory requirements, prior to January 2003, the Company followed the industry practice of accruing for the ultimate costs of retiring most long-lived assets over the life of the related asset as part of the annual depreciation expense provision. In accordance with SEC requirements, such amounts are reflected on the Balance Sheet as regulatory liabilities. Effective January 1, 2003, the Company adopted FASB Statement No. 143, Accounting for Asset Retirement Obligations. Statement No. 143 establishes new accounting and reporting standards for legal obligations associated with the ultimate costs of retiring long-lived assets. The present value of the ultimate costs of an asset's future retirement must be recorded in the period in which the liability is incurred. The costs must be capitalized as part of the related long-lived asset and depreciated over the asset's useful life. Additionally, Statement No. 143 does not permit the continued accrual of future retirement costs for long-lived assets that the Company does not have a legal obligation to retire. However, the Company has received guidance regarding accounting for the financial statement impacts of Statement No. 143 from the Alabama PSC and will continue to recognize the accumulated removal costs for other obligations as a regulatory liability. Therefore, the Company had no cumulative effect to net income resulting from the adoption of Statement No. 143.

The liability recognized to retire long-lived assets primarily relates to the Company's nuclear facility, Plant Farley. The fair value of assets legally restricted for settling retirement obligations related to nuclear facilities as of December 31, 2003 was $385 million. In addition, the Company has retirement obligations

related to various landfill sites and underground storage tanks. The Company has also identified retirement obligations related to certain transmission and distribution facilities, co-generation facilities, certain wireless communication towers, and certain structures authorized by the United States Army Corps of Engineers. However, a liability for the removal of these assets will not be recorded because no reasonable estimate can be made regarding the timing of any related retirements. The Company will continue to recognize in the income statement allowed removal costs in accordance with its regulatory treatment. Any difference between costs recognized under Statement No. 143 and those reflected in rates are recognized as either a regulatory asset or liability, as ordered by the Alabama PSC, and are reflected in the Balance Sheets. The Company also revised the estimated cost to retire Plant Farley as a result of a new site-specific decommissioning study. The effect of the revision is an increase of $35 million included in asset retirement obligations, with a corresponding increase in property, plant, and equipment. See "Nuclear Decommissioning" for further information on amounts included in rates.

Details of the asset retirement obligations included in the Balance Sheets are as follows:

| | 2003 |
|---|---|
| | (in millions) |
| Balance beginning of year | $ - |
| Liabilities incurred | 301 |
| Liabilities settled | - |
| Accretion | 23 |
| Cash flow revisions | 35 |
| Balance end of year | $ 359 |

If Statement No. 143 had been adopted on January 1, 2002, the pro-forma asset retirement obligations would have been $281 million.

**Nuclear Decommissioning**

The Nuclear Regulatory Commission (NRC) requires all licensees operating commercial nuclear power reactors to establish a plan for providing with reasonable assurance funds for decommissioning. The Company has established external trust funds to comply with the NRC's regulations. The funds set aside for decommissioning are managed and invested in accordance with applicable requirements of various regulatory bodies, including the NRC, the FERC, and the Alabama PSC, as well as the Internal Revenue Service (IRS). Funds are invested in a tax efficient manner in a diversified mix of equity and fixed income securities. Equity securities typically range from 50 to 75 percent of the funds and fixed income securities from 25 to 50 percent. Amounts previously recorded in internal reserves are being transferred into the external trust funds over periods approved by the Alabama PSC. The NRC's minimum external funding requirements are based on a generic estimate of the cost to decommission the radioactive portions of a nuclear unit based on the size and type of reactor. The Company has filed plans with the NRC to ensure that -- over time -- the deposits and earnings of the external trust funds will provide the minimum funding amounts prescribed by the NRC.

Site study cost is the estimate to decommission the facility as of the site study year. The estimated costs of decommissioning, based on the most current study as of December 31, 2003, for Plant Farley were as follows:

| | |
|---|---|
| Site study year | 2003 |
| Decommissioning periods: | |
| Beginning year | 2017 |
| Completion year | 2046 |
| | (in millions) |
| Site study costs: | |
| Radiated structures | $892 |
| Non-radiated structures | 63 |
| Total | $955 |
| Significant assumptions: | |
| Inflation rate | 4.5% |
| Trust earning rate | 7.0 |

The decommissioning cost estimates are based on prompt dismantlement and removal of the plant from service. The actual decommissioning costs may vary from the above estimates because of changes in the assumed date of decommissioning, changes in NRC requirements, or changes in the assumptions used in making estimates.

Annual provisions for nuclear decommissioning are based on an annuity method as approved by the Alabama PSC. The amount expensed in 2003 and fund balances were as follows:

| | (in millions) |
|---|---|
| **Amount expensed in 2003** | **$ 18** |
| Accumulated provisions: | |
| External trust funds, at fair value | $385 |
| Internal reserves | 31 |
| Total | $416 |

All of the Company's decommissioning costs for ratemaking are based on the site study. The Company expects the Alabama PSC to periodically review and

adjust, if necessary, the amounts collected in rates for the anticipated cost of decommissioning.

The Company filed an application with the NRC in September 2003 to extend the operating license for Plant Farley for an additional 20 years.

**Allowance for Funds Used During Construction (AFUDC) and Interest Capitalized**

In accordance with regulatory treatment, the Company records AFUDC. AFUDC represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new regulated facilities. While cash is not realized currently from such allowance, it increases the revenue requirement over the service life of the plant through a higher rate base and higher depreciation expense. Interest related to the construction of new facilities not included in the Company's regulated rates is capitalized in accordance with standard interest capitalization requirements. All current construction costs should be included in retail rates. The composite rate used to determine the amount of AFUDC was 9.0 percent in 2003, 8.2 percent in 2002, and 7.7 percent in 2001. AFUDC and interest capitalized, net of income tax, as a percent of net income after dividends on preferred stock was 3.5 percent in 2003 and 3.3 percent in each of 2002 and 2001.

**Property, Plant, and Equipment**

Property, plant, and equipment is stated at original cost less regulatory disallowances and impairments. Original cost includes: materials; labor; minor items of property; appropriate administrative and general costs; payroll-related costs such as taxes, pensions, and other benefits; and the interest capitalized and/or cost of funds used during construction.

The cost of replacements of property -- exclusive of minor items of property -- is capitalized. The cost of maintenance, repairs and replacement of minor items of property is charged to maintenance expense as incurred or performed with the exception of nuclear refueling costs, which are recorded in accordance with specific Alabama PSC orders. The Company accrues estimated refueling costs in advance of the unit's next refueling outage. The refueling cycle is 18 months for each unit. During 2003, the Company accrued $28.5 million to the nuclear refueling outage reserve and at December 31, 2003 the reserve balance was $14.0 million.

**Impairment of Long-Lived Assets and Intangibles**

The Company evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on either a specific regulatory disallowance or an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined either by the amount of the regulatory disallowance or by estimating the fair value of the assets and recording a provision for loss if the carrying value is greater than the fair value. For assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment provision is required. Until the assets are disposed of, their estimated fair value is re-evaluated when circumstances or events change.

**Cash and Cash Equivalents**

For purposes of the financial statements, temporary cash investments are considered cash equivalents. Temporary cash investments are securities with original maturities of 90 days or less.

**Materials and Supplies**

Generally, materials and supplies include the cost of transmission, distribution, and generating plant materials. Materials are charged to inventory when purchased and then expensed or capitalized to plant, as appropriate, when installed.

**Natural Disaster Reserve**

In accordance with an Alabama PSC order, the Company has established a Natural Disaster Reserve. The Company is allowed to accrue $250 thousand per month until the maximum accumulated provision of $32 million is attained. Higher accruals to restore the reserve to its authorized level are allowed whenever the balance in the reserve declines below $22.4 million. During 2003, the Company accrued $3 million to the reserve and at December 31, 2003, the reserve balance was $12.6 million.

**Stock Options**

Southern Company provides non-qualified stock options to a large segment of the Company's employees ranging from line management to executives. The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25.

Accordingly, no compensation expense has been recognized because the exercise price of all options granted equaled the fair-market value on the date of grant. When options are exercised, the Company receives a capital contribution from Southern Company equivalent to the related income tax benefit.

**Financial Instruments**

The Company uses derivative financial instruments to limit exposure to fluctuations in interest rates, the prices of certain fuel purchases, and electricity purchases and sales. All derivative financial instruments are recognized as either assets or liabilities and are measured at fair value. Substantially all of the Company's bulk energy purchases and sales contracts that meet the definition of a derivative are exempt from fair value accounting requirements and are accounted for under the accrual method. Other derivative contracts qualify as cash flow hedges of anticipated transactions. This results in the deferral of related gains and losses in other comprehensive income or regulatory assets or liabilities as appropriate until the hedged transactions occur. Any ineffectiveness is recognized currently in net income. Other derivative contracts are marked to market through current period income and are recorded on a net basis in the Statements of Income.

The Company is exposed to losses related to financial instruments in the event of counterparties' nonperformance. The Company has established controls to determine and monitor the creditworthiness of counterparties in order to mitigate the Company's exposure to counterparty credit risk.

The Company's other financial instruments for which the carrying amount did not equal fair value at December 31 were as follows:

| | Carrying Amount | Fair Value |
|---|---|---|
| | (in millions) | |
| Long-term debt: | | |
| **At December 31, 2003** | **$3,903** | **$3,958** |
| At December 31, 2002 | 3,991 | 4,065 |
| Preferred Securities: | | |
| **At December 31, 2003** | **300** | **305** |
| At December 31, 2002 | 300 | 303 |

The fair value for long-term debt and preferred securities was based on either closing market prices or closing prices of comparable instruments.

**Comprehensive Income**

The objective of comprehensive income is to report a measure of all changes in common stock equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners. Comprehensive income consists of net income and changes in the fair value of qualifying cash flow hedges and changes in additional minimum pension liabilities, less income taxes and reclassifications for amounts included in net income.

## 2. RETIREMENT BENEFITS

The Company has a defined benefit, trusteed, pension plan covering substantially all employees. The plan is funded in accordance with Employee Retirement Income Security Act (ERISA) requirements. The Company also provides certain non-qualified benefit plans for a selected group of management and highly-compensated employees. Benefits under these non-qualified plans are funded on a cash basis. In addition, the Company provides certain medical care and life insurance benefits for retired employees. The Company funds trusts to the extent required by the Alabama PSC. For the year ended December 31, 2004, postretirement benefit contributions are expected to total approximately $4.2 million.

The measurement date for plan assets and obligations is September 30 for each year. In 2002, the Company adopted several plan changes that had the effect of increasing benefits to both current and future retirees.

**Pension Plans**

The accumulated benefit obligation for the pension plans was $1.20 billion in 2003 and $1.09 billion in 2002. Changes during the year in the projected benefit obligations, accumulated benefit obligations, and fair value of plan assets were as follows:

| | Projected Benefit Obligations | |
|---|---|---|
| | **2003** | 2002 |
| | (in millions) | |
| Balance at beginning of year | **$1,088** | $1,011 |
| Service cost | **27** | 26 |
| Interest cost | **68** | 74 |
| Benefits paid | **(61)** | (61) |
| Plan amendments | **3** | 22 |
| Actuarial (gain) loss | **75** | 16 |
| Balance at end of year | **$1,200** | $1,088 |

| | Plan Assets | |
|---|---|---|
| | **2003** | 2002 |
| | (in millions) | |
| Balance at beginning of year | **$1,419** | $1,584 |
| Actual return on plan assets | **226** | (106) |
| Benefits paid | **(62)** | (59) |
| Balance at end of year | **$1,583** | $1,419 |

Pension plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the IRS revenue code. The Company's investment policy covers a diversified mix of assets, including equity and fixed income securities, real estate, and private equity, as described in the table below. Derivative instruments are used primarily as hedging tools but may also be used to gain efficient exposure to the various asset classes. The Company primarily minimizes the risk of large losses through diversification but also monitors and manages other aspects of risk.

| | | Plan Assets | |
|---|---|---|---|
| | Target | **2003** | 2002 |
| Domestic equity | 37% | **37%** | 35% |
| International equity | 20 | **20** | 18 |
| Global fixed income | 26 | **24** | 25 |
| Real estate | 10 | **11** | 12 |
| Private equity | 7 | **8** | 10 |
| Total | 100% | **100%** | 100% |

The accrued pension costs recognized in the Balance Sheets were as follows:

| | **2003** | 2002 |
|---|---|---|
| | (in millions) | |
| Funded status | **$383** | $331 |
| Unrecognized transition amount | **(5)** | (10) |
| Unrecognized prior service cost | **87** | 93 |
| Unrecognized net (gain) loss | **(37)** | (40) |
| Prepaid pension asset, net | **428** | 374 |
| Portion included in benefit obligations | **18** | 16 |
| Total prepaid assets recognized in the Balance Sheets | **$446** | $390 |

In 2003 and 2002, amounts recognized in the Balance Sheets for accumulated other comprehensive income and intangible assets to record the minimum pension liability related to the non-qualified plans were $12.8 million and $6.7 million and $6.7 and $4.8 million, respectively.

Components of the pension plans' net periodic cost were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | (in millions) | | |
| Service cost | **$ 27** | $ 26 | $ 25 |
| Interest cost | **68** | 74 | 70 |
| Expected return on plan assets | **(138)** | (138) | (131) |
| Recognized net gain | **(12)** | (20) | (22) |
| Net amortization | **3** | 2 | 1 |
| Net pension cost (income) | **$ (52)** | $ (56) | $ (57) |

**Postretirement Benefits**

Changes during the year in the accumulated benefit obligations and in the fair value of plan assets were as follows:

| | Accumulated Benefit Obligations | |
|---|---|---|
| | **2003** | 2002 |
| | (in millions) | |
| Balance at beginning of year | **$405** | $348 |
| Service cost | **6** | 5 |
| Interest cost | **26** | 26 |
| Benefits paid | **(20)** | (20) |
| Actuarial (gain) loss | **24** | 46 |
| Balance at end of year | **$441** | $405 |

| | Plan Assets | |
|---|---|---|
| | **2003** | 2002 |
| | (in millions) | |
| Balance at beginning of year | **$158** | $169 |
| Actual return on plan assets | **25** | (12) |
| Employer contributions | **23** | 21 |
| Benefits paid | **(20)** | (20) |
| Balance at end of year | **$186** | $158 |

Postretirement benefits plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the IRS revenue code. The Company's investment policy covers a diversified mix of assets, including equity and fixed income securities, real estate, and private equity, as described in the table below. Derivative instruments are used primarily as hedging tools but may also be used to gain efficient exposure to the various asset classes. The Company primarily minimizes the risk of large losses through diversification but also monitors and manages other aspects of risk.

| | | Plan Assets | |
|---|---|---|---|
| | Target | **2003** | 2002 |
| Domestic equity | 46% | **50%** | 42% |
| International equity | 13 | **14** | 9 |
| Global fixed income | 34 | **28** | 40 |
| Real estate | 4 | **5** | 5 |
| Private equity | 3 | **3** | 4 |
| Total | 100% | **100%** | 100% |

The accrued postretirement costs recognized in the Balance Sheets were as follows:

| | **2003** | 2002 |
|---|---|---|
| | (in millions) | |
| Funded status | **$(255)** | $(247) |
| Unrecognized transition obligation | **37** | 41 |
| Unrecognized prior service cost | **73** | 77 |
| Unrecognized net loss (gain) | **82** | 66 |
| Fourth quarter contributions | **6** | 8 |
| Accrued liability recognized in the Balance Sheets | **$ (57)** | $ (55) |

Components of the postretirement plan's net periodic cost were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | (in millions) | | |
| Service cost | **$ 6** | $ 5 | $ 5 |
| Interest cost | **25** | 25 | 24 |
| Expected return on plan assets | **(17)** | (16) | (15) |
| Net amortization | **9** | 9 | 7 |
| Net postretirement cost | **$ 23** | $ 23 | $ 21 |

The weighted average rates assumed in the actuarial calculations used to determine both the benefit obligations and the net periodic costs for the pension and postretirement benefit plans were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Discount | **6.00%** | 6.50% | 7.50% |
| Annual salary increase | **3.75** | 4.00 | 5.00 |
| Long-term return on plan assets | **8.50** | 8.50 | 8.50 |

The Company determined the long-term rate of return on historical asset class returns and current market conditions, taking into account the diversification benefits of investing in multiple asset classes.

An additional assumption used in measuring the accumulated postretirement benefit obligations was a weighted average medical care cost trend rate of 8.25 percent for 2003, decreasing gradually to 5.25 percent through the year 2010, and remaining at that level thereafter. An annual increase or decrease in the assumed medical care cost trend rate of 1 percent would affect the accumulated benefit obligation and the service and interest cost components at December 31, 2003 as follows:

| | 1 Percent Increase | 1 Percent Decrease |
|---|---|---|
| | (in millions) | |
| Benefit obligation | **$34** | **$30** |
| Service and interest costs | **2** | **2** |

**Employee Savings Plan**

The Company also sponsors a 401(k) defined contribution plan covering substantially all employees. The Company provides a 75 percent matching contribution up to 6 percent of an employee's base salary. Total matching contributions made to the plan were $12 million for each of the years 2003, 2002, and 2001.

## 3. CONTINGENCIES AND REGULATORY MATTERS

**General Litigation Matters**

The Company is subject to certain claims and legal actions arising in the ordinary course of business. In addition, the Company'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, and citizen enforcement of environmental requirements, has increased generally throughout the United States. In particular, personal injury claims for damages caused by alleged exposure to hazardous materials have become more frequent. The ultimate outcome of such litigation against the Company cannot be predicted at this time; however, management does not anticipate that the liabilities, if any, arising from such current proceedings would have a material adverse effect on the Company's financial statements.

**New Source Review Actions**

In November 1999, the Environmental Protection Agency (EPA) brought a civil action in the U.S. District Court for the Northern District of Georgia against the Company. The complaint alleged violations of the New Source Review (NSR) provisions of the Clean Air Act and violations of related state laws with respect to coal-fired generating facilities at the Company's Plants Miller, Barry, and Gorgas. The civil action requested penalties and injunctive relief, including an order requiring the installation of the best available control technology at the affected units. The EPA concurrently issued to the Company a notice of violation relating to these specific facilities, as well as Plants Greene County and Gaston. In early 2000, the EPA filed a motion to amend its complaint to add the violations alleged in its notice of violation.

In August 2000, the U.S. District Court in Georgia granted the Company's motion to dismiss for lack of jurisdiction in Georgia. The EPA refiled its claim against the Company in the U.S. District Court for the Northern

District of Alabama. The EPA brought similar NSR enforcement actions against several other electric utility companies across the country including Georgia Power and Savannah Electric. In each case, the EPA alleged that the utilities failed to comply with the NSR permitting requirements when performing maintenance and construction activities at coal-burning plants, which activities the utilities considered to be routine or otherwise not subject to NSR.

The action against the Company was stayed in the spring of 2001 during the appeal of a very similar NSR enforcement action against the Tennessee Valley Authority (TVA) before the U.S. Court of Appeals for the Eleventh Circuit. The TVA appeal involves many of the same legal issues raised by the actions against the Company. Because the final resolution of the TVA appeal could have a significant impact on the Company, it has been involved in that appeal. On June 24, 2003, the court of appeals issued its ruling in the TVA case. It found unconstitutional the statutory scheme set forth in the Clean Air Act that allowed the EPA to impose penalties for failing to comply with an administrative compliance order, like the one issued to TVA, without the EPA having to prove the underlying violation. Thus, the court of appeals held that the compliance order was of no legal consequence, and TVA was free to ignore it. The court did not, however, rule directly on the substantive legal issues about the proper interpretation and application of certain NSR provisions that had been raised in the TVA appeal. On September 16, 2003, the court of appeals denied the EPA's request for a rehearing of the decision. On February 13, 2004, the EPA petitioned the U.S. Supreme Court to review the decision of the court of appeals. The EPA also filed a motion to lift the stay in the action against the Company.

Since the inception of the NSR proceedings against the Company, the EPA has also been proceeding with similar NSR enforcement actions against other utilities, involving many of the same legal issues. In each case, the EPA alleged that the utilities failed to comply with the NSR permitting requirements when performing maintenance and construction activities at coal-burning plants, which activities the utilities considered to be routine or otherwise not subject to NSR. In 2003, district courts addressing these cases have issued opinions that reached conflicting conclusions.

In October 2003, the EPA issued final revisions to its NSR regulations under the Clean Air Act clarifying the scope of the existing Routine Maintenance, Repair, and Replacement exclusion. On December 24, 2003, the U.S. Court of Appeals for the District of Columbia Circuit stayed the effectiveness of these revisions pending resolution of related litigation over those revisions. In January 2004, the Bush Administration announced that it would continue to enforce the existing rules.

The Company believes that it complied with applicable laws and the EPA's regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes civil penalties of up to $27,500 per day, per violation at each generating unit. Prior to January 30, 1997, the penalty was $25,000 per day. An adverse outcome in this matter could require substantial capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. This could affect future results of operations, cash flows, and possibly financial condition if such costs are not recovered through regulated rates.

**Open Access Transmission Tariff**

In October 2003, the FERC approved a new Open Access Transmission Tariff for the Company of $1.73 per kilowatt-month based on an 11.25 percent return on equity. The Company had requested a rate increase effective April 2002 based on a 13 percent return on equity. In September 2002, pending FERC approval, the Company began collecting from customers based on the 13 percent rate, but recorded revenue subject to refund for amounts above the previously approved rate of $1.37 per kilowatt-month. As a result of the final settlement, a total of approximately $2.4 million was refunded to the Company's transmission customers in October 2003 and $7.6 million was recorded as revenue.

**Retail Rate Adjustment Procedures**

The Alabama PSC has adopted rates that provide for periodic adjustments based upon the Company's earned return on end-of-period retail common equity. Increases in retail rates of 2 percent were effective in April 2002 and in October 2001 in accordance with the Rate Stabilization Equalization Plan, amounting to an annual increase of $55 million and $58 million, respectively. In March 2002, the Alabama PSC approved a revision to the rate adjustment procedures that provides for an annual, rather than quarterly, adjustment and imposes a 3 percent limit on changes in rates in any calendar year. The return on common equity range of 13.0 percent to 14.5 percent remained unchanged.

The rates also provide for adjustments to recognize the placing of new generating facilities into retail service and

the recovery of retail costs associated with certificated purchased power agreements (PPAs) under Rate CNP (Certificated New Plant). Effective July 2001, the Company's retail rates were adjusted by 0.6 percent ($17 million annually) under Rate CNP to recover costs for Plant Barry Unit 7, which was placed into commercial operation on May 1, 2001.

In November 2000, the Alabama PSC certificated a seven-year, 615 megawatt, PPA with Southern Power beginning in June 2003. In addition, the Alabama PSC certificated a seven-year PPA with a third party for approximately 630 megawatts; one half of the capacity became available in 2003 while the remaining half is scheduled to become available in 2004. As a result, the Company's retail rates were adjusted beginning July 2003 by approximately 2.6 percent ($79 million annually) under Rate CNP. One month after the contracted capacity delivery begins, which is scheduled for June 2004, Rate CNP will adjust retail rates by approximately 0.8 percent ($25 million annually) to recover costs associated with the scheduled 2004 PPA capacity.

In October 2001, the Alabama PSC approved a revision to the Company's Rate ECR (Energy Cost Recovery) allowing the recovery of specific costs associated with the sales of natural gas that become necessary due to operating considerations at its electric generating facilities. This revision also includes the cost of financial tools used for hedging market price risk up to 75 percent of the budgeted annual amount of natural gas purchases. The Company may not engage in natural gas hedging activities that extend beyond a rolling 42-month window. Also, the premiums paid for natural gas financial options may not exceed 5 percent of the Company's natural gas budget for that year.

The Company's ratemaking procedures will remain in effect until the Alabama PSC votes to modify or discontinue them.

### FERC Matters

The Company has obtained FERC approval to sell power to nonaffiliates at market-based prices under specific contracts. Through SCS, as agent, the Company also has FERC authority to make short-term opportunity sales at market rates. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate. In November 2001, the FERC modified the test it uses to consider utilities' applications to charge market-based rates and adopted a new test called the Supply Margin Assessment (SMA). The FERC applied the SMA to several utilities, including Southern Company's retail operating companies, and found them to be "pivotal suppliers" in their service areas and ordered the implementation of several mitigation measures. SCS, on behalf of the retail operating companies, sought rehearing of the FERC order, and the FERC delayed the implementation of certain mitigation measures. SCS, on behalf of the retail operating companies, submitted comments to the FERC in 2002 regarding these issues. In December 2003, the FERC issued a staff paper discussing alternatives and held a technical conference in January 2004. The Company anticipates that the FERC will address the requests for rehearing in the near future. Regardless of the outcome of the SMA proposal, the FERC retains the ability to modify or withdraw the authorization for any seller to sell at market-based rates, if it determines that the underlying conditions for having such authority are no longer applicable. The final outcome of this matter will depend on the form in which the SMA test and mitigation measures rules may be ultimately adopted and cannot be determined at this time.

## 4. JOINT OWNERSHIP AGREEMENTS

The Company and Georgia Power own equally all of the outstanding capital stock of SEGCO, which owns electric generating units with a total rated capacity of 1,020 megawatts, together with associated transmission facilities. The capacity of these units is sold equally to the Company and Georgia Power under a contract which, in substance, requires payments sufficient to provide for the operating expenses, taxes, interest expense and a return on equity, whether or not SEGCO has any capacity and energy available. The term of the contract extends automatically for two-year periods, subject to either party's right to cancel upon two year's notice. The Company's share of purchased power totaled $87 million in 2003, $84 million in 2002, and $80 million in 2001 and is included in "Purchased power from affiliates" in the Statements ~~of~~ Income.

In addition the Company has guaranteed unconditionally the obligation of SEGCO under an installment sale agreement for the purchase of certain pollution control facilities at SEGCO's generating units, pursuant to which $24.5 million principal amount of pollution control revenue bonds are outstanding. Georgia Power has agreed to reimburse the Company for the pro rata portion of such obligation corresponding to its then proportionate ownership of stock of SEGCO if the Company is called upon to make such payment under its guaranty.

At December 31, 2003, the capitalization of SEGCO consisted of $63 million of equity and $94 million of debt on which the annual interest requirement is $3.4 million. SEGCO paid dividends totaling $2.3 million in 2003, $5.8 million in 2002, and $0.7 million in 2001, of which one-half of each was paid to the Company. In addition, the Company recognizes 50 percent of SEGCO's net income.

In addition to the Company's ownership of SEGCO, the Company's percentage ownership and investment in jointly-owned generating plants at December 31, 2003 is as follows:

| Facility (Type) | Total Megawatt Capacity | Company Ownership | |
|---|---|---|---|
| Greene County (coal) | **500** | **60.00%** | **(1)** |
| Plant Miller Units 1 and 2 (coal) | **1,320** | **91.84%** | **(2)** |

(1) Jointly owned with an affiliate, Mississippi Power.
(2) Jointly owned with Alabama Electric Cooperative, Inc.

| Facility | Company Investment | Accumulated Depreciation |
|---|---|---|
| | (in millions) | |
| Greene County | **$110** | **$ 54** |
| Plant Miller Units 1 and 2 | **767** | **355** |

The Company has contracted to operate and maintain the jointly owned facilities as agent for their co-owners. The Company's proportionate share of its plant operating expenses is included in the operating expenses in the Statements of Income.

## 5. INCOME TAXES

Southern Company files a consolidated federal income tax return. Under a joint consolidated income tax agreement, each subsidiary's current and deferred tax expense is computed on a stand-alone basis. In accordance with IRS regulations, each company is jointly and severally liable for the tax liability.

At December 31, 2003, the Company's tax-related regulatory assets and liabilities were $321 million and $162 million, respectively. These assets are attributable to tax benefits flowed through to customers in prior years and to taxes applicable to capitalized interest. These liabilities are attributable to deferred taxes previously recognized at rates higher than the current enacted tax law and to unamortized investment tax credits.

Details of the income tax provisions are as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | | (in millions) | |
| Total provision for income taxes: | | | |
| Federal -- | | | |
| Current | **$111** | $209 | $234 |
| Deferred | **137** | 41 | (20) |
| | **248** | 250 | 214 |
| State -- | | | |
| Current | **26** | 35 | 37 |
| Deferred | **16** | 7 | (2) |
| | **42** | 42 | 35 |
| Total | **$290** | $292 | $249 |

The tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases, which give rise to deferred tax assets and liabilities, are as follows:

| | **2003** | 2002 |
|---|---|---|
| | (in millions) | |
| Deferred tax liabilities: | | |
| Accelerated depreciation | **$1,204** | $1,081 |
| Property basis differences | **401** | 381 |
| Premium on reacquired debt | **42** | 39 |
| Pensions | **117** | 103 |
| Other | **29** | 38 |
| Total | **1,793** | 1,642 |
| Deferred tax assets: | | |
| Capacity prepayments | **8** | 11 |
| Other deferred costs | **13** | 13 |
| Postretirement benefits | **14** | 18 |
| Unbilled revenue | **21** | 20 |
| Other | **86** | 87 |
| Total | **142** | 149 |
| Total deferred tax liabilities, net | **1,651** | 1,493 |
| Portion included in current liabilities, net | **(80)** | (56) |
| Accumulated deferred income taxes in the Balance Sheets | **$1,571** | $1,437 |

In accordance with regulatory requirements, deferred investment tax credits are amortized over the lives of the related property with such amortization normally applied as a credit to reduce depreciation in the Statements of Income. Credits amortized in this manner amounted to $11 million in each of 2003, 2002, and 2001. At December 31, 2003, all investment tax credits available to reduce federal income taxes payable had been utilized.

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Federal statutory rate | **35.0%** | 35.0% | 35.0% |
| State income tax, net of federal deduction | **3.5** | 3.5 | 3.5 |
| Non-deductible book depreciation | **1.2** | 1.3 | 1.5 |
| Differences in prior years' deferred and current tax rates | **(0.9)** | (1.2) | (1.3) |
| Other | **(1.6)** | (0.5) | (0.5) |
| Effective income tax rate | **37.2%** | 38.1% | 38.2% |

## 6. FINANCING

### Mandatorily Redeemable Preferred Securities

The Company has formed certain wholly owned trust subsidiaries for the purpose of issuing preferred securities. The proceeds of the related equity investments and preferred security sales were loaned back to the Company through the issuance of junior subordinated notes totaling $309 million, which constitute substantially all assets of these trusts. The Company considers that the mechanisms and obligations relating to the preferred securities issued for its benefit, taken together, constitute a full and unconditional guarantee by it of the respective trusts' payment obligations with respect to these securities. At December 31, 2003, preferred securities of $300 million were outstanding and recognized as liabilities in the Balance Sheets. For additional information, see the Statements of Capitalization.

### First Mortgage Bonds

In October 1991, the Company entered into a firm power sales contract with the Alabama Municipal Electric Authority (AMEA) entitling AMEA to scheduled amounts of capacity (up to a maximum 80 megawatts) for a period of 15 years. Under the terms of the contract, the Company received payments from AMEA representing the net present value of the revenues associated with the capacity entitlement, discounted at an effective annual rate of 11.19 percent. These payments are being recognized as operating revenues and the discount is amortized to other interest expense as scheduled capacity is made available over the terms of the contract.

To secure AMEA's advance payments and the Company's performance obligation under the contracts, the Company issued and delivered to an escrow agent first mortgage bonds representing the maximum amount of liquidated damages payable by the Company in the event of a default under the contracts. No principal or interest is payable on such bonds unless and until a default by the Company occurs. As the liquidated damages decline, a portion of the bond equal to the decrease is returned to the Company. At December 31, 2003, $26.7 million of these bonds were held by the escrow agent under the contract.

### Pollution Control Bonds

Pollution control obligations represent installment purchases of pollution control facilities financed by funds derived from sales by public authorities of revenue bonds. The Company is required to make payments sufficient for the authorities to meet principal and interest requirements of such bonds. With respect to $114.2 million of such pollution control obligations, the Company has authenticated and delivered to the trustees a like principal amount of first mortgage bonds as security for its obligations under the installment purchase agreements. No principal or interest on these first mortgage bonds is payable unless and until a default occurs on the installment purchase agreements.

### Senior Notes

The Company issued a total of $1.4 billion of unsecured senior notes in 2003. The proceeds of these issues were used to redeem higher cost debt and for other general corporate purposes.

At December 31, 2003 and 2002, the Company had $3.4 billion of senior notes outstanding. These senior notes are subordinate to all secured debt of the Company which amounted to approximately $295 million at December 31, 2003.

### Long-Term Debt Due Within One Year

A summary of the improvement fund requirements and scheduled maturities and redemptions of long-term debt due within one year at December 31 is as follows:

| | 2003 | 2002 |
|---|---|---|
| | (in millions) | |
| Capitalized leases | **$ 1** | $ 1 |
| Senior notes | **525** | 1,117 |
| Total | **$526** | $1,118 |

Debt redemptions and/or serial maturities through 2008 applicable to total long-term debt are as follows: $526 million in 2004; $225 million in 2005; $715 million in 2006; $200 million in 2007; and $410 million in 2008.

### Assets Subject to Lien

The Company's mortgage, as amended and supplemented, securing the first mortgage bonds issued by the Company, constitutes a direct lien on substantially all of the Company's fixed property and franchises.

### Bank Credit Arrangements

The Company maintains committed lines of credit in the amount of $865 million (including $504 million of such lines which are dedicated to funding purchase obligations relating to variable rate pollution control bonds), all of which expire at various times during 2004. Approximately $450 million of the credit facilities expiring in 2004 allow for the execution of term loans for an additional two-year period, and $245 million allow for the execution of one-year term loans. All of the credit arrangements require payment of a commitment fee based on the unused portion of the commitment or the maintenance of compensating balances with the banks. Commitment fees are less than 1/4 of 1 percent for the Company. Because the arrangements are based on an average balance, the Company does not consider any of its cash balances to be restricted as of any specific date. For syndicated credit arrangements, a fee is also paid to the agent bank.

Most of the Company's credit arrangements with banks have covenants that limit the Company's debt to 65 percent of total capitalization, as defined in the agreements. Exceeding this debt level would result in a default under the credit arrangements. At December 31, 2003, the Company was in compliance with the debt limit covenants. In addition, the credit arrangements typically contain cross default provisions that would be triggered if the Company defaulted on other indebtedness (including guarantee obligations) above a specified threshold. None of the arrangements contain material adverse change clauses at the time of borrowings.

The Company borrows through commercial paper programs that have the liquidity support of committed bank credit arrangements. In addition, the Company borrows from time to time through extendible commercial note programs. As of December 31, 2003, the Company had no extendible commercial notes and no commercial paper outstanding. The amount of commercial paper outstanding at December 31, 2002 was $37 million. During 2003, the peak amount outstanding for commercial paper was $255 million and the average amount outstanding was $30 million. The average annual interest rate on commercial paper in 2003 was 1.29 percent. Commercial paper and extendible commercial notes are included in notes payable on the Balance Sheets.

At December 31, 2003, the Company had regulatory approval to have outstanding up to $1 billion of short-term borrowings.

### Financial Instruments

The Company enters into energy-related derivatives to hedge exposures to electricity, gas, and other fuel price changes. However, due to cost-based rate regulations, the Company has limited exposure to market volatility in commodity fuel prices and prices of electricity. The Company has implemented fuel-hedging programs at the instruction of the Alabama PSC. The Company also enters into hedges of forward electricity sales.

At December 31, 2003, the fair value of derivative energy contracts was reflected in the financial statements as follows:

| | Amounts (in thousands) |
|---|---|
| Regulatory liabilities, net | $6,402 |
| Net income | 11 |
| Total fair value | $6,413 |

The fair value gain or loss for cash flow hedges that are recoverable through the regulatory fuel clauses are recorded in the regulatory assets and liabilities and are recognized in earnings at the same time the hedged items affect earnings.

The Company also enters into derivatives to hedge exposure of interest rate changes. Interest derivatives related to variable rate securities or forecasted transactions are accounted for as cash flow hedges. The interest derivatives are generally structured to match the critical terms of the hedged debt instruments; therefore, no material ineffectiveness has been recorded in earnings.

At December 31, 2003, the Company had $1.2 billion notional amount of interest rate swaps outstanding with net deferred gains of $5.7 million as follows:

Cash Flow Hedges

| Maturity | Weighted Average Fixed Rate Paid | Notional Amount (in millions) | Fair Value Gain/ (Loss) |
|---|---|---|---|
| 2004 | 1.63* | $486 | $(0.2) |
| 2006 | 1.89 | 195 | 1.5 |
| 2007 | 1.99* | 486 | 4.4 |

*Hedged using the Bond Market Association Municipal Swap Index

The fair value gain or loss for cash flow hedges is recorded in other comprehensive income and is reclassified into earnings at the same time the hedged items affect earnings. In 2003 and 2002, the Company recognized losses of $8 million and $13 million, respectively, upon termination of certain interest derivatives at the same time it issued debt. These losses have been deferred in other comprehensive income and will be amortized to interest expense over the life of the related debt. For 2003, approximately $11.3 million of pre-tax losses were reclassified from other comprehensive income to interest expense. For 2004, pre-tax losses of approximately $5.8 million are expected to be reclassified from other comprehensive income to interest expense.

## 7. COMMITMENTS

### Construction Program

The Company is engaged in continuous construction programs, currently estimated to total $791 million in 2004, $863 million in 2005, and $884 million in 2006. These amounts include $12.5 million, $11.3 million, and $6.6 million in 2004, 2005, and 2006, respectively, for construction expenditures related to contractual purchase commitments for uranium and nuclear fuel conversion, enrichment, and fabrication services included in this note under "Fuel Commitments." The construction programs are subject to periodic review and revision, and actual construction costs may vary from the above estimates because of numerous factors. These factors include: changes in business conditions; revised load growth estimates; changes in environmental regulations; changes in existing nuclear plants to meet new regulatory requirements; changes in FERC rules and transmission regulations; increasing costs of labor, equipment, and materials; and cost of capital. At December 31, 2003, significant purchase commitments were outstanding in connection with the construction program. The Company has no generating plants under construction. Construction of new transmission and distribution facilities and capital improvements, including those needed to meet environmental standards for existing generation transmission, and distribution facilities, will continue.

Southern Company has guaranteed Southern Power's obligations to the Company for transmission interconnection facilities of $6.8 million related to Plant Harris units 1 & 2. The obligations were guaranteed at December 31, 2003, but, upon completion of construction, were released in February 2004.

### Long-Term Service Agreements

The Company has entered into several Long-Term Service Agreements (LTSAs) with General Electric (GE) for the purpose of securing maintenance support for its combined cycle and combustion turbine generating facilities. The LTSAs stipulate that GE will perform all planned maintenance on the covered equipment, which includes the cost of all labor and materials. GE is also obligated to cover the costs of unplanned maintenance on the covered equipment subject to a limit specified in each contract.

In general, these LTSAs are in effect through two major inspection cycles per unit. Scheduled payments to GE are made at various intervals based on actual operating hours of the respective units. Total payments to GE under these agreements are currently estimated at $253 million over the life of the agreements, which are approximately 12 to 14 years per unit. At December 31, 2003, the remaining balance was approximately $213 million. However, the LTSAs contain various cancellation provisions at the option of the Company.

Payments made to GE prior to the performance of any planned maintenance are recorded as a prepayment in the Balance Sheets. Inspection costs are capitalized or charged to expense based on the nature of the work performed.

### Purchased Power Commitments

The Company has entered into various long-term commitments for the purchase of electricity. Total estimated minimum long-term obligations at December 31, 2003 were as follows:

| | Commitments | | |
|---|---|---|---|
| Year | Affiliated | Non-Affiliated | Total |
| | (in millions) | | |
| 2004 | $ 49 | $ 36 | $ 85 |
| 2005 | 49 | 38 | 87 |
| 2006 | 49 | 39 | 88 |
| 2007 | 49 | 40 | 89 |
| 2008 | 49 | 40 | 89 |
| 2009 and thereafter | 62 | 67 | 129 |
| Total commitments | $307 | $260 | $567 |

### Fuel Commitments

To supply a portion of the fuel requirements of its generating plants, the Company has entered into various long-term commitments for the procurement of fossil and nuclear fuel. In most cases, these contracts contain provisions for price escalations, minimum purchase levels, and other financial commitments. Natural gas purchase commitments contain fixed volumes with prices based on various indices at the time of delivery. Amounts included in the chart below represent estimates based on New York Mercantile future prices at December 31, 2003. Total estimated minimum long-term commitments at December 31, 2003 were as follows:

| Year | Natural Gas | Coal & Nuclear Fuel |
|---|---|---|
| | (in millions) | |
| 2004 | $318 | $ 750 |
| 2005 | 181 | 514 |
| 2006 | 158 | 437 |
| 2007 | 107 | 429 |
| 2008 | 26 | 154 |
| 2009 and thereafter | 108 | - |
| Total commitments | $898 | $2,284 |

Additional commitments for fuel will be required to supply the Company's future needs.

SCS may enter into various types of wholesale energy and natural gas contracts acting as an agent for the Company and all of the other Southern Company retail operating companies, Southern Power, and Southern Company GAS. Under these agreements, each of the retail operating companies, Southern Power, and Southern Company GAS may be jointly and severally liable. The creditworthiness of Southern Power and Southern Company GAS is currently inferior to the creditworthiness of the retail operating companies. Accordingly, Southern Company has entered into keep-well agreements with the Company and each of the other retail operating companies to insure the Company will not subsidize or be responsible for any costs, losses, liabilities, or damages resulting from the inclusion of Southern Power or Southern Company GAS as a contracting party under these agreements.

### Operating Leases

The Company has entered into rental agreements for coal rail cars, vehicles, and other equipment with various terms and expiration dates. These expenses totaled $29.5 million in 2003, $29.6 million in 2002, and $27.9 million in 2001. Of these amounts, $19.4 million, $19.1 million, and $21.1 million for 2003, 2002, and 2001, respectively, relates to the rail car leases and are recoverable through the Company's energy cost recovery clause. At December 31, 2003, estimated minimum rental commitments for noncancellable operating leases were as follows:

| Year | Rail Cars | Vehicles & Other | Total |
|---|---|---|---|
| | | (in millions) | |
| 2004 | $19.1 | $10.6 | $ 29.7 |
| 2005 | 16.3 | 8.9 | 25.2 |
| 2006 | 11.3 | 6.2 | 17.5 |
| 2007 | 4.1 | 3.6 | 7.7 |
| 2008 | 3.8 | 2.0 | 5.8 |
| 2009 and thereafter | 30.7 | 4.5 | 35.2 |
| Total minimum payments | $85.3 | $35.8 | $121.1 |

In addition to the rental commitments above, the Company has potential obligations upon expiration of certain leases with respect to the residual value of the leased property. These leases expire in 2004 and 2006, and the Company's maximum obligations are $25.7 million and $66.0 million, respectively. At the termination of the leases, at the Company's option, the Company may negotiate an extension, exercise its purchase option, or the property can be sold to a third party. The Company expects that the fair market value of the leased property would substantially reduce or eliminate the Company's payments under the residual value obligations.

### Guarantees

At December 31, 2003, the Company had outstanding guarantees related to SEGCO's purchase of certain pollution control facilities, as discussed in Note 4, and to certain residual values of leased assets. See "Operating Leases" above.

## 8. NUCLEAR INSURANCE

Under the Price-Anderson Amendments Act of 1988 (Act), the Company maintains agreements of indemnity with the NRC that, together with private insurance, cover third-party liability arising from any nuclear incident occurring at Plant Farley. The Act provides funds up to $10.9 billion for public liability claims that could arise from a single nuclear incident. Plant Farley is insured against this liability to a maximum of $300 million by American Nuclear Insurers (ANI), with the remaining coverage provided by a mandatory program of deferred premiums that could be assessed, after a nuclear incident, against all owners of nuclear reactors. The Company

could be assessed up to $100.5 million per incident for each licensed reactor it operates but not more than an aggregate of $10 million per incident to be paid in a calendar year for each reactor. Such maximum assessment, excluding any applicable state premium taxes, for the Company is $201 million per incident but not more than an aggregate of $20 million to be paid for each incident in any one year. The Price-Anderson Amendments Act expired in August 2002; however, the indemnity provisions of the act remain in place for commercial nuclear reactors.

The Company is a member of Nuclear Electric Insurance Limited (NEIL), a mutual insurer established to provide property damage insurance in an amount up to $500 million for members' nuclear generating facilities.

Additionally, the Company has policies that currently provide decontamination, excess property insurance, and premature decommissioning coverage up to $2.25 billion for losses in excess of the $500 million primary coverage. This excess insurance is also provided by NEIL.

NEIL also covers the additional costs that would be incurred in obtaining replacement power during a prolonged accidental outage at a member's nuclear plant. Members can purchase this coverage, subject to a deductible waiting period of up to 26 weeks, with a maximum per occurrence per unit limit of $490 million. After this deductible period, weekly indemnity payments would be received until either the unit is operational or until the limit is exhausted in approximately three years. The Company purchases the maximum limit allowed by NEIL and has elected a 12 week waiting period.

Under each of the NEIL policies, members are subject to assessments if losses each year exceed the accumulated funds available to the insurer under that policy. The current maximum annual assessments for the Company under the NEIL policies would be $36 million.

Following the terrorist attacks of September 2001, both ANI and NEIL confirmed that terrorist acts against commercial nuclear power plants would be covered under their insurance. However, both companies revised their policy terms on a prospective basis to include an industry aggregate for all "non-certified" terrorist acts, i.e., acts that are not certified acts of terrorism pursuant to the Terrorism Risk Insurance Act of 2002 (TRIA). The NEIL aggregate -- applies to all non-certified claims stemming from terrorism within a 12 month duration -- is $3.24 billion plus any amounts available through reinsurance or indemnity from an outside source. The non-certified ANI cap is a $300 million shared industry aggregate. Any act of terrorism that is certified pursuant to the TRIA will not be subject to the foregoing NEIL and ANI limitations but will be subject to the TRIA annual aggregate limitation of $100 billion of insured losses arising from certified acts of terrorism. The TRIA will expire on December 31, 2005.

For all on-site property damage insurance policies for commercial nuclear power plants, the NRC requires that the proceeds of such policies shall be dedicated first for the sole purpose of placing the reactor in a safe and stable condition after an accident. Any remaining proceeds are to be applied next toward the costs of decontamination and debris removal operations ordered by the NRC, and any further remaining proceeds are to be paid either to the Company or to its bond trustees as may be appropriate under the policies and applicable trust indentures.

All retrospective assessments, whether generated for liability, property, or replacement power, may be subject to applicable state premium taxes.

## 9. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial information for 2003 and 2002 are as follows:

| Quarter Ended | Operating Revenues | Operating Income | Net Income After Dividends on Preferred Stock |
|---|---|---|---|
| | | (in millions) | |
| **March 2003** | **$ 890** | **$211** | **$ 92** |
| **June 2003** | **950** | **227** | **107** |
| **September 2003** | **1,216** | **414** | **217** |
| **December 2003** | **904** | **163** | **57** |
| March 2002 | $ 802 | $191 | $ 72 |
| June 2002 | 924 | 256 | 116 |
| September 2002 | 1,119 | 393 | 201 |
| December 2002 | 865 | 182 | 72 |

The Company's business is influenced by seasonal weather conditions.

[This page intentionally left blank]

## SELECTED FINANCIAL AND OPERATING DATA 1999-2003

**Alabama Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| **Operating Revenues** (in thousands) | **$3,960,161** | $3,710,533 | $3,586,390 | $3,667,461 | $3,385,474 |
| **Net Income after Dividends on Preferred Stock** (in thousands) | **$472,810** | $461,355 | $386,729 | $419,916 | $399,880 |
| **Cash Dividends on Common Stock** (in thousands) | **$430,200** | $431,000 | $393,900 | $417,100 | $399,600 |
| **Return on Average Common Equity** (percent) | **13.75** | 13.80 | 11.89 | 13.58 | 13.85 |
| **Total Assets** (in thousands) | **$12,070,624** | $11,591,666 | $11,303,605 | $11,228,118 | $10,450,052 |
| **Gross Property Additions** (in thousands) | **$648,560** | $634,094 | $635,540 | $870,581 | $809,044 |
| **Capitalization** (in thousands): | | | | | |
| Common stock equity | **$3,500,660** | $3,377,740 | $3,310,877 | $3,195,772 | $2,988,863 |
| Preferred stock | **372,512** | 247,512 | 317,512 | 317,512 | 317,512 |
| Mandatorily redeemable preferred securities | **300,000** | 300,000 | 347,000 | 347,000 | 347,000 |
| Long-term debt | **3,377,148** | 2,872,609 | 3,742,346 | 3,425,527 | 3,190,378 |
| Total (excluding amounts due within one year) | **$7,550,320** | $6,797,861 | $7,717,735 | $7,285,811 | $6,843,753 |
| **Capitalization Ratios** (percent): | | | | | |
| Common stock equity | **46.4** | 49.7 | 42.9 | 43.9 | 43.7 |
| Preferred stock | **4.9** | 3.6 | 4.1 | 4.4 | 4.6 |
| Mandatorily redeemable preferred securities | **4.0** | 4.4 | 4.5 | 4.8 | 5.1 |
| Long-term debt | **44.7** | 42.3 | 48.5 | 46.9 | 46.6 |
| Total (excluding amounts due within one year) | **100.0** | 100.0 | 100.0 | 100.0 | 100.0 |
| **Security Ratings:** | | | | | |
| First Mortgage Bonds - | | | | | |
| Moody's | **A1** | A1 | A1 | A1 | A1 |
| Standard and Poor's | **A** | A | A | A | A+ |
| Fitch | **A+** | A+ | A+ | AA- | AA- |
| Preferred Stock - | | | | | |
| Moody's | **Baa1** | Baa1 | Baa1 | a2 | a2 |
| Standard and Poor's | **BBB+** | BBB+ | BBB+ | BBB+ | A- |
| Fitch | **A-** | A- | A- | A | A |
| Unsecured Long-Term Debt - | | | | | |
| Moody's | **A2** | A2 | A2 | A2 | A2 |
| Standard and Poor's | **A** | A | A | A | A |
| Fitch | **A** | A | A | A+ | A+ |
| **Customers** (year-end): | | | | | |
| Residential | **1,160,129** | 1,148,645 | 1,139,542 | 1,132,410 | 1,120,574 |
| Commercial | **204,561** | 203,017 | 196,617 | 193,106 | 188,368 |
| Industrial | **5,032** | 4,874 | 4,728 | 4,819 | 4,897 |
| Other | **757** | 789 | 751 | 745 | 735 |
| Total | **1,370,479** | 1,357,325 | 1,341,638 | 1,331,080 | 1,314,574 |
| **Employees** (year-end): | **6,730** | 6,715 | 6,706 | 6,871 | 6,792 |

## SELECTED FINANCIAL AND OPERATING DATA 1999-2003 (continued)

**Alabama Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| **Operating Revenues** (in thousands): | | | | | |
| Residential | **$1,276,800** | $1,264,431 | $1,138,499 | $1,222,509 | $1,145,646 |
| Commercial | **913,697** | 882,669 | 829,760 | 854,695 | 807,098 |
| Industrial | **844,538** | 788,037 | 763,934 | 859,668 | 843,090 |
| Other | **16,428** | 16,080 | 15,480 | 15,835 | 15,283 |
| Total retail | **3,051,463** | 2,951,217 | 2,747,673 | 2,952,707 | 2,811,117 |
| Sales for resale - non-affiliates | **487,456** | 474,291 | 485,974 | 461,730 | 415,377 |
| Sales for resale - affiliates | **277,287** | 188,163 | 245,189 | 166,219 | 92,439 |
| Total revenues from sales of electricity | **3,816,206** | 3,613,671 | 3,478,836 | 3,580,656 | 3,318,933 |
| Other revenues | **143,955** | 96,862 | 107,554 | 86,805 | 66,541 |
| Total | **$3,960,161** | $3,710,533 | $3,586,390 | $3,667,461 | $3,385,474 |
| **Kilowatt-Hour Sales** (in thousands): | | | | | |
| Residential | **16,959,566** | 17,402,645 | 15,880,971 | 16,771,821 | 15,699,081 |
| Commercial | **13,451,757** | 13,362,631 | 12,798,711 | 12,988,728 | 12,314,085 |
| Industrial | **21,593,519** | 21,102,568 | 20,460,022 | 22,101,407 | 21,942,889 |
| Other | **203,178** | 205,346 | 198,102 | 205,827 | 201,149 |
| Total retail | **52,208,020** | 52,073,190 | 49,337,806 | 52,067,783 | 50,157,204 |
| Sales for resale - non-affiliates | **17,085,376** | 15,553,545 | 15,277,839 | 14,847,533 | 12,437,599 |
| Sales for resale - affiliates | **9,422,301** | 8,844,050 | 8,843,094 | 5,369,474 | 5,031,781 |
| Total | **78,715,697** | 76,470,785 | 73,458,739 | 72,284,790 | 67,626,584 |
| **Average Revenue Per Kilowatt-Hour** (cents): | | | | | |
| Residential | **7.53** | 7.27 | 7.17 | 7.29 | 7.30 |
| Commercial | **6.79** | 6.61 | 6.48 | 6.58 | 6.55 |
| Industrial | **3.91** | 3.73 | 3.73 | 3.89 | 3.84 |
| Total retail | **5.84** | 5.67 | 5.57 | 5.67 | 5.60 |
| Sales for resale | **2.88** | 2.72 | 3.03 | 3.11 | 2.91 |
| Total sales | **4.85** | 4.73 | 4.74 | 4.95 | 4.91 |
| **Residential Average Annual Kilowatt-Hour Use Per Customer** | **14,688** | 15,198 | 13,981 | 14,875 | 14,097 |
| **Residential Average Annual Revenue Per Customer** | **$1,105.77** | $1,104.28 | $1,002.30 | $1,084.26 | $1,028.76 |
| **Plant Nameplate Capacity Ratings** (year-end) (megawatts) | **12,174** | 12,153 | 12,153 | 12,122 | 11,379 |
| **Maximum Peak-Hour Demand (megawatts):** | | | | | |
| Winter | **10,409** | 9,423 | 9,300 | 9,478 | 8,863 |
| Summer | **10,462** | 10,910 | 10,241 | 11,019 | 10,739 |
| **Annual Load Factor** (percent) | **64.1** | 62.9 | 62.5 | 59.3 | 59.7 |
| **Plant Availability** (percent): | | | | | |
| Fossil-steam | **85.9** | 85.8 | 87.1 | 89.4 | 80.4 |
| Nuclear | **94.7** | 93.2 | 83.7 | 88.3 | 91.0 |
| **Source of Energy Supply** (percent): | | | | | |
| Coal | **56.5** | 55.5 | 56.8 | 63.0 | 64.1 |
| Nuclear | **17.0** | 17.1 | 15.8 | 16.9 | 17.8 |
| Hydro | **7.0** | 5.1 | 5.1 | 2.9 | 4.7 |
| Gas | **7.6** | 11.6 | 10.7 | 4.9 | 1.1 |
| Purchased power - | | | | | |
| From non-affiliates | **4.1** | 4.0 | 4.4 | 4.6 | 4.5 |
| From affiliates | **7.8** | 6.7 | 7.2 | 7.7 | 7.8 |
| Total | **100.0** | 100.0 | 100.0 | 100.0 | 100.0 |

[This page intentionally left blank]

GEORGIA POWER COMPANY

FINANCIAL SECTION

## MANAGEMENT'S REPORT
**Georgia Power Company 2003 Annual Report**

The management of Georgia Power Company has prepared -- and is responsible for -- the financial statements and related information included in this report. These statements were prepared in accordance with accounting principles generally accepted in the United States and necessarily include amounts that are based on the best estimates and judgments of management. Financial information throughout this annual report is consistent with the financial statements.

The Company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that the accounting records reflect only authorized transactions of the Company. Limitations exist in any system of internal controls, however, based upon recognition that the cost of the system should not exceed its benefits. The Company believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

The Company's internal accounting controls are evaluated on an ongoing basis by the Company's internal audit staff. The Company's independent public accountants also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

David M. Ratcliffe
Chief Executive Officer

Michael D. Garrett
President

Southern Company's audit committee of its board of directors, composed of four independent directors, provides a broad overview of management's financial reporting and control functions. Additionally, the Controls and Compliance Committee of the Company's board of directors, composed of a minimum of three outside directors, meets periodically with management, the internal auditors, and the independent public accountants to discuss auditing, internal controls, and compliance matters. The internal auditors and independent public accountants have access to the members of these committees at any time.

Management believes that its policies and procedures provide reasonable assurance that the Company's operations are conducted with a high standard of business ethics.

In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of Georgia Power Company in conformity with accounting principles generally accepted in the United States.

C. B. Harreld
Executive Vice President, Treasurer,
and Chief Financial Officer
March 1, 2004

## INDEPENDENT AUDITORS' REPORT

**Georgia Power Company:**

We have audited the accompanying balance sheets and statements of capitalization of Georgia Power Company (a wholly owned subsidiary of Southern Company) as of December 31, 2003 and 2002, and the related statements of income, comprehensive income, common stockholder's equity, and cash flows of the years then ended. These financial statements are the responsibility of Georgia Power Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Georgia Power Company for the year ended December 31, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements and included an explanatory paragraph that described a change in the method of accounting for derivative instruments and hedging activities in their report dated February 13, 2002.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements (pages II-128 to II-154) present fairly, in all material respects, the financial position of Georgia Power Company at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in 2003 Georgia Power Company changed its method of accounting for asset retirement obligations.

Deloitte & Touche LLP

Atlanta, Georgia
March 1, 2004

**THE FOLLOWING REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS IS A COPY OF THE REPORT PREVIOUSLY ISSUED IN CONNECTION WITH THE COMPANY'S 2001 ANNUAL REPORT AND HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP. SEE EXHIBIT 23(c)2 FOR ADDITIONAL INFORMATION.**

**To Georgia Power Company:**

We have audited the accompanying balance sheets and statements of capitalization of Georgia Power Company (a Georgia corporation and a wholly owned subsidiary of Southern Company) as of December 31, 2001 and 2000, and the related statements of income, comprehensive income, common stockholder's equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements (pages II-93 to II-113) referred to above present fairly, in all material respects, the financial position of Georgia Power Company as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 1 to the financial statements, effective January 1, 2001, Georgia Power Company changed its method of accounting for derivative instruments and hedging activities.

Arthur Andersen LLP

Atlanta, Georgia
February 13, 2002

## OVERVIEW OF EARNINGS AND BUSINESS ACTIVITIES

### *Earnings*

Georgia Power Company's 2003 earnings totaled $631 million, representing a $13 million (2.1 percent) increase over 2002. Operating income increased in 2003 despite lower base retail revenues resulting from the extremely mild summer weather. Higher wholesale revenues and lower non-fuel operating expenses contributed to the increase. The Company's 2002 earnings totaled $618 million, representing an $8 million (1.2 percent) increase over 2001. Operating income declined slightly in 2002. Lower retail and wholesale revenues, higher other operating and maintenance expenses and increased purchased power capacity expenses were significantly offset by lower depreciation and amortization expense as a result of a Georgia Public Service Commission (GPSC) retail rate order effective January 2002. The increase in net income for 2002 resulted from lower financing costs and a lower effective tax rate due to the realization of certain state tax credits. The Company's 2001 earnings totaled $610 million, representing a $51 million (9.1 percent) increase over 2000. Operating income was lower in 2001 compared to 2000 due to the impact of mild weather on retail revenues; however, overall net income improved due to lower financing costs and non-operating expenses and a lower effective tax rate resulting from various factors including property donations and positive resolution of outstanding tax issues.

### *Business Activities*

The Company operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located within the State of Georgia and to wholesale customers in the Southeast.

Several factors affect the opportunities, challenges and risk of the Company's primary business of selling electricity. These factors include the ability to maintain a stable regulatory environment, to achieve energy sales growth while containing costs, and to recover costs related to growing demand and increasingly strict environmental standards. Future earnings for the electricity business in the near term will depend, in part, upon growth in 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 in the service area.

## RESULTS OF OPERATIONS

A condensed income statement for the Company is as follows:

| | Amount | Increase (Decrease) From Prior Year | | |
|---|---|---|---|---|
| | **2003** | **2003** | 2002 | 2001 |
| | | (in millions) | | |
| Operating revenues | **$4,914** | **$ 92** | $(144) | $ 95 |
| Fuel | **1,104** | **101** | 64 | (79) |
| Purchased power | **776** | **92** | (87) | 175 |
| Other operation and maintenance | **1,247** | **(78)** | 85 | 41 |
| Depreciation and amortization | **350** | **(54)** | (197) | (19) |
| Taxes other than income taxes | **213** | **11** | (1) | (1) |
| Total operating expenses | **3,690** | **72** | (136) | 117 |
| Operating income | **1,224** | **20** | (8) | (22) |
| Other income and (expense) | **(227)** | **2** | 9 | 76 |
| Less - Income taxes | **366** | **9** | (7) | 3 |
| Net income | **$ 631** | **$ 13** | $ 8 | $ 51 |

*Revenues*

Operating revenues in 2003, 2002, and 2001 and the percent of change from the prior year are as follows:

| | Amount | | |
|---|---|---|---|
| | **2003** | 2002 | 2001 |
| | | (in millions) | |
| Retail – prior year | **$4,288** | $4,349 | $4,317 |
| Change in - | | | |
| Base rates | **-** | (118) | - |
| Sales growth and other | **30** | 2 | 90 |
| Weather | **(66)** | 82 | (107) |
| Fuel cost recovery and other | **58** | (27) | 49 |
| Retail – current year | **4,310** | 4,288 | 4,349 |
| Sales for resale - | | | |
| Non-affiliates | **260** | 271 | 366 |
| Affiliates | **175** | 98 | 100 |
| Total sales for resale | **435** | 369 | 466 |
| Other operating revenues | **169** | 165 | 151 |
| Total operating revenues | **$4,914** | $4,822 | $4,966 |
| Percent change | **1.9%** | (2.9)% | 2.0% |

Retail base revenues of $3.0 billion in 2003 decreased by $36 million (1.2 percent) from 2002 primarily due to extremely mild summer temperatures in 2003 and the sluggish economy. Residential kilowatt-hour (KWH) sales decreased by 1.7 percent. Retail base revenues of $3.1 billion in 2002 decreased by $34 million (1.1 percent) from 2001 primarily due to a base rate reduction effective January 2002 under the GPSC retail rate order and generally lower prices to large business customers. This decrease was partially offset by a 10.1 percent increase in residential KWH sales due to warmer weather. Retail base revenues of $3.1 billion in 2001 decreased $17 million (0.5 percent) from 2000, primarily due to a 2.5 percent decrease in retail KWH sales from the prior year. Milder-than-normal weather and a slowdown in the economy contributed to the decline in such sales.

Electric rates include provisions to adjust billings for fluctuations in fuel costs, the energy component of purchased power costs, and certain other costs. Under these fuel cost recovery provisions, fuel revenues generally equal fuel expenses -- including the fuel component of purchased energy -- and do not affect net income. As of December 31, 2003, the Company had $151 million in under-recovered fuel costs. On August 19, 2003, the GPSC issued an order allowing the Company to increase customer fuel rates to recover existing under-recovered deferred fuel costs. See Note 3 to the financial statements under "Fuel Cost Recovery" for further information regarding this order.

Wholesale revenues from sales to non-affiliated utilities were:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | | (in millions) | |
| Unit power sales -- | | | |
| Capacity | **$ 34** | $ 34 | $ 26 |
| Energy | **31** | 34 | 35 |
| Other power sales -- | | | |
| Capacity | **38** | 41 | 72 |
| Energy | **157** | 162 | 233 |
| Total | **$260** | $271 | $366 |

Revenues from unit power contracts decreased slightly in 2003 due to decreased energy sales. Approximately 103 megawatts of capacity is scheduled to be sold annually through 2010. Revenues from other non-affiliated sales decreased $8 million (3.9 percent) in 2003, decreased $102 million (33.4 percent) in 2002 and increased $62 million in 2001 primarily due to fluctuations in off-system sale transactions that were generally offset by corresponding purchase transactions. These transactions had no significant effect on income. In 2002, revenues also decreased $37 million as a result of transferring Plant Dahlberg to Southern Power Company (Southern Power) in July 2001.

Revenues from sales to affiliated companies within the Southern Company electric system, as well as purchases of energy, will vary from year to year depending on demand and the availability and cost of generating resources at each company. In 2003, energy sales to affiliates increased 47.5 percent due to the combination of increased demand by Southern Power to meet contractual obligations and the availability of power due to milder-than-normal weather in the Company's service territory. These transactions do not have a significant impact on earnings since this energy is generally sold at marginal cost.

Other operating revenues increased $4 million (2.4 percent) in 2003 primarily due to an increase in the open access transmission tariff rate, which increased revenues $7 million, and higher revenues from increased customer demand for outdoor lighting services of $4 million, partially offset by lower revenue from the rental of electric property of $4 million. See Note 3 to the financial statements under "Open Access Transmission

Tariff' for further information regarding the increase in the open access transmission tariff rate. Other operating revenues in 2002 increased $14 million (9.5 percent) primarily due to the collection of new late payment fees approved under the retail rate order effective January 2002 of $7 million and higher revenues from increased customer demand for outdoor lighting services of $5 million and the transmission of electricity of $3 million. Other operating revenues in 2001 decreased $9 million (5.3 percent) primarily due to lower gains on the sale of generating plant emission allowances, partially offset by increased revenues from the transmission of electricity and from the rental of electric equipment and property.

***Energy Sales***

KWH sales for 2003 and the percent change by year were as follows:

| | KWH | Percent Change | | |
|---|---|---|---|---|
| | **2003** | **2003** | 2002 | 2001 |
| | **(in billions)** | | | |
| Residential | **21.8** | **(1.7)%** | 10.1% | (2.8)% |
| Commercial | **26.9** | **(0.1)** | 1.7 | 3.4 |
| Industrial | **25.7** | **(0.1)** | 1.5 | (8.0) |
| Other | **0.6** | **0.4** | 1.7 | 2.5 |
| Total retail | **75.0** | **(0.5)** | 4.0 | (2.5) |
| Sales for resale - | | | | |
| Non-affiliates | **8.9** | **9.5** | (0.5) | 25.5 |
| Affiliates | **5.8** | **47.5** | 26.5 | 28.7 |
| Total sales for resale | **14.7** | **22.0** | 7.0 | 26.3 |
| Total sales | **89.7** | **2.6** | 4.4 | 0.5 |

Residential KWH sales decreased 1.7 percent in 2003 due to the effect of the milder summer weather despite the 2 percent increase in residential customers. Commercial KWH sales declined slightly due to the milder summer weather, while industrial KWH sales declined slightly due to the sluggish economy. Residential KWH sales increased 10.1 percent in 2002 due to the effect of the warmer weather. Commercial and industrial KWH sales increased 1.7 percent and 1.5 percent, respectively, due to corresponding increases of 2.6 percent and 2.4 percent, respectively, in customers. Residential KWH sales decreased 2.8 percent in 2001 due to milder-than-normal weather. Commercial KWH sales increased 3.4 percent due to an increase in customers, while industrial KWH sales decreased 8.0 percent due to an economic slowdown. Retail sales growth assuming normal weather is expected to be 1.6 percent on average from 2004 to 2013.

***Expenses***

Fuel costs constitute the single largest expense for the Company. The mix of fuel sources for generation of electricity is determined primarily by system load, the unit cost of fuel consumed, and the availability of hydro and nuclear generating units. The amount and sources of generation and the average cost of fuel per net kilowatt-hour generated were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Total generation (billions of KWH) | **73.1** | 70.4 | 68.9 |
| Sources of generation (percent) -- | | | |
| Coal | **75.4** | 77.4 | 74.9 |
| Nuclear | **21.6** | 21.1 | 23.2 |
| Hydro | **2.7** | 1.2 | 1.4 |
| Oil and gas | **0.3** | 0.3 | 0.5 |
| Average cost of fuel per net KWH generated (cents) -- | **1.46** | 1.42 | 1.38 |
| Average cost of purchased power per net KWH (cents) -- | **4.03** | 3.29 | 3.79 |

Fuel expense increased 10.1 percent in 2003 due to an increase in generation of 3.9 percent because of higher wholesale energy demands and a 2.8 percent higher average cost of fuel due to the higher prices of coal and natural gas in 2003. Fuel expense increased 6.8 percent in 2002 due to a 2.2 percent increase in generation because of higher energy demands and a 2.9 percent higher average cost of fuel due to the higher cost of coal. In 2001, fuel expense decreased 7.7 percent due to a decrease in generation because of lower energy demands and a slightly lower average cost of fuel.

Purchased power expense increased $91 million (13.3 percent) in 2003 primarily due to $75 million of additional capacity expense associated with new purchased power contracts that went into effect in 2003 and 2002. Purchased power expense decreased $87 million (11.2 percent) in 2002 and increased $175 million (29.4 percent) in 2001 primarily due to fluctuations in off-system energy purchases used to meet off-system sales commitments. The 2002 decrease in energy purchases was partially offset by a $43 million increase in capacity expense associated with new purchased power contracts.

In 2003, other operation and maintenance expenses decreased $78 million (5.9 percent) due to the timing of generating plant maintenance of $46 million and transmission and distribution maintenance of $8 million and lower severance costs of $8 million. In 2002, other operation and maintenance expenses increased $85 million (6.8 percent) due to the timing of generating plant maintenance of $44 million and transmission maintenance of $17 million, and increased property insurance expense of $5 million. In 2001, other operation and maintenance expenses increased $41 million (3.4 percent) due to additional severance costs, increased scheduled generating plant maintenance, and higher uncollectible account expense.

Depreciation and amortization decreased $54 million in 2003 primarily as a result of lower regulatory charges related to the inclusion of new certified purchased power costs in retail rates on a levelized basis as ordered by the GPSC. Depreciation and amortization decreased $197 million in 2002 primarily as a result of discontinuing accelerated depreciation, beginning amortization of the regulatory liability for accelerated cost recovery, and lowering the composite depreciation rates in January 2002 all in accordance with the retail rate order. Depreciation and amortization decreased $19 million in 2001 primarily due to lower accelerated amortization under the third year of a prior GPSC retail rate order. See Note 3 to the financial statements under "Retail Rate Orders" for additional information.

Taxes other than income taxes increased $11 million (5.4 percent) in 2003 due mainly to a favorable true-up of state property tax valuations in 2002. Taxes other than income taxes remained relatively constant in 2002.

Interest income increased $12 million in 2003 when compared to the prior year due to interest on a favorable income tax settlement of $14.5 million. Interest income remained relatively constant in 2002.

Interest expense increased in 2003 primarily related to an increase in senior notes outstanding that was partially offset by a reduction in short-term debt outstanding. Interest expense decreased in 2002 and 2001 primarily due to lower interest rates that offset new financing costs. The Company refinanced or retired $665 million, $929 million, and $775 million of securities in 2003, 2002, and 2001, respectively. Interest capitalized decreased in 2003 and 2002 due to the transfer of three new generation projects to Southern Power in 2002 and 2001. Interest capitalized increased in 2001 during the construction phase of these new projects. See Note 7 to the financial statements under "Construction Program" for additional information regarding the construction and subsequent transfer of these generation assets. Distributions on mandatorily redeemable preferred securities decreased in 2003 due to the redemption of securities in the second half of 2002 and increased in 2002 due to the issuance of additional securities while remaining unchanged in 2001.

**Effects of Inflation**

The Company is subject to rate regulation that is based on the recovery of historical costs. In addition, the income tax laws are also based on historical costs. Therefore, inflation creates an economic loss because the Company is recovering its costs of investments in dollars that have less purchasing power. While the inflation rate has been relatively low in recent years, it continues to have an adverse effect on the Company because of the large investment in utility plant with long economic lives. Conventional accounting for historical cost does not recognize this economic loss nor the partially offsetting gain that arises through financing facilities with fixed-money obligations such as long-term debt and preferred securities. Any recognition of inflation by regulatory authorities is reflected in the rate of return allowed in the Company's approved electric rates.

**Future Earnings Potential**

***General***

The results of operations for the past three years are not necessarily indicative of future earnings. The level of future earnings depends on numerous factors including the Company's ability to maintain a stable regulatory environment, to achieve energy sales growth while containing costs, and to recover costs related to growing demand and increasingly strict environmental standards.

Growth in energy sales is subject to a number of factors which 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 in the service area.

***Industry Restructuring***

The Company operates as a vertically integrated utility providing electricity to retail customers within its

traditional service area located in the State of Georgia and to wholesale customers in the Southeast. Prices for electricity provided by the Company to retail customers are set by the GPSC under cost-based regulatory principles.

The electric utility industry in the United States is continuing to evolve as a result of regulatory and competitive factors. Among the early primary agents of change was the Energy Policy Act of 1992 (Energy Act). The Energy Act allowed independent power producers to access a utility's transmission network and sell electricity to other utilities.

Although the Energy Act does not provide for retail customer access, it was a major catalyst for restructuring and consolidations that took place within the utility industry. Numerous federal and state initiatives that promote wholesale and retail competition are in varying stages. Among other things, these initiatives allow retail customers in some states to choose their electricity provider. Some states have approved initiatives that result in a separation of the ownership and/or operation of generating facilities from the ownership and/or operation of transmission and distribution facilities. While various restructuring and competition initiatives have been discussed in Georgia, none have been enacted. Enactment could require numerous issues to be resolved, including significant ones relating to recovery of any stranded investments, full cost recovery of energy produced, and other issues related to the energy crisis that occurred in California, as well as the August 2003 power outage in the Northeast. The Company does compete with other electric suppliers within the state. In Georgia, most new retail customers with at least 900 kilowatts of connected load may choose their electricity supplier.

Since 2001, merchant energy companies and traditional electric utilities with significant energy marketing and trading activities have come under severe financial pressures. Many of these companies have completely exited or drastically reduced all energy marketing and trading activities and sold foreign and domestic electric infrastructure assets. The Company has not experienced any material financial impact regarding its limited energy trading operations through Southern Company Services (SCS).

Continuing to be a low-cost producer could provide opportunities to increase the size and profitability in markets that evolve with changing regulation and competition. Conversely, future regulatory changes could adversely affect the Company's growth, and if the Company does not remain a low-cost producer and provide quality service, then energy sales growth could be limited, and this could significantly erode earnings.

***Environmental Matters***

*New Source Review Actions*

In November 1999, the Environmental Protection Agency (EPA) brought a civil action against the Company alleging the Company had violated the New Source Review (NSR) provisions of the Clean Air Act with respect to coal-fired generating facilities at the Company's Bowen and Scherer plants. The civil action requests penalties and injunctive relief, including an order requiring the installation of the best available control technology at the affected units. The action against the Company has been stayed since the spring of 2001 during the appeal of a very similar NSR action against the Tennessee Valley Authority before the U.S. Court of Appeals for the Eleventh Circuit. The Eleventh Circuit appeal was decided on September 16, 2003, and, on February 13, 2004, the EPA petitioned the U.S. Supreme Court to review the Eleventh Circuit's decision. At this time, no party to the Company's action, which was administratively closed two years ago, has asked the court to reopen that case. See Note 3 to the financial statements under "New Source Review Actions" for additional information.

In December 2002 and October 2003, the EPA issued final revisions to its NSR regulations under the Clean Air Act. The December 2002 revisions included changes to the regulatory exclusions and the methods of calculating emissions increases. The October 2003 regulations clarified the scope of the existing Routine Maintenance Repair and Replacement exclusion. A coalition of states and environmental organizations filed petitions for review of these revisions with the U.S. Court of Appeals for the District of Columbia Circuit. On December 24, 2003, the Court of Appeals granted a stay of the October 2003 revisions pending its review of the rules, and ordered that its review would be conducted on an expedited basis. In January 2004, the Bush Administration announced that it would continue to enforce the existing rules until the courts resolve legal challenges to the EPA's revised NSR regulations. In any event, the final regulations must be adopted by the State of Georgia in order to apply to the Company's facilities.

The effect of these final regulations and the related legal challenges cannot be determined at this time.

The Company believes that it complied with applicable laws and the EPA's regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes civil penalties of up to $27,500 per day, per violation at each generating unit. Prior to January 30, 1997, the penalty was $25,000 per day. An adverse outcome in this matter could require substantial capital expenditures and additional operation and maintenance expenses that cannot be determined at this time and could possibly require payment of substantial penalties. This could affect future results of operations, cash flows, and possibly financial condition if such costs are not recovered through regulated rates.

*Plant Wansley Environmental Litigation*

On December 30, 2002, the Sierra Club, Physicians for Social Responsibility, Georgia ForestWatch, and one individual filed a civil suit in the U.S. District Court in Georgia against the Company for alleged violations of the Clean Air Act at four of the units at Plant Wansley. The civil action requests injunctive and declaratory relief, civil penalties, a supplemental environmental project, and attorneys' fees. The Clean Air Act authorizes civil penalties of up to $27,500 per day, per violation at each generating unit. This case is currently scheduled for trial during the summer of 2004. See Note 3 to the financial statements under "Plant Wansley Environmental Litigation" for additional information.

While the Company believes that it has complied with applicable laws and regulations, an adverse outcome could require payment of substantial penalties. The final outcome of this matter cannot now be determined.

*Environmental Statutes and Regulations*

The Company's operations are subject to extensive regulation by state and federal environmental agencies under a variety of statutes and regulations governing environmental media, including air, water, and land resources. Compliance with these environmental requirements will involve significant capital and operating costs, a major portion of which is expected to be recovered through existing ratemaking provisions. Environmental costs that are known and estimable at this time are included in capital expenditures under "Capital Requirements and Contractual Obligations." There is no assurance, however, that all such costs will, in fact, be recovered.

Compliance with the federal Clean Air Act and resulting regulations has been, and will continue to be, a significant focus for the Company. The Title IV acid rain provisions of the Clean Air Act, for example, required significant reductions in sulfur dioxide and nitrogen oxide emissions. Title IV compliance was effective in 2000 and associated construction expenditures totaled approximately $206 million. Some of these expenditures also assisted the Company in complying with nitrogen oxide emission reduction requirements under Title I of the Clean Air Act, which were designed to address one-hour ozone nonattainment problems in Atlanta, Georgia. The State of Georgia adopted regulations that required additional nitrogen oxide emission reductions from May through September of each year at plants in and/or near those nonattainment areas. Seven generating plants in the Atlanta area are currently subject to those requirements, the most recent of which went into effect in 2003. Construction expenditures for compliance with the nitrogen oxide emission reduction requirements are estimated to be $698 million, of which $17 million remains to be spent.

On September 26, 2003, the EPA published a final rule effective January 1, 2004 reclassifying the Atlanta area from a "serious" to a "severe" nonattainment area for the one-hour ozone air quality standard under Title I of the Clean Air Act. The attainment deadline is to be as expeditious as practicable but not later than November 15, 2005. If the Atlanta area fails to comply with the one-hour ozone standard by the deadline, all major sources of nitrogen oxides and volatile organic compounds located in the nonattainment area, including the Company's plants McDonough and Yates, could be subject to payment of annual emissions fees for nitrogen oxides emitted above 80 percent of the baseline period. The baseline period is expected to be the calendar year 2005. Based on average emissions at these units over the past three years, such fees could reach $23 million annually. The final outcome of this matter will depend on the baseline period selected and the development, approval, and implementation of applicable regulations including new regulations for the eight-hour ozone air quality standard.

To help ozone nonattainment areas attain the one-hour ozone standard, the EPA issued regional nitrogen oxide reduction rules in 1998. Those rules required 21

states, including Georgia, to reduce and cap nitrogen oxide emissions from power plants and other large industrial sources. As a result of litigation challenging the rule, the courts required the EPA to complete a separate rulemaking before the requirements can be applied in Georgia. The final EPA rules have not been issued in Georgia. The impact of this rule on the Company will depend on the form in which it is finalized and cannot be determined at this time.

In July 1997, the EPA revised the national ambient air quality standards for ozone and particulate matter. These revisions made the standards significantly more stringent. In the subsequent litigation of these standards, the U.S. Supreme Court found the EPA's implementation program for the new eight-hour ozone standard unlawful and remanded it to the EPA for further rulemaking. During 2003, the EPA proposed implementation rules designed to address the court's concerns. The EPA plans to designate areas as attainment or nonattainment with the new eight-hour ozone standard in April 2004 and with the new fine particulate matter standard by the end of 2004. These designations will be based on air quality data for 2001 through 2003. Several areas within the Company's service area are likely to be designated nonattainment under these standards. State implementation plans (SIPs), including new emission control regulations necessary to bring those areas into attainment, could be required as early as 2007. Those SIPs could require reductions in sulfur dioxide emissions and could require further reductions in nitrogen oxide emissions from power plants. If so, reductions could be required sometime after 2007. The impact of any new standards will depend on the development and implementation of applicable regulations and cannot be determined at this time.

In January 2004, the EPA issued a proposed Interstate Air Quality Rule to address interstate transport of ozone and fine particles. This proposed rule would require additional year-round sulfur dioxide and nitrogen oxide emission reductions from power plants in the eastern United States in two phases – in 2010 and 2015. The EPA currently plans to finalize this rule by 2005. If finalized, the rule could modify or supplant other SIP requirements for attainment of the fine particulate matter standard and the eight-hour ozone standard. The impact of this rule on the Company will depend upon the specific requirements of the final rule and cannot be determined at this time.

Further reductions in sulfur dioxide and nitrogen oxides could also be required under the EPA's Regional Haze rules. The Regional Haze rules require states to establish Best Available Retrofit Technology (BART) standards for certain sources that contribute to regional haze. The Company has a number of plants that could be subject to these rules. The EPA's regional haze program calls for states to submit SIPs in 2007. The SIPs must contain emission reduction strategies for implementing BART and achieving progress toward the Clean Air Act's visibility improvement goal. In 2002, however, the U.S. Court of Appeals for the District of Columbia Circuit vacated and remanded the BART provisions of the federal Regional Haze rules to the EPA for further rulemaking. The EPA has entered into an agreement that requires proposed revised rules in April 2004 and final rules in 2005. Because new BART rules have not been developed and state visibility assessments for progress are only beginning, it is not possible to determine the effect of these rules on the Company at this time.

The EPA's Compliance Assurance Monitoring (CAM) regulations under Title V of the Clean Air Act require that monitoring be performed to ensure compliance with emissions limitations on an ongoing basis. In 2004 and 2005, a number of the Company's plants will likely be subject to CAM requirements for at least one pollutant, in most cases, particulate matter. The Company is in the process of developing CAM plans. Because the plans are still under development, the Company cannot determine the costs associated with implementation of the CAM regulations. Actual ongoing monitoring costs are expensed as incurred and are not material for any year presented.

In January 2004, the EPA issued proposed rules regulating mercury emissions from electric utility boilers. The proposal solicits comments on two possible approaches for the new regulations – a Maximum Achievable Control Technology approach and a cap-and-trade approach. Either approach would require significant reductions in mercury emissions from Company facilities. The regulations are scheduled to be finalized by the end of 2004, and compliance could be required as early as 2007. Because the regulations have not been finalized, the impact on the Company cannot be determined at this time.

Several major bills to amend the Clean Air Act to impose more stringent emissions limitations on power plants have been proposed by Congress. Three of these,

the Bush Administration's Clear Skies Act, the Clean Power Act of 2003, and the Clean Air Planning Act of 2003, propose to further limit power plant emissions of sulfur dioxide, nitrogen oxides, and mercury. The latter two bills also propose to limit emissions of carbon dioxide. The cost impacts of such legislation would depend upon the specific requirements enacted and cannot be determined at this time.

Domestic efforts to limit greenhouse gas emissions have been spurred by international discussions surrounding the Framework Convention on Climate Change and specifically the Kyoto Protocol, which proposes international constraints on the emissions of greenhouse gases. The Bush Administration does not support U.S. ratification of the Kyoto Protocol or other mandatory carbon dioxide reduction legislation and has instead announced a new voluntary climate initiative, known as Climate VISION, which seeks an 18 percent reduction by 2012 in the rate of greenhouse gas emissions relative to the dollar value of the U.S. economy. Through Southern Company, the Company is involved in a voluntary electric utility industry sector climate change initiative in partnership with the government. The electric utility sector has pledged to reduce its greenhouse gas intensity 3 to 5 percent over the next decade, and is in the process of developing a memorandum of understanding with the Department of Energy (DOE) to cover this voluntary program.

The Company must comply with other environmental laws and regulations that cover the handling and disposal of waste and releases of hazardous substances. Under these various laws and regulations, the Company could incur substantial costs to clean up properties. The Company conducts studies to determine the extent of any required cleanup and has recognized in its financial statements the costs to clean up and monitor known sites. Amounts expensed for cleanup and ongoing monitoring costs were not material for any year presented. The Company may be liable for a portion or all required cleanup costs for additional sites that may require environmental remediation. Under GPSC ratemaking provisions, $21 million has been deferred in a regulatory liability account for use in meeting future environmental remediation costs. See Note 3 to the financial statements under "Potentially Responsible Party Status" for information regarding the Company's potentially responsible party status at sites in Georgia.

Under the Clean Water Act, the EPA has been developing new rules aimed at reducing impingement and entrainment of fish and fish larvae at power plants' cooling water intake structures. On February 16, 2004, the EPA finalized these rules. These rules will require numerous biological studies, and, perhaps, retrofits to some intake structures at existing power plants. The impact of these new rules will depend on the results of studies and analyses performed as part of the rules' implementation.

The Company is also planning to install cooling towers at some of its facilities to cool water prior to discharge under the Clean Water Act. Cooling towers for two plants near Atlanta are scheduled for completion in 2004 and 2008 at an estimated total of $160 million, of which $90 million remains to be spent. Also, the Company is conducting a study of the aquatic environment at another facility to determine if additional controls are necessary.

In addition, under the Clean Water Act, the EPA and the State of Georgia Environmental Protection Division (EPD) are developing total maximum daily loads (TMDLs) for certain impaired waters. Establishment of maximum loads by the EPA or EPD may result in lowering permit limits for various pollutants and a requirement to take additional measures to control non-point source pollution (e.g., storm water runoff) at facilities that discharge into waters for which TMDLs are established. Because the effect on the Company will depend on the actual TMDLs and permit limitations established by the implementing agency, it is not possible to determine the effect on the Company at this time.

Several major pieces of environmental legislation are periodically considered for reauthorization or amendment by Congress. These include: the Clean Air Act; the Clean Water Act; the Comprehensive Environmental Response, Compensation, and Liability Act; the Resource Conservation and Recovery Act; the Toxic Substances Control Act; the Emergency Planning & Community Right-to-Know Act; and the Endangered Species Act.

Compliance with possible additional federal or state legislation or regulations related to global climate change, electromagnetic fields, or other environmental and health concerns could also significantly affect the Company. The impact of any new legislation, changes to existing legislation, or environmental regulations could affect many areas of the Company's operations.

The full impact of any such changes cannot, however, be determined at this time.

*FERC Matters*

*Transmission*

In December 1999, the Federal Energy Regulatory Commission (FERC) issued its final rule (Order 2000) on Regional Transmission Organizations (RTOs). Order 2000 encouraged utilities owning transmission systems to form RTOs on a voluntary basis. Through Southern Company, the Company worked with a number of utilities in the Southeast to develop a for-profit RTO known as SeTrans. In 2002, the sponsors of SeTrans established a Stakeholder Advisory Committee to provide input into the development of the RTO from other sectors of the electric industry, as well as consumers. During the development of SeTrans, state regulatory authorities expressed concern over certain aspects of the FERC's policies regarding RTOs. In December 2003, the SeTrans sponsors announced that they would suspend work on SeTrans because the regulated utility participants, including the Company, had determined that it was highly unlikely to obtain support of both federal and state regulatory authorities. Any impact of the FERC's rule on the Company will depend on the regulatory reaction to the suspension of SeTrans and future developments, which cannot now be determined.

In July 2002, the FERC issued a notice of proposed rulemaking regarding open access transmission service and standard electricity market design. The proposal, if adopted, would among other things: (1) require transmission assets of jurisdictional utilities to be operated by an independent entity; (2) establish a standard market design; (3) establish a single type of transmission service that applies to all customers; (4) assert jurisdiction over the transmission component of bundled retail service; (5) establish a generation reserve margin; (6) establish bid caps for day ahead and spot energy markets; and (7) revise the FERC policy on the pricing of transmission expansions. Comments on the proposal were submitted by many interested parties, including Southern Company, and the FERC has indicated that it has revised certain aspects of the proposal in response to public comments. Proposed energy legislation would prohibit the FERC from issuing the final rule before October 31, 2006, and from making any final rule effective before December 31, 2006. That legislation has been approved by the House of Representatives but remains pending before the Senate. Passage of the legislation now appears in doubt. It is uncertain whether in the absence of legislation the FERC will move forward with any part or all of the proposed rule. Any impact of this proposal on the Company will depend on the form in which the final rule may be ultimately adopted. However, the Company's financial statements could be adversely affected by changes in the transmission regulatory structure in its regional power market.

*Market-Based Rate Authority*

The Company has obtained FERC approval to sell power to non-affiliates at market-based prices under specific contracts. Through SCS, as agent, the Company also has FERC authority to make short-term opportunity sales at market rates. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate. In November 2001, the FERC modified the test it uses to consider utilities' applications to charge market-based rates and adopted a new test called the Supply Margin Assessment (SMA). The FERC applied the SMA to several utilities, including Southern Company's retail operating companies, and found them to be "pivotal suppliers" in their control area market and ordered the implementation of several mitigation measures. SCS, on behalf of the Company and the other retail operating companies, sought rehearing of the FERC order and the FERC delayed implementation of certain mitigation measures. SCS, on behalf of the Company and the other retail operating companies, submitted comments to the FERC in 2002 regarding these issues. In December 2003, the FERC issued a staff paper discussing alternatives and held a technical conference in January 2004. The Company anticipates that the FERC will address the requests for rehearing in the near future. Regardless of the outcome of the SMA proposal, the FERC retains the ability to modify or withdraw the authorization for any seller to sell at market-based rates, if it determines that the underlying conditions for having such authority are no longer applicable. The final outcome of this matter will depend on the form in which the SMA test and mitigation measures rules may be ultimately adopted and cannot be determined at this time.

Purchased power agreements (PPAs) by the Company and Savannah Electric for Southern Power's Plant McIntosh capacity were certified by the GPSC in December 2002 after a competitive bidding process. In April 2003, Southern Power applied for FERC approval

of the PPAs. Interveners have made filings in opposition of the FERC's acceptance of the PPAs, alleging that the PPAs do not meet the applicable standards for market-based rates between alliliates. In July 2003, the FERC accepted the PPAs to become effective as scheduled on June 1, 2005, subject to refund, and ordered that hearings be held. For additional information, see Note 3 to the financial statements under "FERC Matters."

*Other Matters*

The Company is currently operating under a GPSC approved three-year retail rate order ending December 31, 2004. Under the terms of the order, earnings are evaluated annually against a retail return on common equity range of 10 percent to 12.95 percent. Two-thirds of any earnings above the 12.95 percent return are applied to rate refunds with the remaining one-third retained by the Company. The Company is required to file a general rate case on July 1, 2004, in response to which the GPSC would be expected to determine whether the rate order should be continued, modified, or discontinued. See Note 3 to the financial statements under "Retail Rate Orders" for additional information.

The Company has entered into various long-term PPAs which will result in higher capacity and operating and maintenance payments in future years. These agreements have been certified by the GPSC under Georgia's Integrated Resource Plan statute. Once certified, these costs are recoverable in rates under the statute. See Notes 3 and 7 to the financial statements under "Retail Rate Orders" and "Fuel and Purchased Power Commitments," respectively, for additional information.

On December 24, 2002, the GPSC approved an order allowing the Company to implement a natural gas and oil procurement and hedging program effective January 1, 2003. This order allows the Company to use financial instruments to hedge price and commodity risk associated with these fuels. The order limits the program in terms of time, volume, dollars, and physical amounts hedged. The costs of the program, including any net losses, are recovered as a fuel cost through the fuel cost recovery mechanism. Annual net financial gains from the hedging program will be shared with the retail customers receiving 75 percent and the Company retaining 25 percent of the net gains. There were no net gains in 2003.

In accordance with Financial Accounting Standards Board (FASB) Statement No. 87, Employers' Accounting for Pensions, the Company recorded non-cash pension income, before tax, of approximately $54 million, $59 million, and $60 million in 2003, 2002, and 2001, respectively. Future pension income is dependent on several factors including trust earnings and changes to the plan. The decline in pension income is expected to continue and to become an expense by as early as 2007. Postretirement benefit costs for the Company were $41 million, $43 million and $43 million in 2003, 2002, and 2001, respectively, and are expected to trend upward. A portion of pension and postretirement benefit costs is capitalized based on construction-related labor charges. For the Company, pension income and postretirement benefit costs are a component of the regulated rates and generally do not have a significant long-term effect on net income. For additional information, see Note 2 to the financial statements.

On December 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Act). The Medicare Act introduces a prescription drug benefit for Medicare-eligible retirees starting in 2006, as well as a federal subsidy to plan sponsors like the Company that provide prescription drug benefits. In accordance with FASB Staff Position No. 106-1, the Company has elected to defer recognizing the effects of the Medicare Act for its postretirement plans under FASB Statement No. 106, Employers' Accounting for Postretirement Benefits Other than Pension until authoritative guidance on accounting for the federal subsidy is issued or until a significant event occurs that would require remeasurement of the plans' assets and obligations. The Company anticipates that the benefits it pays after 2006 will be lower as a result of the Medicare Act; however, the retiree medical obligations and costs reported in Note 2 to the financial statements do not reflect these changes. The final accounting guidance could require changes to previously reported information.

Nuclear security legislation was recently introduced and considered in Congress both as a free-standing bill in the Senate and as a part of comprehensive energy legislation in a House-Senate Conference Report. Neither of the proposals has been enacted. The Nuclear Regulatory Commission (NRC) also has ordered additional security measures for licensees in 2003. The Company is in the process of implementation and must be in full compliance with these orders by October 29, 2004. The requirements of the latest orders will have an

impact on the Company's nuclear power plants and result in increased operation and maintenance expenses as well as additional capital expenditures. The precise impact of the new requirements will depend upon the details of the implementation of the new requirements, which have not been finalized.

The Georgia General Assembly has recently adopted legislation that changes the law concerning condemnation of land for electric transmission lines. The legislation requires that a utility planning to construct or expand a transmission line hold public meetings in each county where the line would be located and that the utility attempt to negotiate a settlement with each affected property owner. The legislation also provides for the reconveyance of property interests that are condemned for a transmission line but are not used for that purpose within a specified number of years. The legislation, unless vetoed by Governor Perdue, will become effective on July 1, 2004.

The Company is involved in various matters being litigated, regulatory matters, and related issues that could affect future earnings. See Note 3 to the financial statements for information regarding material issues.

## ACCOUNTING POLICIES

### Application of Critical Accounting Policies and Estimates

The Company 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. In the application of these policies, certain estimates are made that may have a material impact on the Company's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. Senior management has discussed the development and selection of the critical accounting policies and estimates described below with the Controls and Compliance Committee of the Company's Board of Directors and the Audit Committee of Southern Company's Board of Directors.

#### *Electric Utility Regulation*

The Company is subject to retail regulation by the GPSC and wholesale regulation by the FERC. These regulatory agencies set the rates the Company is permitted to charge customers based on allowable costs. As a result, the Company applies FASB Statement No. 71, Accounting for the Effects of Certain Types of Regulation. Through the ratemaking process, the regulators may require the inclusion of costs or revenues in periods different than when they would be recognized by a non-regulated company. This treatment may result in the deferral of expenses and the recording of related regulatory assets based on anticipated future recovery through rates or the deferral of gains or creation of liabilities and the recording of related regulatory liabilities. The application of Statement No. 71 has a further effect on the Company's financial statements as a result of the estimates of allowable costs used in the ratemaking process. These estimates may differ from those actually incurred by the Company; therefore, the accounting estimates inherent in specific costs such as depreciation, nuclear decommissioning, and pension and postretirement benefits have less of a direct impact on the Company's results of operations than they would on a non-regulated company.

As reflected in Note 1 to the financial statements under "Regulatory Assets and Liabilities," significant regulatory assets and liabilities have been recorded. Management reviews the ultimate recoverability of these regulatory assets and liabilities based on applicable regulatory guidelines. However, adverse legislation and judicial or regulatory actions could materially impact the amounts of such regulatory assets and liabilities and could adversely impact the Company's financial statements.

#### *Contingent Obligations*

The Company is subject to a number of federal and state laws and regulations, as well as other factors and conditions that potentially subject it to environmental, litigation, income tax, and other risks. See "Future Earnings Potential" and Note 3 to the financial statements for more information regarding certain of these contingencies. The Company periodically evaluates its exposure to such risks and records reserves for those matters where a loss is considered probable and reasonably estimable in accordance with generally accepted accounting principles. The adequacy of reserves can be significantly affected by external events or conditions that can be unpredictable; thus, the ultimate outcome of such matters could materially affect the Company's financial statements. These events or conditions include the following:

- Changes in existing state or federal regulation by governmental authorities having jurisdiction over air quality, water quality, control of toxic substances, hazardous and solid wastes, and other environmental matters.
- Changes in existing income tax regulations or changes in Internal Revenue Service interpretations of existing regulations.
- Identification of additional sites that require environmental remediation or the filing of other complaints in which the Company may be asserted to be a potentially responsible party.
- Identification and evaluation of other potential lawsuits or complaints in which the Company may be named as a defendant.
- Resolution or progression of existing matters through the legislative process, the court systems, the EPA, or the EPD.

**New Accounting Standards**

Prior to January 2003, the Company accrued for the ultimate cost of retiring most long-lived assets over the life of the related asset through depreciation expense. FASB Statement No. 143, Accounting for Asset Retirement Obligations, established new accounting and reporting standards for legal obligations associated with the ultimate cost of retiring long-lived assets. The present value of the ultimate costs for an asset's future retirement is recorded in the period in which the liability is incurred. The costs are capitalized as part of the related long-lived asset and depreciated over the asset's useful life. Additionally, non-regulated companies are no longer permitted to continue accruing future retirement costs for long-lived assets that they do not have a legal obligation to retire. For additional information regarding the impact of adopting this standard effective January 1, 2003, see Note 1 to the financial statements under "Asset Retirement Obligations and Other Costs of Removal."

FASB Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which further amends and clarifies the accounting and reporting for derivative instruments, became effective generally for financial instruments entered into or modified after June 30, 2003. Current interpretations of Statement No. 149 indicate that certain electricity forward transactions subject to unplanned netting -- including those typically referred to as "book outs" -- may only qualify as cash flow hedges if an entity can demonstrate that physical delivery or receipt of power occurred. The Company's forward electricity contracts continue to be exempt from fair value accounting requirements or to qualify as cash flow hedges, with the related gains and losses deferred in other comprehensive income. The implementation of Statement No. 149 did not have a material effect on the Company's financial statements.

In July 2003, the Emerging Issues Task Force (EITF) of the FASB issued EITF No. 03-11, which became effective on October 1, 2003. The standard addresses the reporting of realized gains and losses on derivative instruments and is being interpreted to require book outs to be recorded on a net basis in operating revenues. Adoption of this standard did not have a material impact on the Company's financial statements.

FASB Interpretation No. 46, Consolidation of Variable Interest Entities, which was originally issued in January 2003, requires the primary beneficiary of a variable interest entity to consolidate the related assets and liabilities. In December 2003, the FASB revised Interpretation No. 46 and deferred the effective date until March 31, 2004 for interests held in variable interest entities other than special purpose entities.

Current analysis indicates that the trusts established by the Company to issue preferred securities are variable interest entities under Interpretation No. 46, and that the Company is not the primary beneficiary of the trusts. If this conclusion is finalized, effective March 31, 2004, the trust assets and liabilities -- including the preferred securities issued by the trusts -- will be deconsolidated. The investments in the trusts and the loans from the trusts to the Company will be reflected as equity method investments and as long-term notes payable to affiliates, respectively, on the Balance Sheets. Based on December 31, 2003 values, this treatment would result in an increase of approximately $29 million to both total assets and liabilities. See Note 6 to the financial statements under "Mandatorily Redeemable Preferred Securities" for additional information.

In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, which requires classification of certain financial instruments within its scope, including shares that are mandatorily redeemable, as liabilities. Statement No. 150 was effective for financial instruments entered into or modified after May 31, 2003, and otherwise on July 1, 2003. In accordance with Statement No. 150, the Company's mandatorily redeemable preferred securities

are reflected as liabilities on the Balance Sheets. The adoption of Statement No. 150 had no impact on the Statements of Income and Cash Flows.

## FINANCIAL CONDITION AND LIQUIDITY

### Overview

Over the last several years, the Company's financial condition has remained stable with emphasis on cost control measures combined with significantly lower cost of capital, achieved through the refinancing and/or redemption of higher-cost long-term debt, preferred stock and preferred securities. The Company operated at high levels of reliability while achieving industry-leading customer satisfaction levels and continuing to have retail prices below the national average.

In 2003, gross utility plant additions were $743 million. These additions were primarily related to transmission and distribution facilities and the purchase of nuclear fuel and equipment to comply with environmental standards. The majority of funds needed for gross property additions for the last several years have been provided from operating activities. The Statements of Cash Flows provide additional details.

The Company's ratio of common equity to total capitalization -- including short-term debt -- was 48.3 percent in 2003, 48.3 percent in 2002, and 47.7 percent in 2001. See Note 6 to the financial statements for additional information.

### Sources of Capital

The Company expects to meet future capital requirements primarily using funds generated from operating activities and equity funds from Southern Company and by the issuance of new debt securities, term loans, and short-term borrowings. The Company had $137 million of GPSC approved financing authority as of December 31, 2003. The Company used this remaining authority in February 2004. The type and timing of future financings will depend on market conditions and regulatory approval of additional financing authority. Recently, the Company has relied on the issuance of unsecured debt and preferred securities, in addition to unsecured pollution control bonds issued for its benefit by public authorities, to meet its long-term external financing requirements.

In February 2002, the Company defeased its first mortgage bond indenture and all related liens or encumbrances on the Company's property were discharged. As a result, the Company cannot issue any securities pursuant to this indenture. See "First Mortgage Bond Indenture" under Note 6 to the financial statements for additional information.

The Company obtains financing separately without credit support from any affiliate. The Southern Company system does not maintain a centralized cash or money pool. Therefore, funds of the Company are not commingled with funds of any other company. In accordance with the Public Utility Holding Company Act, most loans between affiliated companies must be approved in advance by the Securities and Exchange Commission (SEC).

The Company's current liabilities frequently exceed current assets because of the continued use of short-term debt as a funding source to meet cash needs which can fluctuate significantly due to the seasonality of the business.

To meet short-term cash needs and contingencies, the Company had approximately $725 million of unused credit arrangements with banks at the beginning of 2004. See Note 6 to the financial statements under "Bank Credit Arrangements" for additional information.

The Company may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper and extendible commercial notes at the request and for the benefit of the Company and the other Southern Company operating companies. Proceeds from such issuances for the benefit of the Company are loaned directly to the Company and are not commingled with proceeds from issuances for the benefits of any other operating company. The obligations of each company under these arrangements are several; there is no cross affiliate credit support. At December 31, 2003, the Company had outstanding $137 million of commercial paper and no extendible commercial notes.

At the beginning of 2004, the Company had not used any of its available credit arrangements. Bank credit arrangements are as follows:

| | | Expires |
|---|---|---|
| Total | Unused | 2004 |
| | (in millions) | |
| $725 | $725 | $725 |

All of these credit arrangements allow for the execution of term loans for an additional two year period.

### Financing Activities

In 2003, the Company's financing costs increased due to the issuance of new debt during the year. New issues during 2001 through 2003 totaled $3.2 billion and retirement or repayment of higher-cost securities totaled $2.4 billion.

Composite financing rates for long-term debt, preferred stock, and preferred securities for the years 2001 through 2003, as of year-end, were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Composite interest rate on long-term debt | **4.01%** | 4.47% | 4.26% |
| Composite preferred stock dividend rate | **4.60** | 4.60 | 4.60 |
| Composite preferred securities distribution rate | **6.35** | 6.35 | 7.49 |

Subsequent to December 31, 2003, the Company has issued $550 million of new securities with the proceeds used primarily to retire higher coupon long-term debt and for construction and general corporate purposes.

### Credit Rating Risk

The Company does not have any credit agreements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are contracts that could require collateral -- but not accelerated payment -- in the event of a credit rating change to below investment grade. These contracts are primarily for physical electricity purchases and sales, fixed-price physical gas purchases, and agreements covering interest rate swaps. At December 31, 2003, the maximum potential collateral requirements were approximately $227 million. At December 31, 2003, there were no material collateral requirements for the gas purchase contracts or other financial instrument agreements.

### Market Price Risk

Due to cost-based regulations the Company has limited exposure to market volatility in interest rates, commodity fuel prices and prices of electricity. To manage the volatility attributable to these exposures, the Company nets the exposures to take advantage of natural offsets and enters into various derivative transactions for the remaining exposures pursuant to the Company's policies in areas such as counterparty exposure and hedging practices. Company policy is that derivatives are to be used primarily for hedging purposes. Derivative positions are monitored using techniques that include market valuation and sensitivity analysis.

To mitigate the Company's exposure to interest rates, the Company has entered into interest rate swaps that were designed as cash flow hedges of variable rate debt or anticipated debt issuances. At December 31, 2003 the Company had no variable long-term debt outstanding that had not been hedged. Therefore, there would be no effect on annualized interest expense if the Company sustained a 100 basis point change in interest rates for all variable rate long-term debt. The Company is not aware of any facts or circumstances that would significantly affect such exposures in 2004. See Notes 1 and 6 to the financial statements under "Financial Instruments" for additional information.

To mitigate residual risks relative to movements in electricity prices, the Company enters into fixed price contracts for the purchase and sale of electricity through the wholesale electricity market and, to a lesser extent, into similar contracts for gas purchases. Fair value of changes in derivative energy contracts and year-end valuations were as follows:

| | Changes in Fair Value | |
|---|---|---|
| | **2003** | 2002 |
| | (in millions) | |
| Contracts beginning of year | **$0.1** | $0.4 |
| Contracts realized or settled | **(0.4)** | ~~0.9~~ |
| New contracts at inception | **-** | - |
| Changes in valuation techniques | **-** | - |
| Current period changes | **3.5** | (1.2) |
| Contracts end of year | **$3.2** | $0.1 |

| | Source of 2003 Year-End Valuation Prices | | |
|---|---|---|---|
| | Total | Maturity | |
| | Fair Value | Year 1 | 1-3 Years |
| | | (in millions) | |
| Actively quoted | **$3.2** | $2.8 | $0.4 |
| External sources | **-** | - | - |
| Models and other methods | **-** | - | - |
| Contracts end of year | **$3.2** | $2.8 | $0.4 |

Unrealized gains and losses from mark to market adjustments on derivative contracts related to the Company's fuel hedging programs are recorded as regulatory assets and liabilities. Realized gains and losses from these programs are included in fuel expense and are recovered through the Company's fuel cost recovery mechanism. Gains and losses on derivative contracts that are not designated as hedges are recognized in the income statement as incurred. At December 31, 2003, the fair value of derivative energy contracts reflected in the financial statements was as follows:

| | Amounts (in millions) |
|---|---|
| Regulatory liabilities, net | $3.2 |
| Other comprehensive income | - |
| Net income | - |
| Total fair value | $3.2 |

Gains (losses) recognized in income in 2003, 2002, and 2001 were not material. The Company is exposed to market price risk in the event of nonperformance by counterparties to the derivative energy contracts. The Company's policy is to enter into agreements with counterparties that have investment grade credit ratings by Moody's and Standard & Poor's or with counterparties who have posted collateral to cover potential credit exposure. Therefore, the Company does not anticipate market risk exposure from nonperformance by the counterparties. For additional information, see Notes 1 and 6 to the financial statements under "Financial Instruments."

**Capital Requirements and Contractual Obligations**

The construction program of the Company is currently estimated to be $747 million for 2004, $812 million for 2005, and $1,043 million for 2006. Environmental expenditures included in these amounts are $91 million, $113 million, and $316 million for 2004, 2005, and 2006, respectively. Actual construction costs may vary from this estimate because of changes in such factors as: business conditions; environmental regulations; nuclear plant regulations; FERC rules and transmission regulations; load projections; the cost and efficiency of construction labor, equipment, and materials; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

The Company has no generating plants under construction. However, construction related to new transmission and distribution facilities and capital improvements to existing generation, transmission and distribution facilities, including those needed to meet the environmental standards previously discussed, are ongoing.

As a result of requirements by the NRC, the Company has established external trust funds for nuclear decommissioning costs. For additional information, see Note 1 to the financial statements under "Nuclear Decommissioning." Also as discussed in Note 1 to the financial statements under "Revenues and Fuel Costs," in 1993 the DOE implemented a special assessment over a 15-year period on utilities with nuclear plants to be used for the decontamination and decommissioning of its nuclear fuel enrichment facilities.

In addition, as discussed in Note 2 to the financial statements, the Company provides postretirement benefits to substantially all employees and funds trusts to the extent required by the GPSC and the FERC.

Other funding requirements related to obligations associated with scheduled maturities of long-term debt and preferred securities, as well as the related interest and distributions, preferred stock dividends, leases, and other purchase commitments are as follows. See Notes 1, 6, and 7 to the financial statements for additional information.

| | 2004 | 2005-2006 | 2007-2008 | After 2008 | Total |
|---|---|---|---|---|---|
| | | | (in millions) | | |
| Long-term debt and preferred securities[a] -- | | | | | |
| Principal | $ 2 | $ 605 | $ 306 | $3,792 | $ 4,705 |
| Interest and distributions | 211 | 409 | 363 | 3,885 | 4,868 |
| Preferred stock dividends[b] | 1 | 1 | 1 | - | 3 |
| Operating leases | 34 | 56 | 44 | 72 | 206 |
| Purchase commitments[c] -- | | | | | |
| Capital [d] | 718 | 1,815 | 2,286 | - | 4,819 |
| Coal and nuclear fuel | 1,321 | 1,940 | 975 | 183 | 4,419 |
| Natural gas[e] | 156 | 297 | 280 | 1,625 | 2,358 |
| Purchased power | 293 | 828 | 852 | 2,573 | 4,546 |
| Trusts[f] -- | | | | | |
| Nuclear decommissioning | 9 | 17 | 17 | 95 | 138 |
| Postretirement benefits | 9 | 21 | - | - | 30 |
| DOE assessments | 3 | 7 | - | - | 10 |
| Total | $2,757 | $5,996 | $5,124 | $12,225 | $26,102 |

(a) All amounts are reflected based on final maturity dates. The Company will continue to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit. Variable rate interest obligations are estimated based on rates as of January 1, 2004, as reflected in the Statements of Capitalization.

(b) Preferred stock does not mature; therefore, amounts are provided for the next five years only.

(c) The Company generally does not enter into non-cancelable commitments for other operation and maintenance expenditures. Total other operation and maintenance expenses for the last three years were $1.2 billion, $1.3 billion, and $1.2 billion, respectively.

(d) The Company forecasts capital expenditures over a five-year period. Amounts represent current estimates of total expenditures, excluding those amounts related to contractual purchase commitments for uranium and nuclear fuel conversion, enrichment, and fabrication services. At December 31, 2003, significant purchase commitments were outstanding in connection with the construction program.

(e) Natural gas purchase commitments are based on various indices at the time of delivery. Amounts reflected have been estimated based on New York Mercantile future prices at December 31, 2003.

(f) Projections of nuclear decommissioning trust contributions are based on the current GPSC order which will be reevaluated in the Company's upcoming rate case and is subject to change. The Company forecasts postretirement trust contributions over a three-year period. No contributions related to the Company's pension trust are currently expected during this period. See Note 2 to the financial statements for additional information related to the pension plans.

## Cautionary Statement Regarding Forward-Looking Information

The Company's 2003 Annual Report includes forward-looking statements in addition to historical information. Forward-looking information includes, among other things, statements concerning the estimated construction and other expenditures and the Company's projections for energy sales and its goals for future generating capacity and earnings growth. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," or "continue" or the negative of these terms or other comparable terminology. The Company cautions that there are various important factors that could cause actual results to differ materially from those indicated in the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory change, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry and also changes in environmental, tax and other laws and regulations to which the Company is subject, as well as changes in application of existing laws and regulations;
- current and future litigation, regulatory investigations, proceedings or inquiries, including the pending EPA civil action against the Company;
- the effects, extent, and timing of the entry of additional competition in the markets in which the Company operates;
- the impact of fluctuations in commodity prices, interest rates, and customer demand;
- available sources and costs of fuels;
- ability to control costs;
- investment performance of the Company's employee benefit plans;
- advances in technology;
- state and federal rate regulations and pending and future rate cases and negotiations;
- effects of and changes in political, legal, and economic conditions and developments in the United States, including the current soft economy;
- internal restructuring or other restructuring options that may be pursued;
- potential business strategies, including acquisitions or dispositions of assets, which cannot be assured to be completed or beneficial to the Company;
- the ability of counterparties of the Company to make payments as and when due;
- the ability to obtain new short- and long-term contracts with neighboring utilities;
- the direct or indirect effects on the Company's business resulting from the terrorist incidents on September 11, 2001, or any similar incidents or responses to such incidents;
- financial market conditions and the results of financing efforts, including the Company's credit ratings;
- the ability of the Company to obtain additional generating capacity at competitive prices;
- weather and other natural phenomena;
- the direct or indirect effects on the Company's business resulting from the August 2003 power outage in the Northeast, or any similar incidents;
- the effect of accounting pronouncements issued periodically by standard-setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed from time to time by the Company with the SEC.

## STATEMENTS OF INCOME

**For the Years Ended December 31, 2003, 2002, and 2001**
**Georgia Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | *(in thousands)* | |
| **Operating Revenues:** | | | |
| Retail sales | **$4,309,972** | $4,288,097 | $4,349,312 |
| Sales for resale -- | | | |
| Non-affiliates | **259,376** | 270,678 | 366,085 |
| Affiliates | **174,855** | 98,323 | 99,411 |
| Other revenues | **169,304** | 165,362 | 150,986 |
| Total operating revenues | **4,913,507** | 4,822,460 | 4,965,794 |
| **Operating Expenses:** | | | |
| Fuel | **1,103,963** | 1,002,703 | 939,092 |
| Purchased power -- | | | |
| Non-affiliates | **258,621** | 264,814 | 442,196 |
| Affiliates | **516,944** | 419,839 | 329,232 |
| Other operations | **827,972** | 848,436 | 810,043 |
| Maintenance | **419,206** | 476,962 | 430,413 |
| Depreciation and amortization | **349,984** | 403,507 | 600,631 |
| Taxes other than income taxes | **212,827** | 201,857 | 202,483 |
| Total operating expenses | **3,689,517** | 3,618,118 | 3,754,090 |
| **Operating Income** | **1,223,990** | 1,204,342 | 1,211,704 |
| **Other Income and (Expense):** | | | |
| Allowance for equity funds used during construction | **10,752** | 7,622 | 9,081 |
| Interest income | **15,625** | 3,857 | 4,264 |
| Interest expense, net of amounts capitalized | **(182,583)** | (168,391) | (183,879) |
| Distributions on mandatorily redeemable preferred securities | **(59,675)** | (62,553) | (59,104) |
| Other income (expense), net | **(10,551)** | (9,259) | (7,719) |
| Total other income and (expense) | **(226,432)** | (228,724) | (237,357) |
| **Earnings Before Income Taxes** | **997,558** | 975,618 | 974,347 |
| Income taxes | **366,311** | 357,319 | 363,599 |
| **Earnings Before Cumulative Effect of Accounting Change** | **631,247** | 618,299 | 610,748 |
| Cumulative effect of accounting change-- less income taxes of $162 | **-** | - | 257 |
| **Net Income** | **631,247** | 618,299 | 611,005 |
| **Dividends on Preferred Stock** | **670** | 670 | 670 |
| **Net Income After Dividends on Preferred Stock** | **$630,577** | $ 617,629 | $ 610,335 |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CASH FLOWS

**For the Years Ended December 31, 2003, 2002, and 2001**
**Georgia Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | *(in thousands)* | |
| **Operating Activities:** | | | |
| Net income | **$ 631,247** | $ 618,299 | $ 611,005 |
| Adjustments to reconcile net income | | | |
| to net cash provided from operating activities -- | | | |
| Depreciation and amortization | **390,201** | 411,435 | 697,143 |
| Deferred income taxes and investment tax credits, net | **230,221** | 65,550 | (48,329) |
| Pension, postretirement, and other employee benefits | **(29,118)** | (64,771) | (57,239) |
| Tax benefit of stock options | **11,649** | 8,184 | - |
| Settlement of interest rate hedges | **(11,250)** | 860 | - |
| Other, net | **2,768** | (50,282) | (43,458) |
| Changes in certain current assets and liabilities -- | | | |
| Receivables, net | **(4,870)** | 68,527 | 60,914 |
| Fossil fuel stock | **(17,490)** | 82,711 | (103,296) |
| Materials and supplies | **(7,677)** | 15,874 | (15,628) |
| Other current assets | **(2,352)** | (18,880) | 3,755 |
| Accounts payable | **(49,598)** | 64,902 | (15,406) |
| Accrued taxes | **52,348** | (6,540) | 18,392 |
| Other current liabilities | **16,734** | 16,166 | (46,691) |
| Net cash provided from operating activities | **1,212,813** | 1,212,035 | 1,061,162 |
| **Investing Activities:** | | | |
| Gross property additions | **(742,810)** | (883,968) | (1,389,751) |
| Cost of removal net of salvage | **(28,265)** | (60,912) | (50,093) |
| Sales of property | **-** | 387,212 | 534,760 |
| Change in construction payables, net of joint owner portion | **(32,223)** | (7,411) | 24,457 |
| Other | **15,961** | 34,580 | 20,862 |
| Net cash used for investing activities | **(787,337)** | (530,499) | (859,765) |
| **Financing Activities:** | | | |
| Increase (decrease) in notes payable, net | **(220,400)** | (389,860) | 43,698 |
| Proceeds -- | | | |
| Senior notes | **1,000,000** | 500,000 | 600,000 |
| Pollution control bonds | **-** | - | 404,535 |
| Mandatorily redeemable preferred securities | **-** | 740,000 | - |
| Capital contributions from parent company | **40,809** | 165,299 | 225,060 |
| Redemptions -- | | | |
| First mortgage bonds | **-** | (1,860) | (390,140) |
| Pollution control bonds | **-** | (7,800) | (385,035) |
| Senior notes | **(665,000)** | (330,000) | - |
| Mandatorily redeemable preferred securities | **-** | (589,250) | - |
| Capital distributions to parent company | **-** | (200,000) | (160,000) |
| Payment of preferred stock dividends | **(696)** | (721) | (578) |
| Payment of common stock dividends | **(565,800)** | (542,900) | (527,300) |
| Other | **(22,563)** | (30,831) | (17,747) |
| Net cash used for financing activities | **(433,650)** | (687,923) | (207,507) |
| **Net Change in Cash and Cash Equivalents** | **(8,174)** | (6,387) | (6,110) |
| **Cash and Cash Equivalents at Beginning of Period** | **16,873** | 23,260 | 29,370 |
| **Cash and Cash Equivalents at End of Period** | **$ 8,699** | $ 16,873 | $ 23,260 |
| **Supplemental Cash Flow Information:** | | | |
| Cash paid during the period for -- | | | |
| Interest (net of $5,428, $9,368, and $38,331 capitalized, respectively) | **$215,463** | $203,707 | $234,456 |
| Income taxes (net of refunds) | **145,048** | 326,698 | 381,995 |

The accompanying notes are an integral part of these financial statements.

**BALANCE SHEETS**
**At December 31, 2003 and 2002**
**Georgia Power Company 2003 Annual Report**

| Assets | 2003 | 2002 |
|---|---|---|
| | | *(in thousands)* |
| **Current Assets:** | | |
| Cash and cash equivalents | **$ 8,699** | $ 16,873 |
| Receivables -- | | |
| Customer accounts receivable | **261,771** | 302,995 |
| Unbilled revenues | **117,327** | 104,454 |
| Under recovered regulatory clause revenues | **151,447** | 117,580 |
| Other accounts and notes receivable | **101,783** | 122,585 |
| Affiliated companies | **52,413** | 40,501 |
| Accumulated provision for uncollectible accounts | **(5,350)** | (5,825) |
| Fossil fuel stock, at average cost | **137,537** | 120,048 |
| Materials and supplies, at average cost | **271,040** | 263,364 |
| Vacation pay | **50,150** | 53,677 |
| Prepaid expenses | **46,157** | 42,809 |
| Other | **83** | 436 |
| Total current assets | **1,193,057** | 1,179,497 |
| **Property, Plant, and Equipment:** | | |
| In service | **18,171,862** | 17,222,661 |
| Less accumulated provision for depreciation | **6,898,725** | 6,533,412 |
| | **11,273,137** | 10,689,249 |
| Nuclear fuel, at amortized cost | **129,056** | 119,588 |
| Construction work in progress | **341,783** | 667,581 |
| Total property, plant, and equipment | **11,743,976** | 11,476,418 |
| **Other Property and Investments:** | | |
| Equity investments in unconsolidated subsidiaries | **38,714** | 36,167 |
| Nuclear decommissioning trusts, at fair value | **423,319** | 346,870 |
| Other | **37,142** | 28,612 |
| Total other property and investments | **499,175** | 411,649 |
| **Deferred Charges and Other Assets:** | | |
| Deferred charges related to income taxes | **509,887** | 524,510 |
| Prepaid pension costs | **405,164** | 341,944 |
| Unamortized debt issuance expense | **75,245** | 67,362 |
| Unamortized loss on reacquired debt | **177,707** | 178,590 |
| Other | **177,817** | 162,686 |
| Total deferred charges and other assets | **1,345,820** | 1,275,092 |
| **Total Assets** | **$14,782,028** | $14,342,656 |

The accompanying notes are an integral part of these financial statements.

**BALANCE SHEETS**
**At December 31, 2003 and 2002**
**Georgia Power Company 2003 Annual Report**

| Liabilities and Stockholder's Equity | 2003 | 2002 |
|---|---|---|
| | | *(in thousands)* |
| **Current Liabilities:** | | |
| Securities due within one year | $ 2,304 | $ 322,125 |
| Notes payable | 137,277 | 357,677 |
| Accounts payable -- | | |
| Affiliated | 121,928 | 135,260 |
| Other | 238,069 | 314,327 |
| Customer deposits | 103,756 | 94,859 |
| Accrued taxes -- | | |
| Income taxes | 107,532 | 20,245 |
| Other | 166,892 | 134,269 |
| Accrued interest | 70,844 | 59,608 |
| Accrued vacation pay | 38,206 | 42,442 |
| Accrued compensation | 134,004 | 130,893 |
| Other | 105,234 | 112,131 |
| Total current liabilities | 1,226,046 | 1,723,836 |
| **Long-term debt** (See accompanying statements) | 3,762,333 | 3,109,619 |
| **Mandatorily redeemable preferred securities** (See accompanying statements) | 940,000 | 940,000 |
| **Deferred Credits and Other Liabilities:** | | |
| Accumulated deferred income taxes | 2,303,085 | 2,176,438 |
| Deferred credits related to income taxes | 186,625 | 208,410 |
| Accumulated deferred investment tax credits | 312,506 | 324,994 |
| Employee benefit obligations | 295,788 | 248,415 |
| Asset retirement obligations | 475,585 | - |
| Other cost of removal obligations | 412,161 | 800,117 |
| Miscellaneous regulatory liabilities | 249,687 | 331,241 |
| Other | 63,432 | 30,570 |
| Total deferred credits and other liabilities | 4,298,869 | 4,120,185 |
| **Total liabilities** | 10,227,248 | 9,893,640 |
| **Preferred stock** (See accompanying statements) | 14,569 | 14,569 |
| **Common stockholder's equity** (See accompanying statements) | 4,540,211 | 4,434,447 |
| **Total Liabilities and Stockholder's Equity** | $14,782,028 | $14,342,656 |
| **Commitments and Contingent Matters** (See notes) | | |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CAPITALIZATION
**At December 31, 2003 and 2002**
**Georgia Power Company 2003 Annual Report**

| | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| | | *(in thousands)* | *(percent of total)* | |
| **Long-Term Debt:** | | | | |
| Long-term notes payable -- | | | | |
| 5.25% to 5.75% due 2003 | $ - | $ 320,000 | | |
| 5.50% due December 1, 2005 | **150,000** | 150,000 | | |
| 6.20% due February 1, 2006 | **150,000** | 150,000 | | |
| 4.875% due July 15, 2007 | **300,000** | 300,000 | | |
| 5.125% to 6.875% due 2011-2047 | **1,100,000** | 745,000 | | |
| Variable rate (1.25% to 1.30% at 1/1/04) | **300,000** | - | | |
| Total long-term notes payable | **2,000,000** | 1,665,000 | | |
| Other long-term debt -- | | | | |
| Pollution control revenue bonds -- | | | | |
| Non-collateralized: | | | | |
| 1.20% to 5.45% due 2012-2034 | **812,560** | 751,760 | | |
| Variable rates (1.10% to 1.40% at 1/1/04) due 2011-2032 | **873,330** | 934,130 | | |
| Total other long-term debt | **1,685,890** | 1,685,890 | | |
| Capitalized lease obligations | **79,286** | 81,411 | | |
| Unamortized debt premium (discount), net | **(539)** | (557) | | |
| Total long-term debt (annual interest requirement -- $151.2 million) | **3,764,637** | 3,431,744 | | |
| Less amount due within one year | **2,304** | 322,125 | | |
| Long-term debt excluding amount due within one year | **3,762,333** | 3,109,619 | **40.6%** | 36.5% |
| **Mandatorily Redeemable Preferred Securities:** | | | | |
| $25 liquidation value -- | | | | |
| 6.85% due 2029 | **200,000** | 200,000 | | |
| 7.125% due 2042 | **440,000** | 440,000 | | |
| $1,000 liquidation value -- | | | | |
| 4.875% due 2042* | **300,000** | 300,000 | | |
| Total (annual distribution requirement -- $59.7 million) | **940,000** | 940,000 | **10.2** | 11.1 |
| **Cumulative Preferred Stock:** | | | | |
| $100 stated value at 4.60% | **14,569** | 14,569 | | |
| Total (annual dividend requirement -- $0.7 million) | **14,569** | 14,569 | **0.2** | 0.2 |
| **Common Stockholder's Equity:** | | | | |
| Common stock, without par value -- | | | | |
| Authorized - 15,000,000 shares | | | | |
| Outstanding - 7,761,500 shares | **344,250** | 344,250 | | |
| Paid-in capital | **2,208,498** | 2,156,040 | | |
| Premium on preferred stock | **40** | 40 | | |
| Retained earnings | **2,010,297** | 1,945,520 | | |
| Accumulated other comprehensive income (loss) | **(22,874)** | (11,403) | | |
| Total common stockholder's equity | **4,540,211** | 4,434,447 | **49.0** | 52.2 |
| **Total Capitalization** | **$9,257,113** | $8,498,635 | **100.0%** | 100.0% |

*The fixed rate thereafter is determined through remarketings for specific periods of varying length at floating rates determined by reference to 3-month LIBOR plus 3.05%.

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

**For the Years Ended December 31, 2003, 2002, and 2001**
**Georgia Power Company 2003 Annual Report**

| | Common Stock | Paid-In Capital | Premium on Preferred Stock | Retained Earnings | Other Comprehensive Income (loss) | Total |
|---|---|---|---|---|---|---|
| | | | *(in thousands)* | | | |
| **Balance at December 31, 2000** | $344,250 | $2,117,497 | $40 | $1,787,757 | $ - | $4,249,544 |
| Net income after dividends on preferred stock | - | - | - | 610,335 | - | 610,335 |
| Capital distributions to parent company | - | (160,000) | - | - | - | (160,000) |
| Capital contributions from parent company | - | 225,060 | - | - | - | 225,060 |
| Other comprehensive income (loss) | - | - | - | - | (153) | (153) |
| Cash dividends on common stock | - | - | - | (527,300) | - | (527,300) |
| Preferred stock transactions, net | - | - | - | (1) | - | (1) |
| **Balance at December 31, 2001** | 344,250 | 2,182,557 | 40 | 1,870,791 | (153) | 4,397,485 |
| Net income after dividends on preferred stock | - | - | - | 617,629 | - | 617,629 |
| Capital distributions to parent company | - | (200,000) | - | - | - | (200,000) |
| Capital contributions from parent company | - | 173,483 | - | - | - | 173,483 |
| Other comprehensive income (loss) | - | - | - | - | (11,250) | (11,250) |
| Cash dividends on common stock | - | - | - | (542,900) | - | (542,900) |
| **Balance at December 31, 2002** | **344,250** | **2,156,040** | **40** | **1,945,520** | **(11,403)** | **4,434,447** |
| Net income after dividends on preferred stock | - | - | - | **630,577** | - | **630,577** |
| Capital contributions from parent company | - | **52,458** | - | - | - | **52,458** |
| Other comprehensive income (loss) | - | - | - | - | **(11,471)** | **(11,471)** |
| Cash dividends on common stock | - | - | - | **(565,800)** | - | **(565,800)** |
| **Balance at December 31, 2003** | **$344,250** | **$2,208,498** | **$40** | **$2,010,297** | **$(22,874)** | **$4,540,211** |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF COMPREHENSIVE INCOME

**For the Years Ended December 31, 2003, 2002, and 2001**
**Georgia Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | *(in thousands)* | |
| **Net income after dividends on preferred stock** | **$630,577** | $617,629 | $610,335 |
| Other comprehensive income (loss): | | | |
| Change in additional minimum pension liability, net of tax of $(5,133) and $(4,853), respectively | **(8,138)** | (7,693) | - |
| Cumulative effect of accounting change for qualifying hedges, net of tax of $180 | - | - | 286 |
| Changes in fair value of qualifying hedges, net of tax of $(3,241), $(2,502) and $(277), respectively | **(5,550)** | (3,555) | (439) |
| Less: Reclassification adjustment for amounts included in net income, net of tax of $1,208 and $0, respectively | **2,217** | (2) | - |
| Total other comprehensive income (loss) | **(11,471)** | (11,250) | (153) |
| **Comprehensive Income** | **$619,106** | $606,379 | $610,182 |

The accompanying notes are an integral part of these financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### General

The Company is a wholly owned subsidiary of Southern Company, which is the parent company of five retail operating companies, Southern Power Company (Southern Power), Southern Company Services (SCS), Southern Communications Services (Southern LINC), Southern Company Gas (Southern Company GAS), Southern Company Holdings (Southern Holdings), Southern Nuclear Operating Company (Southern Nuclear), Southern Telecom, and other direct and indirect subsidiaries. The retail operating companies -- Alabama Power, the Company, Gulf Power, Mississippi Power, and Savannah Electric -- provide electric service in four Southeastern states. The Company operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located within the State of Georgia and to wholesale customers in the Southeast. Southern Power constructs, owns, and manages Southern Company's competitive generation assets and sells electricity at market-based rates in the wholesale market. Contracts among the retail operating companies and Southern Power -- related to jointly owned generating facilities, interconnecting transmission lines, or the exchange of electric power -- are regulated by the Federal Energy Regulatory Commission (FERC) and/or the Securities and Exchange Commission (SEC). SCS, the system service company, provides, at cost, specialized services to Southern Company and subsidiary companies. Southern LINC provides digital wireless communications services to the retail operating companies and also markets these services to the public within the Southeast. Southern Telecom provides fiber cable services within the Southeast. Southern Company GAS is a competitive retail natural gas marketer serving customers in Georgia. Southern Holdings is an intermediate holding subsidiary for Southern Company's investments in synthetic fuels and leveraged leases and an energy services business. Southern Nuclear operates and provides services to Southern Company's nuclear power plants.

Southern Company is registered as a holding company under the Public Utility Holding Company Act of 1935 (PUHCA). Both Southern Company and its subsidiaries are subject to the regulatory provisions of the PUHCA. The Company is also subject to regulation by the FERC and the Georgia Public Service Commission (GPSC). The Company follows accounting principles generally accepted in the United States and complies with the accounting policies and practices prescribed by its regulatory commissions. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates and the actual results may differ from these estimates.

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

### Affiliate Transactions

The Company has an agreement with SCS under which the following services are rendered to the Company at direct or allocated cost: general and design engineering, purchasing, accounting and statistical analysis, finance and treasury, tax, information resources, marketing, auditing, insurance and pension administration, human resources, systems and procedures, and other services with respect to business and operations and power pool operations. Costs for these services amounted to $303 million in 2003, $318 million in 2002, and $286 million in 2001. Cost allocation methodologies used by SCS are approved by the SEC and management believes they are reasonable.

The Company has an agreement with Southern Nuclear under which the following nuclear-related services are rendered to the Company at cost: general executive and advisory services; general operations, management and technical services; administrative services including procurement, accounting, employee relations, and systems and procedures services; strategic planning and budgeting services; and other services with respect to business and operations. Costs for these services amounted to $289 million in 2003, $301 million in 2002, and $281 million in 2001.

The Company has an agreement with Southern Power under which the Company operates and maintains Southern Power owned plants Dahlberg, Franklin, and Wansley at cost. Reimbursements under these agreements with Southern Power amounted to $5.3 million in 2003, $5.3 million in 2002 and $1.0 million in 2001. These agreements arose from the transfer of certain generation facilities to Southern Power in 2001 and 2002. See Note 7 under "Construction Program" for additional information.

Southern Company holds a 30 percent ownership in Alabama Fuel Products, LLC (AFP), which produces synthetic fuel. The Company has an agreement with an indirect subsidiary of Southern Company that provides services for AFP. Under this agreement, the Company provides certain accounting functions, including processing and paying fuel transportation invoices, and the Company is reimbursed for its expenses. Amounts billed under this agreement totaled approximately $38 million in 2003. In addition, the Company purchases synthetic fuel from AFP for use at Plant Branch. Fuel purchases totaled $91 million in 2003.

Effective June 2002, the Company entered into purchased power agreements (PPAs) with Southern Power for capacity and energy. Purchased power costs in 2003 and 2002 amounted to $203 million and $128 million, respectively. Additionally, the Company recorded $7 million and $12 million of prepaid capacity expenses included in Other Deferred Charges and Other Assets on the Balance Sheets at December 31, 2003 and 2002, respectively. See Note 7 under "Fuel and Purchased Power Commitments" for additional information.

The Company has an agreement with Gulf Power under which Gulf Power jointly owns a portion of Plant Scherer. Under this agreement, the Company operates Plant Scherer and Gulf Power reimburses the Company for its proportionate share of the related expenses which were $5.6 million in 2003 and $4.5 million in 2002. The Company has an agreement with Savannah Electric under which the Company jointly owns a portion of Plant McIntosh. Under this agreement, Savannah Electric operates Plant McIntosh and the Company reimburses Savannah Electric for its proportionate share of the related expenses which were $3.6 million in 2003 and $1.8 million in 2002. See Note 4 for additional information.

Also see Note 4 for information regarding the Company's ownership in and purchased power agreement with Southern Electric Generating Company.

The retail operating companies, including the Company, Southern Power, and Southern Company GAS may jointly enter into various types of wholesale energy, natural gas and certain other contracts, either directly or through SCS as agent. Each participating company may be jointly and severally liable for the obligations incurred under these agreements. See Note 7 under "Fuel and Purchased Power Commitments" for additional information.

**Revenues and Fuel Costs**

Energy and other revenues are recognized as services are provided. Unbilled revenues are accrued at the end of each fiscal period. Fuel costs are expensed as the fuel is used. Electric rates for the Company include provisions to adjust billings for fluctuations in fuel costs, fuel hedging, the energy component of purchased power costs, and certain other costs. Revenues are adjusted for differences between recoverable fuel costs and amounts actually recovered in current rates.

The Company has a diversified base of customers. No single customer or industry comprises 10 percent or more of revenues. For all periods presented, uncollectible accounts averaged less than 1 percent of revenues despite an increase in customer bankruptcies.

Fuel expense includes the amortization of the cost of nuclear fuel and a charge, based on nuclear generation, for the permanent disposal of spent nuclear fuel. Total charges for nuclear fuel included in fuel expense amounted to $74 million in 2003, $71 million in 2002, and $75 million in 2001. The Company has contracts with the U.S. Department of Energy (DOE) that provide for the permanent disposal of spent nuclear fuel. The DOE failed to begin disposing of spent nuclear fuel in January 1998 as required by the contracts, and the Company is pursuing legal remedies against the government for breach of contract. Sufficient pool storage capacity for spent fuel is available at Plant Vogtle to maintain full-core discharge capability for both units into the year 2015. At Plant Hatch, an on-site dry storage facility became operational in 2000 and can be expanded to accommodate spent fuel through the life of the plant. Construction of an on-site dry storage facility at Plant Vogtle will begin in sufficient time to maintain pool full-core discharge capability.

Also, the Energy Policy Act of 1992 required the establishment of a Uranium Enrichment Decontamination and Decommissioning Fund, which is funded in part by a special assessment on utilities with nuclear plants. The assessment is being paid over a 15-year period, which began in 1993. This fund will be used by the DOE for the decontamination and decommissioning of its nuclear fuel enrichment facilities. The law provides that utilities will recover

these payments in the same manner as any other fuel expense. The Company -- based on its ownership interest -- estimates its remaining liability at December 31, 2003 under this law to be approximately $10 million.

### Income Taxes

The Company uses the liability method of accounting for deferred income taxes and provides deferred income taxes for all significant income tax temporary differences. Investment tax credits utilized are deferred and amortized to income over the average lives of the related property.

### Regulatory Assets and Liabilities

The Company is subject to the provisions of Financial Accounting Standards Board (FASB) Statement No. 71, Accounting for the Effects of Certain Types of Regulation. Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process. See Note 3 under "Retail Rate Orders" for additional information regarding the disposition of the regulatory liability for the accelerated cost recovery recorded under the retail rate order that ended December 31, 2001. Regulatory assets and (liabilities) reflected in the Company's Balance Sheets at December 31 relate to the following:

| | 2003 | 2002 | Note |
|---|---|---|---|
| | (in millions) | | |
| Deferred income tax charges | $ 510 | $ 525 | (a) |
| Loss on reacquired debt | 178 | 179 | (b) |
| Corporate building lease | 54 | 54 | (f) |
| Vacation pay | 50 | 54 | (d) |
| Postretirement benefits | 23 | 25 | (f) |
| DOE assessments | 13 | 16 | (c) |
| Generating plant outage costs | 49 | 48 | (f) |
| Other regulatory assets | 1 | 7 | (f) |
| Asset retirement obligation | (16) | - | (a) |
| Other cost of removal obligations | (412) | (800) | (a) |
| Accelerated cost recovery | (111) | (222) | (e) |
| Deferred income tax credits | (187) | (208) | (a) |
| Environmental remediation reserve | (21) | (21) | (f) |
| Purchased power | (77) | (63) | (f) |
| Other regulatory liabilities | (3) | (1) | (f) |
| Total | $ 51 | $ (26) | |

Note: The recovery and amortization periods for these regulatory assets and (liabilities) are as follows:

(a) Asset retirement and removal liabilities are recorded, deferred income taxes are recovered, and deferred tax liabilities are amortized over the related property lives, which may range up to 50 years. Asset retirement and removal liabilities will be settled and trued up following completion of the related activities.

(b) Recovered over either the remaining life of the original issue or, if refinanced, over the life of the new issue which may range up to 50 years.

(c) Assessments for the decontamination and decommissioning of the DOE's nuclear fuel enrichment facilities are recorded annually from 1993 through 2008.

(d) Recorded as earned by employees and recovered as paid, generally within one year.

(e) Amortized over a three-year period ending in 2004. See Note 3 under "Retail Rate Orders".

(f) Recorded and recovered or amortized as approved by the GPSC.

In the event that a portion of the Company's operations is no longer subject to the provisions of Statement No. 71, the Company would be required to write off related regulatory assets and liabilities that are not specifically recoverable through regulated rates. In addition, the Company would be required to determine if any impairment to other assets, including plant, exists and if impaired, write down the assets to their fair value. All regulatory assets and liabilities are to be reflected in rates.

### Depreciation and Amortization

Depreciation of the original cost of plant in service is provided primarily by using composite straight-line rates, which approximated 2.7 percent in 2003, 2.9 percent in 2002 and 3.3 percent in 2001. The composite depreciation rate was reduced because the lives of depreciable assets were extended effective January 2002 under the retail rate order. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its original cost -- together with the cost of removal, less salvage -- is charged to accumulated depreciation. Minor items of property included in the original cost of the plant are retired when the related property unit is retired.

The Company recorded accelerated depreciation and amortization amounting to $91 million in 2001. Effective January 2002, the Company discontinued recording accelerated depreciation and amortization in accordance with a new retail rate order. Also, the Company was ordered to amortize $333 million -- the cumulative balance previously expensed -- equally over three years as a credit to amortization expense beginning January 2002. Additionally, effective January 2002 the Company was ordered to recognize new GPSC certified purchased power costs in rates evenly over the three years covered by the current retail rate order. As a result of the purchased power regulatory adjustment, the Company recorded amortization expenses of $14 million and $63 million in 2003 and 2002, respectively. The Company will record a credit to amortization expense of $77 million in 2004. See Note 3 under "Retail Rate Orders" for additional information.

### Asset Retirement Obligations and Other Costs of Removal

In accordance with regulatory requirements, prior to January 2003, the Company followed the industry practice of accruing for the ultimate cost of retiring most long-lived assets over the life of the related asset as part of the annual depreciation expense provision. In accordance with SEC requirements such amounts are reflected on the Balance Sheet as regulatory liabilities. Effective January 1, 2003, the Company adopted FASB Statement No. 143, Accounting for Asset Retirement Obligations. Statement No. 143 established new accounting and reporting standards for legal obligations associated with the ultimate cost of retiring long-lived assets. The present value of the ultimate costs for an asset's future retirement must be recorded in the period in which the liability is incurred. The costs must be capitalized as part of the related long-lived asset and depreciated over the asset's useful life. Additionally, Statement No. 143 does not permit the continued accrual of future retirement costs for long-lived assets that the Company does not have a legal obligation to retire. However, the Company has received guidance regarding accounting for the financial statement impacts of Statement No. 143 from the GPSC and will continue to recognize the accumulated removal costs for other obligations as a regulatory liability. Therefore, the Company had no cumulative effect to net income resulting from the adoption of Statement No. 143.

The liability recognized to retire long-lived assets primarily relates to the Company's nuclear facilities, which include the Company's ownership interests in plants Hatch and Vogtle. The fair value of assets legally restricted for settling retirement obligations related to nuclear facilities as of December 31, 2003 was $423 million. In addition, the Company has retirement obligations related to various landfill sites, ash ponds, and underground storage tanks. The Company has also identified retirement obligations related to certain transmission and distribution facilities, leasehold improvements, equipment on customer property, and property associated with the Company's rail lines. However, a liability for the removal of these facilities will not be recorded because no reasonable estimate can be made regarding the timing of any related retirements. The Company will continue to recognize in the Statements of Income the ultimate removal costs in accordance with its regulatory treatment. Any difference between costs recognized under Statement No. 143 and those reflected in rates will be recognized as either a regulatory asset or liability in the Balance Sheets. The Company also revised the estimated cost to retire plants Hatch and Vogtle as a result of a new site-specific decommissioning study. The effect of the revision is a decrease of $24 million for the Statement No. 143 liability included in "Asset Retirement Obligations" with a corresponding decrease in property, plant and equipment. See "Nuclear Decommissioning" for further information on amounts included in rates.

Details of the asset retirement obligations included in the Balance Sheets are as follows:

| | 2003 |
|---|---|
| | (in millions) |
| Balance beginning of year | $469 |
| Liabilities incurred | - |
| Liabilities settled | - |
| Accretion | 31 |
| Cash flow revisions | (24) |
| Balance end of year | $476 |

If Statement No. 143 had been adopted on January 1, 2002, the pro-forma asset retirement obligations would have been $440 million.

**Nuclear Decommissioning**

The Nuclear Regulatory Commission (NRC) requires all licensees operating commercial nuclear power reactors to establish a plan for providing, with reasonable assurance, funds for decommissioning. The Company has established external trust funds to comply with the NRC's regulations. The funds set aside for decommissioning are managed and invested in accordance with applicable requirements of various regulatory bodies, including the NRC, the FERC and the GPSC as well as the Internal Revenue Service (IRS). Funds are invested in a tax efficient manner in a diversified mix of equity and fixed income securities. Equity securities typically range from 50 to 75 percent of the funds and fixed income securities from 25 to 50 percent. Amounts previously recorded in internal reserves are being transferred into the external trust funds over periods approved by the GPSC. The NRC's minimum external funding requirements are based on a generic estimate of the cost to decommission the radioactive portions of a nuclear unit based on the size and type of reactor. The Company has filed plans with the NRC to ensure that -- over time -- the deposits and earnings of the external trust funds will provide the minimum funding amounts prescribed by the NRC.

Site study cost is the estimate to decommission a specific facility as of the site study year. The estimated costs of decommissioning are based on the most current study as of December 31, 2003 and the Company's ownership interests in plants Hatch and Vogtle were as follows:

| | Plant Hatch | Plant Vogtle |
|---|---|---|
| Site study year | 2003 | 2003 |
| Decommissioning periods: | | |
| Beginning year | 2034 | 2027 |
| Completion year | 2065 | 2048 |
| | (in millions) | |
| Site study costs: | | |
| Radiated structures | $497 | $452 |
| Non-radiated structures | 49 | 58 |
| Total | $546 | $510 |

The decommissioning cost estimates are based on prompt dismantlement and removal of the plant from service. The actual decommissioning costs may vary from the above estimates because of changes in the assumed date of decommissioning, changes in NRC requirements, or changes in the assumptions used in making the estimates.

Annual provisions for nuclear decommissioning are based on an annuity method as approved by the GPSC. The amounts expensed in 2003 and fund balances were as follows:

| | Plant Hatch | Plant Vogtle |
|---|---|---|
| | (in millions) | |
| **Amount expensed in 2003** | $ 7 | $ 2 |
| Accumulated provisions: | | |
| External trust funds, at fair value | $269 | $154 |
| Internal reserves | 7 | 4 |
| Total | $276 | $158 |

Effective January 1, 2002, the GPSC decreased the annual decommissioning costs for ratemaking to $9 million. This amount is based on the NRC generic estimate to decommission the radioactive portion of the facilities as of 2000. The estimates are $383 million and $282 million for plants Hatch and Vogtle, respectively. Significant assumptions used to determine the costs for ratemaking include an estimated inflation rate of 4.7 percent and an estimated trust earnings rate of 6.5 percent. The Company expects the GPSC to periodically review and adjust, if necessary, the amounts

collected in rates for the anticipated cost of decommissioning.

In January 2002, the NRC granted the Company a 20-year extension of the licenses for both units at Plant Hatch which permits the operation of units 1 and 2 until 2034 and 2038, respectively. The site study decommissioning costs reflect the license extension; however, the updated costs will not be reflected in rates until the GPSC issues a new rate order, which is not expected until December 2004.

**Allowance for Funds Used During Construction (AFUDC) and Interest Capitalized**

In accordance with regulatory treatment, the Company records AFUDC. AFUDC represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new regulated facilities. While cash is not realized currently from such allowance, it increases the revenue requirement over the service life of the plant through a higher rate base and higher depreciation expense. Interest related to the construction of new facilities not included in the Company's retail rates is capitalized in accordance with standard interest capitalization requirements. All current construction costs should be included in retail rates. For the years 2003, 2002, and 2001, the average AFUDC rates were 5.51 percent, 3.79 percent, and 6.33 percent, respectively. AFUDC and interest capitalized, net of taxes, was less than 3.0 percent of net income after dividends on preferred stock for 2003, 2002, and 2001.

**Property, Plant, and Equipment**

Property, plant, and equipment is stated at original cost, less regulatory disallowances and impairments. Original cost includes: materials; labor; minor items of property; appropriate administrative and general costs; payroll-related costs such as taxes, pensions, and other benefits; and the interest capitalized and/or cost of funds used during construction.

The cost of replacements of property -- exclusive of minor items of property -- is capitalized. The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense as incurred or performed with the exception of certain generating plant maintenance costs. In accordance with a GPSC order, the Company defers and amortizes nuclear refueling costs over the unit's operating cycle before the next refueling. The refueling cycles range from 18 to 24 months for each unit. In accordance with the 2001 retail rate order, the Company defers the costs of certain significant inspection costs for the combustion turbines at Plant McIntosh and amortizes such costs over 10 years, which approximates the expected maintenance cycle.

**Impairment of Long-Lived Assets and Intangibles**

The Company evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on either a specific regulatory disallowance or an estimate of undiscounted future cash flows attributable to the assets that exceeds the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by either the amount of regulatory disallowance or by estimating the fair value of the assets and recording a loss if the carrying value is greater than the fair value. For assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment loss is required. Until the assets are disposed of, their estimated fair value is re-evaluated when circumstances or events change.

**Cash and Cash Equivalents**

For purposes of the financial statements, temporary cash investments are considered cash equivalents. Temporary cash investments are securities with original maturities of 90 days or less.

**Materials and Supplies**

Generally, materials and supplies include the average cost of transmission, distribution, and generating plant materials. Materials are charged to inventory when purchased and then expensed or capitalized to plant, as appropriate, when installed.

**Stock Options**

Southern Company provides non-qualified stock options to a large segment of the Company's employees ranging from line management to executives. The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25. Accordingly, no compensation expense has

been recognized because the exercise price of all options granted equaled the fair market value on the date of grant. When options are exercised, the Company receives a capital contribution from Southern Company equivalent to the related income tax benefit.

**Financial Instruments**

The Company uses derivative financial instruments to limit exposures to fluctuations in interest rates, the prices of certain fuel purchases and electricity purchases and sales. All derivative financial instruments are recognized as either assets or liabilities and are measured at fair value.

The Company and its affiliates, through SCS acting as their agent, enter into commodity related forward and option contracts to limit exposure to changing prices on certain fuel purchases and electricity purchases and sales. Substantially all of the Company's bulk energy purchases and sales contracts that meet the definition of a derivative are exempt from fair value accounting requirements and are accounted for under the accrual method. Other derivative contracts qualify as cash flow hedges of anticipated transactions. This results in the deferral of related gains and losses in other comprehensive income or regulatory assets or liabilities as appropriate until the hedged transactions occur. Any ineffectiveness is recognized currently in net income. Other derivative contracts are marked to market through current period income and are recorded on a net basis in the Statements of Income.

The Company is exposed to losses related to financial instruments in the event of counterparties' nonperformance. The Company has established controls to determine and monitor the creditworthiness of counterparties in order to mitigate the Company's exposure to counterparty credit risk.

The Company's financial instruments for which the carrying amounts did not equal fair value at December 31 were as follows:

| | Carrying Amount | Fair Value |
|---|---|---|
| | (in millions) | |
| Long-term debt: | | |
| **At December 31, 2003** | **$3,685** | **$3,739** |
| At December 31, 2002 | $3,350 | $3,417 |
| Preferred securities: | | |
| **At December 31, 2003** | **$940** | **$976** |
| At December 31, 2002 | $940 | $961 |

The fair values for securities were based on either closing market prices or closing prices of comparable instruments.

**Comprehensive Income**

The objective of comprehensive income is to report a measure of all changes in common stock equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners. Comprehensive income consists of net income, changes in the fair values of marketable securities and qualifying cash flow hedges, and changes in additional minimum pension liabilities, net of income taxes less reclassifications for amounts included in net income.

## 2. RETIREMENT BENEFITS

The Company has a defined benefit, trusteed pension plan covering substantially all employees. The plan is funded in accordance with Employee Retirement Income Security Act (ERISA) requirements. No contributions to the plan are expected for the year ending December 31, 2004. The Company also provides certain non-qualified benefit plans for a selected group of management and highly compensated employees. Benefits under these non-qualified plans are funded on a cash basis. In addition, the Company provides certain medical care and life insurance benefits for retired employees. The Company funds related trusts to the extent required by the GPSC and the FERC. For the year ended December 31, 2004, such contributions are expected to total approximately $8.9 million.

The measurement date for plan assets and obligations is September 30 for each year. In 2002, the Company adopted several plan changes that had the

effect of increasing benefits to both current and future retirees.

### Pension Plans

The accumulated benefit obligation for the pension plan was $1.6 billion and $1.4 billion for 2003 and 2002, respectively. Changes during the year in the projected benefit obligations and in the fair value of plan assets were as follows:

| | Projected Benefit Obligation | |
|---|---|---|
| | **2003** | 2002 |
| | (in millions) | |
| Balance at beginning of year | **$1,564** | $1,448 |
| Service cost | **38** | 36 |
| Interest cost | **100** | 107 |
| Benefits paid | **(83)** | (74) |
| Amendments | **6** | 33 |
| Actuarial loss | **102** | 14 |
| Balance at end of year | **$1,727** | $1,564 |

| | Plan Assets | |
|---|---|---|
| | **2003** | 2002 |
| | (in millions) | |
| Balance at beginning of year | **$1,838** | $2,044 |
| Actual return on plan assets | **294** | (137) |
| Benefits paid | **(77)** | (69) |
| Balance at end of year | **$2,055** | $1,838 |

Pension plan assets are managed and invested in accordance with all applicable requirements including ERISA and the IRS revenue code. The Company's investment policy covers a diversified mix of assets, including equity and fixed income securities, real estate, and private equity, as described in the table below. Derivative instruments are used primarily as hedging tools but may also be used to gain efficient exposure to the various asset classes. The Company primarily minimizes the risk of large losses through diversification but also monitors and manages other aspects of risk.

| | | Plan Assets | |
|---|---|---|---|
| | Target | **2003** | 2002 |
| Domestic equity | 37% | **37%** | 35% |
| International equity | 20 | **20** | 18 |
| Global fixed income | 26 | **24** | 25 |
| Real estate | 10 | **11** | 12 |
| Private equity | 7 | **8** | 10 |
| Total | 100% | **100%** | 100% |

The accrued pension costs recognized in the Balance Sheets were as follows:

| | **2003** | 2002 |
|---|---|---|
| | (in millions) | |
| Funded status | **$328** | $274 |
| Unrecognized transition amount | **(13)** | (17) |
| Unrecognized prior service cost | **118** | 123 |
| Unrecognized net actuarial gain (loss) | **(66)** | (78) |
| Prepaid pension asset, net | **367** | 302 |
| Portion included in employee benefit obligations | **38** | 40 |
| Total prepaid pension recognized in the Balance Sheets | **$405** | $342 |

In 2003 and 2002, amounts recognized in the Balance Sheets for accumulated other comprehensive income and intangible assets to record the minimum pension liability related to the nonqualified plans were $26 million and $15 million and $13 and $10 million, respectively.

Components of the plans' net periodic cost were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | | (in millions) | |
| Service cost | **$ 38** | $ 36 | $ 35 |
| Interest cost | **100** | 107 | 101 |
| Expected return on plan assets | **(179)** | (179) | (168) |
| Recognized net gain | **(19)** | (27) | (31) |
| Net amortization | **6** | 4 | 3 |
| Net pension (income) | **$ (54)** | $ (59) | $ (60) |

### Postretirement Benefits

Changes during the year in the accumulated benefit obligations and in the fair value of plan assets were as follows:

| | Accumulated Benefit Obligation | |
|---|---|---|
| | **2003** | 2002 |
| | (in millions) | |
| Balance at beginning of year | **$627** | $542 |
| Service cost | **9** | 8 |
| Interest cost | **40** | 40 |
| Benefits paid | **(29)** | (27) |
| Actuarial loss | **76** | 64 |
| Balance at end of year | **$723** | $627 |

| | Plan Assets | |
|---|---|---|
| | **2003** | 2002 |
| | (in millions) | |
| Balance at beginning of year | **$199** | $195 |
| Actual return on plan assets | **36** | (18) |
| Employer contributions | **59** | 49 |
| Benefits paid | **(29)** | (27) |
| Balance at end of year | **$265** | $199 |

Postretirement benefits plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the IRS revenue code. The Company's investment policy covers a diversified mix of assets, including equity and fixed income securities, real estate, and private equity, as described in the table below. Derivative instruments are used primarily as hedging tools but may also be used to gain efficient exposure to the various asset classes. The Company minimizes the risk of large losses through the primary tool of diversification but also monitors and manages other aspects of risk.

| | | Plan Assets | |
|---|---|---|---|
| | Target | **2003** | 2002 |
| Domestic equity | 43% | **42%** | 38% |
| International equity | 20 | **21** | 21 |
| Global fixed income | 33 | **32** | 35 |
| Real estate | 2 | **3** | 3 |
| Private equity | 2 | **2** | 3 |
| Total | 100% | **100%** | 100% |

The accrued postretirement costs recognized in the Balance Sheets were as follows:

| | **2003** | 2002 |
|---|---|---|
| | (in millions) | |
| Funded status | **$(458)** | $(427) |
| Unrecognized transition obligation | **87** | 96 |
| Unrecognized prior service cost | **91** | 98 |
| Unrecognized net loss | **171** | 106 |
| Fourth quarter contributions | **9** | 37 |
| Employee benefit obligations recognized in the Balance Sheets | **$(100)** | $(90) |

Components of the plans' net periodic cost were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | (in millions) | | |
| Service cost | **$ 9** | $ 8 | $ 9 |
| Interest cost | **40** | 40 | 39 |
| Expected return on plan assets | **(24)** | (20) | (19) |
| Net amortization | **16** | 15 | 14 |
| Net postretirement cost | **$ 41** | $ 43 | $ 43 |

The weighted average rates assumed in the actuarial calculations used to determine both the benefit obligations and net periodic costs for the pension and postretirement benefit plans were:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Discount | **6.0%** | 6.5% | 7.5% |
| Annual salary increase | **3.8** | 4.0 | 5.0 |
| Long-term return on plan assets | **8.5** | 8.5 | 8.5 |

The Company determined the long-term rate of return based on historical asset class returns and current market conditions, taking into account the diversification benefits of investing in multiple asset classes.

An additional assumption used in measuring the accumulated postretirement benefit obligations was a weighted average medical care cost trend rate of 8.25 percent for 2003, decreasing gradually to 5.25 percent through the year 2010 and remaining at that level thereafter. An annual increase or decrease in the assumed medical care cost trend rate of 1 percent would affect the accumulated benefit obligation and the service

and interest cost components at December 31, 2003 as follows:

| | 1 Percent Increase | 1 Percent Decrease |
|---|---|---|
| | (in millions) | |
| Benefit obligation | $70 | $61 |
| Service and interest costs | 5 | 4 |

**Employee Savings Plan**

The Company sponsors a 401(k) defined contribution plan covering substantially all employees. The Company provides a 75 percent matching contribution up to 6 percent of an employee's base salary. Total matching contributions made to the plan for the years 2003, 2002, and 2001 were $18 million, $17 million, and $16 million, respectively.

## 3. CONTINGENCIES AND REGULATORY MATTERS

**General Litigation Matters**

The Company is subject to certain claims and legal actions arising in the ordinary course of business. In addition, the Company'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, and citizen enforcement of environmental requirements, has increased generally throughout the United States. In particular, personal injury claims for damages caused by alleged exposure to hazardous materials have become more frequent. The ultimate outcome of such litigation against the Company cannot be predicted at this time; however, management does not anticipate that the liabilities, if any, arising from such current proceedings would have a material adverse effect on the Company's financial statements.

**Retail Rate Orders**

In December 2001, the GPSC approved a three-year retail rate order for the Company ending December 31, 2004. Retail rates were decreased by $118 million effective January 1, 2002. Under the terms of the order, earnings are evaluated against a retail return on common equity range of 10 percent to 12.95 percent. Two-thirds of any earnings above the 12.95 percent return are applied to rate refunds, with the remaining one-third retained by the Company. The Company's earnings in 2003 and 2002 were within the common equity range.

Under a previous three-year order ending December 2001, the Company's earnings were evaluated against a retail return on common equity range of 10 percent to 12.5 percent. The order further provided for $85 million in each year, plus up to $50 million of any earnings above the 12.5 percent return during the second and third years, to be applied to accelerated amortization or depreciation of assets. Two-thirds of any additional earnings above the 12.5 percent return were applied to rate refunds, with the remaining one-third retained by the Company. Pursuant to the order, the Company recorded $333 million of accelerated amortization and interest thereon, which has been credited to a regulatory liability account as mandated by the GPSC.

Under the 2001 rate order, the Company discontinued recording accelerated depreciation and amortization and began amortizing the accumulated balance equally over three years as a credit to expense beginning in 2002. Also, the rate order required the Company to recognize capacity and operating and maintenance costs related to new GPSC certified purchased power contracts evenly in rates over a three - year period ending December 31, 2004.

The Company is required to file a general rate case on July 1, 2004, in response to which the GPSC would be expected to determine whether the rate order should be continued, modified, or discontinued.

Under GPSC ratemaking provisions, $21 million has been deferred in a regulatory liability account for use in meeting future environmental remediation costs.

**Retail Fuel Hedging Program**

On December 24, 2002, the GPSC approved an order, effective in January 2003, allowing the Company to implement a natural gas and oil procurement and hedging program. This order allows the Company to use financial instruments to hedge price and commodity risk associated with these fuels. The order limits the program in terms of time, volume, dollars, and physical amounts hedged. The costs of the program, including any net losses, are recovered as a fuel cost through the fuel cost recovery clause. Annual net financial gains from the hedging program will be shared with the retail

customers receiving 75 percent and the Company retaining 25 percent of the net gains.

**Fuel Cost Recovery**

In May 2003, the Company filed for a fuel cost recovery rate increase. On August 19, 2003, the GPSC issued an order approving a stipulation reached by the Company, the Consumers' Utility Counsel Division, Georgia Textile Manufacturers Association, Georgia Industrial Group and the staff of the GPSC. The stipulation allows the Company to increase fuel rates to recover existing under-recovered deferred fuel costs over the period of October 1, 2003 through March 31, 2005, as well as future projected fuel costs. The new fuel rate represents an average annual increase in rates paid by customers of approximately 1.6 percent.

**Nuclear Performance Standards**

The GPSC has adopted a nuclear performance standard for the Company's nuclear generating units under which the performance of plants Hatch and Vogtle is evaluated every three years. The performance standard is based on each unit's capacity factor as compared to the average of all comparable U.S. nuclear units operating at a capacity factor of 50 percent or higher during the three-year period of evaluation. Depending on the performance of the units, the Company could receive a monetary award or penalty under the performance standards criteria.

For the period 1999-2001, the Company's performance fell within the criteria prescribed by the GPSC. The Company will therefore not receive an award or penalty for the 1999-2001 performance periods.

**Open Access Transmission Tariff**

In October 2003, the FERC approved a new Open Access Transmission Tariff for the Company of $1.73 per kilowatt-month based on an 11.25 percent return on equity. The Company had requested a rate increase effective January 2002 based on a 13 percent return on equity. Pending FERC approval, the Company collected from customers based on the 13 percent return on equity, but recorded revenue subject to refund for amounts above the previously approved rate of $1.37 per kilowatt-month. As a result of the final settlement, a total of approximately $2.3 million was refunded to the Company's transmission customers in October 2003 and $7.2 million was recorded as revenue.

**New Source Review Actions**

In November 1999, the Environmental Protection Agency (EPA) brought a civil action against the Company alleging the Company had violated the New Source Review (NSR) provisions of the Clean Air Act with respect to coal-fired generating facilities at the Company's Bowen and Scherer plants and violations of related state laws. The civil action requests penalties and injunctive relief, including an order requiring the installation of the best available control technology at the affected units. The EPA concurrently issued to the Company a notice of violation related to the two plants mentioned previously. In early 2000, the EPA filed a motion to amend its complaint to add the violations alleged in its notice of violation.

The action against the Company was stayed in the spring of 2001 during the appeal of a very similar NSR enforcement action against the Tennessee Valley Authority (TVA) before the U.S. Court of Appeals for the Eleventh Circuit. The TVA appeal involves many of the same legal issues raised by the actions against the Company. Because the final resolution of the TVA appeal could have a significant impact on the Company, the Company has been involved in that appeal. On June 24, 2003, the court of appeals issued its ruling in the TVA case. It found unconstitutional the statutory scheme set forth in the Clean Air Act that allowed the EPA to impose penalties for failing to comply with an administrative compliance order, like the one issued to TVA, without the EPA having to prove the underlying violation. Thus, the court of appeals held that the compliance order was of no legal consequence, and TVA was free to ignore it. The court did not, however, rule directly on the substantive legal issues about the proper interpretation and application of certain NSR provisions that had been raised in the TVA appeal. On September 16, 2003, the court of appeals denied the EPA's request for a rehearing of the decision and on February 13, 2004, the EPA petitioned the U.S. Supreme Court to review the Eleventh Circuit's decision. At this time, no party to the Company's action, which was administratively closed two years ago, has asked the court to reopen that case.

Since the inception of the NSR proceedings against the Company, the EPA has also been proceeding with

similar NSR enforcement actions against other utilities, involving many of the same legal issues. In each case, the EPA alleged that the utilities failed to comply with the NSR permitting requirements when performing maintenance and construction activities at coal-burning plants, which activities the Company considers to be routine or otherwise not subject to NSR. In 2003, district courts addressing these cases issued opinions that reached conflicting conclusions.

In October 2003, the EPA issued final revisions to its NSR regulations under the Clean Air Act clarifying the scope of the existing Routine Maintenance, Repair, and Replacement exclusion. On December 24, 2003, the U.S. Court of Appeals for the District of Columbia Circuit stayed the effectiveness of these revisions pending resolution of related litigation. In January 2004, the Bush Administration announced that it would continue to enforce the existing rules.

The Company believes that it complied with applicable laws and the EPA's regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes civil penalties of up to $27,500 per day, per violation at each generating unit. Prior to January 30, 1997, the penalty was $25,000 per day. An adverse outcome in this case could require substantial capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. This could affect future results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

**Plant Wansley Environmental Litigation**

On December 30, 2002, the Sierra Club, Physicians for Social Responsibility, Georgia ForestWatch, and one individual filed a civil suit in the U.S. District Court in Georgia against the Company for alleged violations of the Clean Air Act at four of the generating units at Plant Wansley. The complaint alleges Clean Air Act violations at both the existing coal-fired units and the new combined cycle units. Specifically, the plaintiffs allege (1) opacity violations at the coal-fired units, (2) violations of a permit provision that requires the combined cycle units to operate above certain levels, (3) violation of the nitrogen oxide emission offset requirements, and (4) violation of the hazardous air pollutant requirements. The civil action requests injunctive and declaratory relief, civil penalties, a supplemental environmental project, and attorneys' fees. The Clean Air Act authorizes civil penalties of up to $27,500 per day, per violation at each generating unit.

On June 19, 2003, the court granted the Company motion to dismiss the allegations regarding hazardous air pollutants and denied the Company's motion to dismiss the allegations regarding emission offsets. On August 29, 2003, the Company filed a motion for partial summary judgment regarding emission offsets. On January 20, 2004, the Company filed a motion for summary judgment on the remaining three counts, and the plaintiffs have filed motions for partial summary judgment. The case is currently scheduled for trial during the summer of 2004. While the Company believes that it has complied with applicable laws and regulations, an adverse outcome could require payment of substantial penalties. The final outcome of this matter cannot now be determined.

**Potentially Responsible Party Status**

The Company has been designated as a potentially responsible party at sites governed by the Georgia Hazardous Site Response Act and/or by the federal Comprehensive Environmental Response, Compensation and Liability Act. The Company has recognized $34 million in cumulative expenses through December 31, 2003 for the assessment and anticipated cleanup of sites on the Georgia Hazardous Sites Inventory. In addition, in 1995 the EPA designated the Company and four other unrelated entities as potentially responsible parties at a site in Brunswick, Georgia that is listed on the federal National Priorities List. The Company has contributed to the removal and remedial investigation and feasibility study costs for the site. Additional claims for recovery of natural resource damages at the site are anticipated. As of December 31, 2003, the Company had recorded approximately $6 million in cumulative expenses associated with the Company's agreed-upon share of the removal and remedial investigation and feasibility study costs for the Brunswick site.

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 the Company's activities relating to these sites, management does not believe that the Company's additional liability, if any, at these sites would be material to the financial statements.

### Race Discrimination Litigation

In July 2000, a lawsuit alleging race discrimination was filed by three Georgia Power employees against the Company, Southern Company, and SCS in the Superior Court of Fulton County, Georgia. Shortly, thereafter, the lawsuit was removed to the U.S. District Court for the Northern District of Georgia. The lawsuit also raised claims on behalf of a purported class. The plaintiffs seek compensatory and punitive damages in an unspecified amount, as well as injunctive relief. In August 2000, the lawsuit was amended to add four more plaintiffs. Also, Southern Company Energy Solutions, a subsidiary of Southern Company, was named a defendant.

In October 2001, the district court denied the plaintiffs' motion for class certification. The plaintiffs filed a motion to reconsider the order denying class certification, and the court denied the plaintiffs' motion to reconsider. In December 2001, the plaintiffs filed a petition in the U. S. Court of Appeals for the Eleventh Circuit seeking permission to file an appeal of the October 2001 decision, and this petition was denied. After discovery was completed on the claims raised by the seven named plaintiffs, the defendants filed motions for summary judgment on all of the named plantiffs' claims. On March 31, 2003, the U.S. District Court for the Northern District of Georgia granted summary judgment in favor of the defendants on all claims raised by all seven plaintiffs. On April 23, 2003 plaintiffs filed an appeal to the U.S. Court of Appeals for the Eleventh Circuit challenging these adverse summary judgment rulings, as well as the District Court's October 2001 ruling denying class certification. Oral arguments occurred January 27, 2004, and the parties await the court's decision. The final outcome of this matter cannot now be determined.

### Right of Way Litigation

Southern Company and certain of its subsidiaries including the Company, Gulf Power, Mississippi Power, and Southern Telecom (collectively defendants) have been named as defendants in numerous lawsuits brought by landowners since 2001 regarding the installation and use of fiber optic cable over defendants' rights of way located on the landowners' property. 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 by defendants exceed the easements or other property rights held by defendants. The plaintiffs assert claims for, among other things, trespass and unjust enrichment. The plaintiffs seek compensatory and punitive damages and injunctive relief. Management believes that the Company has complied with applicable laws and the plaintiffs' claims are without merit. An adverse outcome in these matters could result in substantial judgments; however, the final outcome of these matters cannot now be determined.

In addition, in late 2001, certain subsidiaries of Southern Company, including Alabama Power, the Company, Gulf Power, Mississippi Power, Savannah Electric and Southern Telecom (collectively, defendants) were named as defendants in a lawsuit brought by a telecommunications company that uses certain of the defendants' 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 the telecommunications company in pending and future right of way litigation. The Company believes that the plaintiff's claims are without merit. 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.

### FERC Matters

The Company has obtained FERC approval to sell power to non-affiliates at market-based prices under specific contracts. The Company also has FERC authority to make short-term opportunity sales at market rates. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate. In November 2001, the FERC modified the test it uses to consider utilities' applications to charge market-based rates and adopted a new test called the Supply Margin Assessment (SMA). The FERC applied the SMA to several utilities, including Southern Company's retail operating companies, and found them to be "pivotal suppliers" in their control area market and ordered the implementation of certain mitigation measures. SCS, on behalf of the Company and the other retail operating companies, sought rehearing of the FERC order and the FERC delayed implementation of certain mitigation measures. SCS, on behalf of the Company and the other

retail operating companies, submitted comments to the FERC in 2002 regarding these issues. In December 2003, the FERC issued a staff paper discussing alternatives and held a technical conference in January 2004. The Company anticipates that the FERC will address the requests for rehearing in the near future. Regardless of the outcome of the SMA proposal, the FERC retains the ability to modify or withdraw the authorization for any seller to sell at market-based rates, if it determines that the underlying conditions for having such authority are no longer applicable. The final outcome of this matter will depend on the form in which the SMA test and mitigation measures rules may be ultimately adopted and cannot be determined at this time.

PPAs by the Company for Southern Power's Plant McIntosh capacity were certified by the GPSC in December 2002 after a competitive bidding process. In April 2003, Southern Power applied for FERC approval of these PPAs. Interveners have made filings in opposition of the FERC's acceptance of the PPAs, alleging that the PPAs do not meet the applicable standards for market-based rates between affiliates. In July 2003, the FERC accepted the PPAs to become effective June 1, 2005, subject to refund, and ordered that hearings be held to determine: (a) whether, in the design and implementation of the GPSC competitive bidding process, the Company unduly preferred Southern Power; (b) whether the analysis of the competitive bids unduly favored Southern Power, particularly with respect to evaluation of non-price factors; (c) whether the Company selected its affiliate, Southern Power, based upon a reasonable combination of price and non-price factors; (d) whether Southern Power received an undue preference or competitive advantage in the competitive bidding process as a result of access to its affiliate's transmission system; (e) whether and to what extent the PPAs impact wholesale competition; and (f) whether the PPAs are just and reasonable and not unduly discriminatory. Hearings are scheduled to begin in March 2004. Management believes that the PPAs should be approved by the FERC; however, the ultimate outcome of this matter cannot now be determined.

## 4. JOINT OWNERSHIP AGREEMENTS

The Company and an affiliate, Alabama Power, own equally all of the outstanding capital stock of Southern Electric Generating Company (SEGCO), which owns electric generating units with a total rated capacity of 1,020 megawatts, as well as associated transmission facilities. The capacity of the units has been sold equally to the Company and Alabama Power under a contract which, in substance, requires payments sufficient to provide for the operating expenses, taxes, debt service, and return on investment, whether or not SEGCO has any capacity and energy available. The term of the contract extends automatically for two-year periods, subject to either party's right to cancel upon two year's notice. The Company's share of expenses included in purchased power from affiliates in the Statements of Income is as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | | (in millions) | |
| Energy | **$55** | $53 | $52 |
| Capacity | **34** | 32 | 30 |
| Total | **$89** | $85 | $82 |

The Company owns undivided interests in plants Vogtle, Hatch, Scherer, and Wansley in varying amounts jointly with Oglethorpe Power Corporation (OPC), the Municipal Electric Authority of Georgia (MEAG), the city of Dalton, Georgia, Florida Power & Light Company, Jacksonville Electric Authority, and Gulf Power. Under these agreements, the Company is jointly and severally liable for third party claims related to these plants. In addition, the Company jointly owns the Rocky Mountain pumped storage hydroelectric plant with OPC who is the operator of the plant. The Company also jointly owns Plant McIntosh with Savannah Electric who operates the plant. The Company and Florida Power Corporation (FPC) jointly own a combustion turbine unit (Intercession City) operated by FPC.

At December 31, 2003, the Company's percentage ownership and investment (exclusive of nuclear fuel) in jointly owned facilities in commercial operation were as follows:

| Facility (Type) | Company Ownership | Investment | Accumulated Depreciation |
|---|---|---|---|
| | | (in millions) | |
| Plant Vogtle (nuclear) | 45.7% | $3,307 | $1,706 |
| Plant Hatch (nuclear) | 50.1 | 908 | 469 |
| Plant Wansley (coal) | 53.5 | 390 | 160 |
| Plant Scherer (coal) | | | |
| Units 1 and 2 | 8.4 | 115 | 52 |
| Unit 3 | 75.0 | 560 | 247 |
| Plant McIntosh | | | |
| Common Facilities (combustion-turbine) | 75.0 | 24 | 3 |
| Rocky Mountain (pumped storage) | 25.4 | 169 | 85 |
| Intercession City (combustion-turbine) | 33.3 | 12 | 1 |

The Company has contracted to operate and maintain the jointly owned facilities as agent for their co-owners, except as noted above. The Company's proportionate share of its plant operating expenses is included in the corresponding operating expenses in the Statements of Income.

## 5. INCOME TAXES

Southern Company and its subsidiaries file a consolidated federal income tax return. As a result of new State of Georgia Department of Revenue regulations applicable to tax years beginning on or after January 1, 2002, Southern Company and its subsidiaries were granted permission by the State of Georgia Department of Revenue Commissioner to file a combined State of Georgia income tax return. Under a joint consolidated income tax agreement, each subsidiary's current and deferred tax expense is computed on a stand-alone basis. In accordance with both IRS and State of Georgia Department of Revenue regulations, each company is jointly and severally liable for the tax liability.

At December 31, 2003, tax-related regulatory assets were $510 million and tax-related regulatory liabilities were $187 million. The assets are attributable to tax benefits flowed through to customers in prior years and to taxes applicable to capitalized interest. The liabilities are attributable to deferred taxes previously recognized at rates higher than current enacted tax law and to unamortized investment tax credits.

Details of the federal and state income tax provisions are as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Total provision for income taxes: | | (in millions) | |
| Federal: | | | |
| Current | **$143** | $261 | $352 |
| Deferred | **181** | 60 | (46) |
| | **324** | 321 | 306 |
| State: | | | |
| Current | **24** | 31 | 61 |
| Deferred | **16** | 5 | (8) |
| Deferred investment tax credits | **2** | - | 5 |
| Total | **$366** | $357 | $364 |

The tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases, which give rise to deferred tax assets and liabilities, are as follows:

| | **2003** | 2002 |
|---|---|---|
| | | (in millions) |
| Deferred tax liabilities: | | |
| Accelerated depreciation | **$1,966** | $1,779 |
| Property basis differences | **563** | 623 |
| Other | **329** | 309 |
| Total | **2,858** | 2,711 |
| Deferred tax assets: | | |
| Federal effect of state deferred taxes | **96** | 90 |
| Other property basis differences | **156** | 170 |
| Other deferred costs | **160** | 214 |
| Other | **75** | 64 |
| Total | **487** | 538 |
| Net deferred tax liabilities | **2,371** | 2,173 |
| Portion included in prepaid expenses | **-** | 3 |
| Accumulated deferred income taxes in the Balance Sheets | **$2,371** | $2,176 |

In accordance with regulatory requirements, deferred investment tax credits are amortized over the life of the related property with such amortization normally applied as a credit to reduce depreciation in the Statements of Income. Credits amortized in this manner amounted to $15 million in 2003, $12 million in 2002 and $15 million in 2001. At December 31, 2003, all investment

tax credits available to reduce federal income taxes payable had been utilized.

A reconciliation of the federal statutory tax rate to the effective income tax rate is as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Federal statutory rate | 35% | 35% | 35% |
| State income tax, net of federal deduction | 3 | 2 | 4 |
| Non-deductible book depreciation | 1 | 1 | 2 |
| Other | (2) | (1) | (4) |
| Effective income tax rate | 37% | 37% | 37% |

## 6. CAPITALIZATION

### Mandatorily Redeemable Preferred Securities

The Company has formed certain wholly-owned trust subsidiaries for the purpose of issuing preferred securities. The proceeds of the related equity investments and security sales were loaned back to the Company through the issuance of junior subordinated notes totaling $969 million, which constitute substantially all of the assets of the trusts. The Company considers that the mechanisms and obligations relating to the preferred securities issued for its benefit, taken together, constitute a full and unconditional guarantee by it of the respective trusts' payment obligations with respect to these preferred securities. At December 31, 2003, preferred securities of $940 million were outstanding and recognized as liabilities in the Balance Sheets.

### Long-Term Debt Due Within One Year

A summary of the improvement fund requirements and scheduled maturities and redemptions of securities due within one year at December 31 is as follows:

| | 2003 | 2002 |
|---|---|---|
| | (in millions) | |
| Capital lease | $2 | $ 2 |
| Senior notes | - | 320 |
| Total | $2 | $322 |

Serial maturities through 2008 applicable to total long-term debt are as follows: $2 million in 2004; $453 million in 2005; $153 million in 2006; $303 million in 2007; and $3 million in 2008.

### First Mortgage Bond Indenture

In 2002, the first mortgage bond indenture of the Company was defeased by paying to JPMorgan Chase Bank, the trustee, an amount representing the last outstanding obligations on the Company's first mortgage bonds. As a result of the defeasance, there are no longer any first mortgage bond liens on the Company's property and the Company no longer has to comply with the covenants and restrictions of the first mortgage bond indenture.

### Pollution Control Bonds

The Company has incurred obligations in connection with the sale by public authorities of tax-exempt pollution control revenue bonds. The amount of tax-exempt pollution control revenue bonds outstanding at December 31, 2003 was $1.7 billion.

### Capital Leases

Assets acquired under capital leases are recorded in the Balance Sheets as utility plant in service, and the related obligations are classified as long-term debt. At December 31, 2003 and 2002, the Company had a capitalized lease obligation for its corporate headquarters building of $79 million and $81 million, respectively, with an interest rate of 8.1 percent. For ratemaking purposes, the GPSC has treated the lease as an operating lease and has allowed only the lease payments in cost of service. The difference between the accrued expense and the lease payments allowed for ratemaking purposes has been deferred and is being amortized to expense as ordered by the GPSC. At both December 31, 2003 and 2002, the interest and lease amortization deferred on the Balance Sheets was $54 million.

### Bank Credit Arrangements

At the beginning of 2004, the Company had an unused credit arrangement with banks totaling $725 million expiring at June 11, 2004. Upon expiration, the $725 million agreement provides the option of converting borrowings into a two-year term loan. The agreement contains stated borrowing rates but also allows for competitive bid loans. In addition, the agreement requires payment of commitment fees based on the unused portion of the commitments or the maintenance of compensating balances with the banks. Commitment fees are less than 1/8 of 1 percent for the Company.

Compensating balances are not legally restricted from withdrawal. A fee is also paid to the agent bank.

The credit arrangements contain covenants that limit the level of indebtedness to capitalization to 65 percent, as defined in the agreement. Exceeding these limits would result in an event of default under the credit arrangement. In addition, the credit arrangements contain cross default provisions that would trigger an event of default if the Company defaulted on other indebtedness above a specified threshold. The Company is currently in compliance with all such covenants.

This $725 million in unused credit arrangements provides liquidity support to the Company's variable rate pollution control bonds. The amount of variable rate pollution control bonds outstanding requiring liquidity support as of December 31, 2003 was $106 million. In addition, the Company borrows under a commercial paper program and an extendible commercial note program. The amount of commercial paper outstanding at December 31, 2003 was $137 million. There were no outstanding extendible commercial notes at December 31, 2003. The amount of commercial paper outstanding at December 31, 2002 was $358 million, which included $19 million of extendible commercial notes. During 2003, the peak amount of commercial paper outstanding was $531 million and the average amount outstanding was $229 million. The average annual interest rate on commercial paper in 2003 was 1.23 percent. Commercial paper is included in notes payable on the Balance Sheets.

**Financial Instruments**

The Company enters into energy-related derivatives to hedge exposures to electricity, gas, and other fuel price changes. However, due to cost-based rate regulations, the Company has limited exposure to market volatility in commodity fuel prices and prices of electricity. The Company has implemented fuel-hedging programs at the instruction of the GPSC. The Company also enters into hedges of forward electricity sales.

At December 31, 2003, the fair value of derivative energy contracts was reflected in the financial statements as follows:

| | Amounts |
|---|---|
| | (in millions) |
| Regulatory liabilities, net | $3.2 |
| Other comprehensive income | - |
| Net income | - |
| Total fair value | $3.2 |

The Company enters into derivatives to hedge exposure to interest rate changes. Derivatives related to variable rate securities or forecasted transactions are accounted for as cash flow hedges. The derivatives are generally structured to mirror the critical terms of the hedged debt instruments; therefore, no material ineffectiveness has been recorded in earnings.

At December 31, 2003, the Company had interest rate swaps outstanding with net deferred losses as follows:

Cash Flow Hedges

| Maturity | Weighted Average Fixed Rate Paid | Notional Amount | Fair Value (Loss) |
|---|---|---|---|
| | | (in millions) | |
| 2004 | 1.39% | $873 | $(0.8) |
| 2005 | 1.56 | 50 | 0 |
| 2005 | 1.96 | 250 | (1.1) |

The fair value gain or loss for cash flow hedges is recorded in other comprehensive income and is reclassified into earnings at the same time the hedged items affect earnings. In 2003, the Company recognized losses totaling $11.3 million upon termination of certain interest derivatives at the same time it issued debt. These losses have been deferred in other comprehensive income and will be amortized to interest expense over the life of the related debt. For 2003, approximately $3.4 million of pre-tax losses were reclassified from other comprehensive income to interest expense. For 2004, pre-tax losses of approximately $3.2 million are expected to be reclassified from other comprehensive income to interest expense.

## 7. COMMITMENTS

### Construction Program

The Company currently estimates property additions to be approximately $747 million, $812 million, and $1,043 million in 2004, 2005, and 2006, respectively. These amounts include $28.9 million, $19.7 million and $20.0 million in 2004, 2005, and 2006, respectively, for construction expenditures related to contractual purchase commitments for uranium and nuclear fuel conversion, enrichment, and fabrication services included under "Fuel and Purchased Power Commitments." The construction program is subject to periodic review and revision, and actual construction costs may vary from estimates because of numerous factors, including, but not limited to, changes in business conditions, changes in FERC rules and transmission regulations, revised load growth estimates, changes in environmental regulations, changes in existing nuclear plants to meet new regulatory requirements, increasing costs of labor, equipment, and materials, and cost of capital. At December 31, 2003, significant purchase commitments were outstanding in connection with the construction program.

The Company has no generating plants under construction. However, construction related to new transmission and distribution facilities and capital improvements to existing generation, transmission and distribution facilities, including those needed to meet the environmental standards previously discussed, are ongoing.

The Company had three generation projects under construction during 2001. They included two units at Plant Dahlberg, a ten-unit, 800 megawatt combustion turbine facility; two combined cycle units totaling 1,132 megawatts at Plant Wansley; and Plant Franklin, a two-unit, 1,181 megawatt combined cycle facility. All three of these projects have been transferred to Southern Power. The ten Dahlberg units and two Franklin units were transferred in 2001 and the transfer of the two Wansley units was completed in January 2002.

Southern Company has guaranteed Southern Power obligations totaling $10.7 million for the Company's construction of transmission interconnection facilities to these plants.

### Fuel and Purchased Power Commitments

To supply a portion of the fuel requirements of its generating plants, the Company has entered into various long-term commitments for the procurement of fossil and nuclear fuel. In most cases, these contracts contain provisions for price escalations, minimum purchase levels, and other financial commitments. Natural gas purchase commitments contain fixed volumes with prices based on various indices at the time of delivery. Amounts included in the chart below represent estimates based on New York Mercantile future prices at December 31, 2003. Also the Company has entered into various long-term commitments for the purchase of electricity. Total estimated minimum long-term obligations at December 31, 2003 were as follows:

| Year | Natural Gas | Coal and Nuclear Fuel |
|---|---|---|
| | (in millions) | |
| 2004 | $ 156 | $1,321 |
| 2005 | 149 | 1,045 |
| 2006 | 148 | 895 |
| 2007 | 108 | 603 |
| 2008 | 172 | 372 |
| 2009 and thereafter | 1,625 | 183 |
| Total commitments | $2,358 | $4,419 |

Additional commitments for coal and for nuclear fuel will be required to supply the Company's future needs.

SCS may enter into various types of wholesale energy and natural gas contracts acting as an agent for the Company and all of the other Southern Company retail operating companies, Southern Power, and Southern Company GAS. Under these agreements, each of the retail operating companies, Southern Power, and Southern Company Gas may be jointly and severally liable. The creditworthiness of Southern Power and Southern Company GAS is currently inferior to the creditworthiness of the retail operating companies. Accordingly, Southern Company has entered into keep-well agreements with the Company and each of the retail operating companies to insure they will not subsidize or be responsible for any costs, losses, liabilities, or damages resulting from the inclusion of Southern Power or Southern Company GAS as a contracting party under these agreements.

The Company has commitments regarding a portion of a 5 percent interest in Plant Vogtle owned by MEAG that are in effect until the latter of the retirement of the plant or the latest stated maturity date of MEAG's bonds issued to finance such ownership interest. The payments for capacity are required whether or not any capacity is available. The energy cost is a function of each unit's variable operating costs. Except as noted below, the cost of such capacity and energy is included in purchased power from non-affiliates in the Company's Statements of Income. Capacity payments totaled $57 million, $57 million, and $59 million in 2003, 2002, and 2001, respectively. The current projected Plant Vogtle capacity payments are:

| Year | Capacity Payments (in millions) |
|---|---|
| 2004 | $ 57 |
| 2005 | 56 |
| 2006 | 54 |
| 2007 | 54 |
| 2008 | 54 |
| 2009 and thereafter | 369 |
| Total | $644 |

Portions of the payments noted above relate to costs in excess of Plant Vogtle's allowed investment for ratemaking purposes. The present value of these portions at the time of the disallowance was written off.

The Company has entered into other various long-term commitments for the purchase of electricity. Estimated total long-term obligations at December 31, 2003 were as follows:

| Year | Affiliated | Non-Affiliated |
|---|---|---|
| | (in millions) | |
| 2004 | $ 191 | $ 45 |
| 2005 | 268 | 79 |
| 2006 | 283 | 88 |
| 2007 | 283 | 89 |
| 2008 | 282 | 90 |
| 2009 and thereafter | 1,722 | 482 |
| Total | $3,029 | $873 |

**Operating Leases**

The Company has entered into various operating leases with various terms and expiration dates. Rental expenses related to these operating leases totaled $36 million for 2003, $35 million for 2002, and $14 million for 2001. At December 31, 2003, estimated minimum rental commitments for these noncancelable operating leases were as follows:

| Year | Minimum Obligations | | |
|---|---|---|---|
| | Rail Cars | Other | Total |
| | (in millions) | | |
| 2004 | $ 12 | $22 | $ 34 |
| 2005 | 12 | 18 | 30 |
| 2006 | 12 | 14 | 26 |
| 2007 | 10 | 12 | 22 |
| 2008 | 11 | 11 | 22 |
| 2009 and thereafter | 56 | 16 | 72 |
| Total | $113 | $93 | $206 |

In addition to the rental commitments above, the Company has obligations upon expiration of certain rail car leases with respect to the residual value of the leased property. These leases expire in 2004 and 2010, and the Company's maximum obligations are $13 million and $40 million, respectively. At the termination of the leases, at the Company's option, the Company may either exercise its purchase option or the property can be sold to a third party. The Company expects that the fair market value of the leased property would substantially reduce or eliminate the Company's payments under the residual value obligation. A portion of the rail car lease obligations is shared with the joint owners of plants Scherer and Wansley. Rental expenses related to the rail car leases are fully recoverable through the fuel cost recovery clause as ordered by the GPSC.

**Guarantees**

Prior to 1999, a subsidiary of Southern Company originated loans to residential customers of the Company for heat pump purchases. These loans were sold to Fannie Mae with recourse for any loan with payments outstanding over 120 days. The Company is responsible for the repurchase of customers' delinquent loans. As of December 31, 2003, the outstanding loans guaranteed by the Company were $8.7 million and loan loss reserves of $1.8 million have been recorded.

Alabama Power has guaranteed unconditionally the obligation of SEGCO under an installment sale agreement for the purchase of certain pollution control facilities at SEGCO's generating units, pursuant to

which $24.5 million principal amount of pollution control revenue bonds are outstanding. The Company has agreed to reimburse Alabama Power for the pro rata portion of such obligation corresponding to the Company's then proportionate ownership of stock of SEGCO if Alabama Power is called upon to make such payment under its guaranty. In May 2003, SEGCO issued an additional $50 million in senior notes. Alabama Power guaranteed the debt obligation and in October 2003, the Company agreed to reimburse Alabama Power for the pro rata portion of such obligation corresponding to its then proportionate ownership of stock of SEGCO if Alabama Power is called upon to make such payment under its guaranty.

As discussed earlier in this note under "Operating Leases," the Company has entered into certain residual value guarantees related to rail car leases.

## 8. NUCLEAR INSURANCE

Under the Price-Anderson Amendments Act of 1988, the Company maintains agreements of indemnity with the NRC that, together with private insurance, cover third-party liability arising from any nuclear incident occurring at the Company's nuclear power plants. The Act provides funds up to $10.9 billion for public liability claims that could arise from a single nuclear incident. Each nuclear plant is insured against this liability to a maximum of $300 million by American Nuclear Insurers (ANI), with the remaining coverage provided by a mandatory program of deferred premiums that could be assessed, after a nuclear incident, against all owners of nuclear reactors. The Company could be assessed up to $101 million per incident for each licensed reactor it operates but not more than an aggregate of $10 million per incident to be paid in a calendar year for each reactor. Such maximum assessment for the Company, excluding any applicable state premium taxes -- based on its ownership and buyback interests -- is $203 million per incident but not more than an aggregate of $20 million to be paid for each incident in any one year. The Price-Anderson Amendments Act expired in August 2002; however, the indemnity provisions of the Act remain in place for commercial nuclear reactors.

The Company is a member of Nuclear Electric Insurance Limited (NEIL), a mutual insurer established to provide property damage insurance in an amount up to $500 million for members' nuclear generating facilities.

Additionally, the Company has policies that currently provide decontamination, excess property insurance, and premature decommissioning coverage up to $2.25 billion for losses in excess of the $500 million primary coverage. This excess insurance is also provided by NEIL.

NEIL also covers additional costs that would be incurred in obtaining replacement power during a prolonged accidental outage at a member's nuclear plant. Members can purchase this coverage, subject to a deductible waiting period of up to 26 weeks, with a maximum per occurrence per unit limit of $490 million. After this deductible period, weekly indemnity payments would be received until either the unit is operational or until the limit is exhausted in approximately three years. The Company purchases the maximum limit allowed by NEIL subject to ownership limitations and has elected a 12 week waiting period.

Under each of the NEIL policies, members are subject to assessments if losses each year exceed the accumulated funds available to the insurer under that policy. The current maximum annual assessments for the Company under the NEIL policies would be $40 million.

Following the terrorist attacks of September 2001, both ANI and NEIL confirmed that terrorist acts against commercial nuclear power stations would be covered under their insurance. Both companies, however, revised their policy terms on a prospective basis to include an industry aggregate for all "non-certified" terrorist acts (i.e., acts that are not certified acts of terrorism pursuant to the Terrorism Risk Insurance Act of 2002 (TRIA). The NEIL aggregate -- applies to non-certified claims stemming from terrorism within a 12-month duration -- is $3.24 billion plus any amounts available through reinsurance or indemnity from an outside source. The non-certified ANI cap is a $300 million shared industry aggregate. Any act of terrorism that is certified pursuant to the TRIA will not be subject to the foregoing NEIL and ANI limitations but will be subject to the TRIA annual aggregate limitation of $100 billion of insured losses arising from certified acts of terrorism. The TRIA will expire on December 31, 2005.

For all on-site property damage insurance policies for commercial nuclear power plants, the NRC requires that the proceeds of such policies shall be dedicated first for the sole purpose of placing the reactor in a safe and

stable condition after an accident. Any remaining proceeds are to be applied next toward the costs of decontamination and debris removal operations ordered by the NRC, and any further remaining proceeds are to be paid either to the Company or to its bond trustees as may be appropriate under the policies and applicable trust indentures.

All retrospective assessments, whether generated for liability, property, or replacement power, may be subject to applicable state premium taxes.

## 9. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial information for 2003 and 2002 is as follows:

| Quarter Ended | Operating Revenues | Operating Income | Net Income After Dividends on Preferred Stock |
|---|---|---|---|
| | | (in millions) | |
| **March 2003** | **$1,126** | **$262** | **$133** |
| **June 2003** | **1,190** | **293** | **159** |
| **September 2003** | **1,487** | **490** | **265** |
| **December 2003** | **1,111** | **179** | **74** |
| March 2002 | $1,007 | $260 | $127 |
| June 2002 | 1,204 | 320 | 171 |
| September 2002 | 1,517 | 498 | 271 |
| December 2002 | 1,095 | 126 | 49 |

The Company's business is influenced by seasonal weather conditions.

[This page intentionally left blank]

## SELECTED FINANCIAL AND OPERATING DATA 1999-2003

**Georgia Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 | 2000 | 199 |
|---|---|---|---|---|---|
| **Operating Revenues** (in thousands) | **$4,913,507** | $4,822,460 | $4,965,794 | $4,870,618 | $4,456,67 |
| **Net Income after Dividends on Preferred Stock** (in thousands) | **$630,577** | $617,629 | $610,335 | $559,420 | $541,38 |
| **Cash Dividends on Common Stock** (in thousands) | **$565,800** | $542,900 | $527,300 | $549,600 | $543,00 |
| **Return on Average Common Equity** (percent) | **14.05** | 13.99 | 14.12 | 13.66 | 14.0 |
| **Total Assets** (in thousands) | **$14,782,028** | $14,342,656 | $14,447,973 | $13,971,211 | $13,148,04 |
| **Gross Property Additions** (in thousands) | **$742,810** | $883,968 | $1,389,751 | $1,078,163 | $790,46 |
| **Capitalization** (in thousands): | | | | | |
| Common stock equity | **$4,540,211** | $4,434,447 | $4,397,485 | $4,249,544 | $3,938,21 |
| Preferred stock | **14,569** | 14,569 | 14,569 | 14,569 | 14,95 |
| Mandatorily redeemable preferred securities | **940,000** | 940,000 | 789,250 | 789,250 | 789,25 |
| Long-term debt | **3,762,333** | 3,109,619 | 2,961,726 | 3,041,939 | 2,688,35 |
| Total (excluding amounts due within one year) | **$9,257,113** | $8,498,635 | $8,163,030 | $8,095,302 | $7,430,77 |
| **Capitalization Ratios** (percent): | | | | | |
| Common stock equity | **49.0** | 52.2 | 53.9 | 52.5 | 53. |
| Preferred stock | **0.2** | 0.2 | 0.2 | 0.2 | 0. |
| Mandatorily redeemable preferred securities | **10.2** | 11.1 | 9.6 | 9.7 | 10. |
| Long-term debt | **40.6** | 36.5 | 36.3 | 37.6 | 36. |
| Total (excluding amounts due within one year) | **100.0** | 100.0 | 100.0 | 100.0 | 100. |
| **Security Ratings:** | | | | | |
| First Mortgage Bonds - | | | | | |
| Moody's | **N/A** | N/A | A1 | A1 | A |
| Standard and Poor's | **N/A** | N/A | A | A | A- |
| Fitch | **N/A** | N/A | AA- | AA- | AA |
| Preferred Stock - | | | | | |
| Moody's | **Baa1** | Baa1 | Baa1 | a2 | a |
| Standard and Poor's | **BBB+** | BBB+ | BBB+ | BBB+ | A |
| Fitch | **A** | A | A | A | A+ |
| Unsecured Long-Term Debt - | | | | | |
| Moody's | **A2** | A2 | A2 | A2 | A |
| Standard and Poor's | **A** | A | A | A | A |
| Fitch | **A+** | A+ | A+ | A+ | A+ |
| **Customers** (year-end): | | | | | |
| Residential | **1,768,662** | 1,734,430 | 1,698,407 | 1,669,566 | 1,632,45 |
| Commercial | **258,276** | 250,993 | 244,674 | 237,977 | 229,52 |
| Industrial | **7,899** | 8,240 | 8,046 | 8,533 | 8,95 |
| Other | **3,434** | 3,328 | 3,239 | 3,159 | 3,06 |
| Total | **2,038,271** | 1,996,991 | 1,954,366 | 1,919,235 | 1,873,99 |
| **Employees** (year-end): | **8,714** | 8,837 | 9,048 | 8,860 | 8,96 |

N/A = Not Applicable.

## SELECTED FINANCIAL AND OPERATING DATA 1999-2003 (continued)

**Georgia Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| **Operating Revenues (in thousands):** | | | | | |
| Residential | **$ 1,583,082** | $1,600,438 | $ 1,507,031 | $ 1,535,684 | $ 1,410,099 |
| Commercial | **1,661,054** | 1,631,130 | 1,682,918 | 1,620,466 | 1,527,880 |
| Industrial | **1,012,267** | 1,004,288 | 1,106,420 | 1,154,789 | 1,143,001 |
| Other | **53,569** | 52,241 | 52,943 | 6,399 | (30,892) |
| Total retail | **4,309,972** | 4,288,097 | 4,349,312 | 4,317,338 | 4,050,088 |
| Sales for resale - non-affiliates | **259,376** | 270,678 | 366,085 | 297,643 | 210,104 |
| Sales for resale - affiliates | **174,855** | 98,323 | 99,411 | 96,150 | 76,426 |
| Total revenues from sales of electricity | **4,744,203** | 4,657,098 | 4,814,808 | 4,711,131 | 4,336,618 |
| Other revenues | **169,304** | 165,362 | 150,986 | 159,487 | 120,057 |
| Total | **$4,913,507** | $4,822,460 | $4,965,794 | $4,870,618 | $4,456,675 |
| **Kilowatt-Hour Sales (in thousands):** | | | | | |
| Residential | **21,778,582** | 22,144,559 | 20,119,080 | 20,693,481 | 19,404,709 |
| Commercial | **26,940,572** | 26,954,922 | 26,493,255 | 25,628,402 | 23,715,485 |
| Industrial | **25,703,421** | 25,739,785 | 25,349,477 | 27,543,265 | 27,300,355 |
| Other | **595,742** | 593,202 | 583,007 | 568,906 | 551,451 |
| Total retail | **75,018,317** | 75,432,468 | 72,544,819 | 74,434,054 | 70,972,000 |
| Sales for resale - non-affiliates | **8,835,804** | 8,069,375 | 8,110,096 | 6,463,723 | 5,060,931 |
| Sales for resale - affiliates | **5,844,196** | 3,962,559 | 3,133,485 | 2,435,106 | 1,795,243 |
| Total | **89,698,317** | 87,464,402 | 83,788,400 | 83,332,883 | 77,828,174 |
| **Average Revenue Per Kilowatt-Hour (cents):** | | | | | |
| Residential | **7.27** | 7.23 | 7.49 | 7.42 | 7.27 |
| Commercial | **6.17** | 6.05 | 6.35 | 6.32 | 6.44 |
| Industrial | **3.94** | 3.90 | 4.36 | 4.19 | 4.19 |
| Total retail | **5.75** | 5.68 | 6.00 | 5.80 | 5.71 |
| Sales for resale | **2.96** | 3.07 | 4.14 | 4.43 | 4.18 |
| Total sales | **5.29** | 5.32 | 5.75 | 5.65 | 5.57 |
| **Residential Average Annual Kilowatt-Hour Use Per Customer** | **12,421** | 12,867 | 11,933 | 12,520 | 12,006 |
| **Residential Average Annual Revenue Per Customer** | **$902.70** | $929.90 | $893.84 | $929.11 | $872.48 |
| **Plant Nameplate Capacity Ratings (year-end) (megawatts)** | **13,980** | 14,059 | 14,474 | 15,114 | 14,474 |
| **Maximum Peak-Hour Demand (megawatts):** | | | | | |
| Winter | **13,153** | 11,873 | 11,977 | 12,014 | 11,568 |
| Summer | **14,826** | 14,597 | 14,294 | 14,930 | 14,575 |
| **Annual Load Factor (percent)** | **61.0** | 60.4 | 61.7 | 61.6 | 58.9 |
| **Plant Availability (percent):** | | | | | |
| Fossil-steam | **87.6** | 80.9 | 88.5 | 86.1 | 84.3 |
| Nuclear | **94.2** | 88.8 | 94.4 | 91.5 | 89.3 |
| **Source of Energy Supply (percent):** | | | | | |
| Coal | **58.6** | 59.5 | 58.5 | 62.3 | 63.0 |
| Nuclear | **16.8** | 16.2 | 18.1 | 17.4 | 18.0 |
| Hydro | **2.1** | 0.9 | 1.1 | 0.7 | 0.9 |
| Oil and gas | **0.3** | 0.3 | 0.4 | 1.8 | 1.6 |
| Purchased power - | | | | | |
| From non-affiliates | **7.5** | 6.3 | 7.8 | 8.1 | 6.6 |
| From affiliates | **14.7** | 16.8 | 14.1 | 9.7 | 9.9 |
| Total | **100.0** | 100.0 | 100.0 | 100.0 | 100.0 |

[This page intentionally left blank]

# GULF POWER COMPANY

# FINANCIAL SECTION

## MANAGEMENT'S REPORT

**Gulf Power Company 2003 Annual Report**

The management of Gulf Power Company has prepared -- and is responsible for -- the financial statements and related information included in this report. These statements were prepared in accordance with accounting principles generally accepted in the United States and necessarily include amounts that are based on the best estimates and judgments of management. Financial information throughout this annual report is consistent with the financial statements.

The Company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that the accounting records reflect only authorized transactions of the Company. Limitations exist in any system of internal controls, however, based on a recognition that the cost of the system should not exceed its benefits. The Company believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

The Company's internal accounting controls are evaluated on an ongoing basis by the Company's internal audit staff. The Company's independent public accountants also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

The audit committee of Southern Company's board of directors, composed of four independent directors, provides a broad overview of management's financial reporting and control functions. Additionally, the Company's Controls and Compliance Committee, comprised of five outside directors, meets periodically with management, the internal auditors, and the independent public accountants to discuss auditing, internal controls, and compliance matters. The internal auditors and independent public accountants have access to the members of these committees at any time.

Management believes that its policies and procedures provide reasonable assurance that the Company's operations are conducted according to a high standard of business ethics.

In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of Gulf Power Company in conformity with accounting principles generally accepted in the United States.

Susan N. Story
President
and Chief Executive Officer

Ronnie R. Labrato
Vice President, Chief Financial Officer,
and Comptroller
March 1, 2004

## INDEPENDENT AUDITORS' REPORT

**Gulf Power Company:**

We have audited the accompanying balance sheets and statements of capitalization of Gulf Power Company (a wholly owned subsidiary of Southern Company) as of December 31, 2003 and 2002, and the related statements of income, comprehensive income, common stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of Gulf Power Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Gulf Power Company for the year ended December 31, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements and included an explanatory paragraph that described a change in the method of accounting for derivative instruments and hedging activities in their report dated February 13, 2002.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements (pages II-175 to II-195) present fairly, in all material respects, the financial position of Gulf Power Company at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in 2003 Gulf Power Company changed its method of accounting for asset retirement obligations.

Deloitte & Touche LLP

Atlanta, Georgia
March 1, 2004

**THE FOLLOWING REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS IS A COPY OF THE REPORT PREVIOUSLY ISSUED IN CONNECTION WITH THE COMPANY'S 2001 ANNUAL REPORT ON FORM 10-K AND HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP. SEE EXHIBIT 23(d)2 FOR ADDITIONAL INFORMATION.**

**To Gulf Power Company:**

We have audited the accompanying balance sheets and statements of capitalization of Gulf Power Company (a Maine corporation and a wholly owned subsidiary of Southern Company) as of December 31, 2001 and 2000, and the related statements of income, common stockholder's equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements (pages II-129 to II-144) referred to above present fairly, in all material respects, the financial position of Gulf Power Company as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 1 to the financial statements, effective January 1, 2001, Gulf Power Company changed its method of accounting for derivative instruments and hedging activities.

Arthur Andersen LLP

Atlanta, Georgia
February 13, 2002

## OVERVIEW OF EARNINGS AND BUSINESS ACTIVITIES

### *Earnings*

Gulf Power Company's 2003 net income after dividends on preferred stock was $69.0 million, an increase of $2.0 million from the previous year. In 2002, earnings were $67.0 million, an increase of $8.7 million from the previous year. In 2001, earnings were $58.3 million, up $6.5 million when compared to the prior year. The improvement in earnings in 2003 is due primarily to higher operating revenues related to an increase in base rates effective in May 2002, offset somewhat by higher operating expenses and increases in depreciation expense primarily related to the commercial operation of Plant Smith Unit 3 beginning in April 2002. The improvement in earnings in 2002 is due primarily to higher operating revenues related to the increase in base rates, offset somewhat by higher operating expenses and higher financing costs primarily related to the commercial operation of the new unit. The increase in 2001 earnings was primarily a result of an increase in Allowance for Funds Used During Construction (AFUDC) and lower interest expense during construction of the unit.

### *Business Activities*

The Company operates as a vertically integrated utility providing electricity to customers within its traditional service area located in northwest Florida and to wholesale customers in the Southeast. Prices for electricity provided by the Company to retail customers are set by the Florida Public Service Commission (FPSC).

Several factors affect the opportunities, challenges, and risks of selling electricity. These factors include the Company's ability to maintain a stable regulatory environment, to achieve energy sales growth while containing costs, and to recover costs related to growing demand and increasingly stricter environmental standards. Future earnings in the near term will depend, in part, upon growth in 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 in the Company's service area.

## RESULTS OF OPERATIONS

A condensed income statement follows:

| | Amount | Increase (Decrease) From Prior Year | | |
|---|---|---|---|---|
| | **2003** | **2003** | 2002 | 2001 |
| | | (in millions) | | |
| Operating revenues | **$878** | **$ 58** | $ 95 | $ 11 |
| Fuel | **317** | **42** | 73 | (15) |
| Purchased power | **50** | **(12)** | (44) | 24 |
| Other operation and maintenance | **211** | **11** | 23 | 5 |
| Depreciation and amortization | **82** | **5** | 9 | 1 |
| Taxes other than income taxes | **66** | **5** | 6 | (1) |
| Total operating expenses | **726** | **51** | 67 | 14 |
| Operating income | **152** | **7** | 28 | (3) |
| Interest Expenses and other, net | **(42)** | **(1)** | (13) | 10 |
| Income taxes | **(41)** | **(4)** | (6) | - |
| Net income | **$ 69** | **$ 2** | $ 9 | $ 7 |

### *Revenues*

Operating revenues increased in 2003 when compared to 2002 and 2001. The following table summarizes the changes in operating revenues for the past three years:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | | (in thousands) | |
| Retail – Prior Year | **$665,836** | $584,591 | $548,640 |
| Change in - | | | |
| Base Revenues | **22,000** | 31,200 | - |
| Sales Growth | **7,040** | 16,557 | 10,254 |
| Weather | **(6,757)** | 9,497 | (5,699) |
| Fuel and other cost recovery | **11,055** | 23,991 | 31,396 |
| Retail—Current Year | **699,174** | 665,836 | 584,591 |
| Sales for resale-- | | | |
| Non-affiliates | **76,767** | 77,171 | 82,252 |
| Affiliates | **63,268** | 40,391 | 27,256 |
| Total sales for resale | **140,035** | 117,562 | 109,508 |
| Other operating revenues | **38,488** | 37,069 | 31,104 |
| Total operating revenues | **$877,697** | $820,467 | $725,203 |
| Percent change | **7.0%** | 13.1% | 1.5% |

Retail revenues increased $33.3 million, or 5.0 percent in 2003, $81.2 million, or 13.9 percent, in 2002, and $36.0 million, or 6.6 percent, in 2001. The significant factors driving these changes are shown in the table above. See Note 3 to the financial statements under "Retail Revenue Sharing Plan" for further information.

"Fuel and other cost recovery" includes: recovery provisions for fuel expenses and the energy component of purchased power costs; energy conservation costs, purchased power capacity costs, and environmental compliance costs. Annually, the Company seeks recovery of projected costs including any true-up amount from prior periods. Approved rates are implemented each January. Therefore, the recovery provisions generally equal the related expenses and have no material effect on net income. See Notes 1 and 3 to the financial statements under "Revenues and Regulatory Cost Recovery Clauses" and "Environmental Cost Recovery," respectively, for further information.

Sales for resale were $140.0 million in 2003, an increase of $22.5 million, or 19.1 percent, primarily due to increased energy sales for resale to affiliates reflecting greater availability of generation when compared to 2002. Sales for resale were $117.6 million in 2002, an increase of $8.1 million, or 7.4 percent, due to increased energy sales for resale to affiliates reflecting the commercial operation of Plant Smith Unit 3. Sales for resale were $109.5 million in 2001, a decrease of $24.4 million, or 18.2 percent, from 2000. These changes were primarily weather related. Sales to affiliated companies vary from year to year depending on demand and the availability and cost of generating resources at each company. These energy sales do not have a significant impact on earnings, since they are generally sold at marginal cost.

Revenues from sales to utilities outside the service area under long-term contracts consist of 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. The capacity and energy components under these long-term contracts were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | | (in thousands) | |
| Unit Power -- | | | |
| Capacity | **$18,598** | $19,898 | $19,472 |
| Energy | **30,894** | 28,565 | 27,579 |
| Total | **$49,492** | $48,463 | $47,051 |

Capacity revenues remained relatively unchanged during 2003, 2002, and 2001. Unit power from specific generating plants is currently being sold to Progress Energy FL, Florida Power & Light Company, and Jacksonville Electric Authority. Under these agreements, 211 megawatts of net dependable capacity were sold by the Company during 2003. No significant declines in the amount of capacity are scheduled until the termination of the contracts in 2010.

Other operating revenues for 2003 increased $1.4 million due primarily to an increase in franchise fees. Other operating revenues for 2002 increased $6.0 million primarily due to a $3.3 million increase in franchise fees, a $1.7 million settlement related to a purchased power agreement, and a $0.9 million increase in revenues from the transmission of electricity to others.

***Energy Sales***

Kilowatt-hour (KWH) sales for 2003 and the percent changes by year were as follows:

| | **KWH** | Percent Change | | |
|---|---|---|---|---|
| | **2003** | **2003** | 2002 | 2001 |
| | **(millions)** | | | |
| Residential | **5,101** | **(0.8)%** | 9.1% | (1.5)% |
| Commercial | **3,614** | **1.7** | 4.0 | 1.2 |
| Industrial | **2,147** | **4.5** | 1.8 | 4.8 |
| Other | **23** | **4.7** | - | 10.5 |
| Total retail | **10,885** | **1.0** | 5.9 | 0.6 |
| Sales for resale | | | | |
| Non-affiliates | **2,504** | **16.1** | 3.1 | 22.8 |
| Affiliates | **2,439** | **41.8** | 78.4 | (49.8) |
| Total | **15,828** | **8.0** | 10.7 | (3.7) |

Residential sales decreased 0.8 percent in 2003 primarily due to milder summer weather, when compared to 2002. In 2002, residential sales increased 9.1 percent over 2001 primarily due to more extreme summer and winter weather combined with increased summer sales along the coastal regions. Residential sales decreased 1.5 percent in 2001 primarily due to milder summer and winter weather, when compared to 2000. Residential sales are expected to increase just under 1 percent annually over the next five years, given normal weather conditions.

Commercial sales increased 1.7 percent in 2003, when compared to 2002, primarily due to increased sales along the coastal regions, in spite of milder summer weather. In 2002, commercial sales increased 4.0 percent primarily due to more extreme weather when compared to 2001.

Commercial sales increased 1.2 percent in 2001, when compared to 2000, primarily due to increased sales along the coastal regions, in spite of milder summer weather. Commercial sales are expected to increase just under 1 percent annually over the next five years, given normal weather conditions.

Industrial sales increased 4.5 percent in 2003, when compared to 2002, primarily due to additional sales resulting from high natural gas prices. In 2002, industrial sales increased 1.8 percent, when compared to 2001, primarily due to normal customer growth. Industrial sales increased 4.8 percent in 2001, when compared to 2000, primarily due to increased sales to Real Time Pricing customers. Industrial sales are expected to increase approximately 1 percent annually over the next five years.

An increase in energy sales for resale to non-affiliates of 16.1 percent in 2003, 3.1 percent in 2002 and 22.8 percent in 2001 is primarily related to unit power sales under long-term contracts to other Florida utilities and bulk power sales under short-term contracts to other non-affiliated utilities. Fluctuations in oil and natural gas prices, which are the primary fuel sources for the unit power sales customers, influence changes in sales. However, these fluctuations in energy sales under long-term contracts have minimal effects on earnings because the energy is generally sold at variable cost. Energy sales to affiliated companies vary from year to year depending on demand and availability and cost of generating resources at each company.

*Expenses*

Total operating expenses in 2003 increased $51.4 million, or 7.6 percent, over the amount recorded in 2002 due primarily to higher fuel and operating costs. In 2002 total operating expenses increased $67.0 million, or 11 percent, compared to 2001 due primarily to higher fuel and maintenance costs. In 2001, total operating expenses increased $13.5 million, or 2.3 percent, from the prior year due primarily to higher purchased power expenses and maintenance expenses.

In 2003, other operation and maintenance expense increased $11 million, or 5.3 percent, primarily due to an increase of $1.6 million of customer accounts expense and an increase of $7.1 million in the accumulated provision for property damage. See Note 1 to the financial statements under "Provision for Property Damage" for additional information. In 2002, other operation and maintenance expense increased $23 million, or 12.7 percent, mainly due to scheduled generating plant maintenance. In 2001, other operation and maintenance increased by $5 million, or 2.4 percent, primarily due to increased scheduled maintenance for generating plant and transmission and distribution facilities.

Fuel costs constitute the single largest expense for the Company. The mix of fuel sources for generation of electricity is determined primarily by demand, the unit cost of fuel consumed, and the availability of generation resources.

In 2003, fuel expense increased $42.6 million, or 15.6 percent, when compared to 2002 due primarily to increased generation to meet the demand for energy and higher average cost of fuel. Fuel expense in 2002, when compared to 2001, increased $73.2 million, or 36.5 percent, due primarily to the commercial operation of Plant Smith Unit 3 beginning in April 2002. In 2001, fuel expenses decreased $15.1 million, or 7.0 percent, when compared to 2000 as a result of decreased generation.

The amount and sources of generation, the average cost of fuel per net kilowatt-hour generated, and the average costs of purchased power were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Total generation (millions of kilowatt-hours) | **14,988** | 13,142 | 11,423 |
| Sources of generation (percent) | | | |
| Coal | **86.9** | 81.8 | 99.0 |
| Gas | **13.1** | 18.2 | 1.0 |
| Average cost of fuel per net kilowatt-hour generated (cents)-- | **2.11** | 2.08 | 1.76 |
| Average cost of purchase power per net kilowatt-hour | **3.07** | 2.71 | 4.29 |

Purchased power expense decreased in 2003 $12.3 million, or 19.5 percent, primarily due to a decrease in the volume of energy needed to meet the Company's load requirements. Purchased power expense decreased in 2002 by $43.2 million, or 40.7 percent, due primarily to the additional generating capacity from the Company's Plant Smith Unit 3. Purchased power expense for 2001 increased by $23.8 million, or 28.8 percent, due primarily to an increase in purchased power from affiliate companies.

Fuel costs and purchases of energy will vary from year to year depending on demand and the availability and cost of generating resources. These costs do not have a significant impact on earnings, since they are generally offset by revenues through the Company's fuel cost recovery mechanism.

Depreciation and amortization expense increased $5.3 million, or 6.9 percent, in 2003 primarily due to the commercial operation of Plant Smith Unit 3 beginning in April 2002 and the amortization of a regulatory asset. Depreciation and amortization expense increased $8.8 million, or 12.9 percent, in 2002 primarily due to the commercial operation of Plant Smith Unit 3 beginning in April 2002. Depreciation and amortization expense increased $1.3 million, or 2.0 percent, in 2001 due to an increase in depreciable property and the amortization of a regulatory asset.

Allowance for equity funds used during construction decreased $2.3 million, or 76.1 percent, in 2003 and $2.4 million, or 44.5 percent, in 2002 primarily due to the completion of Plant Smith Unit 3 beginning in April 2002. See Note 1 to the financial statements under "Allowance for Funds Used During Construction and Interest Capitalized" for further information.

Interest expense decreased $0.4 million, or 1.2 percent, in 2003 due primarily to the refinancing of $173 million of senior notes and pollution control bonds at more favorable interest rates. Interest expense increased $6.4 million, or 25.6 percent, in 2002 due primarily to the issuance of $180 million of senior notes in 2001 and 2002 that were primarily used to finance the construction of Plant Smith Unit 3. In 2001, interest expense decreased $3.1 million, or 10.9 percent, due primarily to higher allowance for debt funds used during construction related to the Company's Plant Smith Unit 3, as well as lower interest rates on notes payable and variable rate pollution control bonds.

## Effects of Inflation

The Company is subject to rate regulation based on the recovery of historical costs. In addition, the income tax laws are also based on historical costs. Therefore, inflation creates an economic loss because the Company is recovering its cost of investments in dollars that have less purchasing power. While the inflation rate has been relatively low in recent years, it continues to have an adverse effect on the Company because of the large investment in utility plant with long economic lives. Conventional accounting for historical cost does not recognize this economic loss nor the partially offsetting gain that arises through financing facilities with fixed-money obligations, such as long-term debt and preferred securities. Any recognition of inflation by regulatory authorities is reflected in the rate of return allowed in the Company's approved electric rates.

## Future Earnings Potential

### *General*

The results of operations for the past three years are not necessarily indicative of future earnings potential. The level of the Company's future earnings depends on numerous factors. These factors include the ability of the Company to maintain a stable regulatory environment, to achieve energy sales growth while containing costs, and to recover costs related to growing demand and increasingly stricter environmental standards. Future earnings in the near term will depend, in part, upon growth in 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 in the Company's service area.

### *Industry Restructuring*

The Company operates as a vertically integrated utility providing electricity to customers within its traditional service area located in northwest Florida and to wholesale customers in the Southeast. Prices for electricity provided by the Company to retail customers are set by the FPSC under cost–based regulatory principles. Retail rates and earnings are reviewed and adjusted periodically within certain limitations based on earned return on equity.

The electric utility industry in the United States is continuing to evolve as a result of regulatory and competitive factors. Among the early primary agents of change was the Energy Policy Act of 1992 (Energy Act). The Energy Act allowed independent power producers to access a utility's transmission network and sell electricity to other utilities.

Although the Energy Act does not provide for retail customer access, it was a major catalyst for restructuring and consolidations that took place within the utility industry. Numerous federal and state initiatives

that promote wholesale and retail competition are in varying stages. Among other things, these initiatives allow retail customers in some states to choose their electricity provider. Some states have approved initiatives that result in a separation of the ownership and/or operation of generating facilities from the ownership and/or operation of transmission and distribution facilities. While various restructuring and competition initiatives have been discussed in Florida, none have been enacted. Enactment could require numerous issues to be resolved, including significant ones relating to recovery of any stranded investments, full cost recovery of energy produced, and other issues related to the energy crisis that occurred in California, as well as the August 2003 power outage in the Northeast.

In 2000, Florida's Governor appointed a study commission to look at the state's electric industry, studying issues including current and future reliability of electric and natural gas supply, retail and wholesale competition, environmental impacts of energy supply, conservation, and tax issues. The study commission's final report, entitled "Florida...Energy Wise," was presented in December 2001 to the Governor and the Legislature. The five key areas addressed by the report were Energy Efficiency, Adequate and Reliable Supply of Energy, Improvement of Energy Infrastructure, Preservation of the Environment, and Utilization of New Technologies and Renewable Resources. Changes were recommended within the wholesale energy market only. For changes to occur, legislation will have to be drafted and voted into law by the Florida Legislature. No legislation of this type has been voted on to date. The effects of any proposed changes cannot presently be determined but could have a material effect on the Company's financial condition and results of operations.

Since 2001, merchant energy companies and traditional electric utilities with significant energy marketing and trading activities have come under severe financial pressures. Many of these companies have completely exited or drastically reduced all energy marketing and trading activities and sold foreign and domestic electric infrastructure assets. The Company has not experienced any material adverse financial impact regarding its limited energy trading operations through Southern Company Services (SCS) and its recent generating capacity additions.

Continuing to be a low-cost producer could provide opportunities to increase the size and profitability of the electricity sales business in markets that evolve with changing regulation and competition. Conversely, future regulatory changes could adversely affect the Company's growth, and if the Company does not remain a low-cost producer and provide quality service, then energy sales growth could be limited, and this could significantly erode earnings.

### *Environmental Matters*

*New Source Review Actions*

In November 1999, the Environmental Protection Agency (EPA) brought a civil action in the U.S. District Court in Georgia against Alabama Power, Georgia Power, and SCS. The complaint alleged violations of the New Source Review (NSR) provisions of the Clean Air Act with respect to five coal-fired generating facilities in Alabama and Georgia. The civil action requested penalties and injunctive relief, including an order requiring the installation of the best available control technology at the affected units. The EPA concurrently issued to the retail operating companies notices of violation relating to ten generating facilities, which included the five facilities mentioned previously and the Company's Plants Crist and Scherer. In early 2000, the EPA filed a motion to amend its complaint to add the violations alleged in its notices of violation and to add the Company, Mississippi Power, and Savannah Electric as defendants. However, in March 2001, the court denied the motion with respect to the Company and Mississippi Power based on lack of jurisdiction, and the EPA has not refiled. See Note 3 to the financial statements under "New Source Review Actions" for additional information.

In December 2002 and October 2003, the EPA issued final revisions to its NSR regulations under the Clean Air Act. The December 2002 revisions included changes to the regulatory exclusions and the methods of calculating emissions increases. The October 2003 regulations clarified the scope of the existing Routine Maintenance, Repair, and Replacement exclusion. A coalition of states and environmental organizations filed petitions for review of these revisions with the U.S. Court of Appeals for the District of Columbia Circuit. On December 24, 2003, the Court of Appeals granted a stay of the October 2003 revisions pending its review of the rules and ordered that its review be conducted on an expedited basis. In January 2004, the Bush Administration announced that it would continue to enforce the existing rules until the courts resolve

legal challenges to the EPA's revised NSR regulations. In any event, the final regulations must be adopted by the state of Florida in order to apply to the Company's facilities. The effect of these final regulations and the related legal challenges cannot be determined at this time.

The Company believes that it has complied with applicable laws and the EPA's regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes civil penalties of up to $27,500 per day, per violation at each generating unit. Prior to January 30, 1997, the penalty was $25,000 per day. An adverse outcome of this matter could require substantial capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. This could affect future results of operations, cash flows, and possibly financial condition if such costs are not recovered through regulated rates.

*Environmental Statutes and Regulations*

The Company's operations are subject to extensive regulation by state and federal environmental agencies under a variety of statutes and regulations governing environmental media, including air, water, and land resources. Compliance with these environmental requirements will involve significant costs -- both capital and operating -- a major portion of which is expected to be recovered through existing ratemaking provisions. Environmental costs that are known and estimable at this time are included in capital expenditures discussed under "Capital Requirements and Contractual Obligations." The Florida Legislature has adopted legislation that allows a utility to petition the FPSC for specific recovery of prudent environmental compliance costs that are not being recovered through base rates or any other recovery mechanism. The legislation is discussed in Note 3 to the financial statements under "Environmental Cost Recovery." Substantially all of the costs for the Clean Air Act and other new environmental legislation discussed below are expected to be recovered through the Environmental Cost Recovery Clause. There is no assurance however, that all such costs will, in fact, be recovered.

Compliance with the federal Clean Air Act and resulting regulations has been and will continue to be a significant focus for the Company. The Title IV acid rain provisions of the Clean Air Act, for example, required significant reductions in sulfur dioxide and nitrogen oxide emissions. Title IV compliance was effective in 2000 and associated construction expenditures totaled approximately $42 million for the Company.

In July 1997, the EPA revised the national ambient air quality standards for ozone and particulate matter. These revisions made the standards significantly more stringent. In the subsequent litigation of these standards, the U.S. Supreme Court found the EPA's implementation program for the new eight-hour ozone standard unlawful and remanded it to the EPA for further rulemaking. During 2003, the EPA proposed implementation rules designed to address the court's concerns.

Based on recommendations from the State, the EPA is expected to designate areas of Florida as attainment or nonattainment with the new eight-hour ozone and particulate standards in April 2004 and with the new fine particulate matter standard by the end of 2004. In August 2002, the Company entered into an agreement with the Florida Department of Environmental Protection (FDEP) calling for nitrogen oxide (NOx) emission reductions at Plant Crist to help ensure attainment of the new standards in the Pensacola area. Under the agreement, the Company will install Selective Catalytic Reduction controls and a new precipitator on Plant Crist Unit 7 by 2005. In addition, the Company agreed to retire Plant Crist Unit 1 in 2003 and Units 2 and 3 by 2006. The conditions of the agreement will be fully implemented by 2006 at a cost of approximately $133 million, of which $99 million remains to be spent. Costs for implementation of the agreement have been approved for recovery through the Environmental Cost Recovery Clause.

In January 2004, the EPA issued a proposed Interstate Air Quality Rule to address interstate transport of ozone and fine particles. This proposed rule would require additional year-round sulfur dioxide and nitrogen oxide emission reductions from power plants in the eastern United States in two phases – in 2010 and 2015. The EPA currently plans to finalize this rule by 2005. If finalized, the rule could modify or supplant other State Implementation Plan (SIP) requirements for attainment of the fine particulate matter standard and the eight-hour ozone standard. The impact of this rule on the Company will depend upon the specific requirements of the final rule and cannot be determined at this time.

Further reductions in sulfur dioxide and nitrogen oxides could also be required under the EPA's Regional Haze rules. The Regional Haze rules require states to establish Best Available Retrofit Technology (BART) standards for certain sources that contribute to regional haze. The Company has a number of plants that could be

subject to these rules. The EPA's Regional Haze program calls for states to submit SIPs in 2007. The SIPs must contain emission reduction strategies for implementing BART and achieving progress toward the Clean Air Act's visibility improvement goal. In 2002, however, the U.S. Court of Appeals for the District of Columbia Circuit vacated and remanded the BART provisions of the federal Regional Haze rules to the EPA for further rulemaking. The EPA has entered into an agreement that requires proposed revised rules in April 2004 and final rules in 2005. Because new BART rules have not been developed and state visibility assessments for progress are only beginning, it is not possible to determine the effect of these rules on the Company at this time.

The EPA's Compliance Assurance Monitoring (CAM) regulations under Title V of the Clean Air Act require that monitoring be performed to ensure compliance with emissions limitations on an ongoing basis. In 2004 and 2005, a number of the Company's plants will likely become subject to CAM requirements for at least one pollutant, in most cases, particulate matter. The Company is in the process of developing CAM plans. Because the plans are still under development, the Company cannot determine the costs associated with implementation of the CAM regulations at this time. Actual ongoing monitoring costs are expensed as incurred and are not material for any year presented.

In January 2004, the EPA issued proposed rules regulating mercury emissions from electric utility boilers. The proposal solicits comments on two possible approaches for the new regulations – a Maximum Achievable Control Technology approach and a cap-and-trade approach. Either approach would require significant reductions in mercury emissions from company facilities. The regulations are scheduled to be finalized by the end of 2004, and compliance could be required as early as 2007. Because the regulations have not been finalized, the impact on the Company cannot be determined at this time.

Several major bills to amend the Clean Air Act to impose more stringent emissions limitations on power plants have been proposed by Congress. Three of these, the Bush Administration's Clear Skies Act, the Clean Power Act of 2003, and the Clean Air Planning Act of 2003, propose to further limit power plant emissions of sulfur dioxide, nitrogen oxides, and mercury. The latter two bills also propose to limit emissions of carbon dioxide. The cost impacts of such legislation would depend upon the specific requirements enacted and cannot be determined at this time.

Domestic efforts to limit greenhouse gas emissions have been spurred by international discussions surrounding the Framework Convention on Climate Change and specifically the Kyoto Protocol, which proposes international constraints on the emissions of greenhouse gases. The Bush Administration does not support U.S. ratification of the Kyoto Protocol or other mandatory carbon dioxide reduction legislation and has instead announced a new voluntary climate initiative, known as Climate VISION, which seeks an 18 percent reduction by 2012 in the rate of greenhouse gas emissions relative to the dollar value of the U.S. economy. Through Southern Company, the Company is involved in a voluntary electric utility industry sector climate change initiative in partnership with the government. The electric utility sector has pledged to reduce its greenhouse gas intensity 3 to 5 percent over the next decade and is in the process of developing a memorandum of understanding with the Department of Energy (DOE) to cover this voluntary program.

The Company must comply with other environmental laws and regulations that cover the handling and disposal of waste and releases of hazardous substances. Under these various laws and regulations, the Company could incur substantial costs to clean up properties. The Company conducts studies to determine the extent of any required cleanup and has recognized in its financial statements the costs for clean up and ongoing monitoring of known sites. Amounts for clean up and ongoing monitoring costs were not material for any year presented. The Company may be liable for some or all required cleanup costs for additional sites that may require environmental remediation.

Under the Clean Water Act, the EPA has been developing new rules aimed at reducing impingement and entrainment of fish and fish larvae at power plants cooling water intake structures. On February 16, 2004, the EPA finalized these rules. These rules will require biological studies and, perhaps, retrofits to some intake structures at existing power plants. The impact of these new rules will depend on the results of studies and analyses performed as part of the rules' implementation.

In addition, under the Clean Water Act, the EPA and the FDEP are developing total maximum daily loads (TMDLs) for certain impaired waters. Establishment of maximum loads by the EPA or the FDEP may result in lowering permit limits for various pollutants and a requirement to take additional measures to control non-point source pollution (e.g. storm water runoff) at facilities that discharge into

waters for which TMDLs are established. Because the effect on the Company will depend on the actual TMDLs and permit limitations established by the implementing agency, it is not possible to determine the effect on the Company at this time.

Several major pieces of environmental legislation are periodically considered for reauthorization or amendment by Congress. These include: the Clean Air Act; the Clean Water Act; the Comprehensive Environmental Response, Compensation, and Liability Act; the Resource Conservation and Recovery Act; the Toxic Substances Control Act; the Emergency Planning & Community Right-to-Know Act; and the Endangered Species Act.

Compliance with possible additional federal or state legislation or regulations related to global climate change, electromagnetic fields or other environmental and health concerns could also significantly affect the Company. The impact of any new legislation, changes to existing legislation, or environmental regulations could affect many areas of the Company's operations. The full impact of any such changes cannot, however, be determined at this time.

***FERC Matters***

*Transmission*

In December 1999, the Federal Energy Regulatory Commission (FERC) issued its final rule (Order 2000) on Regional Transmission Organizations (RTOs). Order 2000 encouraged utilities owning transmission systems to form RTOs on a voluntary basis. Southern Company and its retail operating companies, including the Company, worked with a number of utilities in the Southeast to develop a for-profit RTO known as SeTrans. In 2002, the sponsors of SeTrans established a Stakeholder Advisory Committee to provide input into the development of the RTO from other sectors of the electric industry, as well as consumers. During the development of SeTrans, state regulatory authorities expressed concern over certain aspects of the FERC's policies regarding RTOs. In December 2003, the SeTrans sponsors announced that they would suspend work on SeTrans because the regulated utility participants, including the Company, had determined that they were highly unlikely to obtain support of both federal and state regulatory authorities. Any impact of the FERC's rule on the Company will depend on the regulatory reaction to the suspension of SeTrans and future developments, which cannot now be determined.

In July 2002, the FERC issued a notice of proposed rulemaking regarding open access transmission service and standard electricity market design. The proposal, if adopted, would among other things: (1) require transmission assets of jurisdictional utilities to be operated by an independent entity; (2) establish a standard market design; (3) establish a single type of transmission service that applies to all customers; (4) assert jurisdiction over the transmission component of bundled retail service; (5) establish a generation reserve margin; (6) establish bid caps for day ahead and spot energy markets; and (7) revise the FERC policy on the pricing of transmission expansions. Comments on the proposal were submitted by many interested parties, including Southern Company, and the FERC has indicated that it has revised certain aspects of the proposal in response to public comments. Proposed energy legislation would prohibit the FERC from issuing the final rule before October 31, 2006, and from making any final rule effective before December 31, 2006. That legislation has been approved by the House of Representatives but remains pending before the Senate. Passage of the legislation now appears in doubt. It is uncertain whether in the absence of legislation the FERC will move forward with any part or all of the proposed rule. Any impact of this proposal on the Company will depend on the form in which the final rule may be ultimately adopted. However, the Company's financial statements could be adversely affected by changes in the transmission regulatory structure in its regional power market.

*Market-Based Rate Authority*

The Company has obtained FERC approval to sell power to nonaffiliates at market-based prices under specific contracts. Through SCS, as agent, the Company also has the FERC authority to make short-term opportunity sales at market rates. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate. In November 2001, the FERC modified the test it uses to consider utilities' applications to charge market-based rates and adopted a new test called the Supply Margin Assessment (SMA). The FERC applied the SMA to several utilities, including Southern Company's retail operating companies, and found them to be "pivotal suppliers" in their service areas. SCS, on behalf of the Company and the other retail operating companies, sought rehearing of the FERC order, and the FERC delayed the

implementation of certain mitigation measures. SCS, on behalf of the Company and the other retail operating companies, submitted comments to the FERC in 2002 regarding these issues. In December 2003, the FERC issued a staff paper discussing alternatives and held a technical conference in January 2004. The Company anticipates that the FERC will address the requests for rehearing in the near future. Regardless of the outcome of the SMA proposal, the FERC retains the ability to modify or withdraw the authorization for any seller to sell at market-based rates if it determines that the underlying conditions for having such authority are no longer applicable. The final outcome of this matter will depend on the form in which the SMA test and mitigation measures rules may be ultimately adopted and cannot be determined at this time.

### *Other Matters*

In accordance with Financial Accounting Standards Board (FASB) Statement No. 87, Employers' Accounting for Pensions, the Company recorded non-cash pension income, before tax, of approximately $4.9 million, $5.6 million, and $5.9 million in 2003, 2002, and 2001, respectively. Future pension income is dependent on several factors including trust earnings and changes to the plan. The decline in pension income is expected to continue and become an expense as early as 2006. Postretirement benefit costs for the Company were $4.9 million, $4.5 million, and $4.5 million in 2003, 2002, and 2001, respectively, and are expected to continue to trend upward. A portion of pension income and postretirement benefit costs is capitalized based on construction-related labor charges. Pension income or expense and postretirement benefit costs are components of the regulated rates and generally do not have a long-term effect on net income. For more information regarding pension and postretirement benefits, see Note 2 to the financial statements.

On December 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act). The Medicare Act introduces a prescription drug benefit for Medicare-eligible retirees starting in 2006, as well as a federal subsidy to plan sponsors like the Company that provide prescription drug benefits. In accordance with FASB Staff Position No. 106-1, the Company has elected to defer recognizing the effects of the Medicare Act for its postretirement plans under FASB Statement No. 106, Employers' Accounting for Postretirement Benefits Other than Pension until authoritative guidance on accounting for the federal subsidy is issued or until a significant event occurs that would require remeasurement of the plans' assets and obligations. The Company anticipates that the benefits it pays after 2006 will be lower as a result of the Medicare Act; however, the retiree medical obligations and costs reported in Note 2 to the financial statements do not reflect these changes. The final accounting guidance could require changes to previously reported information.

In May 2002, the FPSC approved a retail base rate increase of $53.2 million effective June 7, 2002, the majority of which was related to Plant Smith Unit 3, which was placed in service beginning in April 2002. See Note 3 to the financial statements for additional information about these and other regulatory matters.

The FPSC has approved a revised rule for investor-owned utilities engaging in power plant construction subject to the Florida Electrical Power Plant Siting Act (PPSA) to govern the process for selecting such generation projects. This new rule is aimed at creating a more transparent process accessible to a greater number of bidders. The revisions require a utility that intends to build a project subject to the PPSA to first issue a request for proposals (RFP) that meets the requirements of the revised rule, including a more detailed description of the methodology and criteria that will be used to evaluate the response. Also, respondents that have not been eliminated from further consideration must be given an opportunity to revise their proposals if the utility intends to revise its cost estimates on which the RFP was based. The revised rule also provides a mechanism for expedited dispute resolution and places restrictions on the level of costs a utility may recover if, at the conclusion of the RFP process, the FPSC certifies the utility's own self-build option as the most cost effective generation alternative identified through the process. The new rule was made effective June 17, 2003.

The FPSC, in collaboration with the FDEP, was directed by the Florida Legislature to prepare a report on renewable energy. A final report was prepared by the FPSC and the FDEP in January 2003. This report describes various renewable and green energy options. The report provided the FPSC, the FDEP, and the Florida Legislature with information on current and potential technologies, costs, feasibility, and status of current renewable technologies within the State of Florida. The report does not provide any formal policy recommendations with respect to renewable energy but is intended to provide the Legislature and policymakers a sound starting point if they consider new legislation in this

area. While the Company is actively pursuing a renewable energy portfolio that may be incorporated into its offering to its customers, the pursuit of a mandatory renewable portfolio standard or a benefits charge that could not be passed on to customers by the state could add additional costs to the Company's operations and affect the Company's competitive position.

The Company is involved in various matters being litigated and regulatory matters that could affect future earnings. See Note 3 to the financial statements for information regarding material issues.

## ACCOUNTING POLICIES

### Application of Critical Accounting Policies and Estimates

The Company 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. In the application of these policies, certain estimates are made that may have a material impact on the Company's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. Senior management has discussed the development and selection of the critical accounting policies and estimates described below with the Controls and Compliance Committee of the Company's Board of Directors and the Audit Committee of Southern Company's Board of Directors.

#### *Electric Utility Regulation*

The Company is subject to retail regulation by the FPSC and wholesale regulation by the FERC. These regulatory agencies set the rates the Company is permitted to charge customers based on allowable costs. As a result, the Company applies FASB Statement No. 71, Accounting for the Effects of Certain Types of Regulation. Through the ratemaking process, the regulators may require the inclusion of costs or revenues in periods different than when they would be recognized by a non-regulated company. This treatment may result in the deferral of expenses and the recording of related regulatory assets based on anticipated future recovery through rates or the deferral of gains or creation of liabilities and the recording of related regulatory liabilities. The application of Statement No. 71 has a further effect on the Company's financial statements as a result of the estimates of allowable costs used in the ratemaking process. These estimates may differ from those actually incurred by the Company; therefore, the accounting estimates inherent in specific costs such as depreciation and pension and post-retirement benefits have less of a direct impact on the Company's results of operations than they would on a non-regulated company.

As reflected in Note 1 to the financial statements, significant regulatory assets and liabilities have been recorded. Management reviews the ultimate recoverability of these regulatory assets and liabilities based on applicable regulatory guidelines. However, adverse legislation and judicial or regulatory actions could materially impact the amounts of such regulatory assets and liabilities and could adversely impact the Company's financial statements.

#### *Contingent Obligations*

The Company is subject to a number of federal and state laws and regulations, as well as other factors and conditions that potentially subject it to environmental, litigation, income tax, and other risks. See "Future Earnings Potential" and Note 3 to the financial statements for more information regarding certain of these contingencies. The Company periodically evaluates its exposure to such risks and records reserves for those matters where a loss is considered probable and reasonably estimable in accordance with generally accepted accounting principles. The adequacy of reserves can be significantly affected by external events or conditions that can be unpredictable; thus, the ultimate outcome of such matters could materially affect the Company's financial statements. These events or conditions include the following:

- Changes in existing state or federal regulation by governmental authorities having jurisdiction over air quality, water quality, control of toxic substances, hazardous and solid wastes, and other environmental matters.
- Changes in existing income tax regulations or changes in Internal Revenue Service interpretations of existing regulations.
- Identification of additional sites that require environmental remediation or the filing of other complaints in which the Company may be asserted to be a potentially responsible party.
- Identification and evaluation of other potential lawsuits or complaints in which the Company may be named as a defendant.

- Resolution or progression of existing matters through the legislative process, the court systems, or the EPA.

### New Accounting Standards

Prior to January 2003, the Company accrued for the ultimate cost of retiring most long-lived assets over the life of the related asset through depreciation expense. FASB Statement No. 143, Accounting for Asset Retirement Obligations, established new accounting and reporting standards for legal obligations associated with the ultimate cost of retiring long-lived assets. The present value of the ultimate costs for an asset's future retirement is recorded in the period in which the liability is incurred. The cost is capitalized as part of the related long-lived asset and depreciated over the asset's useful life. For more information regarding the impact of adopting this standard effective January 1, 2003, see Note 1 to the financial statements under "Asset Retirement Obligations and Other Costs of Removal."

FASB Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which further amends and clarifies the accounting and reporting for derivative instruments, became effective generally for financial instruments entered into or modified after June 30, 2003. Current interpretations of Statement No. 149 indicate that certain electricity forward transactions subject to unplanned netting -- including those typically referred to as "book outs" -- may only qualify as cash flow hedges if an entity can demonstrate that physical delivery or receipt of power occurred. The Company's forward electricity contracts continue to be exempt from fair value accounting requirements or to qualify as cash flow hedges. The implementation of Statement No. 149 did not have a material effect on the Company's financial statements.

In July 2003, the Emerging Issues Task Force (EITF) of FASB issued EITF No. 03-11, which became effective on October 1, 2003. The standard addresses the reporting of realized gains and losses on derivative instruments and is being interpreted to require book outs to be recorded on a net basis in operating revenues. Adoption of this standard did not have a material impact on the Company's financial statements.

FASB Interpretation No. 46, Consolidation of Variable Interest Entities, which was originally issued in January 2003, requires the primary beneficiary of a variable interest entity to consolidate the related assets and liabilities. In December 2003, the FASB revised Interpretation No. 46 and deferred the effective date until March 31, 2004 for interests held in variable interest entities other than special purpose entities.

Current analysis indicates that the trusts established by the Company to issue preferred securities are variable interest entities under Interpretation No. 46, and that the Company is not the primary beneficiary of these trusts. If this conclusion is finalized, effective March 31, 2004, the trust assets and liabilities--including the preferred securities issued by the trusts--will be deconsolidated. The investments in the trusts and the loans from the trusts to the Company will be reflected as equity method investments and as long-term notes payable to affiliates, respectively, on the Balance Sheets. Based on December 31, 2003 values, this treatment would result in an increase of approximately $2.2 million to both total assets and total liabilities. See Note 6 to the financial statements under "Mandatorily Redeemable Preferred Securities" for additional information.

In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, which requires classification of certain financial instruments within its scope, including shares that are mandatorily redeemable, as liabilities. Statement No. 150 was effective for financial instruments entered into or modified after May 31, 2003, and otherwise on July 1, 2003. In accordance with Statement No. 150, mandatorily redeemable preferred securities are reflected on the Balance Sheets as liabilities. The adoption of Statement No. 150 had no impact on the Statements of Income and Cash Flows.

## FINANCIAL CONDITION AND LIQUIDITY

### Overview

The Company's financial condition continues to be strong. The Company operated at high levels of reliability while achieving industry-leading customer satisfaction levels and continuing to have retail prices below the national average.

The Company's ratio of common equity to total capitalization -- including short-term debt -- was 45.3 percent in 2003, 44.0 percent in 2002, and 42.8 percent in 2001. See Note 6 to the financial statements for additional information.

During 2003, gross property additions were $99 million. Funds for the Company's property additions were provided by operating activities, capital contributions, and other financing activities. See the Statements of Cash Flows for additional information.

**Sources of Capital**

The Company plans to obtain the funds required for construction and other purposes, including compliance with environmental regulations, from sources similar to those used in the past. These sources include operating cash flow, the issuance of unsecured debt and preferred securities, in addition to pollution control revenue bonds issued for the Company's benefit by public authorities. However, the type and timing of any future financings—if needed—will depend on market conditions and regulatory approval.

The Company has no restrictions on the amounts of unsecured indebtedness it may incur. However, the Company is required to meet certain coverage requirements specified in its mortgage indenture and corporate charter to issue new first mortgage bonds and preferred stock. The Company's coverage ratios are high enough to permit, at present interest rate levels, any foreseeable security sales. The amount of securities which the Company will be permitted to issue in the future will depend upon market conditions and other factors prevailing at that time.

The Company obtains financing separately without credit support from any affiliate. The Southern Company system does not maintain a centralized cash or money pool. Therefore, funds of the Company are not commingled with funds of any other company. In accordance with the Public Utility Holding Company Act, most loans between affiliated companies must be approved in advance by the Securities and Exchange Commission (SEC).

To meet short-term cash needs and contingencies, the Company has various internal and external sources of liquidity. At the beginning of 2004, the Company had approximately $2.5 million of cash and cash equivalents, along with $56.0 million of unused committed lines of credit with banks to meet its short-term cash needs. In addition, the Company has substantial cash flow from operating activities.

At the beginning of 2004, the Company had used none of its available credit arrangements. Bank credit arrangements are as follows:

| | | Expires | |
|---|---|---|---|
| Total | Unused | 2004 | 2005 & beyond |
| | (in millions) | | |
| **$56.0** | **$56.0** | **$56.0** | **$-** |

See Note 6 to the financial statements under "Bank Credit Arrangements" for additional information.

The Company may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper and extendible commercial notes at the request and for the benefit of the Company and the other Southern Company retail operating companies. Proceeds from such issuances for the benefit of the Company are loaned directly to the Company and are not commingled with proceeds from such issuances for the benefit of any other operating company. There is no cross affiliate credit support. At December 31, 2003, the Company had outstanding $37.7 million of commercial paper.

**Financing Activities**

During 2003, the Company issued $286.6 million of long-term debt. The issuances were used to refund $173.3 million of long-term debt and $45 million of mandatorily redeemable preferred securities and to pay at maturity $60 million of senior notes due August 1, 2003. The remainder was used to reduce short-term debt.

**Credit Rating Risk**

The Company does not have any credit agreements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade.

**Market Price Risk**

Due to cost-based rate regulation, the Company has limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. To manage the volatility attributable to these exposures, the Company nets the exposures to take advantage of natural offsets and enters into various derivative transactions for the remaining exposures pursuant to the Company's policies in areas such as counterparty exposure and hedging practices. Company policy is that derivatives are to be used primarily for hedging purposes. Derivative positions are monitored using techniques that include market valuation and sensitivity analysis.

To mitigate exposure to interest rates, the Company has entered into an interest rate swap that was designated as a hedge. The weighted average interest rate on $145 million variable long-term debt that has not been hedged outstanding at December 31, 2003 was 1.2 percent. If the Company sustained a 100 basis point change in interest rates for all unhedged variable rate long-term debt, the change would affect annualized interest expense by approximately $1.4 million at December 31, 2003. The Company is not aware of any facts or circumstances that would significantly affect such exposures in the near term. For further information, see Notes 1 and 6 to the financial statements under "Financial Instruments."

The fair value of changes in energy-related derivative contracts and year-end valuations were as follows at December 31:

| | Changes in Fair Value | |
|---|---|---|
| | **2003** | 2002 |
| | (in thousands) | |
| Contracts beginning of year | **$ 2,326** | $(110) |
| Contracts realized or settled | **(5,098)** | 150 |
| New contracts at inception | **-** | - |
| Changes in valuation techniques | **-** | - |
| Current period changes | **5,265** | 2,296 |
| Contracts end of year | **$2,493** | $2,336 |

| Source of 2003 Year-End Valuation Prices | | | |
|---|---|---|---|
| | Total Fair Value | Maturity 2004 | 2005-2006 |
| | | (in thousands) | |
| Actively quoted | **$2,503** | **$2,671** | **$(168)** |
| External source | - | - | - |
| Models and other methods | - | - | - |
| Contracts end of year | **$2,503** | **$2,671** | **$(168)** |

Unrealized gains and losses from mark to market adjustments on derivative contracts related to the Company's fuel hedging programs are recorded as regulatory assets and liabilities. Realized gains and losses from these programs are included in fuel expense and are recovered through the Company's fuel cost recovery clause. Gains and losses on derivative contracts that are not designated as hedges are recognized in the Income Statement as incurred. For the years ended December 31, 2003, 2002, and 2001, these amounts were not material. At December 31, 2003, the fair value of derivative energy contracts was reflected in the financial statements as follows:

| | Amounts |
|---|---|
| | (in thousands) |
| Regulatory liabilities, net | **$2,501** |
| Other comprehensive income | **-** |
| Net income | **2** |
| Total fair value | **$2,503** |

Unrealized gains (losses) recognized in income in 2003 and 2002 were not material. The Company is exposed to market price risk in the event of nonperformance by counterparties to the derivative energy contracts. The Company's policy is to enter into agreements with counterparties that have investment grade credit ratings by Moody's and Standard & Poor's or with counterparties who have posted collateral to cover potential credit exposure. Therefore, the Company does not anticipate market risk exposure from nonperformance by the counterparties. For additional information, see Notes 1 and 6 to the financial statements under "Financial Instruments."

## Capital Requirements and Contractual Obligations

The construction program of the Company is currently estimated to be $166 million in 2004, $149 million in 2005, and $108 million in 2006. These amounts include $64 million, $31 million, and $4 million in 2004, 2005, and 2006, respectively, for capital expenditures related to environmental controls at Plant Crist as part of an agreement with the FDEP to reduce NOx emissions. The FPSC authorized the Company to recover the costs related to these environmental projects through the Environmental Cost Recovery Clause. Actual construction costs may vary from this estimate because of changes in such factors as the following: business conditions; environmental regulations; FERC rules and transmission regulations; load projections; the cost and efficiency of construction labor, equipment, and materials; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

The Company does not have any new generating capacity scheduled to be placed in service through 2006. Construction of new transmission and distribution facilities and capital improvements, including those needed to meet environmental standards for the Company's existing generation, transmission and distribution facilities are ongoing.

As discussed in Note 2 to the financial statements, the Company provides post retirement benefits to

substantially all employees and funds trusts to the extent required by the FERC.

Other funding requirements related to obligations associated with scheduled maturities of long-term debt and preferred securities, as well as the related interest and distributions, preferred stock dividends, leases, and other purchase commitments are as follows. See Notes 1, 6, and 7 to the financial statements for additional information.

| | 2004 | 2005-2006 | 2007-2008 | After 2008 | Total |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| Long-term debt and preferred securities[a] -- | | | | | |
| Principal | $ 50,000 | $37,075 | $ - | $ 557,555 | $ 644,630 |
| Interest and distributions | 30,903 | 54,756 | 50,238 | 508,841 | 644,738 |
| Preferred stock dividends[b] | 217 | 434 | 434 | - | 1,085 |
| Operating leases | 1,995 | 4,142 | 4,075 | 8,153 | 18,365 |
| Purchase commitments[c] -- | | | | | |
| Capital[d] | 166,020 | 257,173 | 256,391 | 947,638 | 1,627,222 |
| Coal | 132,117 | 155,224 | 96,433 | - | 383,774 |
| Natural gas[e] | 103,952 | 124,185 | 64,240 | 259,155 | 551,532 |
| Purchased power | 744 | 310 | - | - | 1,054 |
| Long-term service agreements | 7,031 | 14,834 | 15,789 | 46,538 | 84,192 |
| Postretirement benefit trusts[f] | 80 | 160 | - | - | 240 |
| Total | $493,059 | $648,293 | $487,600 | $2,327,880 | $3,956,832 |

(a) All amounts are reflected based on final maturity dates. The Company will continue to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit. Variable rate interest obligations are estimated based on rates as of January 1, 2004, as reflected in the Statements of Capitalization.

(b) Preferred stock does not mature; therefore, amounts are provided for the next five years only.

(c) The Company generally does not enter into non-cancelable commitments for other operation and maintenance expenditures. Total other operation and maintenance expenses for the last three years were $211 million, $200 million, and $177 million, respectively.

(d) The Company forecasts capital expenditures over a three-year period. Amounts represent current estimates of total expenditures. At December 31, 2003, significant purchase commitments were outstanding in connection with the construction program.

(e) Natural gas purchase commitments are based on various indices at the time of delivery. Amounts reflected have been estimated based on New York Mercantile future prices at December 31, 2003.

(f) The Company forecasts trust postretirement contributions over a three-year period. No contributions related to the Company's pension trust are currently expected during this period. See Note 2 to the financial statements for additional information related to the pension plans.

## Cautionary Statement Regarding Forward-Looking Information

The Company's 2003 Annual Report includes forward-looking statements in addition to historical information. Forward-looking information includes, among other things, statements concerning the estimated construction and other expenditures and the Company's projections for energy sales. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," or "continue" or the negative of these terms or other comparable terminology. The Company cautions that there are various important factors that could cause actual results to differ materially from those indicated in the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory change, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry and also changes in environmental, tax, and other laws and regulations to which the Company are subject, as well as changes in application of existing laws and regulations;
- current and future litigation, regulatory investigations, proceedings, or inquiries, including current IRS audits;
- the effects, extent, and timing of the entry of additional competition in the markets in which the Company operates;
- the impact of fluctuations in commodity prices, interest rates, and customer demand;
- available sources and costs of fuels;
- ability to control costs;
- investment performance of the Company's employee benefit plans;
- advances in technology;
- state and federal rate regulations and pending and future rate cases and negotiations;
- effects of and changes in political, legal, and economic conditions and developments in the United States, including the current soft economy;
- potential business strategies, including acquisitions or dispositions of assets, which cannot be assured to be completed or beneficial to the Company;
- the ability of counterparties of the Company to make payments as and when due;
- the ability to obtain new short- and long-term contracts with neighboring utilities:
- the direct or indirect effects on the Company's business resulting from the terrorist incidents on September 11, 2001, or any similar incidents or responses to such incidents;
- financial market conditions and the results of financing efforts, including the Company's credit ratings;
- the ability of the Company to obtain additional generating capacity at competitive prices;
- weather and other natural phenomena;
- the direct or indirect effects on the Company's business resulting from the August 2003 power outage in the Northeast, or any similar incidents;
- the effect of accounting pronouncements issued periodically by standard-setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed from time to time by the Company with the SEC.

## STATEMENTS OF INCOME

**For the Years Ended December 31, 2003, 2002, and 2001**
**Gulf Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | *(in thousands)* | |
| **Operating Revenues:** | | | |
| Retail sales | **$699,174** | $665,836 | $584,591 |
| Sales for resale -- | | | |
| Non-affiliates | **76,767** | 77,171 | 82,252 |
| Affiliates | **63,268** | 40,391 | 27,256 |
| Other revenues | **38,488** | 37,069 | 31,104 |
| Total operating revenues | **877,697** | 820,467 | 725,203 |
| **Operating Expenses:** | | | |
| Fuel | **316,503** | 273,860 | 200,633 |
| Purchased power -- | | | |
| Non-affiliates | **17,137** | 23,797 | 65,585 |
| Affiliates | **33,020** | 39,201 | 40,660 |
| Other operations | **140,166** | 124,654 | 117,394 |
| Maintenance | **70,534** | 75,421 | 60,193 |
| Depreciation and amortization | **82,322** | 77,014 | 68,218 |
| Taxes other than income taxes | **66,115** | 61,033 | 55,261 |
| Total operating expenses | **725,797** | 674,980 | 607,944 |
| **Operating Income** | **151,900** | 145,487 | 117,259 |
| **Other Income and (Expense):** | | | |
| Allowance for equity funds used during construction | **712** | 2,980 | 5,373 |
| Interest income | **888** | 572 | 1,258 |
| Interest expense, net of amounts capitalized | **(31,069)** | (31,452) | (25,034) |
| Distributions on mandatorily redeemable preferred securities | **(7,085)** | (8,524) | (6,477) |
| Other income (expense), net | **(5,242)** | (4,666) | (2,663) |
| Total other income and (expense) | **(41,796)** | (41,090) | (27,543) |
| **Earnings Before Income Taxes** | **110,104** | 104,397 | 89,716 |
| Income taxes | **40,877** | 37,144 | 31,260 |
| **Earnings Before Cumulative Effect of Accounting Change** | **69,227** | 67,253 | 58,456 |
| Cumulative effect of accounting change-- less income taxes of $42 thousand | **-** | - | 68 |
| **Net Income** | **69,227** | 67,253 | 58,524 |
| **Dividends on Preferred Stock** | **217** | 217 | 217 |
| **Net Income After Dividends on Preferred Stock** | **$ 69,010** | $ 67,036 | $ 58,307 |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CASH FLOWS

**For the Years Ended December 31, 2003, 2002, and 2001**
**Gulf Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | *(in thousands)* | |
| **Operating Activities:** | | | |
| Net income | **$ 69,227** | $ 67,253 | $ 58,524 |
| Adjustments to reconcile net income to net cash provided from operating activities -- | | | |
| Depreciation and amortization | **87,949** | 82,230 | 72,320 |
| Deferred income taxes | **2,303** | 9,619 | 3,394 |
| Pension, postretirement, and other employee benefits | **(717)** | (8,170) | 511 |
| Tax benefit of stock options | **1,768** | 1,043 | - |
| Settlement of interest rate hedge | **(3,266)** | - | - |
| Other, net | **6,829** | 5,756 | (2,315) |
| Changes in certain current assets and liabilities -- | | | |
| Receivables, net | **8,223** | (28,173) | 15,991 |
| Fossil fuel stock | **1,837** | 10,464 | (30,887) |
| Materials and supplies | **(1,091)** | (5,982) | 176 |
| Other current assets | **12,207** | (14,178) | (29,735) |
| Accounts payable | **(1,105)** | 19,168 | (7,289) |
| Accrued taxes | **(549)** | 1,117 | (4,560) |
| Other current liabilities | **7,576** | (4,251) | (2,627) |
| Net cash provided from operating activities | **191,191** | 135,896 | 73,503 |
| **Investing Activities:** | | | |
| Gross property additions | **(99,284)** | (106,624) | (274,668) |
| Cost of removal net of salvage | **(7,881)** | (7,978) | (5,620) |
| Other | **(4,440)** | (9,745) | 10,910 |
| Net cash used for investing activities | **(111,605)** | (124,347) | (269,378) |
| **Financing Activities:** | | | |
| Increase (decrease) in notes payable, net | **9,187** | (58,831) | 44,311 |
| Proceeds -- | | | |
| Pollution control bonds | **61,625** | 55,000 | - |
| Senior notes | **225,000** | 45,000 | 135,000 |
| Mandatorily redeemable preferred securities | **-** | 40,000 | 30,000 |
| Capital contributions from parent company | **13,315** | 42,766 | 72,484 |
| Redemptions -- | | | |
| First mortgage bonds | **-** | - | (30,000) |
| Pollution control bonds | **(61,625)** | (55,000) | - |
| Senior notes | **(151,757)** | (454) | (862) |
| Other long-term debt | **(20,000)** | - | - |
| Mandatorily redeemable preferred securities | **(85,000)** | - | - |
| Payment of preferred stock dividends | **(217)** | (217) | (217) |
| Payment of common stock dividends | **(70,200)** | (65,500) | (53,275) |
| Other | **(10,644)** | (3,279) | (3,703) |
| Net cash provided from (used for) financing activities | **(90,316)** | (515) | 193,738 |
| **Net Change in Cash and Cash Equivalents** | **(10,730)** | 11,034 | (2,137) |
| **Cash and Cash Equivalents at Beginning of Period** | **13,278** | 2,244 | 4,381 |
| **Cash and Cash Equivalents at End of Period** | **$ 2,548** | $ 13,278 | $ 2,244 |
| **Supplemental Cash Flow Information:** | | | |
| Cash paid during the period for -- | | | |
| Interest (net of $314, $1,392, and $2,510 capitalized, respectively) | **$37,468** | $39,604 | $30,813 |
| Income taxes (net of refunds) | **23,777** | 34,048 | 33,349 |

The accompanying notes are an integral part of these financial statements.

**BALANCE SHEETS**
**At December 31, 2003 and 2002**
**Gulf Power Company 2003 Annual Report**

| Assets | 2003 | 2002 |
|---|---|---|
| | | *(in thousands)* |
| **Current Assets:** | | |
| Cash and cash equivalents | **$ 2,548** | $ 13,278 |
| Receivables -- | | |
| Customer accounts receivable | **44,001** | 48,609 |
| Unbilled revenues | **31,548** | 28,077 |
| Under recovered regulatory clause revenues | **21,812** | 29,549 |
| Other accounts and notes receivable | **6,179** | 6,618 |
| Affiliated companies | **9,826** | 8,678 |
| Accumulated provision for uncollectible accounts | **(947)** | (889) |
| Fossil fuel stock, at average cost | **35,354** | 37,191 |
| Materials and supplies, at average cost | **35,930** | 34,840 |
| Prepaid income taxes | **4** | 12,704 |
| Prepaid expenses | **6,310** | 5,858 |
| Vacation pay | **5,254** | 5,044 |
| Other | **4,981** | 4,278 |
| Total current assets | **202,800** | 233,835 |
| **Property, Plant, and Equipment:** | | |
| In service | **2,306,959** | 2,248,156 |
| Less accumulated provision for depreciation | **847,519** | 803,348 |
| | **1,459,440** | 1,444,808 |
| Construction work in progress | **49,438** | 35,708 |
| Total property, plant, and equipment | **1,508,878** | 1,480,516 |
| **Other property and investments** | **12,597** | 10,157 |
| **Deferred Charges and Other Assets:** | | |
| Deferred charges related to income taxes | **18,263** | 18,798 |
| Prepaid pension costs | **42,014** | 36,298 |
| Unamortized debt issuance expense | **6,877** | 3,900 |
| Unamortized loss on reacquired debt | **19,389** | 14,052 |
| Other | **28,235** | 19,333 |
| Total deferred charges and other assets | **114,778** | 92,381 |
| **Total Assets** | **$1,839,053** | $1,816,889 |

The accompanying notes are an integral part of these financial statements.

**BALANCE SHEETS**
**At December 31, 2003 and 2002**
**Gulf Power Company 2003 Annual Report**

| Liabilities and Stockholder's Equity | 2003 | 2002 |
|---|---|---|
| | | *(in thousands)* |
| **Current Liabilities:** | | |
| Securities due within one year | **$ 50,000** | $100,000 |
| Notes payable | **37,666** | 28,479 |
| Accounts payable -- | | |
| Affiliated | **26,945** | 26,395 |
| Other | **21,952** | 26,333 |
| Customer deposits | **18,271** | 16,047 |
| Accrued taxes -- | | |
| Income taxes | **6,405** | 10,718 |
| Other | **8,621** | 9,170 |
| Accrued interest | **8,077** | 7,875 |
| Accrued vacation pay | **5,254** | 5,044 |
| Accrued compensation | **13,456** | 13,352 |
| Other | **9,694** | 6,044 |
| Total current liabilities | **206,341** | 249,457 |
| **Long-term debt** (See accompanying statements) | **515,827** | 452,040 |
| **Mandatorily redeemable preferred securities** (See accompanying statements) | **70,000** | 115,000 |
| **Deferred Credits and Other Liabilities:** | | |
| Accumulated deferred income taxes | **175,685** | 167,689 |
| Deferred credits related to income taxes | **26,545** | 29,692 |
| Accumulated deferred investment tax credits | **20,451** | 22,289 |
| Employee benefit obligations | **52,395** | 47,395 |
| Other cost of removal obligations | **151,229** | 143,060 |
| Miscellaneous regulatory liabilities | **27,903** | 18,278 |
| Other | **27,083** | 18,248 |
| Total deferred credits and other liabilities | **481,291** | 446,651 |
| **Total liabilities** | **1,273,459** | 1,263,148 |
| **Preferred stock** (See accompanying statements) | **4,236** | 4,236 |
| **Common stockholder's equity** (See accompanying statements) | **561,358** | 549,505 |
| **Total Liabilities and Stockholder's Equity** | **$1,839,053** | $1,816,889 |
| **Commitments and Contingent Matters** (See notes) | | |

The accompanying notes are an integral part of these financial statements.

**STATEMENTS OF CAPITALIZATION**
**At December 31, 2003 and 2002**
**Gulf Power Company 2003 Annual Report**

| | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| | | *(in thousands)* | *(percent of total)* | |
| **Long Term Debt:** | | | | |
| First mortgage bonds -- | | | | |
| 6.50% due November 1, 2006 | **$ 25,000** | $ 25,000 | | |
| 6.88% due January 1, 2026 | **30,000** | 30,000 | | |
| Total first mortgage bonds | **55,000** | 55,000 | | |
| Long-term notes payable -- | | | | |
| 4.69% due August 1, 2003 | **-** | 60,000 | | |
| 7.05% due August 15, 2004 | **50,000** | 50,000 | | |
| 4.35% to 7.50% due 2012-2038 | **300,000** | 186,757 | | |
| Total long-term notes payable | **350,000** | 296,757 | | |
| Other long-term debt -- | | | | |
| Pollution control revenue bonds -- | | | | |
| Collateralized: | | | | |
| 5.25% due April 1, 2006 | **12,075** | 12,075 | | |
| 5.50% to 5.80% due 2023-2026 | **-** | 61,625 | | |
| Non-collateralized: | | | | |
| 4.80% due September 1, 2028 | **13,000** | 13,000 | | |
| Variable rates (1.10% to 1.36% at 1/1/04) due 2022-2037 | **144,555** | 82,930 | | |
| Total other long-term debt | **169,630** | 169,630 | | |
| Unamortized debt premium (discount), net | **(8,803)** | (9,347) | | |
| Total long-term debt (annual interest requirement -- $26.5 million) | **565,827** | 512,040 | | |
| Less amount due within one year | **50,000** | 60,000 | | |
| Long-term debt excluding amount due within one year | **515,827** | 452,040 | **44.7%** | 40.3% |
| **Mandatorily Redeemable Preferred Securities:** | | | | |
| $25 liquidation value -- | | | | |
| 7.625% due 2036 | **-** | 40,000 | | |
| 7.00% due 2037 | **-** | 45,000 | | |
| 7.375% due 2041 | **30,000** | 30,000 | | |
| $1,000 liquidation value -- | | | | |
| 5.60% due 2042* | **40,000** | 40,000 | | |
| Total (annual distribution requirement -- $4.5 million) | **70,000** | 155,000 | | |
| Less amount due within one year | **-** | 40,000 | | |
| Mandatorily redeemable preferred securities excluding amount due within one year | **70,000** | 115,000 | **6.1** | 10.3 |
| **Cumulative Preferred Stock:** | | | | |
| $100 par value | | | | |
| 4.64% | **1,250** | 1,250 | | |
| 5.16% | **1,357** | 1,357 | | |
| 5.44% | **1,629** | 1,629 | | |
| Total (annual dividend requirement -- $0.2 million) | **4,236** | 4,236 | **0.4** | 0.4 |
| **Common Stockholder's Equity:** | | | | |
| Common stock, without par value -- | | | | |
| Authorized and outstanding - 992,717 shares in 2003 and 2002 | **38,060** | 38,060 | | |
| Paid-in capital | **364,852** | 349,769 | | |
| Premium on preferred stock | **12** | 12 | | |
| Retained earnings | **161,208** | 162,398 | | |
| Accumulated other comprehensive income (loss) | **(2,774)** | (734) | | |
| Total common stockholder's equity | **561,358** | 549,505 | **48.8** | 49.0 |
| **Total Capitalization** | **$1,151,421** | $1,120,781 | **100.0%** | 100.0% |

*Issued to redeem the 7.625% Trust I preferred securities in January 2003 at a five year initial fixed rate of 5.60% and, thereafter, at fixed rates determined through remarketings for specific periods of varying length or at floating rates determined by reference to 3-month LIBOR plus 3.49%.

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

**For the Years Ended December 31, 2003, 2002, and 2001**
**Gulf Power Company 2003 Annual Report**

| | Common Stock | Paid-In Capital | Premium on Preferred Stock | Retained Earnings | Other Comprehensive Income (loss) | Total |
|---|---|---|---|---|---|---|
| | | | *(in thousands)* | | | |
| **Balance at December 31, 2000** | $38,060 | $233,476 | $12 | $155,830 | $ - | $427,378 |
| Net income after dividends on preferred stock | - | - | - | 58,307 | - | 58,307 |
| Capital contributions from parent company | - | 72,484 | - | - | - | 72,484 |
| Cash dividends on common stock | - | - | - | (53,275) | - | (53,275) |
| **Balance at December 31, 2001** | 38,060 | 305,960 | 12 | 160,862 | - | 504,894 |
| Net income after dividends on preferred stock | - | - | - | 67,036 | | 67,036 |
| Capital contributions from parent company | - | 43,809 | - | - | - | 43,809 |
| Other comprehensive income (loss) | - | - | - | - | (734) | (734) |
| Cash dividends on common stock | - | - | - | (65,500) | - | (65,500) |
| **Balance at December 31, 2002** | **38,060** | **349,769** | **12** | **162,398** | **(734)** | **549,505** |
| Net income after dividends on preferred stock | **-** | **-** | **-** | **69,010** | **-** | **69,010** |
| Capital contributions from parent company | **-** | **15,083** | **-** | **-** | **-** | **15,083** |
| Other comprehensive income (loss) | **-** | **-** | **-** | **-** | **(2,040)** | **(2,040)** |
| Cash dividends on common stock | **-** | **-** | **-** | **(70,200)** | **-** | **(70,200)** |
| **Balance at December 31, 2003** | **$38,060** | **$364,852** | **$12** | **$161,208** | **$(2,774)** | **$561,358** |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF COMPREHENSIVE INCOME

**For the Years Ended December 31, 2003, 2002, and 2001**
**Gulf Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | *(in thousands)* | |
| **Net income after dividends on preferred stock** | **$69,010** | $67,036 | $58,307 |
| Other comprehensive income (loss): | | | |
| Changes in additional minimum pension liability, net of tax of $(84) and $(461), respectively | **(134)** | (734) | - |
| Changes in fair value of qualifying hedges, net of tax of $(1,260) | **(2,006)** | - | - |
| Less: Reclassification adjustment for amounts included in net income, net of tax of $63 | **100** | - | - |
| Total other comprehensive income (loss) | **(2,040)** | (734) | - |
| **Comprehensive Income** | **$66,970** | $66,302 | $58,307 |

The accompanying notes are an integral part of these financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### General

Gulf Power Company (the Company) is a wholly owned subsidiary of Southern Company, which is the parent company of five retail operating companies, Southern Power Company (Southern Power), Southern Company Services (SCS), Southern Communications Services (Southern LINC), Southern Company Gas (Southern Company GAS), Southern Company Holdings (Southern Holdings), Southern Nuclear Operating Company (Southern Nuclear), Southern Telecom, and other direct and indirect subsidiaries. The retail operating companies - Alabama Power, Georgia Power, the Company, Mississippi Power, and Savannah Electric - provide electric service in four Southeastern states. The Company operates as a vertically integrated utility providing service to customers in northwest Florida and to wholesale customers in the Southeast. Southern Power constructs, owns, and manages Southern Company's competitive generation assets and sells electricity at market-based rates in the wholesale market. Contracts among the retail operating companies and Southern Power - related to jointly owned generating facilities, interconnecting transmission lines, or the exchange of electric power - are regulated by the Federal Energy Regulatory Commission (FERC) and/or the Securities and Exchange Commission (SEC). SCS, the system service company, provides, at cost, specialized services to Southern Company and subsidiary companies. Southern LINC provides digital wireless communications services to the retail operating companies and also markets these services to the public within the Southeast. Southern Telecom provides fiber cable services within the Southeast. Southern Company GAS is a competitive retail natural gas marketer serving customers in Georgia. Southern Holdings is an intermediate holding subsidiary for Southern Company's investments in synthetic fuels and leveraged leases, and an energy services business. Southern Nuclear operates and provides services to Southern Company's nuclear power plants.

Southern Company is registered as a holding company under the Public Utility Holding Company Act of 1935 (PUHCA). Both Southern Company and its subsidiaries, including the Company, are subject to the regulatory provisions of the PUHCA. The Company is also subject to regulation by the FERC and the Florida Public Service Commission (FPSC). The Company follows accounting principles generally accepted in the United States and complies with the accounting policies and practices prescribed by its regulatory commissions. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates, and the actual results may differ from those estimates.

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

### Affiliate Transactions

The Company has an agreement with SCS under which the following services are rendered to the Company at direct or allocated cost: general and design engineering, purchasing, accounting and statistical analysis, finance and treasury, tax, information resources, marketing, auditing, insurance and pension administration, human resources, systems and procedures, and other services with respect to business and operations and power pool transactions. Costs for these services amounted to $56 million, $49 million, and $45 million during 2003, 2002, and 2001, respectively. Cost allocation methodologies used by SCS are approved by the SEC and management believes they are reasonable.

The Company has agreements with Georgia Power and Mississippi Power under which the Company owns a portion of Plant Scherer and Plant Daniel. Georgia Power operates Plant Scherer and Mississippi Power operates Plant Daniel. The Company reimbursed Georgia Power $5.6 million and $4.5 million and Mississippi Power $17.7 million and $16.6 million in 2003 and 2002, respectively, for its proportionate share of related expenses. See Note 7 under "Operating Leases" for additional information.

The retail operating companies (including the Company), Southern Power, and Southern Company GAS may jointly enter into various types of wholesale energy, natural gas and certain other contracts, either directly or through SCS, as agent. Each participating company may be jointly and severally liable for the obligations incurred under these agreements.

### Revenues and Regulatory Cost Recovery Clauses

Revenues are recognized as services are rendered. Unbilled revenues are accrued at the end of each fiscal period. Fuel costs are expensed as the fuel is used. The Company's retail electric rates include provisions to annually adjust billings for fluctuations in fuel costs, the energy component of purchased power costs, and certain other costs. The Company has similar retail cost recovery clauses for energy conservation costs, purchased power capacity costs, and environmental compliance costs. Revenues are adjusted monthly for differences between recoverable costs and amounts actually reflected in current rates.

The Company has a diversified base of customers and no single customer or industry comprises 10 percent or more of revenues. For all periods presented, uncollectible accounts averaged significantly less than 1 percent of revenues.

### Income Taxes

The Company uses the liability method of accounting for deferred income taxes and provides deferred income taxes for all significant income tax temporary differences. Investment tax credits utilized are deferred and amortized to income over the average lives of the related property.

### Regulatory Assets and Liabilities

The Company is subject to the provisions of Financial Accounting Standards Board (FASB) Statement No. 71, Accounting for the Effects of Certain Types of Regulation. Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process. Regulatory assets and (liabilities) reflected in the Balance Sheets at December 31 relate to:

| | 2003 | 2002 | Note |
|---|---|---|---|
| | (in thousands) | | |
| Asset retirement obligations | $ 1,019 | $ - | (a) |
| Other cost of removal obligations | (151,229) | (143,060) | (a) |
| Deferred income tax charges | 18,263 | 18,798 | (a) |
| Loss on reacquired debt | 19,389 | 14,052 | (b) |
| Vacation pay | 5,254 | 5,044 | (c) |
| Deferred income tax credits | (26,545) | (29,692) | (a) |
| Accumulated provision for property damage | (26,244) | (15,418) | (d) |
| Environmental remediation | 12,878 | 14,429 | (f) |
| Fuel-hedging liabilities | (2,501) | (2,322) | (e) |
| Other assets | 8,198 | 2,859 | (d) |
| Other liabilities | (3,177) | (3,351) | (d) |
| Total | $(144,695) | $(138,661) | |

Note:The recovery and amortization periods for these regulatory assets and (liabilities) are as follows:

(a) Asset retirement and removal liabilities are recorded, deferred income tax assets are recovered, and deferred tax liabilities are amortized over the related property lives, which may range up to 50 years. Asset retirement and removal liabilities will be settled and trued up following completion of the related activities.

(b) Recovered over the remaining life of the original issue, which may range up to 50 years.

(c) Recorded as earned by employees and recovered as paid, generally within one year.

(d) Recorded and recovered or amortized as approved by the FPSC.

(e) Fuel-hedging liabilities are recorded over the life of the underlying hedged purchase contracts, which generally do not exceed two years. Upon final settlement, costs are recovered through the fuel cost recovery clause.

(f) Recovered through the Environmental Cost Recovery Clause (ECRC) when the expense is incurred. The estimated completion date for this project is currently 2012.

In the event that a portion of the Company's operations is no longer subject to the provisions of FASB Statement No. 71, the Company would be required to write off related regulatory assets and liabilities that are not specifically recoverable through regulated rates. In addition, the Company would be required to determine if any impairment to other assets, including plant, exists and write down the assets, if impaired, to their fair value. All regulatory assets and liabilities are reflected in rates.

### Depreciation and Amortization

Depreciation of the original cost of plant in service is provided primarily by using composite straight-line rates, which approximated 3.8 percent in 2003, 3.9 percent in 2002, and 3.7 percent in 2001. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its cost - together with the cost of removal, less salvage - is charged to the accumulated provision for depreciation.

Minor items of property included in the original cost of the plant are retired when the related property unit is retired.

**Asset Retirement Obligations and Other Costs of Removal**

In accordance with regulatory requirements, prior to January 2003, the Company followed the industry practice of accruing for the ultimate cost of retiring most long-lived assets over the life of the related asset as part of the annual depreciation expense provision. In accordance with SEC requirements, such amounts are reflected on the balance sheet as regulatory liabilities.

Effective January 1, 2003, the Company adopted FASB Statement No. 143, Accounting for Asset Retirement Obligations. Statement No. 143 establishes new accounting and reporting standards for legal obligations associated with the ultimate cost of retiring long-lived assets. The ultimate cost for an asset's future retirement must be recorded in the period in which the liability is incurred. The cost must be capitalized as part of the related long-lived asset and depreciated over the asset's useful life. Additionally, Statement No. 143 does not permit the continued accrual of future retirement costs for long-lived assets that the Company does not have a legal obligation to retire. At the time of adoption, the Company had received guidance regarding accounting for the financial statement impacts of Statement No. 143 from the FPSC and in accordance with that guidance had no cumulative effect to net income resulting from the adoption of Statement No. 143. The Company will continue to recognize the accumulated removal costs for other obligations as a regulatory liability.

The liability recognized under Statement No. 143 to retire long-lived assets primarily relates to the Company's combustion turbines at its Pea Ridge facility, various landfill sites, ash ponds, and a barge unloading dock. The Company has also identified retirement obligations related to certain transmission and distribution facilities. However, liabilities for the removal of these transmission and distribution assets have not been recorded because no reasonable estimate can be made regarding the timing of the obligations. The Company will continue to recognize in the Income Statement allowed removal costs in accordance with its regulatory treatment. Any difference between costs recognized under Statement No. 143 and those reflected in rates are recognized as either a regulatory asset or liability and are reflected in the Balance Sheets.

Details of the asset retirement obligations included in the Balance Sheets are as follows:

| | 2003 |
|---|---|
| | (in millions) |
| Balance beginning of year | $ - |
| Liabilities incurred | 4.0 |
| Liabilities settled | - |
| Accretion | 0.3 |
| Cash flow revisions | - |
| Balance end of year | $4.3 |

If Statement No. 143 had been adopted on January 1, 2002, the pro-forma asset retirement obligations would have been $3.7 million.

**Allowance for Funds Used During Construction (AFUDC) and Interest Capitalized**

In accordance with regulatory treatment, the Company records AFUDC on construction projects. AFUDC represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new regulated facilities. While cash is not realized currently from such allowance, it increases the revenue requirement over the service life of the plant through a higher rate base and higher depreciation expense. For the years, 2003, 2002, and 2001 the average AFUDC rates were 7.48 percent, 7.35 percent, and 7.35 percent, respectively. AFUDC, net of taxes, as a percentage of net income after dividends on preferred stock was 1.31 percent, 5.72 percent, and 11.86 percent, respectively for, 2003, 2002, and 2001.

**Property, Plant, and Equipment**

Property, plant, and equipment is stated at original cost less regulatory disallowances and impairments. Original cost includes: materials; labor; minor items of property; appropriate administrative and general costs; payroll-related costs such as taxes, pensions, and other benefits; and the interest capitalized and/or estimated cost of funds used during construction. The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense. The cost of replacements of property (exclusive of minor items of property) is charged to utility plant.

### Impairment of Long-Lived Assets and Intangibles

The Company evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on either a specific regulatory disallowance or an estimate of undiscounted future cash flows attributable to the assets, as compared to the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by either the amount of regulatory disallowance or by estimating the fair value of the assets and recording a provision for loss if the carrying value is greater than the fair value. For assets identified as held for sale, the carrying value is compared with the estimated fair value less the cost to sell in order to determine if an impairment provision is required. Until the assets are disposed of, their estimated fair value is re-evaluated when circumstances or events change.

### Cash and Cash Equivalents

For purposes of the financial statements temporary cash investments are considered cash equivalents. Temporary cash investments are securities with original maturities of 90 days or less.

### Materials and Supplies

Generally, materials and supplies include the cost of transmission, distribution, and generating plant materials. Materials are charged to inventory when purchased and then expensed or capitalized to plant, as appropriate, when installed.

### Stock Options

Southern Company provides non-qualified stock options to a large segment of the Company's employees ranging from line management to executives. The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25. Accordingly, no compensation expense has been recognized because the exercise price of all options granted equaled the fair-market value on the date of grant. When options are exercised, the Company receives a capital contribution from Southern Company equivalent to the related income tax benefit.

### Financial Instruments

The Company uses derivative financial instruments to limit exposure to fluctuations in interest rates, the prices of certain fuel purchases, and electricity purchases and sales. All derivative financial instruments are recognized as either assets or liabilities and are measured at fair value. Substantially all of the Company's bulk energy purchases and sales contracts that meet the definition of a derivative are exempt from fair value accounting requirements and are accounted for under the accrual method. Other derivative contracts qualify as cash flow hedges of anticipated transactions. This results in the deferral of related gains and losses in other comprehensive income or regulatory assets or liabilities as appropriate until the hedged transactions occur. Any ineffectiveness is recognized currently in net income. Other derivative contracts are marked to market through current period income and are recorded on a net basis in the Statements of Income.

The Company is exposed to losses related to financial instruments in the event of counterparties' nonperformance. The Company has established controls to determine and monitor the creditworthiness of counterparties in order to mitigate the Company's exposure to counterparty credit risk.

Other financial instruments for which the carrying amount does not equal fair value at December 31 were as follows:

| | Carrying Amount | Fair Value |
|---|---|---|
| | (in thousands) | |
| Long-term debt: | | |
| **At December 31, 2003** | **$565,827** | **$572,899** |
| At December 31, 2002 | 512,040 | 531,133 |
| Preferred Securities | | |
| **At December 31, 2003** | **$ 70,000** | **$ 73,376** |
| At December 31, 2002 | 155,000 | 156,853 |

The fair values were based on either closing market price or closing price of comparable instruments.

### Comprehensive Income

The objective of comprehensive income is to report a measure of all changes in common stock equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners. Comprehensive income consists of net income and changes in the fair value of qualifying cash flow hedges and changes in additional minimum pension liability, less income taxes and reclassifications for amounts included in net income.

### Provision for Injuries and Damages

The Company is subject to claims and suits arising in the ordinary course of business. As permitted by regulatory authorities, the Company provides for the uninsured costs of injuries and damages by charges to income amounting to $1.2 million annually. The cost of settling claims is charged to a provision account. The accumulated provision of $0.1 million and $0.7 million at December 31, 2003 and 2002, respectively, is included in other current liabilities in the accompanying Balance Sheets. For further information, see Note 3 under "Personal Injury Litigation." In addition to the provision, at December 31, 2003, the Company recorded a liability with a corresponding regulatory asset of $6.9 million for estimated liabilities related to outstanding claims and suits.

### Provision for Property Damage

The Company provides for the cost of repairing damages from major storms and other uninsured property damages. This includes the cost of major storms and other damages to its transmission and distribution lines and the cost of uninsured damages to its generation facilities and other property. The expense of such damages is charged to the provision account. At December 31, 2003 and 2002, the accumulated provision for property damage was $26.2 million and $15.5 million, respectively, and is included in miscellaneous regulatory liabilities in the accompanying Balance Sheets. The FPSC approved annual accrual to the accumulated provision for property damage is $3.5 million, with a target level for the accumulated provision account between $25.1 million and $36.0 million. The FPSC had also given the Company the flexibility to increase its annual accrual amount above $3.5 million at the Company's discretion. The Company accrued $10.6 million in 2003, $3.5 million in 2002, and $4.5 million in 2001 to the accumulated provision for property damage.

## 2. RETIREMENT BENEFITS

The Company has a defined benefit, trusteed, pension plan covering substantially all employees. The plan is funded in accordance with Employee Retirement Income Security Act (ERISA) requirements. No contributions to the plan are expected for the year ending December 31, 2004. The Company also provides certain non-qualified benefit plans for a selected group of management and highly compensated employees. Benefits under these non-qualified plans are funded on a cash basis. The Company provides certain medical care and life insurance benefits for retired employees. In addition, trusts are funded to the extent required by the FPSC and the FERC. For the year ended December 31, 2004, postretirement benefit contributions are expected to total approximately $80 thousand.

The measurement date for plan assets and obligations is September 30 of each year. In 2002, the Company adopted plan changes that had the effect of increasing benefits to both current and future retirees.

### Pension Plans

The accumulated benefit obligation for the pension plans was $186 million in 2003 and $162 million in 2002. Changes during the year in the projected benefit obligations, accumulated benefit obligations, and fair value of plan assets were as follows:

| | Projected Benefit Obligations | |
|---|---|---|
| | **2003** | 2002 |
| | (in thousands) | |
| Balance at beginning of year | **$184,987** | $169,251 |
| Service cost | **5,225** | 4,910 |
| Interest cost | **11,733** | 12,394 |
| Benefits paid | **(8,785)** | (8,395) |
| Actuarial (gain)/loss and employee transfers, net | **13,326** | 2,672 |
| Other | **-** | 4,155 |
| Balance at end of year | **$206,486** | $184,987 |

| | Plan Assets | |
|---|---|---|
| | **2003** | 2002 |
| | (in thousands) | |
| Balance at beginning of year | **$211,166** | $233,706 |
| Actual return on plan assets | **33,672** | (15,694) |
| Benefits paid | **(8,293)** | (7,934) |
| Employee transfers | **(199)** | 1,088 |
| Balance at end of year | **$236,346** | $211,166 |

Pension plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the Internal Revenue Service (IRS) revenue code. The Company's investment policy covers a diversified mix of assets, including equity and fixed income securities, real estate, and private equity, as described in the table below. Derivative instruments are used primarily as hedging tools but may also be used to gain efficient exposure to the various asset classes. The Company primarily minimizes the risk of large losses through diversification but also monitors and manages other aspects of risk.

| | | Plan Assets | |
|---|---|---|---|
| | Target | **2003** | 2002 |
| Domestic equity | 37% | **37%** | 35% |
| International equity | 20 | **20** | 18 |
| Global fixed income | 26 | **24** | 25 |
| Real estate | 10 | **11** | 12 |
| Private equity | 7 | **8** | 10 |
| Total | 100% | **100%** | 100% |

The accrued pension costs recognized in the Balance Sheets were as follows:

| | Accrued Pension Costs | |
|---|---|---|
| | **2003** | 2002 |
| | (in thousands) | |
| Funded status | **$29,859** | $26,179 |
| Unrecognized transition obligation | **(1,440)** | (2,161) |
| Unrecognized prior service cost | **13,471** | 14,874 |
| Unrecognized net gain | **(4,155)** | (6,589) |
| 4th quarter cash flow adjustment | **169** | 85 |
| Prepaid pension asset, net | **37,904** | 32,388 |
| Portion included in benefit obligations | **4,110** | 3,910 |
| Total Prepaid asset recognized in the Balance Sheets | **$42,014** | $36,298 |

In 2003 and 2002, amounts recognized in the Balance Sheets for accumulated other comprehensive income and intangible assets to record the minimum pension liability related to the non-qualified plans were $1.4 million and $0.7 million and $1.2 million and $0.9 million, respectively.

Components of the pension plans' net periodic cost were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | | (in thousands) | |
| Service cost | **$ 5,225** | $ 4,910 | $ 4,703 |
| Interest cost | **11,733** | 12,394 | 11,644 |
| Expected return on plan assets | **(20,564)** | (20,431) | (19,312) |
| Recognized net gain | **(1,819)** | (2,746) | (3,072) |
| Net amortization | **486** | 298 | 165 |
| Net pension income | **$ (4,939)** | $ (5,575) | $ (5,872) |

**Postretirement Benefits**

Changes during the year in the accumulated benefit obligations and in the fair value of plan assets were as follows:

| | Accumulated Benefit Obligations | |
|---|---|---|
| | **2003** | 2002 |
| | (in thousands) | |
| Balance at beginning of year | **$63,675** | $54,337 |
| Service cost | **1,128** | 948 |
| Interest cost | **4,059** | 3,992 |
| Benefits paid | **(2,332)** | (1,984) |
| Actuarial (gain)/loss | **6,373** | 6,382 |
| Balance at end of year | **$72,903** | $63,675 |

| | Plan Assets | |
|---|---|---|
| | **2003** | 2002 |
| | (in thousands) | |
| Balance at beginning of year | **$10,893** | $11,632 |
| Actual return on plan assets | **1,616** | (793) |
| Employer contributions | **2,465** | 2,038 |
| Benefits paid | **(2,332)** | (1,984) |
| Balance at end of year | **$12,642** | $10,893 |

Postretirement benefits plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the IRS revenue code. The Company's investment policy covers a diversified mix of assets, including equity and fixed income securities, real estate, and private equity, as described in the table below. Derivative instruments are used primarily as hedging tools but may also be used to gain efficient exposure to the various asset classes. The Company primarily minimizes the risk of large losses through diversification but also monitors and manages other aspects of risk.

| | Plan Assets | | |
|---|---|---|---|
| | Target | **2003** | 2002 |
| Domestic equity | 35% | **35%** | 32% |
| International equity | 19 | **19** | 18 |
| Global fixed income | 31 | **29** | 30 |
| Real estate | 9 | **10** | 11 |
| Private equity | 6 | **7** | 9 |
| Total | 100% | **100%** | 100% |

The accrued postretirement costs recognized in the Balance Sheets were as follows:

| | **2003** | 2002 |
|---|---|---|
| | (in thousands) | |
| Funded status | **$(60,261)** | $(52,782) |
| Unrecognized transition obligation | **3,301** | 3,656 |
| Unrecognized prior service cost | **5,003** | 5,349 |
| Unrecognized net loss | **15,313** | 9,530 |
| Fourth quarter contributions | **195** | 581 |
| Accrued liability recognized in the Balance Sheets | **$(36,449)** | $(33,666) |

Components of the postretirement plan's net periodic cost were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Service cost | **$ 1,128** | $ 948 | $ 983 |
| Interest cost | **4,058** | 3,991 | 3,886 |
| Expected return on plan assets | **(1,139)** | (1,100) | (1,037) |
| Transition obligation | **356** | 356 | 356 |
| Prior service cost | **346** | 346 | 299 |
| Recognized net (gain)/loss | **113** | (19) | (18) |
| Net post-retirement cost | **$ 4,862** | $ 4,522 | $ 4,469 |

The weighted average rates assumed in the actuarial calculations used to determine both the benefit obligations and the net period costs for the pension and postretirement benefit plans were as folows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Discount | **6.00%** | 6.50% | 7.50% |
| Annual salary increase | **3.75%** | 4.00% | 5.00% |
| Long-term return on plan assets | **8.50%** | 8.50% | 8.50% |

The Company determined the long-term rate of return based on historical asset class returns and current market conditions, taking into account the diversification benefits of investing in multiple asset classes.

An additional assumption used in measuring the accumulated postretirement benefit obligation was a weighted average medical care cost trend rate of 8.25 percent for 2003, decreasing gradually to 5.25 percent through the year 2010 and remaining at that level thereafter. An annual increase or decrease in the assumed medical care cost trend rate of 1 percent would affect the accumulated benefit obligation and the service and interest cost components at December 31, 2003 as follows:

| | 1 Percent | |
|---|---|---|
| | Increase | Decrease |
| | (in thousands) | |
| Benefit obligation | $5,601 | $4,949 |
| Service and interest costs | $ 364 | $ 320 |

### Employee Savings Plan

The Company also sponsors a 401(k) defined contribution plan covering substantially all employees. The Company provides a 75 percent matching contribution up to 6 percent of an employee's base salary. Total matching contributions made to the plan for the years 2003, 2002, and 2001, were $2.6 million, $2.5 million, and $2.3 million, respectively.

## 3. CONTINGENCIES AND REGULATORY MATTERS

### General Litigation Matters

The Company is subject to certain claims and legal actions arising in the ordinary course of business. In addition, the

Company'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, and citizen enforcement of environmental requirements, has increased generally throughout the United States. In particular, personal injury claims for damages caused by alleged exposure to hazardous materials have become more frequent. The ultimate outcome of such litigation against the Company cannot be predicted at this time; however, management does not anticipate that the liabilities, if any, arising from such current proceedings would have a material adverse effect on the Company's financial statements.

**Environmental Cost Recovery**

In 1993, the Florida Legislature adopted legislation for an Environmental Cost Recovery Clause (ECRC), which allows an electric utility to petition the FPSC for recovery of prudent environmental compliance costs that are not being recovered through base rates or any other recovery mechanism. Such environmental costs include operation and maintenance expense, emission allowance expense, depreciation, and a return on invested capital.

This legislation was amended in 2002 to allow recovery of costs incurred as a result of an agreement between the Company and the Florida Department of Environmental Protection (FDEP) for the purpose of ensuring compliance with ozone ambient air quality standards adopted by the Environmental Protection Agency (EPA). During 2003, 2002, and 2001, the Company recorded ECRC revenues of $10.7 million, $10.8 million, and $10.0 million, respectively.

At December 31, 2003, the Company's liability for the estimated costs of environmental remediation projects for known sites was $12.9 million. These estimated costs are expected to be expended from 2004 through 2012. These projects have been approved by the FPSC for recovery through the ECRC discussed above. Therefore, the Company recorded $1.3 million in current assets and current liabilities and $11.6 million in deferred assets and deferred liabilities representing the future recoverability of these costs.

**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 Alabama Power, Georgia Power, and SCS. The complaint alleged violations of the New Source Review (NSR) provisions of the Clean Air Act with respect to five coal-fired generating facilities in Alabama and Georgia and violations of related state laws. The civil action requested penalties and injunctive relief, including an order requiring the installation of the best available control technology at the affected units. The EPA concurrently issued to the retail operating companies notices of violation relating to 10 generating facilities, which included the five facilities mentioned previously and the Company's Plants Crist and Scherer. See Note 4 for information on the Company's ownership interest in Plant Scherer Unit 3. In early 2000, the EPA filed a motion to amend its complaint to add the violations alleged in its notices of violation and to add the Company, Mississippi Power, and Savannah Electric as defendants.

In August 2000, the U.S. District Court in Georgia granted Alabama Power's motion to dismiss for lack of jurisdiction in Georgia and granted SCS's motion to dismiss on the grounds that it neither owned nor operated the generating units involved in the proceedings. In March 2001, the court granted the EPA's motion to add Savannah Electric as a defendant, but it denied the motion to add the Company and Mississippi Power based on lack of jurisdiction in Georgia over those companies. As directed by the court, the EPA refiled its amended complaint limiting claims to those brought against Georgia Power and Savannah Electric. In addition, the EPA refiled its claims against Alabama Power in the U.S. District Court for the Northern District of Alabama. These complaints allege violations with respect to eight coal-fired generating facilities in Alabama and Georgia, and they request the same kinds of relief as was requested in the original complaint, i.e. penalties and injunctive relief, including installation of the best available control technology. The EPA has not refiled against the Company, Mississippi Power, or SCS.

The actions against Alabama Power, Georgia Power, and Savannah Electric were stayed in the spring of 2001 during the appeal of a very similar NSR enforcement action against the Tennessee Valley Authority (TVA) before the U.S. Court of Appeals for the Eleventh Circuit. The TVA appeal involves many of the same legal issues raised by the actions against Alabama Power, Georgia Power, and Savannah Electric. Because the final resolution of the TVA

appeal could have a significant impact on Alabama Power and Georgia Power, both companies have been involved in that appeal. On June 24, 2003, the Court of Appeals issued its ruling in the TVA case. It found unconstitutional the statutory scheme set forth in the Clean Air Act that allowed the EPA to impose penalties for failing to comply with an administrative compliance order, like the one issued to TVA, without the EPA having to prove the underlying violation. Thus, the Court of Appeals held that the compliance order was of no legal consequence, and TVA was free to ignore it. The court did not however, rule directly on the substantive legal issues about the proper interpretation and application of certain NSR provisions that had been raised in the TVA appeal. On September 16, 2003, the Court of Appeals denied the EPA's request for a rehearing of the decision and on February 13, 2004, the EPA petitioned the U.S. Supreme Court to review the Eleventh Circuit's decision. The actions against Alabama Power, Georgia Power, and Savannah Electric could remain stayed pending this appeal. The EPA also filed a motion to lift the stay in the action against Alabama Power. At this time, no party to the Georgia Power and Savannah Electric action, which was administratively closed two years ago, has asked the court to reopen that case.

Since the inception of the NSR proceedings against Georgia Power, Alabama Power, and Savannah Electric, the EPA has also been proceeding with similar NSR enforcement actions against other utilities, involving many of the same legal issues. In each case, the EPA alleged that the utilities failed to comply with the NSR permitting requirements when performing maintenance and construction activities at coal-burning plants, which activities the utilities considered to be routine or otherwise not subject to NSR. In 2003, district courts addressing these cases issued opinions that reached conflicting conclusions.

In October 2003, the EPA issued final revisions to its NSR regulations under the Clean Air Act clarifying the scope of the existing Routine Maintenance, Repair, and Replacement exclusion. On December 24, 2003, the U.S. Court of Appeals for the District of Columbia Circuit stayed the effectiveness of these revisions pending resolution of related litigation. In January 2004, the Bush Administration announced that it would continue to enforce the existing rules.

The Company believes that it complied with applicable laws and the EPA's regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes civil penalties of up to $27,500 per day, per violation at each generating unit. Prior to January 30, 1997, the penalty was $25,000 per day. An adverse outcome in this matter could require substantial capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. This could affect future results of operations, cash flows, and possibly the Company's financial condition if such costs are not recovered through regulated rates.

**Personal Injury Litigation**

On January 28, 2003, a jury in Escambia County, Florida returned a verdict of $3 million against the Company arising out of an alleged electrical injury sustained by the plaintiff in January 1999 while inside his apartment. This matter is on appeal to Florida's First District Court of Appeal. If this verdict is upheld, there is insurance coverage available to offset a substantial portion of this amount. The ultimate outcome of this matter cannot now be determined, but is not expected to have a material impact on the Company's financial statements.

**Right of Way Litigation**

Southern Company and certain of its subsidiaries, including the Company, Georgia Power, Mississippi Power, and Southern Telecom (collectively, defendants), have been named as defendants in numerous lawsuits brought by landowners since 2001 regarding the installation and use of fiber optic cable over defendants' rights of way located on the landowners' property. 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 by defendants exceed the easements or other property rights held by defendants. The plaintiffs assert claims for, among other things, trespass and unjust enrichment. The plaintiffs seek compensatory and punitive damages and injunctive relief. With respect to one such lawsuit brought by landowners regarding the installation and use of fiber optic cable over Company rights of way located on the landowners' property, on November 7, 2003, the Second Circuit Court in Gadsden County, Florida, ruled in favor of the plaintiffs on their motion for partial summary judgment concerning liability. The question of damages, if any, will be decided at a future trial. In

the event of an adverse verdict on damages, the Company could appeal the verdicts on both liability and damages. The Company believes that it has complied with applicable laws and that the plaintiffs' claims are without merit. An adverse outcome in these matters could result in substantial judgments; however, the final outcome of these matters cannot now be determined.

In addition, in late 2001, certain subsidiaries of Southern Company, including the Company, Alabama Power, Georgia Power, Mississippi Power, Savannah Electric, and Southern Telecom (collectively, defendants), were named as defendants in a lawsuit brought by a telecommunications company that uses certain of the defendants' 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 the telecommunications company in pending and future right of way litigation. The Company believes that the plaintiff's claims are without merit. 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.

**Retail Rate Matters**

In October 1999, the Office of Public Counsel, the Coalition for Equitable Rates, the Florida Industrial Power Users Group, and the Company jointly filed a petition with the FPSC that included a reduction to retail base rates of $10 million annually and provided for revenues to be shared within set ranges for 1999 through 2002. The Company recorded revenues subject to refund (with interest) of $1.5 million in 2001. No refund was required in 2002. The sharing plan expired on April 21, 2002.

In May 2002, the FPSC approved a retail base rate increase of $53.2 million effective June 7, 2002 primarily related to the commercial operation of Plant Smith Unit 3.

**FERC Matters**

The Company has obtained FERC approval to sell power to nonaffiliates at market-based prices under specific contracts. Through SCS, as agent, the Company also has FERC authority to make short-term opportunity sales at market rates. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate. In November 2001, the FERC modified the test it uses to consider utilities' applications to charge market-based rates and adopted a new test called the Supply Margin Assessment (SMA). The FERC applied the SMA to several utilities, including Southern Company's retail operating companies, and found them to be "pivotal suppliers" in their service areas and ordered the implementation of several mitigation measures. SCS, on behalf of the Company and the other retail operating companies, sought rehearing of the FERC order, and the FERC delayed the implementation of certain mitigation measures. SCS, on behalf of the Company and the other retail operating companies, submitted comments to the FERC in 2002 regarding these issues. In December 2003, the FERC issued a staff paper discussing alternatives and held a technical conference in January 2004. The Company anticipates that the FERC will address the requests for rehearing in the near future. Regardless of the outcome of the SMA proposal, the FERC retains the ability to modify or withdraw the authorization for any seller to sell at market-based rates, if it determines that the underlying conditions for having such authority are no longer applicable. The final outcome of this matter will depend on the form in which the SMA test and mitigation measures rules may be ultimately adopted and cannot be determined at this time.

**4. JOINT OWNERSHIP AGREEMENTS**

The Company and Mississippi Power jointly own Plant Daniel Unit No. 1 and Unit No. 2, which together represent capacity of 1,000 MW. Plant Daniel is a generating plant located in Jackson County, Mississippi. In accordance with the operating agreement, Mississippi Power acts as the Company's agent with respect to the construction, operation, and maintenance of these units.

The Company and Georgia Power jointly own the 818 MW capacity Plant Scherer Unit No. 3. Plant Scherer is a generating plant located near Forsyth, Georgia. In accordance with the operating agreement, Georgia Power acts as the Company's agent with respect to the construction, operation, and maintenance of the unit.

The Company's pro rata share of expenses related to both plants is included in the corresponding operating expense accounts in the Statements of Income.

At December 31, 2003, the Company's percentage ownership and its investment in these jointly owned facilities were as follows:

| | Plant Scherer Unit No. 3 (coal) | Plant Daniel Unit Nos. 1 & 2 (coal) |
|---|---|---|
| | (in thousands) | |
| Plant In Service | **$189,502**[1] | **$234,914** |
| Accumulated Depreciation | **$ 80,631** | **$122,904** |
| Construction Work in Progress | **$ 91** | **$ 815** |
| Ownership | **25%** | **50%** |

(1) Includes net plant acquisition adjustment.

## 5. INCOME TAXES

The Company and the other subsidiaries of Southern Company file a consolidated federal income tax return. In 2002, Southern Company began filing a combined State of Georgia income tax return. Under a joint consolidated income tax agreement, each subsidiary's current and deferred tax expense is computed on a stand-alone basis. In accordance with IRS regulations, each company is jointly and severally liable for the tax liability.

At December 31, 2003, the tax-related regulatory assets to be recovered from customers were $18.3 million. These assets are attributable to tax benefits flowed through to customers in prior years and to taxes applicable to capitalized allowance for funds used during construction. At December 31, 2003, the tax-related regulatory liabilities to be credited to customers were $26.5 million. These liabilities are attributable to deferred taxes previously recognized at rates higher than current enacted tax law and to unamortized investment tax credits.

Details of income tax provisions are as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | | (in thousands) | |
| Total provision for income taxes: | | | |
| Federal-- | | | |
| Current | **$33,085** | $24,474 | $24,207 |
| Deferred | **2,488** | 7,936 | 2,568 |
| | **35,573** | 32,410 | 26,775 |
| State-- | | | |
| Current | **4,585** | 3,051 | 3,701 |
| Deferred | **719** | 1,683 | 826 |
| | **5,304** | 4,734 | 4,527 |
| Total | **$40,877** | $37,144 | $31,302 |

Net cash payments for income taxes related to continuing operations in 2003, 2002, and 2001 were $23.8 million, $34.0 million, and $36.8 million, respectively.

The tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases, which give rise to deferred tax assets and liabilities, are as follows:

| | **2003** | 2002 |
|---|---|---|
| | (in thousands) | |
| Deferred tax liabilities: | | |
| Accelerated depreciation | **$200,129** | $188,879 |
| Other | **27,669** | 28,377 |
| Total | **227,798** | 217,256 |
| Deferred tax assets: | | |
| Federal effect of state deferred taxes | **9,568** | 9,421 |
| Postretirement benefits | **11,793** | 10,826 |
| Other | **24,347** | 18,396 |
| Total | **45,708** | 38,643 |
| Net deferred tax liabilities | **182,090** | 178,613 |
| Less prepaid expense (accrued income taxes), net | **(6,405)** | (10,924) |
| Accumulated deferred income taxes in the Balance Sheets | **$175,685** | $167,689 |

Deferred investment tax credits are amortized over the lives of the related property with such amortization normally applied as a credit to reduce depreciation and amortization in the Statements of Income. Credits amortized in this manner amounted to $1.8 million in 2003, $1.8 million in 2002, and $1.7 million in 2001. At

December 31, 2003, all investment tax credits available to reduce federal income taxes payable had been utilized.

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Federal statutory rate | **35%** | 35% | 35% |
| State income tax, net of federal deduction | **3** | 3 | 4 |
| Non-deductible book depreciation | **1** | 1 | 1 |
| Difference in prior years' deferred and current tax rate | **(1)** | (2) | (2) |
| Other, net | **(1)** | (1) | (3) |
| Effective income tax rate | **37%** | 36% | 35% |

## 6. FINANCING

### Mandatorily Redeemable Preferred Securities

The Company has formed certain wholly owned trust subsidiaries for the purpose of issuing preferred securities. The proceeds of the related equity investments and preferred security sales were loaned back to the Company through the issuance of junior subordinated notes totaling $72.2 million, which constitute substantially all of the assets of these trusts. The Company considers that the mechanisms and obligations relating to the preferred securities issued for its benefit, taken together, constitute a full and unconditional guarantee by it of the respective trusts' payment obligations with respect to these securities. At December 31, 2003, preferred securities of $70 million were outstanding and recognized as liabilities in the Balance Sheets.

### Long-Term Debt Due Within One Year

At December 31, 2003, the Company had an improvement fund requirement of $550,000. The first mortgage bond improvement fund requirement amounts to 1 percent of each outstanding series of bonds authenticated under the mortgage indenture prior to January 1 of each year, other than those issued to collateralize pollution control revenue bond obligations. The requirement may be satisfied by depositing cash, reacquiring bonds, or by pledging additional property equal to 1 and 2/3 times the requirement.

The sinking fund requirements of first mortgage bonds were satisfied by certifying property additions in 2003 and 2002. It is anticipated that the 2004 requirement will be satisfied by certifying property additions. Sinking fund requirements and/or maturities through 2008 applicable to long-term debt are as follows: $50.6 million in 2004; $0.6 million in 2005; $37.6 million in 2006; $0.3 million in 2007; and $0.3 million in 2008.

### Dividend Restrictions

The Company's first mortgage bond indenture contains various common stock dividend restrictions, which remain in effect as long as the bonds are outstanding. At December 31, 2003, retained earnings of $127 million were restricted against the payment of cash dividends on common stock under the terms of the mortgage indenture.

In accordance with the PUHCA, the Company is also restricted from paying common dividends to the Southern Company from paid-in capital without SEC approval.

### Assets Subject to Lien

The Company's mortgage indenture dated as of September 1, 1941, as amended and supplemented, which secures the first mortgage bonds issued by the Company, constitutes a direct first lien on substantially all of the Company's fixed property and franchises.

There are no agreements or other arrangements among the affiliated companies under which the assets of one company have been pledged or otherwise made available to satify obligations of Southern Company or any of its subsidiaries.

### Bank Credit Arrangements

At the beginning of 2004, the Company had $56 million of lines of credit with banks subject to renewal each year, all of which remained unused. The $56 million in committed lines of credit provide liquidity support for the Company's commercial paper program and for $4 million of daily variable rate pollution control bonds. In connection with these credit lines, the Company has agreed to pay commitment fees and/or to maintain compensating balances with the banks. The compensating balances, which represent substantially all of the cash of the Company except for daily working funds and like items, are not legally restricted from withdrawal.

Certain credit arrangements contain covenants that limit the level of indebtedness to capitalization to 65 percent, as defined in the agreements. Not meeting these limits would result in an event of default under the credit arrangements. In addition, certain credit arrangements contain cross default provisions to other indebtedness that would trigger an event of default if the borrower defaulted on indebtedness over a specified threshold. The cross default provisions are restricted only to indebtedness of the Company. The Company is currently in compliance with all such covenants. Borrowings under unused credit arrangements totaling $20 million would be prohibited if the Company experiences a material adverse change (as defined in such arrangements).

The Company borrows through a commercial paper program that has the liquidity support of committed bank credit arrangements and through an extendible commercial note program. The amount of commercial paper outstanding at December 31, 2003 was $37.7 million. During 2003, the peak amount outstanding for commercial paper was $39.1 million and the average amount outstanding was $12.8 million. The average annual interest rate on commercial paper was 1.2%.

In addition, the Company has bid-loan facilities with five major money center banks that total $50 million, with none committed at December 31, 2003.

### Financial Instruments

The Company enters into energy-related derivatives to hedge exposures to electricity, gas, and other fuel price changes. However, due to cost-based rate regulations, the Company has limited exposure to market volatility in commodity fuel prices and prices of electricity. The Company has implemented fuel-hedging programs with the approval of the FPSC. The Company enters into hedges of forward electricity sales.

At December 31, 2003, the fair value of derivative energy contracts was reflected in the financial statements as follows:

| | Amounts |
|---|---|
| | (in thousands) |
| Regulatory liabilities, net | **$2,501** |
| Other comprehensive income | **-** |
| Net income | **2** |
| Total fair value | **$2,503** |

The fair value gains or losses for cash flow hedges that are recoverable through the regulatory fuel clauses are recorded as regulatory assets and liabilities and are recognized in earnings at the same time the hedged items affect earnings.

The Company also enters into derivatives to hedge exposure to interest rate changes. Derivatives related to fixed rate securities are accounted for as fair value hedges. The derivatives are generally structured to match the critical terms of the hedged debt instruments; therefore, no material ineffectiveness has been recorded in earnings.

During 2003, the Company settled interest derivatives at the same time it issued debt and recognized losses totaling $3.3 million. These losses have been deferred in other comprehensive income and will be reclassified to interest expense over the life of the related debt. The fair value gain or loss for cash flow hedges is recorded in other comprehensive income and is reclassified into earnings at the same time the hedged items affect earnings. For the year 2003, approximately $0.2 million of pre-tax losses were reclassified from other comprehensive income to interest expense. For the year 2004, pre-tax losses of approximately $0.3 million are expected to be reclassified from other comprehensive income to interest expense.

## 7. COMMITMENTS

### Construction Program

The Company is engaged in a continuous construction program, the cost of which is currently estimated to total $166 million in 2004, $149 million in 2005, and $108 million in 2006. The construction program is subject to periodic review and revision, and actual construction costs may vary from the above estimates because of numerous factors. These factors include changes in business conditions; revised load growth estimates; changes in environmental regulations; changes in FERC rules and transmission regulations; increasing costs of labor, equipment, and materials; and cost of capital. At December 31, 2003, significant purchase commitments were outstanding in connection with the construction program.

Included in the amounts above, the Company has budgeted $64 million, $31 million, and $4 million in 2004,

2005, and 2006, respectively, for capital expenditures related to environmental controls at Plant Crist as part of an agreement with the FDEP to reduce nitrogen oxide emissions. The FPSC authorized the Company to recover the costs related to these environmental projects through the ECRC. Construction of new transmission and distribution facilities and capital improvements, including those needed to meet environmental standards for the Company's existing generation, transmission and distribution facilities are ongoing.

**Long-Term Service Agreements**

The Company has entered into a Long-Term Service Agreement (LTSA) with General Electric (GE) for the purpose of securing maintenance support for combined cycle and combustion turbine generating facilities. In summary, the LTSA stipulates that GE will perform all planned inspections on the covered equipment, which includes the cost of all labor and materials. GE is also obligated to cover the costs of unplanned maintenance on the covered equipment subject to a limit specified in the contract.

In general, the LTSA is in effect through two major inspection cycles of the unit. Scheduled payments to GE are made at various intervals based on actual operating hours of the unit. Total payment to GE under this agreement for facilities owned is currently estimated at $84.2 million over approximately 11 years. However, the LTSA contains various cancellation provisions at the option of the Company.

Payments made to GE prior to the performance of any planned inspections are recorded as a prepayments. These amounts are included in prepaid expenses and other assets in the Balance Sheets. Inspection costs are capitalized or charged to expense based on the nature of the work performed.

**Fuel and Purchased Power Commitments**

To supply a portion of the fuel requirements of the generating plants, the Company has entered into various long-term commitments for the procurement of fossil fuel. In most cases, these contracts contain provisions for price escalations, minimum purchase levels, and other financial commitments. Natural gas purchase commitments contain given volumes with prices based on various indices at the time of delivery. Amounts included in the chart below represent estimates based on New York Mercantile future prices at December 31, 2003. Also, the Company has a long-term commitment for the purchase of electricity. Total estimated minimum long-term obligations at December 31, 2003 were as follows:

| Year | Natural Gas | Fuel | Purchased Power |
|---|---|---|---|
| | | (in millions) | |
| 2004 | $104 | $132 | $1 |
| 2005 | 65 | 77 | - |
| 2006 | 59 | 78 | - |
| 2007 | 45 | 78 | - |
| 2008 | 19 | 18 | - |
| 2009 and thereafter | 259 | - | - |
| Total commitments | $551 | $383 | $1 |

Additional commitments for fuel will be required to supply the Company's future needs.

SCS may enter into various types of wholesale energy and natural gas contracts acting as an agent for the Company, the other retail operating companies, Southern Power, and Southern Company GAS. Under these agreements, each of the retail operating companies, Southern Power, and Southern Company GAS may be jointly and severally liable. The creditworthiness of Southern Power and Southern Company GAS is currently inferior to the creditworthiness of the retail operating companies. Accordingly, Southern Company has entered into keep-well agreements with the Company and each of the other retail operating companies to insure they will not subsidize or be responsible for any costs, losses, liabilities, or damages resulting from the inclusion of Southern Power or Southern Company GAS as a contracting party under these agreements.

**Operating Leases**

The Company has operating lease agreements with various terms and expiration dates. Total operating lease expenses were $2.2 million, $2.1 million, and $1.9 million for 2003, 2002, and 2001, respectively.

At December 31, 2003, estimated minimum rental commitments for noncancelable operating leases were as follows:

| Year | Amounts |
|---|---|
| | (in thousands) |
| 2004 | $1,995 |
| 2005 | 2,100 |
| 2006 | 2,042 |
| 2007 | 2,038 |
| 2008 | 2,037 |
| 2009 and thereafter | 8,153 |
| Total commitments | $18,365 |

In 1989, the Company and Mississippi Power jointly entered into a twenty-two year operating lease agreement for the use of 495 aluminum railcars. In 1994, a second lease agreement for the use of 250 additional aluminum railcars were entered into for twenty-two years. Both of these leases are for the transportation of coal to Plant Daniel. The Company has the option to purchase the 745 railcars at the greater of lease termination value or fair market value, or to renew the leases at the end of each lease term.

The Company, as a joint owner of Plant Daniel Units 1 and 2, is responsible for one-half of the lease costs. The lease commitments above include the railcar lease amounts. The lease costs are charged to fuel inventory and are allocated to fuel expense as the fuel is used.

These expenses are then recovered through the Company's fuel cost recovery clause. The Company's share of the lease costs charged to fuel inventories was $1.9 million in 2003, $1.9 million in 2002, and $1.9 million in 2001. The annual amounts for 2004 through 2008 are expected to be $1.9 million, $2.0 million, $2.0 million, $2.0 million, and $2.0 million, respectively, and after 2008 are expected to total $8.2 million.

## 8. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial data for 2003 and 2002 are as follows:

| Quarter Ended | Operating Revenues | Operating Income | Net Income After Dividends on Preferred Stock |
|---|---|---|---|
| | | (in thousands) | |
| **March 2003** | **$197,838** | **$32,797** | **$13,972** |
| **June 2003** | **215,209** | **40,668** | **18,785** |
| **September 2003** | **252,889** | **61,545** | **32,798** |
| **December 2003** | **211,761** | **16,890** | **3,455** |
| March 2002 | $160,933 | $24,493 | $11,717 |
| June 2002 | 209,987 | 31,174 | 13,487 |
| September 2002 | 245,601 | 65,661 | 33,979 |
| December 2002 | 203,946 | 24,159 | 7,853 |

The Company's business is influenced by seasonal weather conditions and the timing of rate changes, among other factors.

## SELECTED FINANCIAL AND OPERATING DATA 1999-2003

**Gulf Power Company 2003 Annual Report**

| | **2003** | 2002 | 2001 | 2000 | 199 |
|---|---|---|---|---|---|
| **Operating Revenues** (in thousands) | **$877,697** | $820,467 | $725,203 | $714,319 | $674,09 |
| **Net Income after Dividends on Preferred Stock** (in thousands) | **$69,010** | $67,036 | $58,307 | $51,843 | $53,66 |
| **Cash Dividends on Common Stock** (in thousands) | **$70,200** | $65,500 | $53,275 | $59,000 | $61,30 |
| **Return on Average Common Equity** (percent) | **12.42** | 12.72 | 12.51 | 12.20 | 12.6 |
| **Total Assets** (in thousands) | **$1,839,053** | $1,816,889 | $1,713,436 | $1,448,977 | $1,433,75 |
| **Gross Property Additions** (in thousands) | **$99,284** | $106,624 | $274,668 | $95,807 | $69,79 |
| **Capitalization** (in thousands): | | | | | |
| Common stock equity | **$ 561,358** | $549,505 | $504,894 | $427,378 | $422,31 |
| Preferred stock | **4,236** | 4,236 | 4,236 | 4,236 | 4,23 |
| Mandatorily redeemable preferred securities | **70,000** | 115,000 | 115,000 | 85,000 | 85,00 |
| Long-term debt | **515,827** | 452,040 | 467,784 | 365,993 | 367,44 |
| Total (excluding amounts due within one year) | **$1,151,421** | $1,120,781 | $1,091,914 | $882,607 | $878,99 |
| **Capitalization Ratios** (percent): | | | | | |
| Common stock equity | **48.8** | 49.0 | 46.2 | 48.4 | 48.0 |
| Preferred stock | **0.4** | 0.4 | 0.4 | 0.5 | 0. |
| Mandatorily redeemable preferred securities | **6.1** | 10.3 | 10.5 | 9.6 | 9. |
| Long-term debt | **44.7** | 40.3 | 42.9 | 41.5 | 41. |
| Total (excluding amounts due within one year) | **100.0** | 100.0 | 100.0 | 100.0 | 100. |
| **Security Ratings:** | | | | | |
| First Mortgage Bonds - | | | | | |
| Moody's | **A1** | A1 | A1 | A1 | A |
| Standard and Poor's | **A+** | A+ | A+ | A+ | AA |
| Fitch | **A+** | A+ | A+ | AA- | AA |
| Preferred Stock - | | | | | |
| Moody's | **Baa1** | Baa1 | Baa1 | a2 | a |
| Standard and Poor's | **BBB+** | BBB+ | BBB+ | BBB+ | A |
| Fitch | **A-** | A- | A- | A | A |
| Unsecured Long-Term Debt - | | | | | |
| Moody's | **A2** | A2 | A2 | A2 | A |
| Standard and Poor's | **A** | A | A | A | A |
| Fitch | **A** | A | A | A+ | A- |
| **Customers** (year-end): | | | | | |
| Residential | **341,935** | 333,757 | 327,128 | 321,731 | 315,24 |
| Commercial | **51,169** | 49,411 | 48,654 | 47,666 | 47,72 |
| Industrial | **285** | 281 | 270 | 280 | 26 |
| Other | **473** | 474 | 468 | 442 | 31 |
| Total | **393,862** | 383,923 | 376,520 | 370,119 | 363,55 |
| **Employees** (year-end): | **1,337** | 1,339 | 1,309 | 1,327 | 1,33 |

[This page intentionally left blank]

## SELECTED FINANCIAL AND OPERATING DATA 1999-2003 (continued)

**Gulf Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| **Operating Revenues** (in thousands): | | | | | |
| Residential | **$ 381,464** | $365,693 | $313,165 | $302,210 | $279,238 |
| Commercial | **218,928** | 207,960 | 188,759 | 177,047 | 167,305 |
| Industrial | **95,702** | 89,385 | 81,719 | 74,095 | 68,222 |
| Other | **3,080** | 2,798 | 948 | (4,712) | 2,184 |
| Total retail | **699,174** | 665,836 | 584,591 | 548,640 | 516,949 |
| Sales for resale - non-affiliates | **76,767** | 77,171 | 82,252 | 66,890 | 62,354 |
| Sales for resale - affiliates | **63,268** | 40,391 | 27,256 | 66,995 | 66,110 |
| Total revenues from sales of electricity | **839,209** | 783,398 | 694,099 | 682,525 | 645,413 |
| Other revenues | **38,488** | 37,069 | 31,104 | 31,794 | 28,686 |
| Total | **$877,697** | $820,467 | $725,203 | $714,319 | $674,099 |
| **Kilowatt-Hour Sales** (in thousands): | | | | | |
| Residential | **5,101,099** | 5,143,802 | 4,716,404 | 4,790,038 | 4,471,118 |
| Commercial | **3,614,255** | 3,552,931 | 3,417,427 | 3,379,449 | 3,222,532 |
| Industrial | **2,146,956** | 2,053,668 | 2,018,206 | 1,924,749 | 1,846,237 |
| Other | **22,479** | 21,496 | 21,208 | 18,730 | 19,296 |
| Total retail | **10,884,789** | 10,771,897 | 10,173,245 | 10,112,966 | 9,559,183 |
| Sales for resale - non-affiliates | **2,504,211** | 2,156,741 | 2,093,203 | 1,705,486 | 1,561,972 |
| Sales for resale - affiliates | **2,438,874** | 1,720,240 | 962,892 | 1,916,526 | 2,511,983 |
| Total | **15,827,874** | 14,648,878 | 13,229,340 | 13,734,978 | 13,633,138 |
| **Average Revenue Per Kilowatt-Hour** (cents): | | | | | |
| Residential | **7.48** | 7.11 | 6.64 | 6.31 | 6.25 |
| Commercial | **6.06** | 5.85 | 5.52 | 5.24 | 5.19 |
| Industrial | **4.46** | 4.35 | 4.05 | 3.85 | 3.70 |
| Total retail | **6.42** | 6.18 | 5.75 | 5.43 | 5.41 |
| Sales for resale | **2.83** | 3.03 | 3.58 | 3.70 | 3.15 |
| Total sales | **5.30** | 5.35 | 5.25 | 4.97 | 4.73 |
| **Residential Average Annual Kilowatt-Hour Use Per Customer** | **15,064** | 15,510 | 14,497 | 14,992 | 14,318 |
| **Residential Average Annual Revenue Per Customer** | **$1,126.49** | $1,100.35 | $962.57 | $945.87 | $894.18 |
| **Plant Nameplate Capacity Ratings** (year-end) (megawatts) | **2,786** | 2,809 | 2,188 | 2,188 | 2,188 |
| **Maximum Peak-Hour Demand (megawatts):** | | | | | |
| Winter | 2,494 | 2,182 | 2,106 | 2,154 | 2,085 |
| Summer | 2,269 | 2,454 | 2,223 | 2,285 | 2,161 |
| **Annual Load Factor** (percent) | 54.6 | 55.3 | 57.5 | 55.4 | 55.2 |
| **Plant Availability Fossil-Steam** (percent): | 90.7 | 90.6 | 90.1 | 85.2 | 87.2 |
| **Source of Energy Supply** (percent): | | | | | |
| Coal | **78.7** | 69.8 | 81.2 | 87.8 | 89.8 |
| Gas | **11.9** | 15.5 | 1.0 | 1.6 | 2.5 |
| Purchased power - | | | | | |
| From non-affiliates | **3.2** | 4.6 | 6.5 | 7.6 | 5.9 |
| From affiliates | **6.2** | 10.1 | 11.3 | 3.0 | 1.8 |
| Total | **100.0** | 100.0 | 100.0 | 100.0 | 100.0 |

[This page intentionally left blank]

MISSISSIPPI POWER COMPANY

FINANCIAL SECTION

## MANAGEMENT'S REPORT

Mississippi Power Company 2003 Annual Report

The management of Mississippi Power Company (the Company) has prepared -- and is responsible for -- the financial statements and related information included in this report. These statements were prepared in accordance with accounting principles generally accepted in the United States and necessarily include amounts that are based on the best estimates and judgments of management. Financial information throughout this annual report is consistent with the financial statements.

The Company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that the accounting records reflect only authorized transactions of the Company. Limitations exist in any system of internal controls, however, based on recognition that the cost of the system should not exceed its benefits. The Company believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

The Company's internal accounting controls are evaluated on an ongoing basis by the Company's internal audit staff. The Company's independent public accountants also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

Anthony J. Topazi
President and Chief Executive Officer

Southern Company's audit committee of its board of directors, composed of four independent directors, provides a broad overview of management's financial reporting and control functions. Additionally, a committee of the Company's board of directors, composed of four outside directors, meets periodically with management, the internal auditors, and the independent public accountants to discuss auditing, internal controls, and compliance matters. The internal auditors and independent public accountants have access to the members of these committees at any time.

Management believes that its policies and procedures provide reasonable assurance that the Company's operations are conducted according to a high standard of business ethics.

In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Company in conformity with accounting principles generally accepted in the United States.

Michael W. Southern
Vice President, Treasurer and,
Chief Financial Officer

March 1, 2004

## INDEPENDENT AUDITORS' REPORT

**Mississippi Power Company:**

We have audited the accompanying balance sheets and statements of capitalization of Mississippi Power Company (a wholly owned subsidiary of Southern Company) as of December 31, 2003 and 2002, and the related statements of income, comprehensive income, common stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of Mississippi Power Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Mississippi Power Company for the year ended December 31, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements and included an explanatory paragraph that described a change in the method of accounting for derivative instruments and hedging activities in their report dated February 13, 2002.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements (pages II-218 to II-239) present fairly, in all material respects, the financial position of Mississippi Power Company at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in 2003 Mississippi Power Company changed its method of accounting for asset retirement obligations.

Deloitte & Touche LLP

Atlanta, Georgia
March 1, 2004

**THE FOLLOWING REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS IS A COPY OF THE REPORT PREVIOUSLY ISSUED IN CONNECTION WITH THE COMPANY'S 2001 ANNUAL REPORT ON FORM 10-K AND HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP. SEE EXHIBIT 23(e)2 FOR ADDITIONAL INFORMATION.**

**To Mississippi Power Company:**

We have audited the accompanying balance sheets and statements of capitalization of Mississippi Power Company (a Mississippi corporation and a wholly owned subsidiary of Southern Company) as of December 31, 2001 and 2000, and the related statements of income, common stockholder's equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements (pages II-160 through II-176) referred to above present fairly, in all material respects, the financial position of Mississippi Power Company as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 1 to the financial statements, effective January 1, 2001, Mississippi Power Company changed its method of accounting for derivative instruments and hedging activities.

Arthur Andersen LLP

Atlanta, Georgia
February 13, 2002

## OVERVIEW OF EARNINGS AND BUSINESS ACTIVITIES

### *Earnings*

Mississippi Power Company's net income after dividends on preferred stock of $73.5 million in 2003 remained relatively flat from $73.0 million in 2002. However, operating revenues and expenses recorded by the Company in 2003 were unusually high as compared to 2002. An increase of $62 million in other electric revenues resulted from the termination of a contract with a subsidiary of Dynegy, Inc. (Dynegy), the income effect of which was offset by the recording of a $60 million expense related to the establishment of a regulatory liability in connection with an interim accounting order issued by the Mississippi Public Service Commission (MPSC) related to the Plant Daniel capacity expense. See Note 3 to the financial statements under "Contract Termination" and "Retail Regulatory Filing" for additional information. Excluding these two items, operating revenues and operating expense were lower in 2003 than in 2002 primarily due to decreased fuel revenues and lower fuel and purchased power costs. Also, milder weather in 2003 caused kilowatt-hour sales to be slightly lower than in 2002. The 2002 increase of $9.1 million in net income as compared to the prior year was primarily attributable to the retail and wholesale rate increases in late 2001 and early 2002, respectively, and lower interest expense. The increase in net income of $8.9 million for 2001 was due primarily to the commercial operation of Plant Daniel Units 3 and 4 and lower interest costs.

### *Business Activities*

The Company currently 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.

Several factors affect the opportunities, challenges, and risk of selling electricity. These factors include the Company's ability to maintain a stable regulatory environment, to achieve energy sales growth while containing costs, and to recover costs related to growing demand and increasingly stricter environmental standards. Future earnings in the near term will depend, in part, upon growth in 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 in the service area.

## RESULTS OF OPERATIONS

A condensed income statement is as follows:

| | Amount | Increase (Decrease) From Prior Year | | |
|---|---|---|---|---|
| | **2003** | **2003** | 2002 | 2001 |
| | | (in thousands) | | |
| Operating revenues | **$869,924** | **$45,759** | $28,100 | $108,463 |
| Fuel | **229,251** | **(53,142)** | 4,447 | 86,819 |
| Purchased power | **93,197** | **41,864** | (43,911) | (11,895) |
| Other operation and maintenance | **300,118** | **68,105** | 41,015 | 23,193 |
| Depreciation and amortization | **55,700** | **(1,938)** | 3,561 | 3,802 |
| Taxes other than income taxes | **53,991** | **(1,527)** | 10,552 | (3,720) |
| Total operating expenses | **732,257** | **53,362** | 15,664 | 98,199 |
| Operating income | **137,667** | **(7,603)** | 12,436 | 10,264 |
| Other income (expense), net | **(18,853)** | **7,525** | 2,036 | 4,828 |
| Less -- Income taxes | **45,315** | **(564)** | 5,346 | 6,177 |
| Net Income | **$ 73,499** | **$ 486** | $ 9,126 | $ 8,915 |

### *Revenues*

Details of the Company's operating revenues in 2003 and the prior two years are as follows:

| | Amount | | |
|---|---|---|---|
| | **2003** | 2002 | 2001 |
| | | (in thousands) | |
| Retail -- prior year | **$ 536,827** | $ 489,153 | $498,551 |
| Change in -- | | | |
| Base rates | **-** | 38,143 | - |
| Sales growth | **1,175** | 566 | (1,048) |
| Weather | **(1,542)** | 3,533 | (1,953) |
| Fuel cost recovery and other | **(20,159)** | 5,432 | (6,397) |
| Retail -- current year | **516,301** | 536,827 | 489,153 |
| Sales for resale -- | | | |
| Non-affiliates | **249,986** | 224,275 | 204,623 |
| Affiliates | **26,723** | 46,314 | 85,652 |
| Total sales for resale | **276,709** | 270,589 | 290,275 |
| Contract termination | **62,111** | - | - |
| Other electric operating revenues | **14,803** | 16,749 | 16,637 |
| Total electric operating revenues | **$869,924** | $824,165 | $796,065 |
| Percent change | **5.6%** | 3.5% | 15.8% |

Total retail revenues for 2003 decreased approximately 3.8 percent when compared to 2002 as a result of decreased fuel revenues and to the lesser extent decreases in kilowatt-hour energy sales due to milder than normal weather in the Company's service area and the sluggish economy. Retail revenues for 2002 increased approximately 9.7 percent when compared to 2001, primarily due to a retail rate increase which took effect in January 2002 and, to a lesser extent, higher kilowatt-hour energy sales resulting from colder winter weather. See Note 3 to the financial statements under "2001 Retail Rate Case" for additional information. Retail revenues for 2001 reflected a 1.9 percent decrease from 2000 due to lower energy sales to residential, commercial, and industrial customers as a result of mild weather and a slowdown in manufacturing activity in the Company's service territory.

Fuel revenues generally represent the direct recovery of fuel expense including purchased power. Therefore, changes in recoverable fuel expenses are offset with corresponding changes in fuel revenues and have no effect on net income. During 2003, the fuel cost recovery and other revenues decreased $20 million compared to 2002 due to a reduction in rates that became effective in 2003.

Sales for resale to non-affiliates are influenced by the non-affiliate utilities' own customer demand, plant availability, and cost of predominant fuels. Included in sales for resale to non-affiliates are revenues from rural electric cooperative associations and municipalities located in southeastern Mississippi. Sales to these utilities remained relatively flat in 2003 compared to 2002, increased 8.0 percent in 2002, and decreased 3.7 percent in 2001, with the related revenues increasing 1.6 percent, increasing 19.8 percent, and decreasing 2.4 percent, respectively. The customer demand experienced by these utilities is determined by factors very similar to those of the Company. Total revenues from sales for resale to non-affiliates increased in 2003 as a result of increases in average sales price per kilowatt-hour and increased kilowatt-hour sales to wholesale non-affiliate customers. Revenues from sales for resale to non-affiliates increased in 2002 and 2001, primarily as the result of a new power sales contract that began in June 2001, as well as colder winter months during 2002.

In May 2003, the Company entered into an agreement with Dynegy that resolved and terminated in 2003 all outstanding matters related to capacity sales contracts with subsidiaries of Dynegy. The termination payment from Dynegy resulted in an increase in other electric revenues of $62 million for the year 2003. See Note 3 to the financial statements under "Contract Termination" for additional information.

### *Energy Sales*

Energy sales to affiliated companies within the Southern Company electric system vary from year to year depending on demand and the availability and cost of generating resources at each company. These sales do not have a significant impact on earnings since the energy is generally sold at marginal cost.

Kilowatt-hour (KWH) sales for 2003 and percent change by year were as follows:

| | KWH | Percent Change | | |
|---|---|---|---|---|
| | 2003 | 2003 | 2002 | 2001 |
| | (in millions) | | | |
| Residential | **2,256** | **(1.9)%** | 6.3% | (5.4)% |
| Commercial | **2,914** | **0.4** | 2.1 | (1.5) |
| Industrial | **4,111** | **(1.2)** | (2.7) | (2.3) |
| Other | **40** | **-** | - | (0.3) |
| Total retail | **9,321** | **(0.9)** | 0.1 | (2.8) |
| Sales for Resale | | | | |
| Non-Affiliated | **5,875** | **9.2** | 7.4 | 36.4 |
| Affiliated | **709** | **(55.3)** | (46.3) | 552.3 |
| Total | **15,905** | **(2.8)** | (5.3) | 26.0 |

Total retail kilowatt-hour sales decreased in 2003 as the result of milder weather in 2003 when compared to 2002. Total retail kilowatt-hour sales increased slightly in 2002 due to colder than average winter weather, which primarily affected residential sales. In addition, commercial sales increased 2.1 percent in 2001 due primarily to growth in the health, education, and retail sales areas. Industrial sales fell 2.7 percent in 2002 due to an economic downturn in the Company's service area. In 2001, residential sales decreased 5.4 percent due to unusually mild weather in the Company's service area. The commercial sales and industrial sales in 2001 decreased 1.5 percent and 2.3 percent, respectively, due to an economic slowdown in the Company's service area. Kilowatt-hour sales for non-affiliated sales for resale increased in 2002 and 2001 due to the increased demand from these customers and the commercial operation of Plant Daniel Units 3 and 4 in May 2001.

The Company anticipates relatively slow growth over the next five years due to a slow recovery from the national and area economic downturn and a maturing of the gaming and tourism industry. Retail sales are expected to grow at an annual average rate of approximately 1% through 2008, with increases expected in the local, state, and federal government sectors, as well as increases in shipbuilding, education, and health care.

### *Expenses*

Total operating expenses were $732 million in 2003, which reflects an increase of 7.9 percent over 2002. The increase in 2003 is due primarily to $60 million in Plant Daniel capacity expense recorded in connection with an interim accounting order from the MPSC. See Note 3 to the financial statements under "Retail Regulatory Filing" for further information. In 2002, total operating expenses were $679 million, reflecting an increase of 2.4 percent over the prior year. The increase was due primarily to increases in maintenance expense due to planned outages at Plant Watson and Plant Daniel and a full year of rental expense for Plant Daniel Units 3 and 4, as well as a slight increase in fuel expense. In 2001, total operating expenses increased by 17.4 percent over the prior year due primarily to the commercial operation and related lease of Plant Daniel Units 3 and 4 beginning in May 2001. See Note 7 to the financial statements under "Operating Leases -- Plant Daniel Combined Cycle Generating Units" for additional information.

Fuel costs are the single largest expense for the Company. The mix of fuel sources for generation of electricity is determined primarily by demand, the unit cost of fuel consumed, and the availability of fossil generating units. The amount and sources of generation and the average cost of fuel per net kilowatt-hour generated and the average cost of purchased power were as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Total generation (millions of kilowatt hours) | **12,850** | 15,079 | 15,770 |
| Sources of generation (percent) -- | | | |
| Coal | **74** | 57 | 59 |
| Gas | **26** | 43 | 41 |
| Average cost of fuel per net kilowatt-hour generated (cents) -- | **1.95** | 2.03 | 1.89 |
| Average cost of purchased power per kilowatt-hour (cents) -- | **2.55** | 2.61 | 4.27 |

Fuel expense for 2003 decreased 18.8 percent due to decreased generation and lower average cost of fuel. Fuel expense for 2002 and 2001 increased 1.6 percent and 45.4 percent, respectively. The increase for 2002 was due to a fuel hedging loss, which is approved for recovery through the Energy Cost Management Plan (ECM), authorized by the MPSC. The 2001 increase was due to increased generation in conjunction with the

initial operation of Plant Daniel Units 3 and 4 and a higher average cost of fuel.

In 2003, purchased power expense increased $41.9 million or 81.6 percent. The increase is primarily due to an increase in purchased power expense from affiliate companies. Those purchases were more economical than self generation due to the increase in the cost of natural gas in 2003. Energy purchases vary from year to year depending on demand and the availability and cost of generating resources at the Company. These expenses do not have a significant impact on earnings since the energy purchases are generally offset by energy revenues through the Company's retail and wholesale fuel cost recovery clauses. In 2002, purchased power expense decreased 46.1 percent when compared to 2001. This decrease resulted from both lower prices and lower purchase requirements, primarily due to the commercial operation of Plant Daniel Units 3 and 4 beginning in May 2001. In 2001, purchased power expense decreased 11.1 percent primarily due to the commercial operation of Plant Daniel Units 3 and 4 and the expiration of non-affiliated purchase power contracts in 2000.

Other operation expense increased $71.7 million or 45.3 percent in 2003, primarily due to approximately $11 million incurred to restructure the lease agreement for the combined cycle generating units at Plant Daniel and $60 million in expense recorded in connection with the recognition of a regulatory liability following an interim accounting order from the MPSC related to Plant Daniel capacity expense. See Notes 3 and 7 to the financial statements under "Retail Regulatory Filing" for further information regarding the Plant Daniel capacity. Also, see "Financial Condition and Liquidity -- Off-Balance Sheet Financing Arrangements" herein and Note 7 to the financial statements under "Operating Leases -- Plant Daniel Combined Cycle Generating Units" for further information regarding the Plant Daniel lease. In 2002, other operation expense increased 17.4 percent primarily due to lease payments associated with the commercial operation of Plant Daniel Units 3 and 4 and higher labor related expenses. In 2001, other operation expense increased 17.2 percent primarily due to an increase in other production expenses resulting from the commercial operation of Plant Daniel Units 3 and 4.

Maintenance expense decreased 4.9 percent in 2003 primarily due to a decrease in the long term service agreement expense of $5 million. The decrease was attributable to the decrease in fired operating hours at Plant Daniel Units 3 and 4 of approximately 50 percent. In 2002, maintenance expense increased 31.2 percent primarily due to scheduled maintenance performed at Plant Watson and Plant Daniel, while maintenance expense in 2001 increased 6.5 percent as a result of the commercial operation of Plant Daniel Units 3 and 4.

In 2003, depreciation and amortization expense decreased $1.9 million compared to 2002 primarily due to a reduction in the amortization of environmental expenses based on the Company's Environmental Compliance Overview Plan (ECO Plan) filing with the MPSC. In 2002 and 2001, depreciation and amortization expense increased 6.6 percent and 7.6 percent, respectively, due to a growth in plant investment and amortization of the Company's regulatory asset related to the recovery of environmental compliance costs. See Note 3 to the financial statements under "Environmental Compliance Overview Plan" for further information.

Taxes other than income taxes decreased 2.8 percent in 2003 primarily due to lower property taxes in 2003. Taxes other than income taxes increased 23.5 percent in 2002 due to additional property taxes related to Plant Daniel Units 3 and 4 and higher municipal franchise taxes. These taxes decreased 7.6 percent in 2001 due to reductions in certain ad valorem tax rates. The decrease in total other income and expense is due to interest on long-term debt decreasing in 2003, 2002, and 2001 as a result of lower interest rates on debt outstanding and lower principal amount of debt outstanding.

**Effects of Inflation**

The Company is subject to rate regulation that is based on the recovery of historical costs. In addition, the income tax laws are also based on historical costs. Therefore, inflation creates an economic loss because the Company is recovering its costs of investments in dollars that have less purchasing power. While the inflation rate has been relatively low in recent years, it continues to have an adverse effect on the Company because of the large investment in utility plant with long economic lives. Conventional accounting for historical cost does not recognize this economic loss nor the

partially offsetting gain that arises through financing facilities with fixed-money obligations, such as long-term debt and preferred securities. Any recognition of inflation by regulatory authorities is reflected in the rate of return allowed in the Company's approved electric rates.

## Future Earnings Potential

### *General*

The results of operations for the past three years are not necessarily indicative of future earnings potential. The level of the Company's future earnings depends on numerous factors. These factors affect the opportunities, challenges, and risk of the Company's business of selling electricity. These factors include the Company's ability to maintain a stable regulatory environment, to achieve energy sales growth while containing costs, and to recover costs related to growing demand and increasingly stricter environmental standards. Future earnings for the electricity business in the near term will depend, in part, upon growth in 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 in the service area.

### *Industry Restructuring*

The Company operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located in southeastern Mississippi and wholesale customers in the Southeast. Prices for electricity provided by the Company to retail customers are set by the MPSC under cost-based regulatory principles. The Federal Energy Regulatory Commission (FERC) regulates the Company's wholesale rate schedules, wholesale power sales contracts, and wholesale transmission services.

The electric utility industry in the United States is continuing to evolve as a result of regulatory and competitive factors. Among the early primary agents of change was the Energy Policy Act of 1992 (Energy Act). The Energy Act allowed independent power producers to access a utility's transmission network and sell electricity to other utilities.

Although the Energy Act does not provide for retail customer access, it was a major catalyst for the restructuring and consolidation that took place within the utility industry. Numerous federal and state initiatives that promote wholesale and retail competition are in varying stages. Among other things, these initiatives allow retail customers in some states to choose their electricity provider. Some states have approved initiatives that result in a separation of the ownership and/or operation of generating facilities from the ownership and/or operation of transmission and distribution facilities. While various restructuring and competition initiatives have been discussed in Mississippi, none have been enacted.

In May 2000, the MPSC ordered that its docket reviewing restructuring of the electric industry in the State of Mississippi be suspended. The MPSC found that retail competition may not be in the public interest at this time and ordered that no further formal hearings would be held on the subject. It also found that the current regulatory structure produced reliable low cost power and "should not be changed without clear and convincing demonstration that change would be in the public interest." The MPSC will continue to monitor retail and wholesale restructuring activities throughout the United States and reserves its right to order further formal hearings on the matter should new evidence demonstrate that retail competition would be in the public interest and all customers could receive a reduction in the total cost of their electric service. If the MPSC decides to hold future restructuring hearings on this matter, enactment could require numerous issues to be resolved, including recovery of any stranded investments, full cost recovery of energy produced and other issues related to the energy crisis that occurred in California, as well as the August 2003 power outage in the Northeast.

Since 2001, merchant energy companies and traditional electric utilities with significant energy marketing and trading activities have come under severe financial pressures. Many of these companies have completely exited or drastically reduced all energy marketing and trading activities and sold foreign and domestic electric infrastructure assets. The Company has not experienced any material adverse financial impact regarding its limited energy trading operations through Southern Company Services (SCS).

Continuing to be a low-cost producer could provide significant opportunities to increase the size and profitability in markets that evolve with changing regulation and competition. Conversely, future regulatory changes could adversely affect the Company's growth, and if the Company does not remain a low-cost producer and provide quality service, then the Company's energy sales growth could be limited, and this could significantly erode earnings.

***Environmental Matters***

*New Source Review Actions*

In November 1999, the Environmental Protection Agency (EPA) brought a civil action against Alabama Power, Georgia Power, and SCS. The complaint alleged violations of the New Source Review (NSR) provisions of the Clean Air Act with respect to five coal-fired generating facilities in Alabama and Georgia. The civil action requested penalties and injunctive relief, including an order requiring the installation of the best available control technology at the affected units. The EPA concurrently issued to the retail operating companies notices of violation relating to 10 generating facilities, which include the five facilities mentioned previously and the Company's Plants Watson and Greene County. In early 2000, the EPA filed a motion to amend its complaint to add the violations alleged in its notices of violation and to add Gulf Power, the Company, and Savannah Electric as defendants. However, in March 2001, the court denied the motion with respect to the Company and Gulf Power based on lack of jurisdiction and the EPA has not refiled. See Note 3 to the financial statements under "New Source Review Actions" for additional information.

In December 2002 and October 2003, the EPA issued final revisions to its NSR regulations under the Clean Air Act. The December 2002 revisions included changes to the regulatory exclusions and the methods of calculating emissions increases. The October 2003 regulations clarified the scope of the existing Routine Maintenance, Repair, and Replacement exclusion. A coalition of states and environmental organizations filed petitions for review of these revisions with the U.S. Court of Appeals for the District of Columbia Circuit. On December 24, 2003, the court of appeals granted a stay of the October 2003 revisions pending its review of the rules and ordered that its review be conducted on an expedited basis. In January 2004, the Bush Administration announced that it would continue to enforce the existing rules until the courts resolve legal challenges to the EPA's revised NSR regulations. In any event, the final regulations must be adopted by the State of Mississippi in order to apply to the Company's facilities. The effect of these final regulations and the related legal challenges cannot be determined at this time.

The Company believes that it complied with applicable laws and the EPA's regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes civil penalties of up to $27,500 per day, per violation at each generating unit. An adverse outcome of this matter could require substantial capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. This could affect future results of operations, cash flows, and possibly financial condition if such costs are not recovered through regulated rates.

*Environmental Statutes and Regulations*

The Company's operations are subject to extensive regulation by state and federal environmental agencies under a variety of statutes and regulations governing environmental media, including air, water, and land resources. Compliance with these environmental requirements will involve significant costs -- both capital and operating -- a major portion of which is expected to be recovered through existing ratemaking provisions, including the Company's ECO Plan. The ECO Plan is designed to allow recovery of costs of compliance with the Clean Air Act, as well as other environmental statutes and regulations. The MPSC reviews environmental projects and the Company's environmental policy through the ECO Plan. Under the ECO Plan, any increase in the annual revenue requirement is limited to two percent of retail revenues. The Company's management believes that the ECO Plan provides for recovery of the Clean Air Act costs; however, there can be no assurance that all Clean Air Act costs will be recovered. See Note 3 to the financial statements under "Environmental Compliance Overview Plan" for additional information. Environmental costs that are known and estimable at this time are included in

pital expenditures discussed under "Capital equirements and Contractual Obligations."

Compliance with the federal Clean Air Act and ulting regulations has been, and will continue to be a ficant focus for the Company. The Title IV acid provisions of the Clean Air Act, for example, red significant reductions in sulfur dioxide and n oxide emissions. Title IV compliance was ve in 2000 and associated construction expenditures totaled approximately $65 million.

In September 1998, the EPA issued regional nitrogen oxide reduction rules to the states for implementation. The final rules require compliance by May 31, 2003 for 19 states, not including Mississippi. However, the Company is affected by this rule through its forty percent ownership interest in Greene County Steam Plant in Alabama.

In July 1997, the EPA revised the national ambient air quality standards for ozone and particulate matter. These revisions made the standards significantly more stringent. In the subsequent litigation of these standards, the U.S. Supreme Court found the EPA's implementation program for the new eight-hour ozone standard unlawful and remanded it to the EPA for further rulemaking. During 2003, the EPA proposed implementation rules designed to address the court's concerns. The EPA plans to designate areas as attainment or nonattainment with the new eight-hour ozone standard in April 2004 and with the new fine particulate matter standard by the end of 2004. These designations will be based on air quality data for 2001 through 2003. Based on the most recent air monitoring data, it is anticipated that all counties in the Company's service area will initially be in attainment with both of these standards. However, the impact of any new standards will depend on the development and implementation of applicable regulations and cannot be determined at this time.

In January 2004, the EPA issued a proposed Interstate Air Quality Rule to address interstate transport of ozone and fine particles. This proposed rule would require additional year-round sulfur dioxide and nitrogen oxide emission reductions from power plants in the eastern United States in two phases – in 2010 and 2015. The EPA currently plans to finalize this rule by 2005. If finalized, the rule could modify or supplant other state implementation plan (SIP) requirements for attainment of the fine particulate matter standard and the eight-hour ozone standard. The impact of this rule on the Company will depend upon the specific requirements of the final rule and cannot be determined at this time.

Further reductions in sulfur dioxide and nitrogen oxides could also be required under the EPA's Regional Haze rules. The Regional Haze rules require states to establish Best Available Retrofit Technology (BART) standards for certain sources that contribute to regional haze. The Company has two plants that could be subject to these rules. The EPA Regional Haze program calls for the State of Mississippi to submit SIPs that contain emission reduction strategies for achieving progress toward the visibility improvement goal. The State of Mississippi is on schedule to accomplish this by December 2007. The SIPs must contain emission reduction strategies for implementing BART and achieving progress toward the Clean Air Act's visibility improvement goal. In 2002, however, the U.S. Court of Appeals for the District of Columbia Circuit vacated and remanded the BART provisions of the federal Regional Haze rules to the EPA for further rulemaking. The EPA has entered into an agreement that requires proposed revised rules in April 2004 and final rules in 2005. Because new BART rules have not been developed and state visibility assessments for progress are only beginning, it is not possible to determine the effect of these rules on the Company at this time.

The EPA's Compliance Assurance Monitoring (CAM) regulations under Title V of the Clean Air Act require that monitoring be performed to ensure compliance with emissions limitations on an ongoing basis. In 2004 and 2005, the Plant Watson and Plant Daniel coal fired units will likely become subject to CAM requirements. The Company is in the process of developing CAM plans for Plant Daniel. The Company's CAM plans for Plant Watson are awaiting approval by the Mississippi Department of Environmental Quality (MDEQ). Due to the CAM plans not yet being approved, the Company cannot determine the ultimate costs associated with implementation of the CAM regulations. Actual ongoing monitoring costs are expensed as incurred and are not material for any year presented.

In January 2004, the EPA issued proposed rules regulating mercury emissions from electric utility boilers. The proposal solicits comments on two possible approaches for the new regulations – a Maximum Achievable Control Technology approach and a cap-and-trade approach. Either approach would require significant reductions in mercury emissions from company facilities. The regulations are scheduled to be finalized by the end of 2004, and compliance could be required as early as 2007. Because the regulations have not been finalized, the impact on the Company cannot be determined at this time.

Several major bills to amend the Clean Air Act to impose more stringent emissions limitations on power plants have been proposed by Congress. Three of these, the Bush Administration's Clear Skies Act, the Clean Power Act of 2003, and the Clean Air Planning Act of 2003, propose to further limit power plant emissions of sulfur dioxide, nitrogen oxides, and mercury. The latter two bills also propose to limit emissions of carbon dioxide. The cost impacts of such legislation would depend upon the specific requirements enacted and cannot be determined at this time.

Domestic efforts to limit greenhouse gas emissions have been spurred by international discussions surrounding the Framework Convention on Climate Change and specifically the Kyoto Protocol, which proposes international constraints on the emissions of greenhouse gases. The Bush Administration does not support U.S. ratification of the Kyoto Protocol or other mandatory carbon dioxide reduction legislation and has instead announced a new voluntary climate initiative, known as Climate VISION, which seeks an 18 percent reduction by 2012 in the rate of greenhouse gas emissions relative to the dollar value of the U.S. economy. The Company is involved in a voluntary electric utility industry sector climate change initiative in partnership with the government. The electric utility sector has pledged to reduce its greenhouse gas intensity 3 percent to 5 percent over the next decade and is in the process of developing a memorandum of understanding with the Department of Energy (DOE) to cover this voluntary program.

The Company must comply with other environmental laws and regulations that cover the handling and disposal of waste and releases of hazardous substances. Under these various laws and regulations, the Company could incur costs to clean up properties. However, such c are expected to be recovered through the ECO Plan. Company conducts studies to determine the extent of required clean up and has recognized in the financial statements the costs for clean up of known sites. Shou remediation be determined to be probable, reasonable estimates of costs to clean up such sites are developed a recognized in the financial statements.

Under the Clean Water Act, the EPA has been developing new rules aimed at reducing impi and entrainment of fish and fish larvae at power plant's cooling water intake structures. On February 16, 2004, the EPA finalized these rules. These rules will require biological studies, and perhaps, retrofits to some intake structures at existing power plants. The impact of these new rules will depend on the results of studies and analyses performed as part of the rules' implementation.

In addition, under the Clean Water Act, the EPA and the MDEQ are developing total maximum daily loads (TMDLs) for certain impaired waters. Establishment of maximum loads by the EPA or state agencies may result in lowering permit limits for various pollutants and a requirement to take additional measures to control non-point source pollution (e.g., storm water runoff) at facilities discharging into waters for which TMDLs are established. Because the effect on the Company will depend on the actual TMDLs and permit limitations established by the implementing agency, it is not possible to determine the effect on the Company at this time.

Several major pieces of environmental legislation are periodically considered for reauthorization or amendment by Congress. These include: the Clean Air Act; the Clean Water Act; the Comprehensive Environmental Response, Compensation, and Liability Act; the Resource Conservation and Recovery Act; the Toxic Substances Control Act; the Emergency Planning & Community Right-to-Know Act; and the Endangered Species Act.

Compliance with possible additional federal or state legislation or regulations related to global climate change, electromagnetic fields, or other environmental and health concerns could also significantly affect the Company. The impact of any new legislation, changes to existing legislation, or environmental regulations could affect many areas of the Company's operations.

he full impact of any such changes, however, cannot be etermined at this time.

*FERC Matters*

*Transmission*

In December 1999, the FERC issued its final rule (Order 2000) on Regional Transmission Organizations (RTOs). Order 2000 encouraged utilities owning transmission systems to form RTOs on a voluntary basis. Southern Company and its retail operating companies, including the Company, worked with a number of utilities in the Southeast to develop a for-profit RTO known as SeTrans. In 2002, the sponsors of SeTrans established a Stakeholder Advisory Committee to provide input into the development of the RTO from other sectors of the electric industry, as well as consumers. During the development of SeTrans, state regulatory authorities expressed concern over certain aspects of the FERC's policies regarding RTOs. In December 2003, the SeTrans sponsors announced that they would suspend work on SeTrans because the regulated utility participants, including Southern Company's retail operating companies, had determined that it was highly unlikely to obtain support of both federal and state regulatory authorities. Any impact of the FERC's rule on the Company will depend on the regulatory reaction to the suspension of SeTrans and future developments, which cannot now be determined.

In July 2002, the FERC issued a notice of proposed rulemaking regarding open access transmission service and standard electricity market design. The proposal, if adopted, would among other things: (1) require transmission assets of jurisdictional utilities to be operated by an independent entity; (2) establish a standard market design; (3) establish a single type of transmission service that applies to all customers; (4) assert jurisdiction over the transmission component of bundled retail service; (5) establish a generation reserve margin; (6) establish bid caps for day ahead and spot energy markets; and (7) revise the FERC policy on the pricing of transmission expansions. Comments on the proposal were submitted by many interested parties, including Southern Company, and the FERC has indicated that it has revised certain aspects of the proposal in response to public comments. Proposed energy legislation would prohibit the FERC from issuing the final rule before October 31, 2006, and from making any final rule effective before December 31, 2006. That legislation has been approved by the House of Representatives but remains pending before the Senate. Passage of the legislation now appears in doubt. It is uncertain whether in the absence of legislation the FERC will move forward with any part or all of the proposed rule. Any impact of this proposal on the Company will depend on the form in which the final rule may be ultimately adopted. However, the Company's financial statements could be adversely affected by changes in the transmission regulatory structure in its regional power market.

*Market-Based Rate Authority*

The Company has obtained FERC approval to sell power to nonaffiliates at market-based prices under specific contracts. Through SCS, as agent, the Company also has FERC authority to make short-term opportunity sales at market rates. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate. In November 2001, the FERC modified the test it uses to consider utilities' applications to charge market-based rates and adopted a new test called the Supply Margin Assessment (SMA). The FERC applied the SMA to several utilities, including Southern Company's retail operating companies, and found them and others to be "pivotal suppliers" in their service areas and ordered the implementation of several mitigation measures. SCS, on behalf of the Company and the other retail operating companies, sought rehearing of the FERC order, and the FERC delayed the implementation of certain mitigation measures. SCS, on behalf of the Company and the other retail operating companies, submitted comments to the FERC in 2002 regarding these issues. In December 2003, the FERC issued a staff paper discussing alternatives and held a technical conference in January 2004. The Company anticipates that the FERC will address the requests for rehearing in the near future. Regardless of the outcome of the SMA proposal, the FERC retains the ability to modify or withdraw the authorization for any seller to sell at market-based rates if it determines that the underlying conditions for having such authority are no longer applicable. The final outcome of this matter will depend on the form in which the SMA test and mitigation measures rules may be ultimately adopted and cannot be determined at this time.

*Wholesale Customer Settlement Agreement*

In February 2002, the Company reached a settlement agreement with certain of its wholesale customers to

increase its wholesale tariff rates effective June 1, 2002. The FERC accepted the settlement agreement and placed the new tariff rates in effect without modification. The settlement agreement resulted in an annual increase in revenues of approximately $10.5 million, the adoption of an ECM provision, and the cost allocation of Plant Daniel Units 3 and 4, similar to the plans approved by the Company's retail jurisdiction.

***Other Matters***

In accordance with Financial Accounting Standards Board (FASB) Statement No. 87, Employers' Accounting for Pensions, the Company recorded non-cash pension income, before tax, of approximately $1.7 million, $2.5 million, and $3.2 million in 2003, 2002, and 2001, respectively. Future pension income is dependent on several factors including trust earnings and changes to the plan. The decline in pension income is expected to continue and become an expense as early as 2006. Postretirement benefit costs for the Company were $4 million, $3.7 million, and $3.3 million in 2003, 2002, and 2001, respectively and are expected to continue to trend upward. A portion of pension income and postretirement benefit costs is capitalized based on construction-related labor charges. Pension income or expense and postretirement benefit costs are a component of regulated rates and generally do not have a long-term effect on net income. For more information regarding pension and postretirement benefits, see Note 2 to the financial statements.

On December 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act). The Medicare Act introduces a prescription drug benefit for Medicare-eligible retirees starting in 2006, as well as a federal subsidy to plan sponsors like the Company that provide prescription drug benefits. In accordance with FASB Staff Position No. 106-1, the Company has elected to defer recognizing the effects of the Medicare Act for its postretirement plans under FASB Statement No. 106, Employers' Accounting for Postretirement Benefits Other than Pension, until authoritative guidance on accounting for the federal subsidy is issued or until a significant event occurs that would require remeasurement of the plans' assets and obligations. The Company anticipates that the benefits it pays after 2006 will be lower as a result of the Medicare Act; however, the retiree medical obligations and costs reported in Note 2 to the financial statements do not reflect these changes. The final accounting guidance could requi changes to previously reported information.

On May 21, 2003, the Company entered into an agreement with Dynegy that resolved and terminated in 2003 all outstanding matters related to a capacity sales contract with a subsidiary of Dynegy. The termination payments from Dynegy resulted in a one-time gain to the Company of approximately $38 million after tax.

On December 5, 2003, the Company filed a request with the MPSC to include 266 megawatts of Plant Daniel Units 3 and 4 generating capacity in jurisdictional cost of service. In addition, the Company proposed to modify certain provisions of its Performance Evaluation Plan (PEP), the mechanism used for evaluating the Company's retail rate levels. The proposed changes include (1) the use of a forward-looking, rather than a historical, test year, (2) adjustments to the performance indicator mechanism, and, (3) an annual, rather than semi-annual, evaluation period. The Company expects the MPSC to make a decision on its proposal during the second quarter of 2004. See Note 3 to the financial statements under "Retail Regulatory Filing" and "2001 Retail Rate Case" for additional information.

In December 2001, the MPSC approved an increase in the Company's annual retail rate revenues of approximately $39 million, effective January 2002. Additionally, the MPSC ordered the Company to reactivate semi-annual evaluations under the PEP, beginning with the 12-month period ending December 31, 2002. In May 2002, the MPSC issued an order adopting new return on equity models to be used in the PEP process. The new models are very similar to those that established the rate increase authorized in December 2001 and were incorporated into the PEP evaluation filing for the period ending December 31, 2002. See Note 3 to the financial statements under "Retail Regulatory Filing" for additional information.

The Company is involved in various matters being litigated and regulatory matters that could affect future earnings. See Note 3 to the financial statements for information regarding material issues.

## ACCOUNTING POLICIES

### Application of Critical Accounting Policies and Estimates

The Company 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. In the application of these policies, certain estimates are made that may have a material impact on the Company's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. Senior management has discussed the development and selection of the critical accounting policies and estimates described below with the Controls and Compliance Committee of the Company's Board of Directors and the Audit Committee of Southern Company's Board of Directors.

#### *Electric Utility Regulation*

The Company is subject to retail regulation by the MSPC and wholesale regulation by the FERC. These regulatory agencies set the rates the Company is permitted to charge customers based on allowable costs. As a result, the Company applies FASB Statement No. 71, Accounting for the Effects of Certain Types of Regulation. Through the ratemaking process, the regulators may require the inclusion of costs or revenues in periods different than when they would be recognized by a non-regulated company. This treatment may result in the deferral of expenses and the recording of related regulatory assets based on anticipated future recovery through rates or the deferral of gains or creation of liabilities and the recording of related regulatory liabilities. The application of Statement No. 71 has a further effect on the Company's financial statements as a result of the estimates of allowable costs used in the ratemaking process. These estimates may differ from those actually incurred by the Company; therefore, the accounting estimates inherent in specific costs such as depreciation and pension and post-retirement benefits have less of a direct impact on the Company's results of operations than they would on a non-regulated company.

As reflected in Note 1 to the financial statements, significant regulatory assets and liabilities have been recorded. Management reviews the ultimate recoverability of these regulatory assets and liabilities based on applicable regulatory guidelines. However, adverse legislation and judicial or regulatory actions could materially impact the amounts of such regulatory assets and liabilities and could adversely impact the Company's financial statements.

#### *Contingent Obligations*

The Company is subject to a number of federal and state laws and regulations, as well as other factors and conditions that potentially subject it to environmental, litigation, income tax, and other risks. See "Future Earnings Potential" and Note 3 to the financial statements for more information regarding certain of these contingencies. The Company periodically evaluates its exposure to such risks and records reserves for those matters where a loss is considered probable and reasonably estimable in accordance with generally accepted accounting principles. The adequacy of reserves can be significantly affected by external events or conditions that can be unpredictable; thus, the ultimate outcome of such matters could materially affect the Company's financial statements. These events or conditions include the following:

- Changes in existing state or federal regulation by governmental authorities having jurisdiction over air quality, water quality, control of toxic substances, hazardous and solid wastes, and other environmental matters.
- Changes in existing income tax regulations or changes in Internal Revenue Service interpretations of existing regulations.
- Identification of additional sites that require environmental remediation or the filing of other complaints in which the Company may be asserted to be a potentially responsible party.
- Identification and evaluation of other potential lawsuits or complaints in which the Company may be named as a defendant.
- Resolution or progression of existing matters through the legislative process, through the court systems, or through the EPA.

#### *Plant Daniel Capacity*

As discussed in Note 3 to the financial statements under "Retail Regulatory Filing," the Company requested and

received an interim accounting order from the MPSC on December 16, 2003. The order directed the Company to expense and record in 2003 a regulatory liability of $60.3 million pending the conclusion of the MPSC's evaluation of the Company's request to include an additional 266 megawatts of Plant Daniel Units 3 and 4 generating capacity in jurisdictional cost of service. The MPSC is not expected to complete its evaluation and issue a final order until the second quarter of 2004. Management believes that the interim accounting order represents a probable liability and that recognition of the expense in 2003 is appropriate. However, if the MPSC ultimately refuses the Company's request, the regulatory liability will be required to be reversed.

***Plant Daniel Operating Lease***

As discussed in Note 7 to the financial statements under "Operating Leases," the Company entered into a lease for a 1,064 megawatt natural gas combined cycle facility at Plant Daniel (Facility) with Juniper Capital L.P. (Juniper). For both accounting and rate recovery purposes, this transaction is treated as an operating lease, which means that the related obligations under this agreement are not reflected on the Company's Balance Sheets. See "Financial Condition and Liquidity – Off-Balance Sheet Financing Arrangements" herein for further information. The operating lease determination was based on assumptions and estimates related to the following:

- Fair market value of the Facility at lease inception.
- The Company's incremental borrowing rate.
- Timing of debt payments and the related amortization of the initial acquisition cost during the initial lease term.
- Residual value of the Facility at the end of the lease term.
- Estimated economic life of the Facility.
- Juniper's status as a voting interest entity.

The determination of operating lease treatment is made at the inception of the lease agreement and is not subject to change unless subsequent changes are made to the agreement. However, in accordance with FASB Interpretation No. 46, Consolidation of Variable Interest Entities, the Company also is required to monitor Juniper's ongoing status as a voting interest entity. Changes in that status could require the Company to consolidate the Facility's assets and the related debt and to record interest and depreciation expense of approximately $34 million annually, rather than annual lease expense of approximately $26 million.

**New Accounting Standards**

***Asset Retirement Obligations***

Prior to January 2003, the Company accrued for the ultimate cost of retiring most long-lived assets over the life of the related asset through depreciation expense. FASB Statement No. 143, Accounting for Asset Retirement Obligations, established new accounting and reporting standards for legal obligations associated with the ultimate cost of retiring long-lived assets. The present value of the ultimate costs for an asset's future retirement is recorded in the period in which the liability is incurred. The costs are capitalized as part of the related long-lived asset and depreciated over the asset's useful life. Additionally, non-regulated companies are no longer permitted to continue accruing future retirement costs for long-lived assets that they do not have a legal obligation to retire. For more information regarding the impact of adopting this standard effective January 1, 2003, see Note 1 to the financial statements under "Asset Retirement Obligations and Other Costs of Removal."

***Derivative Instruments***

FASB Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which further amends and clarifies the accounting and reporting for derivative instruments, became effective generally for financial instruments entered into or modified after June 30, 2003. Current interpretations of Statement No. 149 indicate that certain electricity forward transactions subject to unplanned netting -- including those typically referred to as "book outs" -- may only qualify as cash flow hedges if an entity can demonstrate that physical delivery or receipt of power occurred. The Company's forward electricity contracts continue to be exempt from fair value accounting requirements or to qualify as cash flow hedges, with the related gains and losses deferred in other comprehensive income. The implementation of Statement No. 149 did not have a material effect on the Company's financial statements.

In July 2003, the Emerging Issues Task Force (EITF) of FASB issued EITF No. 03-11, which became

effective on October 1, 2003. The standard addresses the reporting of realized gains and losses on derivative instruments and is being interpreted to require book outs to be recorded on a net basis in operating revenues. Adoption of this standard did not have a material impact on the Company's financial statements.

*Variable Interest Entities*

FASB Interpretation No. 46, Consolidation of Variable Interest Entities, which was originally issued in January 2003, requires the primary beneficiary of a variable interest entity to consolidate the related assets and liabilities. The Company's previous interest in a variable interest entity related to the lease arrangement for certain facilities at Plant Daniel was restructured prior to the original effective date of July 1, 2003, and is no longer subject to Interpretation No. 46. See Note 7 to the financial statements under "Operating Leases -- Plant Daniel Combined Cycle Generating Units" for additional information. In December 2003, the FASB revised Interpretation No. 46 and deferred the effective date until March 31, 2004, for interests held in variable interest entities other than special purpose entities.

Current analysis indicates that the trust established by the Company to issue preferred securities is a variable interest entity under Interpretation No. 46, and that the Company is not the primary beneficiary of this trust. If this conclusion is finalized, effective March 31, 2004, the trust assets and liabilities -- including the preferred securities issued by the trust -- will be deconsolidated. The investments in the trust and the loans from the trust to the Company will be reflected as equity method investments and as long-term notes payable to affiliates, respectively, on the Balance Sheets. Based on December 31, 2003 values, this treatment would result in an increase of approximately $1 million to both total assets and total liabilities. See Note 6 to the financial statements under "Mandatorily Redeemable Preferred Securities" for additional information.

*Liabilities and Equity*

In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, which requires classification of certain financial instruments within its scope, including shares that are mandatorily redeemable, as liabilities. Statement No. 150 was effective for financial instruments entered into or modified after May 31, 2003, and otherwise on July 1, 2003. In accordance with Statement No. 150, mandatorily redeemable preferred securities are reflected on the Balance Sheets as liabilities. The adoption of Statement No. 150 had no impact on the Statements of Income and Cash Flows.

## FINANCIAL CONDITION AND LIQUIDITY

### Overview

During 2003, the Company operated at high levels of reliability while achieving industry-leading customer satisfaction levels and continuing to have retail prices below the national average.

The Company's ratio of common equity to total capitalization, excluding long-term debt due within one year, increased from 62.5 percent in 2002 to 66.4 percent at December 31, 2003.

The principal changes in the Company's financial condition during 2003 were the addition of approximately $69.3 million to utility plant and the reduction of long-term debt. See the Statements of Cash Flows for additional information.

### Sources of Capital

The Company plans to obtain the funds required for construction and other purposes, including compliance with environmental regulations, from sources similar to those used in the past. These sources were primarily the issuance of unsecured debt and preferred securities, in addition to pollution control revenue bonds issued for the Company's benefit by public authorities. However, the type and timing of any future financings--if needed--will depend on market conditions and regulatory approval.

The Company has no restrictions on the amounts of unsecured indebtedness it may incur. However, the Company is required to meet certain coverage requirements specified in its mortgage indenture and corporate charter to issue new first mortgage bonds and preferred stock. The Company's coverage ratios are high enough to permit, at present interest rate levels, any foreseeable security sales. The amount of securities

which the Company will be permitted to issue in the future will depend upon market conditions and other factors prevailing at that time.

The Company obtains financing separately without credit support from any affiliate. The Southern Company system does not maintain a centralized cash or money pool. Therefore, funds of the Company are not commingled with funds of any other company. In accordance with the Public Utility Holding Company Act, most loans between affiliated companies must be approved in advance by the Securities and Exchange Commission (SEC).

At December 31, 2003, the Company's current liabilities exceed current assets because of the scheduled maturity of $80 million of adjustable rate long-term notes payable in 2004.

To meet short-term cash needs and contingencies, the Company has various internal and external sources of liquidity. At the beginning of 2004, the Company had approximately $69 million of cash and cash equivalents and $100 million of unused credit arrangements with banks, as shown in the following table. The Company may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper and extendible commercial notes at the request and for the benefit of the Company and the other Southern Company retail operating companies. Proceeds from such issuances for the benefit of the Company are loaned directly to the Company and are not commingled with proceeds from such issuances for the benefit of any other operating company. The obligations of each company under these arrangements are several; there is no cross affiliate credit support. At December 31, 2003, the Company had no outstanding commercial paper or extendible commercial notes.

At the beginning of 2004, the bank credit arrangements are as follows:

| | | Expires | |
|---|---|---|---|
| Total | Unused | 2004 | 2005 & Beyond |
| | | (in millions) | |
| $100 | $100 | $100 | - |

See the Statement of Cash Flows and Note 6 to the financial statements under "Bank Credit Arrangements" for additional information.

**Financing Activities**

During 2003, the Company continued a program to retire higher-cost debt and replace these securities with lower-cost capital. See the Statements of Cash Flows for further details. As a result, composite financing rates have decreased as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Composite interest rate on long-term debt | **3.26%** | 4.10% | 4.60% |
| Composite preferred stock dividend rate | **6.33%** | 6.33% | 6.33% |
| Composite distribution rate on preferred securities | **7.20%** | 7.20% | 7.75% |

In February 2003, the Company redeemed $33 million of 7.45% first mortgage bonds, originally due in 2023, and $850,000 of 5.8% pollution control revenue bonds, originally due in 2007.

In April 2003, the Company issued $90 million of Series E 5-5/8% Senior Notes due May 1, 2033. The proceeds from this sale were used to repay at maturity $35 million of the Company's Series B 6.05% Senior Notes due May 1, 2003, to redeem the $51.6 million outstanding principal amount of the Company's Series A 6.75% Senior Insured Quarterly Notes due June 30, 2038, and to repay a portion of the Company's outstanding short-term indebtedness.

**Off-Balance Sheet Financing Arrangements**

In June 2003 the Company entered into a restructured lease agreement for the Facility with Juniper, as discussed in Note 7 to the financial statements under "Operating Leases." Juniper has also entered into leases with other parties unrelated to the Company. The assets leased by the Company comprise less than 50 percent of Juniper's assets. In accordance with FASB Interpretation No. 46, the Company does not consolidate the leased assets and related liabilities, and the lease with Juniper is considered an operating lease under FASB Statement No. 13. Accordingly, the lease is not reflected on the Company's Balance Sheets.

The initial lease term ends in 2011, and the lease

includes a purchase and renewal option based on the cost of the Facility at the inception of the lease, which was $369 million. The Company is required to amortize approximately four percent of the initial acquisition cost over the initial lease term. Eighteen months prior to the end of the initial lease, the Company may elect to renew for 10 years. If the lease is renewed, the agreement calls for the Company to amortize an additional 17 percent of the initial completion cost over the renewal period. Upon termination of the lease, at the Company's option, it may either exercise its purchase option or the Facility can be sold to a third party.

The lease also provides for a residual value guarantee -- approximately 73 percent of the acquisition cost -- by the Company that is due upon termination of the lease in the event that the Company does not renew the lease or purchase the Facility and that the fair market value is less than the unamortized cost of the Facility.

**Credit Rating Risk**

The Company does not have any credit agreements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain fixed-price physical gas purchase contracts that could require collateral -- but not accelerated payment -- in the event of a credit rating change to below investment grade; however, at December 31, 2003, this exposure was immaterial.

**Market Price Risk**

Due to cost-based rate regulations, the Company has limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. To manage the volatility attributable to these exposures, the Company nets the exposures to take advantage of natural offsets and enters into various derivative transactions for the remaining exposures pursuant to the Company's policies in areas such as counterparty exposure and hedging practices. Company policy is that derivatives are to be used primarily for hedging purposes. Derivative positions are monitored using techniques that include market valuation and sensitivity analysis.

The weighted average interest rate on variable long-term debt outstanding at December 31, 2003 was 1.3 percent. Based on the Company's overall variable rate long-term debt exposure at December 31, 2003, a near-term 100 basis point change in interest rates would affect annualized interest expense by approximately $1.6 million. The Company is not aware of any facts or circumstances that would significantly affect such exposures in the near term.

To mitigate residual risks relative to movements in electricity prices, the Company enters into fixed price contracts for the purchase and sale of electricity through the wholesale electricity market. At December 31, 2003, exposure from these activities was not material to the Company's financial statements.

In addition, at the instruction of the MPSC, the Company has implemented a fuel-hedging program. At December 31, 2003, exposure from these activities was not material to the Company's financial statements.

Fair value of changes in energy contracts and year-end valuations are as follows:

| | Change in Fair Value | |
|---|---|---|
| | **2003** | 2002 |
| | (in thousands) | |
| Contracts beginning of year | **$ 12,864** | $ (3,830) |
| Contracts realized or settled | **(17,210)** | (1,562) |
| Current period changes | **6,816** | 18,256 |
| Contracts end of year | **$ 2,470** | $ 12,864 |

At December 31, 2003, all of these contracts are actively quoted and mature within one year. These contracts are related to fuel hedging programs under which unrealized gains and losses from mark to market adjustments are recorded as regulatory assets and liabilities. Realized gains and losses from these programs are included in fuel expense and are recovered through the Company's fuel cost recovery clause. Gains and losses on contracts that do not represent hedges are recognized in the Statements of Income as incurred. For the years ended December 31, 2003, 2002, and 2001, these amounts were not material.

At December 31, 2003, the fair value of derivative energy contracts was reflected in the financial statements as follows:

| | Amounts |
|---|---|
| | (in thousands) |
| Regulatory liabilities, net | **$2,468** |
| Net income | **2** |
| Total fair value | **$2,470** |

The Company is exposed to market price risk in the event of nonperformance by counterparties to the derivative energy contracts. The Company's policy is to enter into agreements with counterparties that have investment grade credit ratings by Moody's and Standard & Poor's or with counterparties who have posted collateral to cover potential credit exposure. Therefore, the Company does not anticipate market risk exposure from nonperformance by the counterparties. For further information see Notes 1 and 6 to the financial statements under "Financial Instruments."

**Capital Requirements and Contractual Obligations**

The construction program of the Company is currently estimated to be $80 million for 2004, $70 million for 2005, and $98 million for 2006. Environmental expenditures included in these amounts are $2.7 million, $5.3 million, and $12.6 million for 2004, 2005, and 2006, respectively. Actual construction costs may vary from this estimate because of changes in such factors as: business conditions; environmental regulations; FERC rules and transmission regulations; load projections; the cost and efficiency of construction labor, equipment, and materials; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

Other funding requirements relate to obligations associated with scheduled maturities of long-term debt and preferred securities, as well as the related interest and distributions, preferred stock dividends, leases, and other purchase commitments are as follows. See Notes 1, 6, and, 7 to the financial statements for additional information.

| | 2004 | 2005-2006 | 2007-2008 | After 2008 | Total |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| Long-term debt and preferred securities [a] -- | | | | | |
| Principal | $ 80,000 | $ - | $ - | $ 237,695 | $ 317,695 |
| Interest and distributions | 11,750 | 21,468 | 21,468 | 265,263 | 319,949 |
| Preferred stock dividends [b] | 2,013 | 4,026 | 4,026 | - | 10,065 |
| Operating leases | 30,982 | 61,839 | 61,407 | 93,355 | 247,583 |
| Purchase commitments [c] | | | | | |
| Capital [d] | 80,166 | 167,525 | - | - | 247,691 |
| Coal | 173,794 | 151,117 | 20,721 | - | 345,632 |
| Natural Gas [e] | 140,328 | 150,270 | 50,743 | 53,845 | 395,186 |
| Long-term service agreements | 10,913 | 22,627 | 19,453 | 128,141 | 181,134 |
| Post retirement benefit trust [f] | 330 | 660 | - | - | 990 |
| Total | $ 530,276 | $ 579,532 | $ 177,818 | $ 778,299 | $2,065,925 |

(a) All amounts are reflected based on final maturity dates. The Company will continue to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit. Variable rate interest obligations are estimated based on rates as of January 1, 2004, as reflected in the Statements of Capitalization.

(b) Preferred stock does not mature; therefore, amounts are provided for the next five years only.

(c) The Company generally does not enter into non-cancelable commitments for other operation and maintenance expenditures. Total other operation and maintenance expenses for the last three years were $300 million, $232 million, and $191 million, respectively.

(d) The Company forecasts capital expenditures over a three-year period. Amounts represent current estimates of total expenditures. At December 31, 2003, significant purchase commitments were outstanding in connection with the construction program.

(e) Natural gas purchase commitments are based on various indices at the time of delivery. Amounts reflected have been estimated based on the New York Mercantile future prices at December 31, 2003.

(f) The Company forecasts postretirement trust contributions over a three-year period. No contributions related to the Company's pension trust are currently expected during this period. See Note 2 to the financial statements for additional information related to the pension plans.

## Cautionary Statement Regarding Forward-Looking Information

The Company's 2003 Annual Report includes forward-looking statements in addition to historical information. Forward-looking information includes, among other things, statements concerning the estimated construction and other expenditures, projections for energy sales, and earnings growth. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," or "continue" or the negative of these terms or other comparable terminology. The Company cautions that there are various important factors that could cause actual results to differ materially from those indicated in the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory change, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry and also changes in environmental, tax and other laws and regulations to which the Company is subject, as well as changes in application of existing laws and regulations;
- current and future litigation, regulatory investigations, proceedings or inquiries, including the pending EPA civil action against the Company;
- the effects, extent, and timing of the entry of additional competition in the markets in which the Company operates;
- the impact of fluctuations in commodity prices, interest rates, and customer demand;
- available sources and costs of fuels;
- ability to control costs;
- investment performance of the Company's employee benefit plans;
- advances in technology;
- state and federal rate regulations and pending and future rate cases and negotiations;
- effects of and changes in political, legal, and economic conditions and developments in the United States, including the current soft economy;
- internal restructuring or other restructuring options that may be pursued;
- potential business strategies, including acquisitions or dispositions of assets, which can not be assumed to be completed or beneficial to the Company;
- the ability of counterparties of the Company to make payments as and when due;
- the ability to obtain new short- and long-term contracts with neighboring utilities;
- the direct or indirect effects on the Company's business resulting from the terrorist incidents on September 11, 2001, or any similar incidents or responses to such incidents;
- financial market conditions and the results of financing efforts, including the Company's credit ratings;
- the ability of the Company to obtain additional generating capacity at competitive prices;
- weather and other natural phenomena;
- the direct or indirect effects on the Company's business resulting from the August 2003 power outage in the Northeast, or any similar incidents;
- the effect of accounting pronouncements issued periodically by standard-setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed from time to time by the Company with the SEC.

## STATEMENTS OF INCOME
**For the Years Ended December 31, 2003, 2002, and 2001**
**Mississippi Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | *(in thousands)* | |
| **Operating Revenues:** | | | |
| Retail sales | **$516,301** | $536,827 | $489,153 |
| Sales for resale -- | | | |
| Non-affiliates | **249,986** | 224,275 | 204,623 |
| Affiliates | **26,723** | 46,314 | 85,652 |
| Contract termination | **62,111** | - | - |
| Other revenues | **14,803** | 16,749 | 16,637 |
| Total operating revenues | **869,924** | 824,165 | 796,065 |
| **Operating Expenses:** | | | |
| Fuel | **229,251** | 282,393 | 277,946 |
| Purchased power -- | | | |
| Non-affiliates | **18,523** | 18,550 | 41,254 |
| Affiliates | **74,674** | 32,783 | 53,990 |
| Other operations -- | | | |
| Plant Daniel capacity | **60,300** | - | - |
| Other | **169,775** | 158,354 | 134,845 |
| Maintenance | **70,043** | 73,659 | 56,153 |
| Depreciation and amortization | **55,700** | 57,638 | 54,077 |
| Taxes other than income taxes | **53,991** | 55,518 | 44,966 |
| Total operating expenses | **732,257** | 678,895 | 663,231 |
| **Operating Income** | **137,667** | 145,270 | 132,834 |
| **Other Income and (Expense):** | | | |
| Interest income | **617** | 655 | 369 |
| Interest expense | **(14,369)** | (18,650) | (23,568) |
| Distributions on mandatorily redeemable preferred securities | **(2,520)** | (3,016) | (2,712) |
| Other income (expense), net | **(568)** | (3,354) | (532) |
| Total other income and (expense) | **(16,840)** | (24,365) | (26,443) |
| **Earnings Before Income Taxes** | **120,827** | 120,905 | 106,391 |
| Income taxes | **45,315** | 45,879 | 40,533 |
| **Earnings Before Cumulative Effect of Accounting Change** | **75,512** | 75,026 | 65,858 |
| Cumulative effect of accounting change-- less income taxes of $43 thousand | **-** | - | 70 |
| **Net Income** | **75,512** | 75,026 | 65,928 |
| **Dividends on Preferred Stock** | **2,013** | 2,013 | 2,041 |
| **Net Income After Dividends on Preferred Stock** | **$ 73,499** | $ 73,013 | $ 63,887 |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CASH FLOWS

**For the Years Ended December 31, 2003, 2002, and 2001**
**Mississippi Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | *(in thousands)* | |
| **Operating Activities:** | | | |
| Net income | **$ 75,512** | $ 75,026 | $ 65,928 |
| Adjustments to reconcile net income | | | |
| to net cash provided from operating activities -- | | | |
| Depreciation and amortization | **60,226** | 61,930 | 58,105 |
| Deferred income taxes and investment tax credits, net | **(8,562)** | (3,404) | (9,718) |
| Plant Daniel capacity | **60,300** | - | - |
| Pension, postretirement, and other employee benefits | **(1,014)** | 730 | (2,467) |
| Tax benefit of stock options | **2,323** | 1,826 | - |
| Other, net | **6,517** | 2,017 | 4,349 |
| Changes in certain current assets and liabilities -- | | | |
| Receivables, net | **21,038** | 6,120 | (7,796) |
| Fossil fuel stock | **2,070** | 4,186 | (20,269) |
| Materials and supplies | **(1,607)** | 1,160 | (1,529) |
| Other current assets | **1,750** | (13,346) | 138 |
| Accounts payable | **(12,292)** | 18,487 | 53,462 |
| Accrued taxes | **(8,976)** | 3,160 | 4,695 |
| Other current liabilities | **(13,804)** | 34,770 | 6,977 |
| Net cash provided from operating activities | **183,481** | 192,662 | 151,875 |
| **Investing Activities:** | | | |
| Gross property additions | **(69,345)** | (67,460) | (61,193) |
| Cost of removal net of salvage | **(5,811)** | (9,987) | (3,042) |
| Other | **(2,080)** | (3,471) | 54 |
| Net cash used for investing activities | **(77,236)** | (80,918) | (64,181) |
| **Financing Activities:** | | | |
| Increase (decrease) in notes payable, net | **-** | (15,973) | (40,027) |
| Proceeds -- | | | |
| Pollution control bonds | **-** | 42,625 | - |
| Senior notes | **90,000** | 80,000 | - |
| Mandatorily redeemable preferred securities | **-** | 35,000 | - |
| Capital contributions from parent company | **4,912** | 16,198 | 73,095 |
| Redemptions -- | | | |
| First mortgage bonds | **(33,350)** | (650) | (36,000) |
| Pollution control bonds | **(850)** | (42,645) | (20) |
| Senior notes | **(86,628)** | (80,550) | (21,001) |
| Mandatorily redeemable preferred securities | **-** | (35,000) | - |
| Payment of preferred stock dividends | **(2,013)** | (2,013) | (2,041) |
| Payment of common stock dividends | **(66,000)** | (63,500) | (50,200) |
| Other | **(5,891)** | (1,491) | (81) |
| Net cash used for financing activities | **(99,820)** | (67,999) | (76,275) |
| **Net Change in Cash and Cash Equivalents** | **6,425** | 43,745 | 11,419 |
| **Cash and Cash Equivalents at Beginning of Period** | **62,695** | 18,950 | 7,531 |
| **Cash and Cash Equivalents at End of Period** | **$ 69,120** | $ 62,695 | $ 18,950 |
| **Supplemental Cash Flow Information:** | | | |
| Cash paid during the period for -- | | | |
| Interest (net of $0, $0, and $0 capitalized, respectively) | **$17,334** | $17,743 | $28,126 |
| Income taxes (net of refunds) | **60,618** | 50,240 | 45,761 |

The accompanying notes are an integral part of these financial statements.

**BALANCE SHEETS**
**At December 31, 2003 and 2002**
**Mississippi Power Company 2003 Annual Report**

| Assets | 2003 | 2002 |
|---|---|---|
| | | *(in thousands)* |
| **Current Assets:** | | |
| Cash and cash equivalents | **$ 69,120** | $ 62,695 |
| Receivables -- | | |
| Customer accounts receivable | **30,514** | 31,136 |
| Unbilled revenues | **19,278** | 18,434 |
| Under recovered regulatory clause revenues | **14,607** | 27,233 |
| Other accounts and notes receivable | **8,088** | 8,056 |
| Affiliated companies | **12,160** | 20,674 |
| Accumulated provision for uncollectible accounts | **(897)** | (718) |
| Fossil fuel stock, at average cost | **25,233** | 27,303 |
| Materials and supplies, at average cost | **23,670** | 22,063 |
| Assets from risk management activities | **2,857** | 13,061 |
| Vacation pay | **5,766** | 5,782 |
| Prepaid income taxes | **27,415** | 18,675 |
| Prepaid expenses | **4,517** | 1,687 |
| Total current assets | **242,328** | 256,081 |
| **Property, Plant, and Equipment:** | | |
| In service | **1,841,668** | 1,786,378 |
| Less accumulated provision for depreciation | **672,730** | 652,358 |
| | **1,168,938** | 1,134,020 |
| Construction work in progress | **25,844** | 34,065 |
| Total property, plant, and equipment | **1,194,782** | 1,168,085 |
| **Other property and investments** | **2,750** | 1,768 |
| **Deferred Charges and Other Assets:** | | |
| Deferred charges related to income taxes | **12,125** | 12,617 |
| Prepaid pension costs | **18,167** | 14,993 |
| Unamortized debt issuance expense | **6,993** | 4,304 |
| Unamortized loss on reacquired debt | **10,201** | 7,776 |
| Prepaid rent | **14,758** | - |
| Other | **16,280** | 16,416 |
| Total deferred charges and other assets | **78,524** | 56,106 |
| **Total Assets** | **$1,518,384** | $1,482,040 |

The accompanying notes are an integral part of these financial statements.

## BALANCE SHEETS
**At December 31, 2003 and 2002**
**Mississippi Power Company 2003 Annual Report**

| Liabilities and Stockholder's Equity | 2003 | 2002 |
|---|---|---|
| | | *(in thousands)* |
| **Current Liabilities:** | | |
| Securities due within one year | $ 80,000 | $ 69,200 |
| Accounts payable -- | | |
| Affiliated | 21,259 | 22,396 |
| Other | 55,309 | 65,372 |
| Customer deposits | 11,863 | 6,855 |
| Accrued taxes -- | | |
| Income taxes | 1,696 | 12,042 |
| Other | 42,834 | 41,464 |
| Accrued interest | 3,223 | 6,562 |
| Accrued vacation pay | 5,766 | 5,782 |
| Accrued compensation | 23,832 | 26,338 |
| Regulatory clauses over recovery | 31,118 | 35,680 |
| Other | 4,867 | 5,533 |
| Total current liabilities | 281,767 | 297,224 |
| **Long-term debt** (See accompanying statements) | 202,488 | 243,715 |
| **Mandatorily redeemable preferred securities** (See accompanying statements) | 35,000 | 35,000 |
| **Deferred Credits and Other Liabilities:** | | |
| Accumulated deferred income taxes | 142,088 | 146,631 |
| Deferred credits related to income taxes | 23,279 | 20,798 |
| Accumulated deferred investment tax credits | 19,841 | 21,054 |
| Employee benefit obligations | 54,830 | 52,840 |
| Plant Daniel lease guarantee obligation, at fair value | 14,758 | - |
| Plant Daniel capacity | 60,300 | - |
| Other cost of removal obligations | 80,588 | 69,873 |
| Miscellaneous regulatory liabilities | 11,899 | 20,807 |
| Other | 27,248 | 24,336 |
| Total deferred credits and other liabilities | 434,831 | 356,339 |
| **Total liabilities** | 954,086 | 932,278 |
| **Preferred stock** (See accompanying statements) | 31,809 | 31,809 |
| **Common stockholder's equity** (See accompanying statements) | 532,489 | 517,953 |
| **Total Liabilities and Stockholder's Equity** | $1,518,384 | $1,482,040 |
| **Commitments and Contingent Matters** (See notes) | | |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CAPITALIZATION
**At December 31, 2003 and 2002**
**Mississippi Power Company 2003 Annual Report**

| | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| | | *(in thousands)* | *(percent of total)* | |
| **Long-Term Debt:** | | | | |
| First mortgage bonds -- | | | | |
| 7.45% due 2023 | $ - | $ 33,350 | | |
| 6.875% due 2025 | **30,000** | 30,000 | | |
| Total first mortgage bonds | **30,000** | 63,350 | | |
| Long-term notes payable -- | | | | |
| 6.05% due May 1, 2003 | - | 35,000 | | |
| 5.63% due May 1, 2033 | **90,000** | - | | |
| 6.75% due June 30, 2038 | - | 51,628 | | |
| Adjustable rates (1.27% at 1/1/04) due 2004 | **80,000** | 80,000 | | |
| Total long-term notes payable | **170,000** | 166,628 | | |
| Other long-term debt -- | | | | |
| Pollution control revenue bonds -- | | | | |
| Collateralized: | | | | |
| 5.80% due 2007 | - | 850 | | |
| Non-collateralized: | | | | |
| Variable rates (1.25% to 1.40% at 1/1/04) due 2020-2028 | **82,695** | 82,695 | | |
| Total other long-term debt | **82,695** | 83,545 | | |
| Unamortized debt premium (discount), net | **(207)** | (608) | | |
| Total long-term debt (annual interest requirement -- $9.2 million) | **282,488** | 312,915 | | |
| Less amount due within one year | **80,000** | 69,200 | | |
| Long-term debt excluding amount due within one year | **202,488** | 243,715 | **25.2%** | 29.5% |
| **Mandatorily Redeemable Preferred Securities:** | | | | |
| $25 liquidation value -- | | | | |
| 7.20% due 2041 | **35,000** | 35,000 | | |
| Total (annual distribution requirement -- $2.5 million) | **35,000** | 35,000 | **4.4** | 4.2 |
| **Cumulative Preferred Stock:** | | | | |
| $100 par value | | | | |
| 4.40% to 7.00% | **31,809** | 31,809 | | |
| Total (annual dividend requirement -- $2.0 million) | **31,809** | 31,809 | **4.0** | 3.8 |
| **Common Stockholder's Equity:** | | | | |
| Common stock, without par value -- | | | | |
| Authorized - 1,130,000 shares | | | | |
| Outstanding - 1,121,000 shares in 2003 and 2002 | **37,691** | 37,691 | | |
| Paid-in capital | **292,515** | 285,280 | | |
| Premium on preferred stock | **326** | 326 | | |
| Retained earnings | **203,419** | 195,920 | | |
| Accumulated other comprehensive income (loss) | **(1,462)** | (1,264) | | |
| Total common stockholder's equity | **532,489** | 517,953 | **66.4** | 62.5 |
| **Total Capitalization** | **$801,786** | $828,477 | **100.0%** | 100.0% |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF COMMON STOCKHOLDER'S EQUITY
**For the Years Ended December 31, 2003, 2002, and 2001**
**Mississippi Power Company 2003 Annual Report**

| | Common Stock | Paid-In Capital | Premium on Preferred Stock | Retained Earnings | Other Comprehensive Income (loss) | Total |
|---|---|---|---|---|---|---|
| | | | *(in thousands)* | | | |
| **Balance at December 31, 2000** | $37,691 | $194,161 | $326 | $172,720 | $ - | $404,898 |
| Net income after dividends on preferred stock | - | - | - | 63,887 | - | 63,887 |
| Capital contributions from parent company | - | 73,095 | - | - | - | 73,095 |
| Cash dividends on common stock | - | - | - | (50,200) | - | (50,200) |
| **Balance at December 31, 2001** | 37,691 | 267,256 | 326 | 186,407 | - | 491,680 |
| Net income after dividends on preferred stock | - | - | - | 73,013 | - | 73,013 |
| Capital contributions from parent company | - | 18,024 | - | - | - | 18,024 |
| Other comprehensive income (loss) | - | - | - | - | (1,264) | (1,264) |
| Cash dividends on common stock | - | - | - | (63,500) | - | (63,500) |
| **Balance at December 31, 2002** | **37,691** | **285,280** | **326** | **195,920** | **(1,264)** | **517,953** |
| Net income after dividends on preferred stock | - | - | - | **73,499** | - | **73,499** |
| Capital contributions from parent company | - | **7,235** | - | - | - | **7,235** |
| Other comprehensive income (loss) | - | - | - | - | **(198)** | **(198)** |
| Cash dividends on common stock | - | - | - | **(66,000)** | - | **(66,000)** |
| **Balance at December 31, 2003** | **$37,691** | **$292,515** | **$326** | **$203,419** | **$(1,462)** | **$532,489** |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF COMPREHENSIVE INCOME
**For the Years Ended December 31, 2003, 2002, and 2001**
**Mississippi Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| **Net income after dividends on preferred stock** | **$73,499** | $73,013 | $63,887 |
| Other comprehensive income (loss): | | | |
| Change in additional minimum pension liability, net of tax of $(123) and $(783), respectively | **(198)** | (1,264) | - |
| Total other comprehensive income (loss) | **(198)** | (1,264) | - |
| **Comprehensive Income** | **$73,301** | $71,749 | $63,887 |

The accompanying notes are an integral part of these financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### General

Mississippi Power Company (the Company) is a wholly owned subsidiary of Southern Company, which is the parent company of five retail operating companies, Southern Power Company (Southern Power), Southern Company Services (SCS), Southern Communications Services (Southern LINC), Southern Company Gas (Southern Company GAS), Southern Company Holdings (Southern Holdings), Southern Nuclear Operating Company (Southern Nuclear), Southern Telecom, and other direct and indirect subsidiaries. The retail operating companies - Alabama Power Company, Georgia Power Company, Gulf Power Company, the Company, and Savannah Electric and Power Company - provide electric service in four Southeastern states. The Company 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. Southern Power constructs, owns, and manages Southern Company's competitive generation assets and sells electricity at market-based rates in the wholesale market. Contracts among the retail operating companies and Southern Power - related to jointly owned generating facilities, interconnecting transmission lines, or the exchange of electric power - are regulated by the Federal Energy Regulatory Commission (FERC) and/or the Securities and Exchange Commission (SEC). SCS--the system service company -- provides, at cost, specialized services to Southern Company and subsidiary companies. Southern LINC provides digital wireless communications services to the retail operating companies and also markets these services to the public within the Southeast. Southern Telecom provides fiber cable services within the Southeast. Southern Company GAS is a competitive retail natural gas marketer serving customers in Georgia. Southern Holdings is an intermediate holding subsidiary for Southern Company's investments in synthetic fuels and leveraged leases and an energy services business. Southern Nuclear operates and provides services to Southern Company's nuclear power plants.

Southern Company is registered as a holding company under the Public Utility Holding Company Act of 1935 (PUHCA). Both Southern Company and its subsidiaries, including the Company, are subject to the regulatory provisions of PUHCA. In addition, the Company is subject to regulation by the FERC and the Mississippi Public Service Commission (MPSC). The Company follows accounting principles generally accepted in the United States and complies with the accounting policies and practices prescribed by its regulatory commissions. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates, and the actual results may differ from those estimates.

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

### Affiliate Transactions

The Company has an agreement with SCS under which the following services are rendered to the Company at cost: general and design engineering, purchasing, accounting and statistical analysis, finance and treasury, tax, information resources, marketing, auditing, insurance and pension administration, human resources, systems and procedures, and other services with respect to business and operations and power pool operations. Costs for these services amounted to $46.2 million, $43.6 million, and $44.1 million during 2003, 2002 and 2001, respectively. Cost allocation methodologies used by SCS are approved by the SEC, and management believes they are reasonable.

The Company has an agreement with Alabama Power under which the Company owns a portion of Greene County Steam Plant. Alabama Power operates Greene County Steam Plant, and the Company reimburses Alabama Power for its proportionate share of all associated expenditures and costs. The Company reimbursed Alabama Power for the Company's proportionate share of related expenses which totaled $6.6 million, $6.4 million and, $5.5 million in 2003, 2002, and 2001, respectively. The Company also has an agreement with Gulf Power under which Gulf Power owns a portion of Plant Daniel. The Company operates Plant Daniel, and Gulf Power reimburses the Company for its proportionate share of all associated expenditures and costs. Gulf Power reimbursed the Company for Gulf Power's proportionate share of related expenses which

totaled $17.7 million, $16.6 million, and $13.1 million in 2003, 2002 and, 2001. See Note 4 for additional information.

The retail operating companies (including the Company), Southern Power, and Southern Company GAS may jointly enter into various types of wholesale energy, natural gas, and certain other contracts, either directly or through SCS as an agent. Each participating company may be jointly and severally liable for the obligations incurred under these agreements.

**Revenues and Fuel Costs**

Energy and other revenues are recognized as services are rendered. Capacity revenues from long-term contracts are recognized at the lesser of the levelized amount or the amount billable under the contract over the respective contract period. Unbilled revenues are accrued at the end of each fiscal period. The Company's retail and wholesale rates include provisions to adjust billings for fluctuations in fuel costs, fuel hedging, the energy component of purchased power costs, and certain other costs. Retail rates also include provisions to adjust billings for fluctuations in costs for ad valorem taxes and certain qualifying environmental costs. Revenues are adjusted for differences between actual allowable amounts and the amounts included in rates.

The Company has a diversified base of customers. For the year ended December 31, 2003, Dynegy, Inc. (Dynegy) accounted for approximately 14.8 percent of revenues as a result of non-recurring contract termination revenues. See Note 3 under "Contract Termination" for additional information. No other single customer or industry accounted for 10 percent or more of revenues in 2003. For the years ended December 31, 2002 and 2001, no single customer or industry accounted for 10 percent or more of revenues. For all periods presented, uncollectible accounts continued to average less than 1/2 percent of revenues.

**Income Taxes**

The Company uses the liability method of accounting for deferred income taxes and provides deferred income taxes for all significant income tax temporary differences. Investment tax credits utilized are deferred and amortized to income over the average lives of the related property.

**Regulatory Assets and Liabilities**

The Company is subject to the provisions of Financial Accounting Standards Board (FASB) Statement No. 71, Accounting for the Effects of Certain Types of Regulation. Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process.

Regulatory assets and (liabilities) reflected in the Balance Sheets at December 31 relate to:

| | 2003 | 2002 | Note |
|---|---|---|---|
| | (in thousands) | | |
| Deferred income tax charges | $ 12,125 | $ 12,617 | (a) |
| Vacation pay | 5,766 | 5,782 | (b) |
| Loss on reacquired debt | 10,201 | 7,776 | (c) |
| Fuel hedging asset | 2,397 | 14,558 | (d) |
| Asset retirement obligations | 689 | - | (a) |
| Other assets | - | 49 | (e) |
| Property damage reserve | (6,796) | (5,077) | (e) |
| Deferred income tax credits | (23,279) | (20,798) | (a) |
| Other cost of removal obligations | (80,588) | (69,873) | (a) |
| Plant Daniel capacity | (60,300) | - | (f) |
| Fuel-hedging liabilities | (3,870) | (14,990) | (d) |
| Other liabilities | (1,756) | (2,450) | (e) |
| Total | $(145,411) | $ (72,406) | |

Note: The recovery and amortization periods for these regulatory assets and (liabilities) are as follows:

(a) Asset retirement and removal liabilities are recorded, deferred income tax assets are recovered and deferred tax liabilities are amortized over the related property lives, which may range up to 50 years. Asset retirement and removal liabilities will be settled and trued up following completion of the related activities.

(b) Recorded as earned by employees and recovered as paid, generally within one year.

(c) Recovered over either the remaining life of the original issue or, if refinanced, over the life of the new issue, which may range up to 50 years.

(d) Fuel-hedging assets and liabilities are recorded over the life of the underlying hedged purchase contracts, which generally do not exceed two years. Upon final settlement, costs are recovered through the fuel cost recovery clause.

(e) Recorded and recovered or amortized as approved by the MPSC.

(f) See Note 3 under "Retail Regulatory Filing."

In the event that a portion of the Company's operations is no longer subject to the provisions of FASB Statement No. 71, the Company would be required to write off related regulatory assets and liabilities that are not specifically recoverable through regulated rates. In addition, the Company would be required to determine if any impairment to other assets, including plant, exists and write down the assets, if impaired, to their fair value. All regulatory assets and liabilities are to be reflected in rates.

**Depreciation and Amortization**

Depreciation of the original cost of plant in service is provided primarily by using composite straight-line rates, which approximated 3.4 percent in 2003, 3.4 percent in 2002, and 3.5 percent in 2001. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its original cost - together with the cost of removal, less salvage - is charged to accumulated depreciation. Minor items of property included in the original cost of the plant are retired when the related property unit is retired. Depreciation expense includes an amount for the expected cost of removal of facilities.

**Asset Retirement Obligations and Other Costs of Removal**

In accordance with regulatory requirements, prior to January 2003, the Company followed the industry practice of accruing for the ultimate cost of retiring most long-lived assets over the life of the related asset as part of the annual depreciation expense provision. In accordance with SEC requirements, such amounts are reflected on the balance sheet as regulatory liabilities. Effective January 1, 2003, the Company adopted FASB Statement No.143, Accounting for Asset Retirement Obligations. Statement No. 143 establishes new accounting and reporting standards for legal obligations associated with the ultimate costs of retiring long-lived assets. The present value of the ultimate costs for an asset's future retirement must be recorded in the period in which the liability is incurred. The costs must be capitalized as part of the related long-lived asset and depreciated over the asset's useful life. Additionally, Statement No. 143 does not permit the continued accrual of future retirement costs for long-lived assets that the Company does not have a legal obligation to retire. However, the Company has received guidance regarding accounting for the financial statement impacts of Statement No. 143 from the MPSC and will continue to recognize the accumulated removal costs for other obligations as a regulatory liability. Therefore, the Company has no cumulative effect to net income resulting from the adoption of Statement No. 143.

The Company has retirement obligations related to various landfill sites, ash ponds, and underground storage tanks. The Company has also identified retirement obligations related to certain transmission and

distribution facilities. However, liabilities for the removal of these transmission and distribution assets have not been recorded because no reasonable estimate can be made regarding the timing of the obligations. The Company will continue to recognize in the income statement allowed removal costs in accordance with its regulatory treatment. Any difference between costs recognized under Statement No. 143 and those reflected in rates are recognized as either a regulatory asset or liability and are reflected in the Balance Sheets.

Details of the asset retirement obligations included in the Balance Sheets are as follows:

| | 2003 |
|---|---|
| | (in millions) |
| Balance, beginning of year | $ - |
| Liabilities incurred | 2.4 |
| Liabilities settled | - |
| Accretion | 0.1 |
| Cash flow revisions | - |
| Balance, end of year | $2.5 |

If Statement No. 143 had been adopted on January 1, 2002, the pro-forma asset retirement obligations would have been $1 million.

**Property, Plant, and Equipment**

Property, plant, and equipment is stated at original cost less regulatory disallowances and impairments. Original cost includes: materials; labor; minor items of property; appropriate administrative and general costs; payroll-related costs such as taxes, pensions, and other benefits; and the cost of funds used during construction, if applicable. The cost of replacements of property - exclusive of minor items of property - is capitalized. The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense except for the cost of maintenance of coal cars and a portion of the railway track maintenance costs, which are charged to fuel stock and recovered through the Company's fuel clause.

**Impairment of Long-Lived Assets and Intangibles**

The Company evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on either a specific regulatory disallowance or an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined either by the amount of regulatory disallowance or by estimating the fair value of the asset and recording a loss for the amount of the carrying value that is greater than the fair value. For assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment provision is required. Until the assets are disposed of, their estimated fair value is re-evaluated when circumstances or events change.

**Cash and Cash Equivalents**

For purposes of the financial statements, temporary cash investments are considered cash equivalents. Temporary cash investments are securities with original maturities of 90 days or less.

**Materials and Supplies**

Generally, materials and supplies include the cost of transmission, distribution, and generating plant materials. Materials are charged to inventory when purchased and then expensed or capitalized to plant, as appropriate, when used or installed.

**Stock Options**

Southern Company provides non-qualified stock options to a large segment of the Company's employees ranging from line management to executives. The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25. Accordingly, no compensation expense has been recognized because the exercise price of all options granted equaled the fair-market value on the date of grant. When options are exercised, the Company receives a capital contribution from Southern Company equivalent to the related income tax benefit.

**Financial Instruments**

The Company uses derivative financial instruments to limit exposure to fluctuations in interest rates, the prices of certain fuel purchases, and electricity purchases and sales. All derivative financial instruments are

recognized as either assets or liabilities and are measured at fair value. Substantially all of the Company's bulk energy purchases and sales contracts that meet the definition of a derivative are exempt from fair value accounting requirements and are accounted for under the accrual method. Other derivative contracts qualify as cash flow hedges of anticipated transactions. This results in the deferral of related gains and losses in other comprehensive income or regulatory assets or liabilities as appropriate until the hedged transactions occur. Any ineffectiveness is recognized currently in net income. Other derivative contracts are marked to market through current period income and are recorded on a net basis in the Statements of Income.

In June 2001, the MPSC approved the Company's request to implement an Energy Cost Management Clause (ECM). ECM, among other things, allows the Company to utilize financial instruments to hedge its fuel commitments. Changes in the fair value of these financial instruments are recorded as regulatory assets or liabilities. Amounts paid or received as a result of financial settlement of these instruments are classified as fuel expense and are included in the ECM factor applied to customer billings. The Company's jurisdictional wholesale customers have a similar ECM mechanism which was approved by the FERC in 2002.

The Company is exposed to losses related to financial instruments in the event of counterparties' nonperformance. The Company has established controls to determine and monitor the creditworthiness of counterparties in order to mitigate the Company's exposure to counterparty credit risk.

The Company's other financial instruments for which the carrying amount did not equal the fair value at December 31 were as follows:

| | Carrying Amount | Fair Value |
|---|---|---|
| | (in millions) | |
| Long-term debt: | | |
| **At December 31, 2003** | **$282** | **$286** |
| At December 31, 2002 | $313 | $313 |
| Preferred securities: | | |
| **At December 31, 2003** | **$35** | **$37** |
| At December 31, 2002 | $35 | $36 |

The fair values were based on either closing market price or closing price of comparable instruments.

**Provision for Property Damage**

The Company carries insurance for the cost of certain types of damage to generation plants and general property. However, the Company is self-insured for the cost of storm, fire, and other uninsured casualty damage to its property, including transmission and distribution facilities. As permitted by regulatory authorities, the Company accrues for the cost of such damage by charging expense and crediting an accumulated provision. The cost of repairing damage resulting from such events that individually exceed $50,000 is charged to the accumulated provision as ordered by the MPSC. The annual accruals may range from $1.5 million to $4.6 million with a maximum reserve totaling $23 million. The Company accrued $2.5 million in 2003, $1.8 million in 2002, and $2.5 million in 2001. As of December 31, 2003, the accumulated provision amounted to $6.8 million.

**Comprehensive Income**

The objective of comprehensive income is to report a measure of all changes in common stock equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners. Comprehensive income consists of net income and changes in additional minimum pension liability, less income taxes and reclassifications for amounts included in net income.

## 2. RETIREMENT BENEFITS

The Company has a defined benefit, trusteed, pension plan that covers substantially all employees. The Company also provides certain non-qualified benefit plans for a selected group of management and highly compensated employees. The plan is funded in accordance with Employee Retirement Income Security Act (ERISA) requirements. No contributions to the plan are expected for the year ending December 31, 2004. The Company provides certain medical care and life insurance benefits for retired employees. Benefits under these non-qualified plans are funded on a cash basis. The Company funds trusts to the extent deductible under federal income tax regulations or the extent required by the MPSC and the FERC. For the year ended December

31, 2004, postretirement benefit contributions are expected to total approximately $330,000.

The measurement date for plan assets and obligations is September 30 for each year. In 2002, the Company adopted several pension and postretirement benefit plan changes that had the effect of increasing benefits to both current and future retirees.

**Pension Plans**

The accumulated benefit obligation for the pension plans was $188 million and $161 million for 2003 and 2002, respectively. Changes during the year in the projected benefit obligations, accumulated benefit obligations, and fair value of plan assets were as follows:

| | Projected Benefit Obligations | |
|---|---|---|
| | **2003** | 2002 |
| | (in thousands) | |
| Balance at beginning of year | **$186,443** | $172,167 |
| Service cost | **5,607** | 5,259 |
| Interest cost | **11,964** | 12,674 |
| Benefits paid | **(9,317)** | (8,386) |
| Actuarial loss and employee transfers | **12,992** | 528 |
| Amendments | **-** | 4,200 |
| Balance at end of year | **$207,689** | $186,442 |

| | Plan Assets | |
|---|---|---|
| | **2003** | 2002 |
| | (in thousands) | |
| Balance at beginning of year | **$188,839** | $211,546 |
| Actual return on plan assets | **30,024** | (14,089) |
| Benefits paid | **(8,512)** | (7,875) |
| Employee transfers | **(66)** | (743) |
| Balance at end of year | **$210,285** | $188,839 |

The plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the Internal Revenue Service (IRS) revenue code. The Company's investment policy covers a diversified mix of assets, including equity and fixed income securities, real estate, and private equity, as described in the table below. Derivative instruments are used primarily as hedging tools but may also be used to gain efficient exposure to the various asset classes. The Company primarily minimizes the risk of large losses through diversification but also monitors and manages other aspects of risk.

| | | Plan Assets | |
|---|---|---|---|
| | Target | **2003** | 2002 |
| Domestic equity | 37% | **37%** | 35% |
| International equity | 20 | **20** | 18 |
| Global fixed income | 26 | **24** | 25 |
| Real estate | 10 | **11** | 12 |
| Private equity | 7 | **8** | 10 |
| Total | 100% | **100%** | 100% |

The accrued pension costs recognized in the Balance Sheets were as follows:

| | **2003** | 2002 |
|---|---|---|
| | (in thousands) | |
| Funded status | **$ 2,596** | $ 2,396 |
| Unrecognized transition obligation | **(1,635)** | (2,180) |
| Unrecognized prior service cost | **15,004** | 16,669 |
| Unrecognized net gain | **(5,507)** | (9,087) |
| Prepaid pension asset, net | **10,458** | 7,798 |
| Portion included in benefit obligations | **7,709** | 7,195 |
| Total prepaid assets recognized in the Balance Sheets | **$18,167** | $14,993 |

In 2003 and 2002, amounts recognized in the Balance Sheets for accumulated other comprehensive income were $2.3 million and $2.0 million, respectively. Intangible assets recognized were $1.4 million in 2003 and $1.7 million in 2002.

Components of the pension plans' net periodic cost were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | | (in thousands) | |
| Service cost | **$ 5,607** | $ 5,259 | $ 4,797 |
| Interest cost | **11,965** | 12,674 | 11,818 |
| Expected return on plan assets | **(18,329)** | (18,380) | (17,328) |
| Recognized net gain | **(1,847)** | (2,654) | (3,012) |
| Net amortization | **862** | 650 | 511 |
| Net pension income | **$ (1,742)** | $ (2,451) | $ (3,214) |

## Postretirement Benefits

Changes during the year in the accumulated benefit obligations and in the fair value of plan assets were as follows:

| | Accumulated Benefit Obligations | |
|---|---|---|
| | **2003** | 2002 |
| | (in thousands) | |
| Balance at beginning of year | **$61,168** | $51,523 |
| Service cost | **1,149** | 959 |
| Interest cost | **3,897** | 3,781 |
| Benefits paid | **(2,813)** | (3,320) |
| Actuarial loss and employee transfers | **8,785** | 8,225 |
| Balance at end of year | **$72,186** | $61,168 |

| | Plan Assets | |
|---|---|---|
| | **2003** | 2002 |
| | (in thousands) | |
| Balance at beginning of year | **$16,078** | $16,269 |
| Actual return on plan assets | **1,979** | (516) |
| Employer contributions | **2,941** | 3,645 |
| Benefits paid | **(2,813)** | (3,320) |
| Balance at end of year | **$18,185** | $16,078 |

Postretirement benefits plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the IRS revenue code. The Company's investment policy covers a diversified mix of assets, including equity and fixed income securities, real estate, and private equity, as described in the table below. Derivative instruments are used primarily as hedging tools but may also be used to gain efficient exposure to the various asset classes. The Company primarily minimizes the risk of large losses through diversification but also monitors and manages other aspects of risk.

| | | Plan Assets | |
|---|---|---|---|
| | Target | **2003** | 2002 |
| Domestic equity | 27% | **27%** | 24% |
| International equity | 14 | **14** | 13 |
| Global fixed income | 47 | **45** | 47 |
| Real estate | 7 | **8** | 9 |
| Private equity | 5 | **6** | 7 |
| Total | 100% | **100%** | 100% |

The accrued postretirement costs recognized in the Balance Sheets were as follows:

| | Accrued Costs | |
|---|---|---|
| | **2003** | 2002 |
| | (in thousands) | |
| Funded status | **$(54,001)** | $(45,090) |
| Unrecognized transition obligation | **3,235** | 3,582 |
| Unrecognized prior service cost | **1,610** | 1,715 |
| Unrecognized net gain | **18,503** | 10,216 |
| Fourth quarter contributions | **926** | 1,029 |
| Accrued liability recognized in the Balance Sheets | **$(29,727)** | $(28,548) |

Components of the postretirement plans' net periodic cost were as follows:

| | Net Periodic Costs | | |
|---|---|---|---|
| | **2003** | 2002 | 2001 |
| | (in thousands) | | |
| Service cost | **$ 1,149** | $ 959 | $ 922 |
| Interest cost | **3,898** | 3,781 | 3,411 |
| Expected return on plan assets | **(1,598)** | (1,514) | (1,409) |
| Transition obligation | **346** | 346 | 346 |
| Prior service cost | **106** | 106 | 80 |
| Recognized net loss | **116** | - | (38) |
| Net postretirement cost | **$ 4,017** | $ 3,678 | $ 3,312 |

The weighted average rates assumed in the actuarial calculations for both the pension plan and postretirement benefits plans were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Discount | **6.00%** | 6.50% | 7.50% |
| Annual salary increase | **3.75** | 4.00 | 5.00 |
| Long-term return on plan assets | **8.50** | 8.50 | 8.50 |

The Company determined the long-term rate of return on based historical asset class returns and current market conditions, taking into account the diversification benefits of investing in multiple asset classes.

An additional assumption used in measuring the accumulated postretirement benefit obligation was a weighted average medical care cost trend rate of 8.25 percent for 2003, decreasing gradually to 5.25 percent through the year 2010 and remaining at that level thereafter. An annual increase or decrease in the assumed

medical care cost trend rate of 1 percent would affect the accumulated benefit obligation and the service and interest cost components at December 31, 2003 as follows:

| | 1 Percent Increase | 1 Percent Decrease |
|---|---|---|
| | (in thousands) | |
| Benefit obligation | **$5,499** | **$4,863** |
| Service and interest costs | **329** | **290** |

**Employee Savings Plan**

The Company also sponsors a 401(k) defined contribution plan covering substantially all employees. The Company provides a 75 percent matching contribution up to 6 percent of an employee's base salary. Total matching contributions made to the plan for the years 2003, 2002, and 2001 were $2.7 million, $2.6 million, and $2.5 million, respectively.

## 3. CONTINGENCIES AND REGULATORY MATTERS

**General Litigation Matters**

The Company is subject to certain claims and legal actions arising in the ordinary course of business. In addition, the Company'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, and citizen enforcement of environmental requirements, has increased generally throughout the United States. In particular, personal injury claims for damages caused by alleged exposure to hazardous materials have become more frequent. The ultimate outcome of such litigation against the Company cannot be predicted at this time; however, management does not anticipate that the liabilities, if any, arising from such current proceedings would have a material adverse effect on the Company's financial statements.

**New Source Review Actions**

In November 1999, the Environmental Protection Agency (EPA) brought a civil action in the U.S. District Court for the Northern District of Georgia against Alabama Power, Georgia Power, and SCS. The complaint alleged violations of the New Source Review (NSR) provisions of the Clean Air Act with respect to five coal-fired generating facilities in Alabama and Georgia and violations of related state laws. The civil action requested penalties and injunctive relief, including an order requiring the installation of the best available control technology at the affected units. The EPA concurrently issued to the retail operating companies notices of violation relating to 10 generating facilities, which include the five facilities mentioned previously and the Company's Plants Watson and Greene County. In early 2000, the EPA filed a motion to amend its complaint to add the violations alleged in its notices of violation and to add Gulf Power, the Company, and Savannah Electric as defendants.

In August 2000, the U.S. District Court in Georgia granted Alabama Power's motion to dismiss for lack of jurisdiction in Georgia and granted SCS' motion to dismiss on the grounds that it neither owned nor operated the generating units involved in the proceedings. In March 2001, the court granted the EPA's motion to add Savannah Electric as a defendant, but it denied the motion to add Gulf Power and the Company based on lack of jurisdiction in Georgia over those companies. As directed by the court, the EPA refiled its amended complaint limiting claims to those brought against Georgia Power and Savannah Electric. In addition, the EPA refiled its claims against Alabama Power in the U.S. District Court for the Northern District of Alabama. These complaints allege violations with respect to eight coal-fired generating facilities in Alabama and Georgia, and they request the same kinds of relief as was requested in the original complaint, i.e. penalties and injunctive relief, including installation of the best available control technology. The EPA has not refiled against Gulf Power, the Company, or SCS.

The actions against Alabama Power, Georgia Power, and Savannah Electric were stayed in the spring of 2001 during the appeal of a very similar NSR enforcement action against the Tennessee Valley Authority (TVA) before the U.S. Court of Appeals for the Eleventh Circuit. The TVA appeal involves many of the same legal issues raised by the actions against Alabama Power, Georgia Power, and Savannah Electric. Because the final resolution of the TVA appeal could have a significant impact on Alabama Power and Georgia Power, both companies have been involved in that appeal. On June 24, 2003, the court of appeals issued its

ruling in the TVA case. It found unconstitutional the statutory scheme set forth in the Clean Air Act that allowed the EPA to impose penalties for failing to comply with an administrative compliance order, like the one issued to TVA, without the EPA having to prove the underlying violation. Thus, the court of appeals held that the compliance order was of no legal consequence, and TVA was free to ignore it. The court did not, however, rule directly on the substantive legal issues about the proper interpretation and application of certain NSR provisions that had been raised in the TVA appeal. On September 16, 2003, the court of appeals denied the EPA's request for a rehearing of the decision. On February 13, 2004, the EPA petitioned the U.S. Supreme Court to review the decision of the court of appeals. The EPA also filed a motion to lift the stay in the action against Alabama Power. At this time, no party to the Georgia Power and Savannah Electric action, which was administratively closed two years ago, has asked the court to reopen that case.

Since the inception of the NSR proceedings against Georgia Power, Alabama Power, and Savannah Electric, the EPA has also been proceeding with similar NSR enforcement actions against other utilities, involving many of the same legal issues. In each case, the EPA alleged that the utilities failed to comply with the NSR permitting requirements when performing maintenance and construction activities at coal-burning plants, which activities the utilities considered to be routine or otherwise not subject to NSR. In 2003, district courts addressing these cases issued opinions that reached conflicting conclusions.

In October 2003, the EPA issued final revisions to its NSR regulations under the Clean Air Act clarifying the scope of the existing Routine Maintenance, Repair, and Replacement exclusion. On December 24, 2003, the U.S. Court of Appeals for the District of Columbia Circuit stayed the effectiveness of these revisions pending resolution of related litigation. In January 2004, the Bush Administration announced that it would continue to enforce the existing rules.

The Company believes that it complied with applicable laws and the EPA's regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes civil penalties of up to $27,500 per day, per violation at each generating unit. An adverse outcome in any one of these cases could require substantial capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. This could affect future results of operations, cash flows, and possibly financial condition if such costs are not recovered through regulated rates.

**Right of Way Litigation**

Southern Company and certain of its subsidiaries, including the Company, Georgia Power, Gulf Power, and Southern Telecom (collectively, defendants), have been named as defendants in numerous lawsuits brought by landowners since 2001 regarding the installation and use of fiber optic cable over defendants' rights of way located on the landowners' property. 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 by defendants exceed the easements or other property rights held by defendants. The plaintiffs assert claims for, among other things, trespass and unjust enrichment. The plaintiffs seek compensatory and punitive damages and injunctive relief. The Company believes that the Company has complied with the applicable laws and that the plaintiffs' claims are without merit. An adverse outcome in these matters could result in substantial judgments; however, the final outcome of these matters cannot now be determined.

In addition, in late 2001, certain subsidiaries of Southern Company, including Alabama Power, Georgia Power, Gulf Power, the Company, Savannah Electric, and Southern Telecom (collectively, defendants), were named as defendants in a lawsuit brought by a telecommunications company that uses certain of the defendants' 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 the telecommunications company in pending and future right of way litigation. The Company believes that the plaintiff's claims are without merit. 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.

### Contract Termination

On May 21, 2003, the Company entered into an agreement with Dynegy to resolve all outstanding matters related to a capacity sales contract with a subsidiary of Dynegy. Under the terms of the agreement, Dynegy made a cash payment of $75 million to the Company. The contract between the Company and Dynegy was terminated effective October 31, 2003. The termination payment from Dynegy resulted in the Company recognizing a gain of $38 million after tax.

### Retail Regulatory Filing

The Company's retail base rates are set under Performance Evaluation Plan (PEP), a rate plan originally approved in 1986 and modified from time to time since its inception. See "2001 Retail Rate Case" for further information on the 2002 modification. PEP was designed with the objective that PEP would reduce the impact of rate changes on the customer and provide incentives for the Company to keep customer prices low and customer satisfaction and reliability high. PEP is a mechanism for rate adjustments based on three indicators: the Company's ability to maintain low rates for customers, and the Company's performance as measured by two additional indicators that emphasize customer satisfaction and providing reliable service to the customer. PEP provides for semiannual evaluations of the Company's performance-based return on investment. Any change in rates is limited to two percent of retail revenues per evaluation period. PEP will remain in effect until the MPSC modifies, suspends, or terminates the plan.

On December 5, 2003, the Company filed a request with the MPSC to include 266 megawatts of Plant Daniel Units 3 and 4 generating capacity not currently included in jurisdictional cost of service. See "2001 Retail Rate Case" for further information on the current cost allocation for this capacity. In addition, the Company proposed to modify certain provisions of PEP. The proposed changes include (1) the use of a forward-looking, rather than a historical, test year, (2) adjustments to the performance indicator mechanism, and (3) an annual, rather than semi-annual, evaluation period.

As part of the Company's proposal to include the additional Plant Daniel capacity in retail rates, the MPSC issued an interim accounting order in December 2003 directing the Company to expense and record in 2003 a regulatory liability in the amount of approximately $60 million while the MPSC fully considers the entire request. However, if the MPSC ultimately denies the Company's request, the regulatory liability will be required to be reversed.

The Company expects the MPSC to render a final order in the second quarter of 2004 on the inclusion of the additional Plant Daniel capacity in rates, the amortization period for the regulatory liability, and the requested changes to PEP.

### Environmental Compliance Overview Plan

The MPSC approved the Company's Environmental Compliance Overview Plan (ECO Plan) in 1992. The ECO Plan establishes procedures to facilitate the MPSC's overview of the Company's environmental strategy and provides for recovery of costs (including costs of capital) associated with environmental projects approved by the MPSC. Under the ECO Plan, any increase in the annual revenue requirement is limited to two percent of retail revenues. However, the ECO Plan also provides for carryover of any amount over the two percent limit into the next year's revenue requirement. The Company conducts studies, when possible, to determine the extent of any required environmental remediation. Should such remediation be determined to be probable, reasonable estimates of costs to clean up such sites are developed and recognized in the financial statements. The Company recovers such costs under the ECO Plan as they are incurred, as provided for in the Company's 1995 ECO Plan Order. The Company filed its 2004 ECO Plan in January 2004, which, if approved as filed, will result in a slight decrease in customer prices.

### 2001 Retail Rate Case

In December 2001, the MPSC approved an annual retail rate increase of approximately $39 million, which took effect in January 2002. In October 2000, the MPSC approved a cost allocation that allocated a pro-rata share of the Plant Daniel Units 3 and 4 leased capacity, along with the Company's existing generation, to the retail jurisdiction. The MPSC's December 2001 order approved these cost allocations.

Additionally, the MPSC ordered the Company to reactivate semi-annual evaluations under PEP, beginning with the 12-month period ending December 31, 2002. In May 2002, the MPSC issued an order adopting new return on equity models to be used in the PEP process that are very similar to those that established the $39 million rate increase.

**Potentially Responsible Party Status**

In 2003, the Texas Commission on Environmental Quality (TCEQ) designated the Company as a potentially responsible party in connection with the cleanup of a site in Texas owned by a company that performed rebuilds and scrapping on electric transformers for the Company and many other utilities. The site owner is now in bankruptcy and the State of Texas has entered into an agreement with the Company and several other utilities to perform off-site removal of polychlorinated biphenyl (PCB) contaminated soil. Amounts expensed during 2003 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 outcome of this matter to the Company will depend upon further environmental assessment and the ultimate number of potentially responsible parties and cannot now be determined.

**FERC Matters**

*Market-Based Rate Authority*

The Company has obtained FERC approval to sell power to nonaffiliates at market-based prices under specific contracts. Through SCS, as agent, the Company also has FERC authority to make short-term opportunity sales at market rates. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate. In November 2001, the FERC modified the test it uses to consider utilities' applications to charge market-based rates and adopted a new test called the Supply Margin Assessment (SMA). The FERC applied the SMA to several utilities, including Southern Company's retail operating companies, and found them and others to be "pivotal suppliers" in their service areas and ordered the implementation of several mitigation measures. SCS, on behalf of the Company and the other retail operating companies sought rehearing of the FERC order, and the FERC delayed the implementation of certain mitigation measures. SCS, on behalf of the Company and the other retail operating companies, submitted comments to the FERC in 2002 regarding these issues. In December 2003, the FERC issued a staff paper discussing alternatives and held a technical conference in January 2004. The Company anticipates that the FERC will address the requests for rehearing in the near future. The final outcome of this matter will depend on the form in which the SMA test and mitigation measures rules may be ultimately adopted and cannot be determined at this time.

*Wholesale Customer Settlement Agreement*

In February 2002, the Company reached an agreement with certain of its wholesale customers to increase its wholesale tariff rates effective June 1, 2002. The FERC accepted the settlement agreement and placed the new tariff rates in effect without modification. The settlement agreement results in an annual increase of approximately $10.5 million, the adoption of ECM and the cost allocation of Plant Daniel Units 3 and 4, similar to the plans approved by the Company's retail jurisdiction.

*Transmission Facilities Agreement*

In January 2002, the FERC began conducting an investigation to determine whether the cost of debt and the cost of preferred stock reflected in the amount charged under the Transmission Facilities Agreement between Entergy Corp. and the Company, when considered in light of other aspects of the contract, yields an overall just and reasonable rate. In July 2003, the FERC approved a settlement between the Company and the FERC staff. The impact of the settlement provides for no refund of prior revenues collected and a minimal change in revenues effective in 2004.

**4. JOINT OWNERSHIP AGREEMENTS**

The Company and Alabama Power own as tenants in common Units 1 and 2 at Greene County Steam Plant, which is located in Alabama and operated by Alabama Power. Additionally, the Company and Gulf Power own as tenants in common Units 1 and 2 at Plant Daniel, which is located in Mississippi and operated by the Company.

At December 31, 2003, the Company's percentage ownership and investment in these jointly owned facilities were as follows:

| Generating Plant | Total Capacity | Percent Ownership | Company's Gross Investment | Accumulated Depreciation |
|---|---|---|---|---|
| | (Megawatts) | | (in thousands) | |
| Greene County Units 1 and 2 | 500 | 40% | $ 68,504 | $ 36,733 |
| Daniel Units 1 and 2 | 1,000 | 50% | $240,032 | $116,815 |

The Company's proportionate share of plant operating expenses is included in the Statements of Income.

## 5. INCOME TAXES

Southern Company and its subsidiaries file a consolidated federal income tax return. Under a joint consolidated income tax agreement, each subsidiary's current and deferred tax expense is computed on a stand-alone basis. In accordance with IRS regulations, each company is jointly and severally liable for the tax liability.

At December 31, 2003, the tax-related regulatory assets and liabilities were $12 million and $23 million, respectively. These assets are attributable to tax benefits flowed through to customers in prior years and to taxes applicable to capitalized interest. These liabilities are attributable to deferred taxes previously recognized at rates higher than the current enacted tax law and to unamortized investment tax credits.

Details of the federal and state income tax provisions are shown below:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | | (in thousands) | |
| Total provision for income taxes: | | | |
| Federal -- | | | |
| Current | **$46,116** | $42,603 | $43,596 |
| Deferred | **(6,166)** | (3,122) | (8,661) |
| | **39,950** | 39,481 | 34,935 |
| State -- | | | |
| Current | **7,761** | 6,680 | 6,698 |
| Deferred | **(2,396)** | (282) | (1,057) |
| | **5,365** | 6,398 | 5,641 |
| Total | **$45,315** | $45,879 | $40,576 |

The tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases, which give rise to deferred tax assets and liabilities, are as follows:

| | **2003** | 2002 |
|---|---|---|
| | | (in thousands) |
| Deferred tax liabilities: | | |
| Accelerated depreciation | **$168,373** | $157,087 |
| Basis differences | **7,487** | 7,791 |
| Other | **46,689** | 38,005 |
| Total | **222,549** | 202,883 |
| Deferred tax assets: | | |
| Other property basis differences | **15,067** | 14,501 |
| Pension and other benefits | **10,722** | 9,546 |
| Property insurance | **2,599** | 1,942 |
| Unbilled fuel | **5,593** | 6,048 |
| Other | **68,257** | 42,891 |
| Total | **102,238** | 74,928 |
| Total deferred tax liabilities, net | **120,311** | 127,955 |
| Portion included in prepaid expenses (accrued income taxes), net | **21,777** | 18,675 |
| Accumulated deferred income taxes in the Balance Sheets | **$142,088** | $146,630 |

Deferred investment tax credits are amortized over the lives of the related property with such amortization normally applied as a credit to reduce depreciation in the Statements of Income. Credits amortized in this manner amounted to $1.2 million in each of 2003, 2002, and 2001. At December 31, 2003, all investment tax credits

available to reduce federal income taxes payable had been utilized.

The provision for income taxes differs from the amount of income taxes determined by applying the applicable U.S. federal statutory rate to earnings before income taxes and preferred dividends, as a result of the following:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Federal statutory rate | **35.0%** | 35.0% | 35.0% |
| State income tax, net of federal deduction | **2.9** | 3.4 | 3.4 |
| Non-deductible book Depreciation | **.4** | 0.5 | 0.5 |
| Other | **(0.8)** | (1.0) | (0.8) |
| Effective income tax rate | **37.5%** | 37.9% | 38.1% |

## 6. CAPITALIZATION

### Mandatorily Redeemable Preferred Securities

The Company has formed a certain wholly owned trust subsidiary for the purpose of issuing preferred securities. The proceeds of the related equity investment and preferred security sale were loaned back to the Company through the issuance of junior subordinated notes totaling $36 million, which constitute substantially all assets of the trust. The Company considers that the mechanisms and obligations relating to the preferred securities issued for its benefit, taken together, constitute a full and unconditional guarantee by it of the trust's payment obligations with respect to these securities. At December 31, 2003, preferred securities of $35 million were outstanding and recognized as liabilities in the Balance Sheets.

### Pollution Control Bonds

The Company has incurred obligations in connection with the sale by public authorities of tax-exempt pollution control revenue bonds. The amount of tax-exempt pollution control revenue bonds outstanding at December 31, 2003 was $82.7 million.

### Long-Term Debt Due Within One Year

A summary of the improvement fund requirements and scheduled maturities and redemptions of long-term debt due within one year at December 31 is as follows:

| | **2003** | 2002 |
|---|---|---|
| | (in thousands) | |
| Bond improvement fund requirement | **$ 300** | $ 634 |
| Less: Portion to be satisfied by certifying property additions | **300** | 634 |
| Cash sinking fund requirement | **-** | - |
| Current portion of other long-term debt | **80,000** | 68,350 |
| Pollution control bond cash sinking fund requirements | **-** | 850 |
| Total | **$80,000** | $69,200 |

The first mortgage bond improvement fund requirement is one percent of each outstanding series authenticated under the indenture of the Company prior to January 1 of each year, other than first mortgage bonds issued as collateral security for certain pollution control obligations. The requirement must be satisfied by June 1 of each year by depositing cash or reacquiring bonds, or by pledging additional property equal to 1 and 2/3 times such requirement.

In February 2003, the Company redeemed $33 million of 7.45% first mortgage bonds, originally due in 2023, and $850,000 of 5.8% pollution control revenue bonds, originally due in 2007.

### Assets Subject to Lien

The Company's mortgage indenture dated as of September 1, 1941, as amended and supplemented, which secures the first mortgage bonds issued by the Company, constitutes a direct first lien on substantially all of the Company's fixed property and franchises.

### Bank Credit Arrangements

At the beginning of 2004, the Company had total committed credit agreements with banks for approximately $100 million, all of which was unused. These credit agreements expire in 2004. Some of these agreements allow short-term borrowings to be converted into term loans, payable in eight equal quarterly installments, with the first installment due at the end of the first calendar quarter after the applicable termination date or at an earlier date at the Company's option.

In connection with these credit arrangements, the Company agrees to pay commitment fees based on the unused portions of the commitments or to maintain compensating balances with the banks. Commitment fees are less than 1/8 of 1 percent for the Company. Compensating balances are not legally restricted from withdrawal.

This $100 million in unused credit arrangements provides required liquidity support to the Company's borrowings through a commercial paper program. The Company has $60 million available to support its commercial paper program. At December 31, 2003, the Company had no outstanding commercial paper or extendible commercial notes. During 2003, the peak amount outstanding for commercial paper was $33 million and the average amount outstanding was $4.2 million. The average annual interest rate on commercial paper was 1.3 percent in 2003. The credit arrangements also provide support to the Company's variable daily rate pollution control bonds.

### Financial Instruments

The Company enters into energy-related derivatives to hedge exposures to electricity, natural gas, and other fuel price changes. However, due to cost-based rate regulations, the Company has limited exposure to market volatility in commodity fuel prices and prices of electricity. The Company has implemented fuel-hedging programs at the instruction of the MPSC. The Company enters into hedges of forward electricity sales.

At December 31, 2003, the fair value of derivative energy contracts was reflected in the financial statements as follows:

| | Amounts |
|---|---|
| | (in thousands) |
| Regulatory liabilities, net | $ 2,468 |
| Net income | 2 |
| Total fair value | $ 2,470 |

The fair value gains or losses for cash flow hedges that are recoverable through the regulatory fuel clauses are recorded as regulatory assets and liabilities and are recognized in earnings at the same time the hedged items affect earnings.

### Dividend Restrictions

The Company's first mortgage bond indenture and the corporate charter contain various common stock dividend restrictions. At December 31, 2003, approximately $118 million of retained earnings was restricted against the payment of cash dividends on common stock under the most restrictive terms of the mortgage indenture or corporate charter.

In accordance with the PUHCA, the Company is also restricted from paying common dividends from paid-in capital without SEC approval.

## 7. COMMITMENTS

### Construction Program

The Company is engaged in continuous construction programs, currently estimated to total $80 million in 2004, $70 million in 2005, and $98 million in 2006. The construction program is subject to periodic review and revision, and actual construction costs may vary from the above estimates because of numerous factors. These factors include changes in business conditions; revised load growth estimates; changes in environmental regulations; changes in FERC rules and transmission regulations; increasing costs of labor, equipment and materials; and cost of capital. At December 31, 2003, significant purchase commitments were outstanding in connection with the construction program. The Company has no generating plants under construction. Capital improvements to generating, transmission and distribution facilities -- including those to meet environmental standards -- will continue.

### Long-Term Service Agreements

The Company has entered into a Long-Term Service Agreement (LTSA) with General Electric (GE) for the purpose of securing maintenance support for the lease combined cycle units at Plant Daniel. In summary, the LTSA stipulates that GE will perform all planned inspections on the covered equipment, which includes the cost of all labor and materials. GE is also obligated to cover the costs of unplanned maintenance on the covered equipment subject to a limit specified in the contract.

In general, the LTSA is in effect through two major inspection cycles of the units. Scheduled payments to GE are made monthly based on estimated operating hours of the units and are recognized as expense based on actual hours of operation. The Company has recognized $6 and $11 million for 2003 and 2002, respectively, which is included in maintenance expense on the Statements of Income. Remaining payments to GE under this agreement are currently estimated to total $174 million over the next 17 years. However, the LTSA contains various cancellation provisions at the option of the Company.

The Company also has entered into a LTSA with ABB Power Generation Inc. (ABB) for the purpose of securing maintenance support for its Chevron Unit 5 combustion turbine plant. In summary, the LTSA stipulates that ABB will perform all planned maintenance on the covered equipment, which includes the cost of all labor and materials. ABB is also obligated to cover the costs of unplanned maintenance on the covered equipment subject to a limit specified in the contract.

In general, this LTSA is in effect through two major inspection cycles. Scheduled payments to ABB are made at various intervals based on actual operating hours of the unit. Payments to ABB under this agreement are currently estimated to total $6.8 million over the remaining life of the agreement, which is approximately 4 years. However, the LTSA contains various cancellation provisions at the option of the Company. Payments made to ABB prior to the performance of any planned maintenance are recorded as a prepayment in the Balance Sheets. Inspection costs are capitalized or charged to expense based on the nature of the work performed.

**Fuel and Purchased Power Commitments**

To supply a portion of the fuel requirements of the generating plants, the Company has entered into various long-term commitments for the procurement of fuel. In most cases, these contracts contain provisions for price escalations, minimum purchase levels, and other financial commitments. Natural gas purchase commitments contain given volumes with prices based on various indices at the time of delivery. Amounts included in the chart below represent estimates based on New York Mercantile future prices at December 31, 2003. Total estimated minimum long-term obligations at December 31, 2003 were as follows:

| Year | Natural Gas | Coal |
|---|---|---|
| | (in millions) | |
| 2004 | $140 | $174 |
| 2005 | 83 | 86 |
| 2006 | 67 | 65 |
| 2007 | 45 | 21 |
| 2008 | 6 | - |
| 2009 and there after | 54 | - |
| Total commitments | $395 | $346 |

Additional commitments for fuel will be required to supply the Company's future needs.

SCS may enter into various types of wholesale energy and natural gas contracts acting as an agent for the Company and all of the other Southern Company retail operating companies, Southern Power, and Southern Company GAS. Under these agreements, each of the retail operating companies, Southern Power, and Southern Company GAS may be jointly and severally liable. The creditworthiness of Southern Power and Southern Company GAS is currently inferior to the creditworthiness of the retail operating companies. Accordingly, Southern Company has entered into keep-well agreements with the Company and each of the other operating companies to insure they will not subsidize or be responsible for any costs, losses, liabilities, or damages resulting from the inclusion of Southern Power or Southern Company GAS as a contracting party under these agreements.

**Operating Leases**

*Railcar Leases*

In 1989, the Company and Gulf Power jointly entered into a twenty-two year operating lease agreement for the use of 495 aluminum railcars. In 1994, a second lease agreement for the use of 250 additional aluminum railcars was also entered into for twenty-two years. The Company has the option to purchase the 745 railcars at the greater of lease termination value or fair market value, or to renew the leases at the end of the lease term. Both of these leases are for the transport of coal to Plant Daniel.

Gulf Power, as joint owner of Plant Daniel Units 1 and 2, is responsible for one half of the lease costs. The Company's share (50%) of the leases, charged to fuel stock and recovered through the fuel cost recovery clause, was $1.9 million in 2003, $1.9 million in 2002, and $1.9 million in 2001. The Company's annual lease payments for 2004 through 2008 will average approximately $2 million and after 2008, lease payments total in aggregate approximately $8 million.

*Plant Daniel Combined Cycle Generating Units*

In May 2001, the Company began the initial 10-year term of the lease agreement signed in 1999 for a 1,064 megawatt natural gas combined cycle generating facility built at Plant Daniel (Facility). The Company entered into this transaction during a period when retail access was under review by the MPSC. The lease arrangement provided a lower cost alternative to its cost based rate regulated customers than a traditional rate base asset. See Note 3 under "Retail Regulatory Filing" for a description of the Company's PEP formula rate plan.

In 2003, the Facility was acquired by Juniper Capital L.P. (Juniper), whose partners are unaffiliated with the Company. Simultaneously, Juniper entered into a restructured lease agreement with the Company. Juniper has also entered into leases with other parties unrelated to the Company. The assets leased by the Company comprise less than 50 percent of Juniper's assets. In accordance with FASB Interpretation No. 46, the Company is not required to consolidate the leased assets and related liabilities, and the lease with Juniper is considered an operating lease under FASB Statement No. 13. The lease agreement is treated as an operating lease for accounting purposes, as well as for both retail and wholesale rate recovery purposes. For income tax purposes, the Company retains tax ownership. The initial lease term ends in 2011 and the lease includes a purchase and renewal option based on the cost of the Facility at the inception of the lease, which was $369 million. The Company is required to amortize approximately four percent of the initial acquisition cost over the initial lease term. Eighteen months prior to the end of the initial lease, the Company may elect to renew for 10 years. If the lease is renewed, the agreement calls for the Company to amortize an additional 17 percent of the initial completion cost over the renewal period. Upon termination of the lease, at the Company's option, it may either exercise its purchase option or the Facility can be sold to a third party.

The lease provides for a residual value guarantee -- approximately 73 percent of the acquisition cost -- by the Company that is due upon termination of the lease in the event that the Company does not renew the lease or purchase the Facility and that the fair market value is less than the unamortized cost of the Facility. The Company has recognized in the Balance Sheets a liability of approximately $15 million for the fair market value of this residual value guarantee. In 2003, approximately $11 million in lease termination costs and $26 million in lease expense were included in other operation expense. The amount of future minimum operating lease payments will be approximately $29 million annually during the initial term.

The Company estimates that its annual amount of future minimum operating lease payments under this arrangement, exclusive of any payment related to the residual value guarantee, as of December 31, 2003, are as follows:

| Year | Lease Payments |
|---|---|
| | (in millions) |
| 2004 | $29 |
| 2005 | 29 |
| 2006 | 29 |
| 2007 | 29 |
| 2008 | 28 |
| 2009 and thereafter | 85 |
| Total commitments | $229 |

## 8. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial data for 2003 and 2002 are as follows:

| Quarter Ended | Operating Revenues | Operating Income | Net Income After Dividends On Preferred Stock |
|---|---|---|---|
| | | (in thousands) | |
| **March 2003** | **$193,886** | **$39,750** | **$21,396** |
| **June 2003** | **264,360** | **90,386** | **53,059** |
| **September 2003** | **227,814** | **58,317** | **34,387** |
| **December 2003** | **183,864** | **(50,786)** | **(35,343)** |
| March 2002 | $183,058 | $28,873 | $13,982 |
| June 2002 | 205,378 | 38,457 | 20,788 |
| September 2002 | 243,077 | 60,010 | 33,384 |
| December 2002 | 192,652 | 17,930 | 4,859 |

The Company's business is influenced by seasonal weather conditions and the timing of rate changes.

[This page intentionally left blank]

## SELECTED FINANCIAL AND OPERATING DATA 1999-2003

**Mississippi Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| **Operating Revenues** (in thousands) | **$869,924** | $824,165 | $796,065 | $687,602 | $633,004 |
| **Net Income after Dividends on Preferred Stock** (in thousands) | **$73,499** | $73,013 | $63,887 | $54,972 | $54,809 |
| **Cash Dividends on Common Stock** (in thousands) | **$66,000** | $63,500 | $50,200 | $54,700 | $56,100 |
| **Return on Average Common Equity** (percent) | **13.99** | 14.46 | 14.25 | 13.80 | 14.00 |
| **Total Assets** (in thousands) | **$1,518,384** | $1,482,040 | $1,411,050 | $1,341,470 | $1,317,297 |
| **Gross Property Additions** (in thousands) | **$69,345** | $67,460 | $61,193 | $81,211 | $75,888 |
| **Capitalization** (in thousands): | | | | | |
| Common stock equity | **$532,489** | $517,953 | $491,680 | $404,898 | $391,968 |
| Preferred stock | **31,809** | 31,809 | 31,809 | 31,809 | 31,809 |
| Mandatorily redeemable preferred securities | **35,000** | 35,000 | 35,000 | 35,000 | 35,000 |
| Long-term debt | **202,488** | 243,715 | 233,753 | 370,511 | 321,802 |
| Total (excluding amounts due within one year) | **$801,786** | $828,477 | $792,242 | $842,218 | $780,579 |
| **Capitalization Ratios** (percent): | | | | | |
| Common stock equity | **66.4** | 62.5 | 62.1 | 48.1 | 50.2 |
| Preferred stock | **4.0** | 3.8 | 4.0 | 3.8 | 4.1 |
| Mandatorily redeemable preferred securities | **4.4** | 4.2 | 4.4 | 4.2 | 4.5 |
| Long-term debt | **25.2** | 29.5 | 29.5 | 43.9 | 41.2 |
| Total (excluding amounts due within one year) | **100.0** | 100.0 | 100.0 | 100.0 | 100.0 |
| **Security Ratings:** | | | | | |
| First Mortgage Bonds - | | | | | |
| Moody's | **Aa3** | Aa3 | Aa3 | Aa3 | Aa3 |
| Standard and Poor's | **A+** | A+ | A+ | A+ | AA- |
| Fitch | **AA-** | AA- | AA- | AA- | AA- |
| Preferred Stock - | | | | | |
| Moody's | **A3** | A3 | A3 | a1 | a1 |
| Standard and Poor's | **BBB+** | BBB+ | BBB+ | BBB+ | A- |
| Fitch | **A** | A | A | A | A |
| Unsecured Long-Term Debt - | | | | | |
| Moody's | **A1** | A1 | A1 | - | - |
| Standard and Poor's | **A** | A | A | - | - |
| Fitch | **A+** | A+ | A+ | - | - |
| **Customers** (year-end): | | | | | |
| Residential | **159,582** | 158,873 | 158,852 | 158,253 | 157,592 |
| Commercial | **33,135** | 32,713 | 32,538 | 32,372 | 31,837 |
| Industrial | **520** | 489 | 498 | 517 | 546 |
| Other | **171** | 171 | 173 | 206 | 202 |
| Total | **193,408** | 192,246 | 192,061 | 191,348 | 190,177 |
| **Employees** (year-end): | **1,290** | 1,301 | 1,316 | 1,319 | 1,328 |

## SELECTED FINANCIAL AND OPERATING DATA 1999-2003 (continued)

**Mississippi Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| **Operating Revenues** (in thousands): | | | | | |
| Residential | **$180,978** | $186,522 | $164,716 | $170,729 | $159,945 |
| Commercial | **175,416** | 181,224 | 163,253 | 163,552 | 153,936 |
| Industrial | **154,825** | 164,042 | 156,525 | 159,705 | 151,244 |
| Other | **5,082** | 5,039 | 4,659 | 4,565 | 4,309 |
| Total retail | **516,301** | 536,827 | 489,153 | 498,551 | 469,434 |
| Sales for resale - non-affiliates | **249,986** | 224,275 | 204,623 | 145,931 | 131,004 |
| Sales for resale - affiliates | **26,723** | 46,314 | 85,652 | 27,915 | 19,446 |
| Total revenues from sales of electricity | **793,010** | 807,416 | 779,428 | 672,397 | 619,884 |
| Other revenues | **76,914** | 16,749 | 16,637 | 15,205 | 13,120 |
| Total | **$869,924** | $824,165 | $796,065 | $687,602 | $633,004 |
| **Kilowatt-Hour Sales** (in thousands): | | | | | |
| Residential | **2,255,445** | 2,300,017 | 2,162,623 | 2,286,143 | 2,248,255 |
| Commercial | **2,914,133** | 2,902,291 | 2,840,840 | 2,883,197 | 2,847,342 |
| Industrial | **4,111,199** | 4,161,902 | 4,275,781 | 4,376,171 | 4,407,445 |
| Other | **39,890** | 39,635 | 41,009 | 41,153 | 40,091 |
| Total retail | **9,320,667** | 9,403,845 | 9,320,253 | 9,586,664 | 9,543,133 |
| Sales for resale - non-affiliates | **5,874,724** | 5,380,145 | 5,011,212 | 3,674,621 | 3,256,175 |
| Sales for resale - affiliates | **709,065** | 1,586,968 | 2,952,455 | 452,611 | 539,939 |
| Total | **15,904,456** | 16,370,958 | 17,283,920 | 13,713,896 | 13,339,247 |
| **Average Revenue Per Kilowatt-Hour** (cents): | | | | | |
| Residential | **8.02** | 8.11 | 7.62 | 7.47 | 7.11 |
| Commercial | **6.02** | 6.24 | 5.75 | 5.67 | 5.41 |
| Industrial | **3.77** | 3.94 | 3.66 | 3.65 | 3.43 |
| Total retail | **5.54** | 5.71 | 5.25 | 5.20 | 4.92 |
| Sales for resale | **4.20** | 3.88 | 3.64 | 4.21 | 3.96 |
| Total sales | **4.99** | 4.93 | 4.51 | 4.90 | 4.65 |
| **Residential Average Annual Kilowatt-Hour Use Per Customer** | **14,160** | 14,453 | 13,634 | 14,445 | 14,301 |
| **Residential Average Annual Revenue Per Customer** | **$1,136.27** | $1,172.12 | $1,038.41 | $1,078.76 | $1,017.42 |
| **Plant Nameplate Capacity Ratings** (year-end) (megawatts) | **3,156** | 3,156 | 3,156 | 2,086 | 2,086 |
| **Maximum Peak-Hour Demand (megawatts):** | | | | | |
| Winter | **2,458** | 2,311 | 2,249 | 2,305 | 2,125 |
| Summer | **2,330** | 2,492 | 2,466 | 2,593 | 2,439 |
| **Annual Load Factor** (percent) | **60.5** | 61.8 | 60.7 | 59.3 | 59.6 |
| **Plant Availability Fossil-Steam** (percent): | **92.6** | 91.7 | 92.8 | 92.6 | 91.0 |
| **Source of Energy Supply** (percent): | | | | | |
| Coal | **57.7** | 50.8 | 52.0 | 67.8 | 69.4 |
| Oil and gas | **19.9** | 37.7 | 35.9 | 13.5 | 15.9 |
| Purchased power - | | | | | |
| From non-affiliates | **3.5** | 3.1 | 3.1 | 7.7 | 6.2 |
| From affiliates | **18.9** | 8.4 | 9.0 | 11.0 | 8.5 |
| Total | **100.0** | 100.0 | 100.0 | 100.0 | 100.0 |

[This page intentionally left blank]

SAVANNAH ELECTRIC AND POWER COMPANY

FINANCIAL SECTION

## MANAGEMENT'S REPORT

**Savannah Electric and Power Company 2003 Annual Report**

The management of Savannah Electric and Power Company has prepared--and is responsible for--the financial statements and related information included in this report. These statements were prepared in accordance with accounting principles generally accepted in the United States and necessarily include amounts that are based on the best estimates and judgments of management. Financial information throughout this annual report is consistent with the financial statements.

The Company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that the accounting records reflect only authorized transactions of the Company. Limitations exist in any system of internal controls, however, based on a recognition that the cost of the system should not exceed its benefits. The Company believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

The Company's internal accounting controls are evaluated on an ongoing basis by the Company's internal audit staff. The Company's independent public accountants also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

Southern Company's audit committee of its board of directors, composed of four independent directors, provides a broad overview of management's financial reporting and control functions. Additionally, the Controls and Compliance Committee of Savannah Electric and Power Company's board of directors, composed of five outside directors, meets periodically with management, the internal auditors, and the independent public accountants to discuss auditing, internal controls, and compliance matters. The internal auditors and the independent public accountants have access to the members of these committees at any time.

Management believes that its policies and procedures provide reasonable assurance that the Company's operations are conducted according to a high standard of business ethics.

In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of Savannah Electric and Power Company in conformity with accounting principles generally accepted in the United States.

Anthony R. James
President
and Chief Executive Officer

K. R. Willis
Vice President,
Treasurer, Chief Financial Officer,
and Assistant Secretary

March 1, 2004

## INDEPENDENT AUDITORS' REPORT

**Savannah Electric and Power Company:**

We have audited the accompanying balance sheets and statements of capitalization of Savannah Electric and Power Company (a wholly owned subsidiary of Southern Company) as of December 31, 2003 and 2002, and the related statements of income, comprehensive income, common stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of Savannah Electric and Power Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Savannah Electric and Power Company for the year ended December 31, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements and included an explanatory paragraph that described a change in the method of accounting for derivative instruments and hedging activities in their report dated February 13, 2002.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements (pages II-261 to II-281) present fairly, in all material respects, the financial position of Savannah Electric and Power Company at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in 2003 Savannah Electric and Power Company changed its method of accounting for asset retirement obligations.

Deloitte & Touche LLP

Atlanta, Georgia
March 1, 2004

**THE FOLLOWING REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS IS A COPY OF THE REPORT PREVIOUSLY ISSUED IN CONNECTION WITH THE COMPANY'S 2001 ANNUAL REPORT ON FORM 10-K AND HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP. SEE EXHIBIT 23(f)2 FOR ADDITIONAL INFORMATION.**

**To Savannah Electric and Power Company:**

We have audited the accompanying balance sheets and statements of capitalization of Savannah Electric and Power Company (a Georgia corporation and a wholly owned subsidiary of Southern Company) as of December 31, 2001 and 2000, and the related statements of income, common stockholder's equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements (pages II-192 through II-206) referred to above present fairly, in all material respects, the financial position of Savannah Electric and Power Company as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 1 to the financial statements, effective January 1, 2001, Savannah Electric and Power Company changed its method of accounting for derivative instruments and hedging activities.

Arthur Andersen LLP

Atlanta, Georgia
February 13, 2002

## OVERVIEW OF EARNINGS AND BUSINESS ACTIVITIES

### *Earnings*

Savannah Electric and Power Company's net income for 2003 totaled $22.8 million, remaining stable from the prior year. Higher operating expenses and income taxes were generally offset by higher operating revenues, lower depreciation and amortization expenses, and lower interest expenses.

Earnings were $22.9 million in 2002, representing an increase of $0.8 million or 3.7 percent from the prior year. Earnings were up in 2002 primarily due to higher retail revenues, somewhat offset by higher operating expenses. In 2001, earnings were $22.1 million, representing a decrease of $0.9 million or 3.9 percent from the prior year. Earnings in 2001 were down primarily due to lower retail revenues.

### *Business Activities*

The Company operates as a vertically integrated utility providing electricity to retail customers within its traditional service area of southeastern Georgia.

Several factors affect the opportunities, challenges, and risk of selling electricity. These factors include the Company's ability to maintain a stable regulatory environment, to achieve energy sales growth while containing costs, and to recover costs related to growing demand and increasingly stricter environmental standards. Future earnings in the near term will depend, in part, upon growth in energy sales, which is subject to a number of factors. These factors include weather, competition, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth in the Company's service area.

## RESULTS OF OPERATIONS

A condensed income statement is as follows:

| | Amount | Increase (Decrease) From Prior Year | | |
|---|---|---|---|---|
| | **2003** | **2003** | 2002 | 2001 |
| | | (in thousands) | | |
| Operating revenues | **$314,055** | **$14,503** | $15,700 | $(11,866) |
| Fuel | **55,308** | **353** | 4,159 | (6,381) |
| Purchased power | **89,505** | **13,901** | 2,518 | (2,254) |
| Other operation and maintenance | **83,621** | **2,603** | 10,525 | (1,927) |
| Depreciation and amortization | **20,499** | **(2,205)** | (3,247) | 711 |
| Taxes other than income taxes | **14,665** | **208** | 473 | 868 |
| Total operating Expenses | **263,598** | **14,860** | 14,428 | (8,983) |
| Operating income | **50,457** | **(357)** | 1,272 | (2,883) |
| Other income (expense), net | **(12,542)** | **2,959** | 247 | 134 |
| Less -- Income taxes | **15,108** | **2,675** | 702 | (1,843) |
| Net Income | **$ 22,807** | **$. (73)** | $ 817 | $ (906) |

### *Revenues*

Total operating revenues for 2003 were $314.1 million, reflecting a 4.8 percent increase when compared to 2002. The following table summarizes the factors affecting operating revenues for the past three years:

| | Amount | | |
|---|---|---|---|
| | **2003** | 2002 | 2001 |
| | | (in thousands) | |
| Retail - prior year | **$285,771** | $269,172 | $282,622 |
| Change in -- | | | |
| Base rates | **2,799** | 5,101 | - |
| Sales growth | **(1,524)** | 8,729 | (1,541) |
| Weather | **(263)** | 2,397 | (427) |
| Fuel cost recovery and other | **10,962** | 372 | (11,482) |
| Retail – current year | **297,745** | 285,771 | 269,172 |
| Sales for resale -- | | | |
| Non-affiliates | **5,653** | 6,354 | 8,884 |
| Affiliates | **6,499** | 4,075 | 3,205 |
| Total sales for resale | **12,152** | 10,429 | 12,089 |
| Other operating revenues | **4,158** | 3,352 | 2,591 |
| Total operating revenues | **$314,055** | $299,552 | $283,852 |
| Percent change | **4.8%** | 5.5% | (4.0)% |

Retail revenues increased 4.2 percent or $12.0 million in 2003, increased $16.6 million in 2002, and declined $13.5 million in 2001. The significant factors driving these changes are shown in the table above. Retail base rates increased reflecting the Georgia Public Service Commission (GPSC) decision effective June 2002. See Note 3 to the financial statements under "Retail Regulatory Matters" for additional information on the Company's 2002 rate order.

Electric rates include provisions to adjust billings for fluctuations in fuel costs, the energy component of purchased power costs, and certain other costs. Under the fuel recovery provisions, fuel revenues generally equal fuel expenses--including the fuel component of purchased energy--and do not affect net income. In May 2001, the Company implemented a Fuel Cost Recovery (FCR) rate increase under a GPSC rate order. At the time, the GPSC-approved FCR anticipated a three year recovery of the under-recovered fuel balance. However, due to decreasing fuel costs in late 2001 and early 2002, the Company fully recovered the balance by March 2002 and, in May 2002, the GPSC approved a FCR decrease which more than offset the Company's base rate increase. See Note 3 to the financial statements under "Retail Regulatory Matters" for additional information on the Company's 2002 rate order.

Revenues from sales to non-affiliated utilities are primarily energy related. These sales do not have a significant impact on net income since the energy is generally sold at variable cost.

Sales to affiliated companies vary from year to year depending on demand and the availability and cost of generating resources at each company. These energy sales do not have a significant impact on earnings since the energy is generally sold at variable cost.

***Energy Sales***

Changes in revenues are influenced heavily by the amount of energy sold each year. Kilowatt-hour (KWH) sales for 2003 and the percent change by year were as follows:

| | KWH | Percent Change | | |
|---|---|---|---|---|
| | **2003** | **2003** | 2002 | 2001 |
| | (in millions) | | | |
| Residential | **1,738** | **(3.1)%** | 8.1% | (0.7)% |
| Commercial | **1,451** | **(1.8)** | 6.4 | 1.4 |
| Industrial | **860** | **8.5** | 0.7 | (1.6) |
| Other | **138** | **(2.6)** | 4.4 | (1.4) |
| Total retail | **4,187** | **(0.4)** | 5.9 | (0.2) |
| Sales for resale -- | | | | |
| Non-affiliates | **162** | **7.7** | 35.7 | 43.4 |
| Affiliates | **185** | **47.1** | 43.4 | (1.0) |
| Total | **4,534** | **1.2%** | 7.5% | 0.6% |

In 2003, residential and commercial energy sales decreased from the prior year primarily due to weather-related demand. Industrial sales were higher because of an increase in usage by several industrial customers, reflecting the beginning of an economic recovery from the previous two year slowdown. All three categories benefited from a continued increase in the number of customers served.

In 2002, residential and commercial energy sales increased from the prior year reflecting the positive impact of weather and continued growth in customers. Industrial sales increased slightly, reflecting customer growth, and were offset by a general economic slowdown. In 2001, total retail energy sales were down slightly from the prior year, reflecting a decrease in energy sales of 1.6 percent to industrial customers due to a slowing of the economy. Residential energy sales also decreased reflecting weather-related demand, somewhat offset by customer growth.

Energy sales to retail customers are projected to increase at a compound average growth rate of 2.1 percent during the period 2004 through 2014.

***Expenses***

Fuel and purchased power costs constitute the single largest expense for the Company. The mix of energy supply is determined primarily by demand, the unit cost of fuel consumed, and the availability and cost of generating units.

The amount and sources of generation, the average cost of fuel per net KWH generated, and the amount and average cost of purchased power were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Total generation (millions of KWHs) | **2,325** | 2,249 | 2,350 |
| Sources of generation (percent) -- | | | |
| Coal | **94** | 91 | 93 |
| Oil | **2** | 1 | 1 |
| Gas | **4** | 8 | 6 |
| Average cost of fuel per net KWH generated (cents) | **2.38** | 2.44 | 2.16 |
| Total purchased power (millions of KWHs) | **2,581** | 2,379 | 1,960 |
| Average cost of purchased power per net KWH (cents) | **3.47** | 3.18 | 3.73 |

Fuel expense increased 0.6 percent due to a slight increase in generation offset somewhat by a lower cost of coal in 2003. In 2002, fuel expense increased 8.2 percent due to increased gas usage and a higher cost of coal. In 2001, fuel expense decreased 11.2 percent due to a decrease in generation and a slightly lower average cost of fuel.

Purchased power expense increased $13.9 million or 18.4 percent in 2003 due to increased energy demands and a purchased power agreement between the Company and Southern Power for energy and capacity from Plant Wansley Units 6 and 7 which began in June 2002. Purchased power from non-affiliates decreased 72.5 percent and from affiliates increased 38.6 percent in 2002 due principally to the Plant Wansley purchased power agreement discussed above. Purchased power expense decreased 3.0 percent in 2001 from the prior year primarily due to lower fuel prices. Purchased power from affiliates also included energy purchases which will vary depending on demand and cost of generation resources at each company. These energy costs are recovered through the fuel cost recovery clause and have no significant impact on earnings.

In 2003, other operation and maintenance expenses increased 3.2 percent. Administrative and general expenses increased by $1.0 million primarily due to increases in accounting and auditing services, insurance reserves, and employee benefits expense, somewhat offset by the annual true-up in billings to Georgia Power for charges associated with the jointly owned combustion turbines at the Company's Plant McIntosh. Maintenance expense increased $1.5 million primarily due to a scheduled turbine maintenance outage at Plant Kraft and higher transmission and distribution maintenance expenses.

In 2002, other operation and maintenance expenses increased 14.9 percent. Other operation expense was higher reflecting increased distribution expenses of $0.6 million, increased administrative and general costs of $3.7 million, and $0.5 million associated with new marketing programs. Distribution costs increased to support improved customer reliability. Administrative and general costs were higher primarily due to increases in security, legal, accounting and auditing services, regulatory activities, and employee benefits expenses. Administrative and general expenses were also higher reflecting the annual true-up in billings to Georgia Power for charges associated with the jointly owned combustion turbines at the Company's Plant McIntosh. Maintenance expense in 2002 increased over 2001 primarily as a result of scheduled maintenance outages at Plant Kraft and amortization of expenses for a major maintenance project on the combustion turbines at Plant McIntosh. See Note 3 to the financial statements under "Retail Regulatory Matters" for additional information.

In 2001, other operation expense decreased 4.7 percent reflecting the discontinuation of a marketing program and a decrease in administrative and general expenses. Administrative and general expenses decreased primarily due to the annual true-up in billings to Georgia Power for charges associated with the jointly owned combustion turbines at the Company's Plant McIntosh and lower insurance expenses.

Depreciation and amortization decreased 9.7 percent in 2003 and 12.5 percent in 2002 primarily as a result of discontinuing accelerated depreciation and beginning amortization of the related regulatory liability in June 2002, in accordance with the 2002 GPSC rate order. Depreciation and amortization increased over the prior year by 2.8 percent in 2001 primarily due to additional depreciation charges under a 1998 GPSC accounting order. See Note 3 to the financial statements under "Retail Regulatory Matters" for additional information.

Interest expense decreased in 2003 primarily as a result of a lower principal amount of debt outstanding during the year. Lower interest rates in 2003, 2002, and 2001 also contributed to lower expenses in those years.

## Effects of Inflation

The Company is subject to rate regulation that is based on the recovery of historical costs. In addition, the income tax laws are also based on historical costs. Therefore, inflation creates an economic loss because the Company is recovering its costs of investments in dollars that have less purchasing power. While the inflation rate has been relatively low in recent years, it continues to have an adverse effect on the Company because of the large investment in utility plant with long economic lives. Conventional accounting for historical cost does not recognize this economic loss nor the partially offsetting gain that arises through financing facilities with fixed-money obligations such as long-term debt and preferred securities. Any recognition of inflation by regulatory authorities is reflected in the rate of return allowed in the Company's approved electric rates.

## Future Earnings Potential

### *General*

The results of operations for the past three years are not necessarily indicative of future earnings potential. The level of future earnings depends on numerous factors. These factors affect the opportunities, challenges, and risk of electricity. These factors include the Company's ability to maintain a stable regulatory environment, to achieve energy sales growth while containing costs, and to recover costs related to growing demand and increasingly stricter environmental standards. Future earnings in the near term will depend, in part, upon growth in energy sales, which is subject to a number of factors. These factors include weather, competition, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth in the Company's service area.

### *Industry Restructuring*

The Company operates as a vertically integrated utility providing electricity to retail customers within the traditional service area of southeastern Georgia. Prices for electricity provided by the Company to retail customers are set by the GPSC under cost-based regulatory principles. Prices for electricity relating to jointly owned generating facilities, interconnecting transmission lines, and the exchange of electric power are set by the Federal Energy Regulatory Commission (FERC). Retail rates and earnings are reviewed and adjusted periodically within certain limitations based on earned return on equity. See Note 3 to the financial statements for additional information about these and other regulatory matters.

The electric utility industry in the United States is continuing to evolve as a result of regulatory and competitive factors. Among the early primary agents of change was the Energy Policy Act of 1992 (Energy Act). The Energy Act allowed independent power producers to access a utility's transmission network and sell electricity to other utilities.

Although the Energy Act does not provide for retail customer access, it was a major catalyst for restructuring and consolidations that took place within the utility industry. Numerous federal and state initiatives that promote wholesale and retail competition are in varying stages. Among other things, these initiatives allow retail customers in some states to choose their electricity provider. Some states have approved initiatives that result in a separation of the ownership and/or operation of generating facilities from the ownership and/or operation of transmission and distribution facilities. While various restructuring and competition initiatives have been discussed in Georgia, none have been enacted. Enactment could require numerous issues to be resolved, including significant ones relating to recovery of any stranded investments, full cost recovery of energy produced, and other issues related to the energy crisis that occurred in California, as well as the August 2003 power outage in the Northeast. The Company does compete with other electric suppliers within the state. In Georgia, most new retail customers with at least 900 kilowatts of connected load may choose their electricity supplier.

Since 2001, merchant energy companies and traditional electric utilities with significant energy marketing and trading activities have come under severe financial pressures. Many of these companies have completely exited or drastically reduced all energy marketing and trading activities and sold foreign and domestic electric infrastructure assets. The Company has not experienced any material adverse financial impact regarding its limited energy trading operations through Southern Company Services (SCS).

Continuing to be a low-cost producer could provide opportunities to increase the size and profitability of the

electricity sales business in markets that evolve with changing regulation and competition. Conversely, future regulatory changes could adversely affect the Company's growth, and if the Company does not remain a low-cost producer and provide quality service, then energy sales growth could be limited, and this could significantly erode earnings.

***Environmental Matters***

*New Source Review Actions*

In November 1999, the Environmental Protection Agency (EPA) brought a civil action against Alabama Power, Georgia Power, and SCS. The EPA later amended its complaints to add the Company as a defendant alleging violations of the New Source Review (NSR) provisions of the Clean Air Act with respect to eight coal-fired generating facilities in Alabama and Georgia, including the Company's Plant Kraft. The civil actions request penalties and injunctive relief, including an order requiring the installation of the best available control technology at the affected units. The actions against Alabama Power, Georgia Power, and the Company have been stayed since the spring of 2001 during the appeal of a very similar NSR action against the Tennessee Valley Authority before the U.S. Court of Appeals for the Eleventh Circuit. The Eleventh Circuit appeal was decided on September 16, 2003 and, on February 13, 2004, the EPA petitioned the U.S. Supreme Court to review the Eleventh Circuit's decision. The EPA also filed a motion to lift the stay in the action against Alabama Power. At this time, no party to the Georgia Power and Savannah Electric action, which was administratively closed two years ago, has asked the court to reopen that case. See Note 3 to the financial statements under "New Source Review Actions" for additional information.

In December 2002 and October 2003, the EPA issued final revisions to its NSR regulations under the Clean Air Act. The December 2002 revisions included changes to the regulatory exclusions and the methods of calculating emissions increases. The October 2003 regulations clarified the scope of the existing Routine Maintenance, Repair, and Replacement exclusion. A coalition of states and environmental organizations filed petitions for review of these revisions with the U.S. Court of Appeals for the District of Columbia Circuit. On December 24, 2003, the court of appeals granted a stay of the October 2003 revisions pending its review of the rules and ordered that its review be conducted on an expedited basis. In January 2004, the Bush Administration announced that it would continue to enforce the existing rules until the courts resolve legal challenges to the EPA's revised NSR regulations. In any event, the final regulations must be adopted by the State of Georgia in order to apply to the Company's facilities. The effect of these final regulations and the related legal challenges cannot be determined at this time.

The Company believes that it complied with applicable laws and the EPA's regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes civil penalties of up to $27,500 per day, per violation at each generating unit. Prior to January 30, 1997, the penalty was $25,000 per day. An adverse outcome in this matter could require substantial capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. This could affect future results of operations, cash flows, and possibly financial condition if such costs are not recovered through regulated rates.

*Environmental Statutes and Regulations*

The Company's operations are subject to extensive regulation by state and federal environmental agencies under a variety of statutes and regulations governing environmental media, including air, water, and land resources. Compliance with these environmental requirements will involve significant costs -- both capital and operating -- a major portion of which is expected to be recovered through existing ratemaking provisions. Environmental costs that are known and estimable at this time are included in capital expenditures discussed under "Capital Requirements and Contractual Obligations." There is no assurance, however, that all such costs will, in fact, be recovered.

Compliance with the federal Clean Air Act and resulting regulations has been and will continue to be a significant focus for the Company. The Title IV acid rain provisions of the Clean Air Act, for example, required significant reductions in sulfur dioxide and nitrogen oxide emissions. Title IV compliance was effective in 2000 and associated construction expenditures totaled approximately $2 million.

To help ozone nonattainment areas attain the one-hour ozone standard, in 1998 the EPA issued regional

nitrogen oxide reduction rules. Those rules required 21 states, including Georgia, to reduce and cap nitrogen oxide emissions from power plants and other large industrial sources. As a result of litigation challenging the rule, the courts required the EPA to complete a separate rulemaking before the requirements can be applied in Georgia. The final EPA rules have not been issued in Georgia. The impact of this rule on the Company will depend on the form in which it is finalized and cannot be determined at this time.

In July 1997, the EPA revised the national ambient air quality standards for ozone and particulate matter. These revisions made the standards significantly more stringent. In the subsequent litigation of these standards, the U.S. Supreme Court found the EPA's implementation program for the new eight-hour ozone standard unlawful and remanded it to the EPA for further rulemaking. During 2003, the EPA proposed implementation rules designed to address the court's concerns. The EPA plans to designate areas as attainment or nonattainment with the new eight-hour ozone standard in April 2004 and with the new fine particulate matter standard by the end of 2004. These designations will be based on air quality data for 2001 through 2003. Although not expected, part or all of the Company's service area may be designated nonattainment under these standards. State implementation plans (SIPs), including new emission control regulations necessary to bring those areas into attainment, could be required as early as 2007. These SIPs could require reductions in sulfur dioxide emissions and could require further reductions in nitrogen oxide emissions from power plants. If so, reductions could be required sometime after 2007. The impact of any new standards will depend on the development and implementation of applicable regulations and cannot be determined at this time.

In January 2004, the EPA issued a proposed Interstate Air Quality Rule to address interstate transport of ozone and fine particles. This proposed rule would require additional year-round sulfur dioxide and nitrogen oxide emission reductions from power plants in the eastern United States in two phases – in 2010 and 2015. The EPA currently plans to finalize this rule by 2005. If finalized, the rule could modify or supplant other SIP requirements for attainment of the fine particulate matter standard and the eight-hour ozone standard. The impact of this rule on the Company will depend upon the specific requirements of the final rule and cannot be determined at this time.

Further reductions in sulfur dioxide and nitrogen oxides could also be required under the EPA's Regional Haze rules. The Regional Haze rules require states to establish Best Available Retrofit Technology (BART) standards for certain sources that contribute to regional haze. The Company has two plants that could be subject to these rules. The EPA's Regional Haze program calls for states to submit SIPs in 2007. The SIPs must contain emission reduction strategies for implementing BART and achieving progress toward the Clean Air Act's visibility improvement goal. In 2002, however, the U.S. Court of Appeals for the District of Columbia Circuit vacated and remanded the BART provisions of the federal Regional Haze rules to the EPA for further rulemaking. The EPA has entered into an agreement that requires proposed revised rules in April 2004 and final rules in 2005. Because new BART rules have not been developed and state visibility assessments for progress are only beginning, it is not possible to determine the effect of these rules on the Company at this time.

The EPA's Compliance Assurance Monitoring (CAM) regulations under Title V of the Clean Air Act require that monitoring be performed to ensure compliance with emissions limitations on an ongoing basis. The regulations require certain facilities with Title V operating permits to develop and submit a CAM plan to the appropriate permitting authority upon applying for renewal of the facility's Title V operating permit. The Company will apply for renewal of certain Title V operating permits in 2004, and some units will likely become subject to CAM requirements, at least for particulate matter. The Company is in the process of developing CAM plans. Because the plans are still under development, the Company cannot determine the costs associated with implementation of the CAM regulations. Actual ongoing monitoring costs are expensed as incurred and are not material for any year presented.

In January 2004, the EPA issued proposed rules regulating mercury emissions from electric utility boilers. The proposal solicits comments on two possible approaches for the new regulations – a Maximum Achievable Control Technology approach and a cap-and-trade approach. Either approach would require significant reductions in mercury emissions from company facilities. The regulations are scheduled to be

finalized by the end of 2004, and compliance could be required as early as 2007. Because the regulations have not been finalized, the impact on the Company cannot be determined at this time.

Several major bills to amend the Clean Air Act to impose more stringent emissions limitations on power plants have been proposed by Congress. Three of these, the Bush Administration's Clear Skies Act, the Clean Power Act of 2003, and the Clean Air Planning Act of 2003, propose to further limit power plant emissions of sulfur dioxide, nitrogen oxides, and mercury. The latter two bills also propose to limit emissions of carbon dioxide. The cost impacts of such legislation would depend upon the specific requirements enacted and cannot be determined at this time.

Domestic efforts to limit greenhouse gas emissions have been spurred by international discussions surrounding the Framework Convention on Climate Change and specifically the Kyoto Protocol, which proposes international constraints on the emissions of greenhouse gases. The Bush Administration does not support U.S. ratification of the Kyoto Protocol or other mandatory carbon dioxide reduction legislation and has instead announced a new voluntary climate initiative, known as Climate VISION, which seeks an 18 percent reduction by 2012 in the rate of greenhouse gas emissions relative to the dollar value of the U.S. economy. Through Southern Company, the Company is involved in a voluntary electric utility industry sector climate change initiative in partnership with the government. The electric utility sector has pledged to reduce its greenhouse gas intensity 3 percent to 5 percent over the next decade and is in the process of developing a memorandum of understanding with the Department of Energy (DOE) to cover this voluntary program.

The Company must comply with other environmental laws and regulations that cover the handling and disposal of waste and releases of hazardous substances. Under these various laws and regulations, the Company could incur substantial costs to clean up properties. The Company conducts studies to determine the extent of any required cleanup and has recognized in its financial statements the costs to clean up known sites. Amounts for cleanup and ongoing monitoring costs were not material for any year presented. The Company may be liable for some or all required cleanup costs for additional sites that may require environmental remediation. The Company has not incurred any significant cleanup costs to date.

Under the Clean Water Act, the EPA has been developing new rules aimed at reducing impingement and entrainment of fish and fish larvae at power plants' cooling water intake structures. On February 16, 2004, the EPA finalized these rules. These rules will require biological studies and, perhaps, retrofits to some intake structures at existing power plants. The impact of these new rules will depend on the results of studies and analyses performed as part of the rules' implementation.

In addition, under the Clean Water Act, the EPA and the Georgia Environmental Protection Division (EPD) are developing total maximum daily loads (TMDLs) for certain impaired waters. Establishment of maximum loads by the EPA or the Georgia EPD may result in lowering permit limits for various pollutants and a requirement to take additional measures to control non-point source pollution (e.g., storm water runoff) at facilities that discharge into waters for which TMDLs are established. Because the effect on the Company will depend on the actual TMDLs and permit limitations established by the implementing agency, it is not possible to determine the effect on the Company at this time.

Several major pieces of environmental legislation are periodically considered for reauthorization or amendment by Congress. These include: the Clean Air Act; the Clean Water Act; the Comprehensive Environmental Response, Compensation, and Liability Act; the Resource Conservation and Recovery Act; the Toxic Substances Control Act; the Emergency Planning & Community Right-to-Know Act; and the Endangered Species Act.

Compliance with possible additional federal or state legislation or regulations related to global climate change, electromagnetic fields, or other environmental and health concerns could also significantly affect the Company. The impact of any new legislation, changes to existing legislation, or environmental regulations could affect many areas of the Company's operations. The full impact of any such changes cannot, however, be determined at this time.

*FERC Matters*

*Transmission*

In December 1999, the FERC issued its final rule (Order 2000) on Regional Transmission Organizations (RTOs). Order 2000 encouraged utilities owning transmission systems to form RTOs on a voluntary basis. Southern Company and its retail operating companies, including the Company, worked with a number of utilities in the Southeast to develop a for-profit RTO known as SeTrans. In 2002, the sponsors of SeTrans established a Stakeholder Advisory Committee to provide input into the development of the RTO from other sectors of the electric industry, as well as consumers. During the development of SeTrans, state regulatory authorities expressed concern over certain aspects of the FERC's policies regarding RTOs. In December 2003, the SeTrans sponsors announced that they would suspend work on SeTrans because the regulated utility participants, including the Company, had determined that it is highly unlikely to obtain support of both federal and state regulatory authorities. Any impact of the FERC's rule on the Company will depend on the regulatory reaction to the suspension of SeTrans and future developments, which cannot now be determined.

In July 2002, the FERC issued a notice of proposed rulemaking regarding open access transmission service and standard electricity market design. The proposal, if adopted, would among other things: (1) require transmission assets of jurisdictional utilities to be operated by an independent entity; (2) establish a standard market design; (3) establish a single type of transmission service that applies to all customers; (4) assert jurisdiction over the transmission component of bundled retail service; (5) establish a generation reserve margin; (6) establish bid caps for day ahead and spot energy markets; and (7) revise the FERC policy on the pricing of transmission expansions. Comments on the proposal were submitted by many interested parties, including Southern Company, and the FERC has indicated that it has revised certain aspects of the proposal in response to public comments. Proposed energy legislation would prohibit the FERC from issuing the final rule before October 31, 2006, and from making any final rule effective before December 31, 2006. That legislation has been approved by the House of Representatives but remains pending before the Senate. Passage of the legislation now appears in doubt. It is uncertain whether in the absence of legislation the FERC will move forward with any part or all of the proposed rule. Any impact of this proposal on Southern Company and its subsidiaries, including the Company, will depend on the form in which the final rule may be ultimately adopted. The Company's financial statements could be adversely affected by changes in the transmission regulatory structure in its regional power market.

*Market-Based Rate Authority*

The Company has obtained FERC approval to sell power to nonaffiliates at market-based prices under specific contracts. Through SCS as agent, the Company also has FERC authority to make short-term opportunity sales at market rates. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate. In November 2001, the FERC modified the test it uses to consider utilities' applications to charge market-based rates and adopted a new test called the Supply Margin Assessment (SMA). The FERC applied the SMA to several utilities, including Southern Company's retail operating companies, and found them to be "pivotal suppliers" in their control area market and ordered the implementation of several mitigation measures. SCS, on behalf of the retail operating companies, sought rehearing of the FERC order, and the FERC delayed the implementation of certain mitigation measures. SCS, on behalf of the retail operating companies, submitted comments to the FERC in 2002 regarding these issues. In December 2003, the FERC issued a staff paper discussing alternatives and held a technical conference in January 2004. The Company anticipates that the FERC will address the requests for rehearing in the near future. Regardless of the outcome of the SMA proposal, the FERC retains the ability to modify or withdraw the authorization for any seller to sell at market-based rates, if it determines that the underlying conditions for having such authority are no longer applicable. The final outcome of this matter will depend on the form in which the SMA test and mitigation measures rules may be ultimately adopted and cannot be determined at this time.

*Southern Power PPA*

The Company plans to retire a 102 megawatt peaking facility in May 2005. In June 2002, the Company entered into a fifteen-year purchased power agreement with Southern Power for 200 megawatts of capacity beginning in June 2005 from the planned combined-cycle plant at

Plant McIntosh being built and owned by Southern Power. The annual capacity cost is expected to be approximately $15.0 million.

Purchased power agreements (PPAs) by Georgia Power and the Company for Southern Power's Plant McIntosh capacity were certified by the GPSC in December 2002 after a competitive bidding process. In April 2003, Southern Power applied for FERC approval of these PPAs. Interveners opposed the FERC's acceptance of the PPAs, alleging that the PPAs do not meet the applicable standards for market-based rates between affiliates. In July 2003, the FERC accepted the PPAs to become effective as scheduled on June 1, 2005, subject to refund, and ordered that hearings be held. For additional information, see Note 3 to the financial statements under "FERC Matters."

*Other Matters*

In accordance with Financial Accounting Standards Board (FASB) Statement No. 87, Employers' Accounting for Pensions, the Company recorded non-cash pension costs of approximately $4.3 million, $4.4 million, and $4.0 million pre-tax in 2003, 2002, and 2001, respectively. Future pension costs are dependent on several factors including trust earnings and changes to the plan. Postretirement benefit costs for the Company were approximately $2.7 million in 2003 and $2.6 million in 2002 and 2001 and are expected to continue to trend upward. A portion of pension and postretirement benefit costs is capitalized based on construction-related labor charges. For more information regarding pension and postretirement benefits, see Note 2 to the financial statements.

On December 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act). The Medicare Act introduces a prescription drug benefit for Medicare-eligible retirees starting in 2006, as well as a federal subsidy to plan sponsors like the Company that provide prescription drug benefits. In accordance with FASB Staff Position No. 106-1, the Company has elected to defer recognizing the effects of the Medicare Act for its postretirement plans under FASB Statement No. 106, Employers' Accounting for Postretirement Benefits Other than Pension until authoritative guidance on accounting for the federal subsidy is issued or until a significant event occurs that would require remeasurement of the plans' assets and obligations. The Company anticipates that the benefits it pays after 2006 will be lower as a result of the Medicare Act; however, the retiree medical obligations and costs reported in Note 2 to the financial statements do not reflect these changes. The final accounting guidance could require changes to previously reported information.

In May 2002, the GPSC approved a $7.8 million base rate increase to recover expenses related to a new purchased power agreement and other operation and maintenance expenses and approved an authorized return on equity of 12.0 percent. At the same time, the GPSC also approved a $44.3 million fuel cost recovery reduction. All customers saw a net rate decrease effective June 2002. In 2002, the Company filed a request and received an accounting order to defer until May 2005 approximately $3.8 million annually in Plant Wansley purchased power costs, which the GPSC had ruled to be outside of the test period in the Company's base rate order. Under the terms of the order, two-thirds of any earnings of the Company in a calendar year above a 12 percent return on common equity will be used to amortize the deferred amounts to expense. The remaining one-third of any such earnings can be retained by the Company. The accounting order provides the Company with discretionary authority to amortize up to an additional $1.5 million annually. In January 2003, the Company began deferring the costs under the terms of the accounting order. Through December 2003, the Company has amortized $3.7 million of the $3.8 million deferred. The deferred costs are included in other deferred debits in the Balance Sheets. The Company anticipates filing a base rate case in late 2004.

Prior to the 2002 base rate case order, the Company had been operating under a four-year accounting order approved by the GPSC. See Note 3 to the financial statements under "Retail Regulatory Matters" for additional information.

The Company is involved in various matters being litigated and regulatory matters that could affect future earnings. See Note 3 to the financial statements for information regarding material issues.

## ACCOUNTING POLICIES

### Application of Critical Accounting Policies and Estimates

The Company 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. In the application of these policies, certain estimates are made that may have a material impact on the Company's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. Senior management has discussed the development and selection of the critical accounting policies and estimates described below with the Control and Compliance Committee of the Company's Board of Directors and the Audit Committee of Southern Company's Board of Directors.

*Electric Utility Regulation*

The Company is subject to retail regulation by the GPSC and wholesale regulation by the FERC. These regulatory agencies set the rates the Company is permitted to charge customers based on allowable costs. As a result, the Company applies FASB Statement No. 71, Accounting for the Effects of Certain Types of Regulation. Through the ratemaking process, the regulators may require the inclusion of costs or revenues in periods different than when they would be recognized by a non-regulated company. This treatment may result in the deferral of expenses and the recording of related regulatory assets based on anticipated future recovery through rates or the deferral of gains or creation of liabilities and the recording of related regulatory liabilities. The application of Statement No. 71 has a further effect on the Company's financial statements as a result of the estimates of allowable costs used in the ratemaking process. These estimates may differ from those actually incurred by the Company; therefore, the accounting estimates inherent in specific costs such as depreciation and pension and post-retirement benefits have less of a direct impact on the Company's results of operations than they would on a non-regulated company.

As reflected in Note 1 to the financial statements, significant regulatory assets and liabilities have been recorded. Management reviews the ultimate recoverability of these regulatory assets and liabilities based on applicable regulatory guidelines. However, adverse legislation and judicial or regulatory actions could materially impact the amounts of such regulatory assets and liabilities and could adversely impact the Company's financial statements.

*Contingent Obligations*

The Company is subject to a number of federal and state laws and regulations, as well as other factors and conditions that potentially subject it to environmental, litigation, income tax, and other risks. See "Future Earnings Potential" and Note 3 to the financial statements for more information regarding certain of these contingencies. The Company periodically evaluates its exposure to such risks and records reserves for those matters where a loss is considered probable and reasonably estimable in accordance with generally accepted accounting principles. The adequacy of reserves can be significantly affected by external events or conditions that can be unpredictable; thus, the ultimate outcome of such matters could materially affect the Company's financial statements. These events or conditions include the following:

- Changes in existing state or federal regulation by governmental authorities having jurisdiction over air quality, water quality, control of toxic substances, hazardous and solid wastes, and other environmental matters.
- Changes in existing income tax regulations or changes in Internal Revenue Service interpretations of existing regulations.
- Identification of additional sites that require environmental remediation or the filing of other complaints in which the Company may be asserted to be a potentially responsible party.
- Identification and evaluation of other potential lawsuits or complaints in which the Company may be named as a defendant.
- Resolution or progression of existing matters through the legislative process, the court systems, or the EPA.

### New Accounting Standards

Prior to January 2003, the Company accrued for the ultimate cost of retiring most long-lived assets over the life of the related asset through depreciation expense. FASB Statement No. 143, Accounting for Asset

Retirement Obligations, established new accounting and reporting standards for legal obligations associated with the ultimate cost of retiring long-lived assets. The present value of the ultimate costs for an asset's future retirement is recorded in the period in which the liability is incurred. The costs are capitalized as part of the related long-lived asset and depreciated over the asset's useful life. Additionally, non-regulated companies are no longer permitted to continue accruing future retirement costs for long-lived assets that they do not have a legal obligation to retire. For more information regarding the impact of adopting this standard effective January 1, 2003, see Note 1 to the financial statements under "Asset Retirement Obligations and Other Costs of Removal."

FASB Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which further amends and clarifies the accounting and reporting for derivative instruments, became effective generally for financial instruments entered into or modified after June 30, 2003. Current interpretations of Statement No. 149 indicate that certain electricity forward transactions subject to unplanned netting -- including those typically referred to as "book outs" -- may only qualify as cash flow hedges if an entity can demonstrate that physical delivery or receipt of power occurred. The Company's forward electricity contracts continue to be exempt from fair value accounting requirements or to qualify as cash flow hedges, with the related gains and losses deferred in other comprehensive income. The implementation of Statement No. 149 did not have a material effect on the Company's financial statements.

In July 2003, the Emerging Issues Task Force (EITF) of FASB issued EITF No. 03-11, which became effective on October 1, 2003. The standard addresses the reporting of realized gains and losses on derivative instruments and is being interpreted to require book outs to be recorded on a net basis in operating revenues. Adoption of this standard did not have a material impact on the Company's financial statements.

FASB Interpretation No. 46, Consolidation of Variable Interest Entities, which was originally issued in January 2003, requires the primary beneficiary of a variable interest entity to consolidate the related assets and liabilities. In December 2003, the FASB revised Interpretation No. 46 and deferred the effective date until March 31, 2004, for interests held in variable interest entities or potential variable interest entities other than special purpose entities.

Current analysis indicates that any trust established by the Company to issue preferred securities is a variable interest entity under Interpretation No. 46, and that the Company is not the primary beneficiary of such a trust. If this conclusion is finalized, effective March 31, 2004, the investments in such trusts and loans from such trusts to the Company would be reflected as equity method investments and as long-term notes payable to affiliates, respectively, on the Balance Sheets. In January 2004, the Company redeemed all $40 million of its outstanding mandatorily redeemable preferred securities; thus the adoption of Interpretation No. 46 is not expected to have any impact on the Company's financial statements.

In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, which requires classification of certain financial instruments within its scope, including shares that are mandatorily redeemable, as liabilities. Statement No. 150 was effective for financial instruments entered into or modified after May 31, 2003, and otherwise on July 1, 2003. In accordance with Statement No. 150, mandatorily redeemable preferred securities are reflected as liabilities on the Balance Sheets. The adoption of Statement No. 150 had no impact on the Statements of Income and Cash Flows.

## FINANCIAL CONDITION AND LIQUIDITY

### Overview

As of December 31, 2003, the Company's capital structure consisted of 45.6 percent common stockholder's equity and 54.4 percent long-term debt, excluding amounts due within one year.

The principal change in the Company's financial condition in 2003 was the addition of $40.2 million to utility plant. The funds needed for gross property additions are currently provided from operating activities. See Statements of Cash Flows for additional information.

### Sources of Capital

It is anticipated that the funds required for construction and other purposes, including compliance with environmental regulations, will be derived from sources

similar to those used in the past including both internal and external funds. Historically, the external funding came from the issuance of debt and mandatorily redeemable preferred securities. Recently, the Company's debt financings have consisted of unsecured debt. The Company is required to meet certain earnings coverage requirements specified in its mortgage indenture and corporate charter to issue new first mortgage bonds and preferred stock. The Company's coverage ratios are sufficiently high to permit, at present interest rate levels, any foreseeable security sales. There are no restrictions on the amount of unsecured indebtedness allowed. The amount of securities which the Company will be permitted to issue in the future will depend upon market conditions and other factors prevailing at that time. Authorization for long-term financings is required by the GPSC. Currently, the Company has $75 million available under GPSC long-term financing authority expiring December 31, 2005.

As shown in the chart below, at the beginning of 2004, the Company had $60 million of unused short-term and revolving credit arrangements with banks to meet its short-term cash needs and to provide additional interim funding for the Company's construction program. The Company also has adequate cash flow from operating activities and access to the capital markets to meet liquidity needs.

At the beginning of 2004, bank credit arrangements are as follows:

| | | Expires | |
|---|---|---|---|
| | | | 2005 & |
| Total | Unused | 2004 | Beyond |
| | (in millions) | | |
| $80 | $60 | $40 | $20 |

For additional information, see Note 6 to the financial statements under "Bank Credit Arrangements."

The Company may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper and extendible commercial notes at the request and for the benefit of the Company and the other Southern Company retail operating companies. Proceeds from such issuances for the benefit of the Company are loaned directly to the Company and are not commingled with proceeds from such issuances for the benefit of any other operating company. The obligations of each company under these arrangements are several; there is no cross affiliate credit support. At December 31, 2003, the Company had no commercial paper and no outstanding extendible commercial notes.

The Company's committed credit arrangements provide liquidity support to the Company's variable rate obligations and to its commercial paper program. At December 31, 2003, the amount of variable rate obligations outstanding requiring liquidity support was $7.7 million.

The Company obtains financing separately without credit support from any affiliate. The Southern Company system does not maintain a centralized cash or money pool. Therefore, funds of the Company are not commingled with funds of any other company. In accordance with the Public Utility Holding Company Act, most loans between affiliated companies must be approved in advance by the Securities and Exchange Commission (SEC).

**Financing Activities**

Maturities and retirements of long-term debt were $39.4 million in 2003, $53.6 million in 2002, and $50.7 million in 2001.

In May 2003, the Company retired its $20 million Series B 5.12% Senior Notes due in 2003. In December 2003, the Company issued $25 million of Series E 4.90% Senior Notes maturing in 2013 and $35 million of Series F 5.50% Senior Notes maturing in 2028. The Company used the proceeds from these two sales to repay in December 2003 $5 million under a $30 million variable rate revolving credit agreement of which the Company had borrowed $25 million, to redeem in January 2004 $40 million of Savannah Electric Capital Trust I 6.85% Trust Preferred Securities, to repay a portion of its outstanding short-term indebtedness, and for other general corporate purposes.

In February 2003, the Company refinanced $13.9 million in pollution control bonds from a daily variable interest rate to an auction rate mode.

**Credit Rating Risk**

The Company does not have any credit agreements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade.

## Market Price Risk

Due to cost-based rate regulations, the Company has limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. To manage the volatility attributable to these exposures, the Company nets the exposures to take advantage of natural offsets and enters into various derivative transactions for the remaining exposures pursuant to the Company's policies in areas such as counterparty exposure and hedging practices. Company policy is that derivatives are to be used primarily for hedging purposes. Derivative positions are monitored using techniques that include market valuation and sensitivity analysis.

To mitigate exposure to interest rates, the Company has entered into interest rate swaps that have been designated as cash flow hedges. The weighted average rate on variable rate long-term debt outstanding that has not been hedged at December 31, 2003 was 1.1 percent. If the Company sustained a 100 basis point change in interest rates for all unhedged variable rate long-term debt, the change would affect annualized interest expense by approximately $0.2 million at December 31, 2003. The Company is not aware of any facts or circumstances that would significantly affect such exposures in the near term. See Notes 1 and 6 to the financial statements under "Financial Instruments" for additional information.

To mitigate residual risks relative to movements in electricity prices, the Company enters into fixed price contracts for the purchase and sale of electricity through the wholesale electricity market. In addition, the Company has implemented a natural gas/oil hedging program ordered by the GPSC. The program has negative financial hedge limits. In terms of dollar amounts, negative financial hedging positions, recoverable through the fuel clause, are limited to an above market cap equal to 10 percent of the Company's annual natural gas/oil budget. These hedging position limits were $1.5 million for 2001, $2.4 million for 2002, and $1.1 million for 2003 and will be $2.7 million for 2004. The program has operated within the defined hedging position limits set for each year.

The fair value of changes in energy related derivative contracts and year-end valuations were as follows at December 31:

| | Changes in Fair Value | |
|---|---|---|
| | **2003** | 2002 |
| | (in thousands) | |
| Contracts beginning of year | **$ 626** | $(1,053) |
| Contracts realized or settled | **(1,798)** | 269 |
| New contracts at inception | **-** | - |
| Changes in valuation techniques | **-** | - |
| Current period changes | **1,635** | 1,410 |
| Contracts end of year | **$ 463** | $ 626 |

| | Source of 2003 Year-End Valuation Prices | | |
|---|---|---|---|
| | Total | Maturity | |
| | Fair Value | Year 1 | 2-3 Years |
| | (in thousands) | | |
| Actively quoted | **$463** | **$529** | **$(66)** |
| External sources | **-** | **-** | **-** |
| Models and other methods | **-** | **-** | **-** |
| Contracts end of year | **$463** | **$529** | **$(66)** |

Unrealized gains and losses from mark to market adjustments on derivative contracts related to the Company's fuel hedging program are recorded as regulatory assets and liabilities. Realized gains and losses from this program are included in fuel expense and recovered through the Company's FCR clause. Of the net gains, the Company is allowed to retain 25 percent in earnings. Gains and losses on derivative contracts that are not designated as hedges are recognized in the Statements of Income as incurred. For the years ended December 31, 2003, 2002, and 2001, these amounts were not material. At December 31, 2003, the fair value of derivative energy contracts was reflected in the financial statements as follows:

| | Amounts |
|---|---|
| | (in thousands) |
| Regulatory liabilities, net | **$462** |
| Other comprehensive income | **-** |
| Net income | **1** |
| Total fair value | **$463** |

The Company is exposed to market price risk in the event of nonperformance by counterparties to the derivative energy contracts. The Company's policy is to enter into agreements with counterparties that have investment grade credit ratings by Moody's and Standard & Poor's or with counterparties who have posted collateral to cover potential credit exposure. Therefore, the Company does not anticipate market risk exposure from nonperformance by the counterparties. For additional information, see Notes 1 and 6 to the financial statements under "Financial Instruments."

## Capital Requirements and Contractual Obligations

The Company's construction program is currently estimated to be $51.8 million in 2004, $42.6 million in 2005, and $41.3 million in 2006. Environmental expenditures included in these amounts are $3.3 million, $1.4 million, and $3.0 million for 2004, 2005, and 2006, respectively. Actual construction costs may vary from this estimate because of changes in such factors as: business conditions; environmental regulations; FERC rules and transmission regulations; load projections; the cost and efficiency of construction labor, equipment, and materials; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered. Construction of new transmission and distribution facilities and capital improvements for generation, transmission, and distribution facilities, including those needed to meet the environmental standards previously discussed, will be ongoing.

As discussed in Note 2 to the financial statements, the company provides postretirement benefits to substantially all employees and funds trusts to the extent required by the GPSC.

Other funding requirements related to obligations associated with scheduled maturities of long-term debt and preferred securities, as well as the related interest and distributions, leases, and other purchase commitments are as follows: See notes 1, 6, and 7 to the financial statements for additional information.

| | 2004 | 2005-2006 | 2007-2008 | After 2008 | Total |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| Long-term debt and preferred securities[a] -- | | | | | |
| Principal | $ 40,910 | $ 41,642 | $ 46,565 | $134,286 | $ 263,403 |
| Interest and distributions | 13,926 | 21,976 | 18,804 | 76,730 | 131,436 |
| Operating leases | 844 | 1,557 | 1,491 | 4,255 | 8,147 |
| Purchase commitments[b] -- | | | | | |
| Capital[c] | 51,750 | 83,902 | - | - | 135,652 |
| Coal | 31,439 | - | - | - | 31,439 |
| Natural gas[d] | 867 | 19,142 | 35,260 | 284,097 | 339,366 |
| Purchased power | 13,221 | 51,790 | 54,720 | 171,262 | 290,993 |
| Postretirement benefit trusts[e] -- | 1,940 | 4,120 | - | - | 6,060 |
| Total | $154,897 | $224,129 | $156,840 | $670,630 | $1,206,496 |

(a) All amounts are reflected based on final maturity dates. The Company will continue to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit. Variable rate interest obligations are estimated based on rates as of January 1, 2004, as reflected in the Statements of Capitalization.

(b) The Company generally does not enter into non-cancelable commitments for other operation and maintenance expenditures. Total other operation and maintenance expenses for the last three years were $83.6 million, $81.0 million, and $70.5 million, respectively.

(c) The Company forecasts capital expenditures over a three-year period. Amounts represent current estimates of total expenditures. At December 31, 2003, significant purchase commitments were outstanding in connection with the construction program.

(d) Natural gas purchase commitments contain fixed volumes with prices based on various indices at the time of delivery. Amounts reflected have been estimated based on the New York Mercantile future prices at December 31, 2003.

(e) The Company forecasts postretirement trust contributions over a three-year period. No contributions related to the Company's pension trust are currently expected during this period. See Note 2 to the financial statements for additional information related to the pension plans.

## Cautionary Statement Regarding Forward-Looking Information

The Company's 2003 Annual Report includes forward-looking statements in addition to historical information. Forward-looking information includes, among other things, statements concerning the estimated construction and other expenditures and the Company's projections for energy sales and postretirement benefit trust contributions. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," or "continue" or the negative of these terms or other comparable terminology. The Company cautions that there are various important factors that could cause actual results to differ materially from those indicated in the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory change, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry and also changes in environmental, tax, and other laws and regulations to which the Company is subject, as well as changes in application of existing laws and regulations;
- current and future litigation, regulatory investigations, proceedings or inquiries, including the pending EPA civil action against the Company;
- the effects, extent, and timing of the entry of additional competition in the markets in which the Company operates;
- the impact of fluctuations in commodity prices, interest rates, and customer demand;
- available sources and costs of fuels;
- ability to control costs;
- investment performance of the Company's employee benefit plans;
- advances in technology;
- state and federal rate regulations and pending and future rate cases and negotiations;
- effects of and changes in political, legal, and economic conditions and developments in the United States, including the current soft economy;
- internal restructuring or other restructuring options that may be pursued;
- potential business strategies, including acquisitions or dispositions of assets, which cannot be assured to be completed or beneficial to the Company;
- the ability of counterparties of the Company to make payments as and when due;
- the ability to obtain new short- and long-term contracts with neighboring utilities;
- the direct or indirect effects on the Company's business resulting from the terrorist incidents on September 11, 2001, or any similar incidents or responses to such incidents;
- financial market conditions and the results of financing efforts, including the Company's credit ratings;
- the ability of the Company to obtain additional generating capacity at competitive prices;
- weather and other natural phenomena;
- the direct or indirect effects on the Company's business resulting from the August 2003 power outage in the Northeast, or any similar incidents;
- the effect of accounting pronouncements issued periodically by standard-setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed from time to time by the Company with the SEC.

## STATEMENTS OF INCOME

**For the Years Ended December 31, 2003, 2002, and 2001**
**Savannah Electric and Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | *(in thousands)* | |
| **Operating Revenues:** | | | |
| Retail sales | **$297,745** | $285,771 | $269,172 |
| Sales for resale -- | | | |
| Non-affiliates | **5,653** | 6,354 | 8,884 |
| Affiliates | **6,499** | 4,075 | 3,205 |
| Other revenues | **4,158** | 3,352 | 2,591 |
| Total operating revenues | **314,055** | 299,552 | 283,852 |
| **Operating Expenses:** | | | |
| Fuel | **55,308** | 54,955 | 50,796 |
| Purchased power -- | | | |
| Non-affiliates | **5,713** | 6,368 | 23,147 |
| Affiliates | **83,792** | 69,236 | 49,939 |
| Other operations | **56,823** | 55,756 | 50,607 |
| Maintenance | **26,798** | 25,262 | 19,886 |
| Depreciation and amortization | **20,499** | 22,704 | 25,951 |
| Taxes other than income taxes | **14,665** | 14,457 | 13,984 |
| Total operating expenses | **263,598** | 248,738 | 234,310 |
| **Operating Income** | **50,457** | 50,814 | 49,542 |
| **Other Income and (Expense):** | | | |
| Interest income | **290** | 147 | 173 |
| Interest expense, net of amounts capitalized | **(9,590)** | (11,608) | (12,517) |
| Distributions on mandatorily redeemable preferred securities | **(2,740)** | (2,740) | (2,740) |
| Other income (expense), net | **(502)** | (1,300) | (686) |
| Total other income and (expense) | **(12,542)** | (15,501) | (15,770) |
| **Earnings Before Income Taxes** | **37,915** | 35,313 | 33,772 |
| Income taxes | **15,108** | 12,433 | 11,731 |
| **Earnings Before Cumulative Effect of Accounting Change** | **22,807** | 22,880 | 22,041 |
| Cumulative effect of accounting change-- less income taxes of $14 | **-** | - | 22 |
| **Net Income** | **$ 22,807** | $ 22,880 | $ 22,063 |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CASH FLOWS

**For the Years Ended December 31, 2003, 2002, and 2001**
**Savannah Electric and Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | *(in thousands)* | |
| **Operating Activities:** | | | |
| Net income | **$ 22,807** | $ 22,880 | $ 22,063 |
| Adjustments to reconcile net income to net cash provided from operating activities -- | | | |
| Depreciation and amortization | **22,587** | 24,653 | 27,895 |
| Deferred income taxes and investment tax credits, net | **793** | (6,227) | (20,528) |
| Pension, postretirement, and other employee benefits | **6,215** | 6,133 | 6,282 |
| Tax benefit of stock options | **884** | 1,451 | - |
| Other, net | **4,015** | (10,559) | (2,198) |
| Changes in certain current assets and liabilities -- | | | |
| Receivables, net | **1,189** | 7,965 | 24,079 |
| Fossil fuel stock | **(323)** | 1,522 | (2,711) |
| Materials and supplies | **516** | 3,383 | (4,025) |
| Other current assets | **4,057** | (5,470) | 8,587 |
| Accounts payable | **3,713** | 6,969 | (8,439) |
| Accrued taxes | **(983)** | (627) | 2,820 |
| Other current liabilities | **(5,311)** | 6,560 | 1,224 |
| Net cash provided from operating activities | **60,159** | 58,633 | 55,049 |
| **Investing Activities:** | | | |
| Gross property additions | **(40,242)** | (32,481) | (31,296) |
| Other | **895** | (1,331) | (1,875) |
| Net cash used for investing activities | **(39,347)** | (33,812) | (33,171) |
| **Financing Activities:** | | | |
| Decrease in notes payable, net | **(2,897)** | (29,263) | (13,241) |
| Proceeds -- | | | |
| Pollution control bonds | **13,870** | - | - |
| Senior notes | **60,000** | 55,000 | 65,000 |
| Other long-term debt | **-** | 25,616 | - |
| Capital contributions from parent company | **6,757** | 2,499 | 1,561 |
| Redemptions -- | | | |
| First mortgage bonds | **-** | (23,558) | (20,642) |
| Pollution control bonds | **(13,870)** | - | - |
| Senior notes | **(20,000)** | (30,000) | - |
| Other long-term debt | **(5,541)** | - | (30,071) |
| Payment of common stock dividends | **(23,000)** | (22,700) | (21,700) |
| Other | **(2,166)** | (828) | (394) |
| Net cash provided from (used for) financing activities | **13,153** | (23,234) | (19,487) |
| **Net Change in Cash and Cash Equivalents** | **33,965** | 1,587 | 2,391 |
| **Cash and Cash Equivalents at Beginning of Period** | **3,978** | 2,391 | - |
| **Cash and Cash Equivalents at End of Period** | **$37,943** | $ 3,978 | $ 2,391 |
| **Supplemental Cash Flow Information:** | | | |
| Cash paid during the period for -- | | | |
| Interest (net of $220, $165, and $271 capitalized, respectively) | **$11,334** | $13,353 | $15,340 |
| Income taxes (net of refunds) | **8,439** | 23,478 | 21,034 |

The accompanying notes are an integral part of these financial statements.

## BALANCE SHEETS
**At December 31, 2003 and 2002**
**Savannah Electric and Power Company 2003 Annual Report**

| Assets | 2003 | 2002 |
|---|---|---|
| | | *(in thousands)* |
| **Current Assets:** | | |
| Cash and cash equivalents | **$ 37,943** | $ 3,978 |
| Receivables -- | | |
| Customer accounts receivable | **19,674** | 22,631 |
| Unbilled revenues | **11,288** | 11,531 |
| Other accounts and notes receivable | **1,138** | 2,937 |
| Affiliated companies | **4,872** | 1,102 |
| Accumulated provision for uncollectible accounts | **(641)** | (682) |
| Fossil fuel stock, at average cost | **8,652** | 8,328 |
| Materials and supplies, at average cost | **9,070** | 9,586 |
| Prepaid income taxes | **24,419** | 24,414 |
| Prepaid expenses | **1,377** | 806 |
| Other | **623** | 1,260 |
| Total current assets | **118,415** | 85,891 |
| **Property, Plant, and Equipment:** | | |
| In service | **912,504** | 880,605 |
| Less accumulated provision for depreciation | **402,394** | 384,348 |
| | **510,110** | 496,257 |
| Construction work in progress | **14,121** | 6,082 |
| Total property, plant, and equipment | **524,231** | 502,339 |
| **Other property and investments** | **2,248** | 3,648 |
| **Deferred Charges and Other Assets:** | | |
| Deferred charges related to income taxes | **9,611** | 11,692 |
| Cash surrender value of life insurance for deferred compensation plans | **23,866** | 21,943 |
| Unamortized debt issuance expense | **5,652** | 3,757 |
| Unamortized loss on reacquired debt | **7,488** | 8,103 |
| Other | **18,410** | 11,716 |
| Total deferred charges and other assets | **65,027** | 57,211 |
| **Total Assets** | **$709,921** | $649,089 |

The accompanying notes are an integral part of these financial statements.

**BALANCE SHEETS**
**At December 31, 2003 and 2002**
**Savannah Electric and Power Company 2003 Annual Report**

| Liabilities and Stockholder's Equity | 2003 | 2002 |
|---|---|---|
| | | *(in thousands)* |
| **Current Liabilities:** | | |
| Securities due within one year | **$ 40,910** | $ 20,892 |
| Notes payable | **-** | 2,897 |
| Accounts payable -- | | |
| Affiliated | **13,797** | 7,889 |
| Other | **13,147** | 15,211 |
| Customer deposits | **6,922** | 6,781 |
| Accrued taxes -- | | |
| Income taxes | **1,172** | 311 |
| Other | **1,473** | 3,317 |
| Accrued interest | **2,802** | 3,268 |
| Accrued vacation pay | **2,530** | 2,427 |
| Accrued compensation | **5,652** | 6,471 |
| Other | **5,107** | 9,320 |
| Total current liabilities | **93,512** | 78,784 |
| **Long-term debt** (See accompanying statements) | **222,493** | 168,052 |
| **Mandatorily redeemable preferred securities** (See accompanying statements) | **-** | 40,000 |
| **Deferred Credits and Other Liabilities:** | | |
| Accumulated deferred income taxes | **83,852** | 78,970 |
| Deferred credits related to income taxes | **9,804** | 12,445 |
| Accumulated deferred investment tax credits | **8,625** | 9,289 |
| Employee benefit obligations | **39,833** | 33,619 |
| Other cost of removal obligations | **36,843** | 31,884 |
| Miscellaneous regulatory liabilities | **12,932** | 14,256 |
| Other | **15,735** | 1,986 |
| Total deferred credits and other liabilities | **207,624** | 182,449 |
| **Total liabilities** | **523,629** | 469,285 |
| **Common stockholder's equity** (See accompanying statements) | **186,292** | 179,804 |
| **Total Liabilities and Stockholder's Equity** | **$709,921** | $649,089 |
| **Commitments and Contingent Matters** (See notes) | | |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CAPITALIZATION

**At December 31, 2003 and 2002**

**Savannah Electric and Power Company 2003 Annual Report**

| | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| | | *(in thousands)* | *(percent of total)* | |
| **Long-Term Debt:** | | | | |
| First mortgage bonds -- | | | | |
| 6.9% due May 1, 2006 | **$ 20,000** | $ 20,000 | | |
| Total first mortgage bonds | **20,000** | 20,000 | | |
| Long-term notes payable -- | | | | |
| 5.12% due May 15, 2003 | **-** | 20,000 | | |
| 6.55% due May 15, 2008 | **45,000** | 45,000 | | |
| 4.90% to 5.50% due 2013 through 2028 | **115,000** | 55,000 | | |
| Adjustable rates (1.56% at 1/1/04) due September 6, 2005 | **20,000** | 25,000 | | |
| Total long-term notes payable | **180,000** | 145,000 | | |
| Other long-term debt -- | | | | |
| Pollution control revenue bonds -- | | | | |
| Non-collateralized: | | | | |
| Variable rates (1.05% to 1.31% at 1/1/04) due 2016-2038 | **17,955** | 17,955 | | |
| Total other long-term debt | **17,955** | 17,955 | | |
| Capitalized lease obligations | **5,448** | 5,989 | | |
| Total long-term debt (annual interest requirement -- $11.2 million) | **223,403** | 188,944 | | |
| Less amount due within one year | **910** | 20,892 | | |
| Long-term debt excluding amount due within one year | **222,493** | 168,052 | **54.4%** | 43.3% |
| **Mandatorily Redeemable Preferred Securities:** | | | | |
| $25 liquidation value -- | | | | |
| 6.85% due 2028 | **40,000** | 40,000 | | |
| Total mandatorily redeemable preferred securities (annual distribution requirement -- $2.7 million) | **40,000** | 40,000 | | |
| Less amount due within one year | **40,000** | - | | |
| Mandatorily redeemable preferred securities excluding amount due within one year | **-** | 40,000 | **0.0** | 10.3 |
| **Common Stockholder's Equity:** | | | | |
| Common stock, par value $5 per share -- | | | | |
| Authorized - 16,000,000 shares | | | | |
| Outstanding - 10,844,635 shares in 2003 and 2002 | | | | |
| Par value | **54,223** | 54,223 | | |
| Paid-in capital | **24,417** | 16,776 | | |
| Retained earnings | **109,856** | 110,049 | | |
| Accumulated other comprehensive income (loss) | **(2,204)** | (1,244) | | |
| Total common stockholder's equity | **186,292** | 179,804 | **45.6** | 46.4 |
| **Total Capitalization** | **$408,785** | $387,856 | **100.0%** | 100.0% |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

**For the Years Ended December 31, 2003, 2002, and 2001**
**Savannah Electric and Power Company 2003 Annual Report**

| | Common Stock | Paid-In Capital | Retained Earnings | Other Comprehensive Income (loss) | Total |
|---|---|---|---|---|---|
| | | | *(in thousands)* | | |
| **Balance at December 31, 2000** | $54,223 | $11,265 | $109,506 | $ - | $174,994 |
| Net income | - | - | 22,063 | - | 22,063 |
| Capital contributions from parent company | - | 1,561 | - | - | 1,561 |
| Cash dividends on common stock | - | - | (21,700) | - | (21,700) |
| **Balance at December 31, 2001** | 54,223 | 12,826 | 109,869 | - | 176,918 |
| Net income | - | - | 22,880 | - | 22,880 |
| Capital contributions from parent company | - | 3,950 | - | - | 3,950 |
| Other comprehensive income (loss) | - | - | - | (1,244) | (1,244) |
| Cash dividends on common stock | - | - | (22,700) | - | (22,700) |
| **Balance at December 31, 2002** | **54,223** | **16,776** | **110,049** | **(1,244)** | **179,804** |
| Net income | - | - | **22,807** | - | **22,807** |
| Capital contributions from parent company | - | **7,641** | - | - | **7,641** |
| Other comprehensive income (loss) | - | - | - | **(960)** | **(960)** |
| Cash dividends on common stock | - | - | **(23,000)** | - | **(23,000)** |
| **Balance at December 31, 2003** | **$54,223** | **$24,417** | **$109,856** | **$(2,204)** | **$186,292** |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF COMPREHENSIVE INCOME

**For the Years Ended December 31, 2003, 2002, and 2001**
**Savannah Electric and Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | *(in thousands)* | |
| **Net income** | **$22,807** | $22,880 | $22,063 |
| Other comprehensive income (loss): | | | |
| Change in additional minimum pension liability, net of tax of $(336) and $(785), respectively | **(533)** | (1,244) | - |
| Changes in fair value of qualifying hedges, net of tax of $(284) | **(450)** | - | - |
| Less: Reclassification adjustment for amounts included in net income, net of tax of $15 | **23** | - | - |
| Total other comprehensive income (loss) | **(960)** | (1,244) | - |
| **Comprehensive Income** | **$21,847** | $21,636 | $22,063 |

The accompanying notes are an integral part of these financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### General

Savannah Electric and Power Company (the Company) is a wholly owned subsidiary of Southern Company, which is the parent company of five retail operating companies, Southern Power Company (Southern Power), Southern Company Services (SCS), Southern Communications Services (Southern LINC), Southern Company Gas (Southern Company GAS), Southern Company Holdings (Southern Holdings), Southern Nuclear Operating Company (Southern Nuclear), Southern Telecom, and other direct and indirect subsidiaries. The retail operating companies -- Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and the Company -- provide electric service in four Southeastern states. The Company operates as a vertically integrated utility providing electricity to retail customers within its traditional service area of southeastern Georgia. Southern Power constructs, owns, and manages Southern Company's competitive generation assets and sells electricity at market-based rates in the wholesale market. Contracts among the retail operating companies and Southern Power--related to jointly owned generating facilities, interconnecting transmission lines, or the exchange of electric power--are regulated by the Federal Energy Regulatory Commission (FERC) and/or the Securities and Exchange Commission (SEC). SCS, the system service company, provides, at cost, specialized services to Southern Company and subsidiary companies. Southern LINC provides digital wireless communications services to the retail operating companies and also markets these services to the public within the Southeast. Southern Telecom provides fiber cable services within the Southeast. Southern Company GAS is a competitive retail natural gas marketer serving customers in Georgia. Southern Holdings is an intermediate holding subsidiary for Southern Company's investments in synthetic fuels and leveraged leases and an energy services business. Southern Nuclear operates and provides services to Southern Company's nuclear power plants.

Southern Company is registered as a holding company under the Public Utility Holding Company Act of 1935 (PUHCA). Both Southern Company and its subsidiaries, including the Company, are subject to the regulatory provisions of the PUHCA. The Company also is subject to regulation by the FERC and the Georgia Public Service Commission (GPSC). The Company follows accounting principles generally accepted in the United States and complies with the accounting policies and practices prescribed by the GPSC. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates, and the actual results may differ from those estimates.

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

### Affiliate Transactions

The Company has an agreement with SCS under which the following services are rendered to the Company at direct or allocated cost: general and design engineering, purchasing, accounting and statistical analysis, finance and treasury, tax, information resources, marketing, auditing, insurance and employee benefits, human resources, systems and procedures, and other administrative services with respect to business and operations and power pool operations. Costs for these services amounted to $16.3 million, $15.6 million, and $15.0 million during 2003, 2002, and 2001, respectively. Cost allocation methodologies used by SCS are approved by the SEC and management believes they are reasonable.

The Company has entered into a purchased power agreement with Southern Power for 200 megawatts of capacity from Plant Wansley Units 6 and 7 which began operation in June 2002. Purchased power capacity and energy costs in 2003 amounted to $30.1 million. At December 31, 2003, approximately $1.5 million in prepaid capacity expense related to this agreement was recorded in other deferred debits in the Balance Sheets.

In June 2002, the Company entered into another purchased power agreement with Southern Power for 200 megawatts of capacity from a planned combined-cycle plant at Plant McIntosh to be built and owned by Southern Power. This agreement will be effective in June 2005 and the annual capacity cost is expected to be approximately $15.0 million through June 2020. See Note 3 under "FERC Hearings" and Note 7 under "Purchased Power Commitments" for additional information.

In March 2003, the Company transferred to Southern Power 58 acres of land to facilitate construction at Plant McIntosh. The transfer was made at the Company's book value of approximately $16,500 in accordance with PUHCA and the related SEC order (Release No. 35-27322) dated December 27, 2000, which authorized the formation of Southern Power and the transfer of assets thereto. On July 17, 2003, the GPSC issued an order requiring that the Company record the transfer of this land at the higher of net book value or fair market value based on an appraisal by an appraiser selected by the GPSC staff. Based on the appraisal completed in September 2003, the fair market value of the land was established at $320,000.

The Company operates an eight-unit combustion turbine site at its Plant McIntosh. Two of the units are owned by the Company, and six of the units are owned by Georgia Power. Georgia Power reimburses the Company for its proportionate share of the related expenses, which were $3.6 million in 2003 and $1.8 million in 2002. See Note 4 under "Joint Ownership Agreements" for additional information.

The retail operating companies, including the Company, Southern Power, and Southern Company GAS may jointly enter into various types of wholesale energy, natural gas, and certain other contracts, either directly or through SCS as agent. Each participating company may be jointly and severally liable for the obligations incurred under these agreements. See Note 7 under "Fuel Commitments" and "Purchased Power Commitments" for additional information.

**Revenues and Fuel Costs**

Revenues are recognized as services are rendered. Unbilled revenues are accrued at the end of each fiscal period. Fuel costs are expensed as the fuel is used. Electric rates for the Company include provisions to adjust billings for fluctuations in fuel costs, fuel hedging, the energy component of purchased power costs, and certain other costs. Revenues are adjusted for differences between recoverable fuel costs and amounts actually recovered in current regulated rates.

The Company has a diversified base of customers. No single customer or industry comprises 10 percent or more of revenues. For all periods presented, uncollectible accounts averaged less than 1 percent of revenues.

**Income Taxes**

The Company uses the liability method of accounting for deferred income taxes and provides deferred income taxes for all significant income tax temporary differences. Federal investment tax credits utilized are deferred and amortized to income over the average lives of the related property.

**Regulatory Assets and Liabilities**

The Company is subject to the provisions of Financial Accounting Standards Board (FASB) Statement No. 71, Accounting for the Effects of Certain Types of Regulation. Regulatory assets represent probable future revenues to the Company associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process.

Regulatory assets and (liabilities) reflected in the Balance Sheets at December 31 and the amortization periods are discussed below as follows:

| | 2003 | 2002 | Note |
|---|---|---|---|
| | (in thousands) | | |
| Asset retirement obligations | **$ 3,265** | $ - | (a) |
| Deferred income tax charges | **9,611** | 11,692 | (a) |
| Loss on reacquired debt | **7,488** | 8,103 | (b) |
| Deferred McIntosh maintenance costs | **9,818** | 5,790 | (c) |
| Wansley accounting order | **162** | - | (d) |
| Other cost of removal obligations | **(36,843)** | (31,884) | (a) |
| Fuel-hedging liabilities | **(462)** | (621) | (e) |
| Deferred income tax credits | **(9,804)** | (12,445) | (a) |
| Storm damage reserves | **(7,103)** | (5,603) | (d) |
| Accelerated cost recovery | **(4,269)** | (7,282) | (f) |
| Property damages reserves | **(1,098)** | (750) | (g) |
| Injuries and damages reserves | **(91)** | (250) | (g) |
| Total | **$(29,326)** | $(33,250) | |

Note: The recovery and amortization periods for these regulatory assets and (liabilities) are as follows:

(a) Asset retirement and removal liabilities are recorded, deferred income tax assets are recovered, and deferred tax liabilities are amortized over the related property lives, which may range up to 50 years. Asset retirement and removal liabilities will be settled and trued up following completion of the related activities.

(b) Recovered over either the remaining life of the original issue or, if refinanced, over the life of the new issue, which may range up to 35 years.

(c) Amortized over 10 years ending in 2011.

(d) Recorded and recovered or amortized as approved by the GPSC.

(e) Fuel-hedging assets and liabilities are recorded over the life of the underlying hedged purchase contracts, which generally do not exceed two years. Upon final settlement, costs are recovered through the fuel cost recovery clauses.

(f) Amortized over three-year period ending in May 2005.

(g) Recorded and relieved upon the occurrence of a loss.

In the event that a portion of the Company's operations is no longer subject to the provisions of FASB Statement No. 71, the Company would be required to write off related regulatory assets and liabilities that are not specifically recoverable through regulated rates. In addition, the Company would be required to determine if any impairment to other assets exists, including plant, and write down the assets, if impaired, to their fair value. All regulatory assets and liabilities are to be reflected in rates.

**Depreciation and Amortization**

Depreciation of the original cost of plant in service is provided primarily by using composite straight-line rates, which approximated 2.9 percent in 2003, 2.9 percent in 2002, and 3.0 percent in 2001. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its cost--together with the cost of removal, less salvage--is charged to accumulated depreciation. Minor items of property included in the original cost of the plant are retired when the related property unit is retired. Depreciation expense includes an amount for the expected cost of removal of certain facilities. In 2002 and 2001, the Company recorded accelerated depreciation of $1.0 million and $2.5 million, respectively, in accordance with the GPSC's 1998 accounting order. In the 2002 base rate order, the GPSC ordered the Company to amortize the balance of accelerated cost recovery as a credit to depreciation expense over a three year period beginning June 2002. Accordingly, in 2003 and 2002, the Company amortized $3.0 million and $1.8 million, respectively. See Note 3 under "Retail Regulatory Matters" for additional information.

**Asset Retirement Obligations and Other Costs of Removal**

In accordance with regulatory requirements, prior to January 2003, the Company followed the industry practice of accruing for the ultimate cost of retiring most long-lived assets over the life of the related asset as part of the annual depreciation expense provision. In accordance with SEC requirements, such amounts are reflected on the Balance Sheet as regulatory liabilities. Effective January 1, 2003, the Company adopted FASB Statement No. 143, Accounting for Asset Retirement Obligations. Statement No. 143 establishes new accounting and reporting standards for legal obligations associated with the ultimate costs of retiring long-lived assets. The present value of the ultimate costs for an asset's future retirement must be recorded in the period in which the liability is incurred. The costs must be capitalized as part of the related long-lived asset and depreciated over the asset's useful life. Additionally, Statement No. 143 does not permit the continued accrual of future retirement costs for long-lived assets that the Company does not have a legal obligation to retire. However, the Company has received guidance regarding accounting for the financial statement impacts of Statement No. 143 from the GPSC and will continue to recognize the accumulated removal costs for other obligations as a regulatory liability included in accumulated depreciation. Therefore, the Company had

no cumulative effect to net income resulting from the adoption of Statement No. 143.

The Company has retirement obligations related to various landfill sites, ash ponds, a rail line, and underground storage tanks. The Company has also identified retirement obligations related to certain transmission and distribution facilities. However, liabilities for the removal of these transmission and distribution assets have not been recorded because no reasonable estimate can be made regarding the timing of the obligations. The Company will continue to recognize in the income statement allowed removal costs in accordance with its regulatory treatment. Any difference between costs recognized under Statement No. 143 and those reflected in rates are recognized as either a regulatory asset or liability and are reflected in the Balance Sheets.

Details of the asset retirement obligations included in the Balance Sheets are as follows:

| | 2003 |
|---|---|
| | (in thousands) |
| Balance beginning of year | $ - |
| Liabilities incurred | 4,020 |
| Liabilities settled | (11) |
| Accretion | 211 |
| Cash flow revisions | - |
| Balance end of year | $4,220 |

If Statement No. 143 had been adopted on January 1, 2002, the pro-forma asset retirement obligations would have been $2.7 million.

**Allowance for Funds Used During Construction (AFUDC)**

In accordance with regulatory treatment, the Company records AFUDC. AFUDC represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new facilities. While cash is not realized currently from such allowance, it increases the revenue requirement over the service life of the plant through a higher rate base and higher depreciation expense. The composite rates used by the Company to calculate AFUDC were 4.22 percent in 2003, 2.82 percent in 2002, and 5.13 percent in 2001. AFUDC as a percent of net income was 1.4 percent in 2003, 0.4 percent in 2002, and 0.8 percent in 2001.

**Property, Plant, and Equipment**

Property, plant, and equipment is stated at original cost less regulatory disallowances and impairments. Original cost includes: materials; labor; minor items of property; appropriate administrative and general costs; payroll-related costs such as taxes, pensions, and other benefits, and AFUDC. The cost of replacements of property exclusive of minor items of property is capitalized. The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense. In accordance with the 2002 base rate order, the Company is deferring the costs of certain significant maintenance costs for the combustion turbines at Plant McIntosh and amortizing such costs over 10 years, which approximates the expected maintenance cycle.

**Impairment of Long-Lived Assets and Intangibles**

The Company evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on either a specific regulatory disallowance or an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by either the amount of regulatory disallowance or by estimating the fair value of the assets and recording a provision for loss if the carrying value is greater than the fair value. For assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment provision is required. Until the assets are disposed of, their estimated fair value is re-evaluated when circumstances or events change.

**Cash and Cash Equivalents**

For purposes of the financial statements, temporary cash investments are considered cash equivalents. Temporary cash investments are securities with original maturities of 90 days or less.

**Materials and Supplies**

Generally, materials and supplies include the average cost of transmission, distribution, and generating plant materials. Materials are charged to inventory when purchased and then expensed or capitalized to plant, as appropriate, when installed.

### Stock Options

Southern Company provides non-qualified stock options to a large segment of the Company's employees ranging from line management to executives. The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25. Accordingly, no compensation expense has been recognized because the exercise price of all options granted equaled the fair-market value on the date of grant. When options are exercised the Company receives a capital contribution from Southern Company equivalent to the related income tax benefit.

### Financial Instruments

The Company uses derivative financial instruments to limit exposure to fluctuations in interest rates, the prices of certain fuel purchases, and electricity purchases and sales. All derivative financial instruments are recognized as either assets or liabilities and are measured at fair value. Substantially all of the Company's bulk energy purchases and sales contracts that meet the definition of a derivative are exempt from fair value accounting requirements and are accounted for under the accrual method. Other derivative contracts qualify as cash flow hedges of anticipated transactions. This results in the deferral of related gains and losses in other comprehensive income or regulatory assets or liabilities as appropriate until the hedged transactions occur. Any ineffectiveness is recognized currently in net income. Other derivative contracts are marked to market through current period income and are recorded on a net basis in the Statements of Income.

The Company is exposed to losses related to financial instruments in the event of counterparties' nonperformance. The Company has established controls to determine and monitor the creditworthiness of counterparties in order to mitigate the Company's exposure to counterparty credit risk.

The Company has implemented a natural gas/oil hedging program as ordered by the GPSC. The program has negative financial hedge limits. In terms of dollar amounts, negative financial hedging positions, recoverable through the fuel clause, are limited to an above market cap equal to 10 percent of the Company's annual natural gas/oil budget. These hedging position limits were $1.5 million for 2001, $2.4 million for 2002, and $1.1 million for 2003 and will be $2.7 million for 2004. The program has operated within the defined hedging position limits set for each year.

The Company's other financial instruments for which the carrying amount does not equal fair value at December 31 were as follows:

| | Carrying Amount | Fair Value |
|---|---|---|
| | (in millions) | |
| Long-term debt: | | |
| **At December 31, 2003** | **$218** | **$220** |
| At December 31, 2002 | $183 | $187 |

The fair values for long-term debt were based on either closing market prices or closing prices of comparable instruments.

### Comprehensive Income

The objective of comprehensive income is to report a measure of all changes in common stock equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners. Comprehensive income consists of net income and changes in the fair value of qualifying cash flow hedges and changes in additional minimum pension liability, net of income taxes.

## 2. RETIREMENT BENEFITS

The Company has a defined benefit, trusteed, non-contributory pension plan that covers substantially all employees. The plan is funded in accordance with Employee Retirement Income Security Act (ERISA) requirements. The Company also provides certain non-qualified benefit plans for a selected group of management and highly compensated employees and directors. Benefits under these non-qualified plans are funded on a cash basis. In addition, the Company has a supplemental retirement plan for certain executive employees. The plan is unfunded and payable from the general funds of the Company. The Company has purchased life insurance on participating executives and plans to use these policies to satisfy this obligation. Also, the Company provides certain medical care and life insurance benefits for retired employees. The Company funds trusts to the extent required by the GPSC and the FERC. For the year ended December 31, 2004,

postretirement benefit contributions are expected to total approximately $1.9 million.

The measurement date for plan assets and obligations is September 30 for each year. In 2002, the Company adopted several plan changes that had the effect of increasing benefits to both current and future retirees.

**Pension Plans**

The accumulated benefit obligation for the pension plans was $87.2 million in 2003 and $76.6 million in 2002. Changes during the year in the projected benefit obligations, accumulated benefit obligations, and fair value of plan assets were as follows:

| | Projected Benefit Obligations | |
|---|---|---|
| | **2003** | 2002 |
| | (in thousands) | |
| Balance at beginning of year | **$85,262** | $79,550 |
| Service cost | **2,175** | 2,204 |
| Interest cost | **5,409** | 5,811 |
| Benefits paid | **(4,425)** | (4,213) |
| Actuarial loss and employee transfers | **6,137** | 1,793 |
| Amendments | **231** | 117 |
| Balance at end of year | **$94,789** | $85,262 |

| | Plan Assets | |
|---|---|---|
| | **2003** | 2002 |
| | (in thousands) | |
| Balance at beginning of year | **$44,092** | $50,858 |
| Actual return on plan assets | **6,829** | (2,720) |
| Benefits paid | **(3,909)** | (3,734) |
| Employee transfers | **478** | (312) |
| Balance at end of year | **$47,490** | $44,092 |

Pension plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the Internal Revenue Service (IRS) revenue code. The Company's investment policy covers a diversified mix of assets, including equity and fixed income securities, real estate, and private equity, as described in the table below. Derivative instruments are used primarily as hedging tools but may also be used to gain efficient exposure to the various asset classes. The Company primarily minimizes the risk of large losses through diversification but also monitors and manages other aspects of risk.

Plan assets were invested as follows:

| | Plan Assets | | |
|---|---|---|---|
| | Target | **2003** | 2002 |
| Domestic equity | 37% | **37%** | 35% |
| International equity | 20 | **20** | 18 |
| Global fixed income | 26 | **24** | 25 |
| Real estate | 10 | **11** | 12 |
| Private equity | 7 | **8** | 10 |
| Total | 100% | **100%** | 100% |

The accrued pension costs recognized in the Balance Sheets were as follows:

| | **2003** | 2002 |
|---|---|---|
| | (in thousands) | |
| Funded status | **$(47,299)** | $(41,170) |
| Unrecognized prior service cost | **7,258** | 6,847 |
| Unrecognized net loss | **23,379** | 21,432 |
| Accrued liability recognized in the Balance Sheets | **$(16,662)** | $(12,891) |

In 2003 and 2002, amounts recognized in the Balance Sheets for accumulated other comprehensive income and intangible assets to record the minimum pension liability related to the non-qualified plans were $2.9 million and $1.5 million and $2.0 million and $1.5 million, respectively.

Components of the pension plans' net periodic cost were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | | (in thousands) | |
| Service cost | **$2,175** | $2,204 | $2,074 |
| Interest cost | **5,409** | 5,811 | 5,426 |
| Expected return on plan assets | **(4,186)** | (4,311) | (4,215) |
| Recognized net loss | **152** | 54 | 16 |
| Net amortization | **740** | 672 | 700 |
| Net pension cost | **$4,290** | $4,430 | $4,001 |

**Postretirement Benefits**

Changes during the year in the accumulated benefit obligations and in the fair value of plan assets were as follows:

| | Accumulated Benefit Obligations | |
|---|---|---|
| | **2003** | 2002 |
| | (in thousands) | |
| Balance at beginning of year | **$32,702** | $28,121 |
| Service cost | **493** | 431 |
| Interest cost | **2,082** | 2,065 |
| Benefits paid | **(1,319)** | (1,160) |
| Actuarial loss (gain) and employee transfers | **3,291** | 3,245 |
| Balance at end of year | **$37,249** | $32,702 |

| | Plan Assets | |
|---|---|---|
| | **2003** | 2002 |
| | (in thousands) | |
| Balance at beginning of year | **$7,994** | $7,401 |
| Actual return on plan assets | **1,481** | (732) |
| Employer contributions | **3,119** | 2,485 |
| Benefits paid | **(1,319)** | (1,160) |
| Balance at end of year | **$11,275** | $7,994 |

Postretirement benefits plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the IRS revenue code. The Company's investment policy covers a diversified mix of assets, including equity and fixed income securities, real estate, and private equity, as described in the table below. Derivative instruments are used primarily as hedging tools but may also be used to gain efficient exposure to the various asset classes. The Company primarily minimizes the risk of large losses through diversification but also monitors and manages other aspects of risk.

Plan assets were invested as follows:

| | | Plan Assets | |
|---|---|---|---|
| | Target | **2003** | 2002 |
| Domestic equity | 52% | **51%** | 44% |
| International equity | 11 | **14** | 15 |
| Global fixed income | 33 | **30** | 34 |
| Real estate | 2 | **3** | 4 |
| Private equity | 2 | **2** | 3 |
| Total | 100% | **100%** | 100% |

The accrued postretirement costs recognized in the Balance Sheets were as follows:

| | **2003** | 2002 |
|---|---|---|
| | (in thousands) | |
| Funded status | **$(25,974)** | $(24,708) |
| Unrecognized transition obligation | **4,444** | 4,938 |
| Unamortized prior service cost | **4,167** | 4,429 |
| Unrecognized net loss | **8,886** | 6,435 |
| Fourth quarter contributions | **1,063** | 2,104 |
| Accrued liability recognized in the Balance Sheets | **$ (7,414)** | $ (6,802) |

Components of the postretirement plan's net periodic cost were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | (in thousands) | | |
| Service cost | **$ 493** | $ 431 | $ 433 |
| Interest cost | **2,082** | 2,065 | 2,022 |
| Expected return on plan assets | **(732)** | (627) | (555) |
| Recognized net loss | **91** | - | - |
| Net amortization | **756** | 756 | 731 |
| Net postretirement cost | **$2,690** | $2,625 | $2,631 |

The weighted average rates assumed in the actuarial calculations used to determine both the benefit obligations and the net periodic costs for the pension and postretirement benefit plans were as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Discount | **6.00%** | 6.50% | 7.50% |
| Annual salary increase | **3.75** | 4.00 | 5.00 |
| Long-term return on plan assets | **8.50** | 8.50 | 8.50 |

The Company determined the long-term rate of return based on historical asset class returns and current market conditions, taking into account the diversification benefits of investing in multiple asset classes.

An additional assumption used in measuring the accumulated postretirement benefit obligation was a weighted average medical care cost trend rate of 8.25 percent for 2003, decreasing gradually to 5.25 percent through the year 2010 and remaining at that level thereafter. An annual increase or decrease in the assumed medical care cost trend rate of 1 percent would affect the accumulated benefit obligation and the service and

interest cost components at December 31, 2003 as follows:

| | 1 Percent Increase | 1 Percent Decrease |
|---|---|---|
| | (in thousands) | |
| Benefit obligation | **$2,437** | **$2,209** |
| Service and interest costs | **158** | **142** |

**Employee Savings Plan**

The Company also sponsors a 401(k) defined contribution plan covering substantially all employees. The Company provides a 75 percent matching contribution up to 6 percent of an employee's base salary. Total matching contributions made to the plan for the years 2003, 2002, and 2001 were $1.1 million, $1.0 million, and $1.0 million, respectively.

## 3. CONTINGENCIES AND REGULATORY MATTERS

**General Litigation Matters**

The Company is subject to certain claims and legal actions arising in the ordinary course of business. In addition, the Company'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, and citizen enforcement of environmental requirements, has increased generally throughout the United States. In particular, personal injury claims for damages caused by alleged exposure to hazardous materials have become more frequent. The ultimate outcome of such litigation against the Company cannot be predicted at this time; however, management does not anticipate that the liabilities, if any, arising from such current proceedings would have a material adverse effect on the Company's financial statements.

**New Source Review Actions**

In November 1999, the Environmental Protection Agency (EPA) brought a civil action in the U.S. District Court for the Northern District of Georgia against Alabama Power, Georgia Power, and SCS. The complaint alleged violations of the New Source Review (NSR) provisions of the Clean Air Act with respect to five coal-fired generating facilities in Alabama and Georgia and violations of related state laws. The civil action requested penalties and injunctive relief, including an order requiring the installation of the best available control technology at the affected units. The EPA concurrently issued to the retail operating companies, notices of violation relating to 10 generating facilities, which include the five facilities mentioned previously and the Company's Plant Kraft. In early 2000, the EPA filed a motion to amend its complaint to add the violations alleged in its notices of violation and to add Gulf Power, Mississippi Power, and the Company as defendants.

In August 2000, the U.S. District Court in Georgia granted Alabama Power's motion to dismiss for lack of jurisdiction in Georgia and granted SCS' motion to dismiss on the grounds that it neither owned nor operated the generating units involved in the proceedings. In March 2001, the court granted the EPA's motion to add the Company as a defendant, but it denied the motion to add Gulf Power and Mississippi Power based on lack of jurisdiction in Georgia over those companies. As directed by the court, the EPA refiled its amended complaint limiting claims to those brought against Georgia Power and the Company. In addition, the EPA refiled its claims against Alabama Power in the U.S. District Court for the Northern District of Alabama. These complaints allege violations with respect to eight coal-fired generating facilities in Alabama and Georgia, and they request the same kinds of relief as was requested in the original complaint, i.e. penalties and injunctive relief, including installation of the best available control technology. The EPA has not refiled against Gulf Power, Mississippi Power, or SCS.

The actions against Alabama Power, Georgia Power, and the Company were stayed in the spring of 2001 during the appeal of a very similar NSR enforcement action against the Tennessee Valley Authority (TVA) before the U.S. Court of Appeals for the Eleventh Circuit. The TVA appeal involves many of the same legal issues raised by the actions against Alabama Power, Georgia Power, and the Company. Because the final resolution of the TVA appeal could have a significant impact on Alabama Power and Georgia Power, both companies have been involved in that appeal. On June 24, 2003, the court of appeals issued its ruling in the TVA case. It found unconstitutional the statutory scheme set forth in the Clean Air Act that allowed the EPA to impose penalties for failing to comply with an administrative compliance order, like the one issued to TVA, without the EPA having to prove the underlying violation. Thus, the

court of appeals held that the compliance order was of no legal consequence, and TVA was free to ignore it. The court did not, however, rule directly on the substantive legal issues about the proper interpretation and application of certain NSR provisions that had been raised in the TVA appeal. On September 16, 2003, the court of appeals denied the EPA's request for a rehearing of the decision. On February 13, 2004, the EPA petitioned the U.S. Supreme Court to review the decision of the court of appeals. The EPA also filed a motion to lift the stay in the action against Alabama Power. At this time, no party to the Georgia Power and Savannah Electric action, which was administratively closed two years ago, has asked the court to reopen that case.

Since the inception of the NSR proceedings against Georgia Power, Alabama Power, and the Company, the EPA has also been proceeding with similar NSR enforcement actions against other utilities, involving many of the same legal issues. In each case, the EPA alleged that the utilities failed to comply with the NSR permitting requirements when performing maintenance and construction activities at coal-burning plants, which activities the utilities considered to be routine or otherwise not subject to NSR. In 2003, district courts addressing these cases issued opinions that reached conflicting conclusions.

In October 2003, the EPA issued final revisions to its NSR regulations under the Clean Air Act clarifying the scope of the existing Routine Maintenance, Repair, and Replacement exclusion. On December 24, 2003, the U.S. Court of Appeals for the District of Columbia Circuit stayed the effectiveness of these revisions pending resolution of related litigation. In January 2004, the Bush Administration announced that it would continue to enforce the existing rules.

The Company believes that it complied with applicable laws and the EPA's regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes civil penalties of up to $27,500 per day, per violation at each generating unit. Prior to January 30, 1997, the penalty was $25,000 per day. An adverse outcome in this matter could require substantial capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. This could affect future results of operations, cash flows, and possibly financial condition if such costs are not recovered through regulated rates.

**Right of Way Litigation**

In late 2001, certain subsidiaries of Southern Company, including Alabama Power, Georgia Power, Gulf Power, Mississippi Power, the Company, and Southern Telecom (collectively, defendants), were named as defendants in a lawsuit brought by a telecommunications company that uses certain of the defendants' 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 the telecommunications company in pending and future right of way litigation. The Company believes that the plaintiff's claims are without merit. 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.

**Retail Regulatory Matters**

The Company filed a base rate case in November 2001 to recover significant new expenses related to the 200 megawatt Plant Wansley purchased power agreement which began in June 2002, as well as other operation and maintenance expense changes. In early 2002, the Company filed for a fuel cost recovery decrease. In May 2002, the GPSC approved a $7.8 million base rate increase and an authorized return on equity of 12.0 percent. At the same time, the GPSC also approved a $44.3 million fuel cost recovery reduction. As a result of these two rate changes, all customers saw a net rate decrease effective June 2002. In December 2002, at the Company's request, the GPSC issued an accounting order authorizing the Company to defer until May 2005 approximately $3.8 million annually in Plant Wansley purchased power costs that the GPSC had ruled to be outside the test period for the base rate order. Under the terms of the order, two-thirds of any earnings of the Company in a calendar year above a 12 percent return on common equity will be used to amortize the deferred amounts to purchase power expense. The remaining one-third of any such earnings can be retained by the Company. The Company has the discretionary authority to amortize up to an additional $1.5 million annually. In January 2003, the Company began deferring the costs under the terms of the accounting order. Through December 2003, the Company amortized $3.7 million of

the $3.8 million deferred. The Company anticipates filing a base rate case in late 2004.

Prior to the 2002 base rate order, the Company had been operating under a four-year accounting order approved by the GPSC. Under this order, the Company reduced the electric rates of its small business customers by approximately $11 million over four years. The Company also expensed an additional $1.95 million in storm damage accruals and accrued an additional $8 million in depreciation on generating assets over the term of the order. The additional depreciation accumulated in a regulatory liability account. Under the 2002 rate order, the accumulated accelerated depreciation is being amortized equally over three years as a credit to expense beginning June 1, 2002. At this time, the Company also discontinued recording accelerated depreciation. In addition, the Company had discretionary authority to provide up to an additional $0.3 million per year in storm damage accruals and up to an additional $4.0 million in depreciation expense over the four years. Total storm damages accrued under the order were $0.5 million in 2002 and $1.5 million in 2001. Under the 2002 rate order, the Company's annual storm damage accrual level was set at $1.5 million. The Company accrued $1.5 million in 2003 and $0.9 million in 2002 to the accumulated provision for storm damage.

**FERC Matters**

The Company has obtained FERC approval to sell power to nonaffiliates at market-based prices under specific contracts. Through SCS as agent, the Company also has FERC authority to make short-term opportunity sales at market rates. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate. In November 2001, the FERC modified the test it uses to consider utilities' applications to charge market-based rates and adopted a new test called the Supply Margin Assessment (SMA). The FERC applied the SMA to several utilities, including Southern Company's retail operating companies, and found them to be "pivotal suppliers" in their control area market and ordered the implementation of several mitigation measures. SCS, on behalf of the retail operating companies, sought rehearing of the FERC order, and the FERC delayed the implementation of certain mitigation measures. SCS, on behalf of the retail operating companies, submitted comments to the FERC in 2002 regarding these issues. In December 2003, the FERC issued a staff paper discussing alternatives and held a technical conference in January 2004. The Company anticipates that the FERC will address the requests for rehearing in the near future. Regardless of the outcome of the SMA proposal, the FERC retains the ability to modify or withdraw the authorization for any seller to sell at market-based rates, if it determines that the underlying conditions for having such authority are no longer applicable. The final outcome of this matter will depend on the form in which the SMA test and mitigation measures rules may be ultimately adopted and cannot be determined at this time.

Purchased power agreements (PPAs) by Georgia Power and the Company for Southern Power's Plant McIntosh capacity were certified by the GPSC in December 2002 after a competitive bidding process. In April 2003, Southern Power applied for FERC approval of these PPAs. Interveners opposed the FERC's acceptance of the PPAs, alleging that the PPAs do not meet the applicable standards for market-based rates between affiliates. In July 2003, the FERC accepted the PPAs to become effective as scheduled on June 1, 2005, subject to refund, and ordered that hearings be held to determine: (a) whether, in the design and implementation of the GPSC competitive bidding process, Georgia Power and the Company unduly preferred Southern Power; (b) whether the analysis of the competitive bids unduly favored Southern Power, particularly with respect to evaluation of non-price factors; (c) whether Georgia Power and the Company selected their affiliate, Southern Power, based upon a reasonable combination of price and non-price factors; (d) whether Southern Power received an undue preference or competitive advantage in the competitive bidding process as a result of access to its affiliate's transmission system; (e) whether and to what extent the PPAs impact wholesale competition; and (f) whether the PPAs are just and reasonable and not unduly discriminatory. Hearings are scheduled to begin in March 2004. Management believes that the PPAs should be approved by the FERC; however, the ultimate outcome of this matter cannot now be determined.

## 4. JOINT OWNERSHIP AGREEMENTS

The Company operates and jointly owns its Plant McIntosh combustion turbines with Georgia Power. Two of the eight units are owned by the Company, and six units are owned by Georgia Power. The Company's amount of investment in Plant McIntosh combustion turbines and related accumulated depreciation at

December 31, 2003 were $53 million and $13 million, respectively. The Company's proportionate share of its combustion turbine plant operating expenses is included in the corresponding operating expenses in the Statements of Income.

## 5. INCOME TAXES

Southern Company files a consolidated federal income tax return. In 2002, Southern Company began filing a combined State of Georgia income tax return. Under a joint consolidated income tax agreement, each subsidiary's current and deferred tax expense is computed on a stand-alone basis. In accordance with IRS regulations, each company is jointly and severally liable for the tax liability.

At December 31, 2003, tax-related regulatory assets and liabilities were $9.6 million and $9.8 million, respectively. These assets are attributable to tax benefits flowed through to customers in prior years and to taxes applicable to capitalized interest. These liabilities are attributable to deferred taxes previously recognized at rates higher than the current enacted tax law and to unamortized investment tax credits.

Details of income tax provisions are as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | (in thousands) | | |
| Total provision for income taxes | | | |
| Federal -- | | | |
| Currently payable | **$11,725** | $17,089 | $27,991 |
| Deferred | **1,299** | (5,660) | (17,951) |
| | **13,024** | 11,429 | 10,040 |
| State -- | | | |
| Currently payable | **2,730** | 1,572 | 4,282 |
| Deferred | **(646)** | (568) | (2,577) |
| | **2,084** | 1,004 | 1,705 |
| Total | **$15,108** | $12,433 | $11,745 |

The tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases, which give rise to deferred tax assets and liabilities, are as follows:

| | **2003** | 2002 |
|---|---|---|
| | (in thousands) | |
| Deferred tax liabilities: | | |
| Accelerated depreciation | **$88,332** | $83,092 |
| Property basis differences | **(1,640)** | (1,250) |
| Other | **2,696** | 3,630 |
| Total | **89,388** | 85,472 |
| Deferred tax assets: | | |
| Pension and other benefits | **15,671** | 12,792 |
| Other | **14,284** | 14,132 |
| Total | **29,955** | 26,924 |
| Total deferred tax liabilities, net | **59,433** | 58,548 |
| Portion included in current assets, net | **24,419** | 20,422 |
| Accumulated deferred income taxes in the Balance Sheets | **$83,852** | $78,970 |

In accordance with regulatory requirements, deferred investment tax credits are amortized over the lives of the related property with such amortization normally applied as a credit to reduce depreciation in the Statements of Income. Credits amortized in this manner amounted to $0.7 million per year in 2003, 2002, and 2001. At December 31, 2003, all investment tax credits available to reduce federal income taxes payable had been utilized.

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Federal statutory tax rate | **35%** | 35% | 35% |
| State income tax, net of Federal income tax benefit | **4** | 2 | 3 |
| Other | **1** | (2) | (3) |
| Effective income tax rate | **40%** | 35% | 35% |

## 6. FINANCING

### Mandatorily Redeemable Preferred Securities

The Company formed a wholly owned trust subsidiary for the purpose of issuing $40 million preferred securities. The proceeds of the related equity investment and preferred security sale were loaned back to the Company through the issuance of junior subordinated notes totaling $41.2 million, which constitute substantially all of the assets of the trust. The Company considers that the mechanisms and obligations relating to the preferred securities issued for its benefit, taken together, constitute a full and unconditional guarantee by it of the trust's payment obligations with respect to these securities.

In January 2004, all preferred securities issued by the trust were redeemed at par; therefore at December 31, 2003, they were included on the Balance Sheets in Securities Due Within One Year.

**Long-Term Debt and Capital Leases**

The Company's Indenture related to its First Mortgage Bonds is unlimited as to the authorized amount of bonds which may be issued, provided that required property additions, earnings, and other provisions of such Indenture are met.

Assets acquired under capital leases are recorded as utility plant in service, and the related obligation is classified as other long-term debt. Leases are capitalized at the net present value of the future lease payments. However, for ratemaking purposes, these obligations are treated as operating leases and, as such, lease payments are charged to expense as incurred.

**Long-Term Debt Due Within One Year**

A summary of the sinking fund requirements and scheduled maturities and redemptions of long-term debt due within one year at December 31 is as follows:

| | 2003 | 2002 |
|---|---|---|
| | (in thousands) | |
| Bond sinking fund requirement | $ 200 | $ 200 |
| Less: | | |
| Portion to be satisfied by certifying property additions | 200 | 200 |
| Cash sinking fund requirement | - | - |
| Mandatorily redeemable preferred securities | 40,000 | - |
| Other long-term debt maturities | 910 | 20,892 |
| Total | $40,910 | $20,892 |

The first mortgage bond improvement (sinking) fund requirements amount to 1 percent of each outstanding series of bonds authenticated under the first mortgage bond indenture prior to January 1 of each year, other than those issued to collateralize pollution control and other obligations. The requirements may be satisfied by depositing cash or reacquiring bonds, or by pledging additional property equal to 1 2/3 times the requirements.

The sinking fund requirements of first mortgage bonds were satisfied by cash redemption in 2002 and by certifying property additions in 2003. The 2004 requirement will be satisfied by certifying property additions. Sinking fund requirements and/or maturities through 2008 applicable to long-term debt are as follows: $40.9 million in 2004; $20.8 million in 2005; $20.8 million in 2006; $0.7 million in 2007; and $45.8 million in 2008.

**Assets Subject to Lien**

As amended and supplemented, the Company's first mortgage bond indenture, which secures the first mortgage bonds issued by the Company, constitutes a direct first lien on substantially all of the Company's fixed property and franchises.

**Bank Credit Arrangements**

At the beginning of 2004, credit arrangements with banks totaled $80 million and expire at various times during 2004, 2005, and 2006. In September 2002, the Company borrowed $25 million under a $30 million variable rate revolving credit agreement that terminates in 2005. Of this amount, $5 million was repaid in December 2003.

In connection with these credit arrangements, the Company agrees to pay commitment fees based on the unused portions of the commitments. Commitment fees are less than 1/8 of 1 percent for the Company.

The credit arrangements contain covenants that limit the level of indebtedness to capitalization to 65 percent, as defined in the agreements. Exceeding these debt levels would result in a default under the credit arrangements. In addition, the credit arrangements contain cross default provisions that would be triggered if the Company defaulted on indebtedness over a specified threshold. The cross default provisions are restricted only to indebtedness of the Company. The Company is currently in compliance with all such covenants. Borrowings under unused credit arrangements totaling $10 million would be prohibited if the Company experiences a material adverse change (as defined in such arrangements).

The Company may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper and extendible commercial notes at the request and for the benefit of the Company and the other Southern Company retail operating companies. Proceeds from such issuances for the benefit of the Company are loaned directly to the

Company and are not commingled with proceeds from such issuances for the benefit of any other retail operating company. The obligations of each company under these arrangements are several; there is no cross affiliate credit support. At December 31, 2003, the Company had no commercial paper and no extendible commercial notes outstanding. During 2003, the peak amount of commercial paper outstanding was $32.8 million and the average amount outstanding was $9.1 million. The average annual interest rate on commercial paper was 1.13 percent.

The Company's committed credit arrangements provide liquidity support to the Company's variable rate obligations and to its commercial paper program. At December 31, 2003, the amount of variable rate obligations outstanding requiring liquidity support was $7.7 million.

**Financial Instruments**

The Company enters into energy related derivatives to hedge exposures to electricity, gas, and other fuel price changes. However, due to cost-based rate regulations, the Company has limited exposure to market volatility in commodity fuel prices and prices of electricity. The Company has implemented fuel-hedging programs at the instruction of the GPSC. The Company also enters into hedges of forward electricity sales.

At December 31, 2003, the fair value of derivative energy contracts was reflected in the financial statements as follows:

| | Amounts |
|---|---|
| | (in thousands) |
| Regulatory liabilities, net | **$462** |
| Other comprehensive income | - |
| Net income | **1** |
| Total fair value | **$463** |

The fair value gains or losses for cash flow hedges that are recoverable through the regulatory fuel clauses are recorded as regulatory assets and liabilities and are recognized in earnings at the same time the hedged items affect earnings.

The Company enters into derivatives to hedge exposure to interest rate changes. Derivatives related to variable rate securities or forecasted transactions are accounted for as cash flow hedges. The derivatives are generally structured to match the critical terms of the hedged debt instruments; therefore, no material ineffectiveness has been recorded in earnings.

At December 31, 2003, the Company had $20 million notional amount of interest rate swaps outstanding with net fair value losses of $0.1 million as follows:

Cash Flow Hedges

| Maturity | Weighted Average Fixed Rate Paid | Notional Amount | Fair Value Gain/ (Loss) |
|---|---|---|---|
| | | (in millions) | |
| 2004 | 2.06% | $20 | $(0.1) |

The fair value gain or loss for cash flow hedges is recorded in other comprehensive income and is reclassified into earnings at the same time the hedged items affect earnings. For 2004, pre-tax losses of approximately $0.1 million are expected to be reclassified from other comprehensive income to interest expense.

**Common Stock Dividend Restrictions**

The Company's first mortgage bond indenture contains certain limitations on the payment of cash dividends on common stock. At December 31, 2003, approximately $68 million of retained earnings was restricted against the payment of cash dividends on common stock under the terms of the Indenture.

In accordance with the PUHCA, the Company is restricted from paying common dividends from paid-in capital without SEC approval

## 7. COMMITMENTS

**Construction Program**

The Company is engaged in a continuous construction program, currently estimated to total $51.8 million in 2004, $42.6 million in 2005, and $41.3 million in 2006. The construction program is subject to periodic review and revision, and actual construction costs may vary from the above estimates because of numerous factors. These factors include: changes in business conditions; acquisition of additional generating assets; revised load

growth estimates; changes in environmental regulations; changes in FERC rules and transmission regulations; increasing costs of labor, equipment, and materials; and cost of capital. The Company does not have any generating plants under construction. However, construction related to new transmission and distribution facilities and capital improvements to existing generation, transmission, and distribution facilities, including those necessary to meet environmental standards, will continue. At December 31, 2003, significant purchase commitments were outstanding in connection with the construction program.

**Fuel Commitments**

To supply a portion of the fuel requirements of its generating plants, the Company has entered into long-term commitments for the procurement of fuel. In most cases, these contracts contain provisions for price escalations, minimum purchase levels, and other financial commitments. In addition, SCS acts as agent for the Company, the other retail operating companies, Southern Power, and Southern Company GAS with regard to natural gas purchases. Natural gas purchase commitments contain given volumes with prices based on various indices at the actual time of delivery. Amounts included in the chart below represent estimates based on New York Mercantile future prices at December 31, 2003. Total estimated minimum long-term obligations at December 31, 2003 were as follows:

| Year | Natural Gas | Coal |
|---|---|---|
| | (in thousands) | |
| 2004 | $ 867 | $31,439 |
| 2005 | 8,651 | - |
| 2006 | 10,491 | - |
| 2007 | 7,620 | - |
| 2008 | 27,640 | - |
| 2009 and thereafter | 284,097 | - |
| Total commitments | $339,366 | $31,439 |

Additional commitments for fuel will be required to supply the Company's future needs.

SCS may enter into various types of wholesale energy and natural gas contracts acting as an agent for the Company and all of the other Southern Company retail operating companies, Southern Power, and Southern Company GAS. Under these agreements, each of the retail operating companies, Southern Power, and Southern Company GAS may be jointly and severally liable. The creditworthiness of Southern Power and Southern Company GAS is currently inferior to the creditworthiness of the retail operating companies. Accordingly, Southern Company has entered into keep-well agreements with the Company and each of the retail operating companies to insure they will not subsidize or be responsible for any costs, losses, liabilities, or damages resulting from the inclusion of Southern Power or Southern Company GAS as a contracting party under these agreements.

**Purchased Power Commitments**

The Company has entered into long-term commitments for the purchase of electricity from Southern Power. Estimated total long-term obligations at December 31, 2003 were as follows:

| Year | Commitments |
|---|---|
| | (in thousands) |
| 2004 | $ 13,221 |
| 2005 | 24,447 |
| 2006 | 27,343 |
| 2007 | 27,354 |
| 2008 | 27,366 |
| 2009 and thereafter | 171,262 |
| Total commitments | $290,993 |

**Operating Leases**

The Company has rental agreements with various terms and expiration dates. Rental expenses totaled $0.9 million for 2003, $0.6 million for 2002, and $0.5 million for 2001. Of these amounts, $0.8 million in 2003, $0.5 million in 2002, and $0.4 million in 2001 related to railcar leases and coal dozers and were recoverable through the Company's fuel cost recovery clause.

At December 31, 2003, estimated future minimum lease payments for noncancelable operating leases were as follows:

| Year | Railcars | Other | Total |
|---|---|---|---|
| | (in thousands) | | |
| 2004 | $ 429 | $ 415 | $ 844 |
| 2005 | 429 | 368 | 797 |
| 2006 | 429 | 331 | 760 |
| 2007 | 429 | 327 | 756 |
| 2008 | 429 | 306 | 735 |
| 2009 and thereafter | 4,035 | 220 | 4,255 |
| Total minimum payments | $6,180 | $1,967 | $8,147 |

## 8. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial data for 2003 and 2002 are as follows (in thousands):

| Quarter Ended | Operating Revenues | Operating Income | Net Income |
|---|---|---|---|
| **March 2003** | **$68,875** | **$ 9,015** | **$ 3,509** |
| **June 2003** | **78,242** | **13,535** | **6,296** |
| **September 2003** | **99,115** | **25,584** | **14,378** |
| **December 2003** | **67,823** | **2,323** | **(1,376)** |
| March 2002 | $57,378 | $ 6,865 | $ 1,802 |
| June 2002 | 78,360 | 14,594 | 7,035 |
| September 2002 | 96,971 | 24,654 | 13,148 |
| December 2002 | 66,843 | 4,701 | 895 |

The Company's business is influenced by seasonal weather conditions and a seasonal rate structure, among other factors.

[This page intentionally left blank]

## SELECTED FINANCIAL AND OPERATING DATA 1999-2003

**Savannah Electric and Power Company 2003 Annual Report**

| | **2003** | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| **Operating Revenues** (in thousands) | **$314,055** | $299,552 | $283,852 | $295,718 | $251,594 |
| **Net Income after Dividends on Preferred Stock** (in thousands) | **$22,807** | $22,880 | $22,063 | $22,969 | $23,083 |
| **Cash Dividends on Common Stock** (in thousands) | **$23,000** | $22,700 | $21,700 | $24,300 | $25,200 |
| **Return on Average Common Equity** (percent) | **12.46** | 12.83 | 12.54 | 13.13 | 13.16 |
| **Total Assets** (in thousands) | **$709,921** | $649,089 | $621,023 | $615,344 | $586,255 |
| **Gross Property Additions** (in thousands) | **$40,242** | $32,481 | $31,296 | $27,290 | $29,833 |
| **Capitalization** (in thousands): | | | | | |
| Common stock equity | **$186,292** | $179,804 | $176,918 | $174,994 | $174,847 |
| Mandatorily redeemable preferred securities | **-** | 40,000 | 40,000 | 40,000 | 40,000 |
| Long-term debt | **222,493** | 168,052 | 160,709 | 116,902 | 147,147 |
| Total (excluding amounts due within one year) | **$408,785** | $387,856 | $377,627 | $331,896 | $361,994 |
| **Capitalization Ratios** (percent): | | | | | |
| Common stock equity | **45.6** | 46.4 | 46.8 | 52.7 | 48.3 |
| Mandatorily redeemable preferred securities | **-** | 10.3 | 10.6 | 12.1 | 11.0 |
| Long-term debt | **54.4** | 43.3 | 42.6 | 35.2 | 40.7 |
| Total (excluding amounts due within one year) | **100.0** | 100.0 | 100.0 | 100.0 | 100.0 |
| **Security Ratings:** | | | | | |
| First Mortgage Bonds - | | | | | |
| Moody's | **A1** | A1 | A1 | A1 | A1 |
| Standard and Poor's | **A+** | A+ | A+ | A+ | AA- |
| Preferred Stock - | | | | | |
| Moody's | **Baa1** | Baa1 | Baa1 | a2 | a2 |
| Standard and Poor's | **BBB+** | BBB+ | BBB+ | BBB+ | A- |
| Unsecured Long-Term Debt - | | | | | |
| Moody's | **A2** | A2 | A2 | - | - |
| Standard and Poor's | **A** | A | A | - | - |
| **Customers** (year-end): | | | | | |
| Residential | **122,128** | 120,131 | 117,199 | 115,646 | 112,891 |
| Commercial | **17,102** | 16,512 | 16,121 | 15,727 | 15,433 |
| Industrial | **90** | 81 | 76 | 75 | 67 |
| Other | **506** | 494 | 474 | 444 | 417 |
| Total | **139,826** | 137,218 | 133,870 | 131,892 | 128,808 |
| **Employees** (year-end): | **549** | 550 | 550 | 554 | 533 |

## SELECTED FINANCIAL AND OPERATING DATA 1999-2003 (continued)

**Savannah Electric and Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| **Operating Revenues** (in thousands): | | | | | |
| Residential | **$142,816** | $139,262 | $123,819 | $129,520 | $112,371 |
| Commercial | **106,072** | 104,195 | 100,835 | 102,116 | 88,449 |
| Industrial | **38,749** | 32,504 | 34,971 | 40,839 | 32,233 |
| Other | **10,108** | 9,810 | 9,547 | 10,147 | 9,212 |
| Total retail | **297,745** | 285,771 | 269,172 | 282,622 | 242,265 |
| Sales for resale - non-affiliates | **5,653** | 6,354 | 8,884 | 4,748 | 3,395 |
| Sales for resale - affiliates | **6,499** | 4,075 | 3,205 | 4,974 | 4,151 |
| Total revenues from sales of electricity | **309,897** | 296,200 | 281,261 | 292,344 | 249,811 |
| Other revenues | **4,158** | 3,352 | 2,591 | 3,374 | 1,783 |
| Total | **$314,055** | $299,552 | $283,852 | $295,718 | $251,594 |
| **Kilowatt-Hour Sales** (in thousands): | | | | | |
| Residential | **1,738,488** | 1,793,330 | 1,658,735 | 1,671,089 | 1,579,068 |
| Commercial | **1,451,342** | 1,477,224 | 1,388,357 | 1,369,448 | 1,287,832 |
| Industrial | **860,351** | 793,181 | 787,674 | 800,150 | 713,448 |
| Other | **136,320** | 139,891 | 133,967 | 135,824 | 132,555 |
| Total retail | **4,186,501** | 4,203,626 | 3,968,733 | 3,976,511 | 3,712,903 |
| Sales for resale - non-affiliates | **162,469** | 150,795 | 111,145 | 77,481 | 51,548 |
| Sales for resale - affiliates | **185,202** | 125,882 | 87,799 | 88,646 | 76,988 |
| Total | **4,534,172** | 4,480,303 | 4,167,677 | 4,142,638 | 3,841,439 |
| **Average Revenue Per Kilowatt-Hour** (cents): | | | | | |
| Residential | **8.21** | 7.77 | 7.46 | 7.75 | 7.12 |
| Commercial | **7.31** | 7.05 | 7.26 | 7.46 | 6.87 |
| Industrial | **4.50** | 4.10 | 4.44 | 5.10 | 4.52 |
| Total retail | **7.11** | 6.80 | 6.78 | 7.11 | 6.52 |
| Sales for resale | **3.50** | 3.77 | 6.08 | 5.85 | 5.87 |
| Total sales | **6.83** | 6.61 | 6.75 | 7.06 | 6.50 |
| **Residential Average Annual Kilowatt-Hour Use Per Customer** | **14,366** | 15,085 | 14,241 | 14,593 | 14,100 |
| **Residential Average Annual Revenue Per Customer** | **$1,180.17** | $1,171.46 | $1,063.07 | $1,131.08 | $1,003.39 |
| **Plant Nameplate Capacity Ratings** (year-end) (megawatts) | **788** | 788 | 788 | 788 | 788 |
| **Maximum Peak-Hour Demand (megawatts):** | | | | | |
| Winter | **882** | 738 | 758 | 724 | 719 |
| Summer | **904** | 921 | 846 | 878 | 875 |
| **Annual Load Factor** (percent) | **56.8** | 54.5 | 55.9 | 53.4 | 51.2 |
| **Plant Availability Fossil-Steam** (percent): | **83.3** | 81.4 | 81.2 | 78.5 | 72.8 |
| **Source of Energy Supply** (percent): | | | | | |
| Coal | **44.7** | 44.4 | 50.5 | 51.6 | 44.6 |
| Oil and gas | **2.7** | 4.2 | 4.0 | 6.9 | 12.3 |
| Purchased power - | | | | | |
| From non-affiliates | **3.1** | 3.1 | 5.3 | 7.7 | 5.3 |
| From affiliates | **49.5** | 48.3 | 40.2 | 33.8 | 37.8 |
| Total | **100.0** | 100.0 | 100.0 | 100.0 | 100.0 |

[This page intentionally left blank]

SOUTHERN POWER COMPANY

FINANCIAL SECTION

## MANAGEMENT'S REPORT

**Southern Power Company 2003 Annual Report**

The management of Southern Power Company has prepared – and is responsible for – the financial statements and related information included in this report. These statements were prepared in accordance with accounting principles generally accepted in the United States and necessarily include amounts that are based on the best estimates and judgments of management. Financial information throughout this annual report is consistent with the financial statements.

The Company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that the accounting records reflect only authorized transactions of the Company. Limitations exist in any system of internal controls, however, based on a recognition that the cost of the system should not exceed its benefits. The Company believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

The Company's internal accounting controls are evaluated on an ongoing basis by the Company's internal audit staff. The Company's independent public accountants also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

Southern Company's audit committee of its board of directors, composed of four independent directors, provides a broad overview of management's financial reporting and control functions. Periodically, this committee meets with management, the internal auditors and the independent public accountants to ensure that these groups are fulfilling their obligations and to discuss auditing, internal controls, and financial reporting matters. The internal auditors and independent public accountants have access to the members of the audit committee at any time.

Management believes that its policies and procedures provide reasonable assurance that the Company's operations are conducted according to a high standard of business ethics.

In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Company in conformity with accounting principles generally accepted in the United States.

William P. Bowers
President and Chief Executive Officer

Cliff S. Thrasher
Senior Vice President, Comptroller
and Chief Financial Officer
March 1, 2004

## INDEPENDENT AUDITORS' REPORT

**Southern Power Company:**

We have audited the accompanying balance sheets of Southern Power Company (a wholly owned subsidiary of Southern Company) as of December 31, 2003 and 2002, and the related statements of income, comprehensive income, common stockholder's equity, and cash flows for the years then ended, and for the period from January 8, 2001 (inception) to December 31, 2001. These financial statements are the responsibility of Southern Power Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements (pages II-299 through II-312) present fairly, in all material respects, the financial position of Southern Power Company at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, and for the period from January 8, 2001 (inception) to December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Atlanta, Georgia
March 1, 2004

## OVERVIEW OF EARNINGS AND BUSINESS ACTIVITIES

In January 2001, Southern Power Company was formed as a wholly-owned subsidiary of Southern Company and began commercial operations in August 2001.

### *Earnings*

The Company's 2003 earnings totaled $155 million, representing a $101 million increase over 2002. The 2003 increase is attributed to increased sales of wholesale capacity and energy from units placed in service during 2003 (Plant Franklin Unit 2, Plant Harris Units 1 and 2 and Plant Stanton A) and to a one-time gain of $50 million recognized in May 2003 upon the termination of Dynegy, Inc.'s (Dynegy) obligations under Power Purchase Agreements (PPAs). The increased sales came from new PPAs with Alabama Power and Georgia Power as well as the marketing of uncontracted capacity. As future PPAs become effective, the amount of uncontracted capacity available for external sales will decline significantly. Additional factors contributing to the increased earnings were non-recurring energy sales transactions related to test period generation for units placed in service in June 2003, as well as manufacturer's tax credits from the State of Georgia related to construction of Plants Dahlberg and Wansley. As of December 31, 2003, the Company had approximately 4,775 megawatts in commercial operation compared to approximately 2,400 in commercial operation at December 31, 2002.

The Company's 2002 earnings totaled $54.3 million, representing a $46.1 million increase over 2001. The 2002 increase was the result of increased sales of wholesale capacity and energy to affiliated and non-affiliated companies. The increased sales resulted primarily from the initiation of PPAs with Georgia Power and Savannah Electric and requirements agreements with 11 electric municipal cooperatives (EMCs) that went into effect in June 2002. Earnings for 2002 also reflected commercial operation of Plant Wansley Units 6 and 7 and Plant Franklin Unit 1 that began in June 2002 and a full year of Plant Dahlberg operations.

The Company began significant operations in July 2001 when Plant Dahlberg was transferred from Georgia Power, another wholly-owned subsidiary of Southern Company. The Company's 2001 earnings totaled $8.2 million and were derived primarily from the sales of wholesale capacity and energy to affiliated and non-affiliated companies.

### *Business Activities*

The Company constructs, owns, and manages Southern Company's competitive generating assets and sells electricity at market-based rates in the wholesale market.

Several factors affect the opportunities, challenges, and risks of the Company's competitive wholesale energy business. These factors include the ability to achieve energy sales growth while containing costs. Another major factor is federal regulatory policy, which may impact the Company's level of participation in this market. Future earnings for the business in the near term will depend, in part, upon completion of construction on new generating facilities, regulatory matters, including those related to affiliate contracts, energy sales, creditworthiness of customers, total generating capacity available in the Southeast, and the successful remarketing of capacity as current contracts expire.

## RESULTS OF OPERATIONS

A condensed income statement is as follows:

| | Amount | Increase (Decrease) From Prior Year | |
|---|---|---|---|
| | 2003 | 2003 | 2002 |
| | | *(in thousands)* | |
| Operating revenues | $681,780 | $383,012 | $269,467 |
| Fuel | 115,256 | 17,291 | 94,186 |
| Purchased power | 185,301 | 131,638 | 48,937 |
| Other operation and maintenance | 62,241 | 33,890 | 21,726 |
| Depreciation and amortization | 39,012 | 20,693 | 15,028 |
| Taxes other than income taxes | 6,665 | 2,390 | 3,882 |
| Total operating expenses | 408,475 | 205,902 | 183,759 |
| Operating income | 273,305 | 177,110 | 85,708 |
| Other income, net | (2,029) | 2,841 | (5,450) |
| Less -- | | | |
| Interest expense and other, net | 31,273 | 22,675 | 8,249 |
| Income taxes | 85,221 | 56,764 | 25,946 |
| Cumulative effect of accounting change | 367 | 367 | - |
| Net Income | $155,149 | $100,879 | $46,063 |

***Revenues***

Operating revenues in 2003 were $682 million, reflecting a $383 million increase from 2002. Operating revenues were positively impacted by a full year of energy and capacity sales through PPAs with Georgia Power and Savannah Electric that began in June 2002. New PPAs with Alabama Power and Georgia Power that commenced in June 2003 also contributed to the increase. Additionally, $80 million of contract termination revenues were recorded, as a result of the May 2003 termination of Dynegy's PPAs related to Plants Dahlberg and Franklin. See "Future Earnings Potential – Other Matters" and Note 3 to the financial statements under "Uncontracted Generating Capacity" for additional information. The remaining increases in operating revenues are a result of wholesale energy sales to non-affiliated companies under PPAs and through the Southern Company system power pool (Southern Pool). These sales were possible due to capacity made available from the commercial operation of Plant Franklin Unit 1 in June 2002, which was not fully obligated under a long-term PPA until June 2003 and test period energy sales transactions for Plant Franklin Unit 2 and Plant Harris Units 1 and 2 which were placed into commercial operation in June 2003. Capacity for Plant Harris Unit 2 is not obligated until June 2004. The Company also placed Plant Stanton A into commercial operation in October 2003. Other operating revenue increased by $9.9 million primarily due to transmission revenues, which were offset by additional transmission expense.

Operating revenues in 2002 were $298.8 million, reflecting a $269.5 million increase from 2001. In 2002, operating revenues were positively impacted by commercial operation of Plant Wansley Units 6 and 7 and Plant Franklin Unit 1 beginning in June 2002, and the initiation of PPAs with Georgia Power and Savannah Electric and requirements agreements with 11 EMCs in June 2002, as well as a full year of revenue from PPAs at Plant Dahlberg.

In 2001, operating revenues of $29.3 million were solely attributed to operations at Plant Dahlberg. The majority of the revenues, $26.4 million, were from capacity and energy sales to non-affiliated companies under PPAs. The remainder, $2.9 million, was from sales to affiliated companies through the Southern Pool.

Capacity revenues for 2003 were $201.6 million, or 33.4% of total revenues, excluding $80 million related to termination of contracts with Dynegy. Capacity revenues for 2002 were $123.9 million, or 41.5% of total revenues. Capacity revenues for 2001 were $18.6 million, or 63.5% of total revenues. These revenues are an integral component of the PPAs with both affiliate and non-affiliate customers.

Revenues from sales to affiliated companies through the Southern Pool that are not covered by PPAs will vary depending on demand and the availability and cost of generating resources at each company within the Southern Pool. These transactions do not have a significant impact on earnings since the energy is generally sold at cost.

***Expenses***

Natural gas fuel costs constitute a significant expense for the Company. The increase in fuel expense in 2003 is primarily due to the operation of Plant Wansley Units 6 and 7 and Plant Franklin Unit 1 for a full year, as well as new units at Plant Franklin and Plant Harris Units 1 and 2 which began operations in June 2003. In addition, the average cost of natural gas per decatherm increased 24% from 2002 to 2003. The increase in fuel expense in 2002 was primarily due to the commercial operation of Plant Wansley Units 6 and 7 and Plant Franklin Unit 1 beginning in June 2002, and a full year of operation for Plant Dahlberg. In addition, the average cost of natural gas per decatherm increased 33% from 2001 to 2002. The Company's PPAs generally provide that the purchasers are responsible for substantially all of the cost of fuel relating to energy delivered under such PPAs; therefore, these fuel cost increases do not have a significant impact on net income.

Purchased power from non-affiliates and affiliates increased by $27 million and $105 million, respectively, in 2003, and by $33.3 million and $15.6 million, respectively, in 2002, in all cases to meet the demands of the Company's contractual sales commitments.

Expenses from purchased power transactions will vary depending on demand and the availability and cost of generating resources accessible throughout the Southern Pool. Load requirements are submitted to the Southern Pool on an hourly basis and are fulfilled with the lowest cost alternative, whether that is Southern Power-owned generation, affiliate-owned generation or external purchases. During 2003, purchased power from affiliates increased as a result of the availability of lower cost generating capacity primarily due to the mild summer weather in Southern Company's retail service territory.

In 2003, other operation and maintenance expense increased by $33.9 million mainly due to increased administrative and general expenses of $12.7 million and other production expenses of $21.2 million. These increases are primarily attributed to a full year of operation at Plant Wansley Units 6 and 7 and Plant Franklin Unit 1, as well as the commercial operation of Plant Franklin Unit 2 and Plant Harris Units 1 and 2 beginning in June 2003.

In 2002, other operation and maintenance expense increased by $21.7 million mainly due to increased administrative and general expenses of $12.3 million and other production expenses of $9.4 million. These increases are primarily attributed to the June 2002 commercial operation of Plant Wansley Units 6 and 7 and Plant Franklin Unit 1.

Other operation expense in 2001 included administrative and general expenses of $5.6 million and other production expenses of $0.6 million related to the startup of the Company and the transfer of Plant Dahlberg in July 2001.

In 2003 and 2002, depreciation and amortization increased as a direct result of the commercial operation of Plant Wansley Units 6 and 7 and Plant Franklin Unit 1 in June 2002 and Plant Franklin Unit 2 and Plant Harris Units 1 and 2 in June 2003. The 2002 increase also reflects a full year of depreciation related to Plant Dahlberg, which was placed into service in July 2001.

In 2003 and 2002, the increases in taxes other than income taxes relate to property taxes for the commercial operation of Plant Wansley Units 6 and 7 and Plant Franklin Unit 1 in June 2002 and Plant Franklin Unit 2 and Plant Harris Units 1 and 2 in June 2003. The 2002 increase also reflects a full year of Plant Dahlberg's property taxes.

Interest expense in 2003 increased by $22.7 million from the amount recorded in 2002. This increase is primarily attributed to a lower percentage of interest costs being capitalized as projects have reached completion and an increase in the amount of long-term debt outstanding. Interest expense in 2002 increased by $8.2 million from the amount recorded in 2001. This increase in 2002 is primarily attributed to increased debt associated with the Company's ongoing construction program.

Changes in other income, net in 2003 and 2002 resulted primarily from unrealized gains and losses on derivative energy contracts. See "Financial Condition and Liquidity – Market Price Risk" herein and Notes 1 and 6 to the financial statements under "Financial Instruments."

**Effects of Inflation**

The Company is subject to long-term contracts and income tax laws that are based on the recovery of historical costs. While the inflation rate has been relatively low in recent years, it continues to have an adverse effect on the Company because of the large investment in generating facilities with long economic lives. Conventional accounting for historical cost does not recognize this economic loss nor the partially offsetting gain that arises through financing facilities with fixed-money obligations such as long-term debt.

**Future Earnings Potential**

***General***

The results of operations for the past three years are not necessarily indicative of future earnings potential. Several factors affect the opportunities, challenges, and risks of the Company's competitive wholesale energy business. These factors include the ability to achieve energy sales growth while containing costs. Another major factor is federal regulatory policy, which may impact the Company's level of participation in this market. The level of future earnings depends on numerous factors including completion of construction on new generating facilities, regulatory matters, including those related to affiliate contracts, energy sales, creditworthiness of customers, total generating capacity available in the Southeast, and the successful remarketing of capacity as current contracts expire.

The Company is working to maintain and expand its share of wholesale energy sales in the Southeastern power markets. By the end of 2005, the Company plans to have approximately 6,000 megawatts of available generating capacity in commercial operation. At December 31, 2003, 4,775 megawatts were in commercial operation.

Although under some of the Company's PPAs energy will be sold to Southern Company's five retail operating companies, the Company's generating facilities will not be in the retail operating companies' regulated rate bases, and

the Company will not be able to seek recovery from the affiliated companies' ratepayers for construction, repair, environmental or maintenance costs. It is expected that the capacity payments in the PPAs will produce sufficient cash flow to meet these costs, pay debt service and provide an equity return. However, the Company's overall profit will depend on numerous factors, including efficient operation of its generating facilities.

As a general matter, existing PPAs provide that the purchasers are responsible for substantially all of the cost of fuel relating to the energy delivered under such PPAs. To the extent a particular generating facility does not meet the operational requirements contemplated in most PPAs, the Company may be responsible for excess fuel costs. With respect to fuel transportation risk, most of the Company's PPAs provide that the purchasers are responsible for procuring and transporting the fuel to the particular generating facility.

The Company's PPAs with non-affiliated counterparties have provisions that require the posting of collateral or an acceptable substitute guarantee in the event that (a) Standard & Poor's or Moody's downgrades the credit ratings of such counterparty to below investment grade, or, (b) the counterparty is not rated or fails to maintain a minimum coverage ratio. The PPAs are expected to provide the Company with a stable source of revenue during their respective terms.

Fixed and variable operation and maintenance (O&M) costs will be covered either through capacity charges or other charges based on dollars per kilowatt year or dollars per megawatt hour. The Company has also entered into long-term service contracts with General Electric (GE) to reduce its exposure to certain O&M costs relating to GE equipment.

***FERC Matters***

*Market-Based Rate Authority*

The Company currently has general authorization from the Federal Energy Regulatory Commission (FERC) to sell power to nonaffiliates at market-based prices. In addition, each of the retail operating companies has obtained FERC approval to sell power to nonaffiliates at market-based prices under specific contracts. Southern Power and the retail operating companies also have FERC authority to make short-term opportunity sales at market rates. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate. In November 2001, the FERC modified the test it uses to consider utilities' applications to charge market-based rates and adopted a new test called the Supply Margin Assessment (SMA). The FERC applied the SMA to several utilities, including Southern Company's retail operating companies, and found them to be "pivotal suppliers" in their service areas and ordered the implementation of several mitigation measures. SCS, on behalf of the retail operating companies and others sought rehearing of the FERC order, and the FERC delayed the implementation of certain mitigation measures. SCS, on behalf of the retail operating companies and others submitted comments to the FERC in 2002 regarding these issues. In December 2003, the FERC issued a staff paper discussing alternatives and held a technical conference in January 2004. Southern Company anticipates that the FERC will address the requests for rehearing in the near future. Regardless of the outcome of the SMA proposal, the FERC retains the ability to modify or withdraw the authorization for any seller to sell at market-based rates, if it determines that the underlying conditions for having such authority are no longer applicable. In that event, the Company would be required to obtain FERC approval of rates based on cost of service, which may be lower than those in negotiated market-based rates. The final outcome of this matter will depend on the form in which the SMA test and mitigation measures rules may be ultimately adopted and cannot be determined at this time.

PPAs by Georgia Power and Savannah Electric for the Company's Plant McIntosh capacity were certified by the Georgia Public Service Commission (GPSC) in December 2002 after a competitive bidding process. In April 2003, the Company applied for FERC approval of these PPAs. Interveners opposed the FERC's acceptance of the PPAs, alleging that the PPAs do not meet the applicable standards for market-based rates between affiliates. In July 2003, the FERC accepted the PPAs to become effective as scheduled on June 1, 2005, subject to refund, and ordered that hearings be held to determine: (a) whether, in the design and implementation of the GPSC competitive bidding process, Georgia Power and Savannah Electric unduly preferred the Company; (b) whether the analysis of the competitive bids unduly favored the Company, particularly with respect to evaluation of non-price factors; (c) whether Georgia Power and Savannah Electric selected their affiliate, the Company, based upon a reasonable combination of price and non-price factors; (d) whether the Company received an undue preference or competitive advantage in the competitive bidding process as a result of access to its affiliate's transmission system; (e) whether and to what extent the PPAs impact wholesale competition; and (f) whether the PPAs are just and reasonable and not unduly

discriminatory. Hearings are scheduled to begin in March 2004. Management believes that the PPAs should be approved by the FERC; however, the ultimate outcome of this matter cannot now be determined.

***Industry Restructuring***

The electric utility industry in the United States is continuing to evolve as a result of regulatory and competitive factors. Among the early primary agents of change was the Energy Policy Act of 1992 (Energy Act). The Energy Act allowed independent power producers to access a utility's transmission network in order to sell electricity to other utilities.

Since 2001, merchant energy companies and traditional electric utilities with significant energy marketing and trading activities have come under severe financial pressures. Many of these companies have completely exited or drastically reduced all energy marketing and trading activities and sold foreign and domestic electric infrastructure assets. The Company has not experienced any material adverse financial impact regarding its limited energy trading operations and recent generating capacity additions. In general, the Company only constructs new generating capacity after entering into long-term capacity contracts for the new facilities, which is optimized by limited energy trading activities.

***Power Sales Agreements***

In June 2003, the Company placed Plant Franklin Unit 2 and Plant Harris Units 1 and 2 into commercial operation. In October 2003, the Company placed Plant Stanton A into commercial operation. In June 2004, the Company's PPA with Georgia Power will begin for Plant Harris Unit 2. PPAs for the other units became effective upon commercial operation. The Company also has Plant McIntosh Units 10 and 11 under construction. Most of the Company's generating capacity in operation, under construction, or planned has been sold under PPAs.

In June 2002, PPAs with Georgia Power and Savannah Electric and requirements agreements with 11 EMCs went into effect upon the commercial operation of Plant Wansley Units 6 and 7 and Plant Franklin Unit 1.

Also, effective in January 2003, the Company entered into contracts with North Carolina Municipal Power Authority 1 (NCMPA) and the City of Dalton (Dalton). Under the NCMPA contract, the Company is responsible for supplying NCMPA's capacity and energy needs in excess of its existing resources and disposing of its surplus energy through December 31, 2004. Under the Dalton contract, the Company is responsible for supplying Dalton's requirements for capacity and energy in excess of Dalton's existing resources for the next 15 years, with a customer option to convert to a fixed capacity purchase at the end of year 10.

In July 2003, the Company entered into a requirements service agreement with Piedmont Municipal Power Agency (PMPA). PMPA is a full requirements provider to 10 South Carolina cities. Under this agreement, the Company will be responsible for supplying PMPA's capacity and energy needs in excess of PMPA's existing resources and will purchase PMPA's surplus energy. The initial contract term is for 5 years beginning in 2006 with mutual renewal options through 2015.

The Company has entered into long-term power sales agreements for portions of its generating unit capacity as follows:

| Project | Capacity (megawatts)* | Contract Term |
|---|---|---|
| **Affiliated** | | |
| Franklin Unit 1 | 571 ** | 6/02-5/10 |
| Franklin Unit 2 | 615 *** | 6/03-5/11 |
| Wansley Units 6 & 7 | 1,134 | 6/02-12/09 |
| Harris Unit 1 | 618 | 6/03-5/10 |
| Harris Unit 2 | 618 **** | 6/04-5/19 |
| McIntosh | 1,240 | 6/05-5/20 |
| Total Affiliated | 4,796 | |
| **Non-Affiliated** | | |
| Dahlberg Units 1-7 | 578 | 6/00-12/04 |
| Stanton A | 396 | 11/03-11/13 |
| Total Non-affiliated | 974 | |

* According to the original contract terms
** 370 megawatts during the first year
*** 400 megawatts during the first year
****Contract does not begin until second year of operation of Plant Harris Unit 2.

Capacity revenues from these long-term power sales agreements amounted to $201.6 million, $123.9 million, and $18.6 million for the periods ended December 31, 2003, 2002, and 2001, respectively. Forecasted future capacity revenues under existing PPAs are expected to total $3.3 billion for affiliated contracts and $1.1 billion

for non-affiliated contracts. These capacity revenues will continue to represent approximately 40% of total annual revenues through 2007. At that point, as certain existing contracts reach termination, assuming no new contracts, capacity revenues are expected to decline to approximately 25% of total annual revenues. Consistent with the Company's strategy to sell energy under long-term contracts, capacity payments will continue to be an integral part of future contract negotiations. As such, capacity revenues will continue to be a significant portion of annual revenues.

***Environmental Matters***

The Company's operations are subject to extensive regulation by state and federal environmental agencies under a variety of statutes and regulations governing environmental media, including air, water and land resources. Compliance with these environmental requirements may involve significant costs. Such environmental, natural resource and land use concerns, including the applicability of air quality limitations, the availability of water withdrawal rights, uncertainties regarding aesthetic impacts such as increased light or noise, and concerns about potential adverse health impacts, can also increase the cost of siting and operating any type of future electric generating facility.

Federal and state environmental regulatory agencies are actively considering and developing additional control strategies for emission of air pollution from industrial sources, including electric generating facilities. Among the various air quality matters being planned or considered for regulation by the federal Environmental Protection Agency and/or relevant state agencies are: designation of new target areas as non-attainment for ozone and particulate matter under applicable federal air quality standards; the reduction of nitrogen oxide and particulate matter emissions to reduce regional haze and visibility impairment in sensitive areas; proposed reductions in sulfur dioxide and nitrogen oxide emissions to reduce interstate transport of such pollutants; regulations addressing the construction or modification of sources of regulated pollutants; the development of appropriate control standards and technologies for emissions of mercury; and the reduction of so-called "greenhouse gases" (such as carbon dioxide) to address concerns over global climate change. Development and implementation of final federal and state rules on these issues could require further substantial reductions in all air emissions associated with electricity generation.

Federal and state environmental regulatory agencies are also reviewing and evaluating various other matters, including hazardous waste disposal requirements, requirements for cooling water intake structures and establishment of total pollutant loads for certain impaired waters. The impact of any new standards or requirements will depend on the development and implementation of applicable regulations.

Several major pieces of environmental legislation are periodically considered for reauthorization or amendment by Congress. These include: the Clean Air Act; the Clean Water Act; the Comprehensive Environmental Response, Compensation, and Liability Act; the Resource Conservation and Recovery Act; the Toxic Substances Control Act; the Emergency Planning & Community Right-to-Know Act; and the Endangered Species Act. In 2003, several major bills to amend the Clean Air Act to impose more stringent emissions limitations were proposed to further limit power plant emissions of sulfur dioxide, nitrogen oxides, mercury, and, in some cases, carbon dioxide. The cost impacts of such legislation would depend upon the specific requirements enacted and cannot be determined at this time.

Compliance with possible additional federal or state legislation or regulations related to global climate change or other environmental and health concerns could also significantly affect the Company. The impact of any new legislation, changes to existing legislation, or environmental regulations could affect many areas of the Company's operations. While all of the Company's PPAs generally contain provisions that permit charging the purchaser 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.

Litigation over environmental issues and claims of various types, including property damage, personal injury and citizen enforcement of environmental requirements, has increased generally throughout the United States. In particular, personal injury claims for damages caused by alleged exposure to hazardous materials have become more frequent. The ultimate outcome of such litigation against the Company cannot be predicted at this time; however, management does not anticipate that the liabilities, if any, arising from such current proceedings would have a material adverse effect on the Company's financial statements.

*Other Matters*

On May 21, 2003, the Company entered into an agreement with Dynegy that resolved and terminated in 2003 all outstanding matters related to capacity sales contracts with subsidiaries of Dynegy. The termination payments from Dynegy resulted in a one-time gain to the Company of approximately $50 million. As a result of the Dynegy capacity contract terminations, the Company is completing limited construction activities on Plant Franklin Unit 3 to preserve the long-term viability of the project but has deferred final completion until the 2008-2011 period. The length of the deferral period will depend on forecasted capacity needs and other wholesale market opportunities. The Company is continuing to explore alternatives for its existing uncontracted capacity. See Note 3 to the financial statements under "Uncontracted Generating Capacity" for additional information.

The Company is involved in various matters being litigated and regulatory matters that could affect future earnings. See Note 3 to the financial statements for information regarding material issues.

## ACCOUNTING POLICIES

### Application of Critical Accounting Policies and Estimates

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States. Significant accounting policies are described in Note 1 to the financial statements. In the application of these policies, certain estimates are made that may have a material impact on the Company's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. Senior management has discussed the development and selection of the critical accounting policies and estimates described below with the Audit Committee of Southern Company's Board of Directors.

*Revenue Recognition*

The Company's revenue recognition depends on appropriate classification and documentation of transactions in accordance with Financial Accounting Standards Board (FASB) Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted. In general, the Company's power sale transactions can be classified in one of four categories: non-derivatives, normal sales, cash flow hedges, and mark to market. For more information on derivative transactions, see "Financial Condition and Liquidity – Market Price Risk" and Notes 1 and 6 to the financial statements under "Financial Instruments." The Company's revenues are dependent upon significant judgments used to determine the appropriate transaction classification, which must be documented upon the inception of each contract. Factors that must be considered in making these determinations include:

- Assessing whether a sales contract meets the definition of a lease
- Assessing whether a sales contract meets the definition of a derivative
- Assessing whether a sales contract meets the definition of a capacity contract
- Assessing the probability at inception and throughout the term of the individual contract that the contract will result in physical delivery
- Ensuring that the contract quantities do not exceed available generating capacity
- Identifying the hedging instrument, the hedged transaction, and the nature of the risk being hedged
- Assessing hedge effectiveness at inception and throughout the contract term.

Normal Sale and Non-Derivative Transactions

The Company considers derivative contracts, including capacity contracts, that provide for the sale of electricity to be physically delivered in quantities less than the Company's available generating capacity to be normal sales. In accordance with Statement No. 133, such transactions are accounted for as executory contracts and are not subject to mark to market accounting. Therefore, the related revenue is recognized, in accordance with Emerging Issues Task Force (EITF) No. 91-6, Revenue Recognition of Long-Term Power Sales Contracts, on an accrual basis in amounts equal to the lesser of the levelized amount or the amount billable under the contract, over the respective contract periods. Revenues from transactions that do not meet the definition of a derivative are also recorded in this manner. Contracts recorded on the accrual basis represented the majority of the Company's operating revenues for the year ended December 31, 2003.

Cash Flow Hedge Transactions

The Company has designated other derivative contracts for sales of electricity as cash flow hedges of anticipated sale transactions. These contracts are marked to market

through Other Comprehensive Income over the life of the contract. Realized gains and losses are then recognized in revenues as incurred. At December 31, 2003, approximately $1 million in unrealized gains (losses) were deferred in Other Comprehensive Income.

Mark to Market Transactions
Contracts for sales of electricity that are not normal sales and are not designated as cash flow hedges are marked to market and recorded directly through net income. Net unrealized losses on such contracts totaled approximately $1.9 million for the year ended December 31, 2003.

*Asset Impairments*

The Company's investments in long-lived assets are primarily generation assets, whether in service or under construction. The Company evaluates the carrying value of these assets under FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-lived Assets, whenever indicators of potential impairment exist. Examples of impairment indicators could include significant changes in construction schedules, current period losses combined with a history of losses, or a projection of continuing losses or a significant decrease in market prices. If an indicator exists, the asset is tested for recoverability by comparing the asset carrying value to the sum of the undiscounted expected future cash flows directly attributable to the asset. A high degree of judgment is required in developing estimates related to these evaluations, which are based on projections of various factors, including the following:

- Future demand for electricity based on projections of economic growth and estimates of available generating capacity
- Future power and natural gas prices, which have been quite volatile in recent years
- Future operating costs.

To date, the Company's evaluations of its assets have not required any impairment to be recorded. See Note 3 to the financial statements under "Uncontracted Generating Capacity" for additional information.

**New Accounting Standards**

Prior to January 2003, the Company accrued for the ultimate cost of retiring most long-lived assets over the life of the related asset through depreciation expense. FASB Statement No. 143, Accounting for Asset Retirement Obligations established new accounting and reporting standards for legal obligations associated with the ultimate cost of retiring long-lived assets. The present value of the ultimate costs for an asset's future retirement is recorded in the period in which the liability is incurred. The costs are capitalized as part of the related long-lived asset and depreciated over the asset's useful life. Additionally, non-regulated companies are no longer permitted to continue accruing future retirement costs for long-lived assets that they do not have a legal obligation to retire.

The Company has no liability for asset retirement obligations. In January 2003, the Company recorded a reduction to the accumulated reserve for depreciation and a cumulative effect of change in accounting principle of $0.6 million ($0.4 million after-tax). This represents removal costs accrued prior to the implementation of Statement No. 143.

FASB Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which further amends and clarifies the accounting and reporting for derivative instruments, became effective generally for financial instruments entered into or modified after June 30, 2003. Current interpretations of Statement No. 149 indicate that certain electricity forward transactions subject to unplanned netting -- including those typically referred to as "book outs" -- may only qualify as cash flow hedges if an entity can demonstrate that physical delivery or receipt of power occurred. The Company's forward electricity contracts continue to be exempt from fair value accounting requirements or to qualify as cash flow hedges, with the related gains and losses deferred in other comprehensive income. The implementation of Statement No. 149 did not have a material effect on the Company's financial statements.

In July 2003, the EITF of FASB issued EITF No. 03-11, which became effective on October 1, 2003. The standard addresses the reporting of realized gains and losses on derivative instruments and is being interpreted to require book outs to be recorded on a net basis in operating revenues. Adoption of this standard did not have a material impact on the Company's financial statements.

## FINANCIAL CONDITION AND LIQUIDITY

**Overview**

The major change in the Company's financial condition during 2003 was the addition of approximately $344.4 million to utility plant related to on-going construction of combined-cycle units. The funds for these additions were provided by the Company's credit facility, the issuance of

senior notes in July 2003, commercial paper, capital contributions and subordinated loans from Southern Company, and internally generated cash from operations. The Statements of Cash Flows provide additional information.

**Sources of Capital**

The Company will use external funds, equity capital from Southern Company and internally generated cash from operations to finance its construction program. External funds will be from the issuance of unsecured senior debt and commercial paper or utilization of existing credit arrangements from banks.

Currently, Southern Company provides limited credit support to the Company. See Note 6 to the financial statements under "Bank Credit Arrangements" for additional information. The Southern Company system does not maintain a centralized cash or money pool. Therefore, funds of each company are not commingled with funds of any other company. In accordance with the Public Utility Holding Company Act, most loans between affiliated companies must be approved in advance by the Securities and Exchange Commission (SEC).

The Company's current liabilities frequently exceed current assets because of the continued use of short-term debt as an interim funding source for the Company's ongoing construction program and the seasonality of the electricity business.

At December 31, 2003, the Company had approximately $2.8 million of cash and cash equivalents to meet short-term cash needs and contingencies. To meet liquidity and capital resource requirements, the Company had at December 31, 2003, $650 million of unused committed credit arrangements with banks as shown in the following table.

At the beginning of 2004, bank arrangements are as follows:

| | | Expires | |
|---|---|---|---|
| Total | Unused | 2004 | 2005 & beyond |
| | | (in millions) | |
| $650 | $650 | $-- | $650 |

The $650 million of unused credit arrangements is committed to provide liquidity support to the Company's commercial paper program. The commercial paper program is used to finance acquisition and construction costs related to gas-fired electric generating facilities and for general corporate purposes, subject to borrowing limitations for each generating facility. The credit arrangements permit the Company to fund construction of future generating facilities upon meeting certain requirements. At December 31, 2003, the Company had $114.3 million in outstanding commercial paper. See Note 6 to the financial statements for additional information.

**Financing Activities**

During 2003, the Company repaid subordinated loans from Southern Company of approximately $20 million, net of additional borrowings. In March 2003, $190 million of notes payable to Southern Company were converted to a capital contribution from Southern Company. In September 2003, the SEC approved the Company's payment of dividends in an amount up to $190 million to Southern Company from capital surplus. The first such dividend of $77 million, recorded as a reduction of paid-in capital, was made in October 2003. Equity contributions and subordinated loans from Southern Company totaled $850 million at the end of 2003.

In July 2003, the Company issued $575 million of senior notes. The proceeds from the sale were used to repay a substantial portion of existing short-term indebtedness, to settle interest rate hedges associated with such senior notes and for general corporate purposes. See Note 6 to the financial statements under "Long-Term Debt" and "Financial Instruments" for further information. The interest rate swap agreements that the Company entered into in anticipation of this issuance were settled at a $93.3 million loss. This amount has been deferred in other comprehensive income and will be amortized to interest expense over the life of the senior notes.

**Credit Rating Risk**

The Company does not have any credit agreements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are contracts that could require collateral -- but not accelerated payment -- in the event of a credit rating change to below investment grade. These contracts are primarily for physical electricity purchases and sales, fixed-price physical gas purchases and agreements covering interest rate swaps. At December 31, 2003,

the maximum potential collateral requirements under the electricity sales contracts were approximately $161 million. Generally, collateral may be provided for by a Southern Company guaranty, a letter of credit, or cash. At December 31, 2003, there were no material collateral requirements for the gas purchase contracts.

**Market Price Risk**

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

Because energy from the Company'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 purchasers, the Company's exposure to market volatility in commodity fuel prices and prices of electricity is limited. To mitigate residual risks in those areas, the Company enters into fixed-price contracts for the sale of electricity. In connection with the transfers of Plant Franklin in 2001 and Plant Wansley in 2002 to the Company, Georgia Power transferred approximately $5.6 million and $1.6 million, respectively, in derivative assets relating to electric and gas forward contracts in effect at the applicable date of the transfers. These contracts were recorded at fair value on the applicable date of the transfer, which was equal to Georgia Power's carrying amount. Following the transfer, these contracts were marked to market through income until realized and settled in August 2003.

In prior years, to reduce its exposure to fluctuations in the exchange rate for Euros, the Company entered into forward Euro purchase contracts designated as fair value hedges of certain firm equipment purchase commitments that required payment in Euros. As of May 2003, all Euro payments have been made and the resulting gains associated with the hedges effectively reduced the purchase price of the equipment, which is included in plant-in-service or construction work in progress.

The fair value of changes in derivative energy contracts and year-end valuations were as follows at December 31:

| | Changes in Fair Value | |
|---|---|---|
| | 2003 | 2002 |
| | *(in thousands)* | |
| Contracts beginning of year | $3,864 | $5,496 |
| Contracts realized or settled | (4,416) | (4,336) |
| New contracts at inception | - | 1,576 |
| Current period changes | 1,217 | 1,128 |
| Contracts end of year | $665 | $3,864 |

At December 31, 2003, all of these contracts are actively quoted and mature within one year.

Unrealized pre-tax gains and losses on electric and gas contracts used to hedge anticipated purchases and sales are deferred in other comprehensive income. Gains and losses on contracts that do not represent hedges are recognized in the income statement as incurred. At December 31, 2003, the fair value of derivative energy contracts was as follows:

| | Amounts |
|---|---|
| | (in thousands) |
| Other comprehensive income | $950 |
| Net income | (285) |
| Total fair value | $665 |

Approximately $(1.9) million, $(4.9) million and $0.6 million of unrealized pre-tax gains (losses) were recognized in income in 2003, 2002, and 2001, respectively. The Company is exposed to market price risk in the event of nonperformance by counterparties to the derivative energy contracts. The Company's policy is to enter into agreements with counterparties that have investment grade credit ratings by Moody's and Standard & Poor's, or with counterparties who have posted collateral to cover potential credit exposure. Therefore, the Company does not anticipate market risk exposure from nonperformance by the counterparties. For additional information, see Notes 1 and 6 to the financial statements under "Financial Instruments."

At December 31, 2003, the Company had no variable long-term debt outstanding. Therefore, there would be no effect on annualized interest expense related to long-term debt if the Company sustained a 100 basis point change in interest rates. The Company is not aware of any facts or circumstances that would significantly affect such exposures in the near term. See "Financing Activities" herein and Notes 1 and 6 to the financial statements under the heading "Financial Instruments" for additional information.

**Capital Requirements and Contractual Obligations**

The construction program of the Company is currently estimated to be $259 million for 2004, $254 million for 2005, and $355 million for 2006. Actual construction costs may vary from these estimates because of changes in factors such as: business conditions; environmental regulations; FERC rules and transmission regulations; load projections; the cost and efficiency of construction labor, equipment, and materials; and the cost of capital. The Company has approximately 1,240 megawatts of new generating capacity scheduled to be placed in service by 2005.

Other funding requirements related to obligations associated with scheduled maturities of long-term debt, as well as the related interest, leases, and other purchase commitments are as follows. See Notes 1, 6, and 7 to the financial statements for additional information.

| | 2004 | 2005-2006 | 2007-2008 | After 2008 | Total |
|---|---|---|---|---|---|
| | | | (in millions) | | |
| Long-term debt[a] -- | | | | | |
| Principal | $0.2 | $0.4 | $1.3 | $1,150.0 | $1,151.9 |
| Interest | 64.1 | 128.1 | 128.0 | 340.0 | 660.2 |
| Operating leases | 0.3 | 0.7 | 0.7 | 9.7 | 11.4 |
| Purchase commitments[b] -- | | | | | |
| Capital[c] | 259.4 | 609.4 | - | - | 868.8 |
| Natural gas[d] | 95.2 | 101.0 | 56.0 | 430.8 | 683.0 |
| Long-term service agreements | 17.5 | 42.7 | 75.8 | 694.7 | 830.7 |
| Total | $436.7 | $882.3 | $261.8 | $2,625.2 | $4,206.0 |

(a) All amounts are reflected based on final maturity dates. The Company will continue to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit.

(b) The Company generally does not enter into non-cancelable commitments for other operation and maintenance expenditures. Total other operation and maintenance expenses for the last three years were $62.2 million, $28.4 million, and $6.6 million, respectively.

(c) The Company forecasts capital expenditures over a three-year period. Amounts represent current estimates of total expenditures. At December 31, 2003, significant purchase commitments were outstanding in connection with the construction program.

(d) Natural gas purchase commitments are based on various indices at the time of delivery. Amounts reflected have been estimated based on New York Mercantile future prices at December 31, 2003.

## Cautionary Statement Regarding Forward-Looking Information

The Company's 2003 Annual Report includes forward-looking statements in addition to historical information. Forward-looking information includes, among other things, statements concerning the strategic goals for the Company, estimated construction and other expenditures, and the Company's projections for energy sales and its goals for future generating capacity, and earnings growth. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," or "continue" or the negative of these terms or other comparable terminology. The Company cautions that there are various important factors that could cause actual results to differ materially from those indicated in the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory change, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry and also changes in environmental, tax and other laws and regulations to which the Company is subject, as well as changes in application of existing laws and regulations;
- current and future litigation, regulatory investigations, proceedings or inquiries;
- the effects, extent, and timing of the entry of additional competition in the markets in which the Company operates;
- the impact of fluctuations in commodity prices, interest rates, and customer demand;
- available sources and costs of fuels;
- ability to control costs;
- advances in technology;
- state and federal rate regulations;
- effects of and changes in political, legal, and economic conditions and developments in the United States, including the current soft economy;
- internal restructuring or other restructuring options that may be pursued;
- potential business strategies, including acquisitions or dispositions of assets, which cannot be assured to be completed or beneficial to the Company;
- the ability of counterparties of the Company to make payments as and when due;
- the ability to obtain new short- and long-term contracts with neighboring utilities;
- the direct or indirect effects on the Company's business resulting from the terrorist incidents on September 11, 2001, or any similar such incidents or responses to such incidents;
- financial market conditions and the results of financing efforts, including the Company's credit ratings;
- the ability of the Company to obtain additional generating capacity at competitive prices;
- weather and other natural phenomena;
- the direct or indirect effects on the Company's business resulting from the August 2003 power outage in the Northeast, or any similar such incidents;
- the effect of accounting pronouncements issued periodically by standard-setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed from time to time by the Company with the SEC.

[This page intentionally left blank]

## STATEMENTS OF INCOME

**For the Years Ended December 31, 2003 and 2002 and**
**for the Period from January 8, 2001 (Inception) to December 31, 2001**
**Southern Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | *(in thousands)* | |
| **Operating Revenues:** | | | |
| Sales for resale -- | | | |
| Non-affiliates | **$278,559** | $114,919 | $26,390 |
| Affiliates | **312,586** | 183,111 | 2,906 |
| Contract termination | **80,000** | - | - |
| Other revenues | **10,635** | 738 | 5 |
| Total operating revenues | **681,780** | 298,768 | 29,301 |
| **Operating Expenses:** | | | |
| Fuel | **115,256** | 97,965 | 3,779 |
| Purchased power -- | | | |
| Non-affiliates | **61,234** | 34,499 | 1,209 |
| Affiliates | **124,067** | 19,164 | 3,517 |
| Other operations | **50,852** | 23,800 | 6,243 |
| Maintenance | **11,389** | 4,551 | 382 |
| Depreciation and amortization | **39,012** | 18,319 | 3,291 |
| Taxes other than income taxes | **6,665** | 4,275 | 393 |
| Total operating expenses | **408,475** | 202,573 | 18,814 |
| **Operating Income** | **273,305** | 96,195 | 10,487 |
| **Other Income and (Expense):** | | | |
| Interest income | **435** | 288 | 78 |
| Interest expense, net of amounts capitalized | **(31,708)** | (8,886) | (427) |
| Other income (expense), net | **(2,029)** | (4,870) | 580 |
| Total other income and (expense) | **(33,302)** | (13,468) | 231 |
| **Earnings Before Income Taxes** | **240,003** | 82,727 | 10,718 |
| Income taxes | **85,221** | 28,457 | 2,511 |
| **Earnings Before Cumulative Effect of Accounting Change** | **154,782** | 54,270 | 8,207 |
| Cumulative effect of accounting change-- | | | |
| less income taxes of $231 | **367** | - | - |
| **Net Income** | **$155,149** | $54,270 | $ 8,207 |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CASH FLOWS

**For the Years Ended December 31, 2003 and 2002 and**
**for the Period from January 8, 2001 (Inception) to December 31, 2001**
**Southern Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | *(in thousands)* | |
| **Operating Activities:** | | | |
| Net income | **$155,149** | $ 54,270 | $ 8,207 |
| Adjustments to reconcile net income | | | |
| to net cash provided from operating activities -- | | | |
| Depreciation and amortization | **43,712** | 18,319 | 3,291 |
| Deferred income taxes and investment tax credits, net | **22,521** | 2,739 | 3,534 |
| Deferred capacity revenues | **9,997** | 13,071 | - |
| Tax benefit of stock options | **130** | 499 | - |
| Settlement of interest rate hedges | **(93,298)** | (16,884) | - |
| Other, net | **(25,787)** | (1,618) | (580) |
| Changes in certain current assets and liabilities -- | | | |
| Receivables, net | **(7,008)** | (12,433) | (5,381) |
| Fossil fuel stock | **5,232** | (7,606) | (3,425) |
| Materials and supplies | **(1,570)** | (822) | (5,731) |
| Other current assets | **(9,675)** | (3,913) | (183) |
| Accounts payable | **32,694** | 8,628 | 2,242 |
| Accrued taxes | **(6,939)** | 7,834 | 394 |
| Accrued interest | **9,299** | 20,713 | - |
| Other current liabilities | **236** | - | 6,236 |
| Net cash provided from operating activities | **$134,693** | 82,797 | 8,604 |
| **Investing Activities:** | | | |
| Gross property additions | **(344,362)** | (1,214,677) | (765,511) |
| Change in construction payables, net | **(16,931)** | 3,229 | 28,171 |
| Other | **-** | (669) | (10,126) |
| Net cash used for investing activities | **(361,293)** | (1,212,117) | (747,466) |
| **Financing Activities:** | | | |
| Increase (decrease) in notes payable, net - affiliated | **(20,488)** | 209,538 | 950 |
| Increase (decrease) in notes payable, net | **114,347** | 1,638 | - |
| Proceeds -- | | | |
| Senior notes | **575,000** | 575,000 | - |
| Other long-term debt | **-** | 87,873 | 293,205 |
| Capital contributions from parent company | **5,953** | 278,634 | 452,097 |
| Retirements -- | | | |
| Other long-term debt | **(379,640)** | - | - |
| Capital distributions to parent company | **(77,000)** | - | - |
| Other | **(8,248)** | (7,600) | (3,679) |
| Net cash provided from financing activities | **209,924** | 1,145,083 | 742,573 |
| **Net Change in Cash and Cash Equivalents** | **(16,676)** | 15,763 | 3,711 |
| **Cash and Cash Equivalents at Beginning of Period** | **19,474** | 3,711 | - |
| **Cash and Cash Equivalents at End of Period** | **$ 2,798** | $ 19,474 | $ 3,711 |
| **Supplemental Cash Flow Information:** | | | |
| Cash paid during the period for -- | | | |
| Interest (net of $36,736, $35,311 and $2,891 capitalized, respectively) | **$105,765** | $ 16,884 | $ 427 |
| Income taxes (net of refunds) | **77,993** | 25,626 | (423) |

The accompanying notes are an integral part of these financial statements.

**BALANCE SHEETS**
**At December 31, 2003 and 2002**
**Southern Power Company 2003 Annual Report**

| Assets | 2003 | 2002 |
|---|---|---|
| | *(in thousands)* | |
| **Current Assets:** | | |
| Cash and cash equivalents | **$ 2,798** | $ 19,474 |
| Receivables -- | | |
| Customer accounts receivable | **10,772** | 6,609 |
| Affiliated companies | **14,130** | 11,555 |
| Accumulated provision for uncollectible accounts | **(350)** | (350) |
| Other accounts receivable | **270** | - |
| Fossil fuel stock, at average cost | **5,798** | 11,031 |
| Materials and supplies, at average cost | **8,123** | 6,553 |
| Prepaid income taxes | **11,222** | - |
| Prepaid expenses | **2,528** | 627 |
| Assets from risk management activities | **1,154** | 8,386 |
| Other | **20** | 1,568 |
| Total current assets | **56,465** | 65,453 |
| **Property, Plant, and Equipment:** | | |
| In service | **1,831,139** | 896,163 |
| Less accumulated provision for depreciation | **60,005** | 21,590 |
| | **1,771,134** | 874,573 |
| Construction work in progress | **504,097** | 1,082,987 |
| Total property, plant, and equipment | **2,275,231** | 1,957,560 |
| **Deferred Charges and Other Assets:** | | |
| Unamortized debt issuance expense | **18,315** | 12,177 |
| Accumulated deferred income taxes | **21,911** | 38,591 |
| Prepaid maintenance expenses | **21,728** | 6,269 |
| Prepaid transmission expenses - affiliated | **12,790** | 1,900 |
| Other | **2,845** | 4,026 |
| Total deferred charges and other assets | **77,589** | 62,963 |
| **Total Assets** | **$2,409,285** | $2,085,976 |

The accompanying notes are an integral part of these financial statements.

**BALANCE SHEETS**
**At December 31, 2003 and 2002**
**Southern Power Company 2003 Annual Report**

| **Liabilities and Stockholder's Equity** | **2003** | 2002 |
|---|---|---|
| | | *(in thousands)* |
| **Current Liabilities:** | | |
| Securities due within one year | **$ 200** | $ 200 |
| Notes payable | **114,347** | - |
| Notes payable to parent | **-** | 210,488 |
| Accounts payable -- | | |
| Affiliated | **51,442** | 37,748 |
| Other | **6,591** | 4,522 |
| Accrued taxes -- | | |
| Income taxes | **-** | 3,915 |
| Other | **1,289** | 4,313 |
| Accrued interest | **30,012** | 20,713 |
| Other | **489** | 3,484 |
| Total current liabilities | **204,370** | 285,383 |
| **Long-Term Debt:** | | |
| Senior notes | | |
| 6.25% due 2012 | **575,000** | 575,000 |
| 4.875% due 2015 | **575,000** | - |
| Other long-term debt | **1,685** | 382,089 |
| Unamortized debt premium (discount), net | **(2,573)** | (1,210) |
| Long-term debt | **1,149,112** | 955,879 |
| **Deferred Credits and Other Liabilities:** | | |
| Obligations under risk management activities | **-** | 63,191 |
| Deferred capacity revenues -- | | |
| Affiliated | **28,799** | 13,075 |
| Other | **256** | 5,982 |
| Other -- | | |
| Affiliated | **15,061** | 15,644 |
| Other | **211** | 218 |
| Total deferred credits and other liabilities | **44,327** | 98,110 |
| **Total Liabilities** | **1,397,809** | 1,339,372 |
| **Common stockholder's equity:** | | |
| Common stock, par value $0.01 per share -- | | |
| Authorized - 1,000,000 shares | | |
| Outstanding - 1,000 shares | | |
| Paid-in capital | **850,312** | 731,230 |
| Retained earnings | **217,626** | 62,477 |
| Accumulated other comprehensive income (loss) | **(56,462)** | (47,103) |
| Total common stockholder's equity | **1,011,476** | 746,604 |
| **Total Liabilities and Stockholder's Equity** | **$2,409,285** | $2,085,976 |
| **Commitments and Contingent Matters** (See notes) | | |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

**For the Years Ended December 31, 2003 and 2002 and**
**for the Period from January 8, 2001 (Inception) to December 31, 2001**
**Southern Power Company 2003 Annual Report**

| | Common Stock | Paid-In Capital | Retained Earnings | Other Comprehensive Income (loss) | Total |
|---|---|---|---|---|---|
| | | | *(in thousands)* | | |
| **Balance at January 8, 2001** | $ - | $ - | $ - | $ - | $ - |
| Net income | - | - | 8,207 | - | 8,207 |
| Capital contributions from parent company | - | 452,097 | - | - | 452,097 |
| Other comprehensive income (loss) | - | - | - | 6,689 | 6,689 |
| **Balance at December 31, 2001** | - | 452,097 | 8,207 | 6,689 | 466,993 |
| Net income | - | - | 54,270 | - | 54,270 |
| Capital contributions from parent company | - | 279,133 | - | - | 279,133 |
| Other comprehensive income (loss) | - | - | - | (53,792) | (53,792) |
| **Balance at December 31, 2002** | - | **731,230** | **62,477** | **(47,103)** | **746,604** |
| Net income | - | - | **155,149** | - | **155,149** |
| Conversion of parent company debt to equity | - | **190,000** | - | - | **190,000** |
| Capital distributions to parent company | - | **(77,000)** | - | - | **(77,000)** |
| Capital contributions from parent company | - | **6,082** | - | - | **6,082** |
| Other comprehensive income (loss) | - | - | - | **(9,359)** | **(9,359)** |
| **Balance at December 31, 2003** | **$ -** | **$850,312** | **$217,626** | **$(56,462)** | **$1,011,476** |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF COMPREHENSIVE INCOME

**For the Years Ended December 31, 2003 and 2002 and**
**for the Period from January 8, 2001 (Inception) to December 31, 2001**
**Southern Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | *(in thousands)* | |
| **Net income** | **$155,149** | $54,270 | $ 8,207 |
| Other comprehensive income (loss): | | | |
| Changes in fair value of qualifying hedges, net of tax of $(7,872), $(34,030), and $4,219, respectively | **(12,788)** | (54,360) | 6,689 |
| Less: Reclassification adjustment for amounts included in net income, net of tax of $1,868 and $355, respectively | **3,429** | 568 | - |
| Total other comprehensive income (loss) | **(9,359)** | (53,792) | 6,689 |
| **Comprehensive Income** | **$145,790** | $478 | $14,896 |

The accompanying notes are an integral part of these financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### General

Southern Power Company (the Company) is a wholly owned subsidiary of Southern Company, which is also the parent company of five retail operating companies, Southern Company Services (SCS), Southern Communication Services (Southern LINC), Southern Company Gas (Southern Company GAS), Southern Company Holdings (Southern Holdings), Southern Nuclear Operating Company (Southern Nuclear), Southern Telecom, and other direct and indirect subsidiaries. The retail operating companies -- Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, and Savannah Electric and Power Company -- provide electric service in four Southeastern states. The Company constructs, owns and manages Southern Company's competitive generation assets and sells electricity at market-based rates in the wholesale market. Contracts among the retail operating companies and the Company -- related to jointly owned generating facilities, interconnecting transmission lines or the exchange of electric power -- are regulated by the Federal Energy Regulatory Commission (FERC) and/or the Securities and Exchange Commission (SEC). SCS, the system service company, provides, at cost, specialized services to Southern Company and subsidiary companies. Southern LINC provides digital wireless communications services to the retail operating companies and also markets these services to the public within the Southeast. Southern Telecom provides fiber cable services within the Southeast. Southern Company GAS is a competitive retail natural gas marketer serving customers in Georgia. Southern Holdings is an intermediate holding subsidiary for Southern Company's investments in synthetic fuels and leveraged leases and an energy services business. Southern Nuclear operates and provides services to Southern Company's nuclear power plants.

Southern Company is registered as a holding company under the Public Utility Holding Company Act of 1935 (PUHCA). Both Southern Company and its subsidiaries are subject to the regulatory provisions of the PUHCA. In addition, the retail operating companies and the Company are subject to regulation by the FERC. The Company follows accounting principles generally accepted in the United States. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates, and the actual results may differ from those estimates.

The Company was formed on January 8, 2001 and began commercial operations in August 2001 after Georgia Power transferred its interest in Plant Dahlberg Units 1 through 10. See Note 2 for further information regarding asset transfers from affiliates. The financial statements include the accounts of the Company and its wholly-owned subsidiary, Southern Company - Florida LLC (SCF) which was established to own, operate and maintain Plant Stanton Unit A. See Note 4 for further information. All intercompany accounts and transactions have been eliminated in consolidation.

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

### Affiliate Transactions

The Company has an agreement with SCS under which the following services are rendered to the Company at direct or allocated cost: general and design engineering, purchasing, accounting and statistical analysis, finance and treasury, tax, information resources, marketing, auditing, insurance and pension administration, human resources, systems and procedures and other services with respect to business and operations and power pool transactions. SCS also enters into fuel purchase and transportation arrangements and contracts, financial instruments for purposes of hedging and wholesale energy purchase and sale transactions for the benefit of the Company. Because the Company has no employees, all employee related charges are rendered at cost under agreements with SCS or the retail operating companies. Costs for these services from SCS amounted to approximately $47.7 million in 2003, $29.5 million in 2002, and $12 million during 2001. Approximately $32.8 million in 2003, $16.2 million in 2002, and $4.7 million in 2001 were general, administrative, operation and maintenance expenses; the remainder was capitalized to construction work in progress. Cost allocation methodologies used by SCS are approved by the SEC and management believes they are reasonable.

The Company has agreements with Georgia Power and Alabama Power to provide operation and maintenance services for Plants Dahlberg, Wansley, Franklin, and Harris. These services are billed at cost on a monthly basis and are recorded as operations and maintenance

expense in the accompanying statements of income. For the periods ended December 31, 2003, 2002, and 2001, these services totaled approximately $6.3 million, $5.3 million, and $1.0 million, respectively.

Additionally, the Company has agreements with Alabama Power and Georgia Power to provide procurement, payables and other functions related to the construction at Plants Harris and Franklin in Alabama and Plant Wansley in Georgia. Costs for these services are billed monthly and are capitalized.

Effective June 2003, the Company entered into Power Purchase Agreements (PPAs) with Alabama Power and Georgia Power for the sale of capacity and energy from Plants Harris and Franklin. Billings under these agreements totaled $67.2 million, including $13.4 million of affiliated deferred capacity revenues included in deferred capacity revenues on the Balance Sheets at December 31, 2003.

Effective June 2002, the Company entered into PPAs with Georgia Power and Savannah Electric for the sale of capacity and energy from Plants Wansley and Franklin. For 2003, billings under these agreements totaled $215 million, including $15 million of affiliated deferred capacity revenues. For 2002, billings under these agreements totaled $164 million, including $13 million of affiliated deferred capacity revenues. These deferred capacity revenues are included on the Balance Sheets at December 31, 2003 and 2002, respectively.

The retail operating companies, Southern Power, and Southern Company GAS may jointly enter into various types of wholesale energy, natural gas and certain other contracts, either directly or through SCS as agent. Each participating company may be jointly and severally liable for the obligations incurred under these agreements.

The Company and its affiliates generally settle amounts related to the above transactions on a monthly basis in the month following the performance of such services or the purchase or sale of electricity.

Also see Notes 3 and 6 for information related to various types of financing support provided by Southern Company.

**Revenues and Fuel Costs**

Capacity is sold at rates specified under contractual terms and is recognized at the lesser of the levelized amount or the amount billable under the contract over the respective contract periods. Energy is generally sold at market-based rates and the associated revenue is recognized as the energy is delivered. See "Financial Instruments" herein for additional information.

Significant portions of the Company's revenues have been derived from certain customers. For the year ended December 31, 2003, Georgia Power accounted for approximately 33.7% of revenues, excluding $80 million related to termination of contracts with Dynegy, Inc. (Dynegy). For the year ended December 31, 2002, Georgia Power, Savannah Electric, and LG&E Energy Marketing, Inc. accounted for approximately 33.5%, 17.2% and 15.8% of revenues, respectively. For the period ended December 31, 2001, LG&E Energy Marketing, Inc. and Dynegy Power Marketing Inc. accounted for approximately 66% and 21% of revenues, respectively.

Fuel costs are expensed as the fuel is consumed. The Company relies mainly on natural gas to fuel its generating units. See Note 7 herein under "Fuel Commitments" for further details on future commitments.

**Income Taxes**

The Company uses the liability method of accounting for deferred income taxes and provides deferred income taxes for all significant income tax temporary differences.

**Manufacturer's Tax Credits**

The State of Georgia provides a tax credit for qualified investment property to manufacturing companies that construct new facilities. The credit ranges from 1% to 5% of construction expenditures depending upon the county in which the new facility is located. The Company's policy is to recognize these credits when management believes they are more likely than not to be allowed by the Georgia Department of Revenue.

**Depreciation**

Depreciation of the original cost of assets is computed under the straight-line method based on the assets' estimated useful lives determined by the Company. The

primary assets in property, plant and equipment are power plants all of which have an estimated useful life of 35 years, except Plant Dahlberg which has an estimated useful life of 40 years.

**Asset Retirement Obligations And Other Costs of Removal**

Prior to January 2003, the Company followed the industry practice of accruing for the ultimate costs of retiring most long-lived assets over the life of the related asset as part of the annual depreciation expense provision. Effective January 1, 2003, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 143, Accounting for Asset Retirement Obligations. Statement No. 143 establishes new accounting and reporting standards for legal obligations associated with the ultimate costs of retiring long-lived assets. The present value of the ultimate costs for an asset's future retirement must be recorded in the period in which the liability is incurred. The costs must be capitalized as part of the related long-lived asset and depreciated over the asset's useful life. Additionally, Statement No. 143 does not permit the continued accrual of future retirement costs for long-lived assets that the company does not have a legal obligation to retire.

The Company has no liability for asset retirement obligations. In January 2003, the Company recorded a reduction to the accumulated reserve for depreciation and a cumulative effect of change in accounting principle of $0.6 million ($0.4 million after-tax). This represents removal costs accrued prior to the implementation of Statement No. 143.

**Property, Plant, and Equipment**

Property, plant, and equipment is stated at original cost. Original cost includes materials, direct labor incurred by affiliated companies, minor items of property, and interest capitalized. Interest is capitalized on qualifying projects during the development and construction period. Interest of approximately $36.7 million in 2003, $35.3 million in 2002, and $2.9 million in 2001, was capitalized in connection with the development and construction of power plants. The cost of maintenance, repairs and replacement of minor items of property is charged to maintenance expense as incurred. The cost of replacements of property that extend the useful life of the plant, exclusive of minor items of property, is capitalized.

**Impairment of Long-Lived Assets and Intangibles**

The Company evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment loss recognized is determined by estimating the fair value of the assets and recording a loss for the amount of the carrying value that is greater than the fair value. For assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment loss is required. Until the assets are disposed of, their estimated fair value is re-evaluated when circumstances or events change.

**Deferred Project Development Costs**

The Company capitalizes project development costs once it is determined that it is probable that a specific site will be acquired and a power plant constructed. These costs include professional services, permits and other costs directly related to the construction of a new project. These costs are generally transferred to construction work in progress upon commencement of construction. The total deferred project development costs were $2.2 million at December 31, 2003 and $3.6 million at December 31, 2002.

**Cash and Cash Equivalents**

For purposes of the financial statements, temporary cash investments are considered cash equivalents. Temporary cash investments are securities with original maturities of 90 days or less.

**Materials and Supplies**

Generally, materials and supplies include transmission, distribution, and generating plant materials. Materials are charged to inventory when purchased and then expensed or capitalized to plant, as appropriate, when installed. Materials and supplies are recorded at average cost.

**Financial Instruments**

The Company uses derivative financial instruments to limit exposure to fluctuations in interest rates, the prices of

certain fuel purchases and electricity purchases and sales. All derivative financial instruments are recognized as either assets or liabilities and are measured at fair value. Substantially all of the Company's bulk energy purchases and sales contracts that meet the definition of a derivative are exempt from fair value accounting requirements and are accounted for under the accrual method. Other derivative contracts qualify as cash flow hedges of anticipated transactions. This results in the deferral of related gains and losses in other comprehensive income until the hedged transactions occur. Any ineffectiveness is recognized currently in net income. Other derivative contracts are marked to market through current period income and are recorded on a net basis in the Statements of Income.

The Company is exposed to losses related to financial instruments in the event of counterparties' nonperformance. The Company has established controls to determine and monitor the creditworthiness of counterparties in order to mitigate the Company's exposure to counterparty credit risk.

The Company's financial instruments for which the carrying amounts did not equal fair value at December 31, 2003 were as follows:

| | Carrying Amount | Fair Value |
|---|---|---|
| Long-term debt: | (in millions) | |
| **At December 31, 2003** | **$1,149** | **$1,172** |
| At December 31, 2002 | $956 | $990 |

The fair values for securities were based on either closing market prices or closing prices of comparable instruments.

**Comprehensive Income**

The objective of comprehensive income is to report a measure of all changes in common stock equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners. Comprehensive income consists of net income and changes in the fair value of qualifying cash flow hedges, less income taxes and reclassifications of amounts included in net income.

## 2. ASSET TRANSFERS

On July 31, 2001, Georgia Power transferred its interests in Plant Dahlberg Units 1 through 10 and related working capital to the Company. In accordance with the affiliate transaction rules of PUHCA, these assets were transferred at Georgia Power's net carrying costs of $260.1 million. The transferred assets consist primarily of 10 combustion turbine units (810 MW) in operation, all located in Jackson County, Georgia. In connection with the asset transfer, Georgia Power also assigned to the Company its interest in three PPAs related to Plant Dahlberg. The results of operations of Plant Dahlberg were included in the financial statements from August 1, 2001.

The following projects, which were under construction, were transferred from Alabama Power and Georgia Power to the Company and recorded in construction work in progress at the respective affiliate's book value:

| Plant | Transferred From | Date | Amount (in millions) |
|---|---|---|---|
| Harris Units 1 & 2 | Alabama Power | 06/2001 | $ 91.4 |
| Franklin Units 1 & 2 | Alabama Power and Georgia Power | 11/2001 | 267.9 |
| Wansley Units 6 & 7 | Georgia Power | 01/2002 | 389.9 |

In conjunction with these transfers, Alabama Power and Georgia Power assigned PPAs to the Company related to these plants. Georgia Power required that certain counterparties to the Dahlberg PPAs make prepayments for operational rights to the units. These prepayments were recorded as liabilities by Georgia Power and were transferred to the Company in connection with the Plant Dahlberg transfer. At December 31, 2003, and 2002, the unamortized balance of these amounts totaled $1.4 million and $2.8 million, respectively, and is being amortized into income over the life of the agreements.

## 3. CONTINGENCIES AND REGULATORY MATTERS

**General Litigation Matters**

The Company is subject to certain claims and legal actions arising in the ordinary course of business. In addition, the Company'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 and citizen enforcement of environmental requirements, has increased generally throughout the

United States. In particular, personal injury claims for damages caused by alleged exposure to hazardous materials have become more frequent. The ultimate outcome of such litigation against the Company cannot be predicted at this time; however, management does not anticipate that the liabilities, if any, arising from such current proceedings would have a material adverse effect on the Company's financial statements.

**Uncontracted Generating Capacity**

In May 2003, the Company entered into an agreement with Dynegy to resolve all outstanding matters related to capacity sales contracts with subsidiaries of Dynegy. Under the terms of the agreement, Dynegy made a cash termination payment of $80 million to the Company. The termination payments from Dynegy resulted in a one-time gain to the Company of approximately $50 million.

As a result of the contract termination, the Company is completing limited construction activities on Plant Franklin Unit 3 to preserve the long-term viability of the project but has deferred final completion until the 2008-2011 period. The length of the deferral period will depend on forecasted capacity needs and other wholesale market opportunities. As of December 31, 2003, the Company's investment in Unit 3 of Plant Franklin was $156 million. The Company is also continuing to explore alternatives for its existing uncontracted capacity. The final outcome of these matters cannot now be determined.

**FERC Matters**

*Market-Based Rate Authority*

The Company currently has general authorization from the FERC to sell power to nonaffiliates at market-based prices. In addition, each of the retail operating companies has obtained FERC approval to sell power to nonaffiliates at market-based prices under specific contracts. Southern Power and the retail operating companies also have FERC authority to make short-term opportunity sales at market rates. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate. In November 2001, the FERC modified the test it uses to consider utilities' applications to charge market-based rates and adopted a new test called the Supply Margin Assessment (SMA). The FERC applied the SMA to several utilities, including Southern Company, and found Southern Company and others to be "pivotal suppliers" in their service areas and ordered the implementation of several mitigation measures. SCS, on behalf of the retail operating companies and others sought rehearing of the FERC order, and the FERC delayed the implementation of certain mitigation measures. SCS, on behalf of the retail operating companies and others submitted comments to the FERC in 2002 regarding these issues. In December 2003, the FERC issued a staff paper discussing alternatives and held a technical conference in January 2004. Southern Company anticipates that the FERC will address the requests for rehearing in the near future. The final outcome of this matter will depend on the form in which the SMA test and mitigation measures rules may be ultimately adopted and cannot be determined at this time.

PPAs by Georgia Power and Savannah Electric for the Company's Plant McIntosh capacity were certified by the Georgia Public Service Commission (GPSC) in December 2002 after a competitive bidding process. In April 2003, the Company applied for FERC approval of these PPAs. Interveners opposed the FERC's acceptance of the PPAs, alleging that the PPAs do not meet the applicable standards for market based rates between affiliates. In July 2003, the FERC accepted the PPAs to become effective as scheduled on June 1, 2005, subject to refund, and ordered that hearings be held to determine: (a) whether, in the design and implementation of the GPSC competitive bidding process, Georgia Power and Savannah Electric unduly preferred the Company; (b) whether the analysis of the competitive bids unduly favored the Company, particularly with respect to evaluation of non-price factors; (c) whether Georgia Power and Savannah Electric selected their affiliate, the Company, based upon a reasonable combination of price and non-price factors; (d) whether the Company received an undue preference or competitive advantage in the competitive bidding process as a result of access to its affiliate's transmission system; (e) whether and to what extent the PPAs impact wholesale competition; and (f) whether the PPAs are just and reasonable and not unduly discriminatory. Hearings are scheduled to begin in March 2004. Management believes that the PPAs should be approved by the FERC; however, the ultimate outcome of this matter cannot now be determined.

**4. JOINT OWNERSHIP AGREEMENTS**

Southern Power, through its wholly owned subsidiary SCF, is a 65% owner of Plant Stanton Unit A (Stanton A), a combined-cycle project with 660 megawatts. The unit is co-owned by Orlando Utilities Commission (28%), Florida Municipal Power Agency (3.5%), and Kissimmee Utility Authority (3.5%). The Company has a services agreement with SCS where SCS is responsible for the operation and maintenance of Stanton A and was responsible for the overall construction project

management. Construction on Stanton A began in October 2001 and the unit was placed in service on October 1, 2003. As of December 31, 2003 $155.3 million is recorded in plant in service with associated accumulated depreciation of $1.1 million. The Company's proportionate share of the plant's operating expense is included in the corresponding operating expenses in the Statements of Income. At December 31, 2002, the Company's share of the construction costs for Stanton A was $128.3 million, and was recorded in construction work in progress in the Balance Sheets.

The Company has guaranteed the performance of its subsidiary, SCF, for SCF's payment obligations under the ownership agreement, PPAs and alternative power supply agreements associated with the Stanton A project. The Company's current exposure is $32.5 million under the PPAs and the ownership agreement and $3.4 million under alternative power supply agreements.

## 5. INCOME TAXES

Southern Company and its subsidiaries file a consolidated federal income tax return. In 2002, Southern Company began filing a combined State of Georgia income tax return. Under a joint consolidated income tax agreement, each subsidiary's current and deferred tax expense is computed on a stand-alone basis. In accordance with Internal Revenue Service regulations, each company is jointly and severally liable for the tax liability.

Details of the income tax provisions are as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| | | (in thousands) | |
| Total provision for income taxes: | | | |
| Federal: | | | |
| Current | **$64,090** | $26,900 | $1,402 |
| Deferred | **19,354** | 2,338 | 3,017 |
| | **83,444** | 29,238 | 4,419 |
| State: | | | |
| Current | **10,459** | 4,622 | 240 |
| Deferred | **3,318** | 401 | 517 |
| State manufacturer's Tax credits | **(11,769)** | (5,804) | (2,665) |
| | **2,008** | (781) | (1,908) |
| Total | **$85,452** | $28,457 | $2,511 |

The Company recorded a reduction in 2003, 2002, and 2001 tax expense of approximately $11.8 million, $5.8 million, and $2.7 million, respectively, under the flow-through method of accounting for the State of Georgia manufacturer's tax credits.

The tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases, which give rise to deferred tax assets and liabilities, are as follows:

| | **2003** | 2002 |
|---|---|---|
| | | (in thousands) |
| Deferred tax liabilities: | | |
| Accelerated depreciation | **$(44,602)** | $(17,401) |
| Other | **-** | (729) |
| Total | **(44,602)** | (18,130) |
| Deferred tax assets: | | |
| Book/tax basis difference on asset transfer | **15,061** | 15,644 |
| Levelized capacity revenues | **11,052** | 8,003 |
| Other comprehensive loss on interest rate swaps | **40,003** | 30,745 |
| Other | **397** | 2,329 |
| Total | **66,513** | 56,721 |
| Accumulated deferred income taxes in the Balance Sheets | **$21,911** | $38,591 |

Deferred tax liabilities were primarily the result of property related timing differences and derivative hedging instruments. Deferred tax assets were primarily the result of a deferred tax gain related to the transfer of Plant Dahlberg from Georgia Power. The Company has recognized a payable to Georgia Power for Georgia Power's deferred tax liability resulting from this gain of approximately $15.1 million at December 31, 2003 and $15.6 million at December 31, 2002, which is recorded in other affiliated deferred credits on the Balance Sheets.

A reconciliation of the federal statutory tax rate to the effective income tax rate is as follows:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Federal statutory rate | **35.0** | 35.0 | 35.0 |
| State income tax, net of federal deduction | **3.7** | 3.9 | 4.6 |
| State manufacturer's tax credits, net of federal effect | **(3.2)** | (4.5) | (16.2) |
| Effective income tax rate | **35.5** | 34.4 | 23.4 |

## 6. CAPITALIZATION

### Parent Company Transactions

Southern Company is currently authorized by the SEC under the PUHCA to fund the development of Southern Power up to an aggregate amount not to exceed $1.7 billion, which may take the form of purchases or contributions of equity interests, loans and guarantees issued in support of the Company's securities or obligations. At December 31, 2003, equity contributions and subordinated loans from Southern Company totaled $850 million.

Southern Company has committed to fund at least 35% of the Company's construction project financing and to pay for construction cost overruns to the extent that the Company's own cash flow is insufficient. Also, Southern Company will prepay any portion of revolving credit arrangements used for the Company's construction projects not completed within two years of the proposed completion date. Currently, there are no borrowings related to the construction of Plant Franklin Unit 3 outstanding under these credit arrangements.

In 2001, Southern Power entered into an intercompany note payable to Southern Company, which was payable on demand. At December 31, 2002, $210.5 million was outstanding with an interest rate of 5.04%. In March 2003, $190 million of notes payable to Southern Company were converted to a capital contribution from Southern Company. At December 31, 2003, there were no amounts outstanding under this agreement.

### Bank Credit Arrangements

In 2003, the Company amended and restated its $850 million unsecured syndicated revolving credit facility (Facility) expiring in April 2006, reducing the Facility to $650 million. The purpose of the Facility is to finance the acquisition and construction costs related to gas-fired electric generating facilities and general corporate expenditures (subject to a $50 million limit), and to pay or support commercial paper used to fund construction of facilities. At December 31, 2003, the Company had no outstanding borrowings under the Facility. Borrowings under the Facility bear interest at the Company's option equal to either the Eurodollar rate plus a specified margin ranging from 1.25% to 3.0%, depending on the Company's credit rating and the amount drawn down under the Facility, or a base rate plus a specified margin. The interest rate and average interest rate on the Facility were 2.73% and 3.15% at December 31, 2002, and 3.44% and 3.61% at December 31, 2001, and during the periods then ended. The Company is required to pay a commitment fee on the unused balance of the Facility. The commitment fee ranges from 0.325% to 0.75%, depending on the Company's credit rating. For the periods ended December 31, 2003, 2002 and 2001, the Company paid approximately $2.0 million, $1.1 million, and $0.1 million in commitment fees, respectively.

The Facility contains certain financial covenants relating to the Company's debt capitalization which require that additional debt incurred by the Company must generally be unsecured and the Company must have its ratings reaffirmed at investment grade including the new debt. The Facility also contains restrictions related to the assumption of additional debt, which require a maximum 65% debt ratio, as defined in the Facility, excluding intercompany loans. The Company was in compliance with such covenants at December 31, 2003. Initial borrowings under the Facility for new projects would be prohibited if the Company or Southern Company experiences a material adverse change (as defined in the Facility). The Facility contains a cross default to Southern Company's indebtedness, which if triggered would require prepayment of debt related to projects financed under the Facility that are not complete.

### Long-Term Debt

In July 2003, the Company issued $575 million of 4.875% senior notes, due July 15, 2015. In June 2002, the Company issued $575 million of 6.25% senior notes, due July 15, 2012.

### Commercial Paper

In February 2003, the Company initiated a commercial paper program to fund a portion of the construction costs of new plants. The Company's strategy is to refinance such short-term borrowings with long-term securities following plant completion. During 2003, the peak amount outstanding for commercial paper was $493 million and the average amount outstanding was $239 million. The average annual interest rate on commercial paper was 1.41% in 2003. Commercial paper is included in notes payable on the Balance Sheets.

The Company's commercial paper program is supported by the Facility. The Facility was structured to

accommodate commercial paper, and the conditions that the Company must meet to reserve against the Facility for a project-specific commercial paper issue are the same as those for a regular draw on the Facility. The Company is not likely to be restricted from making draws on the Facility to repay any commercial paper coming due, as those conditions include representations and warranties that do not contain any material adverse effect clauses or creditworthiness measures.

**Financial Instruments**

The Company enters into energy related derivatives to limit exposures to electricity, gas, and other fuel price changes. The Company's exposure to market volatility in commodity fuel prices and prices of electricity is limited because its long-term sales contracts shift substantially all fuel cost responsibility to the purchaser. The Company may enter into interest rate swaps to limit exposure to interest rate changes. Swaps related to variable rate securities or forecasted transactions are accounted for as cash flow hedges. These swaps are generally structured to mirror the terms of the hedged debt instruments; therefore, no material ineffectiveness has been recorded in earnings. At December 31, 2003, the Company had no interest derivatives outstanding.

In July 2003, the Company terminated $500 million notional amount of interest rates swaps for losses of $93.3 million at the same time it issued senior notes. In June 2002, the Company settled interest rates swaps for losses of $16.9 million associated with senior notes issued in 2002. These losses have been deferred in other comprehensive income and will be amortized to interest expense over the life of the senior notes.

During 2003, approximately $5.5 million of pre-tax losses were reclassified from other comprehensive income to interest expense. During 2004, approximately $10.4 million of pre-tax losses are expected to be reclassified from other comprehensive income to interest expense.

At December 31, 2003, the fair value of derivative energy contracts was reflected in the financial statements as follows:

| | Amounts |
|---|---|
| | (in thousands) |
| Other comprehensive income | $1.0 |
| Net income | (0.3) |
| Total fair value | $0.7 |

For the Company, the fair value gains or losses for cash flow hedges are recorded in other comprehensive income and are reclassified into earnings at the same time the hedged items affect earnings. For 2003, approximately $0.2 million of pre-tax gains were reclassified from other comprehensive income to depreciation and amortization. For 2004, approximately $1.4 million of pre-tax gains are expected to be reclassified from other comprehensive income to earnings.

## 7. COMMITMENTS

**Construction Program**

The Company currently estimates property additions to be $259 million, $254 million and $355 million in 2004, 2005 and 2006, respectively. The Company has approximately 1,240 megawatts of additional generating capacity scheduled to be placed in service by 2005.

Significant purchase commitments are outstanding in connection with the construction program.

The Company has obligations related to the construction, by Alabama Power and Georgia Power, of transmission interconnection facilities to these plants, which are guaranteed by Southern Company. At December 31, 2003 these guarantees totaled $17.5 million.

**Long-Term Service Agreements**

The Company has entered into several Long-Term Service Agreements (LTSAs) with General Electric (GE) for the purpose of securing maintenance support for its combined cycle and combustion turbine generating facilities. In summary, the LTSAs stipulate that GE will perform all planned inspections on the covered equipment, which includes the cost of all labor and materials. GE is also obligated to cover the costs of unplanned maintenance on the covered equipment subject to a limit specified in each contract.

In general, except for Plant Dahlberg, these LTSAs are in effect through two major inspection cycles per unit. The Dahlberg agreement is in effect through the first major inspection of each unit. Scheduled payments to GE are made at various intervals based on actual operating hours of the respective units. Total payments to GE under these agreements are $831 million over the remaining life of the agreements, which may range up to 30 years per

unit. However, the LTSAs contain various cancellation provisions at the Company's option.

Payments made to GE prior to the performance of any planned inspections are recorded as a long term prepayment in the Deferred Charges and Other Assets section of the Balance Sheets. Inspection costs are capitalized or charged to expense based on the nature of the work performed.

**Fuel Commitments**

SCS, as agent for the retail operating companies, and Southern Power, has entered into various fuel transportation and procurement agreements to supply a portion of the fuel (primarily natural gas) requirements for the operating facilities. In most cases, these contracts contain provisions for firm transportation costs, storage costs, minimum purchase levels and other financial commitments.

Natural gas purchase commitments contain given volumes with prices based on various indices at the actual time of delivery. Amounts included in the chart below represent estimates based on New York Mercantile future prices at December 31, 2003.

| Year | Fuel Purchases (in thousands) |
|---|---|
| 2004 | $95,194 |
| 2005 | 53,138 |
| 2006 | 47,831 |
| 2007 | 37,426 |
| 2008 | 18,589 |
| 2009 and beyond | 430,818 |
| Total | $682,996 |

Purchases of natural gas were approximately $139.1 million, $133.5 million, and $4.4 million for the periods ended December 31, 2003, 2002, and 2001, respectively. Additional commitments for fuel will be required to supply the Company's future needs.

Acting as an agent for all of Southern Company's retail operating companies, Southern Power and Southern Company GAS, SCS may enter into various types of wholesale energy and natural gas contracts. Under these agreements, each of the retail operating companies, Southern Power and Southern Company GAS may be jointly and severally liable. The creditworthiness of Southern Power and Southern Company GAS is currently inferior to the creditworthiness of the retail operating companies; therefore, Southern Company has entered into keep-well agreements with each of the retail operating companies to insure they will not subsidize nor be responsible for any costs, losses, liabilities or damages resulting from the inclusion of Southern Power as a contracting party under these agreements.

## 8. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial information for 2003 and 2002 is as follows:

| Quarter Ended | Operating Revenues | Operating Income | Net Income |
|---|---|---|---|
| | | (in millions) | |
| **March 2003** | **$107,439** | **$ 38,217** | **$ 23,125** |
| **June 2003** | **238,281** | **132,421** | **79,290** |
| **September 2003** | **208,624** | **68,005** | **40,139** |
| **December 2003** | **127,436** | **34,662** | **12,595** |
| March 2002 | $ 19,299 | $ 7,862 | $ 4,455 |
| June 2002 | 57,777 | 16,271 | 8,858 |
| September 2002 | 136,195 | 45,298 | 27,329 |
| December 2002 | 85,497 | 26,764 | 13,628 |

The Company's business is influenced by seasonal weather conditions. The Company had approximately 2,400 megawatts of generating capacity in service through May 2002; approximately 2,400 megawatts through May 2003; approximately 4,350 megawatts through September 2003; and 4,775 megawatts through December 2003. During the second quarter of 2003, the Company recorded $80 million of contract termination revenues, as a result of the termination of Dynegy's PPAs related to Plants Dahlberg and Franklin, which resulted in a one-time gain of $50 million. See Note 3 to the financial statements under "Uncontracted Generating Capacity" for additional information.

## SELECTED FINANCIAL AND OPERATING DATA 2001-2003

**Southern Power Company 2003 Annual Report**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| **Operating Revenues (in thousands):** | | | |
| Sales for resale - non-affiliates | **$278,559** | $114,919 | $26,390 |
| Sales for resale - affiliates | **312,586** | 183,111 | 2,906 |
| Total revenues from sales of electricity | **591,145** | 298,030 | 29,296 |
| Other revenues | **90,635** | 738 | 5 |
| Total | **$681,780** | $298,768 | $29,301 |
| **Net Income (in thousands)** | **$155,149** | $54,270 | $8,207 |
| **Cash Dividends on Common Stock (in thousands)** | **$-** | $- | $- |
| **Return on Average Common Equity (percent)** | **17.65** | 8.94 | 3.51 |
| **Total Assets (in thousands)** | **$2,409,285** | $2,085,976 | $822,857 |
| **Gross Property Additions (in thousands)** | **$344,362** | $1,214,677 | $765,511 |
| **Capitalization (in thousands):** | | | |
| Common stock equity | **$1,011,476** | $746,604 | $466,993 |
| Long-term debt | **1,149,112** | 955,879 | 293,205 |
| Total (excluding amounts due within one year) | **$2,160,588** | $1,702,483 | $760,198 |
| **Capitalization Ratios (percent):** | | | |
| Common stock equity | **46.8** | 43.9 | 61.4 |
| Long-term debt | **53.2** | 56.1 | 38.6 |
| Total (excluding amounts due within one year) | **100.0** | 100.0 | 100.0 |
| **Security Ratings:** | | | |
| Unsecured Long-Term Debt - | | | |
| Moody's | **Baa1** | Baa1 | - |
| Standard and Poor's | **BBB+** | BBB+ | - |
| Fitch | **BBB+** | BBB+ | - |
| **Kilowatt-Hour Sales (in thousands):** | | | |
| Sales for resale - non-affiliates | **6,057,053** | 1,240,290 | 164,926 |
| Sales for resale - affiliates | **5,430,973** | 3,607,107 | 69,307 |
| Total | **11,488,026** | 4,847,397 | 234,233 |
| **Average Revenue Per Kilowatt-Hour (cents):** | **5.15** | 6.15 | 12.51 |
| **Plant Nameplate Capacity Ratings (year-end) (megawatts)** | **4,775** | 2,408 | 800 |
| **Maximum Peak-Hour Demand (megawatts):** | | | |
| Winter | **2,077** | 949 | - |
| Summer | **2,439** | 1,426 | - |
| **Annual Load Factor (percent)** | **54.9** | 51.1 | - |
| **Plant Availability (percent):** | **96.8** | 95.1 | 83.7 |
| **Source of Energy Supply (percent):** | | | |
| Gas | **53.4** | 77.4 | 100.0 |
| Purchased power - | | | |
| From non-affiliates | **30.5** | 5.9 | - |
| From affiliates | **16.1** | 16.7 | - |
| Total | **100.0** | 100.0 | 100.0 |

# PART III

Items 10, 11, 12, 13 and 14 for Southern Company are incorporated by reference in Southern Company's definitive Proxy Statement relating to the 2004 Annual Meeting of Stockholders. Specifically, reference is made to "Nominees for Election as Directors" for Item 10, "Executive Compensation" for Item 11, "Stock Ownership Table" for Item 12, "Certain Relationships and Related Transactions" for Item 13 and "Principal Public Accounting Firm Fees" for Item 14.

Additionally, Items 10, 11, 12, 13 and 14 for Alabama Power, Georgia Power, Gulf Power and Mississippi Power are incorporated by reference to the Information Statements of Alabama Power, Georgia Power, Gulf Power and Mississippi Power relating to each of their respective 2004 Annual Meetings of Shareholders. Specifically, reference is made to "Nominees for Election as Directors" for Item 10, "Executive Compensation Information" for Item 11, "Stock Ownership Table" for Item 12, "Certain Relationships and Related Transactions" for Item 13 and "Principal Public Accounting Firm Fees" for Item 14.

## Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANTS

The ages of directors and executive officers set forth below are as of December 31, 2003.

### SAVANNAH ELECTRIC

***Identification of directors of Savannah Electric.***

**Anthony R. James**
President and Chief Executive Officer
Age 53
Served as Director since 5-3-01

**Gus H. Bell, III** (1)
Age 66
Served as Director since 7-20-99

**Archie H. Davis** (1)
Age 62
Served as Director since 2-18-97

**Walter D. Gnann** (1)
Age 68
Served as Director since 5-17-83

**Robert B. Miller, III** (1)
Age 58
Served as Director since 5-17-83

**Arnold M. Tenenbaum** (1)
Age 67
Served as Director since 5-17-77

(1) *No position other than Director.*

Each of the above is currently a director of Savannah Electric, serving a term running from the last annual meeting of Savannah Electric's stockholder (May 2, 2003) for one year until the next annual meeting or until a successor is elected and qualified.

There are no arrangements or understandings between any of the individuals listed above and any other person pursuant to which he was or is to be selected as a director or nominee, other than any arrangements or understandings with directors or officers of Savannah Electric acting solely in their capacities as such.

***Identification of executive officers of Savannah Electric.***

**Anthony R. James**
President, Chief Executive Officer and Director
Age 53
Served as Executive Officer since 7-27-00

**W. Miles Greer**
Vice President
Age 60
Served as Executive Officer since 11-20-85

**Sandra R. Miller**
Vice President
Age 51
Served as Executive Officer since 7-26-01

**Kirby R. Willis**
Vice President, Treasurer and
Chief Financial Officer
Age 52
Served as Executive Officer since 1-1-94

Each of the above is currently an executive officer of Savannah Electric, serving a term running from the meeting of the directors held on July 24, 2003 for the ensuing year.

There are no arrangements or understandings between any of the individuals listed above and any other person pursuant to which he or she was or is to

be selected as an officer, other than any arrangements or understandings with officers of Savannah Electric acting solely in their capacities as such.

***Identification of certain significant employees.***
*None.*

***Family relationships.***
*None.*

***Business experience.***

**Anthony R. James** – President and Chief Executive Officer since 2001. Previously served as Vice President of Power Generation and Senior Production Officer from 2000 to 2001; Central Cluster Manager at Georgia Power's Plant Scherer from 2000 to 2001; and Plant Manager at Georgia Power's Plant Scherer from 1996 to 2000. He is a director of SunTrust Bank of Savannah.

**Gus H. Bell, III** – President and Chief Executive Officer of Hussey, Gay, Bell and DeYoung, Inc., (specializing in environmental, industrial, structural, architectural and civil engineering), Savannah, Georgia since 1986. He is a director of SunTrust Bank of Savannah.

**Archie H. Davis** – President, Chief Executive Officer and Director of Savannah Bancorp, Inc., Savannah, Georgia since 1990 and Vice Chairman and Director of The Savannah Bank, N.A. since January 2003. Previously served as Chief Executive Officer of The Savannah Bank, N.A. from 2002 to 2003 and as President and Chief Executive Officer of The Savannah Bank, N.A. from 1990 to 2002. He is a director of Bryan Bank and Trust, Savannah, Georgia.

**Walter D. Gnann** – President of Walt's TV, Appliance and Furniture Co., Inc., Springfield, Georgia since 1958.

**Robert B. Miller, III** – President of American Building Systems, Inc. (general contracting services), Savannah, Georgia since 1992.

**Arnold M. Tenenbaum** – Retired from Chatham Steel Corporation in 2003. Previously served as President and Director of Chatham Steel Corporation (specializing in carbon, stainless and specialty steel), Savannah, Georgia from 2001 to 2003; and served as President and Chief Executive Officer of Chatham Steel Corporation from 1981 to 2001. Chairman of the Board of Directors of the holding company of First Chatham Bank, Savannah, Georgia.

**W. Miles Greer** – Vice President of Customer Operations and External Affairs since 1998. Previously served as Vice President of Marketing and Customer Service from 1994 to 1998.

**Sandra R. Miller** – Vice President of Power Generation since 2001. Previously served as Manager of Technical Training at SCS from 1998 to 2001.

**Kirby R. Willis** – Vice President, Treasurer and Chief Financial Officer since 1994 and Assistant Corporate Secretary since 1998.

***Involvement in certain legal proceedings.***
None.

***Section 16(a) Beneficial Ownership Reporting Compliance.***

No reporting person of Savannah Electric failed to file, on a timely basis, the reports required by Section 16(a).

## SOUTHERN POWER

*Identification of directors of Southern Power.*

**W. Paul Bowers**
President and Chief Executive Officer
Age 47
Served as Director since 5-1-01

**H. Allen Franklin** (1) (2)
Age 59
Served as Director since 1-8-01

**Thomas A. Fanning** (1)
Age 46
Served as Director since 4-11-03

**Charles D. McCrary** (1)
Age 52
Served as Director since 2-11-02 and also served as Director from 1-8-01 to 4-16-01

**David M. Ratcliffe** (1) (2)
Age 55
Served as Director since 1-8-01

(1) *Each of the above is employed within the Southern Company system; however, each holds no position at Southern Power other than Director.*

(2) *Mr. Franklin will retire in July 2004. Mr. Ratcliffe will become Chief Executive Officer of Southern Company in July 2004.*

Each of the above is currently a director of Southern Power, serving a term running from the last annual meeting of Southern Power's stockholder (April 11, 2003) for one year until the next annual meeting or until a successor is elected and qualified.

There are no arrangements or understandings between any of the individuals listed above and any other person pursuant to which he was or is to be selected as a director or nominee, other than any arrangements or understandings with directors or officers of Southern Power acting solely in their capacities as such.

***Identification of executive officers of Southern Power.***

**W. Paul Bowers**
President and Chief Executive Officer
Age 47
Served as Executive Officer since 5-1-01

**Robert G. Moore**
Senior Vice President
Age 54
Served as Executive Officer since 1-4-02

**Edward Day**
Senior Vice President
Age 43
Served as Executive Officer since 5-7-03

**Douglas E. Jones**
Senior Vice President
Age 45
Served as Executive Officer since 1-1-04

**Anthony J. Topazi** (1)
Senior Vice President
Age 53
Served as Executive Officer since 3-1-01

**Cliff S. Thrasher**
Senior Vice President, Comptroller and Chief Financial Officer
Age 53
Served as Executive Officer since 6-10-02

(1) *Mr. Topazi was elected President, Chief Executive Officer and Director of Mississippi Power effective January 1, 2004 and resigned as Senior Vice President of Southern Power effective January 1, 2004.*

Except for Mr. Topazi, each of the above is currently an executive officer of Southern Power, serving a term running from the meeting of the directors held on May 7, 2003 for one year until the next annual meeting or until their successors are elected and have qualified, except for Mr. Jones whose election was effective on the date indicated.

There are no arrangements or understandings between any of the individuals listed above and any other person pursuant to which he was or is to be selected as an officer, other than any arrangements or understandings with officers of Southern Power acting solely in their capacities as such.

***Identification of certain significant employees.***
None.

***Family relationships.***
None.

*Business experience.*

**W. Paul Bowers** – President, Chief Executive Officer and Director since May 2001; Executive Vice President of SCS since May 2001. Previously served as Senior Vice President of SCS and Chief Marketing Officer of Southern Company from March 2000 to May 2001; President and Chief Executive Officer of Western Power Distribution, a subsidiary of Mirant located in Bristol, England from December 1998 to 2000.

**Edward Day** – Senior Vice President since May 2003. Previously served as Vice President of Business Development, Southern Company Generation and Energy Marketing from 1998 to 2003.

**Thomas A. Fanning** - Executive Vice President, Chief Financial Officer and Treasurer of Southern Company since April 11, 2003. Previously served as President, Chief Executive Officer and Director of Gulf Power from May 2002 to April 2003; Executive Vice President, Treasurer and Chief Financial Officer of Georgia Power from 1999 to 2002.

**H. Allen Franklin** – Chairman, President and Chief Executive Officer of Southern Company since April 2001. Previously served as President and Chief Executive Officer from March 2001 to April 2001; President and Chief Operating Officer of Southern Company from June 1999 to March 2001; and Executive Vice President of Southern Company and President and Chief Executive Officer of Georgia Power from January 1994 to June 1999. He is a director of SouthTrust Corporation, Vulcan Materials Company, and Southern Company system companies – Southern Company, Alabama Power, Georgia Power and Gulf Power.

**Douglas E. Jones** – Senior Vice President since January 2004. Previously served as Senior Vice President, Southern Company Energy Marketing from December 2001 to January 2004; and Vice President, Southern Company Wholesale Energy from December 1998 to 2001.

**Charles D. McCrary** – Executive Vice President of Southern Company since February 2002 and President and Chief Executive Officer of Alabama Power since October 2001. Previously served as President and Chief Operating Officer of Alabama Power from April 2001 to October 2001; Vice President of Southern Company from February 1998 to April 2001; and Executive Vice President of Alabama Power from April 1994 to February 1998. He is a director of Alabama Power and AmSouth Bancorporation.

**Robert G. Moore** – Senior Vice President since January 2002 and Vice President of SCS since August 1997. Previously served as Vice President of Gulf Power from July 1997 to May 2002.

**David M. Ratcliffe** – Current Chief Executive Officer of Georgia Power and to become Chief Executive Officer of Southern Company in July 2004. Executive Vice President of Southern Company since 1999 and President and Chief Executive Officer of Georgia Power since June 1999. Previously served as Executive Vice President, Treasurer and Chief Financial Officer of Georgia Power from March 1998 to June 1999. He is a director of Georgia Power; Mississippi Chemical Company; Federal Reserve Bank of Atlanta and CSX Corporation.

**Cliff S. Thrasher** – Senior Vice President, Comptroller and Chief Financial Officer of Southern Power since November 2002 and Vice President of SCS since June 2002. Previously served as Vice President, Comptroller and Chief Financial Officer of Southern Power from June 2002 to November 2002 and Vice President, Comptroller and Chief Accounting Officer of Georgia Power from September 1995 to June 2002.

**Anthony J. Topazi** – President and Chief Executive Officer of Mississippi Power since January 2004. Previously served as Senior Vice President of Southern Power from November 2002 to December 2003 and Vice President of SCS from December 1999 to December 2003; Vice President of Southern Power from March 2001 until November 2002 and Vice President of Alabama Power from March 1991 to December 1999.

***Section 16(a) Beneficial Ownership Reporting Compliance.***

Not applicable.

### *Code of Ethics*

The registrants collectively have adopted a code of business conduct and ethics that applies to each director, officer and employee of the registrants and their subsidiaries. The code of business conduct and ethics can be found on Southern Company's website located at *http://www.southerncompany.com*. The code of business conduct and ethics is also available in print to any shareholder upon request. Any amendment to or waiver from the code of ethics that applies to executive officers and directors will be posted on the website.

### *Corporate Governance Guidelines*

Southern Company has adopted corporate governance guidelines. The corporate governance guidelines and the charters of Southern Company's audit committee, corporate governance and nominating committee and compensation committee can be found on Southern Company's website located at *http://www.southerncompany.com*. The corporate governance guidelines and charters are also available in print to any shareholder upon request.

## Item 11. EXECUTIVE COMPENSATION

**Summary Compensation Table.** The following table sets forth information concerning any Chief Executive Officer and the three most highly compensated executive officers of **Savannah Electric** serving during 2003.

| | | ANNUAL COMPENSATION | | | LONG-TERM COMPENSATION | | | |
|---|---|---|---|---|---|---|---|---|
| Name and Principal Position | Year | Salary($) | Bonus($) | Other Annual Compensation ($)[1] | Restricted Stock Award ($) | Number of Securities Underlying Stock Options (Shares) | Long-Term Incentive Payouts ($)[2] | All Other Compensation ($)[3] |
| **Anthony R. James**[4] | | | | | | | | |
| President, Chief | 2003 | 248,342 | 183,462 | 3,168 | - | 32,015 | 164,732 | 11,956 |
| Executive Officer, | 2002 | 235,748 | 189,044 | 13,109 | - | 35,354 | 136,462 | 12,235 |
| Director | 2001 | 210,856 | 177,858 | 1,328 | - | 31,363 | 87,577 | 30,195 |
| **W. Miles Greer** | 2003 | 198,238 | 97,376 | 1,716 | - | 12,744 | 111,890 | 24,702 |
| Vice President | 2002 | 191,400 | 101,796 | 107 | - | 14,278 | 115,884 | 20,261 |
| | 2001 | 184,066 | 104,286 | 666 | - | 32,505 | 105,924 | 8,567 |
| **Kirby R. Willis** | | | | | | | | |
| Vice President, | 2003 | 182,109 | 89,491 | 2,207 | - | 11,712 | 68,470 | 14,634 |
| Chief Financial | 2002 | 175,476 | 93,329 | 891 | - | 13,090 | 61,913 | 13,283 |
| Officer, Treasurer | 2001 | 168,747 | 100,480 | 490 | - | 29,993 | 89,814 | 8,495 |
| **Sandra R. Miller**[5] | 2003 | 146,072 | 108,696 | 5,135 | - | 9,432 | 32,304 | 12,424 |
| Vice President | 2002 | 138,074 | 104,769 | 1,720 | - | 10,317 | 18,824 | 7,016 |
| | 2001 | 112,802 | 83,015 | 8,123 | - | 1,896 | 4,791 | 20,749 |

1 Tax reimbursement on certain personal benefits.

2 Payout of performance dividend equivalents on stock options granted after 1996 that were held by the executive at the end of the performance periods under the Omnibus Incentive Compensation Plan for the four-year performance periods ended December 31, 2001, 2002 and 2003, respectively. Dividend equivalents can range from 25 percent of the common stock dividend paid during the last year of the performance period if total shareholder return over the four-year period, compared to a group of other large utility companies, is at the 30th percentile to 100 percent of the dividend paid if it reaches the 90th percentile. For eligible stock options held on December 31, 2001, 2002 and 2003, all named executives received a payout of $1.34, $1.355 and $1.385 per option, respectively.

3 Contributions in 2003 to the Employee Savings Plan (ESP), Employee Stock Ownership Plan (ESOP) and Supplemental Benefit Plan (SBP) or Above-Market Earnings on deferred compensation (AME) are as follows:

| Name | ESP | ESOP | SBP or AME |
|---|---|---|---|
| Anthony R. James | $7,967 | $744 | $3,245 |
| W. Miles Greer | 8,921 | 744 | 12,037 |
| Kirby R. Willis | 6,719 | 636 | 7,279 |
| Sandra R. Miller | 5,403 | 744 | 1,277 |

In 2003, these amounts included additional incentive compensation of $5,000 and $3,000 for Ms. Miller and Mr. Greer, respectively.

4 Mr. James became President and Chief Executive Officer effective in May 2001.

5 Ms. Miller became an executive officer of Savannah Electric in July 2001.

**Summary Compensation Table.** The following table sets forth information concerning any Chief Executive Officer and the four most highly compensated executive officers of **Southern Power** serving during 2003.

| | | ANNUAL COMPENSATION | | | LONG-TERM COMPENSATION | | | |
|---|---|---|---|---|---|---|---|---|
| **Name and Principal Position** | **Year** | **Salary($)** | **Bonus($)** | **Other Annual Compensation ($)[6]** | **Restricted Stock Award ($)** | **Number of Securities Underlying Stock Options (Shares)** | **Long-Term Incentive Payouts ($)[7]** | **All Other Compensation ($)[8]** |
| **W. Paul Bowers** | | | | | | | | |
| President, Chief | 2003 | 356,994 | 431,675 | 6,257 | - | 46,181 | 234,253 | 18,063 |
| Executive Officer, | 2002 | 329,570 | 403,433 | 12,337 | - | 50,046 | 214,133 | 16,802 |
| Director | 2001 | 273,758 | 273,630 | 3,072 | - | 51,740 | 160,515 | 39,542 |
| **Anthony J. Topazi** | 2003 | 272,240 | 272,895 | 25,856 | - | 27,526 | 188,241 | 54,595 |
| Senior Vice President | 2002 | 249,389 | 262,399 | 3,218 | - | 29,229 | 173,966 | 64,274 |
| | 2001 | 237,095 | 185,293 | 112,839 | - | 49,800 | 145,178 | 213,144 |
| **Robert G. Moore[9]** | 2003 | 231,138 | 242,714 | 6,988 | - | 18,687 | 98,489 | 18,985 |
| Senior Vice President | 2002 | 217,233 | 206,785 | 2,820 | - | 20,835 | 111,206 | 13,396 |
| | 2001 | - | - | - | - | - | - | - |
| **Cliff S. Thrasher[9]** | 2003 | 202,375 | 182,577 | 2,464 | - | 16,742 | 87,047 | 10,629 |
| Senior Vice President, | 2002 | 187,200 | 175,560 | 52,852 | - | 13,443 | 79,394 | 59,640 |
| Comptroller & Chief | 2001 | - | - | - | - | - | - | - |
| Financial Officer | | | | | | | | |
| **Edward Day[10]** | 2003 | 182,560 | 176,459 | 1,158 | - | 10,843 | 41,292 | 29,502 |
| Senior Vice President | 2002 | - | - | - | - | - | - | - |
| | 2001 | - | - | - | - | - | - | - |

6 Tax reimbursement on certain personal benefits.

7 Payout of performance dividend equivalents on stock options granted after 1996 that were held by the executive at the end of the performance periods under the Omnibus Incentive Compensation Plan for the four-year performance periods ended December 31, 2001, 2002 and 2003, respectively. Dividend equivalents can range from 25 percent of the common stock dividend paid during the last year of the performance period if total shareholder return over the four-year period, compared to a group of other large utility companies, is at the 30th percentile to 100 percent of the dividend paid if it reaches the 90th percentile. For eligible stock options held on December 31, 2001, 2002 and 2003, all named executives received a payout of $1.34, $1.355 and $1.385 per option, respectively.

8 Contributions in 2003 to the Employee Savings Plan (ESP), Employee Stock Ownership Plan (ESOP), Supplemental Benefit Plan (SBP) and tax sharing benefits paid to participants who elected receipt of dividends on Southern Company's common stock held in the ESP are as follows:

| Name | ESP | ESOP | SBP | ESP Tax Sharing Benefits |
|---|---|---|---|---|
| W. Paul Bowers | $7,934 | $744 | $9,385 | $ - |
| Anthony J. Topazi | 9,000 | 744 | 4,851 | - |
| Robert G. Moore | 7,934 | 744 | 2,519 | 788 |
| Cliff S. Thrasher | 9,000 | 744 | 885 | - |
| Edward Day | 8,215 | 744 | 543 | - |

In 2003, these amounts include additional incentive compensation of $40,000, $7,000 and $20,000 for Messrs. Topazi, Moore and Day, respectively. In 2002, these amounts include additional incentive compensation of $50,000 each for Mr. Topazi and Mr. Thrasher. In 2001, these amounts included additional incentive compensation for Messrs. Bowers and Topazi of $24,380 and $200,000 respectively.

9 Mr. Moore became an executive officer of Southern Power in January 2002 and Mr. Thrasher became an executive officer of Southern Power in June 2002.

10 Mr. Day became an executive officer of Southern Power in May 2003.

## STOCK OPTION GRANTS IN 2003

**Stock Option Grants.** The following table sets forth all stock option grants to the named executive officers of Savannah Electric and Southern Power during the year ending December 31, 2003.

| | Individual Grants | | | | Grant Date Value |
|---|---|---|---|---|---|
| Name | # of Securities Underlying Options Granted [11] | % of Total Options Granted to Employee in Fiscal Year [12] | Exercise or Base Price ($/Sh) [11] | Expiration Date [11] | Grant Date Present Value[13] |
| **Savannah Electric** | | | | | |
| Anthony R. James | **32,015** | **25.5** | **$27.975** | **2/14/2013** | **$114,934** |
| W. Miles Greer | **12,744** | **10.2** | **$27.975** | **2/14/2013** | **45,751** |
| Kirby R. Willis | **11,712** | **9.3** | **$27.975** | **2/14/2013** | **42,046** |
| Sandra R. Miller | **9,432** | **7.5** | **$27.975** | **2/14/2013** | **33,861** |
| **Southern Power** | | | | | |
| W. Paul Bowers | **46,181** | **1.6** | **$27.975** | **2/14/2013** | **165,790** |
| Anthony J. Topazi | **27,526** | **0.9** | **$27.975** | **2/14/2013** | **98,818** |
| Robert G. Moore | **18,687** | **0.6** | **$27.975** | **2/14/2013** | **67,086** |
| Cliff S. Thrasher | **16,742** | **0.6** | **$27.975** | **2/14/2013** | **60,104** |
| Edward Day | **10,843** | **0.4** | **$27.975** | **2/14/2013** | **38,926** |

11 Under the terms of the Omnibus Incentive Compensation Plan, stock option grants were made on February 14, 2003 and vest annually at a rate of one-third on the anniversary date of the grant. Grants fully vest upon termination as a result of death, total disability or retirement and expire five years after retirement, three years after death or total disability or their normal expiration date if earlier. The exercise price is the average of the high and low price of Southern Company's common stock on the date granted. Options may be transferred to a revocable trust and for Mr. Bowers also may be transferred to certain family members, family trusts and family limited partnerships.

12 A total of 125,397 and 2,885,181 stock options were granted in 2003 to Savannah Electric and SCS, respectively. Southern Power has no employees; therefore, SCS employees perform work on behalf of Southern Power that is billed, at cost, to Southern Power.

13 Value was calculated using the Black-Scholes option valuation model. The actual value, if any, ultimately realized depends on the market value of Southern Company's common stock at a future date. Significant assumptions are shown below:

| Volatility | Risk-free rate of return | Dividend Yield | Expected Term |
|---|---|---|---|
| 23.59% | 2.72% | 4.90% | 4.28 years |

## AGGREGATED STOCK OPTION EXERCISES IN 2003 AND YEAR-END OPTION VALUES

**Aggregated Stock Option Exercises.** The following table sets forth information concerning options exercised during the year ending December 31, 2003 by the named executive officers and the value of unexercised options held by them as of December 31, 2003.

| Name | Shares Acquired on Exercise (#) | Value Realized ($)[15] | Number of Securities Underlying Unexercised Options at Fiscal Year-End (#) | | Value of Unexercised In-the-Money Options At Year-End ($)[14] | |
|---|---|---|---|---|---|---|
| | | | Exercisable | Unexercisable | Exercisable | Unexercisable |
| **Savannah Electric** | | | | | | |
| Anthony R. James | 13,785 | 201,626 | 52,902 | 66,038 | 576,957 | 292,108 |
| W. Miles Greer | 17,480 | 253,385 | 47,690 | 33,097 | 562,488 | 180,256 |
| Kirby R. Willis | 7,967 | 117,180 | 19,001 | 30,436 | 189,691 | 165,826 |
| Sandra R. Miller | - | - | 6,382 | 16,942 | 56,191 | 62,218 |
| **Southern Power** | | | | | | |
| W. Paul Bowers | 35,077 | 541,068 | 72,345 | 96,791 | 692,848 | 435,030 |
| Anthony J. Topazi | 20,000 | 336,570 | 72,302 | 63,612 | 775,745 | 317,744 |
| Robert G. Moore | 29,647 | 486,094 | 28,004 | 43,107 | 236,590 | 212,797 |
| Cliff S. Thrasher | 12,485 | 178,001 | 26,258 | 36,592 | 228,219 | 185,732 |
| Edward Day | 8,951 | 102,716 | 6,681 | 23,133 | 41,149 | 108,833 |

[14] This column represents the excess of the fair market value of Southern Company's common stock of $30.25 per share, as of December 31, 2003, above the exercise price of the options. The Exercisable column reports the "value" of options that are vested and therefore could be exercised. The Unexercisable column reports the "value" of options that are not vested and therefore could not be exercised as of December 31, 2003.

[15] The "Value Realized" is ordinary income, before taxes, and represents the amount equal to the excess of the fair market value of the shares at the time of exercise above the exercise price.

## DEFINED BENEFIT OR ACTUARIAL PLAN DISCLOSURE

**Pension Plan Table.** The following table sets forth the estimated annual pension benefits payable at normal retirement age under Southern's qualified Pension Plan, as well as non-qualified supplemental benefits, based on the stated compensation and years of service with the Southern Company system for all named executive officers of Savannah Electric and Southern Power, except for Messrs. Greer and Willis. Compensation for pension purposes is limited to the average of the highest three of the final 10 years' compensation. Compensation is base salary plus the excess of annual incentive compensation over 15 percent of base salary. These compensation components are reported under columns titled "Salary" and "Bonus" in the Summary Compensation Tables on pages III-6 and III-7.

| | Years of Accredited Service | | | | | |
|---|---|---|---|---|---|---|
| **Remuneration** | **15** | **20** | **25** | **30** | **35** | **40** |
| $ 100,000 | $ 25,500 | $ 34,000 | $ 42,500 | $ 51,000 | $ 59,500 | $ 68,000 |
| 300,000 | 76,500 | 102,000 | 127,500 | 153,000 | 178,500 | 204,000 |
| 500,000 | 127,500 | 170,000 | 212,500 | 255,000 | 297,500 | 340,000 |
| 700,000 | 178,500 | 238,000 | 297,500 | 357,000 | 416,500 | 476,000 |
| 900,000 | 229,500 | 306,000 | 382,500 | 459,000 | 535,500 | 612,000 |
| 1,100,000 | 280,500 | 374,000 | 467,500 | 561,000 | 654,500 | 748,000 |
| 1,300,000 | 331,500 | 442,000 | 552,500 | 663,000 | 773,500 | 884,000 |

As of December 31, 2003, the applicable compensation levels and years of accredited service are presented in the following tables:

**Savannah Electric**

| Name | Compensation Level | Accredited Years of Service |
|---|---|---|
| Anthony R. James | $382,476 | 24 |
| W. Miles Greer[16] | 263,274 | 27 |
| Kirby R. Willis[17] | 243,194 | 29 |
| Sandra R. Miller | 218,099 | 23 |

**Southern Power**

| Name | Compensation Level | Accredited Years of Service |
|---|---|---|
| W. Paul Bowers | $650,994 | 23 |
| Anthony J. Topazi | 460,397 | 33 |
| Robert G. Moore | 388,047 | 29 |
| Cliff S. Thrasher | 324,619 | 32 |
| Edward Day | 279,250 | 19 |

16 The number of accredited years of service includes 7 years and 6 months credited to Mr. Greer pursuant to a supplemental pension agreement.

17 The number of accredited years of service includes 5 years and 5 months granted to Mr. Willis for time served at a non-affiliated electric utility.

The amounts shown in the table were calculated according to the final average pay formula and are based on a single life annuity without reduction for joint and survivor annuities or computation of Social Security offset that would apply in most cases.

In 1998, Savannah Electric merged its pension plan into the Southern Company Pension Plan. Savannah Electric also has in effect a supplemental executive retirement plan for certain of its executive employees. The plan is designed to provide participants with a supplemental retirement benefit, which, in conjunction with Social Security and benefits under Southern Company's qualified pension plan, will equal 70 percent of the highest three of the final 10 years' average annual earnings (excluding incentive compensation).

The following table sets forth the estimated combined annual pension benefits under Southern Company's pension and Savannah Electric's supplemental executive retirement plans in effect during 2003 which are payable to Messrs. Greer and Willis, upon retirement at the normal retirement age after designated periods of accredited service and at a specified compensation level.

| | Years of Accredited Service | | |
|---|---|---|---|
| **Remuneration** | **15** | **25** | **35** |
| $150,000 | $105,000 | $105,000 | $105,000 |
| 180,000 | 126,000 | 126,000 | 126,000 |
| 210,000 | 147,000 | 147,000 | 147,000 |
| 260,000 | 182,000 | 182,000 | 182,000 |
| 280,000 | 196,000 | 196,000 | 196,000 |
| 300,000 | 210,000 | 210,000 | 210,000 |
| 350,000 | 245,000 | 245,000 | 245,000 |
| 400,000 | 280,000 | 280,000 | 280,000 |
| 430,000 | 301,000 | 301,000 | 301,000 |
| 460,000 | 322,000 | 322,000 | 322,000 |

**Compensation of Directors.**

Standard Arrangements. The following table presents compensation paid to Savannah Electric's directors during 2003 for service as a member of the board of directors and any board committee(s), except that employee directors received no fees or compensation for service as a member of the board of directors or any board committee. At the election of the director, all or a portion of the cash retainer may be payable in Southern Company's common stock, and all or a portion of the total fees may be deferred under the Deferred Compensation Plan until membership on the board is terminated.

| | |
|---|---|
| **Cash Retainer Fee** | $10,000 |
| **Stock Retainer Fee** | 85 shares per quarter |
| **Meeting Fee** | $750 for each Board or Committee meeting attended |

Southern Power's directors are all employed within the Southern Company system and receive no fees or compensation for service as a member of Southern Power's board of directors.

Other Arrangements. No director received other compensation for services as a director during the year ending December 31, 2003 in addition to or in lieu of that specified by the standard arrangements specified above.

**Employment Contracts and Termination of Employment and Change in Control Arrangements.**

Southern Power's executive officers are employees of SCS. Savannah Electric and SCS have adopted Southern Company's Change in Control Plan, which is applicable to certain of its officers, and has entered into individual change in control agreements with its most highly compensated executive officers. If an executive is involuntarily terminated, other than for cause, within two years following a change in control of Savannah Electric, SCS or Southern Company, the agreements provide for:

- lump sum payment of two or three times annual compensation,
- up to five years' coverage under group health and life insurance plans,
- immediate vesting of all stock options, stock appreciation rights and restricted stock previously granted,
- payment of any accrued long-term and short-term bonuses and dividend equivalents and
- payment of any excise tax liability incurred as a result of payments made under any individual agreements.

A change in control is defined under the agreements as:

- acquisition of at least 20 percent of the Southern Company's stock,
- a change in the majority of the members of the Southern Company's board of directors,
- a merger or other business combination that results in Southern Company's shareholders immediately before the merger owning less than 65 percent of the voting power after the merger or
- a sale of substantially all the assets of Southern Company.

A change in control of Savannah Electric is defined under the agreements as:

- acquisition of at least 50 percent of Savannah Electric's stock,
- a merger or other business combination unless Southern Company controls the surviving entity or
- a sale of substantially all the assets of Savannah Electric.

Southern Company also has amended its short- and long-term incentive plans to provide for pro-rata payments at not less than target-level performance if a change in control occurs and the plans are not continued or replaced with comparable plans.

Mr. W. Miles Greer and Savannah Electric entered into agreements that provide for a monthly payment to Mr. Greer after his retirement equal to the difference between the amount he will receive under the Southern Company Pension Plan and Savannah Electric Supplemental Executive Retirement Plan and the amount he would receive under those Plans had he been employed by Savannah Electric an additional seven years and six months under the Pension Plan and an additional eight years under the Supplemental Executive Retirement Plan.

**Report on Repricing of Options.**

None.

**Compensation Committee Interlocks and Insider Participation.**

None.

## Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

*Security Ownership of Certain Beneficial Owners.* Southern Company is the beneficial owner of 100% of the outstanding common stock of Savannah Electric and Southern Power.

| Title of Class | Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percent of Class |
|---|---|---|---|
| Common Stock | The Southern Company<br>270 Peachtree Street, N.W.<br>Atlanta, Georgia 30303 | | 100% |
| | **Registrants:** | | |
| | Savannah Electric | 10,844,635 | |
| | Southern Power | 1,000 | |

*Security Ownership of Management.* The following table shows the number of shares of Southern Company Common stock owned by the directors, nominees and executive officers as of December 31, 2003. It is based on information furnished by the directors, nominees and executive officers. The shares owned by all directors, nominees and executive officers as a group constitute less than one percent of the total number of shares outstanding on December 31, 2003.

| **Name of Directors, Nominees and Executive Officers** | **Title of Class** | **Shares Beneficially Owned (1)** | **Shares Beneficially Owned Include: Shares Individuals Have Rights to Acquire Within 60 days (2)** |
|---|---|---|---|
| **Savannah Electric** | | | |
| Gus H. Bell, III | Southern Company Common | 636 | - |
| Archie H. Davis | Southern Company Common | 1,065 | - |
| Walter D. Gnann | Southern Company Common | 3,312 | - |
| Robert B. Miller, III | Southern Company Common | 2,775 | - |
| Arnold M. Tenenbaum | Southern Company Common | 1,599 | - |
| W. Miles Greer | Southern Company Common | 67,958 | 62,366 |
| Anthony R. James | Southern Company Common | 96,553 | 81,289 |
| Sandra R. Miller | Southern Company Common | 14,770 | 13,411 |
| Kirby R. Willis | Southern Company Common | 37,798 | 32,465 |
| The directors, nominees and executive officers as a group | Southern Company Common | 226,466 | 189,531 |

| Name of Directors, Nominees and Executive Officers | Title of Class | Shares Beneficially Owned (1) | Shares Beneficially Owned Include: Shares Individuals Have Rights to Acquire Within 60 days (2) |
|---|---|---|---|
| **Southern Power** | | | |
| W. Paul Bowers | Southern Company Common | 120,220 | 112,941 |
| Thomas A. Fanning | Southern Company Common | 85,420 | 83,657 |
| H. Allen Franklin | Southern Company Common | 1,249,368 | 1,207,841 |
| Charles D. McCrary | Southern Company Common | 259,492 | 256,031 |
| David M. Ratcliffe | Southern Company Common | 227,807 | 214,558 |
| Edward Day | Southern Company Common | 19,659 | 17,283 |
| Robert G. Moore | Southern Company Common | 60,232 | 46,725 |
| Cliff S. Thrasher | Southern Company Common | 36,274 | 31,026 |
| Anthony J. Topazi | Southern Company Common | 111,232 | 99,580 |
| The directors, nominees and executive officers as a group | Southern Company Common | 2,169,704 | 2,069,642 |

(1) As used in the tables, "beneficial ownership" means the sole or shared power to vote, or to direct the voting of, a security and/or investment power with respect to a security (i.e., the power to dispose of, or to direct the disposition of, a security).

(2) Indicates shares of Southern Company common stock that directors and executive officers have the right to acquire within 60 days.

**Changes in control.** Southern Company, Savannah Electric and Southern Power know of no arrangements which may at a subsequent date result in any change in control.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

### SAVANNAH ELECTRIC

***Transactions with management and others.***

Mr. Archie Davis is currently President, Chief Executive Officer and a Director of Savannah Bancorp, Inc. and Vice Chairman and Director of The Savannah Bank, N.A., Savannah, Georgia and was also President and Chief Executive Officer prior to January 2003. Messrs. James and Bell are directors of SunTrust Bank of Savannah. Mr. Tenenbaum is Chairman of the Board of Directors for the holding company of First Chatham Bank. During 2003, these banks furnished a number of regular banking services in the ordinary course of business to Savannah Electric. Savannah Electric intends to maintain normal banking relations with the aforesaid banks in the future.

***Certain business relationships.***

*None.*

***Indebtedness of management.***

*None.*

***Transactions with promoters.***

*None.*

### SOUTHERN POWER

***Transactions with management and others.***

*None.*

***Certain business relationships.***

*None.*

***Indebtedness of management.***

*None.*

***Transactions with promoters.***

*None.*

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following represents the fees billed to Savannah Electric and Southern Power for the last two fiscal years by Deloitte & Touche LLP, each company's principal public accountant for 2003 and 2002:

| | 2003 | 2002 |
|---|---|---|
| **Savannah Electric** | *(in thousands)* | |
| Audit Fees (1) | $250 | $170 |
| Audit-Related Fees (2) | 101 | 2 |
| Tax Fees | - | - |
| All Other Fees | - | - |
| | $351 | $172 |
| **Southern Power** | | |
| Audit Fees (3) | $535 | $1,580 |
| Audit-Related Fees (2) | 290 | 1 |
| Tax Fees | - | - |
| All Other Fees | - | - |
| | $825 | $1,581 |

(1) Includes services performed in connection with financing transactions.
(2) Includes internal control review services and accounting consultations.
(3) 2002 amount includes a re-audit of the 2001 financial statements and other services performed in connection with Southern Power's initial public debt offering. 2003 amount includes services performed in connection with additional financing transactions.

The Southern Company Audit Committee (on behalf of Southern Company and all its subsidiaries) adopted a Policy of Engagement of the Independent Auditor for Audit and Non-Audit Services that includes requirements for such Audit Committee to pre-approve audit and non-audit services provided by Deloitte & Touche LLP. All of the audit services provided by Deloitte & Touche LLP in the fiscal year 2003 (described in the footnotes to the table above) and related fees were approved in advance by the Southern Company Audit Committee.

# PART IV

## Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as a part of this report on this Form 10-K:

(1) Financial Statements:

Independent Auditors' Reports on the financial statements for Southern Company and Subsidiary Companies, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and Southern Power are listed under Item 8 herein.

The financial statements filed as a part of this report for Southern Company and Subsidiary Companies, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and Southern Power are listed under Item 8 herein.

Reports of Independent Public Accountants on the financial statements for Southern Company and Subsidiary Companies, Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric are listed under Item 8 herein.

(2) Financial Statement Schedules:

Independent Auditors' Reports as to Schedules for Southern Company and Subsidiary Companies, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and Southern Power are included herein on pages IV-9, IV-11, IV-13, IV-15, IV-17, IV-19 and IV-21.

Financial Statement Schedules for Southern Company and Subsidiary Companies, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and Southern Power are listed in the Index to the Financial Statement Schedules at page S-1.

Reports of Independent Public Accountants as to Schedules for Southern Company and Subsidiary Companies, Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric are included herein on pages IV-10, IV-12, IV-14, IV-16, IV-18 and IV-20.

(3) Exhibits:

Exhibits for Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and Southern Power are listed in the Exhibit Index at page E-1.

(b) Reports on Form 8-K during the fourth quarter of 2003 were as follows:

The registrants collectively and separately furnished a Current Report on Form 8-K:

| | |
|---|---|
| Date of event: | October 21, 2003 |
| Item reported: | 12 |

The registrants collectively and separately filed Current Reports on Form 8-K:

| | |
|---|---|
| Date of event: | December 2, 2003 |
| Items reported: | 5 and 7 |

| | |
|---|---|
| Date of event: | December 8, 2003 |
| Item reported: | 5 |

Southern Company and Mississippi Power collectively and separately filed Current Reports on Form 8-K:

| | |
|---|---|
| Date of event: | December 16, 2003 |
| Item reported: | 5 |

Alabama Power filed a Current Report on Form 8-K:

| | |
|---|---|
| Date of event: | November 14, 2003 |
| Items reported: | 5 and 7 |

Savannah Electric filed a Current Report on Form 8-K:

| | |
|---|---|
| Date of event: | December 10, 2003 |
| Items reported: | 5 and 7 |

## THE SOUTHERN COMPANY

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: H. Allen Franklin, Chairman, President and Chief Executive Officer*

*By: Wayne Boston (Wayne Boston, Attorney-in-fact)*

*Date: March 1, 2004*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The signature of each of the undersigned shall be deemed to relate only to matters having reference to the above-named company and any subsidiaries thereof.

*H. Allen Franklin*
*Chairman, President and*
*Chief Executive Officer*
*(Principal Executive Officer)*

*Thomas A. Fanning*
*Executive Vice President, Chief Financial Officer and*
*Treasurer*
*(Principal Financial Officer)*

*W. Dean Hudson*
*Comptroller and Chief Accounting Officer*
*(Principal Accounting Officer)*

*Directors:*

| | |
|---|---|
| *Daniel P. Amos* | *Zack T. Pate* |
| *Dorrit J. Bern* | *J. Neal Purcell* |
| *Thomas F. Chapman* | *David M. Ratcliffe* |
| *Bruce Gordon* | *Gerald J. St. Pe'* |
| *Donald M. James* | |

*By: Wayne Boston (Wayne Boston, Attorney-in-fact)*

*Date: March 1, 2004*

## ALABAMA POWER COMPANY

### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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*

*By: Wayne Boston (Wayne Boston, Attorney-in-fact)*

*Date: March 1, 2004*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The signature of each of the undersigned shall be deemed to relate only to matters having reference to the above-named company and any subsidiaries thereof.

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

*William B. Hutchins, III*
*Executive Vice President, Chief Financial Officer and Treasurer*
*(Principal Financial Officer)*

*Art P. Beattie*
*Vice President and Comptroller*
*(Principal Accounting Officer)*

*Directors:*

| | |
|---|---|
| *Whit Armstrong* | *Malcolm Portera* |
| *David J. Cooper* | *Robert D. Powers* |
| *H. Allen Franklin* | *C. Dowd Ritter* |
| *R. Kent Henslee* | *James H. Sanford* |
| *Patricia M. King* | *William F. Walker* |
| *James K. Lowder* | *John Cox Webb, IV* |
| *Wallace D. Malone, Jr.* | *James W. Wright* |

*By: Wayne Boston (Wayne Boston, Attorney-in-fact)*

*Date: March 1, 2004*

## GEORGIA POWER COMPANY

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: David M. Ratcliffe, Chief Executive Officer*

*By: Wayne Boston*
*(Wayne Boston, Attorney-in-fact)*

*Date: March 1, 2004*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The signature of each of the undersigned shall be deemed to relate only to matters having reference to the above-named company and any subsidiaries thereof.

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

*C. B. Harreld*
*Executive Vice President, Chief Financial Officer*
*and Treasurer*
*(Principal Financial Officer)*

*W. Ron Hinson*
*Vice President, Comptroller and Chief Accounting Officer*
*(Principal Accounting Officer)*

*Directors:*

| | |
|---|---|
| *Juanita P. Baranco* | *D. Gary Thompson* |
| *Robert L. Brown, Jr.* | *Richard W. Ussery* |
| *Anna R. Cablik* | *William Jerry Vereen* |
| *H. Allen Franklin* | *Carl Ware* |
| *Michael D. Garrett* | *E. Jenner Wood, III* |

*By: Wayne Boston*
*(Wayne Boston, Attorney-in-fact)*

*Date: March 1, 2004*

## GULF POWER COMPANY

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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*

*By: Wayne Boston (Wayne Boston, Attorney-in-fact)*

*Date: March 1, 2004*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The signature of each of the undersigned shall be deemed to relate only to matters having reference to the above-named company and any subsidiaries thereof.

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

*Ronnie R. Labrato*
*Vice President, Chief Financial Officer and Comptroller*
*(Principal Financial and Accounting Officer)*

*Directors:*

| | |
|---|---|
| *C. LeDon Anchors* | *William A. Pullum* |
| *William C. Cramer, Jr.* | *Winston E. Scott* |
| *Fred C. Donovan, Sr.* | |

*By: Wayne Boston (Wayne Boston, Attorney-in-fact)*

*Date: March 1, 2004*

## MISSISSIPPI POWER COMPANY

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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*

*By: Wayne Boston (Wayne Boston, Attorney-in-fact)*

*Date: March 1, 2004*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The signature of each of the undersigned shall be deemed to relate only to matters having reference to the above-named company and any subsidiaries thereof.

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

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

*Directors:*

| | |
|---|---|
| *Tommy E. Dulaney* | *George A. Schloegel* |
| *Robert C. Khayat* | *Philip J. Terrell* |
| *Aubrey K. Lucas* | *Gene Warr* |

*By: Wayne Boston (Wayne Boston, Attorney-in-fact)*

*Date: March 1, 2004*

## SAVANNAH ELECTRIC AND POWER COMPANY

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

*SAVANNAH ELECTRIC AND POWER COMPANY*

*By: Anthony R. James, President and Chief Executive Officer*

*By: Wayne Boston (Wayne Boston, Attorney-in-fact)*

*Date: March 1, 2004*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The signature of each of the undersigned shall be deemed to relate only to matters having reference to the above-named company and any subsidiaries thereof.

*Anthony R. James*
*President, Chief Executive Officer and Director*
*(Principal Executive Officer)*

*Kirby R. Willis*
*Vice President, Treasurer and Chief Financial Officer*
*(Principal Financial and Accounting Officer)*

*Directors:*

| | |
|---|---|
| *Gus H. Bell, III* | *Robert B. Miller, III* |
| *Archie H. Davis* | *Arnold M. Tenenbaum* |
| *Walter D. Gnann* | |

*By: Wayne Boston (Wayne Boston, Attorney-in-fact)*

*Date: March 1, 2004*

## SOUTHERN POWER COMPANY

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: William P. Bowers, President and Chief Executive Officer*

*By: Wayne Boston (Wayne Boston, Attorney-in-fact)*

*Date: March 1, 2004*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The signature of each of the undersigned shall be deemed to relate only to matters having reference to the above-named company and any subsidiaries thereof.

*William P. Bowers*
*President, Chief Executive Officer and Director*
*(Principal Executive Officer)*

*Cliff S. Thrasher*
*Senior Vice President, Comptroller and*
*Chief Financial Officer*
*(Principal Financial and Accounting Officer)*

*Directors:*

| | |
|---|---|
| *Thomas A. Fanning* | *Charles D. McCrary* |
| *H. Allen Franklin* | *David M. Ratcliffe* |

*By: Wayne Boston (Wayne Boston, Attorney-in-fact)*

*Date: March 1, 2004*

Deloitte.

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Stockholders of
Southern Company:

We have audited the consolidated financial statements of Southern Company and Subsidiary Companies as of December 31, 2003 and 2002, and for the years then ended, and have issued our report thereon dated March 1, 2004 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the change in the method of accounting for asset retirement obligations); such consolidated financial statements and report are included elsewhere in this Form 10-K. Our audit also included the 2003 and 2002 consolidated financial statement schedules of Southern Company and Subsidiary Companies (page S-2) listed in the accompanying index at Item 15. These financial statement schedules are the responsibility of Southern Company's management. Our responsibility is to express an opinion based on our audits. The 2001 consolidated financial statement schedule was audited by other auditors who have ceased operations. Those auditors expressed an opinion, in their report dated February 13, 2002, that such 2001 consolidated financial statement schedule, when considered in relation to the 2001 basic consolidated financial statements taken as a whole, presented fairly, in all material respects, the information set forth therein. In our opinion, the 2003 and 2002 consolidated financial statement schedules, when considered in relation to the 2003 and 2002 basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

Deloitte & Touche LLP

Atlanta, Georgia
March 1, 2004



Member of
Deloitte Touche Tohmatsu

**THIS IS A COPY OF THE REPORT PREVIOUSLY ISSUED IN CONNECTION WITH THE SOUTHERN COMPANY'S 2001 ANNUAL REPORT AND HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP.**

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS AS TO SCHEDULE

To The Southern Company:

We have audited in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of The Southern Company and its subsidiaries included in this Form 10-K, and have issued our report thereon dated February 13, 2002. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed under Item 14(a)(2) herein as it relates to The Southern Company and its subsidiaries (page S-2) is the responsibility of The Southern Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

/s/ Arthur Andersen LLP

Atlanta, Georgia
February 13, 2002

Deloitte.

**INDEPENDENT AUDITORS' REPORT**

Alabama Power Company:

We have audited the financial statements of Alabama Power Company as of December 31, 2003 and 2002, and for the years then ended, and have issued our report thereon dated March 1, 2004 (which report expresses an unqualified opinion an includes and explanatory paragraph relating to the change in the method of accounting for asset retirement obligations); such financial statements and report are included elsewhere in this Form 10-K. Our audits also included the 2003 and 2002 financial statement schedules of Alabama Power Company (page S-3) listed in the accompanying index at Item 15. These financial statement schedules are the responsibility of Alabama Power Company's management. Our responsibility is to express an opinion based on our audits. The 2001 financial statement schedule was audited by other auditors who have ceased operations. Those auditors expressed an opinion, in their report dated February 13, 2002, that such 2001 financial statement schedule, when considered in relation to the 2001 basic financial statements taken as a whole, presented fairly, in all material respects, the information set forth therein. In our opinion, the 2003 and 2002 financial statement schedules, when considered in relation to the 2003 and 2002 basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

Deloitte & Touche LLP

Birmingham, Alabama
March 1, 2004



Member of
Deloitte Touche Tohmatsu

**THIS IS A COPY OF THE REPORT PREVIOUSLY ISSUED IN CONNECTION WITH ALABAMA POWER COMPANY'S 2001 ANNUAL REPORT AND HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP.**

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS AS TO SCHEDULE

To Alabama Power Company:

We have audited in accordance with auditing standards generally accepted in the United States, the financial statements of Alabama Power Company included in this Form 10-K, and have issued our report thereon dated February 13, 2002. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed under Item 14(a)(2) herein as it relates to Alabama Power Company (page S-3) is the responsibility of Alabama Power Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

Birmingham, Alabama
February 13, 2002

Deloitte.

## INDEPENDENT AUDITORS' REPORT

Georgia Power Company:

We have audited the financial statements of Georgia Power Company as of December 31, 2003 and 2002, and for the years then ended, and have issued our report thereon dated March 1, 2004 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the change in the method of accounting for asset retirement obligations); such financial statements and report are included elsewhere in this Form 10-K. Our audits also included the 2003 and 2002 financial statement schedules of Georgia Power Company (page S-4) listed in the accompanying index at Item 15. These financial statement schedules are the responsibility of Georgia Power Company's management. Our responsibility is to express an opinion based on our audits. The 2001 financial statement schedule was audited by other auditors who have ceased operations. Those auditors expressed an opinion, in their report dated February 13, 2002, that such 2001 financial statement schedule, when considered in relation to the 2001 basic financial statements taken as a whole, presented fairly, in all material respects, the information set forth therein. In our opinion, the 2003 and 2002 financial statement schedules, when considered in relation to the 2003 and 2002 basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

Deloitte & Touche LLP

Atlanta, Georgia
March 1, 2004



Member of
Deloitte Touche Tohmatsu

**THIS IS A COPY OF THE REPORT PREVIOUSLY ISSUED IN CONNECTION WITH GEORGIA POWER COMPANY'S 2001 ANNUAL REPORT AND HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP.**

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS AS TO SCHEDULE

To Georgia Power Company:

We have audited in accordance with auditing standards generally accepted in the United States, the financial statements of Georgia Power Company included in this Form 10-K, and have issued our report thereon dated February 13, 2002. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed under Item 14(a)(2) herein as it relates to Georgia Power Company (page S-4) is the responsibility of Georgia Power Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

Atlanta, Georgia
February 13, 2002

Deloitte.

**INDEPENDENT AUDITORS' REPORT**

Gulf Power Company:

We have audited the financial statements of Gulf Power Company as of December 31, 2003 and 2002, and for the years then ended, and have issued our report thereon dated March 1, 2004 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the change in the method of accounting for asset retirement obligations); such financial statements and report are included elsewhere in this Form 10-K. Our audits also included the 2003 and 2002 financial statement schedules of Gulf Power Company (page S-5) listed in the accompanying index at Item 15. These financial statement schedules are the responsibility of Gulf Power Company's management. Our responsibility is to express an opinion based on our audits. The 2001 financial statement schedule was audited by other auditors who have ceased operations. Those auditors expressed an opinion, in their report dated February 13, 2002, that such 2001 financial statement schedule, when considered in relation to the 2001 basic financial statements taken as a whole, presented fairly, in all material respects, the information set forth therein. In our opinion, the 2003 and 2002 financial statement schedules, when considered in relation to the 2003 and 2002 basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

Deloitte & Touche LLP

Atlanta, Georgia
March 1, 2004



Member of
Deloitte Touche Tohmatsu

**THIS IS A COPY OF THE REPORT PREVIOUSLY ISSUED IN CONNECTION WITH GULF POWER COMPANY'S 2001 ANNUAL REPORT AND HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP.**

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS AS TO SCHEDULE

To Gulf Power Company:

We have audited in accordance with auditing standards generally accepted in the United States, the financial statements of Gulf Power Company included in this Form 10-K, and have issued our report thereon dated February 13, 2002. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed under Item 14(a)(2) herein as it relates to Gulf Power Company (page S-5) is the responsibility of Gulf Power Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

Atlanta, Georgia
February 13, 2002

Deloitte.

## INDEPENDENT AUDITORS' REPORT

Mississippi Power Company:

We have audited the financial statements of Mississippi Power Company as of December 31, 2003 and 2002, and for the years then ended, and have issued our report thereon dated March 1, 2004 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the change in the method of accounting for asset retirement obligations); such financial statements and report are included elsewhere in this Form 10-K. Our audits also included the 2003 and 2002 financial statement schedules of Mississippi Power Company (page S-6) listed in the accompanying index at Item 15. These financial statement schedules are the responsibility of Mississippi Power Company's management. Our responsibility is to express an opinion based on our audits. The 2001 financial statement schedule was audited by other auditors who have ceased operations. Those auditors expressed an opinion, in their report dated February 13, 2002, that such 2001 financial statement schedule, when considered in relation to the 2001 basic financial statements taken as a whole, presented fairly, in all material respects, the information set forth therein. In our opinion, the 2003 and 2002 financial statement schedules, when considered in relation to the 2003 and 2002 basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

Deloitte & Touche LLP

Atlanta, Georgia
March 1, 2004



Member of
Deloitte Touche Tohmatsu

**THIS IS A COPY OF THE REPORT PREVIOUSLY ISSUED IN CONNECTION WITH MISSISSIPPI POWER COMPANY'S 2001 ANNUAL REPORT AND HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP.**

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS AS TO SCHEDULE

To Mississippi Power Company:

We have audited in accordance with auditing standards generally accepted in the United States, the financial statements of Mississippi Power Company included in this Form 10-K, and have issued our report thereon dated February 13, 2002. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed under Item 14(a)(2) herein as it relates to Mississippi Power Company (page S-6) is the responsibility of Mississippi Power Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

Atlanta, Georgia
February 13, 2002

Deloitte.

**INDEPENDENT AUDITORS' REPORT**

Savannah Electric and Power Company:

We have audited the financial statements of Savannah Electric and Power Company as of December 31, 2003 and 2002, and for the years then ended, and have issued our report thereon dated March 1, 2004 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the change in the method of accounting for asset retirement obligations); such financial statements and report are included elsewhere in this Form 10-K. Our audits also included the 2003 and 2002 financial statement schedules of Savannah Electric and Power Company (page S-7) listed in the accompanying index at Item 15. These financial statement schedules are the responsibility of Savannah Electric and Power Company's management. Our responsibility is to express an opinion based on our audits. The 2001 financial statement schedule was audited by other auditors who have ceased operations. Those auditors expressed an opinion, in their report dated February 13, 2002, that such 2001 financial statement schedule, when considered in relation to the 2001 basic financial statements taken as a whole, presented fairly, in all material respects, the information set forth therein. In our opinion, the 2003 and 2002 financial statement schedules, when considered in relation to the 2003 and 2002 basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

Deloitte & Touche LLP

Atlanta, Georgia
March 1, 2004



Member of
Deloitte Touche Tohmatsu

**THIS IS A COPY OF THE REPORT PREVIOUSLY ISSUED IN CONNECTION WITH SAVANNAH ELECTRIC AND POWER COMPANY'S 2001 ANNUAL REPORT AND HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP.**

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS AS TO SCHEDULE

To Savannah Electric and Power Company:

We have audited in accordance with auditing standards generally accepted in the United States, the financial statements of Savannah Electric and Power Company included in this Form 10-K, and have issued our report thereon dated February 13, 2002. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed under Item 14(a)(2) herein as it relates to Savannah Electric and Power Company (page S-7) is the responsibility of Savannah Electric and Power Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

Atlanta, Georgia
February 13, 2002

Deloitte.

## INDEPENDENT AUDITORS' REPORT

Southern Power Company

We have audited the financial statements of Southern Power Company as of December 31, 2003 and 2002, and for the years then ended and for the period from January 8, 2001 (inception) to December 31, 2001, and have issued our report thereon dated March 1, 2004; such financial statements and report are included elsewhere in this Form 10-K. Our audits also included the financial statement schedules of Southern Power Company (page S-8), listed in the accompanying index at Item 15. These financial statement schedules are the responsibility of Southern Power Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

Deloitte & Touche LLP

Atlanta, Georgia
March 1, 2004



Member of
Deloitte Touche Tohmatsu

[This page intentionally left blank]

## INDEX TO FINANCIAL STATEMENT SCHEDULES


| Schedule | | Page |
|---|---|---|
| II | Valuation and Qualifying Accounts and Reserves 2003, 2002 and 2001 | |
| | The Southern Company and Subsidiary Companies | S-2 |
| | Alabama Power Company | S-3 |
| | Georgia Power Company | S-4 |
| | Gulf Power Company | S-5 |
| | Mississippi Power Company | S-6 |
| | Savannah Electric and Power Company | S-7 |
| | Southern Power Company | S-8 |


Schedules I through V not listed above are omitted as not applicable or not required. Columns omitted from schedules filed have been omitted because the information is not applicable or not required.

**THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES**
**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS**
**FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001**
*(Stated in Thousands of Dollars)*

| Description | Balance at Beginning of Period | Additions: Charged to Income | Additions: Charged to Other Accounts | Deductions | Balance at End of Period |
|---|---|---|---|---|---|
| Provision for uncollectible accounts | | | | | |
| 2003 | $26,428 | $56,332 | $14,901 | $67,506 (b) | $30,155 |
| 2002 | 24,383 | 40,313 | 5,961 (a) | 44,229 (b) | 26,428 |
| 2001 | 21,799 | 44,272 | 269 | 41,957 (b) | 24,383 |

(a) *Included in this amount are uncollectible accounts acquired by Southern GAS through its June 2002 purchase of certain assets of The New Power Company.*

(b) *Represents write-off of accounts considered to be uncollectible, less recoveries of amounts previously written off.*

**ALABAMA POWER COMPANY**
**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS**
**FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001**
*(Stated in Thousands of Dollars)*

| Description | Balance at Beginning of Period | Additions: Charged to Income | Additions: Charged to Other Accounts | Deductions | Balance at End of Period |
|---|---|---|---|---|---|
| Provision for uncollectible accounts | | | | | |
| 2003 | $4,827 | $13,444 | $- | $13,515 (Note) | $4,756 |
| 2002 | 5,237 | 10,804 | - | 11,214 (Note) | 4,827 |
| 2001 | 6,237 | 7,419 | - | 8,419 (Note) | 5,237 |

Note: *Represents write-off of accounts considered to be uncollectible, less recoveries of amounts previously written off.*

**GEORGIA POWER COMPANY**
**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS**
**FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001**
*(Stated in Thousands of Dollars)*

| Description | Balance at Beginning of Period | Additions: Charged to Income | Additions: Charged to Other Accounts | Deductions | Balance at End of Period |
|---|---|---|---|---|---|
| Provision for uncollectible accounts | | | | | |
| 2003 | $5,825 | $15,577 | $- | $16,052 (Note) | $5,350 |
| 2002 | 8,895 | 14,117 | - | 17,187 (Note) | 5,825 |
| 2001 | 5,100 | 22,913 | - | 19,118 (Note) | 8,895 |

Note: *Represents write-off of accounts considered to be uncollectible, less recoveries of amounts previously written off.*

**GULF POWER COMPANY**
**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS**
**FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001**
*(Stated in Thousands of Dollars)*

| Description | Balance at Beginning of Period | Additions: Charged to Income | Additions: Charged to Other Accounts | Deductions | Balance at End of Period |
|---|---|---|---|---|---|
| Provision for uncollectible accounts | | | | | |
| 2003 | $889 | $2,122 | $- | $2,064 (Note) | $947 |
| 2002 | 1,342 | 1,620 | - | 2,073 (Note) | 889 |
| 2001 | 1,302 | 2,282 | - | 2,242 (Note) | 1,342 |

Note: *Represents write-off of accounts considered to be uncollectible, less recoveries of amounts previously written off.*

**MISSISSIPPI POWER COMPANY**
**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS**
**FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001**
*(Stated in Thousands of Dollars)*

| Description | Balance at Beginning of Period | Additions: Charged to Income | Additions: Charged to Other Accounts | Deductions | Balance at End of Period |
|---|---|---|---|---|---|
| Provision for uncollectible accounts | | | | | |
| 2003 | $718 | $1,947 | $135 | $1,903 (Note) | $897 |
| 2002 | 856 | 2,045 | 7 | 2,190 (Note) | 718 |
| 2001 | 571 | 2,877 | (165) | 2,427 (Note) | 856 |

Note: *Represents write-off of accounts considered to be uncollectible, less recoveries of amounts previously written off.*

**SAVANNAH ELECTRIC AND POWER COMPANY**
**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS**
**FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001**
*(Stated in Thousands of Dollars)*

| Description | Balance at Beginning of Period | Additions: Charged to Income | Additions: Charged to Other Accounts | Deductions | Balance at End of Period |
|---|---|---|---|---|---|
| Provision for uncollectible accounts | | | | | |
| 2003 | $682 | $ 784 | $- | $825 (Note) | $641 |
| 2002 | 500 | 1,137 | - | 955 (Note) | 682 |
| 2001 | 407 | 978 | - | 885 (Note) | 500 |

Note: *Represents write-off of accounts receivable considered to be uncollectible, less recoveries of amounts previously written off.*

**SOUTHERN POWER COMPANY**
**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS**
**FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001**
*(Stated in Thousands of Dollars)*

| Description | Balance at Beginning of Period | Additions: Charged to Income | Additions: Charged to Other Accounts | Deductions | Balance at End of Period |
|---|---|---|---|---|---|
| Provision for uncollectible accounts | | | | | |
| 2003 | $350 | $ - | $- | $- | $350 |
| 2002 | - | 350 | - | - | 350 |
| 2001 | - | - | - | - | - |

## EXHIBIT INDEX

The following exhibits indicated by an asterisk (*) preceding the exhibit number are filed herewith. The balance of the exhibits have heretofore been filed with the SEC as the exhibits and in the file numbers indicated and are incorporated herein by reference. The exhibits marked with a pound sign (#) are management contracts or compensatory plans or arrangements required to be identified as such by Item 15 of Form 10-K.

**(3) Articles of Incorporation and By-Laws**

**Southern Company**

(a) 1 - Composite Certificate of Incorporation of Southern Company, reflecting all amendments thereto through January 5, 1994. (Designated in Registration No. 33-3546 as Exhibit 4(a), in Certificate of Notification, File No. 70-7341, as Exhibit A and in Certificate of Notification, File No. 70-8181, as Exhibit A.)

(a) 2 - By-laws of Southern Company as amended effective February 17, 2003, and as presently in effect. (Designated in Southern Company's Form 10-Q for the quarter ended June 30, 2003, File No. 1-3526, as Exhibit 3(a)1.)

**Alabama Power**

(b) 1 - Charter of Alabama Power and amendments thereto through February 17, 2004. (Designated in Registration Nos. 2-59634 as Exhibit 2(b), 2-60209 as Exhibit 2(c), 2-60484 as Exhibit 2(b), 2-70838 as Exhibit 4(a)-2, 2-85987 as Exhibit 4(a)-2, 33-25539 as Exhibit 4(a)-2, 33-43917 as Exhibit 4(a)-2, in Form 8-K dated February 5, 1992, File No. 1-3164, as Exhibit 4(b)-3, in Form 8-K dated July 8, 1992, File No. 1-3164, as Exhibit 4(b)-3, in Form 8-K dated October 27, 1993, File No. 1-3164, as Exhibits 4(a) and 4(b), in Form 8-K dated November 16, 1993, File No. 1-3164, as Exhibit 4(a), in Certificate of Notification, File No. 70-8191, as Exhibit A, in Alabama Power's Form 10-K for the year ended December 31, 1997, File No. 1-3164, as Exhibit 3(b)2, in Form 8-K dated August 10, 1998, File No. 1-3164, as Exhibit 4.4, in Alabama Power's Form 10-K for the year ended December 31, 2000, File No. 1-3164, as Exhibit 3(b)2, in Alabama Power's Form 10-K for the year ended December 31, 2001, File No. 1-3164, as Exhibit 3(b)2, in Form 8-K dated February 5, 2003, File No. 1-3164, as Exhibit 4.4, in Alabama Power's Form 10-Q for the quarter ended March 31, 2003, File No 1-3164, as Exhibit 3(b)1 and in Form 8-K dated February 5, 2004, File No. 1-3164 as Exhibit 4.4.)

(b) 2 - By-laws of Alabama Power as amended effective April 25, 2003, and as presently in effect. (Designated in Alabama Power's Form 10-Q for the quarter ended March 31, 2003, File No 1-3164, as Exhibit 3(b)2.)

**Georgia Power**

(c) 1 - Charter of Georgia Power and amendments thereto through January 16, 2001. (Designated in Registration Nos. 2-63392 as Exhibit 2(a)-2, 2-78913 as Exhibits 4(a)-(2) and 4(a)-(3), 2-93039 as Exhibit 4(a)-(2), 2-96810 as Exhibit 4(a)-2, 33-141 as Exhibit 4(a)-(2), 33-1359 as Exhibit 4(a)(2), 33-5405 as Exhibit 4(b)(2), 33-14367 as Exhibits 4(b)-(2) and 4(b)-(3), 33-22504 as Exhibits 4(b)-(2), 4(b)-(3) and 4(b)-(4), in Georgia Power's Form 10-K for the year ended December 31, 1991, File No. 1-6468, as Exhibits 4(a)(2) and 4(a)(3), in Registration No. 33-48895 as Exhibits 4(b)-(2) and 4(b)-(3), in Form 8-K dated December 10, 1992, File No. 1-6468 as Exhibit 4(b), in Form 8-K dated June 17, 1993, File No. 1-6468, as Exhibit 4(b), in Form 8-K dated October 20, 1993, File No. 1-6468, as Exhibit 4(b), in Georgia Power's Form 10-K for the year ended December 31, 1997, File No. 1-6468, as Exhibit 3(c)2 and in Georgia Power's Form 10-K for the year ended December 31, 2000, File No. 1-6468, as Exhibit 3(c)2.)

(c) 2 - By-laws of Georgia Power as amended effective February 19, 2003, and as presently in effect. (Designated in Georgia Power's Form 10-K for the year ended December 31, 2002, File No 1-6468, as Exhibit 3(c)2.)

**Gulf Power**

(d) 1 - Restated Articles of Incorporation of Gulf Power and amendments thereto through February 9, 2001. (Designated in Registration No. 33-43739 as Exhibit 4(b)-1, in Form 8-K dated January 15, 1992, File No. 0-2429, as Exhibit 1(b), in Form 8-K dated August 18, 1992, File No. 0-2429, as Exhibit 4(b)-2, in Form 8-K dated September 22, 1993, File No. 0-2429, as Exhibit 4, in Form 8-K dated November 3, 1993, File No. 0-2429, as Exhibit 4, in Gulf Power's Form 10-K for the year ended December 31, 1997, File No. 0-2429, as Exhibit 3(d)2 and in Gulf Power's Form 10-K for the year ended December 31, 2000, File No. 0-2429, as Exhibit 3(d)2.)

(d) 2 - By-laws of Gulf Power as amended effective July 26, 2002, and as presently in effect. (Designated in Gulf Power's Form 10-K for the year ended December 31, 2002, File No 0-2429, as Exhibit 3(d)2.)

**Mississippi Power**

(e) 1 - Articles of Incorporation of Mississippi Power, articles of merger of Mississippi Power Company (a Maine corporation) into Mississippi Power and articles of amendment to the articles of incorporation of Mississippi Power through March 8, 2001. (Designated in Registration No. 2-71540 as Exhibit 4(a)-1, in Form U5S for 1987, File No. 30-222-2, as Exhibit B-10, in Registration No. 33-49320 as Exhibit 4(b)-(1), in Form 8-K dated August 5, 1992, File No. 0-6849, as Exhibits 4(b)-2 and 4(b)-3, in Form 8-K dated August 4, 1993, File No. 0-6849, as Exhibit 4(b)-3, in Form 8-K dated August 18, 1993, File No. 0-6849, as Exhibit 4(b)-3, in Mississippi Power's Form 10-K for the year ended December 31, 1997, File No. 0-6849, as Exhibit 3(e)2 and in Mississippi Power's Form 10-K for the year ended December 31, 2000, File No. 0-6849, as Exhibit 3(e)2.)

(e) 2 - By-laws of Mississippi Power as amended effective February 28, 2001, and as presently in effect. (Designated in Mississippi Power's Form 10-K for the year ended December 31, 2001, File No. 0-6849, as Exhibit 3(e)2.)

**Savannah Electric**

(f) 1 - Charter of Savannah Electric and amendments thereto through December 2, 1998. (Designated in Registration Nos. 33-25183 as Exhibit 4(b)-(1), 33-45757 as Exhibit 4(b)-(2), in Form 8-K dated November 9, 1993, File No. 1-5072, as Exhibit 4(b) and in Savannah Electric's Form 10-K for the year ended December 31, 1998, as Exhibit 3(f)2.)

(f) 2 - By-laws of Savannah Electric as amended effective May 17, 2000, and as presently in effect. (Designated in Savannah Electric's Form 10-K for the year ended December 31, 2000, File No. 1-5072, as Exhibit 3(f)2.)

**Southern Power**

(g) 1 - Certificate of Incorporation of Southern Power dated January 8, 2001. (Designated in Registration No. 333-98553 as Exhibit 3.1.)

(g) 2 - Bylaws of Southern Power effective January 8, 2001. (Designated in Registration No. 333-98553 as Exhibit 3.2.)

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

**Southern Company**

(a) 1 - Subordinated Note Indenture dated as of February 1, 1997, among Southern Company, Southern Company Capital Funding, Inc. and Deutsche Bank Trust Company Americas (formerly known as Bankers Trust Company), as Trustee, and indentures supplemental thereto dated as of February 4, 1997. (Designated in Registration Nos. 333-28349 as Exhibits 4.1 and 4.2 and 333-28355 as Exhibit 4.2.)

(a) 2 - Subordinated Note Indenture dated as of June 1, 1997, among Southern Company, Southern Company Capital Funding, Inc. and Deutsche Bank Trust Company Americas (formerly known as Bankers Trust Company), as Trustee, and indentures supplemental thereto through July 31, 2002. (Designated in Southern Company's Form 10-K for the year ended December 31, 1997, File No. 1-3526, as Exhibit (4)(a)2, in Form 8-K dated June 18, 1998, File No. 1-3526, as Exhibit 4.2, in Form 8-K dated December 18, 1998, File No. 1-3526, as Exhibit 4.4 and in Form 8-K dated July 24, 2002, File No. 1-3526, as Exhibit 4.4.)

(a) 3 - Senior Note Indenture dated as of February 1, 2002, among Southern Company, Southern Company Capital Funding, Inc. and The Bank of New York, as Trustee, and indentures supplemental thereto through those dated February 1, 2002. (Designated in Form 8-K dated January 29, 2002, File No. 1-3526, as Exhibits 4.1 and 4.2 and in Form 8-K dated January 30, 2002, File No. 1-3526, as Exhibit 4.2.)

(a) 4 - Amended and Restated Trust Agreement of Southern Company Capital Trust I dated as of February 1, 1997. (Designated in Registration No. 333-28349 as Exhibit 4.6.)

(a) 5 - Amended and Restated Trust Agreement of Southern Company Capital Trust II dated as of February 1, 1997. (Designated in Registration No. 333-28355 as Exhibit 4.6.)

(a) 6 - Amended and Restated Trust Agreement of Southern Company Capital Trust VI dated as of July 1, 2002. (Designated in Form 8-K dated July 24, 2002, File No. 1-3526, as Exhibit 4.7-A.)

(a) 7 - Capital Securities Guarantee Agreement relating to Southern Company Capital Trust I dated as of February 1, 1997. (Designated in Registration No. 333-28349 as Exhibit 4.10.)

(a) 8 - Capital Securities Guarantee Agreement relating to Southern Company Capital Trust II dated as of February 1, 1997. (Designated in Registration No. 333-28355 as Exhibit 4.10.)

(a) 9 - Preferred Securities Guarantee Agreement relating to Southern Company Capital Trust VI dated as of July 1, 2002. (Designated in Form 8-K dated July 24, 2002, File No. 1-3526, as Exhibit 4.11-A.)

**Alabama Power**

(b) 1 - Indenture dated as of January 1, 1942, between Alabama Power and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee, and indentures supplemental thereto through December 1, 1994. (Designated in Registration Nos. 2-59843 as Exhibit 2(a)-2, 2-60484 as Exhibits 2(a)-3 and 2(a)-4, 2-60716 as Exhibit 2(c), 2-67574 as Exhibit 2(c), 2-68687 as Exhibit 2(c), 2-69599 as Exhibit 4(a)-2, 2-71364 as Exhibit 4(a)-2, 2-73727 as Exhibit 4(a)-2, 33-5079 as Exhibit 4(a)-2, 33-17083 as Exhibit 4(a)-2, 33-22090 as Exhibit 4(a)-2, in Alabama Power's Form 10-K for the year ended December 31, 1990, File No. 1-3164, as Exhibit 4(c), in Registration Nos. 33-43917 as Exhibit 4(a)-2, 33-45492 as Exhibit 4(a)-2, 33-48885 as Exhibit 4(a)-2, 33-48917 as Exhibit 4(a)-2, in Form 8-K dated January 20, 1993, File No. 1-3164, as Exhibit 4(a)-3, in Form 8-K dated February 17, 1993, File No. 1-3164, as Exhibit 4(a)-3, in Form 8-K dated March 10, 1993, File No. 1-3164, as Exhibit 4(a)-3, in Certificate of Notification, File No. 70-8069, as Exhibits A and B, in Form 8-K dated June 24, 1993, File No. 1-3164, as Exhibit 4, in Certificate of Notification, File No. 70-8069, as Exhibit A, in Form 8-K dated November 16, 1993, File No. 1-3164, as Exhibit 4(b), in Certificate of Notification, File No. 70-8069, as Exhibits A and B, in Certificate of Notification, File No. 70-8069, as Exhibit A, in Certificate of Notification, File No. 70-8069, as Exhibit A and in Form 8-K dated November 30, 1994, File No. 1-3164, as Exhibit 4.)

(b) 2 - Subordinated Note Indenture dated as of January 1, 1996, between Alabama Power and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee, and indenture supplemental thereto dated as of January 1, 1996. (Designated in Certificate of Notification, File No. 70-8461, as Exhibits E and F.)

* (b) 3 - Satisfaction and Discharge of Subordinated Note Indenture dated as of April 30, 2003 by JPMorgan Chase Bank, as Trustee, to Alabama Power related to discharging Alabama Power's Subordinated Note Indenture dated as of January 1, 1996, between Alabama Power and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee, and indenture supplemental thereto dated as of January 1, 1996.

(b) 4 - Subordinated Note Indenture dated as of January 1, 1997, between Alabama Power and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee, and indentures supplemental thereto through October 2, 2002. (Designated in Form 8-K dated January 9, 1997, File No. 1-3164, as Exhibits 4.1 and 4.2, in Form 8-K dated February 18, 1999, File No. 3164, as Exhibit 4.2 and , in Form 8-K dated September 26, 2002, File No. 3164, as Exhibits 4.9-A and 4.9-B.)

(b) 5 - Senior Note Indenture dated as of December 1, 1997, between Alabama Power and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee, and indentures supplemental thereto through February 17, 2004. (Designated in Form 8-K dated December 4, 1997, File No. 1-3164, as Exhibits 4.1 and 4.2, in Form 8-K dated February 20, 1998, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated April 17, 1998, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated August 11, 1998, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated September 8, 1998, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated September 16, 1998, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated October 7, 1998, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated October 28, 1998, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated November 12, 1998, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated May 19, 1999, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated August 13, 1999, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated September 21, 1999, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated May 11, 2000, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated August 22, 2001, File No. 1-3164, as Exhibits 4.2(a) and 4.2(b), in Form 8-K dated June 21, 2002, File No. 1-3164, as Exhibit 4.2(a), in Form 8-K dated October 16, 2002, File No. 1-3164, as Exhibit 4.2(a), in Form 8-K dated November 20, 2002, File No. 1-3164, as Exhibit 4.2(a), in Form 8-K dated December 6, 2002, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated February 11, 2003, File No. 1-3164, as Exhibits 4.2(a) and 4.2(b), in Form 8-K dated March 12, 2003, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated April 15, 2003, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated May 1, 2003, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated November 14, 2003, File No. 1-3164, as Exhibit 4.2 and in Form 8-K dated February 10, 2004, File No. 1-3164, as Exhibit 4.2.)

(b) 6 - Amended and Restated Trust Agreement of Alabama Power Capital Trust IV dated as of September 1, 2002. (Designated in Form 8-K dated September 26, 2002, File No. 1-3164, as Exhibit 4.12-A.)

(b) 7 - Amended and Restated Trust Agreement of Alabama Power Capital Trust V dated as of September 1, 2002. (Designated in Form 8-K dated September 26, 2002, File No. 1-3164, as Exhibit 4.12-B.)

(b) 8 - Guarantee Agreement relating to Alabama Power Capital Trust IV dated as of September 1, 2002. (Designated in Form 8-K dated September 26, 2002, File No. 1-3164, as Exhibit 4.16-A.)

(b) 9 - Guarantee Agreement relating to Alabama Power Capital Trust V dated as of September 1, 2002. (Designated in Form 8-K dated September 26, 2002, File No. 1-3164, as Exhibit 4.16-B.)

**Georgia Power**

(c) 1 - Subordinated Note Indenture dated as of August 1, 1996, between Georgia Power and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee, and indentures supplemental thereto through January 1, 1997. (Designated in Form 8-K dated August 21, 1996, File No. 1-6468, as Exhibits 4.1 and 4.2 and in Form 8-K dated January 9, 1997, File No. 1-6468, as Exhibit 4.2.)

(c) 2 - Subordinated Note Indenture dated as of June 1, 1997, between Georgia Power and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee, and indentures supplemental thereto through January 23, 2004. (Designated in Certificate of Notification, File No. 70-8461, as Exhibits D and E, in Form 8-K dated February 17, 1999, File No. 1-6468, as Exhibit 4.4, in Form 8-K dated June 13, 2002, File No. 1-6468, as Exhibit 4.4, in Form 8-K dated October 30, 2002, File No. 1-6468, as Exhibit 4.4 and in Form 8-K dated January 15, 2004, File No. 1-6468, as Exhibit 4.4.)

(c) 3 - Senior Note Indenture dated as of January 1, 1998, between Georgia Power and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee, and indentures supplemental thereto through February 17, 2004. (Designated in Form 8-K dated January 21, 1998, File No. 1-6468, as Exhibits 4.1 and 4.2, in Forms 8-K each dated November 19, 1998, File No. 1-6468, as Exhibit 4.2, in Form 8-K dated March 3, 1999, File No. 1-6469 as Exhibit 4.2, in Form 8-K dated February 15, 2000, File No. 1-6469 as Exhibit 4.2, in Form 8-K dated January 26, 2001, File No. 1-6469 as Exhibits 4.2(a) and 4.2(b), in Form 8-K dated February 16, 2001, File No. 1-6469 as Exhibit 4.2, in Form 8-K dated May 1, 2001, File No. 1-6468, as Exhibit 4.2, in Form 8-K dated June 27, 2002, File No. 1-6468, as Exhibit 4.2, in Form 8-K dated November 15, 2002, File No. 1-6468, as Exhibit 4.2, in Form 8-K dated February 13, 2003, File No. 1-6468, as Exhibit 4.2, in Form 8-K dated February 21, 2003, File No. 1-6468, as Exhibit 4.2, in Form 8-K dated April 10, 2003, File No. 1-6468, as Exhibits 4.1, 4.2 and 4.3, in Form 8-K dated September 8, 2003, File No. 1-6468, as Exhibit 4.1, in Form 8-K dated September 23, 2003, File No. 1-6468, as Exhibit 4.1, in Form 8-K dated January 12, 2004, File No. 1-6468, as Exhibits 4.1 and 4.2 and in Form 8-K dated February 12, 2004, File No. 1-6468, as Exhibit 4.1.)

(c) 4 - Amended and Restated Trust Agreement of Georgia Power Capital Trust IV dated as of February 1, 1999. (Designated in Form 8-K dated February 17, 1999, as Exhibit 4.7-A)

(c) 5 - Amended and Restated Trust Agreement of Georgia Power Capital Trust V dated as of June 1, 2002. (Designated in Form 8-K dated June 13, 2002, as Exhibit 4.7-A.)

(c) 6 - Amended and Restated Trust Agreement of Georgia Power Capital Trust VI dated as of November 1, 2002. (Designated in Form 8-K dated October 30, 2002, as Exhibit 4.7-A.)

(c) 7 - Amended and Restated Trust Agreement of Georgia Power Capital Trust VII dated as of January 1, 2004. (Designated in Form 8-K dated January 15, 2004, as Exhibit 4.7-A.)

(c) 8 - Guarantee Agreement relating to Georgia Power Capital Trust IV dated as of February 1, 1999. (Designated in Form 8-K dated February 17, 1999, as Exhibit 4.11-A.)

(c) 9 - Guarantee Agreement relating to Georgia Power Capital Trust V dated as of June 1, 2002. (Designated in Form 8-K dated June 13, 2002, as Exhibit 4.11-A.)

(c) 10 - Guarantee Agreement relating to Georgia Power Capital Trust VI dated as of November 1, 2002. (Designated in Form 8-K dated October 30, 2002, as Exhibit 4.11-A.)

(c) 11 - Guarantee Agreement relating to Georgia Power Capital Trust VII dated as of January 1, 2004. (Designated in Form 8-K dated January 15, 2004, as Exhibit 4.11-A.)

**Gulf Power**

(d) 1 - Indenture dated as of September 1, 1941, between Gulf Power and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee, and indentures supplemental thereto through November 1, 1996. (Designated in Registration Nos. 2-4833 as Exhibit B-3, 2-62319 as Exhibit 2(a)-3, 2-63765 as Exhibit 2(a)-3, 2-66260 as Exhibit 2(a)-3, 33-2809 as Exhibit 4(a)-2, 33-43739 as Exhibit 4(a)-2, in Gulf Power's Form 10-K for the year ended December 31, 1991, File No. 0-2429, as Exhibit 4(b), in Form 8-K dated August 18, 1992, File No. 0-2429, as Exhibit 4(a)-3, in Registration No. 33-50165 as Exhibit 4(a)-2, in Form 8-K dated July 12, 1993, File No. 0-2429, as Exhibit 4, in Certificate of Notification, File No. 70-8229, as Exhibit A, in Certificate of Notification, File No. 70-8229, as Exhibits E and F, in Form 8-K dated January 17, 1996, File No. 0-2429, as Exhibit 4, in Certificate of Notification, File No. 70-8229, as Exhibit A, in Certificate of Notification, File No. 70-8229, as Exhibit A and in Form 8-K dated November 6, 1996, File No. 0-2429, as Exhibit 4.)

(d) 2 - Subordinated Note Indenture dated as of January 1, 1997, between Gulf Power and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee, and indentures supplemental thereto through December 13, 2002. (Designated in Form 8-K dated January 27, 1997, File No. 0-2429, as Exhibits 4.1 and 4.2, in Form 8-K dated July 28, 1997, File No. 0-2429, as Exhibit 4.2, in Form 8-K dated January 13, 1998, File No. 0-2429, as Exhibit 4.2, in Form 8-K dated November 8, 2001, File No. 0-2429, as Exhibit 4.2 and in Form 8-K dated December 5, 2002, File No. 0-2429, as Exhibit 4.2.)

(d) 3 - Senior Note Indenture dated as of January 1, 1998, between Gulf Power and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee, and indentures supplemental thereto through September 16, 2003. (Designated in Form 8-K dated June 17, 1998, File No. 0-2429, as Exhibits 4.1 and 4.2, in Form 8-K dated August 17, 1999, File No. 0-2429, as Exhibit 4.2, in Form 8-K dated July 31, 2001, File No. 0-2429, as Exhibit 4.2, in Form 8-K dated October 5, 2001, File No. 0-2429, as Exhibit 4.2, in Form 8-K dated January 18, 2002, File No. 0-2429, as Exhibit 4.2, in Form 8-K dated March 21, 2003, File No. 0-2429, as Exhibit 4.2, in Form 8-K dated July 10, 2003, File No. 0-2429, as Exhibits 4.1 and 4.2 and in Form 8-K dated September 5, 2003, File No. 0-2429, as Exhibit 4.1.)

(d) 4 - Amended and Restated Trust Agreement of Gulf Power Capital Trust III dated as of November 1, 2001. (Designated in Form 8-K dated November 8, 2001, File No. 0-2429, as Exhibit 4.5.)

(d) 5 - Amended and Restated Trust Agreement of Gulf Power Capital Trust IV dated as of December 1, 2002. (Designated in Form 8-K dated December 5, 2002, File No. 0-2429, as Exhibit 4.5.)

(d) 6 - Guarantee Agreement relating to Gulf Power Capital Trust III dated as of November 1, 2001. (Designated in Form 8-K dated November 8, 1998, File No. 0-2429, as Exhibit 4.8.)

(d) 7 - Guarantee Agreement relating to Gulf Power Capital Trust IV dated as of December 1, 2002. (Designated in Form 8-K dated December 5, 2002, File No. 0-2429, as Exhibit 4.8.)

**Mississippi Power**

(e) 1 - Indenture dated as of September 1, 1941, between Mississippi Power and Deutsche Bank Trust Company Americas (formerly known as Bankers Trust Company), as Successor Trustee, and indentures supplemental thereto through December 1, 1995. (Designated in Registration Nos. 2-4834 as Exhibit B-3, 2-62965 as Exhibit 2(b)-2, 2-66845 as Exhibit 2(b)-2, 2-71537 as Exhibit 4(a)-(2), 33-5414 as Exhibit 4(a)-(2), 33-39833 as Exhibit 4(a)-2, in Mississippi Power's Form 10-K for the year ended December 31, 1991, File No. 0-6849, as Exhibit 4(b), in Form 8-K dated August 5, 1992, File No. 0-6849, as Exhibit 4(a)-2, in Second Certificate of Notification, File No. 70-7941, as Exhibit I, in Mississippi Power's Form 8-K dated February 26, 1993, File No. 0-6849, as Exhibit 4(a)-2, in Certificate of Notification, File No. 70-8127, as Exhibit A, in Form 8-K dated June 22, 1993, File No. 0-6849, as Exhibit 1, in Certificate of Notification, File No. 70-8127, as

Exhibit A, in Form 8-K dated March 8, 1994, File No. 0-6849, as Exhibit 4, in Certificate of Notification, File No. 70-8127, as Exhibit C and in Form 8-K dated December 5, 1995, File No. 0-6849, as Exhibit 4.)

(e) 2 - Senior Note Indenture dated as of May 1, 1998 between Mississippi Power and Deutsche Bank Trust Company Americas (formerly known as Bankers Trust Company), as Trustee and indentures supplemental thereto through April 29, 2003. (Designated in Form 8-K dated May 14, 1998, File No. 0-6849, as Exhibits 4.1, 4.2(a) and 4.2(b), in Form 8-K dated March 22, 2000, File No. 0-6849, as Exhibit 4.2, in Form 8-K dated March 12, 2002, File No. 0-6849, as Exhibit 4.2 and in Form 8-K dated April 24, 2003, File No. 001-11229, as Exhibit 4.2.)

(e) 3 - Subordinated Note Indenture dated as of February 1, 1997, between Mississippi Power and Deutsche Bank Trust Company Americas (formerly known as Bankers Trust Company), as Trustee, and indenture supplemental thereto dated as of March 22, 2002. (Designated in Form 8-K dated February 20, 1997, File No. 0-6849, as Exhibits 4.1 and 4.2 and in Form 8-K dated March 15, 2002, File No. 0-6849, as Exhibit 4.5.)

(e) 4 - Amended and Restated Trust Agreement of Mississippi Power Capital Trust II dated as of March 1, 2002. (Designated in Form 8-K dated March 15, 2002, File No. 0-6849, as Exhibit 4.5.)

(e) 5 - Guarantee Agreement relating to Mississippi Power Capital Trust II dated as of March 1, 2002. (Designated in Form 8-K dated March 15, 2002, File No. 0-6849, as Exhibit 4.8.)

**Savannah Electric**

(f) 1 - Indenture dated as of March 1, 1945, between Savannah Electric and The Bank of New York, as Trustee, and indentures supplemental thereto through May 1, 1996. (Designated in Registration Nos. 33-25183 as Exhibit 4(a)-(1), 33-41496 as Exhibit 4(a)-(2), 33-45757 as Exhibit 4(a)-(2), in Savannah Electric's Form 10-K for the year ended December 31, 1991, File No. 1-5072, as Exhibit 4(b), in Form 8-K dated July 8, 1992, File No. 1-5072, as Exhibit 4(a)-3, in Registration No. 33-50587 as Exhibit 4(a)-(2), in Form 8-K dated July 22, 1993, File No. 1-5072, as Exhibit 4, in Form 8-K dated May 18, 1995, File No. 1-5072, as Exhibit 4 and in Form 8-K dated May 23, 1996, File No. 1-5072, as Exhibit 4.)

(f) 2 - Senior Note Indenture dated as of March 1, 1998 between Savannah Electric and The Bank of New York, as Trustee and indentures supplemental thereto through December 17, 2003. (Designated in Form 8-K dated March 9, 1998, File No. 1-5072, as Exhibits 4.1 and 4.2, in Form 8-K dated May 8, 2001, File No. 1-5072, as Exhibits 4.2(a) and 4.2(b), in Form 8-K dated March 4, 2002, File No. 1-5072, as Exhibit 4.2, in Form 8-K dated November 4, 2002, File No. 1-5072, as Exhibit 4.2 and in Form 8-K dated December 10, 2003, File No. 1-5072, as Exhibits 4.1 and 4.2.)

(f) 3 - Subordinated Note Indenture dated as of December 1, 1998, between Savannah Electric and The Bank of New York, as Trustee, and indenture supplemental thereto dated as of December 9, 1998. (Designated in Form 8-K dated December 3, 1998, File No. 1-5072, as Exhibit 4.3 and 4.4.)

(f) 4 - Amended and Restated Trust Agreement of Savannah Electric Capital Trust I dated as of December 1, 1998. (Designated in Form 8-K dated December 3, 1998, File No. 1-5072, as Exhibit 4.7.)

(f) 5 - Guarantee Agreement relating to Savannah Electric Capital Trust I dated as of December 1, 1998. (Designated in Form 8-K dated December 3, 1998, File No. 1-5072, as Exhibit 4.11.)

**Southern Power**

(g) 1 - Indenture dated as of June 1, 2002, between Southern Power and The Bank of New York, as Trustee, and indentures supplemental thereto through July 8, 2003. (Designated in Registration No. 333-98553 as Exhibits 4.1 and 4.2 and in Southern Power's Form 10-Q for the quarter ended June 30, 2003, File No. 333-98553, as Exhibit 4(g)1.)

**(10) Material Contracts**

**Southern Company**

(a) 1 - Service contracts dated as of January 1, 1984, between SCS and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, SEGCO and Southern Company and Amendment No. 1 dated as of September 6, 1985 between SCS and Southern Company. (Designated in Southern Company's Form 10-K for the year ended December 31, 1984, File No. 1-3526, as Exhibit 10(a) and in Southern Company's Form 10-K for the year ended December 31, 1985, File No. 1-3526, as Exhibit 10(a)(3).)

(a) 2 - Service contract dated as of January 1, 2001, between SCS and Southern Power. (Designated in Southern Company's Form 10-K for the year ended December 31, 2001, File No. 1-3526, as Exhibit 10(a)(2).)

(a) 3 - Service contract dated as of March 3, 1988, between SCS and Savannah Electric. (Designated in Savannah Electric's Form 10-K for the year ended December 31, 1987, File No. 1-5072, as Exhibit 10-p.)

(a) 4 - Service contract dated as of January 15, 1991, between SCS and Southern Nuclear. (Designated in Southern Company's Form 10-K for the year ended December 31, 1991, File No. 1-3526, as Exhibit 10(a)(4).)

(a) 5 - Service contract dated as of December 12, 1994, between SCS and Mobile Energy Services Company, Inc. (Designated in Southern Company's Form 10-K for the year ended December 31, 1994, File No. 1-3526, as Exhibit 10(a)58.)

(a) 6 - Interchange contract dated February 17, 2000, between Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric, Southern Power and SCS. (Designated in Southern Company's Form 10-K for the year ended December 31, 2000, File No. 1-3526, as Exhibit 10(a)6.)

(a) 7 - Agreement dated as of January 27, 1959, Amendment No. 1 dated as of October 27, 1982 and Amendment No. 2 dated November 4, 1993 and effective June 1, 1994, among SEGCO, Alabama Power and Georgia Power. (Designated in Registration No. 2-59634 as Exhibit 5(c), in Georgia Power's Form 10-K for the year ended December 31, 1982, File No. 1-6468, as Exhibit 10(d)(2) and in Alabama Power's Form 10-K for the year ended December 31, 1994, File No. 1-3164, as Exhibit 10(b)18.)

(a) 8 - Joint Committee Agreement dated as of August 27, 1976, among Georgia Power, OPC, MEAG and Dalton. (Designated in Registration No. 2-61116 as Exhibit 5(d).)

(a) 9 - Edwin I. Hatch Nuclear Plant Purchase and Ownership Participation Agreement dated as of January 6, 1975, between Georgia Power and OPC. (Designated in Form 8-K for January, 1975, File No. 1-6468, as Exhibit (b)(1).)

(a) 10 - Edwin I. Hatch Nuclear Plant Operating Agreement dated as of January 6, 1975, between Georgia Power and OPC. (Designated in Form 8-K for January, 1975, File No. 1-6468, as Exhibit (b)(3).)

(a) 11 - Revised and Restated Integrated Transmission System Agreement dated as of November 12, 1990, between Georgia Power and OPC. (Designated in Georgia Power's Form 10-K for the year ended December 31, 1990, File No. 1-6468, as Exhibit 10(g).)

(a) 12 - Plant Hal Wansley Purchase and Ownership Participation Agreement dated as of March 26, 1976, between Georgia Power and OPC. (Designated in Certificate of Notification, File No. 70-5592, as Exhibit A.)

(a) 13 - Plant Hal Wansley Operating Agreement dated as of March 26, 1976, between Georgia Power and OPC. (Designated in Certificate of Notification, File No. 70-5592, as Exhibit B.)

(a) 14 - Edwin I. Hatch Nuclear Plant Purchase and Ownership Participation Agreement dated as of August 27, 1976, between Georgia Power, MEAG and Dalton. (Designated in Form 8-K dated as of June 13, 1977, File No. 1-6468, as Exhibit (b)(1).)

(a) 15 - Edwin I. Hatch Nuclear Plant Operating Agreement dated as of August 27, 1976, between Georgia Power, MEAG and Dalton. (Designated in Form 8-K for February 1977, File No. 1-6468, as Exhibit (b)(2).)

(a) 16 - Alvin W. Vogtle Nuclear Units Number One and Two Purchase and Ownership Participation Agreement dated as of August 27, 1976 and Amendment No. 1 dated as of January 18, 1977, among Georgia Power, OPC, MEAG and Dalton. (Designated in Form U-1, File No. 70-5792, as Exhibit B-1 and in Form 8-K for January 1977, File No. 1-6468, as Exhibit (B)(3).)

(a) 17 - Alvin W. Vogtle Nuclear Units Number One and Two Operating Agreement dated as of August 27, 1976, among Georgia Power, OPC, MEAG and Dalton. (Designated in Form U-1, File No. 70-5792, as Exhibit B-2.)

(a) 18 - Alvin W. Vogtle Nuclear Units Number One and Two Purchase, Amendment, Assignment and Assumption Agreement dated as of November 16, 1983, between Georgia Power and MEAG. (Designated in Georgia Power's Form 10-K for the year ended December 31, 1983, File No. 1-6468, as Exhibit 10(k)(4).)

(a) 19 - Plant Hal Wansley Purchase and Ownership Participation Agreement dated as of August 27, 1976, between Georgia Power and MEAG. (Designated in Form 8-K dated as of July 5, 1977, File No. 1-6468, as Exhibit (b)(2).)

(a) 20 - Plant Hal Wansley Operating Agreement dated as of August 27, 1976, between Georgia Power and MEAG. (Designated in Form 8-K dated as of July 5, 1977, File No. 1-6468, as Exhibit (b)(4).)

(a) 21 - Nuclear Operating Agreement between Southern Nuclear and Georgia Power dated as of July 1, 1993. (Designated in Southern Company's Form 10-K for the year ended December 31, 1997, File No. 1-3526, as Exhibit 10(a)21.)

(a) 22 - Pseudo Scheduling and Services Agreement between Georgia Power and MEAG dated as of April 8, 1997. (Designated in Southern Company's Form 10-K for the year ended December 31, 1997, File No. 1-3526, as Exhibit 10(a)22.)

(a) 23 - Plant Hal Wansley Purchase and Ownership Participation Agreement dated as of April 19, 1977, between Georgia Power and Dalton. (Designated in Form 8-K dated as of June 13, 1977, File No. 1-6468, as Exhibit (b)(3).)

(a) 24 - Plant Hal Wansley Operating Agreement dated as of April 19, 1977, between Georgia Power and Dalton. (Designated in Form 8-K dated as of June 13, 1977, File No. 1-6468, as Exhibit (b)(7).)

(a) 25 - Plant Robert W. Scherer Units Number One and Two Purchase and Ownership Participation Agreement dated as of May 15, 1980, Amendment No. 1 dated as of December 30, 1985, Amendment No. 2 dated as of July 1, 1986, Amendment No. 3 dated as of August 1, 1988 and Amendment No. 4 dated as of December 31, 1990, among Georgia Power, OPC, MEAG and Dalton. (Designated in Form U-1, File No. 70-6481, as Exhibit B-3, in Southern Company's Form 10-K for the year ended December 31, 1987, File No. 1-3526, as Exhibit 10(o)(2), in Southern Company's Form 10-K for the year ended December 31, 1989, File No. 1-3526, as Exhibit 10(n)(2) and in Southern Company's Form 10-K for the year ended December 31, 1993, File No. 1-3526, as Exhibit 10(a)54.)

(a) 26 - Plant Robert W. Scherer Units Number One and Two Operating Agreement dated as of May 15, 1980, Amendment No. 1 dated as of December 3, 1985 and Amendment No. 2 dated as of December 31, 1990, among Georgia Power, OPC, MEAG and Dalton. (Designated in Form U-1, File No. 70-6481, as Exhibit B-4, in Southern Company's Form 10-K for the year ended December 31, 1987, File No. 1-3526, as Exhibit 10(o)(4) and in Southern Company's Form 10-K for the year ended December 31, 1993, File No. 1-3526, as Exhibit 10(a)55.)

(a) 27 - Plant Robert W. Scherer Purchase, Sale and Option Agreement dated as of May 15, 1980, between Georgia Power and MEAG. (Designated in Form U-1, File No. 70-6481, as Exhibit B-1.)

(a) 28 - Plant Robert W. Scherer Purchase and Sale Agreement dated as of May 16, 1980, between Georgia Power and Dalton. (Designated in Form U-1, File No. 70-6481, as Exhibit B-2.)

(a) 29 - Plant Robert W. Scherer Unit Number Three Purchase and Ownership Participation Agreement dated as of March 1, 1984, Amendment No. 1 dated as of July 1, 1986 and Amendment No. 2 dated as of August 1, 1988, between Georgia Power and Gulf Power. (Designated in Form U-1, File No. 70-6573, as Exhibit B-4, in Southern Company's Form 10-K for the year ended December 31, 1987, as Exhibit 10(o)(2) and in Southern Company's Form 10-K for the year ended December 31, 1989, as Exhibit 10(n)(2).)

(a) 30 - Plant Robert W. Scherer Unit Number Three Operating Agreement dated as of March 1, 1984, between Georgia Power and Gulf Power. (Designated in Form U-1, File No. 70-6573, as Exhibit B-5.)

(a) 31 - Plant Robert W. Scherer Unit No. Four Amended and Restated Purchase and Ownership Participation Agreement by and among Georgia Power, FP&L and JEA, dated as of December 31, 1990 and Amendment No. 1 dated as of June 15, 1994. (Designated in Form U-1, File No. 70-7843, as Exhibit B-1 and in Southern Company's Form 10-K for the year ended December 31, 1994, File No. 1-3526, as Exhibit 10(a)60.)

(a) 32 - Plant Robert W. Scherer Unit No. Four Operating Agreement by and among Georgia Power, FP&L and JEA, dated as of December 31, 1990 and Amendment No. 1 dated as of June 15, 1994. (Designated in Form U-1, File No. 70-7843, as Exhibit B-2 and in Southern Company's Form 10-K for the year ended December 31, 1994, File No. 1-3526, as Exhibit 10(a)61.)

(a) 33 - Unit Power Sales Agreement dated July 19, 1988, between FPC and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and SCS. (Designated in Savannah Electric's Form 10-K for the year ended December 31, 1988, File No. 1-5072, as Exhibit 10(d).)

(a) 34 - Amended Unit Power Sales Agreement dated July 20, 1988, between FP&L and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and SCS. (Designated in Savannah Electric's Form 10-K for the year ended December 31, 1988, File No. 1-5072, as Exhibit 10(e).)

(a) 35 - Amended Unit Power Sales Agreement dated August 17, 1988, between JEA and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and SCS. (Designated in Savannah Electric's Form 10-K for the year ended December 31, 1988, File No. 1-5072, as Exhibit 10(f).)

(a) 36 - Rocky Mountain Pumped Storage Hydroelectric Project Ownership Participation Agreement dated November 18, 1988, between OPC and Georgia Power. (Designated in Georgia Power's Form 10-K for the year ended December 31, 1988, File No. 1-6468, as Exhibit 10(x).)

(a) 37 - Rocky Mountain Pumped Storage Hydroelectric Project Operating Agreement dated November 18, 1988, between OPC and Georgia Power. (Designated in Georgia Power's Form 10-K for the year ended December 31, 1988, File No. 1-6468, as Exhibit 10(y).)

(a) 38 - Purchase and Ownership Agreement for Joint Ownership Interest in the James H. Miller, Jr. Steam Electric Generating Plant Units One and Two dated November 18, 1988, between Alabama Power and AEC. (Designated in Form U-1, File No. 70-7609, as Exhibit B-1.)

(a) 39 - Operating Agreement for Joint Ownership Interest in the James H. Miller, Jr. Steam Electric Generating Plant Units One and Two dated November 18, 1988, between Alabama Power and AEC. (Designated in Form U-1, File No. 70-7609, as Exhibit B-2.)

(a) 40 - Transmission Facilities Agreement dated February 25, 1982, Amendment No. 1 dated May 12, 1982 and Amendment No. 2 dated December 6, 1983, between Entergy Corporation (formerly Gulf States) and Mississippi Power. (Designated in Mississippi Power's Form 10-K for the year ended December 31, 1981, File No. 0-6849, as Exhibit 10(f), in Mississippi Power's Form 10-K for the year ended December 31, 1982, File No. 0-6849, as Exhibit 10(f)(2) and in Mississippi Power's Form 10-K for the year ended December 31, 1983, File No. 0-6849, as Exhibit 10(f)(3).)

(a) 41 - Long Term Transaction Service Agreement between Georgia Power and OPC dated as of February 26, 1999. (Designated in Southern Company's Form 10-K for the year ended December 31, 1999, File No. 1-3526, as Exhibit 10(a)46.)

(a) 42 - Revised and Restated Coordination Services Agreement between and among Georgia Power, OPC and Georgia Systems Operations Corporation dated as of September 10, 1997. (Designated in Southern Company's Form 10-K for the year ended December 31, 1997, File No. 1-3526, as Exhibit 10(a)48.)

(a) 43 - Amended and Restated Nuclear Managing Board Agreement for Plant Hatch and Plant Vogtle among Georgia Power, OPC, MEAG and Dalton dated as of July 1, 1993. (Designated in Southern Company's Form 10-K for the year ended December 31, 1993, File No. 1-3526, as Exhibit 10(a)49.)

(a) 44 - Integrated Transmission System Agreement, Power Sale and Coordination Umbrella Agreement between Georgia Power and OPC dated as of November 12, 1990. (Designated in Georgia Power's Form 10-K for the year ended December 31, 1990, File No. 1-6468, as Exhibit 10(ff).)

(a) 45 - Revised and Restated Integrated Transmission System Agreement between Georgia Power and Dalton dated as of December 7, 1990. (Designated in Georgia Power's Form 10-K for the year ended December 31, 1990, File No. 1-6468, as Exhibit 10(gg).)

(a) 46 - Revised and Restated Integrated Transmission System Agreement between Georgia Power and MEAG dated as of December 7, 1990. (Designated in Georgia Power's Form 10-K for the year ended December 31, 1990, File No. 1-6468, as Exhibit 10(hh).)

(a) 47 - Long Term Transmission Service Agreement between Entergy Power, Inc. and Alabama Power, Mississippi Power and SCS. (Designated in Southern Company's Form 10-K for the year ended December 31, 1992, File No. 1-3526, as Exhibit 10(a)53.)

(a) 48 - Plant Scherer Managing Board Agreement dated as of December 31, 1990 among Georgia Power, OPC, MEAG, Dalton, Gulf Power, FP&L and JEA. (Designated in Southern Company's Form 10-K for the year ended December 31, 1993, File No. 1-3526, as Exhibit 10(a)56.)

(a) 49 - Plant McIntosh Combustion Turbine Purchase and Ownership Participation Agreement between Georgia Power and Savannah Electric dated as of December 15, 1992. (Designated in Southern Company's Form 10-K for the year ended December 31, 1993, File No. 1-3526, as Exhibit 10(a)57.)

(a) 50 - Plant McIntosh Combustion Turbine Operating Agreement between Georgia Power and Savannah Electric dated as of December 15, 1992. (Designated in Southern Company's Form 10-K for the year ended December 31, 1993, File No. 1-3526, as Exhibit 10(a)58.)

(a) 51 - Operating Agreement for the Joseph M. Farley Nuclear Plant between Alabama Power and Southern Nuclear dated as of December 23, 1991. (Designated in Form U-1, File No. 70-7530, as Exhibit B-7.)

(a) 52 - Amended and Restated Credit Agreement among Southern Power, Citibank N.A., as the administrative agent, and the lenders listed therein dated as of April 17, 2003. (Designated in Southern Company's Form 10-Q for the quarter ended March 31, 2003, File No. 1-3526, as Exhibit 10(a)1.)

(a) 53 - Completion Guarantee among Southern Company, Southern Power and Citibank, N.A., in its capacity as agent for the Lenders under the Credit Facility dated as of November 15, 2001. (Designated in Registration No. 333-98553 as Exhibit 10.2(a).)

(a) 54 - Completion Guarantee Supplement by Southern Company and Southern Power dated as of April 22, 2002. (Designated in Registration No. 333-98553 as Exhibit 10.2(b).)

(a) 55 - Letter Amendment No. 1 to Completion Guarantee among Southern Company, Southern Power and Citibank, N.A. in its capacity as agent for the Lenders under the Credit Facility dated as of April 17, 2003. (Designated in Southern Company's Form 10-Q for the quarter ended March 31, 2003, File No. 1-3526, as Exhibit 10(a)2.)

(a) 56 - Equity Contribution Agreement among Southern Company and Citibank, N.A. in its capacity as agent for the Lenders under the Credit Facility dated as of November 15, 2001. (Designated in Registration No. 333-98553 as Exhibit 10.3(a).)

(a) 57 - Letter Amendment No. 1 to Equity Contribution Agreement among Southern Company, Southern Power and Citibank, N.A. in its capacity as agent for the Lenders under the Credit Facility dated as of April 17, 2003. (Designated in Southern Company's Form 10-Q for the quarter ended March 31, 2003, File No. 1-3526, as Exhibit 10(a)3.)

(a) 58 - Equity Contribution Agreement Supplement by Southern Company and Southern Power dated as of April 22, 2002. (Designated in Registration No. 333-98553 as Exhibit 10.3(b).)

* (a) 59 - Amended and Restated Operating Agreement between Southern Power and Alabama Power effective December 1, 2002.

* (a) 60 - Amended and Restated Operating Agreement between Southern Power and Georgia Power effective December 1, 2002.

* (a) 61 - Operating Agreement between Southern Power and Savannah Electric effective January 1, 2003.

(a) 62 - Interconnection Agreement by and between Southern Power and Georgia Power for Plant Dahlberg dated as of July 31, 2001. (Designated in Registration No. 333-98553 as Exhibit 10.8.)

(a) 63 - Interconnection Agreement by and between Southern Power and Georgia Power for Wansley CC Units 6 and 7 dated as of May 10, 2001. (Designated in Registration No. 333-98553 as Exhibit 10.9.)

(a) 64 - Interconnection Agreement by and between Southern Power and Georgia Power for Goat Rock CC Unit 1 dated as of May 10, 2001. (Designated in Registration No. 333-98553 as Exhibit 10.10.)

(a) 65 - Revised and Restated Interconnection Agreement by and between Southern Power and Georgia Power for Goat Rock CC Unit 2 dated as of October 18, 2001. (Designated in Registration No. 333-98553 as Exhibit 10.11.)

(a) 66 - Interconnection Agreement by and between Southern Power and Alabama Power for Autaugaville Combined Cycle Unit 1 dated as of June 25, 2001. (Designated in Registration No. 333-98553 as Exhibit 10.12.)

(a) 67 - Interconnection Agreement by and between Southern Power and Alabama Power for Autaugaville Combined Cycle Unit 2 dated as of June 25, 2001. (Designated in Registration No. 333-98553 as Exhibit 10.13.)

(a) 68 - Purchased Power Agreement between Georgia Power and LG&E Energy Marketing Inc. dated as of November 24, 1998. (Designated in Registration No. 333-98553 as Exhibit 10.15.)

(a) 69 - Purchased Power Agreement between Georgia Power and LG&E Energy Marketing Inc. dated as of October 6, 1999. (Designated in Registration No. 333-98553 as Exhibit 10.16.)

(a) 70 - Assignment and Assumption Agreement by and between Georgia Power and Southern Power dated as of July 31, 2001. (Designated in Registration No. 333-98553 as Exhibit 10.17.)

(a) 71 - Power Purchase Agreement between Southern Power and Alabama Power dated as of June 1, 2001. (Designated in Registration No. 333-98553 as Exhibit 10.18.)

(a) 72 - Amended and Restated Power Purchase Agreement between Southern Power and Georgia Power at Plant Autaugaville dated as of August 6, 2001. (Designated in Registration No. 333-98553 as Exhibit 10.19.)

(a) 73 - Contract for the Purchase of Firm Capacity and Energy between Southern Power and Savannah Electric dated as of July 26, 2001. (Designated in Registration No. 333-98553 as Exhibit 10.20.)

(a) 74 - Contract for the Purchase of Firm Capacity and Energy between Southern Power and Georgia Power dated as of July 26, 2001. (Designated in Registration No. 333-98553 as Exhibit 10.21.)

(a) 75 - Power Purchase Agreement between Southern Power and Georgia Power at Plant Goat Rock dated as of March 30, 2001. (Designated in Registration No. 333-98553 as Exhibit 10.22.)

(a) 76 - Power Purchase Agreement between Southern Company - Florida LLC and Kissimmee Utility Authority dated as of March 19, 2001. (Designated in Registration No. 333-98553 as Exhibit 10.23.)

(a) 77 - Power Purchase Agreement between Southern Company – Florida LLC and Florida Municipal Power Agency dated as of March 19, 2001. (Designated in Registration No. 333-98553 as Exhibit 10.24.)

(a) 78 - Power Purchase Agreement between Southern Company - Florida LLC and Orlando Utilities Commission dated as of March 19, 2001. (Designated in Registration No. 333-98553 as Exhibit 10.25.)

(a) 79 - The Southern Company Employee Savings Plan, Amended and Restated effective January 1, 2002 and Amendments one through five thereto. (Designated in Southern Company's Form 10-K for the year ended December 31, 2001, File No. 1-3526, as Exhibit 10(a)52, in Registration No. 333-96883, as Exhibit 10.29 and in Southern Company's Form 10-Q for the quarter ended September 30, 2003, File No.1-3526, as Exhibit 10(a)1.)

(a) 80 - The Southern Company Employee Stock Ownership Plan, Amended and Restated effective January 1, 2002 and Amendments one through five thereto. (Designated in Southern Company's Form 10-K for the year ended December 31, 2001, File No. 1-3526, as Exhibit 10(a)53, in Southern Company's Form 10-K for the year ended December 31, 2002, File No. 1-3526, as Exhibit 10(a)81 and in Southern Company's Form 10-Q for the quarter ended September 30, 2003, File No. 1-3526, as Exhibit 10(a)2.)

# (a) 81 - Southern Company Omnibus Incentive Compensation Plan, Amended and Restated effective May 23, 2001. (Designated in Form S-8, File No. 333-73462, as Exhibit 4(c).)

# (a) 82 - The Deferred Compensation Plan for the Directors of The Southern Company, Amended and Restated effective February 19, 2001. (Designated in Southern Company's Form 10-K for the year ended December 31, 2000, File No. 1-3526, as Exhibit 10(a)59.)

# (a) 83 - The Southern Company Outside Directors Pension Plan. (Designated in Southern Company's Form 10-K for the year ended December 31, 1994, File No. 1-3526, as Exhibit 10(a)77.)

# (a) 84 - The Southern Company Deferred Compensation Plan, Amended and Restated effective February 23, 2001 and First Amendment thereto. (Designated in Southern Company's Form 10-K for the year ended December 31, 2000, File No. 1-3526, as Exhibit 10(a)61 and in Southern Company's Form 10-Q for the quarter ended September 30, 2003, File No. 1-3526, as Exhibit 10(a)4.)

# (a) 85 - The Southern Company Outside Directors Stock Plan and First Amendment thereto. (Designated in Registration No. 33-54415 as Exhibit 4(c) and in Southern Company's Form 10-K for the year ended December 31, 1995, File No. 1-3526, as Exhibit 10(a)79.)

# (a) 86 - Outside Directors Stock Plan for Subsidiaries of The Southern Company, Amended and Restated effective January 1, 2000. (Designated in Southern Company's Form 10-K for the year ended December 31, 2000, File No. 1-3526, as Exhibit 10(a)63.)

(a) 87 - The Southern Company Pension Plan, Amended and Restated effective January 1, 2002 and First Amendment thereto. (Designated in Southern Company's Form 10-K for the year ended December 31, 2002, File No. 1-3526, as Exhibit 10(a)88 and in Southern Company's Form 10-Q for the quarter ended June 30, 2003, File No. 1-3526, as Exhibit 10(a)4.)

# (a) 88 - The Southern Company Supplemental Executive Retirement Plan, Amended and Restated effective May 1, 2000. (Designated in Southern Company's Form 10-K for the year ended December 31, 2001, File No. 1-3526, as Exhibit 10(a)62.)

# (a) 89 - The Southern Company Supplemental Benefit Plan, Amended and Restated effective May 1, 2000 and First Amendment thereto. (Designated in Southern Company's Form 10-K for the year ended December 31, 2000, File No. 1-3526, as Exhibit 10(a)64 and in Southern Company's Form 10-Q for the quarter ended September 30, 2003, File No. 1-3526, as Exhibit 10(a)3.)

(a) 90 - Southern Company Change in Control Severance Plan, Amended and Restated effective May 1, 2003. (Designated in Southern Company's Form 10-Q for the quarter ended June 30, 2003, File No. 1-3526, as Exhibit 10(a)1.)

# (a) 91 - Southern Company Executive Change in Control Severance Plan, Amended and Restated effective May 1, 2003. (Designated in Southern Company's Form 10-Q for the quarter ended June 30, 2003, File No. 1-3526, as Exhibit 10(a)2.)

# (a) 92 - Deferred Compensation Agreement between Southern Company, Southern Nuclear and William G. Hairston III. (Designated in Southern Company's Form 10-K for the year ended December 31, 1998, File No. 1-3526 as Exhibit 10(a)81.)

# (a) 93 - Amended and Restated Change in Control Agreement between Southern Company, Mississippi Power and Dwight H. Evans. (Designated in Southern Company's Form 10-K for the year ended December 31, 2000, File No. 1-3526, as Exhibit 10(a)81.)

# (a) 94 - Amended and Restated Change in Control Agreement between Southern Company, SCS and Henry Allen Franklin. (Designated in Southern Company's Form 10-K for the year ended December 31, 2000, File No. 1-3526, as Exhibit 10(a)83.)

# (a) 95 - Amended and Restated Change in Control Agreement between Southern Company, Southern Nuclear and William G. Hairston, III. (Designated in Southern Company's Form 10-K for the year ended December 31, 2000, File No. 1-3526, as Exhibit 10(a)84.)

# (a) 96 - Amended and Restated Change in Control Agreement between Southern Company, Savannah Electric and G. Edison Holland, Jr. (Designated in Southern Company's Form 10-K for the year ended December 31, 2000, File No. 1-3526, as Exhibit 10(a)86.)

# (a) 97 - Amended and Restated Change in Control Agreement between Southern Company, SCS and C. Alan Martin. (Designated in Southern Company's Form 10-K for the year ended December 31, 2000, File No. 1-3526, as Exhibit 10(a)87.)

# (a) 98 - Amended and Restated Change in Control Agreement between Southern Company, SCS and Charles Douglas McCrary. (Designated in Southern Company's Form 10-K for the year ended December 31, 2000, File No. 1-3526, as Exhibit 10(a)88.)

# (a) 99 - Amended and Restated Change in Control Agreement between Southern Company, Georgia Power and David M. Ratcliffe. (Designated in Southern Company's Form 10-K for the year ended December 31, 2000, File No. 1-3526, as Exhibit 10(a)89.)

# (a) 100- Amended and Restated Change in Control Agreement between Southern Company, SCS and Stephen A. Wakefield. (Designated in Southern Company's Form 10-K for the year ended December 31, 2000, File No. 1-3526, as Exhibit 10(a)90.)

# (a) 101- Southern Company Amended and Restated Change in Control Benefit Plan Determination Policy, effective May 9, 2002. (Designated in Southern Company's Form 10-K for the year ended December 31, 2002, File No. 1-3526, as Exhibit 10(a)105.)

# (a) 102- Master Separation and Distribution Agreement dated as of September 1, 2000 between Southern Company and Mirant. (Designated in Southern Company's Form 10-K for the year ended December 31, 2000, File No. 1-3526, as Exhibit 10(a)100.)

# (a) 103- Indemnification and Insurance Matters Agreement dated as of September 1, 2000 between Southern Company and Mirant. (Designated in Southern Company's Form 10-K for the year ended December 31, 2000, File No. 1-3526, as Exhibit 10(a)101.)

# (a) 104- Tax Indemnification Agreement dated as of September 1, 2000 among Southern Company and its affiliated companies and Mirant and its affiliated companies. (Designated in Southern Company's Form 10-K for the year ended December 31, 2000, File No. 1-3526, as Exhibit 10(a)102.)

# (a) 105- Southern Company Deferred Compensation Trust Agreement as amended and restated effective January 1, 2001 between Wachovia Bank, N.A., Southern Company, SCS, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric, Southern Communications, Energy Solutions and Southern Nuclear. (Designated in Southern Company's Form 10-K for the year ended December 31, 2000, File No. 1-3526, as Exhibit 10(a)103.)

# (a) 106- Deferred Stock Trust Agreement for Directors of Southern Company and its subsidiaries, dated as of January 1, 2000, between Reliance Trust Company, Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric. (Designated in Southern Company's Form 10-K for the year ended December 31, 2000, File No. 1-3526, as Exhibit 10(a)104.)

# (a) 107- Amended and Restated Deferred Cash Compensation Trust Agreement for Directors of Southern Company and its subsidiaries, effective September 1, 2001, between Wachovia Bank, N.A., Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric. (Designated in Southern Company's Form 10-K for the year ended December 31, 2001, File No. 1-3526, as Exhibit 10(a)92.)

# (a) 108- Change in Control Agreement between Southern Company, Mississippi Power and Michael D. Garrett. (Designated in Southern Company's Form 10-K for the year ended December 31, 2002, File No. 1-3526, as Exhibit 10(a)112.)

# (a) 109- Change in Control Agreement between Southern Company, Savannah Electric and Anthony R. James. (Designated in Southern Company's Form 10-K for the year ended December 31, 2002, File No. 1-3526, as Exhibit 10(a)113.)

# (a) 110- Change in Control Agreement between Southern Company, SCS and W. Paul Bowers. (Designated in Southern Company's Form 10-K for the year ended December 31, 2002, File No. 1-3526, as Exhibit 10(a)114.)

# (a) 111- Change in Control Agreement between Southern Company, Gulf Power and Thomas A. Fanning. (Designated in Southern Company's Form 10-K for the year ended December 31, 2002, File No. 1-3526, as Exhibit 10(a)115.)

# (a) 112- Deferred Compensation Agreement between Southern Company, SCS and Christopher C. Womack dated May 31, 2002. (Designated in Southern Company's Form 10-K for the year ended December 31, 2002, File No. 1-3526, as Exhibit 10(a)118.)

# (a) 113- Supplemental Pension Agreement between Savannah Electric, Gulf Power, SCS and G. Edison Holland, Jr. effective February 22, 2002. (Designated in Southern Company's Form 10-K for the year ended December 31, 2002, File No. 1-3526, as Exhibit 10(a)119.)

# (a) 114- Amended and Restated Supplemental Pension Agreement between Georgia Power, Southern Company, SCS and C. B. Harreld dated September 17, 2003. (Designated in Southern Company's Form 10-Q for the quarter ended September 30, 2003, File No. 1-3526, as Exhibit 10(a)5.)

# (a) 115- Southern Company Senior Executive Change in Control Severance Plan effective May 1, 2003. (Designated in Southern Company's Form 10-Q for the quarter ended June 30, 2003, File No. 1-3526, as Exhibit 10(a)3.)

**Alabama Power**

(b) 1 - Service contracts dated as of January 1, 1984, between SCS and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, SEGCO and Southern Company and Amendment No. 1 dated as of September 6, 1985 between SCS and Southern Company. See Exhibit 10(a)1 herein.

(b) 2 - Interchange contract dated February 17, 2000, between Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric, Southern Power and SCS. See Exhibit 10(a)6 herein.

(b) 3 - Agreement dated as of January 27, 1959, Amendment No. 1 dated as of October 27, 1982 and Amendment No. 2 dated November 4, 1993 and effective June 1, 1994, among SEGCO, Alabama Power and Georgia Power. See Exhibit 10(a)7 herein.

(b) 4 - Unit Power Sales Agreement dated July 19, 1988, between FPC and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and SCS. See Exhibit 10(a)33 herein.

(b) 5 - Amended Unit Power Sales Agreement dated July 20, 1988, between FP&L and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and SCS. See Exhibit 10(a)34 herein.

(b) 6 - Amended Unit Power Sales Agreement dated August 17, 1988, between JEA and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and SCS. See Exhibit 10(a)35 herein.

(b) 7 - 1991 Firm Power Purchase Contract between Alabama Power and AMEA. (Designated in Form U-1, File No. 70-7873, as Exhibit B-1.)

(b) 8 - Purchase and Ownership Agreement for Joint Ownership Interest in the James H. Miller, Jr. Steam Electric Generating Plant Units One and Two dated November 18, 1988, between Alabama Power and AEC. See Exhibit 10(a)38 herein.

(b) 9 - Operating Agreement for Joint Ownership Interest in the James H. Miller, Jr. Steam Electric Generating Plant Units One and Two dated November 18, 1988, between Alabama Power and AEC. See Exhibit 10(a)39 herein.

(b) 10 - Long Term Transmission Service Agreement between Entergy Power, Inc. and Alabama Power, Mississippi Power and SCS. See Exhibit 10(a)47 herein.

(b) 11 - Operating Agreement for the Joseph M. Farley Nuclear Plant between Alabama Power and Southern Nuclear dated as of December 23, 1991. See Exhibit 10(a)51 herein.

* (b) 12 - Amended and Restated Operating Agreement between Southern Power and Alabama Power effective December 1, 2002. See Exhibit 10(a)59 herein.

(b) 13 - Interconnection Agreement by and between Southern Power and Alabama Power for Autaugaville Combined Cycle Unit 1 dated as of June 25, 2001. See Exhibit 10(a)66 herein.

(b) 14 - Interconnection Agreement by and between Southern Power and Alabama Power for Autaugaville Combined Cycle Unit 2 dated as of June 25, 2001. See Exhibit 10(a)67 herein.

(b) 15 - Power Purchase Agreement between Southern Power and Alabama Power dated as of June 1, 2001. See Exhibit 10(a)71 herein.

(b) 16 - The Southern Company Employee Savings Plan, Amended and Restated effective January 1, 2002 and Amendments one through five thereto. See Exhibit 10(a)79 herein.

(b) 17 - The Southern Company Employee Stock Ownership Plan, Amended and Restated effective January 1, 2002 and Amendments one through five thereto. See Exhibit 10(a)80 herein.

# (b) 18 - Southern Company Omnibus Incentive Compensation Plan, Amended and Restated effective May 23, 2001. See Exhibit 10(a)81 herein.

# (b) 19 - The Southern Company Deferred Compensation Plan, Amended and Restated effective February 23, 2001 and First Amendment thereto. See Exhibit 10(a)84 herein.

# (b) 20 - The Southern Company Outside Directors Pension Plan. See Exhibit 10(a)83 herein.

# (b) 21 - Outside Directors Stock Plan for Subsidiaries of The Southern Company, Amended and Restated effective January 1, 2000. See Exhibit 10(a)86 herein.

(b) 22 - The Southern Company Pension Plan, Amended and Restated effective January 1, 2002 and First Amendment thereto. See Exhibit 10(a)87 herein.

# (b) 23 - The Southern Company Supplemental Executive Retirement Plan, Amended and Restated effective May 1, 2000. See Exhibit 10(a)88 herein.

# (b) 24 - The Southern Company Supplemental Benefit Plan, Amended and Restated effective May 1, 2000 and First Amendment thereto. See Exhibit 10(a)89 herein.

(b) 25 - Southern Company Change in Control Severance Plan, Amended and Restated effective May 1, 2003. See Exhibit 10(a)90 herein.

# (b) 26 - Southern Company Executive Change in Control Severance Plan, Amended and Restated effective May 1, 2003. See Exhibit 10(a)91 herein.

# (b) 27 - Deferred Compensation Plan for Directors of Alabama Power Company, Amended and Restated effective January 1, 2001. (Designated in Alabama Power's Form 10-K for the year ended December 31, 2001, File No. 1-3164, as Exhibit 10(b)28.)

# (b) 28 - Southern Company Amended and Restated Change in Control Benefit Plan Determination Policy, effective May 9, 2002. See Exhibit 10(a)101 herein.

# (b) 29 - Southern Company Deferred Compensation Trust Agreement as amended and restated effective January 1, 2001 between Wachovia Bank, N.A., Southern Company, SCS, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric, Southern Communications, Energy Solutions and Southern Nuclear. See Exhibit 10(a)105 herein.

# (b) 30 - Deferred Stock Trust Agreement for Directors of Southern Company and its subsidiaries, dated as of January 1, 2000, between Reliance Trust Company, Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric. See Exhibit 10(a)106 herein.

# (b) 31 - Amended and Restated Deferred Cash Compensation Trust Agreement for Directors of Southern Company and its subsidiaries, effective September 1, 2001, between Wachovia Bank, N.A., Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric. See Exhibit 10(a)107 herein.

# (b) 32 - Deferred Compensation Agreement between Alabama Power and William B. Hutchins, III dated April 11, 2003. (Designated in Alabama Power's Form 10-Q for the quarter ended March 31, 2003, File No. 1-3164, as Exhibit 10(b)1.)

# (b) 33 - Amended and Restated Supplemental Pension Agreement among SCS, Southern Nuclear, Alabama Power and James H. Miller, III. (Designated in Alabama Power's Form 10-Q for the quarter ended June 30, 2003, File No. 1-3164, as Exhibit 10(b)1.)

# (b) 34 - Southern Company Senior Executive Change in Control Severance Plan effective May 1, 2003. See Exhibit 10(a)115 herein.

**Georgia Power**

(c) 1 - Service contracts dated as of January 1, 1984, between SCS and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, SEGCO and Southern Company and Amendment No. 1 dated as of September 6, 1985, between SCS and Southern Company. See Exhibit 10(a)1 herein.

(c) 2 - Interchange contract dated February 17, 2000, between Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric, Southern Power and SCS. See Exhibit 10(a)6 herein.

(c) 3 - Agreement dated as of January 27, 1959, Amendment No. 1 dated as of October 27, 1982 and Amendment No. 2 dated November 4, 1993 and effective June 1, 1994, among SEGCO, Alabama Power and Georgia Power. See Exhibit 10(a)7 herein.

(c) 4 - Joint Committee Agreement dated as of August 27, 1976, among Georgia Power, OPC, MEAG and Dalton. See Exhibit 10(a)8 herein.

(c) 5 - Edwin I. Hatch Nuclear Plant Purchase and Ownership Participation Agreement dated as of January 6, 1975, between Georgia Power and OPC. See Exhibit 10(a)9 herein.

(c) 6 - Edwin I. Hatch Nuclear Plant Operating Agreement dated as of January 6, 1975, between Georgia Power and OPC. See Exhibit 10(a)10 herein.

(c) 7 - Revised and Restated Integrated Transmission System Agreement dated as of November 12, 1990, between Georgia Power and OPC. See Exhibit 10(a)11 herein.

(c) 8 - Plant Hal Wansley Purchase and Ownership Participation Agreement dated as of March 26, 1976, between Georgia Power and OPC. See Exhibit 10(a)12 herein.

(c) 9 - Plant Hal Wansley Operating Agreement dated as of March 26, 1976, between Georgia Power and OPC. See Exhibit 10(a)13 herein.

(c) 10 - Edwin I. Hatch Nuclear Plant Purchase and Ownership Participation Agreement dated as of August 27, 1976, between Georgia Power, MEAG and Dalton. See Exhibit 10(a)14 herein.

(c) 11 - Edwin I. Hatch Nuclear Plant Operating Agreement dated as of August 27, 1976, between Georgia Power, MEAG and Dalton. See Exhibit 10(a)15 herein.

(c) 12 - Alvin W. Vogtle Nuclear Units Number One and Two Purchase and Ownership Participation Agreement dated as of August 27, 1976 and Amendment No. 1 dated as of January 18, 1977, among Georgia Power, OPC, MEAG and Dalton. See Exhibit 10(a)16 herein.

(c) 13 - Alvin W. Vogtle Nuclear Units Number One and Two Operating Agreement dated as of August 27, 1976, among Georgia Power, OPC, MEAG and Dalton. See Exhibit 10(a)17 herein.

(c) 14 - Alvin W. Vogtle Nuclear Units Number One and Two Purchase, Amendment, Assignment and Assumption Agreement dated as of November 16, 1983, between Georgia Power and MEAG. See Exhibit 10(a)18 herein.

(c) 15 - Plant Hal Wansley Purchase and Ownership Participation Agreement dated as of August 27, 1976, between Georgia Power and MEAG. See Exhibit 10(a)19 herein.

(c) 16 - Plant Hal Wansley Operating Agreement dated as of August 27, 1976, between Georgia Power and MEAG. See Exhibit 10(a)20 herein.

(c) 17 - Nuclear Operating Agreement between Southern Nuclear and Georgia Power dated as of July 1, 1993. See Exhibit 10(a)21 herein.

(c) 18 - Pseudo Scheduling and Services Agreement between Georgia Power and MEAG dated as of April 8, 1997. See Exhibit 10(a)22 herein.

(c) 19 - Plant Hal Wansley Purchase and Ownership Participation Agreement dated as of April 19, 1977, between Georgia Power and Dalton. See Exhibit 10(a)23 herein.

(c) 20 - Plant Hal Wansley Operating Agreement dated as of April 19, 1977, between Georgia Power and Dalton. See Exhibit 10(a)24 herein.

(c) 21 - Plant Robert W. Scherer Units Number One and Two Purchase and Ownership Participation Agreement dated as of May 15, 1980, Amendment No. 1 dated as of December 30, 1985, Amendment No. 2 dated as of July 1, 1986, Amendment No. 3 dated as of August 1, 1988 and Amendment No. 4 dated as of December 31, 1990, among Georgia Power, OPC, MEAG and Dalton. See Exhibit 10(a)25 herein.

(c) 22 - Plant Robert W. Scherer Units Number One and Two Operating Agreement dated as of May 15, 1980, Amendment No. 1 dated as of December 3, 1985 and Amendment No. 2 dated as of December 31, 1990, among Georgia Power, OPC, MEAG and Dalton. See Exhibit 10(a)26 herein.

(c) 23 - Plant Robert W. Scherer Purchase, Sale and Option Agreement dated as of May 15, 1980, between Georgia Power and MEAG. See Exhibit 10(a)27 herein.

(c) 24 - Plant Robert W. Scherer Purchase and Sale Agreement dated as of May 16, 1980, between Georgia Power and Dalton. See Exhibit 10(a)28 herein.

(c) 25 - Plant Robert W. Scherer Unit Number Three Purchase and Ownership Participation Agreement dated as of March 1, 1984, Amendment No. 1 dated as of July 1, 1986 and Amendment No. 2 dated as of August 1, 1988, between Georgia Power and Gulf Power. See Exhibit 10(a)29 herein.

(c) 26 - Plant Robert W. Scherer Unit Number Three Operating Agreement dated as of March 1, 1984, between Georgia Power and Gulf Power. See Exhibit 10(a)30 herein.

(c) 27 - Plant Robert W. Scherer Unit No. Four Amended and Restated Purchase and Ownership Participation Agreement by and among Georgia Power, FP&L and JEA dated as of December 31, 1990 and Amendment No. 1 dated as of June 15, 1994. See Exhibit 10(a)31 herein.

(c) 28 - Plant Robert W. Scherer Unit No. Four Operating Agreement by and among Georgia Power, FP&L and JEA dated as of December 31, 1990 and Amendment No. 1 dated as of June 15, 1994. See Exhibit 10(a)32 herein.

(c) 29 - Unit Power Sales Agreement dated July 19, 1988, between FPC and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and SCS. See Exhibit 10(a)33 herein.

(c) 30 - Amended Unit Power Sales Agreement dated July 20, 1988, between FP&L and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and SCS. See Exhibit 10(a)34 herein.

(c) 31 - Amended Unit Power Sales Agreement dated August 17, 1988, between JEA and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and SCS. See Exhibit 10(a)35 herein.

(c) 32 - Rocky Mountain Pumped Storage Hydroelectric Project Ownership Participation Agreement dated November 18, 1988, between OPC and Georgia Power. See Exhibit 10(a)36 herein.

(c) 33 - Rocky Mountain Pumped Storage Hydroelectric Project Operating Agreement dated November 18, 1988, between OPC and Georgia Power. See Exhibit 10(a)37 herein.

(c) 34 - Long Term Transaction Service Agreement between Georgia Power and OPC dated as of February 26, 1999. See Exhibit 10(a)41 herein.

(c) 35 - Revised and Restated Coordination Services Agreement between and among Georgia Power, OPC and Georgia Systems Operations Corporation dated as of September 10, 1997. See Exhibit 10(a)42 herein.

(c) 36 - Amended and Restated Nuclear Managing Board Agreement for Plant Hatch and Plant Vogtle among Georgia Power, OPC, MEAG and Dalton dated as of July 1, 1993. See Exhibit 10(a)43 herein.

(c) 37 - Integrated Transmission System Agreement, Power Sale and Coordination Umbrella Agreement between Georgia Power and OPC dated as of November 12, 1990. See Exhibit 10(a)44 herein.

(c) 38 - Revised and Restated Integrated Transmission System Agreement between Georgia Power and Dalton dated as of December 7, 1990. See Exhibit 10(a)45 herein.

(c) 39 - Revised and Restated Integrated Transmission System Agreement between Georgia Power and MEAG dated as of December 7, 1990. See Exhibit 10(a)46 herein.

(c) 40 - Plant Scherer Managing Board Agreement dated as of December 31, 1990 among Georgia Power, OPC, MEAG, Dalton, Gulf Power, FP&L and JEA. See Exhibit 10(a)48 herein.

(c) 41 - Plant McIntosh Combustion Turbine Purchase and Ownership Participation Agreement between Georgia Power and Savannah Electric dated as of December 15, 1992. See Exhibit 10(a)49 herein.

(c) 42 - Plant McIntosh Combustion Turbine Operating Agreement between Georgia Power and Savannah Electric dated as of December 15, 1992. See Exhibit 10(a)50 herein.

* (c) 43 - Amended and Restated Operating Agreement between Southern Power and Georgia Power dated effective December 1, 2002. See Exhibit 10(a)60 herein.

(c) 44 - Interconnection Agreement by and between Southern Power and Georgia Power for Plant Dahlberg dated as of July 31, 2001. See Exhibit 10(a)62 herein.

(c) 45 - Interconnection Agreement by and between Southern Power and Georgia Power for Wansley CC Units 6 and 7 dated as of May 10, 2001. See Exhibit 10(a)63 herein.

(c) 46 - Interconnection Agreement by and between Southern Power and Georgia Power for Goat Rock CC Unit 1 dated as of May 10, 2001. See Exhibit 10(a)64 herein.

(c) 47 - Revised and Restated Interconnection Agreement by and between Southern Power and Georgia Power for Goat Rock CC Unit 2 dated as of October 18, 2001. See Exhibit 10(a)65 herein.

(c) 48 - Purchased Power Agreement between Georgia Power and LG&E Energy Marketing Inc. dated as of November 24, 1998. See Exhibit 10(a)68 herein.

(c) 49 - Purchased Power Agreement between Georgia Power and LG&E Energy Marketing Inc. dated as of October 6, 1999. See Exhibit 10(a)69 herein.

(c) 50 - Assignment and Assumption Agreement by and between Georgia Power and Southern Power dated as of July 31, 2001. See Exhibit 10(a)70 herein.

(c) 51 - Amended and Restated Power Purchase Agreement between Southern Power and Georgia Power at Plant Autaugaville dated as of August 6, 2001. See Exhibit 10(a)72 herein.

(c) 52 - Contract for the Purchase of Firm Capacity and Energy between Southern Power and Georgia Power dated as of July 26, 2001. See Exhibit 10(a)74 herein.

(c) 53 - Power Purchase Agreement between Southern Power and Georgia Power at Plant Goat Rock dated as of March 30, 2001. See Exhibit 10(a)75 herein.

(c) 54 - The Southern Company Employee Savings Plan, Amended and Restated effective January 1, 2002 and Amendments one through five thereto. See Exhibit 10(a)79 herein.

(c) 55 - The Southern Company Employee Stock Ownership Plan, Amended and Restated effective January 1, 2002 and Amendments one through five thereto. See Exhibit 10(a)80 herein.

# (c) 56 - Southern Company Omnibus Incentive Compensation Plan, Amended and Restated effective May 23, 2001. See Exhibit 10(a)81 herein.

# (c) 57 - The Southern Company Deferred Compensation Plan, Amended and Restated effective February 23, 2001 and First Amendment thereto. See Exhibit 10(a)84 herein.

# (c) 58 - The Southern Company Outside Directors Pension Plan. See Exhibit 10(a)83 herein.

# (c) 59 - Outside Directors Stock Plan for Subsidiaries of The Southern Company, Amended and Restated effective January 1, 2000. See Exhibit 10(a)86 herein.

(c) 60 - The Southern Company Pension Plan, Amended and Restated effective January 1, 2002 and First Amendment thereto. See Exhibit 10(a)87 herein.

# (c) 61 - The Southern Company Supplemental Executive Retirement Plan, Amended and Restated effective May 1, 2000. See Exhibit 10(a)88 herein.

# (c) 62 - The Southern Company Supplemental Benefit Plan, Amended and Restated effective May 1, 2000 and First Amendment thereto. See Exhibit 10(a)89 herein.

(c) 63 - Southern Company Change in Control Severance Plan, Amended and Restated effective May 1, 2003. See Exhibit 10(a)90 herein.

# (c) 64 - Southern Company Executive Change in Control Severance Plan, Amended and Restated effective May 1, 2003. See Exhibit 10(a)91 herein.

# (c) 65 - Amended and Restated Change in Control Agreement between Southern Company, Georgia Power and David M. Ratcliffe. See Exhibit 10(a)99 herein.

# (c) 66 - Deferred Compensation Plan For Directors of Georgia Power Company, Amended and Restated Effective January 13, 2003. (Designated in Georgia Power's Form 10-K for the year ended December 31, 2002, File No. 1.6468, as Exhibit 10(c)68.)

# (c) 67 - Southern Company Amended and Restated Change in Control Benefit Plan Determination Policy, effective May 9, 2002. See Exhibit 10(a)101 herein.

# (c) 68 - Southern Company Deferred Compensation Trust Agreement as amended and restated effective January 1, 2001 between Wachovia Bank, N.A., Southern Company, SCS, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric, Southern Communications, Energy Solutions and Southern Nuclear. See Exhibit 10(a)105 herein.

# (c) 69 - Deferred Stock Trust Agreement for Directors of Southern Company and its subsidiaries, dated as of January 1, 2000, between Reliance Trust Company, Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric. See Exhibit 10(a)106 herein.

# (c) 70 - Amended and Restated Deferred Cash Compensation Trust Agreement for Directors of Southern Company and its subsidiaries, effective September 1, 2001, between Wachovia Bank, N.A., Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric. See Exhibit 10(a)107 herein.

# (c) 71 - Southern Company Senior Executive Change in Control Severance Plan effective May 1, 2003. See Exhibit 10(a)115 herein.

**Gulf Power**

(d) 1 - Service contracts dated as of January 1, 1984, between SCS and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, SEGCO and Southern Company and Amendment No. 1 dated as of September 6, 1985, between SCS and Southern Company. See Exhibit 10(a)1 herein.

(d) 2 - Interchange contract dated February 17, 2000, between Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric, Southern Power and SCS. See Exhibit 10(a)6 herein.

(d) 3 - Plant Robert W. Scherer Unit Number Three Purchase and Ownership Participation Agreement dated as of March 1, 1984, Amendment No. 1 dated as of July 1, 1986 and Amendment No. 2 dated as of August 1, 1988, between Georgia Power and Gulf Power. See Exhibit 10(a)29 herein.

(d) 4 - Plant Robert W. Scherer Unit Number Three Operating Agreement dated as of March 1, 1984, between Georgia Power and Gulf Power. See Exhibit 10(a)30 herein.

(d) 5 - Plant Scherer Managing Board Agreement dated as of December 31, 1990 among Georgia Power, OPC, MEAG, Dalton, Gulf Power, FP&L and JEA. See Exhibit 10(a)48 herein.

(d) 6 - Unit Power Sales Agreement dated July 19, 1988, between FPC and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and SCS. See Exhibit 10(a)33 herein.

(d) 7 - Amended Unit Power Sales Agreement dated July 20, 1988, between FP&L and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and SCS. See Exhibit 10(a)34 herein.

(d) 8 - Amended Unit Power Sales Agreement dated August 17, 1988, between JEA and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and SCS. See Exhibit 10(a)35 herein.

(d) 9 - Agreement between Gulf Power and AEC, effective August 1, 1985. (Designated in Gulf Power's Form 10-K for the year ended December 31, 1985, File No. 0-2429, as Exhibit 10(g).)

(d) 10 - The Southern Company Employee Savings Plan, Amended and Restated effective January 1, 2002 and Amendments one through five thereto. See Exhibit 10(a)79 herein.

(d) 11 - The Southern Company Employee Stock Ownership Plan, Amended and Restated effective January 1, 2002 and Amendments one through five thereto. See Exhibit 10(a)80 herein.

# (d) 12 - Southern Company Omnibus Incentive Compensation Plan, Amended and Restated effective May 23, 2001. See Exhibit 10(a)81 herein.

# (d) 13 - The Southern Company Deferred Compensation Plan, Amended and Restated effective February 23, 2001 and First Amendment thereto. See Exhibit 10(a)84 herein.

# (d) 14 - The Southern Company Outside Directors Pension Plan. See Exhibit 10(a)83 herein.

# (d) 15 - Outside Directors Stock Plan for Subsidiaries of The Southern Company, Amended and Restated effective January 1, 2000. See Exhibit 10(a)86 herein.

(d) 16 - The Southern Company Pension Plan, Amended and Restated effective January 1, 2002 and First Amendment thereto. See Exhibit 10(a)87 herein.

# (d) 17 - The Southern Company Supplemental Benefit Plan, Amended and Restated effective May 1, 2000 and First Amendment thereto. See Exhibit 10(a)89 herein.

(d) 18 - Southern Company Change in Control Severance Plan, Amended and Restated effective May 1, 2003. See Exhibit 10(a)90 herein.

# (d) 19 - Southern Company Executive Change in Control Severance Plan, Amended and Restated effective May 1, 2003. See Exhibit 10(a)91 herein.

# (d) 20 - The Southern Company Supplemental Executive Retirement Plan, Amended and Restated effective May 1, 2000. See Exhibit 10(a)88 herein.

# (d) 21 - Supplemental Pension Agreement between Savannah Electric, Gulf Power, SCS and G. Edison Holland, Jr. effective February 22, 2002. See Exhibit 10(a)113 herein.

# (d) 22 - Deferred Compensation Plan For Directors of Gulf Power Company, Amended and Restated Effective January 1, 2000 and First Amendment thereto. (Designated in Gulf Power's Form 10-K for the year ended December 31, 2000, File No. 0-2429 as Exhibit 10(d)33.)

# (d) 23 - Southern Company Amended and Restated Change in Control Benefit Plan Determination Policy, effective May 9, 2002. See Exhibit 10(a)101 herein.

# (d) 24 - Southern Company Deferred Compensation Trust Agreement as amended and restated effective January 1, 2001 between Wachovia Bank, N.A., Southern Company, SCS, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric, Southern Communications, Energy Solutions and Southern Nuclear. See Exhibit 10(a)105 herein.

# (d) 25 - Deferred Stock Trust Agreement for Directors of Southern Company and its subsidiaries, dated as of January 1, 2000, between Reliance Trust Company, Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric. See Exhibit 10(a)106 herein.

# (d) 26 - Amended and Restated Deferred Cash Compensation Trust Agreement for Directors of Southern Company and its subsidiaries, effective September 1, 2001, between Wachovia Bank, N.A., Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric. See Exhibit 10(a)107 herein.

# (d) 27 - Change in Control Agreement between Southern Company, Gulf Power and Thomas A. Fanning. See Exhibit 10(a)111 herein.

# (d) 28 - Southern Company Senior Executive Change in Control Severance Plan effective May 1, 2003. See Exhibit 10(a)115 herein.

**Mississippi Power**

(e) 1 - Service contracts dated as of January 1, 1984, between SCS and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, SEGCO and Southern Company and Amendment No. 1 dated as of September 6, 1985, between SCS and Southern Company. See Exhibit 10(a)1 herein.

(e) 2 - Interchange contract dated February 17, 2000, between Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric, Southern Power and SCS. See Exhibit 10(a)6 herein.

(e) 3 - Unit Power Sales Agreement dated July 19, 1988, between FPC and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and SCS. See Exhibit 10(a)33 herein.

(e) 4 - Amended Unit Power Sales Agreement dated July 20, 1988, between FP&L and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and SCS. See Exhibit 10(a)34 herein.

(e) 5 - Amended Unit Power Sales Agreement dated August 17, 1988, between JEA and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and SCS. See Exhibit 10(a)35 herein.

(e) 6 - Transmission Facilities Agreement dated February 25, 1982, Amendment No. 1 dated May 12, 1982 and Amendment No. 2 dated December 6, 1983, between Entergy Corporation (formerly Gulf States) and Mississippi Power. See Exhibit 10(a)40 herein.

(e) 7 - Long Term Transmission Service Agreement between Entergy Power, Inc. and Alabama Power, Mississippi Power and SCS. See Exhibit 10(a)47 herein.

(e) 8 - The Southern Company Employee Savings Plan, Amended and Restated effective January 1, 2002 and Amendments one through five thereto. See Exhibit 10(a)79 herein.

(e) 9 - The Southern Company Employee Stock Ownership Plan, Amended and Restated effective January 1, 2002 and Amendments one through five thereto. See Exhibit 10(a)80 herein.

# (e) 10 - Southern Company Omnibus Incentive Compensation Plan, Amended and Restated effective May 23, 2001. See Exhibit 10(a)81 herein.

# (e) 11 - The Southern Company Deferred Compensation Plan, Amended and Restated effective February 23, 2001 and First Amendment thereto. See Exhibit 10(a)84 herein.

# (e) 12 - The Southern Company Outside Directors Pension Plan. See Exhibit 10(a)83 herein.

# (e) 13 - Outside Directors Stock Plan for Subsidiaries of The Southern Company, Amended and Restated effective January 1, 2000. See Exhibit 10(a)86 herein.

(e) 14 - The Southern Company Pension Plan, Amended and Restated effective January 1, 2002 and First Amendment thereto. See Exhibit 10(a)87 herein.

# (e) 15 - The Southern Company Supplemental Benefit Plan, Amended and Restated effective May 1, 2000 and First Amendment thereto. See Exhibit 10(a)89 herein.

(e) 16 - Southern Company Change in Control Severance Plan, Amended and Restated effective May 1, 2003. See Exhibit 10(a)90 herein.

# (e) 17 - Southern Company Executive Change in Control Severance Plan, Amended and Restated effective May 1, 2003. See Exhibit 10(a)91 herein.

# (e) 18 - Amended and Restated Change in Control Agreement between Southern Company, Mississippi Power and Dwight H. Evans. See Exhibit 10(a)93 herein.

# (e) 19 - The Southern Company Supplemental Executive Retirement Plan, Amended and Restated effective May 1, 2000. See Exhibit 10(a)88 herein.

# (e) 20 - Deferred Compensation Plan for Directors of Mississippi Power Company, Amended and Restated Effective January 1, 2000 and Amendment Number One thereto. (Designated in Mississippi Power's Form 10-K for the year ended December 31, 1999, File No. 0-6849 as Exhibit 10(e)37 and in Mississippi Power's Form 10-K for the year December 31, 2000, File No. 0-6849 as Exhibit 10(e)30.)

# (e) 21 - Southern Company Amended and Restated Change in Control Benefit Plan Determination Policy, effective May 9, 2002. See Exhibit 10(a)101 herein.

# (e) 22 - Southern Company Deferred Compensation Trust Agreement as amended and restated effective January 1, 2001 between Wachovia Bank, N.A., Southern Company, SCS, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric, Southern Communications, Energy Solutions and Southern Nuclear. See Exhibit 10(a)105 herein.

# (e) 23 - Deferred Stock Trust Agreement for Directors of Southern Company and its subsidiaries, dated as of January 1, 2000, between Reliance Trust Company, Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric. See Exhibit 10(a)106 herein.

# (e) 24 - Amended and Restated Deferred Cash Compensation Trust Agreement for Directors of Southern Company and its subsidiaries, effective September 1, 2001, between Wachovia Bank, N.A., Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric. See Exhibit 10(a)107 herein.

# (e) 25 - Change in Control Agreement between Southern Company, Mississippi Power and Michael D. Garrett. See Exhibit 10(a)108 herein.

# (e) 26 - Southern Company Senior Executive Change in Control Severance Plan effective May 1, 2003. See Exhibit 10(a)115 herein.

# * (e) 27 - Separation Agreement between Henry E. Blakeslee and Mississippi Power effective January 1, 2004.

# * (e) 28 - Consulting Agreement between Henry E. Blakeslee and Mississippi Power effective January 1, 2004.

**Savannah Electric**

(f) 1 - Service contract dated as of March 3, 1988, between SCS and Savannah Electric. See Exhibit 10(a)3 herein.

(f) 2 - Interchange contract dated February 17, 2000, between Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric, Southern Power and SCS. See Exhibit 10(a)6 herein.

(f) 3 - Unit Power Sales Agreement dated July 19, 1988, between FPC and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and SCS. See Exhibit 10(a)33 herein.

(f) 4 - Amended Unit Power Sales Agreement dated July 20, 1988, between FP&L and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and SCS. See Exhibit 10(a)34 herein.

(f) 5 - Amended Unit Power Sales Agreement dated August 17, 1988, between JEA and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric and SCS. See Exhibit 10(a)35 herein.

(f) 6 - Plant McIntosh Combustion Turbine Purchase and Ownership Participation Agreement between Georgia Power and Savannah Electric dated as of December 15, 1992. See Exhibit 10(a)49 herein.

(f) 7 - Plant McIntosh Combustion Turbine Operating Agreement between Georgia Power and Savannah Electric dated December 15, 1992. See Exhibit 10(a)50 herein.

(f) 8 - Contract for the Purchase of Firm Capacity and Energy between Southern Power and Savannah Electric dated as of July 26, 2001. See Exhibit 10(a)73 herein.

(f) 9 - The Southern Company Employee Savings Plan, Amended and Restated effective January 1, 2002 and Amendments one through five thereto. See Exhibit 10(a)79 herein.

(f) 10 - The Southern Company Employee Stock Ownership Plan, Amended and Restated effective January 1, 2002 and Amendments one through five thereto. See Exhibit 10(a)80 herein.

# (f) 11 - Southern Company Omnibus Incentive Compensation Plan, Amended and Restated effective May 23, 2001. See Exhibit 10(a)81 herein.

# (f) 12 - Supplemental Executive Retirement Plan of Savannah Electric, Amended and Restated effective October 26, 2000. (Designated in Savannah Electric's Form 10-K for the year ended December 31, 2000, File No. 1-5072 as Exhibit 10(f)13.)

# (f) 13 - Deferred Compensation Plan for Key Employees of Savannah Electric, Amended and Restated effective October 26, 2000. (Designated in Savannah Electric's Form 10-K for the year ended December 31, 2000, File No. 1-5072 as Exhibit 10(f)14.)

# (f) 14 - The Southern Company Outside Directors Pension Plan. See Exhibit 10(a)83 herein.

# (f) 15 - Deferred Compensation Plan for Directors of Savannah Electric, Amended and Restated effective October 26, 2000. (Designated in Savannah Electric's Form 10-K for the year ended December 31, 2000, File No. 1-5072 as Exhibit 10(f)18.)

# (f) 16 - Outside Directors Stock Plan for Subsidiaries of The Southern Company, Amended and Restated effective January 1, 2000. See Exhibit 10(a)86 herein.

(f) 17 - The Southern Company Pension Plan, Amended and Restated effective January 1, 2002 and First Amendment thereto. See Exhibit 10(a)87 herein.

# (f) 18 - The Southern Company Supplemental Benefit Plan, Amended and Restated effective May 1, 2000 and First Amendment thereto. See Exhibit 10(a)89 herein.

(f) 19 - Southern Company Change in Control Severance Plan, Amended and Restated effective May 1, 2003. See Exhibit 10(a)90 herein.

# (f) 20 - Southern Company Executive Change in Control Severance Plan, Amended and Restated effective May 1, 2003. See Exhibit 10(a)91 herein.

# (f) 21 - Amended and Restated Change in Control Agreement between Southern Company, Savannah Electric and G. Edison Holland, Jr. See Exhibit 10(a)96 herein.

# (f) 22 - The Southern Company Deferred Compensation Plan, Amended and Restated effective February 23, 2001 and First Amendment thereto. See Exhibit 10(a)84 herein.

# (f) 23 - The Southern Company Supplemental Executive Retirement Plan, Amended and Restated effective May 1, 2000. See Exhibit 10(a)88 herein.

# (f) 24 - Supplemental Pension Agreement between Savannah Electric, Gulf Power, SCS and G. Edison Holland, Jr. effective February 22, 2002. See Exhibit 10(a)113 herein.

# (f) 25 - Southern Company Amended and Restated Change in Control Benefit Plan Determination Policy, effective May 9, 2002. See Exhibit 10(a)101 herein.

# (f) 26 - Agreement for supplemental pension benefits between Savannah Electric and William Miles Greer. (Designated in Savannah Electric's Form 10-K for the year ended December 31, 2000, File No. 1-5072 as Exhibit 10(f)34.)

# (f) 27 - Agreement crediting additional service between Savannah Electric and William Miles Greer. (Designated in Savannah Electric's Form 10-K for the year ended December 31, 2000, File No. 1-5072 as Exhibit 10(f)35.)

# (f) 28 - Southern Company Deferred Compensation Trust Agreement as amended and restated effective January 1, 2001 between Wachovia Bank, N.A., Southern Company, SCS, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric, Southern Communications, Energy Solutions and Southern Nuclear. See Exhibit 10(a)105 herein.

# (f) 29 - Deferred Stock Trust Agreement for Directors of Southern Company and its subsidiaries, dated as of January 1, 2000, between Reliance Trust Company, Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric. See Exhibit 10(a)106 herein.

# (f) 30 - Amended and Restated Deferred Cash Compensation Trust Agreement for Directors of Southern Company and its subsidiaries, effective September 1, 2001, between Wachovia Bank, N.A., Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric. See Exhibit 10(a)107 herein.

# (f) 31 - Change in Control Agreement between Southern Company, Savannah Electric and Anthony R. James. See Exhibit 10(a)109 herein.

# (f) 32 - Southern Company Senior Executive Change in Control Severance Plan effective May 1, 2003. See Exhibit 10(a)115 herein.

* (f) 33 - Operating Agreement between Southern Power and Savannah Electric effective January 1, 2003. See Exhibit 10(a)61 herein.

# * (f) 34 - Savannah Electric and Power Company Change in Control Plan Benefit Determination Policy, effective October 26, 2000.

**Southern Power**

(g) 1 - Service contract dated as of January 1, 2001, between SCS and Southern Power. See Exhibit 10(a)2 herein.

(g) 2 - Interchange contract dated February 17, 2000, between Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric, Southern Power and SCS. See Exhibit 10(a)6 herein.

(g) 3 - Amended and Restated Credit Agreement among Southern Power, Citibank N.A., as the administrative agent, and the lenders listed therein dated as of April 17, 2003. See Exhibit 10(a)52 herein.

(g) 4 - Completion Guarantee among Southern Company, Southern Power and Citibank, N.A., in its capacity as agent for the Lenders under the Credit Facility dated as of November 15, 2001. See Exhibit 10(a)53 herein.

(g) 5 - Letter Amendment No. 1 to Completion Guarantee among Southern Company, Southern Power and Citibank, N.A. in its capacity as agent for the Lenders under the Credit Facility dated as of April 17, 2003. See Exhibit 10(a)55 herein.

(g) 6 - Completion Guarantee Supplement by Southern Company and Southern Power dated as of April 22, 2002. See Exhibit 10(a)54 herein.

(g) 7 - Equity Contribution Agreement among Southern Company and Citibank, N.A. in its capacity as agent for the Lenders under the Credit Facility dated as of November 15, 2001. See Exhibit 10(a)56 herein.

(g) 8 - Letter Amendment No. 1 to Equity Contribution Agreement among Southern Company, Southern Power and Citibank, N.A. in its capacity as agent for the Lenders under the Credit Facility dated as of April 17, 2003. See Exhibit 10(a)57 herein.

(g) 9 - Equity Contribution Agreement Supplement by Southern Company and Southern Power dated as of April 22, 2002. See Exhibit 10(a)58 herein.

* (g) 10 - Amended and Restated Operating Agreement between Southern Power and Alabama Power effective December 1, 2002. See Exhibit 10(a)59 herein.

* (g) 11 - Amended and Restated Operating Agreement between Southern Power and Georgia Power effective December 1, 2002. See Exhibit 10(a)60 herein.

* (g) 12 - Operating Agreement between Southern Power and Savannah Electric effective January 1, 2003. See Exhibit 10(a)61 herein.

(g) 13 - Interconnection Agreement by and between Southern Power and Georgia Power for Plant Dahlberg dated as of July 31, 2001. See Exhibit 10(a)62 herein.

(g) 14 - Interconnection Agreement by and between Southern Power and Georgia Power for Wansley CC Units 6 and 7 dated as of May 10, 2001. See Exhibit 10(a)63 herein.

(g) 15 - Interconnection Agreement by and between Southern Power and Georgia Power for Goat Rock CC Unit 1 dated as of May 10, 2001. See Exhibit 10(a)64 herein.

(g) 16 - Revised and Restated Interconnection Agreement by and between Southern Power and Georgia Power for Goat Rock CC Unit 2 dated as of October 18, 2001. See Exhibit 10(a)65 herein.

(g) 17 - Interconnection Agreement by and between Southern Power and Alabama Power for Autaugaville Combined Cycle Unit 1 dated as of June 25, 2001. See Exhibit 10(a)66 herein.

(g) 18 - Interconnection Agreement by and between Southern Power and Alabama Power for Autaugaville Combined Cycle Unit 2 dated as of June 25, 2001. See Exhibit 10(a)67 herein.

(g) 19 - Purchased Power Agreement between Georgia Power and LG&E Energy Marketing Inc. dated as of November 24, 1998. See Exhibit 10(a)68 herein.

(g) 20 - Purchased Power Agreement between Georgia Power and LG&E Energy Marketing Inc. dated as of October 6, 1999. See Exhibit 10(a)69 herein.

(g) 21 - Assignment and Assumption Agreement by and between Georgia Power and Southern Power dated as of July 31, 2001. See Exhibit 10(a)70 herein.

(g) 22 - Power Purchase Agreement between Southern Power and Alabama Power dated as of June 1, 2001. See Exhibit 10(a)71 herein.

(g) 23 - Amended and Restated Power Purchase Agreement between Southern Power and Georgia Power at Plant Autaugaville dated as of August 6, 2001. See Exhibit 10(a)72 herein.

(g) 24 - Contract for the Purchase of Firm Capacity and Energy between Southern Power and Savannah Electric dated as of July 26, 2001. See Exhibit 10(a)73 herein.

(g) 25 - Contract for the Purchase of Firm Capacity and Energy between Southern Power and Georgia Power dated as of July 26, 2001. See Exhibit 10(a)74 herein.

(g) 26 - Power Purchase Agreement between Southern Power and Georgia Power at Plant Goat Rock dated as of March 30, 2001. See Exhibit 10(a)75 herein.

(g) 27 - Power Purchase Agreement between Southern Company - Florida LLC and Kissimmee Utility Authority dated as of March 19, 2001. See Exhibit 10(a)76 herein.

(g) 28 - Power Purchase Agreement between Southern Company – Florida LLC and Florida Municipal Power Agency dated as of March 19, 2001. See Exhibit 10(a)77 herein.

(g) 29 - Power Purchase Agreement between Southern Company - Florida LLC and Orlando Utilities Commission dated as of March 19, 2001. See Exhibit 10(a)78 herein.

**(14) Code of Ethics**

**Southern Company**

* (a) - The Southern Company Code of Ethics.

**Alabama Power**

* (b) - The Southern Company Code of Ethics. See Exhibit 14(a) herein.

**Georgia Power**

* (c) - The Southern Company Code of Ethics. See Exhibit 14(a) herein.

**Gulf Power**

* (d) - The Southern Company Code of Ethics. See Exhibit 14(a) herein.

**Mississippi Power**

* (e) - The Southern Company Code of Ethics. See Exhibit 14(a) herein.

**Savannah Electric**

* (f) - The Southern Company Code of Ethics. See Exhibit 14(a) herein.

**Southern Power**

* (g) - The Southern Company Code of Ethics. See Exhibit 14(a) herein.

**(21) Subsidiaries of Registrants**

**Southern Company**

* (a) - Subsidiaries of Registrant.

**Alabama Power**

* (b) - Subsidiaries of Registrant. See Exhibit 21(a) herein.

**Georgia Power**

* (c) - Subsidiaries of Registrant. See Exhibit 21(a) herein.

**Gulf Power**

* (d) - Subsidiaries of Registrant. See Exhibit 21(a) herein.

**Mississippi Power**

* (e) - Subsidiaries of Registrant. See Exhibit 21(a) herein.

**Savannah Electric**

* (f) - Subsidiaries of Registrant. See Exhibit 21(a) herein.

**Southern Power**

* (g) - Subsidiaries of Registrant. See Exhibit 21(a) herein.

**(23) Consents of Experts and Counsel**

**Southern Company**

* (a) 1 - Consent of Deloitte & Touche LLP.

* (a) 2 - Notice Regarding Consent of Arthur Andersen LLP.

**Alabama Power**

* (b) 1 - Consent of Deloitte & Touche LLP.

* (b) 2 - Notice Regarding Consent of Arthur Andersen LLP. See Exhibit 23(a)2 herein.

**Georgia Power**

* (c) 1 - Consent of Deloitte & Touche LLP.

* (c) 2 - Notice Regarding Consent of Arthur Andersen LLP. See Exhibit 23(a)2 herein.

**Gulf Power**

* (d) 1 - Consent of Deloitte & Touche LLP.

* (d) 2 - Notice Regarding Consent of Arthur Andersen LLP. See Exhibit 23(a)2 herein.

**Mississippi Power**

* (e) 1 - Consent of Deloitte & Touche LLP.

* (e) 2 - Notice Regarding Consent of Arthur Andersen LLP. See Exhibit 23(a)2 herein.

**Savannah Electric**

* (f) 1 - Consent of Deloitte & Touche LLP.

* (f) 2 - Notice Regarding Consent of Arthur Andersen LLP. See Exhibit 23(a)2 herein.

**(24) Powers of Attorney and Resolutions**

**Southern Company**

* (a) - Power of Attorney and resolution.

**Alabama Power**

* (b) - Power of Attorney and resolution.

**Georgia Power**

* (c) - Power of Attorney and resolution.

**Gulf Power**

* (d) - Power of Attorney and resolution.

**Mississippi Power**

* (e) - Power of Attorney and resolution.

**Savannah Electric**

* (f) - Power of Attorney and resolution.

**Southern Power**

* (g) - Power of Attorney and resolution.

**(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.

**Savannah Electric**

* (f) 1 - Certificate of Savannah Electric's Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

* (f) 2 - Certificate of Savannah Electric's Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

**Southern Power**

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

* (g) 2 - Certificate of Southern Power's Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

(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.

**Savannah Electric**

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

**Southern Power**

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